

Capacity Building in Vietnam

**Background Paper for Asian Development Bank
Vietnam
Country Operational Strategy Study**

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List of Acronyms

ADB	-	Asian Development Bank
ADTA	-	Advisory Technical Assistance
CIEM	-	Central Institute for Economic Management
COPP	-	Country Operational Program Paper
COSS	-	Country Operational Strategy Study
DMC	-	Developing Member Country
IDTA	-	Institutional Development Technical Assistance
IMF	-	International Monetary Fund
NPD	-	National Project Director
PIP	-	Public Investment Plan
PPTA	-	Project Preparatory Technical Assistance
RO	-	Regional/Resident Office
SPC	-	State Planning Committee
TA	-	Technical Assistance
UNDP	-	United Nations Development Program
VCBO	-	Vietnam Capacity Building Officer

The Purpose of this Report

1. This report is a supplementary document to the Country Operational Strategy Study (COSS) for Vietnam. The COSS exercise seeks "to identify the Bank's distinctive role in each DMC" (*The Bank's Medium-Term Strategic Framework [MTSF] Paper (1995-1998)*, December 1994; para.5). With this in mind it was felt that Vietnam's needs in terms of capacity building were particularly important, given that it is a transitional economy and also one with little institutional experience in dealing with the international donor community. Thus, capacity building needs were identified as something "special" to the situation of Vietnam, and this study was commissioned to examine the matter.
2. Another reason for the special attention to capacity building is the growing awareness of the importance of capacity building for sustainable development and robust policy processes. The importance of the policy environment for development and effective lending programs has been acknowledged by the Bank, and the donor community in general for some time now. A consequence of this has been increased attention to "upstream" policy formulation processes at the macro and sectoral levels. However, such advisory technical assistance (ADTA) is generally non-sustainable in its nature, and there is an emerging international consensus that long-term interventions are necessary to support sustainable policy processes (and the administrative capacity to support policy environments). This is an issue which the ADB has acknowledged in its draft MTSF paper:
3. "The sustainability of the effects of revised policy frameworks is, in large measure, contingent on strengthened government administrative capacity to implement and enforce the policy changes. This governmental capacity is even more significant than project-related administration (another aspect of public sector management) on which depends the sustainability of benefits from specific project investments. While the Bank does provide extensive TA financing for capacity building, this is done on a rather *ad hoc* and intermittent basis, without the benefit of adequate needs assessments, forward planning and linkage with policy related or policy specific investments. It is timely for the Bank to consider a systematic and long term capacity building role for key sectors in each DMC, managed in partnership with key DMC institutions." (p.5).
4. This report is an experimental step towards developing such a systematic and country-specific TA review process.

1 Capacity Building: International Awareness & Needs in Vietnam

1.1 This is the first Bank commissioned study of capacity building in a particular DMC. This report therefore includes brief surveys of trends in thinking internationally, as well as within the Bank, about the nature and purpose of capacity building in the development process. After a review of contemporary donor opinion about capacity building, this chapter lays out the historical background to present needs in Vietnam, and concludes with a more specific articulation of the core areas of need which emerge from the analysis.

1.1 The International Context

1.1.1 Capacity Building on the International Agenda

1.2 The World Bank recently concluded that human capacity deficiencies were the binding constraint to development in African countries and, somewhat more startlingly, that the existing modes of assistance were undermining capacity faster than they were building it. World Bank Vice President, Edward Jaycox, declared a halt to the practice of counterpart training through long-term consultants, and condemned the inappropriate design and substitution focus of much TA activity¹. The World Bank now focuses on efforts to “projectize civil service reform” along with producing “an enabling environment for professionals.” Training, particularly through building up local training institutions, has become the central concern.

1.3 While Africa may be viewed as a case with extreme problems, concern with long-term capacity building issues has been increasing throughout the DAC community. This concern is a consequence of the realisation in the late 1980s about the importance of policy environments and institutional structures in the development process. Wallace (1990, p.27), notes this point forcefully:

“Over the last few years, study after study has concluded that in cases where [World] Bank projects have not worked well, failure has resulted primarily from institutional factors - whether it be an inadequate assessment of the capacity of the host government; poor management of available financial and human resources; or insufficient understanding of the surrounding culture, institutional structures, and behavioral norms”

1.4 Also, building an effective institutional framework, like the development process itself, is increasingly being recognized as a complex process of inter-related elements. For

¹ Jaycox, E.V.K., "Capacity Building: The Missing Link in African Development". Address to the African-American Institute Conference *African Capacity Building: Effective and Enduring Partnerships*, Reston, Virginia. May 20, 1993.

development, investments in human capital, a high savings ratio, good governance², and macroeconomic stability are *all* required for sustained growth. Deficiencies in one can become a binding constraint on the whole process. Similarly, for capacity building, political economy reforms, organizational reforms, regulatory reform, and training within organizations and at tertiary institutions, must all be promoted concurrently for lasting results: sustainability.

1.5 As Wheeler (1989; p.38) observes:

“The aid community has learnt from the experience of the past decades. Views about investments and production, the force of technology and the power of example have been modified by a recognition of the complexity and diversity, and a greater appreciation of human and institutional factors in the process of change. Ideologies have been tried and abandoned in favor of greater pragmatism.”

1.6 Thus, radical revisions in World Bank modalities in Africa are just part of a larger trend in the donor community towards rethinking how TA is designed and delivered³. Capacity building has moved to centre stage⁴, and [selections from] the 1991 DAC principles summed up the view of most donors moving into the 1990s:

“Set as strategic objectives of technical cooperation [TA] long-term capacity building in developing countries rather than immediate short-term performance improvement;

put great emphasis on the central role of developing countries in the planning, design and management of technical cooperation;

emphasise the key importance of sustainable development and self-reliance of long-term capacity building, especially in the areas of policy analysis and development management”⁵.

² “Governance” covers a wide range of concerns: the effectiveness of a state’s institutional arrangements, decision-making processes, policy formulation, implementation capacity, information flows, and the nature of the relationship between the rulers and the ruled.

³ Although the initiatives outlined by Jaycox (1993) were in relation only to Africa, where the institutional and aid environment is very different to that in Asia, they are part of a larger trend of substantive reform in the World Bank of which their *Handbook on Technical Assistance* (Operations Policy Department, Washington 1993) is a good example.

⁴ In *Rethinking Technical Assistance* (E.Berg, 1993) it is suggested that “capacity building is characterized by three main activities: skills upgrading, both general and job specific; procedural problems; and organisational strengthening”. This is a must read.

⁵ DAC., *Principles for New Orientations in Technical Cooperation*, DAC Report, Paris 1991.

1.7 These are sentiments nowadays shared by most donors, although not all have gone the step further to critically review their own practices and operational structures in light of these professed new strategic objectives.

1.1.2 The Bank and Capacity Building

1.8 The importance of policy process and institutional strengthening, and the unique complexities in achieving these objectives through long-term capacity building, has been an issue of concern for the Bank in recent years. The Bank's Strategy and Policy Office are in the process of finalising guidelines for capacity building, and it is also exploring options (including this report) to use capacity building TA as a key tool for turning the Bank into a "catalyser and promoter of development" (MTSF, p.5).

1.9 Technical assistance operations have grown steadily at the ADB from 35 projects worth US\$18.1 million in 1971, to 287 projects worth US\$582 million in 1993. This reflects a real annual growth rate of 24.7% between 1971-1993, well above the 16.5% annual rate for lending operations growth. This expansion is mainly the result of the growth in numbers of TA projects, as average project size has declined slightly from US\$2.3 million in 1971 to US\$1.8 million in 1993, both at 1993 constant prices⁶.

1.10 At present the ADB provides four types of TA to DMCs: Project preparatory TA (PPTA), project implementation TA (PITA), advisory or institutional development TA (ADTA), and regional TA (RETA). Most Bank TA is in the form of loan financed advisory and project implementation assistance, which has totaled \$3.2 billion of the \$3.8 billion in Bank TA to the end of 1993⁷. However, the main concern of this report are the Bank's grant financed TA programs, as it is these projects which more typically support longer-term capacity building activities.

1.11 In 1993, 269 of the 287 TA projects were grant funded, and although these only totaled 21% of the value of total 1993 TA (averaging \$454,000 each), the share of grant funding in total TA activity has been rising in recent years. This trend toward grant funding reflects a shift in strategic emphasis in the objectives of the Bank in providing its TA. Increasing recognition of the importance of the policy environment, capacity building, and general institution building has led the Bank to support interventions in these areas which are often grant funded.

1.12 The Bank's *Technical Assistance Activities* brochure (January, 1994) details this shift in concerns (p.5):

⁶ Asian Development Bank., *Improving The Effectiveness of Technical Cooperation Activities*. Background paper for DAC/UNDP/World Bank seminar, Paris, June 1994, p.2 The ADB *Technical Assistance Activities* brochure of January 1994, quotes a figure of \$582m for the 287 TA projects in 1993 (p.15).

⁷ Asian Development Bank., *Technical Assistance Activities*. Brochure, January 1994. p.15.

"More emphasis is being placed on technical assistance for:

- institutional development, particularly in the less and least developed DMCs;
- sectoral and issues-oriented studies;
- support for the Bank's evolving operational strategy;
- the Bank's role as a Development Resource Centre; and
- efforts to improve regional cooperation."

1.13 And, *inter alia*, the *Activities* brochure also notes a desire to "expand the Bank's involvement in such areas as policy dialogue, institution-building, economic research and analysis, and training" (p.18). This report is one response to putting that desire, which is largely a capacity building objective, into effect.

1.2 The Vietnamese Context

1.14 Capacity building needs in Vietnam today are a function of the prior supplies of assistance, the changing needs due to economic transition, and some special problems attributable to the legacy of the previous central planning system. The Vietnamese Government has identified and given priority to many of these areas of need, which provides guidance for the donor community. Surveying these considerations provides a background for the more detailed situational analysis of the third section in this chapter.

1.2.1 The Historical Perspective on Technical Assistance in Vietnam

1.15 Technical assistance in Vietnam prior to the economic renovation period (before about 1986) was largely directed at capital investment activities. This focus reflected the priorities of the government at the time, which were to promote industrial development and the "material product" sector.

1.16 The most important donors up to 1986 were undoubtedly the Soviet Union and the other planned economies of Eastern Europe. The Scandinavian countries, particularly Sweden and Finland, also provided substantial assistance over this period. Most of the aid from these donors was for capital investment projects, such as power generation, bridge building, water supply, and industrial production activities. Technical assistance was generally limited to the "hard" TA necessary for the implementation of the investment projects. "Free standing" capacity building TA directed at improving institutions, organizations, information flows, research and extension capacities was relatively limited. The other planned economies helped Vietnam to establish and operate its planning system, and provided training for managers of state enterprises: Investments in human capital which are of minimal value in the new economic environment.

1.17 In this context, donors played a meaningful (although very much a "second best") role in trying substitute for effective private and foreign investment sectors, and to redress some of the distortions of the planned economy, by the provision of small-scale TA directed at technology transfer. Given the institutional context of the time, this was an appropriate course to pursue. TA directed at capacity building requires a receptive government which has a degree of commitment to the direction of reforms. In an environment designed to preserve the status quo, capacity building *opportunities* are limited and expenditures often wasted.

1.18 This critical prerequisite of DMC responsiveness for institutional reform is noted in the Bank's 1995-98 MTSF. The MTSF also observes an "increasing openness and willingness of DMC governments to experiment with and assume new roles and approaches to the management of development" (p.3). This is certainly the case in Vietnam, and without which ideas for effective market-friendly capacity building projects could not be entertained.

1.19 Indeed, there is no doubt that Government responsiveness toward offers of policy advice, and assistance to effect institutional change, has increased markedly as the reform process has progressed in Vietnam. The economic rationing system was not substantively dismantled until 1989, and it was from about then that the donors began to shift their attention more to free-standing capacity building TA activities.

1.20 Donors changed their portfolios of TA assistance to meet new demands as they perceived them, and as the Vietnamese authorities asked for them. This was a largely uncoordinated process of responding to emerging needs and opportunities for effective assistance. The Government of Vietnam helped guide the focus of assistance activities through the production of key strategy documents. In particular, the Development Strategy to the Year 2000 in 1991, and the 1993 Donor Conference report. From these documents, and subsequent statements, donors can gain an understanding of the broad development priorities of the Vietnamese Government, and design their TA programs accordingly.

1.21 The development strategies of DMCs define the *opportunities* for donors, who can then see how these match their analysis of *needs*.

1.2.2 The Present Vietnamese Development Strategy

1.22 The Vietnamese Government's Strategy to the Year 2000, issued in 1991, began by noting the importance of macroeconomic stability as a prerequisite for sustained growth rates. The Strategy also emphasized the need to improve the physical and human capital of Vietnam, and it reiterated the commitment to broaden external economic cooperation. Many of the specific objectives which followed from these broad statements have particular relevance to guiding the design of TA activities:

- Establish a complete market system linked with world markets.
- Encourage agricultural production in the direction of commodity production.
- Establish a national system of business law, lift all barriers restricting the domestic flow of goods, and facilitate commerce by strengthening business associations and information services.
- Improve the management mechanism of state enterprises,
- Establish a well functioning executive and administrative system.
- Protect and properly utilize natural resources, improve the environment.

1.23 These stated Government objectives have been the guiding principles for donor assistance in Vietnam into the 1990s. And at the 1993 Donor Conference, the Government of Vietnam also emphasized, amongst other things, the importance of:

- Investing in people.
- The commitment to sustainable development and protecting the environment.
- Strengthening investment, savings and efficient resource allocation.
- An outward oriented trade policy
- Building on comparative advantage and sectoral strengths

1.24 In the Government's submission to the 1994 Consultative Group meeting, they reiterated their key concerns, including the objective of developing "the human resources and institutions critical to achieving and sustaining real development" (p.2). The document also lists priority programs for 1994-1995, of which development of the non-state sector, and continued development of an open economic trading system and foreign economic relations, are particularly interesting. The latter program includes the objectives of restructuring the trade regime; export promotion and support for "economically viable" import substitution; improving the environment for foreign investment; and developing "local capacity to efficiently utilize ODA and to use this assistance effectively for development purposes" (p.8).

1.25 Clear statements of government development objectives are necessary to guide donor planning. However, it cannot be expected that all donors will agree with all aspects of the Government's development plan. Thus, a process of consultation with each donor is necessary to ensure that their programs assist in achieving Government objectives, and yet are also satisfactory to donors as an effective utilisation of their contributions. It is this donor-government dialogue process that directs the development of free-standing

technical assistance activities in Vietnam. The response, since about 1989, has been a steady shift in donor TA interventions to support the newly emerging Government objectives to establish an efficient market-oriented economy in Vietnam. In a number of key capacity building areas donors are actively supporting reform through TA, but only because the prerequisite condition of Government willingness to change has been achieved.

1.26 The ongoing reform process in Vietnam continues to throw up new opportunities for effective donor support. The focus for this support is defined by perceptions of needs both by donors and the Vietnamese Government, and by the particular problems which arise as a legacy of the system from which they are striving to transit from.

1.2.3 The Legacy of Central Planning

1.27 The legacy of central planning weighs heavily on the Vietnamese economy. The institutional environment in which central planning operates is in many important respects inappropriate for a market-based economy. This legacy defines the “initial conditions” which technical assistance and related capacity building is directed at helping to change. An understanding of this legacy, in both its conceptual and functional aspects, is important in defining the present technical assistance needs and particular institutional problems in contemporary Vietnam.

Coping with change

1.28 The old planning system was designed to minimize change. The fewer variables and shocks, then the easier it became to implement plans. Central planning was always a static and inefficient mechanism for allocating resources. In a complex economy it became even more so, and this has been cited as a possible reason for the eventual collapse of such systems (Banerjee & Spagat, 1991). Productivity and output increases were desired, but not at the cost of ‘creative destruction’ as in market economies. Consequently, resources became tied to particular activities, and the ability to diversify into new or even improved products became severely constrained.

1.29 The institutional structure which supported the rationed economy was also poor at coping with change. Line Ministries were given strictly allocative functions to fulfill the Plan. Policy decisions, and sometimes basic administrative decisions, often had to be made at high levels of government. This ‘top heavy’ decision making structure is now under considerable pressure as the quantity of such decisions has increased dramatically.

1.30 In a ‘market-friendly’ economy change is a continual process and one which organizations are constantly being restructured to cope with. Flexibility and responsiveness are key concerns for modern government and private-sector organizations.

There is therefore a need for assistance in designing ‘change responsive’ organizations in Vietnam, and to give these organizations increased capacity in policy analysis.

Clarifying rules, regulations, and responsibilities

1.31 Like all formerly planned economies, Vietnam lacks an adequate legal system and the means to enforce one. Under central planning, making laws precise and designed to minimize confusion was not seen as a particularly desirable objective. However, in a market-based economy the transaction costs of a poor legal system are considerable. This fact has been recognized by Vietnamese reformers, and the rate of legislation drafting has been impressive. TA for this process has also been effective; both in terms of getting the job done - laws drafted - and in terms of capacity building when the exercise was used as a training opportunity (which was done in drafting the Bankruptcy law). However, the legacy of the old system remains. It will be a long time before an autonomous and capable judiciary replace the present system.

1.32 Considerably more capacity building support could be given in the area of legal and regulatory reform. Not merely in drafting activities, which seem to be going well, but in training, administrative changes, and in resolving contradictions and improving the transparency - and access to - the existing set of laws. The need for donor coordination and recipient consensus-building in this area is important, and already the Ministry of Justice is having trouble coping with the *ad hoc* approaches of a variety of donors.

Information hoarding

1.33 One of the universal problems of a centrally planned economy is that the flows of information between organizations is very poor. The information flows in Vietnam are still weak, but they are improving. In part, the problem is technological - few computers, telephones, information newsletters, etc - but it is also because of an attitude towards dissemination which treats too much as secret and requires unnecessary bureaucratic procedures to distribute information. It is an attitude that must change in a market economy, where commercial and economic information flows freely and easily. In an “informatics world” Vietnamese organizations cannot afford to be held back by old attitudes about information flows.

1.34 The TA implications of this legacy are for assistance in detailed administrative reform. Even stimulating a dialogue on the subject, to highlight the inefficiencies and present reform options, would be valuable. Donors should emphasize the need for free flows of information, and do so by example (establish free and unrestricted access databases on consultants, economic data, research, etc). Improving information flows, and clarifying administrative responsibilities and relationships, is an important task to sustainably solving many of the underlying structural deficiencies of organizations.

A Bias Against the Service Sector

1.35 Throughout the planned economies a strong and explicit bias existed for the production of physical outputs. Indeed, the system of measuring economic activity, the Material Product System (MPS), included the value of only those services which were directly related to the production process. All 'value' was seen as embodied in the final output of products. Services were viewed as almost parasitic, and private sector services - like food stalls - viewed as wasteful.

1.36 This attitude is changing rapidly, but elements of it remain. Acceptance of the beneficial role of the private sector has been accompanied by an increased awareness of the 'value' of services. Foreign Banks have been allowed to enter, and foreign legal and accounting services are also gaining entrance in recent years. However, commercial Bank lending still discriminates against the service sector, notably against tourism, and so does the system of taxation. Approvals for foreign investments in service sector activities are much more difficult to secure approval for than industrial proposals.

1.37 The legacy is therefore a lingering distrust of service activities (and the private sector). This is of particular concern because Vietnam lacks a whole range of service sector industries necessary for the efficient operation of markets. The so-called 'invisible hand' of markets is actually extremely visible. A variety of services help economic units to follow or to enforce the 'rules of the game' (legal, accounting, auditing), while others develop specialized skills about prices and products which improves market efficiency (real estate agents, Banks, travel agents, investment consultants, wholesale traders). All of these services are poorly developed in Vietnam.

1.38 TA and capacity building can assist a variety of service sector industries in Vietnam, particularly if it focuses on the policy environment to encourage competitive growth in services. The tendency to still view services as 'secondary' activities which are relatively easy to provide, should also be a target of TA intervention. This legacy of misguided thinking has real-world consequences, the changing of which can be sped up by TA-sponsored dialogue and illustration.

1.3 Capacity Building Needs in Vietnam

1.39 The openness and willingness of the Vietnamese authorities to embrace reform, and their articulation of broad directions in policy statements, establish the foundations upon which donors can build their assistance. The nature of and priorities for this assistance are in part determined by the peculiar problems left as a legacy of the old planning system, and in part by the identification of needs to achieve new objectives: removing obstacles while building new structures. That is the essence of the transitional experience - a comprehensive restructuring of institutions and their associated organisational structures. It is, in a sense, a *capacity rebuilding process*. In this section ,

the main features of that process are discussed, which leads to a more specific identification of core areas for Bank assistance.

1.3.1 What does “transition” mean for capacity building needs?

1.40 Political processes decide the economic structure and development priorities for a country. These, in turn, are put into effect by the bureaucratic structures of Government which decide and enforce the economic “rules of the game”. “Transition” may therefore be viewed as the almost complete replacement of one economic and bureaucratic structure for another - and that includes redefining the role for government. Government bodies, designed and trained to achieve specified tasks, now find themselves with demands for completely different outputs.

1.41 The Vietnamese authorities are today embroiled in the demanding process of defining the new outputs and related responsibilities for their organisational structures. The role of government, its key central agencies, and organisations at all levels are in a state of flux. As new laws and regulations are introduced, so too must the organisational structures adapt to enforce and monitor the new system. In such periods of dramatic change, there is a tendency for organisations to focus on carving out new domains of authority, rather than on improving their general operational efficiency.

1.42 New outputs include policy analysis and formulation, the design and implementation of aid projects, indicative planning, and providing information and guidance to the private sector. For these new outputs, new inputs - notably human capital skills - are needed. Training at various levels is required: To retrain those persons already in the system through specialised short courses, and to train those preparing to enter the system with more relevant generic skills for public administration. Attention should be given by donors to supporting both streams of capacity building.

1.43 For the design of TA projects, there are important implications of the above discussion. While definitions of output responsibilities for particular Government organisations remain in flux, then so does specific identification of detailed capacity building needs. Donors are inclined to impose their interpretations of the appropriate roles and training needs for organisations even when the existing organisation mandates do not include these presumed functions (eg; line Ministries conducting policy analysis). Thus, donors should have a clear understanding of the mandates of the organisations they are trying to assist. Further, in transitional economies, donors can play an active part in assisting the Government to define the roles of new and revised institutions. And where new roles and tasks are clarified, donors can then - and only then - assist in raising operational efficiency.

1.3.2 The present context of Vietnam's capacity building needs.

1.44 Vietnam's present reform process is conventionally dated to have begun at the 6th Party Congress of 1986, although it was not until 1989 that substantial stabilisation was achieved and the rationing system dismantled. Since 1989, the economic reform process has continued in strength and it is now fair to conclude that many of the substantive changes of transition have been completed. The basic economic structure of the economy, particularly in the goods market, is now essentially that of a typical DMC. The new environment for market-led economic development is largely in place, including the precondition of relative macro-economic stability. These achievements in "real sector" reforms - a one price system, hardening state enterprise budget constraints, trade and financial sector liberalization, private sector growth, etc - are markedly greater than those achieved in Eastern Europe transitional economies or in China.

1.45 A consequence of the "real sector" reform achievements is that Vietnam's assistance needs in terms of broad policy advice, stabilisation funding, sectoral and trade development and so forth, are not fundamentally different from those of any other poor DMC, transitional or otherwise. However, in other important respects Vietnam remains very much a transitional economy. The institutional and organisational framework which underpins an effective market-based economy is still very poorly developed. And in some areas, such as aid absorption and management, the problems of a transitional economy compound the normal problems of a developing economy. Consequently, while many of "real sector" (or productive sector) reforms have already been undertaken in Vietnam, there remains a substantial lag in the development of the institutional framework to make the newly restructured economy efficient.

1.46 It is transformation of the productive sectors, particularly through the opening up to international commercial relations, which has generated the new demands for institutions (such as a clear and enforced legal system) and donor assistance. The reform process is the lead horse. Indeed, the initial success of economic reforms has changed the Vietnamese Government's view on how it can best meet the needs of the country. This, in turn, is reflected in changes to the Government's development strategy and the donor conference presentations. In a very fundamental sense, the Government of Vietnam is exploring and shaping its new role as a facilitator of economic development by clarifying and enforcing the "rules of the game" for economic agents.

1.3.3 Identifying core areas of need.

1.47 As the institutional and organisational structures of Vietnam are shaped to meet new output demands, donors have the opportunity to identify areas where external advice and inputs can be effective, or where potential bottlenecks to reform may be avoided by interventions. Identifying such "needs" is more than identifying holes (demand) in particular sectors: Present and planned donor activity must be accounted for (supply), and these considered in relation to absorptive capacity in each area. Vietnam is a large country

whose Government structures can usefully absorb a wide range and large quantity of assistance, unlike others like Laos, Cambodia and the Pacific island states, where it has been argued that the ability to absorb such assistance has been reached. Nevertheless, we are also faced with the question of how to determine the ability of any one government organisation to absorb capacity building assistance? It is a difficult question to answer, but it is also one which should be explicitly addressed by those designing interventions. The willingness (commitment) of a particular organisation to embrace any structural changes entailed in a TA proposal is also something requiring explicit evaluation.

1.48 Thus “need” is defined by a variety of factors: the pace and scope of the reform process; current donor supplies; national absorptive capacity; and the absorptive capacity and commitment to change of particular organisations. With these considerations in mind, three core areas of need, discussed below, have been identified for Vietnam: Policy analysis; administrative reform; and aid absorption.

1.49 One of the considerations in selecting these three areas were the five aspects of recipient government management cited as the focus for Bank capacity building assistance in DMCs (in the *Draft Initial Guidelines on the Bank's Capacity Building Program for DMCs*, p.2). These five aspects included sectoral policy and sectoral legal frameworks, the delivery and financial management of public infrastructure, and creating an enabling environment for the private sector. The three areas selected for Vietnam are encompassed by the stated focus for Bank attention, although with more attention given to central agency coordination and capacity building.

Policy Analysis

1.50 The central importance of the policy environment in determining sectoral performances is something so universally accepted today that it is hard to conceive of times when it was thought of as a peripheral concern. Similarly, the importance of the institutional structures (“rules of the game”) and the administrative capacities to enforce these, are being increasingly recognised. Thus, in most DMCs the Bank and other donors are active in designing and implementing TA to support these areas.

1.51 In the case of Vietnam, to general concern about the importance of policy environments we must add the reality that they are in the process of radical transformation. The previous planning system, as discussed above, was poorly designed to cope with rapid change and review policies professionally and regularly. The capacity to undertake sophisticated economic and financial analysis is limited, and the decision making processes are top heavy and unclear. Further, the legacy of information hoarding tends to stifle public and even inter-agency debate about key issues. Consequently, improving the quality of policy analysis, decision-making structures, and information exchanges is a priority need in contemporary Vietnam.

1.52 The provision of advisory TA through sectoral studies and the like is very much an unsustainable input into the policy process of Vietnam. It is a once-off contribution of academically sound analysis by foreign consultants and ADB staff. Also, there is a tendency for donors, both multilateral and bilateral, to duplicate much of each others' work in this area. There is no doubt that such policy evaluation assistance is needed and valuable over the transitional period to building up a stronger analytical capacity in Vietnam. That capacity is slowly emerging as the university system is restructuring, and the numbers of students going overseas for masters and doctoral degrees increases. And within particular Vietnamese organisations donors have assisted in building up policy analysis capacity through training courses and computerisation.

1.53 However, most capacity building assistance to support policy analysis is focused upon improving the quality of inputs (staff and student skills), with little attention to opportunities for stimulating outputs and the dissemination of research (with the notable exception of the Ford Foundation). The pre-transition economy stifled public debate on policy issues, and allowed few formal mechanisms for the public (or even cross-departmental) dissemination of opinions and arguments for policy reform. The legacy of this system remains, and today newspapers are the main forum for public policy debate.

Administrative Reform

1.54 How to put a value on an efficient, professional and honest public service? In any DMC there is an important distinction between legislation and enforced legislation, and the quality of the public service is a determining factor in this equation. The present Vietnamese public service is generally competent and corruption is still the exception rather than the rule. However, pressures are mounting: low salaries and increasing opportunity costs are leading to acceptance of petty corruption, and the fast rate of institutional and administrative change causes uncertainties and undermines the existing skills and knowledge base.

1.55 The transitional period is therefore one which places great pressure on the capacity of the public service - to define new policies, regulatory and monitoring responsibilities, and to then redirect and retrain resources to put these into effect. The price for failing to complete this transitional challenge can manifest itself in a number of guises: Old regulations which support rent-seeking networks fail to be removed; new regulations and fees for services may not be clear; informal approvals channels with high transaction costs predominate; corruption grows. Transition in practice can mean replacing a clear, but clearly disliked institutional structure, with an unclear and equally disliked one - which some may argue is happening in China. Thus, support for administrative reform and related capacity building over the transitional period can be a very effective target for TA in that it supports sustainable implementation of the newly defined institutional and policy environment.

1.56 However, what the Vietnamese understand by administrative reform is not necessarily the same as that perceived by the donor community. To the Vietnamese, the key concerns seem to be to reduce the size of the bureaucracy and to tackle the problem of rising corruption. They also acknowledge that there are many “cumbersome, obsolete and unnecessary regulations..” (Vice Premier Phan Van Khai), and are clarifying the authority of local governments to issue regulations and collect fees. These and other reforms are all part of a large Public Administrative Reform Program which the Government has given high priority.

1.57 However, when it comes to the evaluation and design of organisational structures and management systems there are clearly areas of confusion and a lack of awareness. Concepts of mission statements, human resource and time management, system design, clear delegation and incentive structures, functional job descriptions, and all the trappings for making modern bureaucracies efficient are completely missing. Nor is there an appreciation that there might be problems in these areas. Thus the first task for donors is a matter of raising awareness and a consensus for change through workshops, study tours, and advisory consultants. The use of a central training facility to provide short-term courses and workshops to a range of Government organisations is another means of spreading ideas about how to effect structural change in administrative bodies.

Aid Absorption

1.58 Direct problems concerning aid absorption are at the heart of many donor's concerns about their activities in Vietnam. A patent lack of familiarity with international donor agencies and their project cycles is one cause for the slow rate of disbursements. However, we might also add consideration of weak policy and decision making processes, and inappropriate administrative structures and skills, as contributing factors. That is, the legacy of central planning is hampering attempts to meet the new administrative output demands to implement aid projects.

1.59 Problems related to aid absorption were given particular emphasis by the Vietnamese Government at the 1994 donor conference. At present, the assistance by donors beyond direct ADTA linked to their projects is quite limited. The ADB is assisting with streamlining procurement procedures, and the UNDP have a project to facilitate aid coordination within the State Planning Committee (SPC). Project management training through participation in courses at the ADB and the Economic Development Institute (World Bank) have been useful. What is required is the development of Vietnam-based training capacity relating to the whole project cycle - formulation, design, implementation, evaluation. Discussion with the Government should lead to selection of a single training centre for building up a project-related teaching capacity to train a wide cross-section of persons from the central agencies, line ministries, and provincial governments. Such a centre could be “twinned” with a leading international teaching organisation (eg; the Asian Institute of Technology based in Bangkok, or the Asian Institute for Management at Manila), and become the focus for short-course retraining of

existing government officials in a variety of areas. The possibility of working with the SPC to develop such a retraining centre is discussed below.

1.3.4 The Bank TA Program in Vietnam

1.60 PPTA and ADTA are typically incorporated as piggy-backed TA with lending proposals to Vietnam. Free-standing TA to Vietnam is at present very limited, although this is expected to increase and total TA grant disbursements to Vietnam are anticipated to average US\$10-12 million annually over the next few years. A list of pipeline TA projects is included as an appendix to this report.

1.61 The present TA projects planned for Vietnam are similar to the sectoral piggy-backed interventions which the Bank implements in all its DMCs, although with greater proportionate resources being devoted to ADTA. However, particular attention is being given to long-term capacity building issues, including plans to build up the State Planning Committee (SPC).

1.3.5 Specific needs in relation to ADB projects and programs.

1.62 The slow disbursement of lending programs to Vietnam has been an issue plaguing all donors active in the country. The Bank has been no exception, and a recent report on the matter (Central Projects Service Office, December 1994) came to the following conclusions:

“81. On the overall, the Government and its various ministries and agencies will have difficulty in implementing Bank-financed projects within the next two years. The country is still in a transitional period to a market-oriented economy and the policy and institutional implementations of the transition are more serious than anticipated. Although a stream of laws, decrees and resolutions are being issued to ease the transition, the elements of the old institutional structure remain and any matters of minor importance still must be referred to higher levels of Government. This has been adding to decision backlogs and delays in project implementation. There is also the lack of inter-ministerial coordination and cooperation on planning and exchange of information which has further created the need to endorse routine decisions at higher levels of government.

82. Among the factors that are expected to contribute to delays in project implementation are as follows:

- (i) Inadequate knowledge of the Bank’s project implementation procedures;
- (ii) Lack of skilled and trained staff to implement projects; and
- (iii) Lack of specific Government procedures and instructions on project implementation.”

1.63 The report recommends continued piggy-backed ADTA with loans, the sending of Vietnamese officials to the Bank Headquarters for three-month involvement in the actual appraisal and implementation of projects, and: “More TAs on institutional upgrading and training should be provided by the Bank starting with the SPC, the various ministries and the provincial organisations” (p.29).

1.64 One particular concern of this report is to comment on the design of appropriate “free-standing” (i.e. non-piggy-backed) TA to achieve that third objective. The specifics of some possible free-standing TA projects are discussed below. For the meantime, it should be noted that the ability to implement projects (absorptive capacity) is being held back by a lack of specific management and administrative skills, and *has become the binding constraint on expanding the Bank lending program in Vietnam*. This is because of the transitional nature of Vietnam’s economy: It is not so much a question of “building up” an existing weak and limited capacity as in many DMCs, but rather to “create” some capacity where there was none. Implementing loan projects from international agencies is a new and unfamiliar task for the Vietnamese authorities, and it is therefore an area of special assistance need.

2 Approaches and Modalities

2.1 The above chapter was essentially a situation analysis of the main capacity building problems and priorities in Vietnam. However, it also touched upon international aspects of relevance, and on specific concerns as they relate to the Bank. This chapter explores in more detail the issues of *how* the Bank, having identified key areas of need, should undertake the task of capacity building in Vietnam.

2.1 Approach: Strategic Issues and Choices

2.1.1 The nature of capacity building assistance

2.2 The restructuring of bureaucratic functions and responsibilities is something for which donors can only provide advice and *promote awareness*, for change in these areas is fundamentally determined by the degree of commitment by the Vietnamese authorities themselves. Drafting legislation, examining bureaucratic procedures, reorganising departments, management restructuring and designing information systems, are typical examples of TA interventions which are totally dependent on recipient commitment (“ownership”), and as such should be implemented with a maximum degree of flexibility. This form of assistance may be distinguished from *efficiency enhancing TA* interventions which can increase institutional capacity but without much disruption of existing structures. Computerising existing information and reporting channels, and most training activities fall into this second category of TA.

2.3 The reason for making the above distinction is to highlight the thinking amongst many donors that institution building is largely a matter of “technical fixes”. This thinking identifies problem areas as something where an appropriate expert could come “and tell them how to do it properly”. It bypasses the processes of dialogue and consensus building, in a naive belief that the recipient structures will follow the lead of donors who have identified their “needs”. It is typical of ambitious TA projects that planned changes to the regulatory environment, organisational structures and information channels, seriously lag behind the “easy” inputs of training, placing consultants, study tours, and computerisation.

2.4 Thus it is not simply a matter of giving good advice, but rather the much more difficult task of supporting a process for change within the DMC. Raising awareness through study tours, conferences and workshops is one approach - and one which has been very useful in Vietnam where its senior officials have been relatively isolated from the Western world for some time⁸. Providing efficiency enhancing assistance, but with an eye to stimulating more fundamental structural reforms is another approach to consider.

2.5 It can be seen that project planning for capacity building TA is a demanding exercise. Identifying apparent needs and shortcomings in organisations is only the first step. The project designer must then determine if an awareness of this shortcoming is apparent, and if a willingness to change exists. Are there “champions for reform” that a project can link up to? However, it is easy to be misled in this investigation as any DMC organisation is eager to be a recipient of grant assistance, even if it is used inefficiently (the opportunity cost for them is minimal). It is not always the case that an apparent need for capacity is also an opportunity for a rewarding intervention. These and related problems can only really be answered by persons with considerable experience in that country - one reason why the new country focus of the ADB is so commendable. And, as any Program Officer will inform you, planning an effective TA project is a task fraught with traps, but one made much easier with assistance from in-country Bank staff or long-term consultants.

Long-Term Capacity Building

2.6 The belief that a transitional organisation may learn to undertake its new functions through internal retraining is a somewhat optimistic one. It can never be more than a temporary solution as the raw material you are working with - the existing staff - were originally trained to undertake completely different functions⁹. Fortunately new staff do enter the organisational structures of Government in Vietnam, although at a reduced rate

⁸ It should be noted that the Bank's draft guidelines for capacity building do highlight this "awareness" issue, indeed it is the first of four identified Bank objectives in this area: "(i) to promote DMC consciousness on the need to enhance capacity for development management" (p.2).

⁹ Consider, for example, the immensity of the task to transform the ADB into an international heavy engineering firm without replacing any staff!

over the transitional period. For sustainable restructuring it is essential that the new entrants are more appropriately trained to meet the new tasks demanded of them.

2.7 At the university level there is much being done. The Hanoi National Economics University, for example, is well advanced in teaching in Western economics, accounting, and finance. MBA programs are being developed throughout Vietnam. However, what is conspicuous by its absence is some form of modernised degree for Public Administration. The idea of supporting a “centre of excellence” to develop “young professionals” for public sector service is discussed below.

2.1.2 The problem of evaluation.

2.8 The lack of objective evaluation criteria for TA projects is a reality that must be accepted up-front. Indeed, it is one reason why DMCs are reluctant to borrow for such investments. Consider, for example, policy advice. What is its “value” if followed? Maybe the recommendations are not adopted for a few years? Was it then because of earlier intervention? How to distinguish Bank advice from that of other donors? Similarly with training activities: Persons may be trained, though evaluating the quality of training remains perplexing. And what if that training was not put to use? This question of measuring the quality of human capital improvements is the crux of the problem to evaluating capacity building projects. An analogous problem is to determine the quality of consultants - it cannot be done objectively. Consequently consultant remuneration is based principally on a quantifiable formula based on formal qualifications, age, and relevant work experience. That they may have been doing mediocre work for decades rarely shows through.

The intractability of measuring the real value of TA interventions has something in common with advertising. It was the eccentric industrialist Henry Ford who said: “I know that half the money I spend on advertising is wasted, the problem is I don’t know which half.”

2.9 Of course various quantifiable measures and indicators can be developed, but there are dangers in relying too much on these. Such measures often relate to inputs delivered, or raw outputs (eg; “persons trained”), but cannot answer questions about quality or development impact. *It must always be remembered that quantifiable measures are only proxy indicators for the objectives which you are really trying to achieve.* Too much attention given to poor but quantifiable indicators can be a distortion-causing trap. And the Bank draft MTSF paper, with its talk of “specific objectives...identified in as tangible manner as possible...monitored in terms of progress and year-end achievements” (p.10) sounds like it may be falling into it.

2.10 Explicit acceptance of a high degree of subjectivity in evaluation must be acknowledged. Quantifiable indicators should certainly be developed, but used with caution. What these conclusions mean for TA projects is that the Bank must *trust* relevant

Bank officers over the course of implementation. Field Offices, and even long-term consultants, should be given greater flexibility (and responsibility) in project implementation. Further, to avoid simply reporting the completion of inputs as a criteria of project success, and to pay greater attention to issues of sustainability, relatively subjective Project Impact Reviews should be conducted *6 months after* project completion.

2.1.3 A framework for Bank assistance

2.11 It should be noted that the ADB already provides a variety of “free standing” TA, notably in the provision of policy advice and research, and in the building of central government agencies. However, it would seem, given the trend towards recognising the importance of capacity building - and the requirements to make interventions sustainable - greater emphasis should be placed upon “free standing” capacity building activity.

2.12 However, any widening of the scope and size of “free standing” Bank capacity building TA must be undertaken within the context of the Bank’s strategic purpose. The Bank is principally a large lending institution, and the primary objective in providing TA is to maximise the scale and quality of that lending. Therefore, in one sense, piggy-backed PPTA and even ADTA may be viewed as relatively short-run substitution assistance to directly facilitate Bank lending, while “free standing” TA may be seen as long-run indirect capacity building to achieve that same facilitation objective, as well as to stimulate investment growth from other sources.

2.13 Therefore, the Bank definition of “capacity building” becomes something narrower than “capacity building for development”: It is better defined as “capacity building for national investment facilitation.” Donors, foreign investors, domestic private investors (big and small), and the recipient government itself, are the sources of national investment. TA to improve the quality and quantity of investments from each of these sources is often, implicitly, what Bank officers mean when talking of capacity needs. This definition should be made explicit, which provides a clearer focus for targeting Bank TA, and even suggests some quantifiable aggregate measures for evaluation.

2.14 The capacity of an organisation is dependent on how it is structured, and on the quality and skills of its fundamental unit - people. “Structure” relates to flows of information, authority, and finances - between and within organisations. There are serious structural deficiencies in most Vietnamese organisations, but these are progressively being addressed and, as discussed above, are generally in areas where donor assistance is limited to advice and raising awareness. However, improving the quality of staff in, and going into Government organisations, is an area where donors can provide substantial and important assistance.

2.15 Several strategic choices must be made in designing a capacity building assistance strategy for Vietnam. Should the present system of rather *ad hoc*, small and mostly

project-linked TA interventions be maintained? The idea of targeting TA to actual lending programs has its merits and, in practice, some problems. There is however a strong case to develop a significant program of free-standing TA in Vietnam given its special transitional requirements.

2.16 A second issue is whether the ADB should concentrate its assistance on the existing officials in Government organisations, or take a longer perspective and make sure that the newly recruited younger generation of officials is properly trained to run a modern market-friendly bureaucracy. In fact, attention can and should be given to both groups of persons, but in both cases the emphasis must be on developing a sustainable capacity building process. Training new recruits, and retraining existing officials, is at the core of successfully transforming the Vietnamese administrative system. TA interventions which are to support this process in a sustainable manner must leave behind training capacity which does not require the continued input of foreign experts.

2.17 In view of all the above considerations, this report recommends that the Bank focus its attention over the next three years on two relatively large free-standing TA projects. The first to build up a training centre for Government officials, and the second to develop a “centre of excellence” which would provide a Diploma of Public Administration for young persons about to enter Government service. The Government Training Centre could be linked to a package of assistance being designed for the SPC, or be a separate TA project.

2.18 The proposed TA projects are relatively large because they involve certain sunk costs to achieve their stated objectives: a serious and sustained training impact. Small projects are necessarily the product of spreading the Bank's TA effort over a large number of sectors and lending projects, but there is little argument for having a strategy of many small projects *per se*. Also, good TA projects cannot be cheap to design and implement. It is therefore understandable the considerable expenses of detailed design, protracted dialogue, flexible implementation, and thorough evaluation, should be in relation to a project of a certain minimum size. Design and evaluation costs are often a large part of small TA projects, and often these aspects are allocated few resources to keep them down to a reasonable proportion of total project costs.

2.2 Modalities

2.1.1 Project-linked TA - virtues & vices

2.19 The virtue of piggy-backed ADTA is that it is directly associated to facilitating particular lending activities. Given that an important objective of Bank operations is to sustain a high flow of quality lending activity, there is a logic in targeting limited TA resources to facilitate the processing and facilitation of specific loans. However, some problems have emerged with this approach:

- The supporting link to the lending program puts pressure on the TA project timeline and reduces flexibility in implementation;
- The direct link to lending activity places to favour substitution modes of TA rather than genuine capacity building modes.
- Sustainability objectives through effective training and suchlike are typically secondary to demands on consultants to do particular jobs (eg; loan project implementation);
- Piggy-backed ADTA is designed in isolation from the overall policy and institutional environment, and not as part of a coordinated sector-wide or country-wide strategy;
- This strategy to deliver the Bank's limited TA funds ensures that they are dispersed over a large number of small interventions, which is not necessarily desirable.

2.20 A further concern is that the Bank lacks guidelines to assist in determining if ADTA is needed for any given loan project. Consequently, the less scrupulous project designer may feel they need to “throw in” some ADTA without quite knowing exactly why or even where. Obviously, there is much subjectivity in making such needs assessments, but some consideration of suitable criteria (and maybe a case-studies workshop) could be developed as part of the Bank capacity building policy review.

2.21 Some specific concerns about the strategy of piggy-backing ADTA to project loans were noted above. To these we may add the following more general observations about institutional development and the effectiveness of a lending program:

- Loan project quality is inextricably linked to the recipient country's policy environment.
- Sustainability of investments is dependent on capacity areas not directly associated with the projects.
- Understandably, the incentive structure of the Bank causes staff to give greater attention to the much larger loan activities than to TA, yet issues of project quality and sustainability are largely determined by ADTA interventions.

2.23 It should not be construed that the above concerns constitute an argument for dropping all piggy-backed TA in Vietnam. Against the above problems with piggy-backed TA we must weigh the considerable positive that such projects are targeted direct support for Bank lending. Consequently, the need for project-linked TA may often be well justified (although the criteria remain unclear), and the issue is really what mix of piggy-backed and free-standing TA is best suited for a particular DMC.

2.24 The argument for conducting substantive free-standing ADTA and capacity building TA rests largely on appreciation of the above concerns with piggy-backed TA. Further, in recent years a consensus about the importance and nature of sustainable capacity building (which is mostly free-standing) has emerged:

- Inadequate capacity is *the binding constraint* for the implementation of many loan projects and for the absorptive capacity of a recipient country in general. It is not merely important - it is the bottleneck.
- Effective capacity building involves protracted recipient dialogue to generate “commitment”; often, complexity in design; and certainly flexibility in implementation. Timelines of five-years or more, with clear phasing and milestones, are desirable.

2.25 Thus some immediate recommendations fall out from the above observations:

2.26 ADTA needs more care and time in design and implementation, and while piggy-backed TA is still desirable, the criteria for initiating such ADTA need to be clarified. Consequently, it may be desirable to separate the Bank approvals process for project-linked TA from the project loan proposals themselves. This would force management to view TA plans as unique proposals (not merely as loan “tag-ons”). Also, such two-tracking may be structured to facilitate earlier implementation of ADTA activities, which allows for longer implementation timelines and to have at least some of the desirable capacity building in place or under-way *before* the loan project commences.

2.27 The second recommendation is that more ADTA should be undertaken “project free”. This facilitates adopting long time horizons (and objectives) for interventions, and allows for a maximum of flexibility in implementation.

2.2.2 Dialogue and national commitment.

2.28 The importance of dialogue to develop awareness and a consensus for reform has been discussed at length above. “Champions” and commitment to reform are essential for initiating structural changes in systems and organisations. The impetus for most capacity building reform relies critically on the willingness of recipient institutions to embrace change. This is not always possible, and fundamental obstacles may emerge at any time during project implementation. This is why flexibility in implementation of capacity building projects is so important. If, in the assessment of those on the ground, the project is stalled, then there must be some means to scaling down or even stopping the project. Flexibility to respond to opportunities and to obstacles must be part of project design.

2.29 Donors rarely account for institutional considerations in designing TA projects. Further, the rivalries and tensions between DMC organisations are often assumed away.

The consequences of this are timeline delays, wasted resources, and only partially fulfilled objectives.

2.2.3 Policy Environment

2.30 There is no doubt that the policy environment is fundamental to determining the nature and pace of development. As such, donor ADTA to identify and promote “good policies” can be very effective. In Vietnam, donor policy advice over the early years of reform (1986-1990) was possibly of crucial importance. Indeed, it has been observed that in 1989 Vietnam undertook an unusual IMF stabilisation program in that it implemented all the policies but received none of the funding!

2.31 ADTA continues, and is pursued by all major international donors at the macro and sectoral levels - with much unnecessary duplication. However, the challenge now is to develop local capacity for sophisticated policy analysis. This involves substantial training - both locally and overseas - and is under way. In this report it has been suggested that the Bank could consider stimulating the policy dialogue process in Vietnam from the output end.

2.2.4 Donor Coordination.

2.32 Few who have been in the aid business for some time cannot help but smile at the desirability and yet evident futility of promoting aid coordination. The UNDP maintain an annually updated database of donor activity in Vietnam. This is presently going onto an e-mail network which, with a little more effort and some donor cooperation, could become a very valuable tool. Hopefully UNDP will develop this database more comprehensively as part of their donor coordination mandate. It is something which should be pursued, for there is no doubt that one of the most annoying and time-consuming activities of missions is the task of finding out what other donors are doing in the area they are interested in. Donor coordination - in the sense of giving directions - is the task of the DMC Governments, but there is no reason why the donors could not develop a better mechanism for informing each other of their work in the interests of efficiency and avoiding duplication.

2.2.5 The use of consultants.

2.33 The counterpart system as it is traditionally understood does not exist in Vietnam. Firstly, foreign experts are not assigned positions which are expected to be filled by Vietnamese when they leave - their positions are project-specific and they end when the project ends. Secondly, Vietnamese counterparts are generally not assigned to be taught so much as to be responsible for the work program of the foreign expert. Thus, meetings are often infrequent and short, with the main purpose being to agree on the consultant's

immediate workplan. The foreign expert, who is normally given an office at the relevant Ministry, will then work with a team of Vietnamese staff assigned to the project. They can therefore be effective in transferring knowledge and exchanging ideas across a variety of persons, but their contacts and exchanges with their assigned senior Vietnamese counterpart may be limited.

2.34 In short, long-term foreign consultants can still be effective in Vietnam to facilitate the transfer of knowledge and technology. However, the counterpart system is not done on a one-to-one basis, but rather through relatively unstructured interaction with a team of Vietnamese colleagues. As such, the personal qualities of the individual consultants and the Vietnamese they work with becomes crucial to the success of the process.

2.35 The use of local consultants is increasing, but from a low base. The UNDP register of local consultants in Vietnam should be expanded to include individuals, more widely distributed - indeed, advertised (including on INTERNET), and be regularly updated with standardised forms. There is no doubt that using local consultants is cost effective and, in a sense, kills two capacity building birds with one stone. The Bank should consider various options to stimulate the use of local consultants in its TA projects. It could, for example, be part of a discussion about project modalities in the forthcoming Bank capacity building guidelines.

2.2.6 To grant or not to grant?

2.36 Counterpart funding (i.e. not just “in kind”) is an expression of commitment to a TA project because it increases the opportunity cost for the government in doing it. If the government is unwilling to meet, say, 15% of project cost (the rest as grant), then are they really serious about the project? Counterpart funding also requires the donor to “sell” the project to the DMC in question. This forces them to address the recipient awareness issue and hence build up commitment for the project. Add to the above arguments the fact that 15% counterpart funding should allow for 15% more TA projects, and the case is an impressive one.

2.37 The act of insisting on meaningful counterpart funding for TA projects could be taken independently from the rest of the donor community, or indeed as an example for them to consider. However, it would be a challenging task, and would provoke DMCs to seek out non-Bank grant financing whenever possible. It may therefore be better to pursue the principle through international channels with a view to producing a coordinated response from donors sometime in the future. The pricing of aid, and not just TA, is just one of many issues in need of serious donor coordination.

3 *Recommendations and a Bank Strategy for Vietnam*

3.1 **A Suggested New Design & Delivery System**

3.1 Expanding capacity building activities independent of direct project linkages is recommended. However, this should only be contemplated after an examination of the unique characteristics of this form of donor activity, and of how it is presently formulated and implemented by the Bank.

3.2 It was noted above that the incentive structure of the Bank means that individual officers give priority to their large lending responsibilities over their TA design and implementation work. That is not only understandable, it is desirable. The Bank is first and foremost a major lending institution. However, on the basis of *time spent per dollar disbursed*, there is little doubt that TA demands are greater.

3.3 There are two key reasons for this:

- TA activities are by their nature complex and administratively demanding.
- There are significant decreasing marginal administration costs in designing and implementing any form of aid projects (i.e. in general, a US\$5m project requires much more than one-tenth of the administrative effort of a US\$50m project).

3.4 Given decreasing marginal costs, it becomes apparent that taking total administrative costs relative to total disbursements as a leading performance indicator for the Bank (or any donor organisation) can be both misleading and harmful. Harmful because it generates a bias against conducting small and complex projects - typically, capacity building TA work.

3.5 Two conclusions require explicit acceptance: sustainable capacity building TA is “administratively intensive”, and the incentive structure of the Bank discriminates against small and complex projects. Changing the Bank’s incentive structure is not easy, nor desirable *per se*. The challenge is to incorporate greater attention to quality capacity building projects. For this purpose it would seem necessary to make “free standing” TA a discrete part of Bank operations (in the same way that social sector project development has been made the responsibility of particular Bank staff). This would enable administrative costs of such capacity building to be calculated and viewed as “separate” from mainstream Bank operations, and to isolate such TA activity (and staff) from the pressures of association with loans disbursements.

3.6 What this entails is the designation of (extra) Bank staff to develop and administer capacity building projects on a full-time basis. Relieved from the pressures of disbursing loans, such persons could devote the necessary time and effort required to design and implement effective and sustainable capacity building across one or more countries. Such

persons would, of course, work on a daily basis with the relevant country officers and assist them in the design and implementation of piggy-backed ADTA. The number of such persons would be determined by the Bank's strategic priorities, its evaluation of the relative importance of long-term capacity building in Asia, and the results of a case study.

3.7 Vietnam presents itself as an ideal candidate for such a case study. One staff person should be allocated to work exclusively on long-term "free standing" and lending-linked ADTA. Apart from agreed inputs to "piggy-backed" ADTA (which, importantly, would include greater recipient dialogue and hence "commitment"), the person would be charged to formulate "free-standing" TA proposals in consultation with Vietnamese authorities and the relevant Bank Division officers. After an appropriate Bank approvals process, the "Vietnam Capacity Building Officer" (VCBO) would then implement the project with the help of locally recruited staff or the use of a local private consultancy company. The Bank could then use this pilot study to develop operational instructions and performance evaluation criteria for such officers.

3.8 The person should be based in Hanoi. The reason for such extensive in-country work for the VCBO is largely because of the complexity of capacity building projects and the related need for flexibility in implementation. Another reason is that identification of effective interventions is not merely a question of finding the holes:

The fundamental problem is not in identifying areas requiring substantial capacity building, they abound, the problem is rather to identify those areas where leadership commitment exists for change (along with a relatively clear perception of needs and solutions).

3.9 Effective capacity building is a demanding and complex task. This is especially so because capacity building projects require lengthy dialogue to design and flexibility in implementation. Dialogue is required to increase awareness of certain needs (eg; organisational reform), and to generate a consensus and commitment for change. Why is this necessary? Because *capacity cannot be built unless it wants to be*. This relates to the recurring theme of this paper, namely that building up awareness on key issues and a consensus for change is a valuable objective of TA activity in and of itself, and a crucial prerequisite to sustainable reform. Such a consensus is needed for entirely practical reasons. This is because much capacity building involves shifts in existing networks of interest groups: There are winners and losers. The potential losers can delay or halt reform unless the commitment and impetus of the process is unstoppable.

3.10 There are therefore policy preconditions to undertake capacity building activities (pre-reform Vietnam offered little scope for effective assistance), and there is also a need for "champions for change" at the highest levels. The BANK leadership need only reflect on the complexities and political sensitivities of their own recent organisational restructuring to appreciate the situation - an example which also illustrates that in such circumstances the input from those outside the system (i.e. consultants, like me) can only be advisory, for the act of reform must be led by those within.

3.11 It is the task of the VCBO to operate within this whirlwind of sensitivities and interests, and to identify the opportunities for effective assistance. This is a particularly demanding task when designing interventions for long-term sustainable capacity building, although not all TA activities need be of this type. Short-term policy advice is a good example of an essentially non-sustainable intervention which may be dramatically effective. And assistance in drafting legislation, providing information about a specified topic, or to prepare for a special event (eg; joining ASEAN), are further examples of relatively simple, but also useful, assistance in meeting short-term needs to "get jobs done". Thus, the VCBO would be involved in initiating both short-term and long-term TA projects.

3.12 Making a position for a VCBO is an initiative in line with present Bank concerns to play a greater role in long-term capacity building in DMCs. However, it should also be noted that the transitional economy nature of Vietnam presents additional support for having an in-country VCBO. As noted above, the state of flux of Vietnam's institutional structures is the defining feature of what we understand by "transition". In such an environment, there are systematic problems which make the selection and focus of TA projects very difficult. That is, much thought must be given to evaluating the roles and abilities of the various government agencies, and to the issues of sequencing institutional development and capacity building over time. It is a task which requires somebody "on the ground" to evaluate and report on the characteristics of the fast changing bureaucratic and institutional structures.

3.13 An example may help to illustrate this argument to account for the special institutional circumstances of Vietnam as a transitional economy. I can remember meeting a World Bank Mission on the Environment in 1992 in Hanoi. They wanted to provide TA to support the institutional and policy processes related to the environment, but had only a vague idea about how they should do so. The official mandates of the relevant Government Ministries were unclear, and were changing fast, and they had only limited knowledge about the capacities of key individuals and policy divisions. Planning an effective TA intervention in this area, they realised, was going to take a great deal more research and consultation than was the case in other DMCs where they had been operating for many years and in more stable institutional environments. A VCBO would have been very useful to them.

3.2 Specific Initiatives for Capacity Building

3.2.1 The State Planning Committee

3.14 The State Planning Committee is the central strategic planning authority for Vietnam. In the old economic system it functioned as the main allocative agency of material goods for the planned system, which in the case of Vietnam largely involved the allocation of subsidised inputs from the former Soviet Union. Nowadays its

responsibilities have changed dramatically and it is still searching to define its role in a more market-oriented economy. Responsibilities and relationships to other Government organisations, such as the Office of Government, the Ministry of Finance, the State Bank of Vietnam, and the various line ministries, are still in the process of being defined. This process, as discussed above, has important interest group and political implications and is therefore an area where donors can only contribute at the margins and in an advisory capacity.

3.15 The present SPC organisation still has the responsibility to give “strategic guidance” to the development process, including administering the public investment plan (PIP) and coordinating foreign aid activity. A variety of donors have been assisting the SPC to undertake their new or expanded responsibilities. UNDP has been working for some years on the PIP process, which the World Bank is presently also assisting. UNDP have also been funding a project to strengthen aid coordination, and another executed by the World Bank to reform state enterprises. The French bilateral program is involved in support for the Investment Appraisal Unit, and the Japanese have directly placed persons to facilitate their own project disbursements. The long-term consultants recruited by these projects are allowed to work within the SPC building, but are not assigned line positions (*a la Africa*). These consultants act as “Resident Resource Persons” whose use depends largely on their ability to communicate effectively and the qualities of their assigned Vietnamese counterpart (see 2.2.5 for a discussion of consultants and their counterparts).

3.16 Amidst this flurry of donor activity there do remain areas for effective additional assistance, *especially if such assistance is linked to a program of formal retraining to ensure a sustained impact from placing consultants*. What follows is a sketched proposal for such a package of advice and retraining:

3.17 A large TA project in the SPC should have Chairman Do Quoc Sam as the National Project Director. The Chairman would head a project committee consisting of the various Vice-Chairmen and department heads in whose departments relevant long-term consultants are placed. It is imperative that the organisational structure and “ownership” rights of individual SPC departments in relation to the project be made as explicit as possible from the very beginning. Appropriate project design in terms of administrative structure is absolutely essential for this TA project if it is hoped to have an impact throughout the SPC (i.e. not confined to one or two departments), and then beyond the SPC to other Government organisations through the training components. It is highly desirable that a large intervention focused on the SPC have a strong training component which reaches beyond the SPC and its regional planning staff. As part of the TA package, agreement should therefore be reached to use the SPC training facility as a retraining centre for other government central agencies, line ministries, and provincial authorities. Thus, consultants acting as resource persons in SPC departments would also be developing a sustainable training capacity which reaches out to all relevant Government bodies. The allocation of consultant time and project resources between specific SPC department advisory responsibilities and the training centre would be agreed at the outset, although be kept flexible at the discretion of the NPD.

3.18 Long-term consultant placements should be for at least 18 months, with short-term consultancies to supplement their activities in the later stages. The use of short-term consultancies should be kept as flexible as possible to respond to demands and opportunities as they arise. Suggestions for long-term placements include:

Project Evaluation and Formulation Adviser

3.19 (Attached to General Planning Dpt. [PIP project], or Investment Appraisal?)

This position may already be covered by phase two of the UNDP project, and certainly the work of this person would have to be closely coordinated with that project. The UNDP focus is to generate a strategy-led PIP process at the SPC, and training is generally on a small scale and not particularly tailored to the Vietnamese situation. An important part of this person's job would be to develop a training program at the training centre which would upgrade the ability at all levels of Government to produce or evaluate better quality project proposals (the "raw material" from which a PIP is developed). State and private enterprise directors should also be encouraged to attend courses on matters such as procurement tendering or evaluating joint-venture investment proposals.

Aid Project Implementation

3.20 (Attached to Procurement Evaluation Office? or Infrastructure Dpt?)

The principle responsibility of this person would be to design a course for teaching national project directors and their assistants how to implement large aid projects. This involves adapting existing training packages, such as those available at the Bank (add case studies and extend the training period), and then teaching these while ensuring that a Vietnamese retraining capacity is in place by the end of the assignment. Most of this training would be for persons outside of the SPC.

Information, Organisation, and Management Systems Expert

3.21 (Attached to Vice Chairman, or Information Centre?)

The principle task of this person would be to "raise awareness" of systems weaknesses, and to suggest options for reform. The terms of reference for this person would have to be quite flexible, as they would be responding to opportunities to provide effective inputs as they emerged. Short training courses would help to spread the knowledge of basic concepts and system analysis tools. Possibly this person should be attached directly to the NPD Chairman to facilitate their ability to provide advice and assistance across all departments. On the other hand, maybe this person should be incorporated directly into the Government's Program for Administrative Reform.

3.22 This task of "raising awareness" is one which all the long-term consultants should explicitly embrace. The consultants are not there to do a job as such, but rather to facilitate the flow of ideas and information to stimulate beneficial reforms. They have no authority to *direct* policy and bureaucratic reform, all they can do is *nurture* the process. In this passive role, consultants must respond to the circumstances they are confronted with, which is why the ability to mix formal training with a less structured advisory role can be particularly effective.

Resident Scholar

3.23 (Attached to Central Institute for Economic Management)

To build up the policy analysis work of the CIEM, which is one of the most important - and probably the most dynamic - policy centre in Vietnam. The CIEM is involved in a mix of direct Government work (eg; legislation drafting) and research. They have an impressive economic modeling capacity and are a source of macroeconomic evaluation. The Resident Scholar would advise on the various research activities of the CIEM, facilitate research relationships with overseas institutions, and could even help develop a CIEM working papers series (or the *Journal* outlined below). The translation project idea (detailed below) could also be placed under the Resident Scholar's advisory supervision. The Resident Scholar would also design and assist in presenting a lecture series on economic issues relevant to Government officials, and organise the workshops and conferences to coincide with visits from the Senior Consultant.

Training Coordinator

3.24 (Attached to the Personnel and Training Dpt.)

This person would coordinate the training activities of the core team of consultants and their Vietnamese teaching counterparts, as well as the various short-term consultants. In particular, the Training Coordinator would ensure that the consultants are designing their courses to be relevant to Vietnamese conditions, assist in providing Vietnamese content (eg; case studies), and make sure that Vietnamese teaching counterparts are being adequately trained. It may also be advisable that the Training Coordinator organise workshops to improve the presentation and course design skills of the consultants. Finally, the person could present their own lecture series for relevant Government officials. This consultant should be employed for about one year longer than the core consultancy team, to ensure that the transition to all-Vietnamese taught courses is effective, well coordinated and the teaching skills remain of high quality.

Senior Consultant

3.25 Twice each year, a Senior Consultant of international repute should visit the project. This person would review progress with the consulting team, and discuss recommended changes in project focus, workloads, and design. The Senior Consultant can then act to gain agreement for changes through dialogue with senior Vietnamese officials and Bank staff. One meeting each year would be relatively low key - a project workshop - and be part of an annual project evaluation and redefinition process. The other visit would coincide with a senior policy conference focused on a particular theme.

3.26 An important advantage in the design of the above SPC-based TA package is that long-term consultants have a mix of advisory and training responsibilities in different departments of the SPC. One problem in placing long-term advisory consultants is the worry that they may become underutilised for one reason or another. In this design, an underutilised consultant could be drawn into more intensive training activities, or visa-versa. Deciding the advisory/training mix would be the task of the project management committee, headed by the SPC Chairman, and in consultation with the senior consultant.

Such a process would allow for the review and change of long-term consultant workplans every six months.

3.27 This is quite a large TA proposal, and one which places a broad spectrum of long-term foreign expertise within the SPC. To maximise the benefit of this TA investment for Vietnam, it is therefore highly desirable that the training component is of high priority, and that the training reaches out beyond the SPC itself. The vision is for the SPC to develop into a "centre of excellence" for short-term training courses for public servants from all areas and at all levels of government. It is intended that this training role would be sustained well after the departure of the Bank's foreign consultants, and that other donors and the Vietnamese Government would recognise its importance and support the centre.

3.2.2 A Centre of Excellence for a Diploma in Public Administration

3.28 The general argument for such a centre and the need to support the quality of administrative reform and retraining in Vietnam is outlined above. The concern here is to give some flesh to the general concept. At present, the flow of new staff into the Vietnamese public service has been greatly reduced as the Government attempts to downsize its administration. Those that do get recruited are generally persons with English language skills, but with few other skills that will help them develop as professional public servants. And it is true that informal connections and non-merit considerations remain important. However, the universities are beginning to produce a stream of business and economics graduates who will have more to contribute, and we can only hope that formal qualifications will become increasingly important as their value is recognised.

3.29 Nevertheless, there is no centre of teaching which focuses on producing post-graduates specifically for public administration. This would seem an obvious opportunity for donor assistance as it fits in nicely with the Vietnamese Government's priority concern for public administration reform. If high level agreement for such a course were attained, then a teaching establishment could be identified to be developed as a "centre of excellence". The National Institute for Public Administration would seem a likely candidate, and is to receive limited assistance through the UNDP to restructure its course curriculum, although there are others.

3.30 A project of three phases over five or six years would probably be required: the first phase being project design, course planning and initial institution building; then sustained improvement in course content and Vietnamese teaching; followed by a period of scaling down foreign inputs. Students attending the centre would be selected from those about to enter the public service (i.e. with jobs already assured but postponed for one year while they undertake this course), and existing officials under, say, under 45 years of age who would compete for scholarships. The course would be of high quality, and its graduates regarded as "young professionals" entering the system. Private fee-paying

students would also be welcomed; numbers of whom would increase as the Diploma gained respect and value in the business community.

3.2.3 Strengthening Policy Dialogue & Processes

3.31 The Vietnamese authorities are receiving policy advice from everyone on everything. Bilateral as well as the multilateral donors are paying for hordes of consultants to conduct research and make recommendations. Amidst the prolific duplication of this activity there is much good work being done, and the Vietnamese have responded favourably to much of it. However, donor attention as to how they may support Vietnamese policy processes and the quality of debate and analysis - beyond scholarships for overseas travel and study - has been limited. While there are many avenues to pursue in this broad area of need (including the Resident Scholar position detailed above), two suggestions for small but highly beneficial interventions are detailed below.

A Journal of Vietnamese Public Policy

3.32 None of the numerous institutes attached to ministries and central agencies, or even the universities, produces working paper series or regular publications. The Journal could be based at one institute (eg; the Central Institute for Economic Management) and publish the research (in Vietnamese) from a wide variety other institutions. Appropriate payments for publications would stimulate submissions, which some form of advisory committee would review. Publications would be the responsibility of the authors and of the institute or university at which they work (which would therefore have to approve the submission). Obviously, approval at a high level of Government is required to initiate this type of project.

Translation Program of Foreign Research

3.33 The drive to learn English is one in which most senior Vietnamese Government officials seem to be participating, but few can be expected to reach levels beyond conversational abilities. Even for officials with strong formal English language training, the reading of economic research articles is a demanding task. It would seem, therefore, that establishing a program of translating selected foreign research into Vietnamese, and the wide dissemination of the translations, would have a significant impact in stimulating the flow of ideas about policy matters. There are obvious economies of scale in developing a translation program as a discrete TA activity, and a local private translating service could be identified to execute the project with advice from a selected foreign academic.

4 *The Momentum of Reform*

4.1 The Bank is presently emerging from a process which has substantially restructured its organisation and, to some extent, its strategic purpose. A country focus has been put into effect, and concerns about social sector development reflected in directing staff specifically to that area. The January 1994 report on project quality has led to a series of reforms. Project quality has been given greater attention and problems associated with the “approvals culture” tackled head on. Decentralisation, greater delegation of authority, increased accountability, and extended fieldwork and project planning dialogue, are all commendable consequences of the Bank reform process.

4.2 Capacity building concerns are also fast coming to the fore. Bank policy towards capacity building is being drafted, guiding principles for which include greater scope for flexibility and initiative, improved DMC “ownership” and the sustainability of interventions. Further, the draft Bank MTSF paper cites “capacity building for development management” as one of four specific annual operating objectives, although the faith in developing “monitorable performance measures” (p.8) seems misplaced. Other important aspects of the Bank MTSF are the desire for “selectivity and concentration” of interventions (p.12) - something which this report is recommending with regard to TA in Vietnam - and for the Bank to develop a role as a “catalyst and leverage institution” rather than “a mere project financier” (p.8). This latter redefinition of its role suggests a willingness for greater involvement in the sensitivities and complexities of sustainable institution building and reform.

4.3 However, the Bank is still effectively in its own “raising awareness” stage in reformulating its role regarding capacity building in DMCs. Arguments for change are fast gaining acceptance, but these still await implementation in practice. Bank Management need only ask themselves: “In what ways do we design and implement TA activities substantially differently to how we did one decade ago?” If the answer, as one may suspect, is “much the same”, then the Bank is yet to respond in a tangible way to the consensus emerging since the early 1990s about the importance of sustainable capacity building, and about design and implementation modalities to achieve it. The commendable Bank achievement to date is the recognition of the need and directions for change in this area; the challenge for the future is to make the changes.

4.4 Developing a Bank policy towards capacity building has been a productive first step. This should be followed by a thorough evaluation of how the Bank does TA - design, implementation, evaluation - under the guiding central objective of : “how to do sustainable capacity building?” This report presents suggestions for some experimental changes, and in particular that Vietnam should be used as a case study for a new TA design and delivery system. If this area is to be given greater priority, then Bank administrative resources must be specifically directed into it - as has been done to give teeth to the country focus and social sector concerns. A statement of desirable policy is not enough.

4.5 Why choose Vietnam as a case study site? Firstly, as a transitional economy, the long-term capacity building needs are extensive. Secondly, Bank operations have been

resumed only recently and so the environment is not cluttered by large numbers of “old style” TA projects. And finally, it is in the right place at the right time. The COSS is in the process of formulation, and the opportunity to make capacity building an important and unique aspect of that strategy is there for the taking.

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List of Persons Met for this Report

Vietnamese Government

State Planning Committee

Tran Ngoc Trang	-	Director, Department of General Economic Issues
Nguyen Tu Nhat	-	Expert, Department of General Economic Issues
Nguyen Quang Thai	-	Vice Director, Development Strategy Institute
Tran Tho Nghi	-	Vice Director, Local Management Department
Nguyen Van Phuc	-	Vice Director, Foreign Economic Relations Dpt
Vo Truc Dien	-	Expert, Foreign Economic Relations Department

Central Institute for Economic Management

Dr Dinh Duc Sinh	-	Director, Structural Policy Department
Dang Duc Dam	-	Director
Nguyen Thi Kim Dung	-	Economist
Tran Kim Chung	-	Expert, Structural Policy Department
Dr Phan Van Pho	-	Director, Economic Planning Cadre Training Centre

National Economics University

Prof Dr N. Dinh Huong	-	Vice Director, National Economics University
Suzanne Hosley	-	Project Director, Vietnam Management Initiative

Office of Government

Tran Ba Tue	-	General Director, Macroeconomic General Dpt.
Nguyen Nang Hien	-	Senior Expert, International Agencies Coordinator

Vietnam Bank for Agriculture

Dr Ha Huy Toan	-	Director, International Relations Department
Trinh Thanh Binh	-	Expert, Economic and Fund Source Division

General Statistics Office

Nguyen Van Tien	-	Director, Dpt of Social & Environmental Statistics
Nguyen Phung	-	Expert, Social Statistics Department

Donors

UNDP

Mr Robert Glofcheski - Senior Economist

Consultants

Ray Mallon - Chief Technical Officer, State Enterprise Reform Project
 Andrew Bartlett - Resident Adviser, UNDP Aid Coordination Project
 David Husband - ADB, Vietnam COSS consultant

Asian Development Bank

Richard Vokes - Senior Economist, PDW Div3
 Brent Dark - Social Sector Economist, PDW Div3
 Lucie Tremblay - Programs Officer, PDW Div3
 Werner E.Liepach - Programs Officer, PDW Div3
 Stephen Curry - Economist
 Hong Wang - Economist
 Rajat M.Nag - Senior Programs Officer
 Cedric Saldanha - Senior Strategic Planning Officer
 Christine Wong - Resident Scholar

Notes from some meetings conducted in Hanoi, March 1995:

1. Central Institute for Economic Management Hanoi; Friday, 24 February, 1995.

Mr Dinh Duc Sinh, Director; Structural Policy Department
Mr Tran Kim Chung, Expert; Structural Policy Department
Mrs Nguyen Thi Kim Dung, Economist

Mission: Richard, David, Adam, Brent, Lucie.

Dr Sinh presented some general thoughts about the development process in Vietnam. In particular, he pointed out that professed “success” of economic reforms was relative to the very poor economic situation before the reform period. However, when international comparisons are made, Vietnam still lags behind many other countries and much more economic liberalisation is required. Achievements to date were generally in areas “where they were easier”, and now tough decisions about bureaucratic and administrative reform are lagging. Bureaucratic reform is lagging partly because of an unclear agreement about the exact relationship between the private and public sectors of the economy.

The social sectors, said Dr Sinh, will necessarily suffer during the rapid growth process. Further, the attention to the three growth triangles will cause a degree of unbalanced growth. Consequently, social policy targeting is necessary to lessen the negative aspects of the development process.

Dr Pho, the director of the SPC training centre is “half CIEM, half SPC [personnel Dpt]”. Training in 1995 will focus on people who work for the planning institutions of government (central & local levels), including line ministry people, and later on economic management at the high and middle levels.

CIEM has had much contact with foreign organisations over the past few years. There has been a UNDP project, as well as SIDA and German NGO assisting CIEM. CIEM work is a mix of direct government tasks (eg; legislation drafting), and policy research. They do not publish their research findings, but are thinking about allowing individuals to produce working papers under “personal responsibility”. They would like to develop a regular journal-type publication, but would need donor assistance and to get permission from relevant authorities.

2. *Vietnam Management Initiative*
Hanoi National Economics University (NEU)
Hanoi; Friday, 24 February, 1995.

Ms Suzanne Hosley, Project Director

Mission: Adam.

Ms Hosley is implementing the SIDA-funded MBA program at the NEU. As well as this project, there are several others at the NEU: A SOAS distance learning undergraduate and masters degrees in financial economics (“distance learning” meaning that no full-time foreigners are posted to the NEU); another distance learning project under Dutch management (ISS?) is helping to develop a masters in development economics; Ford Foundation activities have supported research (using the Living Standards Measurement Survey data) and posted some economists to the NEU over the past two years; the Paris Chamber of Commerce have an office here; the Belgians are helping with English language training; and UNFPA have a population centre supporting demographic research. There is also another project to develop Vietnamese MBA programs supported by Swiss-A.I.T-Vietnam, not at the NEU but rather at the Hanoi Polytechnic, the Hanoi University of Technology, and the HCMC Economics University.

Ms Hosley agreed that the NEU was fully stretched coping with the present load of donor attention. She cited the need to develop awareness and policy analysis capacity in the Ministry of Education as a higher priority for future assistance. In particular, the tertiary education strategy needed review, with greater autonomy given concerning the setting of curriculums.

It would seem that long-term capacity building in the broad areas of economics, finance, and business management is being actively developed. Consequently, it is more appropriate for the ADB to focus on the retraining plans of government agencies, which would play an important role in supporting, and making sustainable, the Government’s program of administrative reform.

3. *Office of Government*
Hanoi; Friday, 24 February, 1995.

Mr Tran Ba Tue, General Director; Macro-economic General Department
 Mr Nguyen Nang Hien, Senior Expert (International Agencies Coordinator)

Mission: David, Adam, Lucie.

Mr Tue related his familiarity with the three growth triangles concept, which he said was compatible with the “growth first” strategy of the Government. He admitted that areas outside of these triangles would generally receive less investment attention, but pointed out that poverty alleviation was a priority concern as well.

Mr Tue said that training needs at the OoG were “very large”. A previous UNDP project under the direction of Mr Boi had been very useful in learning about the experiences of other countries. The personnel dept of the OoG conducts internal training courses, they are now planning their own training program and are now talking to the World Bank about further assistance. Topics for training are: 1) Learning about the market-based economy; 2) Learning about the role of the Government in market economies; 3) policy research and macro-economic planning.

UNDP and other donors have helped in recent years to: organise senior level conferences (Le Kwan Yue’s visits); training for managers in the UK; visits to other Asian countries to study the role of OoG there. The OoG is also handling the Administrative Reform program [reportedly moving very slowly].

SPC acts as the coordinator of all foreign aid, including TA for training purposes. However, line ministries, etc, require OoG approval to undertake foreign-assisted training.

Mr Hien said that while the SPC is general aid coordinator, the State Bank will remain responsible for “external relations”. They are going to clarify the rules relating to the responsibilities of these two agencies.

The last donor Consultative Group meeting emphasized the importance of aid absorptive capacity in Vietnam, and the desirability of a balanced growth strategy. OoG are therefore pleased to hear of ADB’s concern wrt rural areas and related international corridor linkages [after being outlined by David and drawn by Adam]. Mr Hien pointed out that this strategy fits well with ADB’s work on inter-regional cooperation. TA, he said, is needed in particular to build up capacity in project design and implementation (aid projects and others). Developing aid policies to increase the savings rate is also important. The ADB should give priority to the finance sector loan in this regard.

**4. *Central Institute for Economic Management
Hanoi; Saturday, 25 February, 1995.***

Dr Phan Van Pho; Director, Economic Planning Cadre Training Centre

Mission: Adam.

Dr Pho is director of the new SPC training centre at CIEM. He is employed and paid by CIEM, but is officially attached to the personnel department of the SPC. Dr Pho is also executive director of the Industrial Enterprise Directors Club.

The training centre is to provide short-term retraining courses for SPC and Provincial Planning Committee staff. In 1994, some courses introduced the GDP methodology. In 1995, economic management courses are being given in Danang, the Mekong, and in the mountainous areas. The training focus on: Economic management; computers (they have a computer room); and English language. They plan to expand training to be relevant to Enterprise Club directors in the future. The training centre also rents out its facilities to others (eg; the Japanese held a seminar here recently).

The response from donors to support the centre has been minor, although the training centre has only recently been completed. A draft assistance project was circulated last year but met little response. [I have seen a copy of this draft, which contains a large element of overseas tours and training, but with little detail about specific training needs and curriculum].

The impression gained was that the training centre was not planning to extend services to other line ministries and provincial authorities. However, utilising the centre to conduct training across a broad section of government bodies would be very worthwhile. To achieve this objective, it would be necessary to establish a clear understanding about course contents and target beneficiaries (who will be trained) at the early stages of project formulation.

I outlined an idea to link long-term consultants placed in the SPC to the training centre (i.e. each consultant would plan and present a course on their area of expertise). Dr Pho was very receptive to this idea, although he emphasized that the training centre work responsibilities of such consultants would have to be agreed to with the relevant SPC department Directors to which the consultants were attached. Dr Pho also suggested that training relating to the needs of the Enterprise Club Directors be considered.

5. *Vietnam Bank for Agriculture (VBA)*
Hanoi; Friday, 24 February, 1995.

Dr Ha Huy Toan; Director, International Relations Department
 Mr Trinh Thanh Binh; Expert of Economic and Fund Source Division

Mission: Adam.

Established in 1990, the VBA has changed dramatically over recent years. It is the largest commercial bank employer (21,000 staff; 2,500 branches) - down from 33,000 staff in 1991. They have also recruited about 1,000 new young staff. The new staff are recruited from the universities. Some still come from the Banking College, but the teaching there is no longer relevant. Despite some 2,000 computers, their information system is not linked and transactions continue to be done manually at local levels. The VBA has its Hanoi head office, 5 regional offices, 53 provincial offices, and 454 district branches. Below the branches are some 1,500 "transactions offices" run by mass organisations.

The demand for funds from farmers is very large, and the VBA estimates that they are presently meeting only about 40% of demand. They have much greater flexibility in setting interest rates nowadays, and are not as directed into certain areas and activities as before. Government given funds (from SBV) must be lent at state determined interest rates, but apparently, own-mobilised funds can be lent at different rates (0.6% per month). Rural lending was previously conducted through rural cooperatives, but since the collapse of this system they have relied on mass organisations like the Women's Union. The VBA use social organisations as "cheap agencies", and lend to "liability groups" without collateral. The repayment rate is reportedly very high, with few bad debts.

The VBA has 5 regional training centres. They lack experience and knowledge in modern banking operations. Their strategy seems to be to expand into international financing areas where they have recently been given permission to operate. While this will stimulate competition in these areas, it does not play to the comparative advantage of the VBA. Strengthening the branch system to mobilise savings would seem more appropriate. Deposits are still low, and mistrust of the banking system remains strong. Improving confidence in the VBA, and developing long-term lending activities, are important challenges over the next few years.

Supporting in-house training programs in the major commercial banks is preferable to building up the banking college. The incentive structure is more appropriate in the banks, and the benefits (in terms of trained persons) will spread across the banking system in time. Such specialised training can build upon the general grounding in economics and finance being developed at the universities.

The World Bank are funding the placement of two long-term advisors to the VBA: one to develop a Human Resource Development (HRD) Strategy, and one to design an appropriate information system. The VBA is also exchanging staff with local joint-venture banks, and some 100 staff will work in Thailand in an exchange program. A Cooper & Lybrand audit of the VBA will be completed in mid-1995, and this will help in the identification of an appropriate growth and HRD strategy for the VBA.

Training assistance to date has been quite limited, but it would be appropriate to await the HRD strategy exercise, and the audit, before designing a substantive training intervention.

However, in the meantime, assisting the VBA to gather information through attending banking courses overseas would be very useful. It was suggested that five “teachers” be selected to attend two or three overseas courses about banking (eg; at the Asian Institute of Management in Manila). With the knowledge and course materials, this group would then be well placed to design an in-house VBA course as part of the HRD strategy. Consideration of this action may be included in the design of further ADB institutional development technical assistance to the VBA.