I. Introduction and Context

Country Context

Vietnam has made considerable strides over the last two decades in achieving economic growth and using that growth, in part, to improve the resources being deployed to key public service provision. And yet, there is a recognition that while the volume of expenditure has been considerably increased, it has not always been accompanied by an improvement in the quality of expenditure leading to better implementation of policies or the effectiveness and impact of the services provided. Attention is now turning to the underlying causes of this.

Therefore, a key element of Government's Finance Development Strategy (FDS) up to 2020 is the improvement of the effectiveness and efficiency of public expenditure and how it is financed. It seeks to improve the output/results orientation of public expenditure, improve the accountability and transparency of those to whom budgets are assigned and for the results they achieve and empowering service delivery units such as schools, hospitals and other units that provide services directly to the public to do a better job. But it is recognized that some basic reforms in the way that public financial management (PFM) systems and processes work are necessary to make these things possible.

Sectoral and Institutional Context

In 2013 the Government submitted itself to an objective test of its public financial management (PFM) systems. It used the Public Expenditure and Financial Accountability (PEFA) rating system developed by a consortium of donor countries and agencies to benchmark the strengths and weaknesses of its PFM systems. Again, the conclusion, readily accepted by the Government, was that, while in many areas considerable strides had been made to improve the performance of key PFM activities and systems, there are a number of areas that still need improvement.
It was noticeable that the areas of PFM receiving lower ratings fell into the following four main groups. Each of these areas has a clear link to the quality of expenditure implementation and its effectiveness.

(i) The linkages between plans and budgets  
(ii) The effectiveness of budget execution controls  
(iii) The production and supply of quality fiscal information  
(iv) The effectiveness of systems for achieving fiscal stability and risk management

Firstly, the budget has the ability to be one of the most important instruments for planning policy implementation and for ensuring that policies are resourced and carried out. But, there are currently weak linkages between policies, strategic plans for their implementation and the budgets that are necessary to resource their implementation. The budget process is narrowly focused on one year cycle and linkages between capital spending and recurrent spending to improve service delivery are weak.

Secondly, while there is a framework of rules and regulations that govern how budgets are implemented and expenditure is undertaken, there are problems in controlling how commitments are entered into and how those commitments are focused on policy objectives. Public procurement procedures have improved, but are still not always transparent and open to competition. Vietnam is also in the process of changing the way that public services are managed and the rules and regulations governing budget implementation have not always kept pace with those changes to ensure that resources are effectively and efficiently used and to limit leakage through selfish or corrupt practices.

Thirdly, information about how public resources are being used in practice has improved, but still falls short of what is necessary to enable budget managers to properly monitor progress as they implement budgets or for senior management, the National Assembly and the public at large to hold them accountable for the way they use those resources. Reporting formats are not user friendly, nor are they refined to the purposes of different users. Inconsistent standards are used in their production which can make them hard to interpret. With the introduction of modern IT systems, Vietnam now has the opportunity to rectify these problems.

Fourthly, Vietnam is a dynamic and fast growing country so it is important that robust risk management processes are in place. The very speed of development and exposure to external pressures makes it vulnerable to ups and downs that affect the ability to raise resources for public expenditure. This vulnerability cannot be entirely removed as public service provision is a complex process. However, if the vulnerability is allowed to directly impact resource provision for services it will affect both the effectiveness and efficiency of service provision. The evidence of recent years is that systems for both anticipating risks and having measures in place to soften the impact of risks when they arise are weak.

**Relationship to CAS/CPS/CPF**

Strengthening PFM is one of the key building blocks of the Competitiveness pillar of the Country Partnership Strategy (CPS), and is also a part of the CPS cross-cutting theme of Governance. It is also the Government's strategy that PFM reforms should be implemented in tandem with public
administration and institutional reforms aimed at improving the country's competitiveness and promoting economic growth.

Work in PFM areas therefore has three key dimensions: (i) supporting the efforts of the Government of Vietnam to strengthen and modernize its country systems and internal management, (ii) supporting efforts to improve governance at the interface between state and society, and (iii) promoting the use of country systems to support the governance of DP projects to maximize their impact.

II. Project Development Objective(s)

Proposed Development Objective(s)

The development objectives of this Program are to: (i) support strengthening the capacity of executive bodies to make, implement, and monitor policies to improve budget planning and execution in a transparent, accountable, and sustainable manner; and (ii) provide empirical analysis of the effectiveness and efficiency of major public finance reforms at both the central and local levels of government.

Key Results

The Program is expected to have a significant impact on the ability of public financial management systems in Vietnam to play as positive a role as possible in supporting the improvements in the efficiency and effectiveness of public expenditure and in quality of public services that Government strategies aim for. In particular, improvements will be achieved in 4 key outcome areas where comparison to international standards suggest that improved systems and practices can be most effective in in this respect and which will also support transparency and accountability of those who propose, manage and execute public expenditures at all levels:

(i) Improved linkages between plans and budgets
(ii) Improved effectiveness of budget execution controls
(iii) Improved production and supply of quality fiscal information
(iv) Improved systems for fiscal stability and risk management

Concretely, the Results Framework (presented in the attached Program Concept Document) includes results in the areas of reform that the Program contributes to and the potential change in the PEFA rating discussed and agreed with MOF. It also contains the set of outputs which are expected to be achieved that could help realize the potential change as well as minimum requirements necessary to achieve the target PEFA rating and key assumptions and risks. This framework will provide the core of the monitoring arrangements under the Program.

III. Preliminary Description

Concept Description

The World Bank has established a Multi-Donor Trust Fund (TFP #2045 approved on December 2, 2015) with other Development Partners, namely the Swiss State Secretariat for Economic Affairs (SECO) and the Department of Foreign Affairs, Trade and Development of Canada (DFATD) to provide Technical Assistance (TA) to Vietnamese counterparts through a Public Financial Management (PFM) Analytical and Advisory Assistance (AAA) Program during 2016-2020. The Program will provide support both at national (the Ministry of Finance) and sub-national (Da Nang City) levels, with the possibility of extending to work with other sub-national governments (e.g. Ho Chi Minh City) and the National Assembly in the future.
This Recipient-Executed Trust Fund (RETF) focuses on the support to the Ministry of Finance, which is the largest component of the Multi-Donor Trust Fund (MDTF). This component covers activities at central level but it is also expected that its outcomes and results will have impact at sub-national levels given the unitary budget system in Vietnam. This RETF therefore shares the overall objectives of the umbrella MDTF.

As mentioned above, the PEFA rating exercise carried out in Vietnam reflected the considerable progress that has already been made in improving PFM systems. The above areas of vulnerability cover only 8 of the 27 performance indicators in the PEFA framework. But they have a common characteristic in that they all relate to the results achieved from public expenditures. The Government's FDS is focused on improving these results through:

(i) better linkages between plans and budgets set in a medium term context;
(ii) more effective implementation of those budgets through improved management and monitoring of quality and progress;
(iii) information that supports both budget managers and those charged with holding them accountable; and
(iv) the identification and management of the inevitable risks to which a fast growing economy is exposed.

Tackling these areas for improvement will not, of itself, guarantee the better effectiveness of public expenditure that the Government is aiming for as there are policy dimensions that will also need to be addressed. However, it is clear that addressing these areas is an important stepping stone to achieving the important objective of improved service delivery and the better use of public resources.

The Government led the PEFA rating exercise using the objective criteria reflected in the rating framework of PEFA and has embraced the results and their implications. Ministry of Finance Departments have been active in identifying proposals for achieving improvements in the 4 groups of problem areas set out above. They have made their proposals linked not just to the technical activity, but also by improving the performance measures that will be used to measure the impact in achieving better quality of expenditures. The basis of the program of support now proposed is to both help them implement their proposals while maintaining a focus on the impact on expenditure effectiveness.

The support to the MOF therefore encompasses four technical components and the project management operation. The four main components are (i) improving linkages between plans and budgets, (ii) improving effectiveness of budget execution controls, (iii) improving production and supply of quality fiscal information and (iv) improved systems for fiscal stability and risk management. These outcomes align with the four components of the Program support to The Ministry of Finance.

The key activities proposed by the counterparts to be supported include: (1) Developing medium-term fiscal and budget plans; and Improving the linkage between new investment planning process and realistic budget plans; (2) Using the Public Expenditure Review now being undertaken to develop proposals on the formulation of annual and medium term indicative budget ceilings; and Undertaking public expenditure review(s) and other TA support activities to improve the linkage
between investment budget and fiscal resource envelope; (3) Developing a road map and management framework for strengthening empowerment of Service Delivery Units; (4) Assessing and improving mechanism of commitment management and control and developing the system of commitment reporting; (5) Improving cash management including (i) strengthening cash flow forecasting and (ii) developing techniques to manage fluctuations in cash availability; (6) Improving the system of budget classification and reporting of execution; (7) Strengthening the presentation and analysis of budget data in the form of international best practices; (8) Improving production of high quality financial information and utilization of the information by wider groups of data users through further upgrading and enhancing the national fiscal data warehouse; (9) Developing accounting standards/guidelines on the basis of international public sector accounting standards (IPSAS) with adaptation to local conditions; and Defining and improving form of financial statements that meet international standards for public sector entities; (10) Producing whole-of-Government consolidated financial statements; (11) Conducting analysis and developing strategy to manage overarching fiscal risks of public sector finances as a whole; (12) Producing consolidated review of SOE financial position including forward-looking risk analysis; (13) Developing a consolidated report for policy makers on risks arising at sub-national level.

IV. Safeguard Policies that Might Apply

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V. Financing (in USD Million)

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<td>CA- Dept of Foreign Affairs, Trade and Devlp (former CIDA)</td>
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<td>Swiss State Secretariat for Economic Affairs</td>
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