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Medium Enterprises Sector Regulatory Reform in
Vietnam**

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LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ASMED	Agency for Small and Medium Enterprise Development
CDF	Comprehensive Development Framework
CG	Consultative Group
CIEM	Central Institute for Economic Management
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DFID	UK Department for International Development
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
GTZ	German Technical Cooperation Agency
HAP	Harmonization Action Plan
MDGs	Millennium Development Goals
MoF	Ministry of Finance, Vietnam
MoT	Ministry of Trade, Vietnam
MPDF	Mekong Private Sector Development Facility
MPI	Ministry of Planning and Investment, Vietnam
NICs	Newly industrializing countries
NORAD	Norwegian Agency for Development Cooperation
PGAE	Partnership Group For Aid Effectiveness
SMEs	Small Medium Enterprises
SOEs	State Owned Enterprises
SWAP	Sector Wide Approach
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VCCI	Vietnam Chamber of Commerce and Industry
VNCI	Vietnam Competitiveness Initiative
VND	Vietnam Dong (Vietnamese currency)

The highly dispersed and uncoordinated nature of current development cooperation is detrimental to all levels of development promotion [...]. This is a well-established fact. There is a general consensus on the need for change in aid coordination and aid management. Everybody agrees that the current situation in most developing countries is ineffective, wasteful and a considerable burden on the weak national capacity especially in lower-income countries.

(UNDP 1996: 3)

CHAPTER 1: INTRODUCTION

Aid coordination has been central to the Development Assistance Committee (DAC)'s mission, which aims to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness (OECD 1997:19). Indeed, donors and recipients alike are both increasingly allocating resources for aid coordination activities at a global, regional and country level. This is reflected by the high number of initiatives, for example the Comprehensive Development Framework (CDF) by the World Bank, which emphasises country leadership of the development process along with donor coordination (World Bank, 1999).

Furthermore on March 2005, donors, representatives of civil society organizations and the private sector discussed and agreed to commit aid coordination at the Paris High-Level Forum. This shows the increasing emphasis on coordination at least in aid rhetoric.

In 1999, Vietnam became one of the first pilot countries for CDF.¹ This Paris Declaration at the DAC meeting was also internalised in Vietnam which expressed the national action plan, called “the Hanoi core statement on aid effectiveness” (the Government of Vietnam, 2005).

It is time to reconsider the topic by asking ourselves; what is

¹ The CDF is an approach that the World Bank and other partners support by advocating stronger partnerships among governments, donors, civil society, the private sector, and other development stakeholders in implementing the country strategy that is seen as key for poverty reduction (Hanna and Picciotto, 2002: Chapter 1).

actually happening about such long lasting efforts for aid coordination? In light of these recent declarations, this paper will attempt to analyse how aid coordination mechanisms have been implemented in Vietnam. This will be done through the analysis of a specific reform in which donors have tried to coordinate their aid: the Small Medium Enterprises sector (SMEs) regulatory reform.

The significance of the case study is that it highlights several important issues: how aid donor coordination has been attempted in Vietnam; the political factors that constrain the aid coordination or development activities of both donors and the Vietnamese government; how the context-specific of the SME sector has brought difficulties, and the important balance of level of cooperation for coordination efficiency. This paper will present the interplay of all these factors while also considering the historical background of Vietnam that has shaped the outcome.

1.1 Background and justification of the research

• Definition of Small Medium Enterprises:

The statistical definition of SMEs varies by country, and is usually based on the number of employees or on the value of assets.² Furthermore, the degree of informality or the level of technology that determines the scale of a company also varies. The government of Vietnam defines SMEs as those independent business and production establishments that have registered

² For instance, a 50-employee firm in the U.S. would be considered "smaller" than a 50-employee firm in Bolivia due to different size of the economy (Hallberg, 1999:2).

under the current regulation and have registered capital of less than VND 10 billion³ and /or have an annual average number of permanent employees of less than 300 (MPI, 2005:4).⁴

In Vietnam, SMEs account for 91.3 percent of all private companies in terms of capitalisation and 74.2 percent in terms of the number of employees. In particular, in terms of capitalisation, 97 percent of (which is almost all) non-state owned companies' fall under the category of SMEs (Sakai and Takada, 2000:2). Hence, the concept of private sector and SMEs are often used interchangeably in many literatures. However, this paper focuses on SME policy reform being vigorously pursued by the Vietnamese government as a strategy to encourage further growth as enshrined in the new Enterprise law of 2000.

▪ **Remarkable economic growth after the Doimoi reform:**

It is generally accepted that 1986 was a landmark year for Vietnam. Indeed, it is on that date that the country formally changed from a centrally planned economy into an economy with a market-base. Before the Doimoi reform in 1986, which introduced the policy for domestic economic liberalization, the Vietnamese economy was described as a capital-starved, labour abundant and largely agrarian economy. Private businesses were repressed with uncertain legal status, operating mainly in the black economy (Mallon,

³ 15,835 dong approximatively 1 US\$; as August 2005. ANZ Bank in Vietnam, www.anz.com/vietnam/vietnam.asp, accessed on September 8,2005.

⁴ The categories of number of employees in SMEs in Vietnam are defined as followings; microenterprise-> less than 10 persons; small enterprise-> 10 to 49 persons; medium enterprise->50 to 299 persons.

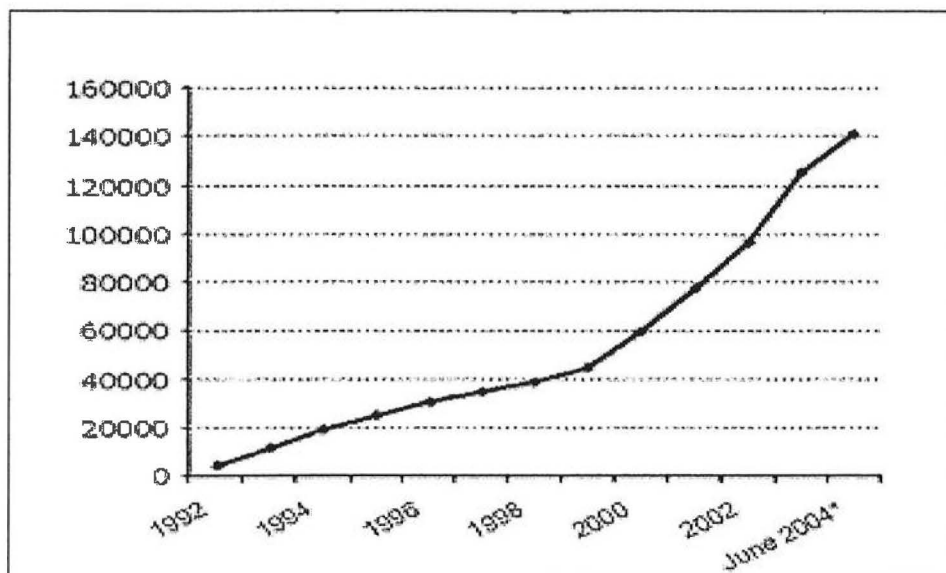
2002:7).

After the reform, Vietnam experienced drastic changes in its economic structure. As a result Vietnam became one of the fastest growing economies on the planet, achieving an annual average Gross Domestic Product (GDP) growth rate of eight percent throughout the 1990s. During this period, the agriculture sector input to the GDP declined from 40.⁶ percent in 1990 to 23.8 percent in 1999 (McMillan and Woodruff, 2002:154). The service sector started to recover and has contributed more to the GDP growth since 2000 (CIEM, 2005:3).

In particular, the role of Small Medium Enterprises has been increasingly recognized. Thus, creating an enabling business environment for SMEs activities has been the major focus in the Vietnamese five-year Socio-Economic Development Plan for 2001-2005 (CIEM, 2005:4). Many initiatives have been introduced by approval of the Enterprise Law of 2000, including permission granted SMEs to convert, transfer, lease, provide assets as collateral and capital contribution to banks or to joint ventures. The net result has been a rapid acceleration in the registration of new businesses as shown below.⁵

⁵ During the first year of enactment, 14,444 enterprises were newly registered under the Enterprise Law, approximately 2.5 times the number of registrations made in 1999 under earlier legislation (Arkadie and Mallon, 2003:166).

FIGURE 1: GROWTH IN NUMBER OF ENTERPRISES OFFICIALLY REGISTERED UNDER THE ENTERPRISE LAW



Source: the Government of Vietnam⁶

Such significant increase in the number of registered SMEs accounts for over 90 percent of the manufacturing employment in 2002 (UNIDO, 2002: vii and USAID, 2004:19). Indeed, the Enterprise law represents a major step towards solidifying the domestic legal framework as preparation for the accession to World Trade Organization (WTO) by the end of 2005 (Vietnam Economic News, 2005a: 31).

▪ **Remaining challenges:**

The first half of the 1990s revealed that donors such as the World Bank highly praised the Doimoi reform (Fritzen, 2003:238, in Kerkvliet, 2003),

⁶ SME Promotion News, Vietnam, www.sme.com.vn/SMEfactsheet.htm, accessed on October 4th, 2005.

but there is very little in the literature, which reflects that the contribution of SMEs has been limited to less than 10 percent of the national GDP. Indeed, the heady pace of the economic reform was not sustained and the recent growth stagnation raised concerns given that SME sector has the possibility to generate more new employment opportunities than the public sector (Harvie, 2001:6 and USAID, 2004:28).⁷ As the reform progressed, both government and donors' reports stated that the New Enterprise Law is actually falling short of expectations due to slow implementation (MPI, 2005). Concrete actions have to be taken since jobs are urgently needed for over a million new entrants to the Vietnamese workforce each year.⁸ Both the donors and the Vietnamese government agree upon the need to tackle the following challenges (USAID, 2004:27 and Vietnam Economic News, 2005b:6):

1. Set out clear rules on how the laws have to be implemented, in as detailed a manner as possible, in order to minimize the discretion of individual officials;
2. Removal of legal contradictions and provision of adequate information provided to clarify what law takes precedence;

⁷ According to the finding by (Harvie, 2001:6), in the Vietnamese context, by comparison to its contribution to industrial production by the state sector, the state sector's contribution to industrial employment is considerably less. The domestic non-state sector (mostly SMEs in Vietnam), on the contrary, employed more than 64 percent of industrial workers. However, it is important to note this is largely depending on industries and varied according to countries (Hallberg, 1999).

⁸ According to the UNDP estimate, the new Law helps to create more than 1 million new jobs or 75,000 each year on average. However, with a population of 80 million, Viet Nam needs to create one million new jobs each year, UNDP web site, www.undp.org.vn/, accessed on October 31th, 2005.

3. Public officials should undergo training regarding regulatory reforms, to implement laws more efficiently in practice;
4. The kind of discriminatory treatment and language to which the SME sector is subjected to in some laws, to be corrected as soon as possible.

Currently, with the assistance of donors, especially the UNDP, the government is trying to revise the New Enterprise Law by drafting the Unified Enterprise Law. This unified version attempts to amend the former law by introducing details, including the timeline of when to cut State Own Enterprises (SOEs) to increase their competitiveness and level playing field of SMEs. This unified version is planned to be completed and submitted to the National Assembly by the end of 2005 (Vietnam Economic News, 2005c:

▪ **Increasing needs for aid coordination:**

While first priority was given to establishing appropriate policy, legal, and institutional framework for SMEs activities, the government increasingly recognized that the success of the reform will depend on ensuring effective coordination of development aid. Vietnam has been actively searching for legal advice from donors since like other transitional countries; Vietnam particularly lacks experiences and expertise in regulatory reforms (Yoshida, 2000, in Shiraishi, 2000). However, there are number of constraints that impeded the better use of aid, which include the lack of an overall long-term plan for

Overseas Development Aid (ODA) utilization, cumbersome and lengthy decision-making processes, deficiency in the current legal framework in ensuring effective use of aid resources, as well as weak institutional and human capacity to execute ODA projects in the country (DFID, 2004:5).

Furthermore, as can be seen, there are quite large number of donors intervenes in the same area. Up to the present, the decision is normally taken through donor group meetings on consensus basis. Donors and the Vietnamese government are both currently searching for a rational way that will create benefits from the reform (Nhu-An, 2005). However, Table 1 makes us question whether the current division of labour has been rationally allocated in a systematic manner. Indeed, there is little evidence of any clear division of labour and donor support seems to be on an ad hoc basis. The administrative overlap and conflicting advice has been a growing course of concern (Nhu-An, 2005).

TABLE 1: DONOR'S INTERVENTION IN BUSINESS REGULATORY REFORM⁹

Areas of technical assistance	Donors who support the area
Provide technical assistance and expert services to government agencies for implementing regulatory, legal, and judicial reforms;	<ul style="list-style-type: none"> - Asian Development Bank (ADB) - Australian AID - MPDF - FIAS Technical Assistance - DANIDA - European Union (EU) - Finland /GTZ - Italy/ ILO - NORAD/SIDA - UNIDO/UNDP
Promote transparency and accessibility to policies and laws;	<ul style="list-style-type: none"> - Asia Foundation - ADB - UNDP - USAID/VNCI
Ensure flexibility in the implementation of regulations;	<ul style="list-style-type: none"> - Asia Foundation - DANIDA GTZ - UNDP - USAID/VNCI
Strengthen company law to provide for adequate disclosure and auditing requirements;	<ul style="list-style-type: none"> - Australian AID - FIAS Tech Assistance - MPDF - UNDP
Monitor impact of policies and interventions on SME performance.	<ul style="list-style-type: none"> - ADB/DFID - GTZ - MPDF/UNDP

⁹ Although Japan and UNIDO do not intervene much in the regulatory reform directly in this table, both have extensively intervened in the overall SME policy reform (Embassy of Japan, 2003).

Despite the recognition of the importance of aid coordination in the area of SMEs, the issue of constraints have not been addressed. The analysis of the constraining factors will help our understanding of the current situation while contributing to further aid efficiency.

1.2 RESEARCH OBJECTIVES, RESEARCH QUESTION AND METHODOLOGY

• Research objectives:

The objectives of this research are:

1. to contribute to the literature on aid coordination and the overall debate on aid efficiency;
2. to identify and suggest strategies that could help to improve aid coordination practices in Vietnam.

• Central research question and Sub-research question:

The central research question of this paper is:

What are the constraining factors in aid coordination of Small Medium Enterprise sector reform in Vietnam?

The sub- research questions are as follow:

1. What are the constraining factors in the Vietnamese government aid coordination in Vietnam?
2. What are the constraining factors in the donor aid coordination in

(Source of the table 1, Nhu-An, 2005:28)

Vietnam?

3. What are the constraining factors in beneficiaries' involvement in aid coordination?

This research intends to identify problems in the practice of development. As such, the following research strategies are applied in order to answer the research question: Firstly, the analysis in the paper makes use of a qualitative methodology based on non-structured interviews. Secondly, the original materials provided by multilateral, bilateral donors and the Ministry of Planning and Industry (MPI), Vietnam are analysed to obtain an overall stakeholders' perspectives. Lastly, the paper draws on the literature including other studies of the Vietnamese SMEs growth. Since the area of this research is very recent, a significant amount of electronic journals, articles as well as various local newspapers and economic magazines in Vietnam were collected and reviewed.

The interviews were conducted personally by the author and took place in Hanoi, Vietnam in July and August 2005. An agreement of confidentiality was made with all the interviewees in order to generate frank comments by them as much as possible. Hence, when quoted in the paper, names of respondents are not mentioned.

There are approximately 15 donors (including both multilateral and bilateral donors) who have intervened in the area of SME regulatory reforms. Regrettably, it was not possible to interview all

donors due to time and financial constraints. Therefore UNIDO, UNDP, Japan and Germany were selected for the interview. There are a number of reasons for choosing these specific targets as information resources, to make this research effective.

The United Nations Industrial Development Organization (UNIDO) and the United Nations Development Program (UNDP) are chosen for the analysis of multilateral donors. UNIDO is the specialised UN agency for promoting industrialisation and disseminates knowledge relating to industrial matters and provides a platform for the various actors to enhance aid cooperation.¹⁰ Also the UNDP is the leading agency in support for the preparation of the New Enterprise Law.

Japan has been significantly involved in overall SME policies among overall economic policy and aid coordination. Furthermore, Japan has been the largest donor in Vietnam followed by the World Bank and the Asian Development Bank (Japan accounted 45.4 percent of overall ODA in Vietnam during 1997-2001).¹¹ The Japanese Policy advice has increasingly influenced the overall economic development policies including the SMEs promotion (Vietnam Economic Reviews, 2003: 17).

The German Technical Cooperation (GTZ) has particularly provided substantial technical support in developing the Enterprise

¹⁰ UNIDO website, www.unido.org/doc/3352#coreFunctions, accessed on September 9th, 2005 and UNIDO (2002).

¹¹ GRIPS website, www.grips.ac.jp/forum/vietnam.html, accessed on September 4th, 2005.

Law as well as legal training in newly established business associations (Mallon, 2002:23).¹²

The official of Ministry of Planning and Investment (MPI) was interviewed to analyse the Vietnamese perspective in the aid coordination practice. This is because MPI is the most powerful ministry in influencing the national economic policies and also a host agency to coordinate with relevant ministries and donors (Ohno and Niiya, 2004:32 and MPI, 2005:37).

Lastly, for the analysis of beneficiaries' involvement, business support associations, mainly VCCI who were the main non-state interest groups directly involved in policy making (World Bank, date unknown: 3), managers of SMEs who set up their businesses in 2000s, and the Vietnamese lawyers and are also held.

1.3 SCOPE AND LIMITATIONS

Given the time and resource constraints, this study attempts to discuss only one aspect of aid coordination, mainly policy advice of the Enterprise law reform. This is because although all business regulations changes are included through the regulatory reforms of SMEs,¹³ the Enterprise law is deemed as one of the most important reforms in Vietnam (USAID, 2004:21 and Arkadie, 2003:164). In

¹² GTZ website, www.sme-gtz.org.vn/policyframe.htm, accessed on September 10th, 2005.

¹³ For example, laws on the credit institutions and revision of the labour laws (Mallon, 2002).

particular, the analysis focused on the second half of the 1990s when the foundation for private enterprises growth was first laid (World Bank, date is unstated).

Furthermore, the paper will not attempt to evaluate the quality or the policies of any donors' intervention in the legal reform assistance, but attempts to look at an overall coordination analysis by interviewing the major actors. So to speak, the area of SMEs regulatory reform is employed as a tool to examine the aid coordination in Vietnam.

Since the analysis of the topic requires informal relationships and time invested to observe the indirect influence, the scope of this study and conclusion would be limited, being based only on several interviews conducted in Hanoi during one month. In turn, the research opens to the reader to interpret the paper's findings as future reference only rather than being representative of the general population.

1.4 ORGANIZATION OF THE PAPER

The paper is organized into four chapters. This first chapter gives an introduction of the issue to be discussed, along with the methodology used, the research instruments applied, defining the scope and limitations of the analysis. The second chapter offers an analytical basis on aid coordination, the role of the recipient government and the

donors in the field of the SME regulatory reforms based on a literature review.

The third chapter describes the Vietnamese policy making system, including the political background as well as the Vietnamese way of dealing with donors. It will be important at this point, to state the country's background, which influenced aid coordination (White and Dijkstra, 2003:369). This view is shared by many authors such as Hewitt (2000:301, in Robinson, 2000) who stressed the importance of situation analysis in the coordination implementation.

The fourth chapter provides the actual findings on aid coordination among different actors involved in SME policy reform. The case study exposes the linkage between the aid coordination and major defects of politics such as irrational bureaucracy. This will not be limited to the recipient side only, as donors themselves are also problematic in this regard.

The closing chapter will address the concerns raised by the case study, offering the author's own perspective on the rather tricky links between each factor that have influenced the overall aid coordination system, which is indeed unique to the country.

CHAPTER 2: Theoretical exploration of aid coordination

This chapter provides the theoretical overview of the concept of coordinating the giving aid to SMEs reform in Vietnam. Aid coordination crosses several disciplinary boundaries such as organizational culture, behaviour and management, with both economic and institutional impacts. The paper focuses on organizational and management approaches that are relevant to the purpose of the paper.

Both approaches are more or less overlapped in nature and complimentarily function. The task management approach tends to overlook the importance of the influence of organizational values on development projects. On the other hand, the organizational approach tends to overlook aspects of practical management for development (Wallance, 2000:44). However, by employing these two approaches, it will be possible to identify constraints in aid coordination from both perspectives.

According to an analysis by Robinson (2000), there are mainly three types of organizational relationships: coordination, cooperation and competition. These three have both different advantages and disadvantages and form different kinds of organizational relationships that are suitable for different types of problems. In our case, coordination and cooperation are vital in order to maximize the benefits by the SME regulatory reform to the country. It is crucial to organize and manages the different interests and influence to minimise the duplication and wastage and ensure

beneficiaries' involvement; otherwise a competitive environment might be generated (Andersen, 2000:187, in Tarp, 2000).

Table 2 shows each stakeholder interests in the SMEs regulatory reform.¹⁴ Primary stakeholders (beneficiaries) are those ultimately affected by the reform. Secondary stakeholders are the intermediaries in the aid delivery process. The stakeholders include both winners and losers, and those involved or excluded from decision-making processes (Overseas Development Administration, 1995:4).

¹⁴ GTZ (2005), JICA (2003), the Embassy of Japan (2003) and (2004), UNIDO (1999), UNDP (2001), MPI (2005).

TABLE 2: STAKEHOLDER ANALYSIS IN THE SME REGULATORY REFORM

Secondary Stakeholders	Interests
Ministry of Planning and Investment (MPI)	<p>Achievement of targets.</p> <p>Maintain autonomy over policy change and control over funds & activities.</p> <p>Avoid political instability or any negative impacts by the reform.</p>
Other relevant ministries involved in the reform	<p>Avoid increasing obligations due to the reform.</p> <p>Increase influence in the reform over other ministries.</p>
Donors	<p>Different economic interests: enabling environment for investors in donor countries.</p> <p>Different interests regarding strengthening the market competitiveness as trade partners.</p> <p>Different political interests in influencing political ideology and establishing diplomatic relations.</p>
Business associations (Vietnamese Chamber of Commerce and Industry: VCCI)	<p>Influence of SMEs voice in policy making.</p> <p>Increase their position and status within the Vietnamese political system.</p>
Primary stakeholders: SME managers	<p>Increase of Sales volume and profits.</p>

It is often the case that the conflicting interests have affected the project negatively. This is particularly true in the area of privatisation in which there is much less common interests among stakeholders than in the public sector reform (Brinkerhoff, 1991:33). Furthermore, table 3 shows that degree of influence that various stakeholders have over the reform. As shown in the table, influence is also by no means equal amongst stakeholders, as those who have power often coerce those who have less of it.

TABLE 3: CLASSIFICATION OF STAKEHOLDERS ACCORDING TO RELATIVE INFLUENCE ON, SMES LEGAL REFORM¹⁵

Stakeholders	Degree of Influence		Primary/Secondary
	High	Low	
Ministry of Planning and Investment	High		Secondary
Other relevant ministries who involved in the reform	High		Secondary
Donors		Low	Secondary
Business associations		Low	Secondary
SMEs		Low	Primary

¹⁵ The low influence by donors in policy making in Vietnam will be discussed in chapter three.

Under such circumstances, both the donors and the government of Vietnam have been working together towards the aid coordination in the area and the issues have been increasingly under discussion at the National Assembly recently and their progress for coordination has currently attracted international attentions (Duong, 2005).¹⁶ Accordingly, concepts of coordination and cooperation are particularly relevant to the issue of aid efficiency in the Vietnamese SMEs reform. Both two concepts are clarified as follow.

2.1 AID COORDINATION

Aid coordination is a concept frequently used in international development issues. However, despite the popularity of the concept, there have been a limited number of attempts to develop a clear framework for the concept. Indeed, the majority of the literature either describes some cases of aid coordination or analyses the causes of failure in coordination without clearly defining it.¹⁷ Although there are some definitions available including the one by the World Bank (1999), there seems to be little consensus on a precise definition of coordination. This is because there have been many different forms of coordination in practice. The interpretation of coordination also varies according to which organization the literature is referring to, the government, NGOs and the United Nations are all different

¹⁶ It is reflected in Vietnam Harmonisation Action Plan (HAP) that is the national coordination plan endorsed by major donors in 2004 (DIFD, 2004).

¹⁷ Gillinson (2004) and UNDP (2001).

since their aims and systems fundamentally differ (Bennett, 2000:167, in Robinson, 2000:7). Therefore a definition is generally more available in terms of a particular form of coordination for example Sector Wide Approach (SWAP) (Foster, 2001). Coordination is a value-laden concept; accordingly aid coordination inevitably includes various organizations that make it difficult to produce universal terminology.

Scholars who have contributed to the coordination literature at least have common interpretation; in that aid coordination is about: “[...] a coherent set of development activities that are undertaken within the country, guided by an identifiable and coherent set of objectives” (Cassen, and Associates, 1987:220). Since this definition is at least applicable to all organizations including governments or the United Nations, this is the definition that will be used in our research.

There are commonly two mechanisms that are used to coordinate aid: informational meetings and institutional arrangements (Disch, 1999 and UNDP, 2002). Since these two mechanisms have been attempted in the case of Vietnam, this paper analyses their impact on aid coordination practices. The most common coordination mechanism is the informational meetings. It is used for addressing particular issues, where the major objective is to establish a general consensus on particular activities among stakeholders. This is an important first step in coordination since incomplete information can lead to an inefficient allocation in decisions and overlapping activities. The indicator of frequency of information sharing and the attendance of these meetings can be used not only as the measurement to observe if there are

minimum efforts for coordination among stakeholders, but also as useful tool to understand the organisational relationships.

Institutional arrangements are more complicated, but are crucial for coordination. This is because while an agreement of objectives at the table may be easy to reach, the real disagreements tend to appear with regards to the procedures and practices. At this level, coordination gains are potentially at its greatest, since differences in how the activities are to be implemented generate administrative and transitional costs to both donors and recipients (Disch, 1999:18). To examine and focus on "real coordination efforts" at implementation level, indicators used in this paper focused on the policy process; 1) donors co-organizing training, workshops, seminars for specific projects, 2) sharing policy formulation, monitoring and evaluation and 3) co-financing projects of all SME projects. The paper also pays attention how the recipient government has been involved in these processes.

It is important to note that aid coordination cannot be organized within a vacuum system, since many different organizations with their different philosophies and purposes, have to work together. Aid coordination needs to have some kind of "coordinating agency or persons" before starting coordination (Robinson, 2000:216). Importantly, just establishing a coordinating agency is obviously not sufficient.

At the macro level, the agency has to be capable of organizing and ensuring the structures and systems through which organizations are held accountable. At the micro level, the agency has to have a certain level of

authority that can lead and influence others' behaviour, to encourage more implementation. It does not necessarily have to have legal status of authority or to impose other stakeholders to agree, but at least to make sure that all parties follow the agreed guideline for aiming towards a clear goal (Robinson, 2000:217). This view is also shared by Foster (2000:11) who argues that coordination can have benefits from a good leadership often at an informal basis.

Therefore the paper uses the existence of a coordination agency as one indicator to identify the constraining factors of aid coordination. It also pays special attention to whether the agency has such management capacity or an authority to act rationally and to organise a rational division of labour through coordination. As a lens to observe actual capacity for coordination, how information of projects systematically managed are also examined.

Lastly, although the majority of the literature that analysed coordination, concluded that the main reason for failure is a lack of such agency or capacity of an agency regarding either donors or recipient government, they do not address how political factors in a recipient country and donors have shaped the outcome of coordination in practice. As mentioned, "appropriate forms of coordination" is context specific (Bennett, 2000, in Robinson, 2000). The failure of coordination would fundamentally come from the divergent views among stakeholders, in what is an appropriate type of coordination. As a result there is no mention of pre-condition for coordination. This is especially complicated in the area of aid, with people who have different socio-political backgrounds and many

previous complex relationships that generate very different views in aid policies. To make coordination possible, a closer organizational relationship is a prerequisite, as argued by many authors such as Luhmann (1979), Weber (1997), Mullins (2002) and Masley (2005).

Establishing some degree of cooperation is also vital from both the recipient ownership and beneficiaries' involvement points of view. It is recognized that donor-led development process is a cause of failure (Foster, 2000). However, aid coordination without cooperation runs the risk that coordination will just end up political compromise and that the quest for the best policy will not become an objective (Taylor, 2000:216, in Robinson, 2000 and Long, 2001:32). In such case, since influence by targeted groups is often low as shown in the stakeholder analysis, voice of beneficiaries is also likely less reflected. Thus, having authority in this paper is about the process of building cooperative relationships among stakeholders within existing structure to achieve common goals. The following section introduces the concept of cooperation.

2.2 AID COOPERATION

The concept of cooperation is often used interchangeably with other terms, including coordination. A precise definition that can be used by different agencies or individuals has not been clearly pinpointed. The majority of the literature that writes about cooperation accepts the general definition by Gillinson: "[...] a group of individuals acting together to a common end" (2004:5). This definition is applicable to our research, which is specific to

aid coordination in the SME regulatory reform in Vietnam.

However, detailed interpretations of the concept also vary according to the type of organization. Disch (1999) interprets cooperation as one step of the coordination process where policies are actively discussed in order to ensure coordination.¹⁸ However, as Harris (2000:226, in Robinson, 2000) emphasised, coordination and cooperation are not clear-cut in reality and considers it as the key influential factors that would affect any organizational form's efficiency. This paper attempts to observe to which degree cooperative relations are a necessary pre-condition for coordination. While Disch and Harris both agree that cooperation is a necessary pre-condition for coordination, Harris' approach is less simplistic. Indeed, it allows this paper to assess the multiplicity of the interplays of cooperation amongst different actors- which affects coordination outcomes. Thus, the paper will use Harris's interpretation which allows us to observe organizational relations in more depth.

According to Harris, cooperation does not require clear mechanism of control or authority, but it needs a joint agreement, based on trust to maintain a long-term relationship. To build such a trustable relationship, there must be a confidence among stakeholders that partners will work together for mutual benefits. To build such a trustable relationship, there must be a confidence amongst stakeholders that they will work together for mutual benefits. This requires a significant amount of investment in time,

¹⁸ Disch (1999:18) categorized that there are three levels of coordination: 1). Consultation (low level of coordination, 2). Cooperation (the step to reach Collaboration); and 3). Collaboration of projects (high level of coordination).

which is the key for cooperation. This is a complicated task, especially in the area of development aid where politics is a major influence on the reasons different people give and receive aid. This often results in the absence of initial common goals. However, once a trust is built, coordination is likely to be implemented, due to the tacit incentive for mutual benefit, which is much more effective than an “artificial incentive system”, as supported by Khalil (2003).

There seems to be in the literature, no common indicators that are used to measure trust in the context of coordination. For instance, Glaeser and al (2000) attempted to measure trust by employing the frequency of money lending as an indicator. However, this indicator disregards the fact that, for many different motivations, aid might be allocated even if trust does not exist. Thus, others like Hart (2003:137, in Khalil, 2003) focused on sharing risks or secrets as being an important factor for measurement. Indeed, trust would only happen when partners have to take risks that are controlled by the other partner. For example, when partner A accepts and has to depend on the correct implementation of the programme by partner B, one can say that partner A trusts partner B.

Like the indicators for coordination, the general indicators that are often used for cooperation are also the frequency of meetings and actual projects commonly implemented. Since both of these indicators have difficulties in showing risk sharing, we will observe the risk sharing behaviour by looking at the ownership of the Vietnamese counterparts throughout the projects. Also the indicator of co-financing projects of all

SME projects will be employed to observe the risk sharing among donors.

At this point, it is important to clarify the relevance of these indicators as concepts to both cooperation and coordination. Since the paper attempts to assess the degree of cooperation that would make coordination effective in the case of Vietnam, one can say that indicators for both information sharing as well as risk sharing in projects implementation are useful measurements for effective coordination. The case study reveals interesting evidence on how establishing cooperative relationships as well as authority are important for coordination practices.

However, the organizational approach does not provide a comprehensive framework to explain how the actual roles of the recipient government and the donors interact, which also leads to cause the problems in aid coordination. The next section will introduce what their roles for the necessary conditions for aid coordination are and how their roles shape the outcome of aid coordination, based from the literature.

2.3 Roles of the recipient and the donors

This section helps us compare the differences between the literature and our findings of the practical constraints in aid coordination. The majority of the literature focuses on the past experiences of aid coordination, revealing that there are both strengths and risks that occur during the coordination.

BOX 2: STRENGTHS AND RISKS OF COORDINATION

Strength

- National strategies can be well defined;
- The quality of dialogue between donor, the recipient and beneficiaries can be improved;
- Expenditure for the projects can be comprehended by both donors and the recipient;
- Therefore, more possibilities for a government ownership and beneficiaries involvement over traditional donor-driven approach.

Risks

- As technical aspect, governance capacity of both recipient and donors may prevent a deal in coordination; this often threatens autonomy of recipients and beneficiary involvement;
- Related to the point above, lack of accountability including budgeting often on the recipient side, hinders coordination;
- As political aspect, coordination is used as tool to have influence by donors, or both donors and the recipient government under the name of coordination.
- This results in low participation of the targeted beneficiaries, only improving the efficiency of top-down delivery system.

(Brinkerhoff, 1991:43, Collins and Higgins, 2000:3, Foster, 2001, Schacter, 2000)

In order to prevent these risks, the majority of the literature seems to agree on the necessity of the following pre-conditions:¹⁹

¹⁹ See also the summary of discussions (OECD, 1995) that contains various major donors' comments regarding necessary condition.

BOX 3: MINIMUM REQUIREMENTS

1. Both donors and the recipient have to have capacity to set realistic common goals and a clear framework, with consideration of the existing capacity between the government and donors' for coordination;
2. In order to have common goals, both donors and the recipient have to have transparency and accountability in the process, through regular reports, frequent audits and decision-making on the issues shared by both sides as well as beneficiaries;

(Forster, 2000:18 and Ohno, K, 2003).

Nevertheless, it is important to note that the topic of coordination has been under a great deal of ongoing research (Forster, 2000:18). In particular, in the case of Vietnam, which is a highly hierarchical society, the particular style of donors' intervention would influence the success of aid coordination and delivery by encouraging the beneficiary's involvement. The coordination mechanism like information sharing is meaningful only when it reflects and influences local realities (Healey, 2000: 242, in Tarp, 2000). The way to assess beneficiaries' involvement varies across countries and sectors. Therefore, the above should be regarded as the minimum requirements for aid coordination, but it can be used as a useful guidance to measure quality of coordination in the case of Vietnam.

Regarding the roles of the recipient government and donors in these preconditions and/or preventing these risks, the issue is rather complicated.

There is a vast amount of literature that argues that the recipient government and beneficiaries actively have to involve consultation with the donors, to decide their own strategies and future recommendations since they are meant to know about their countries needs most (Collins and Higgins, 2000 and Foster, 2000). It is indeed the main strength of coordination. Meanwhile, many donors including World Bank (1998) argued that such coordination activities are often not possible largely due to lack of recipients' governance capacity which causes these risks. The majority of the literature that deals with the Vietnamese case also focus on the Vietnamese management constraints (UNDP, 2001, The Asian Foundation, 2001) as mentioned below.

The major criticisms toward the recipient government are:

- Unproductive bureaucracies resulting from low pay and motivation in civil services staff, corruption, reluctance to select and prioritise aid coordination activities, particularly beneficiary involvement at lower level;
- Low level of financial management expertise;
- Inappropriate legislation and low levels of cross-sectoral cooperation;
- Inadequate training of civil ministries staff, particularly with capacity problems in planning skills and accountability and transparency;
- All necessary trainings to tackle these issues are too costly for recipient (World Bank, 1998).

Collins and Higgins (2000) and Ole (2002:188, in Tarp, 2000) also argue that since the increasing transaction costs are often caused by the lack of capacity in the recipient side, donors do not find incentives for aid coordination or adapt local budgeting.²⁰ This paper attempts to discover how much the lack of recipient capacity actually hinders the necessary condition for coordination, though mainly by looking at the SME project management capacity on the recipient side. How the inadequate bureaucratic system has affected aid coordination efficiency was analysed through interviews.

Nevertheless, this has been debatable since it was revealed that donor coordination has been also problematic. For instance, Whittington and Calhoun (1988:306) argued that these dominant criticisms towards the recipient reflect the patronising attitude of the donors, believing that their own bureaucratic practices are more efficient than the ones of the host country. The point is shared by Frantz (2002) who argued that the implementation of coordination is simply not possible due to the lack of effort from donors themselves. Indeed, the examination of the recipients' capacity cannot be isolated from donors' practice that also significantly influences the recipient capacity.

The major criticisms toward the recipient government are:

- Each donor uses different mechanisms and procedures. Indeed, the multiple donor agendas, reporting systems and duplication,

²⁰ In the case of DANIDA, transaction costs had increased by 25 percent over the last two- three years. Ireland experience was also similar (Collins and Higgins, 2000:17).

needlessly complicate the development process for recipients.

- To make matters of worse, since many donors tend to reduce the amount of aid in general, aid has become increasingly unpredictable and fragmented. Donors seem to be unable to make multi-year financial commitments upon recipients who need to rely on their budget plans. This makes it difficult for recipients to determine how they can allocate or coordinate aid.
- Although coordination is a politically positive in theory, in practice the required changes are far too costly and time-consuming for donors. This results in a reduction in their incentives for coordination. In particular, due to increasing pressure to deliver rapid and tangible results from the central government, things have been moving in the opposite direction at the implementation level (Cassen and Associates, 1987, Frantz, 2002, Saasa, 2005 and Gomez, 2005 in Zimmermann, 2005).

The recent coordination discussion seems to suffer from a serious dilemma. The capacity deficiencies in a recipient country may undermine coordination, but this lack of capacity is the main area that donors aim to support through ownership of the government. These areas such as capacity building need to be supported the most in order for ODA to become more efficient (DFID, 2004:5). However, donors' decisions are complicatedly overlapped and probably result in a greater burden for the recipient

government.

The analysis of the literature shows that to solve this dilemma would require donors' political as well as economical compromise for aid coordination. Furthermore, donors on the satisfaction of certain criteria of the recipient capacity before attempting coordination should predict all coordination process. This would probably be one of the most important but also most difficult parts for donors. In Chapter four, this paper will pay great attention to how committed donors are to solve the dilemma and to prioritise capacity building of the recipient rather than focusing on the political commitments of their own countries.

From this chapter, it becomes obvious that substantial understanding of the recipient is essential for aid coordination implementation. The next chapter analyses the relevant Vietnamese background, focusing on SMEs policy reform.

CHAPTER 3: VIETNAMESE POLICY MAKING AND SME REGULATORY REFORM

This chapter provides the relevant aspects of the Vietnamese background that helps to explain our finding. The first part describes the general Vietnamese policymaking, focusing on the SMEs regulatory reform, and the paper then moves on the relations with international donor community in Vietnam.

3.1 POLICY MAKING PROCESS IN VIETNAM

The years since the Doimoi reform in 1986 have brought the most momentous changes in Vietnamese policy making. Throughout the 1980s, Vietnam remained far from being a politically open society. The communist party and/or the government body determined day-to-day regulations with extremely limited available documents written about the policy reform process in the public (Shiraishi, 2000:83). Thus, the process was not well understood, not only by outsiders, but also by those within the government (Arkadie and Mallon, 2003:62).

Since then, due to the need for inputs by non-state actors to progress the open market policy reform, the regime made considerable progress in providing for societal entry into government processes, from the improvement of electoral mechanism to the strengthening the National Assembly and local assemblies. It is said that the political system has become significantly less hierarchical over the Doimoi reform (William and Selden, 1993:299 and Norlund, Tran, and Nguyen, 2003:54).

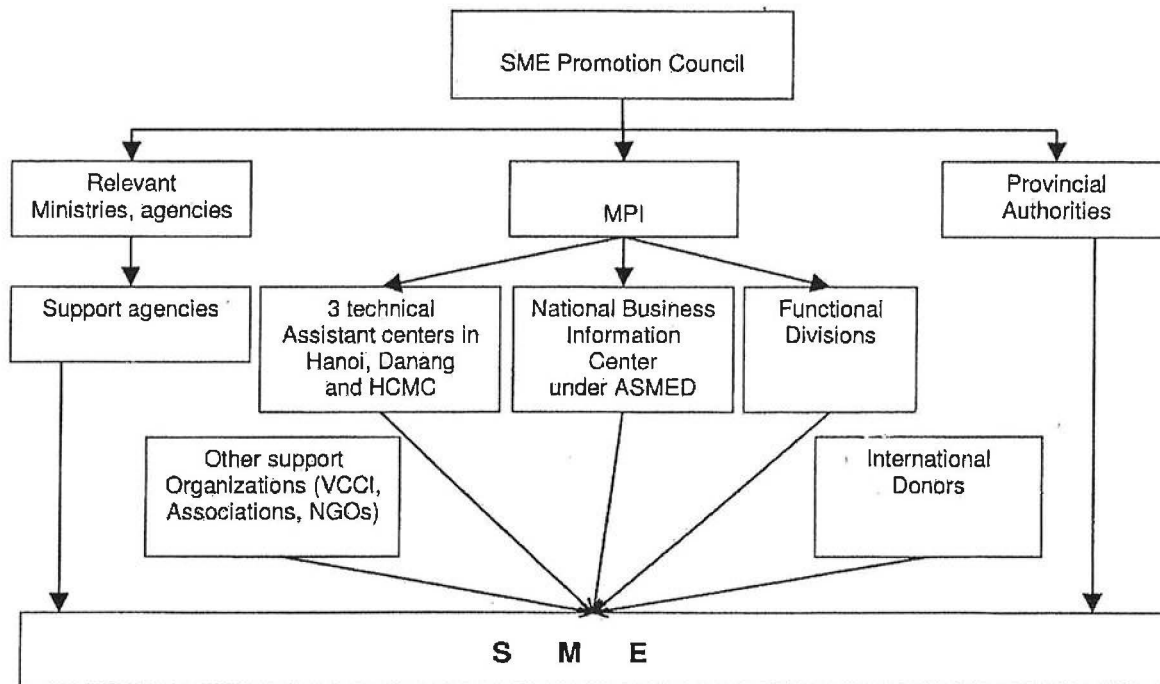
Indeed, substantive consultations with VCCI, business community, the media, academics, and members of the National Assembly have been increasing in the SMEs regulatory reform (GTZ, 2005:14). In the past, the Assembly had to enact approximately 150 law reforms within five years with serious shortage in law drafting skills (GTZ, 2005:17). Therefore, these changes significantly help to improve the reform of new Enterprise law and relevant SMEs regulations. Through the law reform, it is expected

that the way of thinking of bureaucrats and societies will be also changed. This in turn provides investors' confidence that is critical in ensuring increased investment and competitiveness of SMEs (Arkadie and Mallon, 2003:104).

Accordingly, although the process is still complicated, many including Tuboi (2002) argue that transparency of the government system has been improving. These are quite historically dynamic changes considering the fact that in Vietnam, the National Assembly was virtually the organ to confirm and sign policies' documents that already determined and agreed by the party or the higher government officials (Shiraishi, 2000:83). Indeed, quite a number of articles, particularly local economic publications in Vietnam, argue that these improvements have been major facilitating factors in aid coordination activities.²¹ Figure 2 in the next page shows the stakeholders who have been supporting the SME regulatory reform in Vietnam and involvement with various stakeholders are also seen in the SMEs regulatory reform.

²¹ Vietnam News (2005)
Vietnam Economic News (2005b)
Vietnam Economic News (2005c)
Outlook news paper (2005)

FIGURE 2: STRUCTURE OF THE INSTITUTIONAL SME SUPPORT INFRASTRUCTURE



(MPI, 2005:36).

The SME promotion council is officially responsible for giving consultation to the Prime Minister on issues related to SME policies. The council consists of leaders of line ministries, business associations and scientists. Relevant ministries and agencies also support SME activities in many ways, supposedly according to each ministry's specialisation to the SMEs reform.²² Among ministries, the MPI has a leading role in drafting most economic policies and regulations and is responsible for coordinating

²² For instance, the Ministry of Trade also has an important role in terms of the commercial code and competition policy, and Ministry of Finance for taxation policy and regulations (Mallon, 2002:17).

donors and line ministries (Mallon, 2002:17). Under MPI, the Agency for Small Medium Enterprise Development (ASMED) is the specialised unit, who assists the MPI in these tasks related to SMEs promotion (MPI, 2005:37). Thus, in this paper, the function of ASMED is a major focus of the analysis of the Vietnamese side.

As another key actor that the paper focused is Vietnam Chamber of Commerce and Industry (VCCI) who has been active in SME policy reform in Vietnam. VCCI was established in 1960, but it did not gain prominence until the early 1990s. The formal participation of the VCCI in policy and law making just began in the early 1990s. Since then, the VCCI has increased its branch offices in various cities and provinces. It has become the dominant business association, contributing to enabling the environment for businesses. The VCCI currently provides a broad range of services to businesses including legal training and consulting. For this task, they also work very closely with research institutions like the Central Institute for Economic Management (CIEM) that is under the MPI (Mallon, 2002:17). As a result of their recent efforts, a number of municipal business associations emerged throughout the reform (Stromseth, 2003:64-67, in Kerkvliet, Heng, Koh, 2003).²³

In Vietnam, there are three sub-national levels of administration: provinces, districts, and communes. Each level of local administration has an executive arm (called the People's committee) and a representative arm

²³ Although the precise figure is unknown, the total number of business associations or organizations is estimated to be approaching 200 nationwide (Stromseth, 2003:64, in Kerkvliet, Heng, Koh, 2003).

(called the People's council). Most small enterprises' interaction is with the sub-national application of national policies and regulations with these local administration bodies only. Under this hierarchical structure, it is said that these emerging local business associations significantly help to connect local businesses with government bodies even at higher level (Stromseth, 2003, in Kerkvliet, Heng, Koh, 2003). Indeed, most of the SME managers I met have seen visible changes, concrete benefits and had optimistic views about the SMEs growth.

Nevertheless, the paper will critically analyse how local businesses have been supported at implementation level through the interviews. This is because it should be remembered that Vietnamese policy making system does not have the separation of legal, administrative, and judicial powers (Shiraishi, 2000:112). This may imply that although the direct intervention by the communist party has become much less, their informal influence is still worth paying attention in the analysis of our case.

The Vietnamese system remains a strong one-party state, governed by the communist party of Vietnam. Key policy directions are therefore established at the party congress, which are usually held every five years. Most senior government officials, members of the National Assembly and government institutions are party members. As such, these institutions that are directly involved in SME regulatory reforms would have significant influence by the party (Mallon, 2002 and Vasavakul, 2003, in Kerkvliet, Heng, Koh, 2003). Tuboi (2001:129) also found that the party still has an extensive network reaching to the grass-root levels to exercise its power.

Furthermore, as Ohno, I. and Ohno, K. (2005:54) argued, in the case of Vietnam, the issue is much more complicated than simply matter of all-powerful leaders at top dominate enactment of the reform. Interestingly, there has been no articulate overall and long-term strategic framework or roadmap by the leaders that guide the Doimoi reform process. This has been increasingly serious concern in recent years. McCarty (2001, in Ohno, I. and Ohno, K, 2005:54) called such Vietnamese style of decision-making “consensus governance”. This consensus imperative does not signify that the rest of the officials can merely follow the lines of authority and responsibility. Indeed in Vietnam, the process of decision-making requires extensive consultations among all policy makers involved. It appears that even when decisions are already made, there are often too extensive discussions that may cause delays in implementing the reform.

However, even though Vietnam is still undoubtedly a top-down policy making system, the state lacks a leading role in executing the national policy implementation through these discussion process, as such, the following two points should be highlighted: First of all, since having a clear national policy is one of the precondition for coordination, as mentioned in chapter two, it is important to discover what hinders the state’ attempts to establish clear national goals even if the top officials maintain decision power on the national policy. Secondly, the beneficiaries’ involvement may be limited to information sharing only due to the characteristic of the top-down policy system. This is an important issue because if beneficiaries are involved at the implementation level, the

transparency of bureaucratic process will improve, resulting in effective aid coordination (Beresfod, 2001:220). Before moving to the actual findings, it is also important to understand how Vietnam has dealt with the international community. The following section will explore the specific background that may explain the constraining factors of aid coordination in Vietnam.

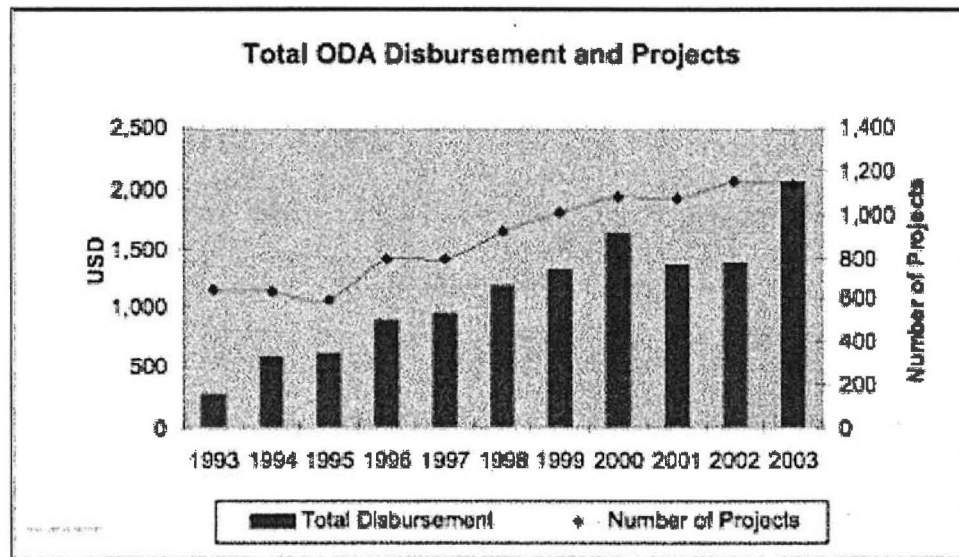
3.2 Overview of dealing with donors in Vietnam

Vietnam has the singular feature of being a recipient that has experienced a number of dramatic changes in a very short period of time. Until around 1988, Vietnamese citizens were not permitted to have contact foreigners without approval from the authorities. By 1990, even foreign journals were not freely available. Throughout the 1980s, when structural adjustment policies (SAPs) dominated the development agenda, many Vietnamese authorities were most sceptical to Western organizations and their influence and Soviet Union was the main political and economic partner of Vietnam (Arkadie and Mallon, 2003:28-30). Accordingly, while Vietnamese policymakers have long been aware that adoption of some foreign examples would be necessary, negative appraisal of most of foreign ideas and domestic political environment limited to their own intellectual resources for policy ideas (William and Seldon, 1993:9).

However, the end of the Cold War and the collapse of the Soviet regime changed quite dramatically Vietnam's geo-political situation in 1990s (Norlund, Tran and Nguyen, 2003:39). The Vietnamese authorities increasingly began to recognize the expansion of its cooperation to other

parts of the world, including Western Europe. In recent years the rapprochement to the US has geared up (Arkadie and Mallon, 2003:215). Since 1993, a large amount of ODA has poured into Vietnam, and the ODA projects have been increasing consistently since then (figure 3). At the moment, 25 bilateral donors and 15 multilateral donors and nearly 400 International NGOs are operating in the country (Duong, 2005:1).²⁴

FIGURE 3: TOTAL ODA DISBURSEMENT AND PROJECTS



Nevertheless, building the relationship with donors was by no means simple. Donors were initially cautious about Vietnam's efforts to change largely due to the lack of transparency of the government system. However, it is said that the concrete efforts and results made by Vietnam and gradually removed their doubts. This new pattern of relations was for the most part achieved in just the last two decades (Norlund, Tran and Nguyen,

²⁴ There were only few UN organizations and Northern European donors in Vietnam just before 1990 (Norlund, Tran and Nguyen, 2003:61).

2003:58). In policy terms, donors have been increasingly involved in negotiations and decision-making at both central and local levels of administration. Neo-liberal approaches have also been introduced into development thinking (Norlund, Tran and Nguyen, 2003:53).

However, compared with aid dependency ratio of the average low-income countries- Sub-Saharan Africa or Latin America, aid accounted for only 4.6 percent of the Vietnamese GDP in 2001 and the aid's share in the government budget has been increasingly small: 18 percent of the government revenues and around 15 percent of investment.²⁵ Aid is considered just one of several sources of foreign exchanges. In financial terms, export revenues are the most important source in the country (Ohno, I. and Ohno, K. 2005:40).

So far, the government has skilfully managed to not depend on donors and made clear its wish to retain selectivity and diversity in obtaining donors advices. Accordingly, the influence by the donors is said to be limited (Arkadie and Mallon 2003:216 and Mallon, 2002:15). Vietnam has been successfully taking advantage of external advices without challenging its own sense of autonomy over policy decision. However, the influence of donors appears to be increasing in the area of SMEs reform since the new firms do not see benefit from the government credit. The budget for SME promotion is anticipated to increase by 2010 and MPI called for further legal assistance to the donors and in the past five years. The donors' funding of SME has shown a steady increase, rising from 306

²⁵ However, Vietnam was an aid dependent country until the 1980s. (Ohno, I. and Ohno, K. 2005:40).

million US\$ between 2001-2004 to 560 million US\$ for the period 2005-2010 (Nhu-An, 2005: v).

The paper pays special attention to the Vietnamese attitude towards the donors since it may affect the willingness of the Vietnamese government to cooperate at the implementation level. The case study is interesting to observe how the interactions between donors and the recipient government have affected the aid coordination outcomes. The following chapter will explore how it works in Vietnam and critically discuss some of the influential elements involved in its outcome.

CHAPTER 4: THE REALITY OF AID COORDINATION: THE CASE OF SME POLICY REFORM IN VIETNAM

This chapter is organized into four sections. The first section will examine the management capacity of ASMED under MPI, and move on to the inter-ministries relations, drawing the link between political factor and the capacity of ASMED. The second section will observe progress made by donor coordination. Having dealt with some constraining factors by both the Vietnamese government and donors, the final chapter will analyse how these factors affect beneficiaries' involvement.

4.1 The actual government practices

This section will answer the sub-question: **what are the constraining factors in the Vietnamese government aid coordination in Vietnam?** We will look at whether there is a coordination agency in Vietnam that is capable of organising overall coordination; information sharing and management capacity. Then, the section moves to the analysis of the actual constraining factors.

- **Existence of a coordination agency**

In 2003, Agency for Small and Medium Enterprise Development (ASMED) was officially established as a coordination agency by the merging of the former SME Department and the Enterprise Department of MPI. ASMED has the responsibility of coordinating donors and the relevant ministries. Besides being responsibility for coordination, ASMED has other practical tasks like managing the national enterprise registration database at the national and provincial levels (Nhu-An, 2005:37). Decree 90/2001/ND-CP and Decree 61/2003/ND-CP dated 6th March 2003 officially stipulated the concrete mandates and tasks of ASMED as discussed in chapter three (MPI, 2005:37-38). The establishment of ASMED is certainly a first step for aid coordination and it has increased the level of awareness of the Vietnamese policy makers about donor activities in recent years. The increase of capacity of ASMED is expected as key for the success of aid coordination in the country (Interview with an official of a multilateral

donor). The following sections will explain how it functions.

▪ **Information sharing**

The Vietnamese government has been actively sharing international experiences through the various seminars with donor agencies and to search the best practice that is acceptable for the country. For the coordination practice, the government and the donors have adopted a common framework to maximise benefits of recent coordination efforts, namely, the Vietnam's Harmonization Action Plan (HAP), the framework developed by the government through the joint partnership group the so-called Partnership Group on Aid Effectiveness (PGAE). Based on the principles of the Rome declaration, the HAP provides the development community in Vietnam with both a vision for effective delivery and concrete action for aid coordination. At least, in this plan, both agreed aid coordination have to be: 1) country-owned; 2) country-led and 3) provide for diverse modes of ODA delivery (Duong, 2005:2). This HAP is expected to have concrete result since the plan does not only declare general initiatives, but also includes quite specific items that the government and the donors promised to implement ODA management formation and monitoring together (details of the plan in appendix 2, provided by UNIDO).

Furthermore, ASMED usually meets with individual donor as the need arises, along with regular semi-annual meeting, called SME partnership group meeting. Although the frequency of meetings is usually limited to higher level at the project approval stage than the actual

implementation, one can say that information sharing has been increasingly improved, aiming at minimising duplication and building up cooperative relations among stakeholders (Nhu-An, 2005:37).

▪ **Management capacity in the Vietnamese side**

Despite the considerable improvement of information sharing, all donors commented that ASMED still limits their management capacity. Since ASMED is still a young institution, it seems that information management or other techniques remain at the developing stage. ASMED currently maintains the matrix of SME projects, but the comments by all donors revealed that data or information from ASMED is outdated, incorrect or incomplete. As such, it is easier for the donors to get information about current SME activities directly from the donors rather than from ASMED. Also, the project description in the matrix often does not contain enough details to give a good indication of the types of projects that are implemented. This lack of the ASMED' capacity partially hinders ensuring ownership of the recipient initiated by the HAP since the Vietnamese government cannot lead the action plan based on their data, but relying on donors' information. Thus, ASMED capacity for reliable matrix is another problem for effective coordination.

Furthermore, the agency does not yet exercise an explicit policy mandate for it (also, Nhu-An, 2005:vi). For instance, this year 2005, for the first time, they have been tasked to develop a strategy for SME development that will be also integrated into the Vietnamese Five Year Socio-Economic

Plan for 2006-2010. This strategy is aimed to incorporate needs from local authorities and local SMEs. The ultimate expectation is therefore to identify priorities and provide some guidelines to the donors for clarifying which areas of regulations and how the government needs to be assisted in a timely manner that is expected to increase further aid efficiency. Nevertheless, actual implementation for it has not been clearly seen yet. The donors and even MPI commented that lack of realistic long-term vision of the Vietnamese government makes the progress very slow (Interview with a senior MPI official and Ohno, I and Ohno, K, 2005:54).

The major reason for the difficulty of making clear strategies is the complexity of the SME sector reform in the country. Compared with other areas, the SMEs regulatory reforms inevitably involve many other relevant ministries including Ministry of Science and Technology and Ministry of Trade (MPI, 2005:39). Accordingly, one single ministry cannot take charge of all legal reforms.

For instance, the Ministry of Finance (MOF) is involved in the reform by working for scrutinising business fees and charges currently applied, in a bid to help businesses reduce production costs and conform the country's regulations to international rules (Viet Nam News, 2005c, No.25). In practice, although ASMED was officially established as an aid coordination agency, there is not yet a clear single identifiable authority that leads toward unification of the national strategies in the area. Accordingly, the unified execution of SME support activities is still unavailable. Furthermore, the lack of law experts in the area makes further

progress difficult for implementing the whole reform (Interview with a Vietnamese lawyer).

Therefore, as discussed in chapter two, constraints of the recipient capacity for project management were also found in the case of Vietnam. However, as the literature showed in chapter two, having a common goal is an important precondition for aid coordination from both organizational and management point of views. Due to the fact that the coordination agency, ASMED was established in 2003, the lack of a clear vision of the reform should be highlighted as a more serious constrain than the technical capacity aspects. In the case of the SMEs reforms in Vietnam, many other relevant ministries have been inevitably involved, which has made having common goals difficult. The next section will attempt to understand this internal administrative system in Vietnam.

▪ **The politics behind: the Vietnamese side**

We have discovered that the capacity of ASMED is currently limited due to a lack of technical management capacity and a lack of a clear realistic strategy lead by MPI. The analysis of political factors in the country will provide the explanation of these constraints.

▪ **Inter-ministries coordination practice**

The interview finding discovered that line ministries coordination practice is virtually non-exist. While the donors-ASMED information sharing has been improving, information sharing has been limited so far. Indeed, they

even do not want to share statistics or information between them and each ministry owns their own information. In Vietnam, the national statistic office has its own statistics, but they are not used practically as they are ignored by the other ministries who prefer to use their own. This results in inefficiency of projects management (Interview with a Vietnamese lawyer). There are mainly two reasons raised to explain this lack of cooperation:

Firstly, Vietnamese ministries' relations are undergoing wholesale changes. Before the Doimoi reform, the state used to decide all day-to-day regulations without clarifying each ministry's responsibility for years (Interview with a Vietnamese lawyer). Put differently, the imprecise responsibility of each ministry was not seen as a serious problem for a long time in the country (Furuta, 2000:182, in Shiraishi, 2000). However, the story has changed especially in SME regulatory reforms, which require significant cooperation and consultation among ministries to define each responsibility according to the area of the reform as well as direction of the SMEs policy. However, the reform has generated disagreements and conflicts among ministries, resulting in competitive relations rather than cooperation.

One interesting example is the land ownership issue. For SMEs development, land use rights reform is supposed to encourage individual freedom of control over land and other assets, in order to be more responsive to the market opportunities. However, since the formal legal framework remained ambiguous for years in Vietnam, the land reform has generated controversial debates among relevant ministries. The Ministry of

Natural Resource and the Ministry of Construction argue with each other that the duties for the land reform are not their own responsibilities. Similar things have happened in other areas of the SME reform. Indeed, various tasks such as industrial promotion and enterprise reform are not integrated. Whether each area of the reform is supported depends on the interest of each ministry rather than a clear specialisation and duties. Under such circumstances, it is very difficult to introduce new policies in an economically meaningful manner. (Interview with a Vietnamese Lawyer)

The limitation of information sharing implies that level of the trust or cooperation among ministries is clearly low. By looking at how it affects the implementation of aid coordination, we will see the importance of cooperation for aid coordination.

▪ **How their lack of cooperation affects aid coordination?**

There are two reasons to explain why lack of the inter-ministries' cooperation hinders the overall aid coordination. Firstly, the donors' understanding of the Vietnamese internal administrative system is clearly scant and this makes donors' efforts to coordinate with the line ministries difficult. This is especially true in the case of the SME in that donors have to work with different ministries (Interview with an official of a multilateral donor).

For instance, some donors commented that co-financing projects have faced difficulties largely because the state bank and each ministry has its own coordinating team, which means that the project would have to go

through two processes. Because of this complicated system, multilateral projects tend to go through the state bank of Vietnam, while bilateral project tend to go through MOF (Nhu-An, 2005:38).

Consequently, at the provincial level, government-donor coordination usually has to depend on the initiative of international NGOs or other implementing agencies working in that locality to fill any gaps in the tasks. Because of this policy making system, while donors' assistance have to support the implications of such system, donor projects also have to focus on strengthening project management skills of local implementing agencies. This is especially true since more and more the donors are expanding their SME projects beyond the major urban areas (Nhu-An, 2005:28).

It is important to consider that the lack of internal administrative system by the donors would be also caused by the political background of the country. Although the donors have been increasingly involved in the reform process, the process is still under strong national control. The government shows strong resistance when the donors try to intervene in internal affairs and push on policy implementation (Mallon, 2002:30 and Ohno and Niiya, 2004:32). As mentioned in chapter three, this attitude is explained by the strong sovereignty characteristic in policy making and the remaining bias against foreign interventions. In particular, regarding the SME regulatory reform, the Vietnamese government is said to be particularly cautious due to the failure of hasty market reforms in Eastern Europe and the success of gradual approach in neighbouring countries

(Arkadie and Mallon, 2003).

Secondly, the lack of cooperation is the major constraints on finalising long-term vision for the action plan (World Bank, date is unstated: 3). The slow implementation of reform is not only due to the lack of management capacity in the recipient side per se, but the pre-existing internal affairs that related to the SME reform makes it difficult to have common goals. The finding implies that the coordination agency, ASMED has no clear authority to influence the key longstanding functional institutions that govern actual enterprise activities, including the relevant ministries.

The foregoing analysis, thus, provides us with understanding and insights into the problems militating against effective aid coordination by the Vietnamese government. Therefore, in regard to the first sub-question; what are the constraining factors of the Vietnamese government aid coordination, the study suggests the following: inadequate capacity on the part of ASMED, lack of cooperation among the relevant ministries, and lack of experience or expertise in both legal reforms as well as political background in dealing with donors.

4.2 Actual donors' practices

This section will answer the sub-question: **what are the constraining factors in the donor aid coordination in Vietnam?** As shown in chapter one, most literatures that deal with the Vietnamese reform tends to

emphasize that the slow pace of reform implementation is due to the Vietnamese unproductive bureaucracy that is not receptive to donor tutorials. While the previous sections confirmed that it is true, this section will make us rethink that causes of slow implementation of the reform is also caused by the donor coordination practices.

▪ **Existence of a coordination agency**

Despite the long-lasting efforts and initiatives toward aid coordination, there is no official central coordination agency identified for donor coordination. However, at the moment, along with ASMED, Japan, and UNIDO have been trying to take a leading role in aid coordination. The following sections examine their actual practices.

▪ **Information sharing**

Information sharing has been very active among donors. Apart from the Consultative Group meeting that donors meet jointly with senior levels of the government on usually a formal basis twice a year (Mallon, 2002:21.

There are currently four major formal forums as follow:

1) The SME Partnership Group:

This is the major forum among the other three. This forum is co-chaired by ASMED, the Embassy of Japan, and UNIDO. The group holds semi-annual meetings that are attended by the donor community, implementing agencies, and government representatives. Each meeting usually consists of

presentations of current and upcoming projects by the donors.

2) The Vietnam Business Forum (VBF):

The IFC²⁶ and Japan support the research organization, VBF on a semi-annual basis.²⁷ The VBF counts the participation of ministry and government representatives, embassies, international organizations, business associations, and local and foreign businesses. The purpose of the forum is also to bring together the different stakeholders to discuss the business environment.

3) The European Union's Donor Harmonization Activities:

The European Union is implementing its own meeting to coordinate its members' development assistance. Since Vietnam is a pilot country for the European Union private sector development practice, the European Union has been quite active in the country.

4) The World Bank PRSC Working Group²⁸:

The World Bank itself also organises sectoral working groups to track and monitor activities aimed towards achieving the goals of the government of Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS)

²⁶ IFC (The International Finance Corporation) is World bank group's specialised corporation for private sector development projects in developing countries, IFC website, www.ifc.org/, accessed on September 14th, 2005.

²⁷ VBF website, www.vdf.org.vn/, accessed on September 14th, 200

²⁸ The World Bank Poverty Reduction Support Credit for Vietnam, Details available from www.worldbank.org/eap, accessed on October 29th, 2005.

that includes SMEs development.²⁹

Most of the fora are held on a semi-annual basis. Apart from these four, other informal information sharing fora exists among major donors: the European Union, GTZ, UNIDO, UNDP and Japan (VDIC, 2001). The ratio of attendance of all these meetings is quite high compared with other developing countries (Interview by an official of a multilateral donor). The percentage of donors who are not aware of SME partnership group meetings is zero percent, the percentage of donors participating regularly in the SME partnership group meeting, and in other SME-related working group is 74 percent and 96 percent respectively (the survey by Nhu-An, 2005:35). It implies that initiatives to minimize wastage and increase aid efficiency among donors are quite high.

It is said that these fora have helped to reduce conflicts and duplications despite the significant volume of funding and the number of donors involved in the reform. Due to these meetings, donor agencies are making more of an effort to consult each other during the new project identification and design process (Interview by a senior official of a multilateral donor). Indeed, having information sharing is an important step toward establishing trust among stakeholders.

▪ **Donors coordination practice**

The section will further examine how these initiatives put into practice and

²⁹ CPRGS is an action plan that translates the government's general policies, mechanism and measures into specific concrete measures with well defined road maps for implementation. GRIPS website, www.grips.ac.jp/module/prsp/cprgs.html, accessed on September 14th, 2005

the capacity of aid coordinators authority to lead these. The results are shown in below.

TABLE 5: COORDINATION IMPLEMENTATION

Indicators	Results
▪ percentage of donors co-organizing training, workshops, seminars for specific projects;	26 percent
▪ percentage of donors sharing assessments and evaluations;	33 percent
▪ Percent of Co-financing of all SME projects;	68 percent of all SME donors;
▪ percentage of all SME related projects;	16 percent of all SME projects;
▪ percent of total SME funding	37 percent of total SME funding

(Source:Nhu- An,2005:39)

Firstly, the survey by the Vietnamese independent consultant, Nhu-An (2005), shows that only around one quarter of donors actively co-organise activities such as seminars or training events for a specific theme. The extent of information sharing among donors could be improved for more practical use. Indeed, there are some critics by both the donors and the Vietnamese sides regarding the quality of meetings. Some commented that the meetings served as a forum for some donors to promote their activities rather than to discuss practical issues in approach. Indeed, some bilateral donors who have participated in all working groups meetings

complained that too much of their time was being spent going to repetitious discussions and that better mechanisms were needed to ensure the value-added of these working groups. Co-organizing meeting for specific projects by sub-groups of donors rather than all donors will allow discussions going beyond the surface. (Interview with bilateral donors officials)

Secondly, it was found that only a third of donors shared assessments and evaluations as an institutional policy. Most donors have project websites and documents that provide information on individual activities. However, the majority of donors said that evaluations were usually used for internal planning. They were not disseminated outside their agencies, although several indicated that feasibility studies and sector studies were shared, if specifically requested (Interview with an official of a multilateral donor).

Therefore, while ASMED has a matrix regarding SME projects management, the World Bank has also its own matrix, and so does the EU. UNIDO is now trying to summarise comprehensive matrix for all donors use to make clear what other donors have done. However, the donors still prefer using their own way of managing information rather than sharing with others (Interview with an official of a multilateral donor). The learning process remains internal to each donor at this stage and they accumulate experiences and choose own approach. It is indeed not much difference with the situation of inter-ministries in Vietnam.

The differences in their approaches are quite rigid. Specifically, one

implementation scenario for a donor project is that the government counterpart sets up a Project Management Unit (PMU) at relevant ministries. However in practice, even within this same scenario, the level of government involvement in defining the activities and direction of the project still depends on the donor. Some donors let the government counterpart take the lead in developing the agenda, but others see the PMU more as an administrative unit than a technical unit. For technical aspects, the donor usually uses short-term international consultants and/or the agencies own technical staff. While this is the approach used mostly by many donors including the World Bank and Japan, Japanese experts prefer working closely with the Vietnamese counterparts within the Vietnamese ministry offices normally for long-term contracts (Interview with a senior official of MPI).

In the second scenario is that the donor relies on an international contractor to implement the project. The donor decides on the overall objectives and components of the project to contractors and they take the lead in designing the specific activities to achieve the objectives. The contractor works on building the capacity of local existing providers, but may call on international expertise for certain activities. This approach is employed by many donor agencies including the EU, GTZ, UNDP, UNIDO, and USAID (Interview with a senior official of the multilateral donor).

As third scenario, donors appear to be transferring more management responsibilities to the government counterpart. Recently, several launched

projects will try this new approach in Vietnam.³⁰ However, compared with the above two approaches, this approach remains relatively less employed. (Interview with bilateral officials)

Although donors constantly complain about the Vietnamese side that lack the understanding of donors requirements and approaches (Ohno, I. and Ohno, K, 2005:57), it is interesting to note that any donor actually could provide satisfactory comments regarding the reason why they approach differently. One can say that all approaches are not necessarily based on a rational choice. A senior official of a MPI did say, during the interview, that at the implementation level, donors have their own way of doing thing. Indeed, there is a lot of work to do to adopt the ways and procedures of the different donors. (Interview with a senior official of a MPI)

Thirdly in terms of co-financing, donors have co-financed nearly 70 percent of SME sector projects, but this is actually due to the one MPDF project funded by 12 donors that is under the World Bank co-financing project.³¹ If one looks at the percentage of projects being co-financed by each donor, the result (16 percent) is not encouraging. Similarly, the total SME sector funding that is co-funded accounts for nearly 40 percent, but it is reported that this amount is from a few large-size projects only (Nhu-An2005:40). As pointed out in the previous section, the low ratio of

³⁰ For instance, the ILO project, financed by SIDA, will transfer project management to its partner VCCI after two years the project start (Nhu-An, 2005:27).

³¹ Mekong Private Sector Development Facility is multi-donor funded initiative set by the International Finance Corporation in Vietnam, Cambodia and Lao PDR to reduce poverty through private sector development, MPDF website, www.mpdf.org/index.jsp, accessed on November 4th, 2005

co-financing projects amongst donors is partially due to the complicated internal administrative system in Vietnam. However, it seems that the donors are also prudent in risk sharing. Probably, this is partially caused by the short history of donors activities in the country.

The findings of this section suggest that high attendance ratio of many meetings can tell very little about cooperation and coordination between the actors involved (also Simon and Roger, 1998:260). The multiplication of meetings held does not reflect the existence of trust and effective coordination. Indeed, there is a lack of trust between the donors and the government. Although exact statistics are not available, most of the donors usually use international consultants or their own technical experts, but not transferring more management responsibilities to the government counterpart. This implies that the donors are not willing to share risks with their Vietnamese counterparts. If the donors were really interested in promoting SMEs, their approach would be different from current donor approaches. As the stakeholder analysis showed in chapter two, conflicting interests have had negative effects since the donors have been prioritising their own interests over the benefits to Vietnam.

From the donor-cooperation point of view, the finding also implies that there is a lack of trust amongst donors. This is because by taking their own approach, the donors do not have to take any risk that might be caused by the failure of programmes implemented by the other donors.

This lack of cooperation can be observed further by looking at the way of information sharing. There are different fora that are led by the

World Bank and the European Union separately rather than through the SME Partnership Group meeting coordinated by Japan and UNDO. It has been observed that other informal information exchange exists among major donors, but these tend to be based on established personal relationships rather than on internal institutional policies. For instance, the like-minded donors like UK and the Nordic countries tend to have informal meetings rather than meetings with Japan. Consequently, meetings are organised and attended by different actors, even causing overlapping activities in this area (Interview with an official of a bilateral donor).

Why is it the case? A senior official of a multilateral donor's comment provides an explanation in this regard. EU is currently busy trying to build coordination among EU member states, but even among EU members themselves, it has been little success so far. The point is also confirmed by Lau's analysis (2000) in that the EU considerably lacks comprehensive clear policies in private sector development among themselves. The same things often happen within each multinational agency itself including the World Bank Group who still confuses picture concerning the provision of SMEs services (Gibbon and Schulpen's analysis, 2002:21).³² Now, it has become clear that the aid coordination is not the stage of unifying all stakeholders into one meeting since "internal coordination" has been also problematic.

Not surprisingly, the government side mentioned that donors

³² For instance, a joint-IFC-World Bank foreign advisory service was created, but both wings continued to provide advisory services separately (Gibbon and Schulpen's analysis, 2002:21).

sometimes give conflicting advices to Vietnamese policy makers including the reform of the New Enterprise Law and the different types of incentives provided to SMEs by changing laws (Interview with a senior official MPI). From the finding above, it has become clear that Japan and UNIDO seems to face considerable difficulties of having authority, not to say influencing others' behaviour.

▪ **The Politics Behind- Donors side**

We have discovered that aid coordination practices among donors have been facing considerable difficulties despite the positive declarations. These above mentioned constrains can also be explained by political factors in the donors side as well. Their political and economic commitments are also discovered very limited.

Firstly, there is lack of procedures and instruments for aid coordination among donors themselves. For instance, a senior official of a of a multilateral donor commented that Japan donates every year hundreds of millions of American dollars in aid to Vietnam, but in practice, the local officials do not have the necessary instruments to quickly allocate 10,000 US\$ in some donor coordination initiative that they would consider worth supporting. The comment confirms the criticism made in the literature in that donors themselves do not know what they can actually do for effective aid coordination.

It is reasonable to argue that since Japan is by far the major donor in Vietnam it may not be in the Japanese interest to invest time to explore aid

coordination further. Perhaps demonstrating the individual contribution and maintaining good diplomatic relationship with Vietnam is considered as its priority. Indeed, the constraints of donors are rooted in foreign policy, as the literature review showed. The diverse motives of aid has caused the risk of incoherence and the frustration of some aims by other aims are high that is also the case of Vietnam. It was said that the DANIDA spent approximately 30 million US\$ to support the SME sector, and considers that the magnitude of their contribution should secure them other government policy matters for their advantage. As such, they would not want to see their resources diluted in some "EU -blended programmes", as well as in some broader UN initiative (Interview with a senior official of a multilateral donor).

On the other hand, there are donors such as DFID who seems to dislike visibility and quietly spends money in this country. They are the strongest proponents of budget support, and willing to fund the Vietnamese government whatever development programme without planting the UN flag. They are also decisively engaged in the like-minded donors' group that gathers regular members trying to cooperate their aid programmes, but in a way it is worth mentioning that their overall respective activities of its members in this country has been marginal (Interview with a senior official of a multilateral donor).

The above cases suggest that it is not the interest of donors to coordinate aid policy in any substantial way since risk sharing among them results in losing individual power to dictate terms to the recipient

government. The DFIDs case is a good example to show that they prefer direct budget support to multilateral arrangements for aid disbursement.

Thirdly, some aspects of its fiscal feasibility in donor countries are also worth paying attention, since it is not only our case, but relevant to all aid coordination cases. Even development ministers want to push forward coordination in the country office. Finance Ministers at centers often pull back, as scarce resources are allocated to other priority areas. The good example is that the EU Development Ministers have recently agreed to double their aid levels by 2010, but that decision is still subject to resources being made available through national budgets year-by-year. On improving the aid effectiveness, and increased cooperation trend, the likelihood would be that some countries would improve the way in which they work, most notably the UK, the Nordic countries and other like-minded donors. (Renzio, 2005)

On the other hand, some other countries are not so interested in the agenda such as the U.S, Japan, Germany, and other smaller countries who are not engaged constructively. These countries are either more worried about internal political problems or other fiscal priorities than aid coordination (Interview with a senior official of a multilateral donor and Renzio, 2005).

Indeed, as this financial constrain has been increasing in recent years, a drastic decrease in aid volume after 2015, year of the MDGs is expected (Renzio, 2005). In such case, all initiatives like HAP in Vietnam are also subject to end up just short-term tools. What is important for aid

coordination would be therefore how aid coordination and other initiatives can link for mutual benefits by both sides. The future research required in this area to make aid coordination real. However, although there have been a number of literatures that argue about the importance of such an incentive system for coordination practice in recent years (Renzio, 2004), there are very limited argument of how it could actually be done. This is probably because:

International donor system is not like a company where one can organize others and then, follow this principle to achieve targets given by authority. All donors have different systems or policies, of course, because they are different nations and countries that have different culture and foreign policies

(Interview with an official of a multilateral donor)

This section showed the problems militating against donor-aid coordination. In regard to the sub-question linked to the factors constraining the donor aid coordination, the study suggest the following: lack of instruments of coordination implementation, lack of authority of coordination agency- that is partly caused by the lack of cooperation among the donors, and all are resulted from the lack of political and economic commitments by not only the country offices, but importantly by central governments in donor countries. The problems are further caused by the new relationship among the donors or between the donors and the Vietnamese government that is specific case of Vietnam.

4.4 INVOLVEMENT OF BENEFICIARIES IN AID COORDINATION

We have identified the constraining factors of coordination of both the Vietnamese government and the donors. This section will analyse beneficiaries' involvement in aid coordination. It examines how the constraining factors have affected the involvement of beneficiaries. The analysis focuses on business associations, mainly the Vietnam Chamber of Commerce and Industry (VCCI), as these are supposed to represent the needs and ideas of SME managers. SMEs managers were interviewed to explore how SMEs are actually benefited by aid coordination efforts in practice.

- **Existence of a coordination agency**

Within VCCI, there is a coordination unit called Small Medium Enterprise Promotion Centre that should function as a bridge between the government, donors and businesses. VCCI have been actively representing SMEs opinion in various meetings mentioned earlier and reflect the needs of SMEs in the formulation of policies and law (Stronmseth, 2003:66-69, in Kerkvliet, Heng, and Koh, 2003).

- **Information sharing**

Information sharing among the government, business associations and donors has clearly improved over time. The issues raised by the information sharing are directly submitted to the Prime Minister. Drafting new legal

documents is required to share draft with VCCI, which was also the case of the new Enterprise Law (Stromseth, 2003:75-76, Kerkvliet, Heng, and Koh, 2003).

VCCI also sets up a website, where all the draft laws are published. The objective is to get comments and feedback from SMEs and other business associations. As discussed in chapter three, Vietnamese local articles have celebrated these policy changes.³³ However, considering the top-down policy making system in the country, the analysis cannot be done without looking at the impacts of the influence of informal relations among the domestic actors. The following sections examine to what extent these improvements at the policy level have had an impact on policy implementation. (Interview with general director of VCCI)

▪ **Actual Implementation of the Reforms**

Firstly, when analysing the actual practice by business associations in Vietnam, it is important to consider the fact that the characteristic of VCCI differs from its counterparts in most market economies. VCCI began in 1960 as an office within the Ministry of Foreign Trade. Since the end of 1990s, it has officially become “an independent, non-governmental organization.” However, like the case of inter-ministries, the relationship and responsibilities between state and business associations remain opaque: the relation is often described as “confusing” (Stromseth, 2003:65, in Kerkvliet, Heng, and Koh, 2003).

³³ Vietnam Economic Review (2003).
Vietnam News (2005).

Indeed, all the senior staff at VCCI is members of the communist party and most business associations are established to promote employment for retired government employees with strong links to government circles (Norlund, 2003:70). Accordingly, the government also finances much of the business associations' infrastructure especially if they provide services that contribute to the government plan (Arkadie and Mallon, 2003:163 and Benedict, 2003:9 and Vasavakul, 2003:34, in Kerkvliet, Heng, and Koh, 2003). The government thus closely supervises the activities of the business associations, including the VCCI.

Given the close relation to government, business associations cannot be too critical towards state policies. For example, this limits them to be critical about the simplifying procedures that reduce opportunities for rent-seeking activities by different interests groups (Interview with a senior staff member of the business association). Also interviewed SME managers argued that it would be difficult to set up companies without support by "key government persons" to for instance complete necessary procedures to obtain business licenses. The SME managers critically commented that many legal documents remain inconsistent and kept changing, since they were not drafted by qualified lawyers but by government officials (Interview with Vietnamese lawyers). As such, concepts or explanations in regulations are vaguely described in order to be open and flexible for "convenient interpretation" for the needs of interests groups. Hence, the authority of business associations seems to be quite limited – partly because they lack autonomy vis-à-vis the government:

They (the business associations) have no interests whatsoever in opposing the government, they are merely government subcontractors

(Interview with a staff member of the business association).

The comment implies that the business associations are not an independent actor holding the government accountable for good policies, but rather that both the government and business associations have mutual benefits in allying together. The process of the reform clearly lacks transparency since both cooperate with each other to lucrative contracts etcetera.

These political constraints have resulted in non-unified policies implementation. This is also supported by USAID (2005) who argued that the level of implementation by SME reforms has been quite diversified across provinces depending on the provincial political constraints like the bias against SMEs business activities and corruption. This clearly shows that political factors have limited the beneficiaries' involvement. It was found that the degree of beneficiaries' involvement has been particularly less in rural areas that needs to be supported most (Nhu-An, 2005:iii).

- **How do the constraining factors of aid coordination between donors and the Vietnamese government affect the involvement of beneficiaries?**

We have shown that the implementation of new law and regulations remains problematic despite the significant increase of the beneficiaries'

involvement in policy making. While two previous sections; the Vietnamese government and donors' constraining factors showed the lack of cooperation as the major constraining factor of aid coordination, this section shows that the existence of close cooperation between the state and business associations without authority has resulted in creation of "state-owned SMEs" in the case of Vietnam. As discussed in chapter two, beneficiaries' involvement is a crucial mechanism for good aid coordination. In Vietnam, however, the risk of top-down implementation of SME policies seems to be high.

Indeed, smaller business associations particularly in rural areas have not received donor supports in the same way the large organizations in urban areas (Nhu-An, 2005:iii). While the majority of SMEs related projects (69 percent) are still concentrated in the major urban areas, mountainous and more remote regions such as the North West, the Central Highlands, and the South East, comprise less than 10 percent of all projects (Nhu-An,2005:ii).

The lack of beneficiaries' involvement is a direct consequence of the fact that both the Vietnamese government and the donors make little effort to get them involved. The Vietnamese government has given little priority to SME policy reform. It lacks the commitment to reorganize internal government structures including the vague position of business associations to have mutual benefits of both the government and business associations. Accordingly, the donors are quite sceptical about small associations particularly in rural areas. They think that these act as "complementary

organizations” that merely implement tasks given by the state (Kerkvliet, Heng, and Koh,2003).

On the other hand, lack of clear division of labour among the donors themselves tends to cause overlapping of choosing the same partners: large business associations. The comments by SME organization senior official implied that when the donors have a choice in selecting a counterpart of Vietnam, they usually prefer choosing large organizations since they have more capacity to work with donors (Interview with a staff member of the business association). This will probably be a serious concern in the future since donors should widen their circle of partner organizations. As local SME associations become more capable, they will probably actively participate in policy implementation and demand more legal knowledge in the near future (MPI, 2005:58).

However, considering the increasing demand toward commitments to the central governments and taxpayers in donor countries, the risk to invest in capacity building of small business associations are high. This may imply that donors are more concerned with their own interest rather than SME development in Vietnam that is major constraints for the beneficiaries’ involvement.

In sum, the beneficiaries’ involvement is possible only if the political constraining factors in both government and the donors are solved. At the moment, aid coordination is highly limited to higher levels at policy level. The beneficiaries cannot gain benefit from the reform unless a more in-depth discussion among donors is held about the involvement of

beneficiaries at implementation level instead of having many meetings with general topics at national level. In turn, these practical discussions will be possible only if donors coordination is supported by the central government.

Likewise, the business associations need to be more independent from government to play a critical constructive role towards SME policy reform and implementation.

CHAPTER 5: CONCLUSION

This paper critically analysed the aid coordination in SME regulatory reform in Vietnam, focusing on the implementation level. This study finds that each level: the government of Vietnam, the donors and the beneficiaries' involvement has its own problems. The most important finding is that there are many linkages between these constraints that give shape to the aid coordination in the country. This concluding chapter seeks to draw attention to the vicious circles caused by the problems at each level of coordination. By doing so, it answers the central question of this paper.

In Chapter four, the analysis found that while coordination has been improving through information sharing among major stakeholders, there is a lack of capacity of the recipient government to manage projects and lead clear strategies of the SME promotion, which hindered overall aid coordination. However, since the coordination agency was established only in 2003, the concern in this paper was mainly on the lack of inter-ministries-donor coordination activities. The coordination agency,

ASMED under MPI currently functions with too limited authority to push other line ministries to cooperate towards coordination activities.

Inter-ministries coordination is far from effective due to lack of trust among ministries. There is little evidence of information sharing, not even statistics. The first section revealed that the major reason for the lack of common national goals is disagreement about the direction of the reform among ministries. There is no unified position of the government with regard to SME reform. While domestic authority over line ministries seems to be weak, the government of Vietnam maintains its relative policy autonomy over the donors. The recipient historical background has significant impacts on the outcome of aid coordination. Accepting some of external advice and learning aid management may take more time for the government as well.

Thus, in regard to the first sub-question about the factors that constrain the Vietnamese government aid coordination, the study identifies a major limitation in management capacity. The incapacity can in turn be located in internal political conflicts. This seriously undermines the capacity of the government to lead and coordinate the different donors' inputs and programmes and thus ensures that reform processes go in the right direction. The case of the SME sector provides a useful lesson in revealing the importance of taking into account correlation between possible political conflicts and the reform of particular sector. Indeed, coordination outcome is context specific, varying according to sector or recipient country's situation.

Section two argues that the characteristic of the constraining factors of the donor coordination is similar to that of the Vietnamese government. There is silent resistance among donors to move forward coordination activities. It would take some time for the donors to transfer the full ownership to Vietnam government due to the fact that donors are hesitant to let the government implement the project completely, given the low capacity level of the latter. On the other hand, donor coordination has been impeded due to different strategic choices of the donors as well as donors' different historical, cultural, geo-political development interests.

Therefore, in answer to the question of what factors constrain donor aid coordination, the study found that: 1) low levels of cooperation; 2) distrust; and 3) power relations, are all significant constrains among the donors. It would seem more time may be required to forge the degree of effective cooperation required since efforts to cooperate have only recently started and are hampered by various forms of mistrust between the different parties. This in turn makes authority to push the other donors for coordination activities difficult.

The final section showed that beneficiaries can gain benefits only if there is careful consideration and commitments to the beneficiaries' involvement by both donors and the recipient government throughout the aid coordination process. Indeed, it was found that the government organised the participatory process, but mostly by means of the party-controlled mass organizations without clear legal status of business associations.

On the other hand, although the lack of donors' understanding

regarding positions of business organizations is argued as cause of overlapping activities with same partners, the paper argues that this is also likely to be caused by lack of donors' coordination. Accordingly, as the answer of final sub-question: what are the constraining factors in beneficiaries' involvement in aid coordination? The major constraining factors are both a lack of a clear position of business organizations and the lack of donors' efforts to involve beneficiaries.

The section was also useful to understand issues of cooperation and coordination in depth, since the case shows that trust or the close relationship among stakeholders has positive impacts, only if at reasonable degree of authority within coordination mechanism. It has not been seen yet in the case of beneficiaries' involvement since the influence of the political interest groups retains priority over the beneficiaries' interests in practice. Based on above mentioned findings, the paper in the attempt to provide answer to the central research question that highlights the critical impact of the following factors on aid coordination:

Firstly, both the recipient and donors face the same constraints: lack of political commitments to reform the domestic political structure by the Vietnamese government and lack of political commitments to coordinate the activities- which informs incoherent policies among donors. This is caused largely by the lack of concrete support and incentive system by central governments. Both constraints result in a dilemma between on the one hand the needs of beneficiaries and the donors and on the other hand, the government political constraints, as discussed in chapter two.

Secondly, there are political factors behind the reform, which are important for the understanding of why and how it occurs. This leads to the lack of appropriate balance of cooperation and authority among different stakeholders at three levels; the government of Vietnam, the donors and the beneficiaries' involvement. Both cooperation and authority have not been established in either the Vietnamese political structure or the donors'.

Accordingly, all the constraints of aid coordination have emerged due to complicated mixture of political constraints of both the recipient and donors. The major issue is therefore not that they merely lack management capacity, but rather that political factors can be serious obstacles that prevent developing overall ODA management capabilities in both donors and the recipient alike.

RECOMMENDATIONS

From the finding, it is clear that the constraining factors caused at all levels have to be tackled comprehensively. Thus, possible recommendations are provided from both the recipient government and the donors' point of view. Since the recommendations have to be context specific, the recommendations here presented are mainly intended to serve the case of Vietnam, but that is not to say that the findings and recommendations of this paper may not bear relevance to other transitional countries.

▪ The government of Vietnam

Since it is the finding of the paper that a major constraining factor in aid

coordination is political constraints, a realistic resolution strategies would be the provision of some kinds of incentive for political commitments and remove negative incentives at all levels; line ministries and business associations. For the recipient government, there is a clear need to advance coordination among Vietnamese line ministries and business associations in project/programs funded by the donors and reduce ambiguity over responsibility.

As shown in Chapter three, SME promotion council, the top consulting body for the Prime Minister can provide incentive for coordination activities to other ministries with supports from donors. The council can be better positioned to supervise ministries as a coordination agency rather than MPI that lacks authority and attracts resistance from other ministries. In turn, these encouragements of internal coordination will allow MPI to develop a long run vision of SME development in Vietnam with inputs from other line ministries, donors, and beneficiary government.

In order to enhance the internal administrative coordination and a clear delineation of the status of business associations by official law, comprehensive survey of SME in Vietnam, implemented by all stakeholders, can be carried out. From the survey findings, one can identify the needs and priorities for SME development in Vietnam with support from the donors. From these surveys, the donors can develop corresponding projects to meet the needs. This helps the function of information centre by providing detailed information on the ongoing aid projects for the government and the donors. It would also help to avoid separate funding processes. By doing so,

the capacity building for lawyers in the reform would be also more effective, as it would be based on local needs. Their status should thus be more recognised.

▪ **The donors**

In regard to the donors, the incentive system should be provided by the central government. However, it is largely recognised that it is not a very realistic recommendation due to the different priorities between countries. Therefore, forming a new coordination agency that invites representatives from each donor country can be worth trying rather than appointing particular donors- such as the Japanese aid agency or UNIDO- which might cause some resistance from other donors.

By forming such aid coordination team, it is possible to increase peer pressure for commitments to coordination activities and influence each donor's perception of the value of engaging in coordination activities. It may help to encourage the institutional consistency among donors to avoid overly complex arrangements, which are difficult for the Vietnamese government to handle. Importantly, both officials in donor countries and officials in the recipient country have to involve themselves in the process of forming the coordination team. This helps policy makers in donors' countries to understand local situations in the field offices of the recipient country. By doing so, finance and time related constraints could be reduced and thus it would improve the efficiency in aid coordination.

Throughout this process, the provision of some formal or informal

incentives at different levels is required which reward practical efforts to promote coordination. Also, the coordination team should present how the incentive system is adopted in own countries' policies at the meetings to make sure that it is not just initiative only. Importantly, the Vietnamese government should jointly lead this forming process to ensure their needs are reflected in the coordination mechanism.

In the case of Vietnam, which is a highly hierarchical society, the efforts by donors' intervention influence the success of aid coordination and delivery by encouraging the beneficiary's involvement. In particular, capacity building for local, especially SMEs in rural areas have to be strengthened more. The donors should have diverse of partnerships instead of concentrating on some large organizations at central level.

Lastly, the criticisms presented to the initiative for aid coordination in this paper do not mean that this paper perceives the Vietnamese reform process as a failure. As we discussed, the establishment of ASMED and the existence of several types of donor fora have certainly contributed to the increase of the level of awareness about donor activities. Strong initiatives of this kind are recognizably valuable, as democratic process has been clearly increasing.

It is now most appropriate to better coordinate joint efforts to support the government of Vietnam in realizing the 10-year development strategy of the country. The government is well aware of the crucial role of SMEs in economic development. The state is beginning to see the SMEs growth as a potential for national development rather than as a threat. This

change in attitude will allow the government to put more trust in donors initiatives. Also, the donors may put more trust in government willingness to promote SME. As the literature review discussed, the finding also shows trust is a main factor for coordination to take place. Thus, such efforts of aid coordination in Vietnam will entail further research in the following years. As this paper has argued, there is still a long way to bridge the gap between the rhetoric and the reality of aid coordination. However, positive changes are certainly underway, which is a step forward for better aid coordination in Vietnam.

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● **SME MANAGERS WHO STARTED THEIR BUSINESSES IN 2000s:**

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● **OTHER ACTORS FAMILIAR WITH THE INTERNAL POLITICAL SYSTEM**

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Appendix 1

Definitions for the Hanoi core statement- the document is provided by UNIDO, June 28th, 2005.

<p>Indicator 1</p>	<p><i>Ownership</i></p> <p>This is the effective exercise of the government of Vietnam's (GoV) authority over development programmes including when it relies on external resources to implement them. (OECD-DAC)</p> <p>Achieving this requires a concerted effort by GoV and Donors based on the CPRGS Principles.</p> <p><i>CPRGS Principles</i></p> <p><i>Outcome oriented planning.</i> The Prime Minister's directive 33 emphasises the achievement of the Vietnam Development Goals. This is indicative of a shift in the planning process, from a target oriented approach to one which is focused on achieving development outcomes.</p> <p><i>Comprehensive approach to planning with pro-poor orientation.</i> Poverty treated as "cross cutting" approach. Poverty concerns mainstreamed across sectors and provincial plans.</p> <p><i>Broad based participatory approach to planning.</i> The Prime Minister's directive recommends wide ranging consultations. Consultation is sequenced to ensure that stakeholders are able to debate the main strategic issues and plan priorities. And relevant stakeholders including the poor consulted at different points of the planning cycle.</p> <p><i>Linking plans to budgets.</i> The aligning of plan priorities with budget allocations. SEDP priorities to guide and inform public investment decisions through enhanced public participation. Strengthened capacity of provinces to integrate poverty reduction and growth into</p>
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	<p>provincial planning and budgeting.</p> <p><i>Defining the role of the private sector and civil society.</i></p> <p>The government considers the potential role of private sector and civil society in delivering plan priorities, and reassess the areas where it has a comparative advantage and others, which could be left to the private sector. Engaging with the civil society to strengthen the participation of the poor in planning and monitoring of plans and in implementing the Grassroots Democracy Decree.</p>
<p>Indicator 2</p>	<p><i>Donor assistance strategies are aligned</i></p> <p>Alignment is the commitment made by donors to base their development assistance on countries national strategies, institutions and processes (OECD-DAC)</p> <ul style="list-style-type: none"> • Donors support the 5-year socio economic plan as the framework of reference for programming their country assistance which is aligned on the needs and priorities identified in the SEDP. • Donors' budget support is aligned with partners' budget cycles. • Programme support is delivered using GoV systems and procedures. <p>Aid should be provided in ways that build, and do not undermine, partner countries' sustainable capacity to develop, implement, and account for these policies to their people and legislature.</p> <p>Alignment of donors to the SEDP is to be demonstrated through joint statement.</p>
<p>Indicator 3</p> <p><i>(This definition needs to be reworked to take account</i></p>	<p><i>Parallel PMUs</i></p> <p>Project management units (PMUs) are dedicated structures that are responsible for the day-to-day management and implementation of aid-financed projects and programmes. They vary in size, function, physical location, legal status, and degree of integration with existing</p>

<p><i>the government of Vietnam organizational systems)</i></p>	<p>structures.</p> <p><i>A fully integrated PMU</i> is a desirable model from an institutional development perspective: The implementing ministry where the PMU is located takes full responsibility and implements projects using the existing ministry structure, procedures, and staff. In some cases, the ministry may reassign some staff to carry out project activities by releasing them from other ministry functions. Such a PMU may be supported by limited technical assistance for specific areas that require additional skills or expertise.</p> <p><i>Parallel PMUs</i> are usually created outside the existing structure of the project implementing ministry and often duplicate or recreate ministry functions and capabilities. Parallel PMUs often need substantial technical assistance support for specific areas of expertise or skills. Given that all PMUs in Vietnam are integrated to some extent into their parent agency, there is a need to identify a local definition of the kind of “parallel PMUs” that are to be avoided.</p>
<p>Indicator 4</p>	<p><i>Government-led or Vietnamese Partner led and co-ordinated capacity building</i></p> <p>Coordinated means that the programmes are coordinated by the Partner Agency (here the term coordination does not refer to the coordination between donors).</p> <p>The United Nations Development Programme defines capacities as comprising the “ability of people, institutions and societies to perform functions, solve problems and set and achieve objectives”</p> <p>Partner-led and co-ordinated capacity building programmes are capacity building programmes per se which fit in under the capacity development strategy for the partner agency.</p>
<p>Indicator 5</p>	<p><i>CPAR, PAR recommendations implemented</i></p> <p>The public procurement system will be strengthened when the recommendations of the CPAR 2002 and the CPAR updates in 2004 as</p>

	<p>part of the PAR-IFA are implemented.</p> <p>A Monitoring and Evaluation system will be established by GoV to track and benchmark the performance of the Public procurement system.</p> <p>The target refers to a percent of donors using the GoV Procurement systems :to be eligible , a donor has to channel at least 50percent of its aid through the country systems</p>
<p>Indicator 6</p>	<p><i>Public financial management systems strengthened and PER / CFAA recommendations implemented</i></p> <p>Public Financial Management systems comprise the budgeting, (effective allocation of public funds between sectors), investment planning, public procurement, accounting and auditing systems.</p> <p>Using Public Budgeting system means that the ODA funds are reported in the national, provincial and sectoral budget.</p> <p>The target refers to both a percentage of aid flow and percentage of donors using the country systems. To qualify as using country systems, a donor has to channel at least 50percent of its aid through the country systems.</p> <p>Public Expenditure Review (PER) recommendations have been approved by the Prime Minister. The GoV action plan is to be formulated by year end 2005.</p> <p><i>Government publishes timely, transparent and reliable reporting on budget execution</i></p> <p>Decree 60 (June 2003) provides the framework covering budget execution. The strengthening of the budget execution, reporting and auditing is guided by the Country Financial Accountability Assessment (CFAA) prepared in 2000 by the World Bank; The update of the report and of its recommendations is currently in progress.</p> <p><i>Budget audited in accordance with the International Organization of Supreme Audit Institutions (INTOSAI)</i></p> <p>The State Audit Board is preparing enactment of a new audit law to move the Board closer to a genuine external audit law (including</p>

	<p>provision for performance audits) placing greater efficiency on the efficiency of the spending and not only the control of procedures.</p>
<p>Indicator 7</p>	<p><i>Predictable aid: Aid disbursed according to agreed schedules in annual or multi-year Frameworks</i></p> <p>Aid is predictable when the GoV can be confident about the amount and the timing of aid disbursements. (OECD /DAC) This issue is related to the extend to which GoV can rely on donor pledges being translated into actual aid flows and to the transparency of the criteria for adjusting disbursements.</p> <p>When budget support is provided, it is important that it be delivered in accordance with GoV's budget procedures and over a time frame that is consistent with GoV's planning horizon.</p> <p>Predictability is best defined by what it is not. Divergence between commitments and disbursements is often due to partner countries failing to meet conditions as a result of macroeconomic or governance difficulties. Unpredictable delivery of aid is also caused by:administrative bottlenecks, changes in donor priorities and absence of firm multi year commitments from donors</p> <p>Donors should programme aid over a multi year timeframe to the extent possible, agree common performance indicators and review processes with partner countries and provide full information on aid flows.</p>
<p>Indicator 8</p>	<p><i>EIAs implemented to international standards</i></p> <p>Environmental Impact Assessment (EIA) is a procedure that ensures that the environmental implications of decisions are taken into account before the decisions are made. The process involves an analysis of the likely effects on the environment, recording those effects in a report, undertaking a public consultation exercise on the report, taking into account the comments and the report when making the final decision and</p>

	<p>informing the public about that decision afterwards.</p> <p>EIA can be undertaken for individual projects such as a dam, motorway or for plans, programmes and policies ('Strategic Environmental Assessment').</p> <p>The International Association for Impact Assessment has published the "EIA global guidelines for EIA". Sector EIA guidelines have been produced to deal with issues of specific sectors :water, industry, etc.</p> <p>Vietnam's Framework for co-operation in the environment field is the National Strategy for Environmental Protection (NSEP) until 2010 and MONRE is currently preparing the Five-year plan 2006-2010. EIA was introduced in Vietnam in 1994 under the law on environmental protection. Decree GD 175/CP states that EIA should be conducted for specific projects and for overall regional development strategies.</p> <p><i>SIAs implemented to international standards</i></p> <p>Social Impact Assessment includes the processes of analysing, monitoring and managing the intended and unintended social consequences (both positive or negative) of planned interventions (Policies, Programs, projects) and any social change invoked by those interventions. Its purpose is to bring a more sustainable and equitable environment.</p> <p>Social Safeguards relate to issues of resettlement and ethnic minority impacts as a result of development projects and the need for compliance with international standards in respect to compensation and associated support activities of affected persons/households so that they are not adversely affected by the development projects.</p>
<p>Indicator 9</p>	<p><i>Core diagnostics</i></p> <p>The most commonly used core diagnostic reviews in Vietnam are:Public Expenditure Review which analyses Vietnam's fiscal</p>

	<p>position, its expenditure policies – in particular the extent to which they are pro-poor – and its public expenditure management systems</p> <p>Country Procurement Assessment Review which examines public procurement institutions and practices in Vietnam and</p> <p>Country Financial Accountability Assessment which enhances the knowledge of public financial management and accountability arrangements in Vietnam.</p> <p>Country analytic reports include sector studies and strategies, country/sector evaluations, and discussion papers</p>
<p>Indicator 10</p>	<p><i>Common project cycle management tools</i></p> <p>Project cycle management tools include processes, methodologies, formats to conduct :</p> <ul style="list-style-type: none"> ▪ appraisal, ▪ implementation ▪ reporting ▪ monitoring ▪ evaluation of a project or programme <p>CCBP is coordinating various initiatives (in order to develop a comprehensive, harmonised and streamlined set of Project Management tools.</p>
<p>Indicator 11</p>	<p><i>Donors' interventions are co-ordinated within GoV-led policy and sector frameworks, including general/sector budget support and project modalities</i></p> <p>Development assistance should be provided in ways that build partners sustainable capacity to develop, implement and account for these policies to their citizens.</p> <p>Programme-based approaches share the following features irrespective of aid modalities:</p> <ul style="list-style-type: none"> i) Leadership by the host country; ii) Single Comprehensive programme and budget framework

	<p>iii) Formalised process for donor co-ordination and harmonisation of procedures;</p> <p>iv) Efforts to increase use of local systems for the whole project cycle.</p> <p>Source :OECD</p>
<p>Indicator 12</p>	<p><i>Donors enhance capacity of country offices and delegate authority to them</i></p> <p>Donors transfer responsibility for the management of aid programmes from their headquarters to country offices, increasing the capacity of the country offices to make them equal to their tasks.</p> <p>For the purpose of the indicator, interventions managed at country level would be those where the donor project manager is based in the country and where the local office has full responsibility on project or programme implementation and monitoring.</p>
<p>Indicator 13</p>	<p><i>Results framework</i></p> <p>A results-oriented performance assessment framework is characterised by</p> <ul style="list-style-type: none"> (a) clear definition of objectives in terms of expected results; (b) availability of monitorable outcomes and output indicators, baseline data, and time-bound targets; (c) monitoring and evaluation arrangements and capacity; (d) use of information for decision-making. <p>Each criteria is scored using following scale :</p> <ul style="list-style-type: none"> 1 - nonexistent 2 - emerging practice 3 - established practice 4 – best practice <p>And the weighted average is computed to give the overall rating :</p>

	An overall rating of 3 (three) and above would indicate an existing results-oriented framework.
Indicator 14	<p><i>Annual assessment of progress in implementing agreed commitments on aid effectiveness</i></p> <p>The annual assessment is due to measure the progress of the implementation of the HAP using the mutually agreed indicators of the HCS.</p>

Appendix 2

MAIN QUESTIONS ASKED THROUGHOUT INTERVIEW FOR THE MPI AND DONORS' SENIOR OFFICIALS³⁴:

1. What are the main elements of SME support of UNIDO?
2. Do you focus on specific segments of the SME sector?
3. If so, who covers the other segments of the SME sector?
4. How does UNIDO's policy for SMEs relate to the SME policy of the Vietnamese government or other donors?
5. What are the differences, similarities and complementarities between UNIDO and the government of Vietnam or other donors?
6. Did you influence the government policy for SMEs and if so, how?
7. Did UNIDO change its approach as a result of the position of the government?

³⁴ Note: Although the following questions mention UNIDO specifically, it should be noted that the questions were also asked to the MPI, the business associations, the other donors and all the other key actors interviewed.

8. Do you know of other major policies and programmes for SMEs by other donors?
9. How do you collaborate with the government and other stakeholders (NGOs, Multilateral and bilateral institutions) in policy implementation?

MAIN QUESTIONS ASKED THROUGHOUT INTERVIEW FOR THE SMES MANAGERS:

1. What are the constraining factors in beneficiaries' involvement?
2. Did you have any difficulties when you set up your business?
3. What do you think about the current the SME policy?
4. To what extent do you hope to improve it?