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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
BOT	Build-Own-Transfer
CDD	Community-Driven Development
CIDA	Canadian International Development Agency
CIEM	Central Institute for Economic Management
CIT	Corporate Income Tax
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CSW	Commercial Sex Workers
DAF	Development Assistance Fund
DANIDA	Danish International Development Assistance
DATC	Debt and Assets Trading Company
DFID	Department for International Development
EFA	Education for All
EIA	Environmental Impact Assessments
EVN	Electricity of Vietnam
FDI	Foreign Direct Investment
FSQL	Fundamental School Quality Level
GC	General Corporations
GDP	Gross Domestic Product
GI	Government Inspectorate
GSO	General Statistics Office
HCFP	Health Care Fund for the Poor
HEPR	Hunger Eradication and Poverty Reduction
HIFU	HCMC Investment Fund for Urban Development
HIPC	Highly-Indebted Poor Countries
ICOR	Incremental Capital-to-Output Ratio
IDU	Injecting Drug Users
IER	Institute of Economic Research
ILSSA	Institute for Labor Studies and Social Affairs
IMF	International Monetary Fund
LERES	Center for Legal Research and Services
LMDG	Like Minded Donor Group
LRA	Land Registration Agency
LUC	Land-Use Right Certificate
MARD	Ministry of Agriculture and Rural Development
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MOC	Ministry of Construction

MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health
MOHA	Ministry of Home Affairs
MOLISA	Ministry of Labor, Invalids and Social Affairs
MONRE	Ministry of natural Resources and Environment
MOT	Ministry of Transport
MPI	Ministry of Planning and Investment
MTEF	Medium-Term Expenditure Framework
NAEC	National Agricultural Extension Center
NHP	National Health Program
NMDC	Netherlands Ministry for Development Cooperation
NORAD	Norwegian Agency for Development Cooperation
NPL	Non-Performing Loan
NTP	National Targeted Program
ODA	Official Development Assistance
OSS	One-Stop Shop
PAR	Public Administration Reform
PER-IFA	Public Expenditure Review-Integrated Fiduciary Assessment
PFMRI	Public Financial Management Reform Initiative
PIP	Public Investment Program
PMU	Project Management Unit
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
QHS	Qualitative Survey
SAV	State Audit of Vietnam
SBV	State Bank of Vietnam
SDC	Swiss Agency for Development and Cooperation
SEDP	Socio-Economic Development Plan
SFE	State Forestry Enterprise
SFIC	State Finance Investment Corporation
SIDA	Swedish International Development Agency
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprises
SWAP	Sector-Wide Approach
TA	Technical Assistance
UNDP	United Nations Development Program
USBTA	US-Vietnam Bilateral Trade Agreement
VASS	Vietnamese Academy of Social Sciences
VAT	Value Added Tax
VDG	Vietnam Development Goal
VHI	Vietnam Health Insurance
VHLSS	Vietnam Household Living Standards Survey
VNPT	Vietnam Administration of Posts and Telematics
VRA	Vietnam Road Authority
VSI	Vietnam Social Insurance
VSS	Vietnamese Social Security
WHO	World Health Organization
WTO	World Trade Organization

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EXECUTIVE SUMMARY

Fundamental changes are taking place in the way the government of Vietnam operates. The 2001 Constitution empowered the National Assembly to hold votes of no-confidence in the leaders it elects, including ministers. The State Budget Law which became effective in January 2004 further expanded those powers, by making the National Assembly responsible for the approval of the budget, including allocations to lower levels of government. In parallel, there is a steady increase in the extent of decentralization. By now, almost half of budget expenditures are decided by authorities at sub-national levels. Provincial governments, in particular, hold a much greater authority to allocate resources based on their own priorities. Decentralization is happening in the context of a much strengthened public financial management. The various accounting mechanisms that used to operate in parallel are being unified, and an information management system is being set up, raising the prospect of a much stricter control of spending and better data on public expenditures through different levels of government. A new resolve to tackle corruption, through the strengthening of the systems through which government operates, is also part of the reform process. And some successes can be reported in the public administration reform agenda too. In particular, the adoption of the One-Stop Shop (OSS) model at the national level should improve the delivery of administrative services to households and enterprises, and reduce the opportunities for petty corruption.

Vietnam certainly deserves to be congratulated for these accomplishments and, more broadly, for its determination to build an efficient government machinery at the service of its population. If successful, the efforts under way will lay the foundations for a modern market economy, supported by an efficient and accountable public sector.

At the same time, it should be recognized that important challenges remain. The goal of this report is to review the progress accomplished so far in building modern governance, and to identify the areas where more needs to be done. To attain this goal, the report combines a range of perspectives and relies on a variety of analytical tools. It carefully reviews patterns in government spending and revenue, at aggregate levels but also in specific sectors and programs. It evaluates the decision-making processes behind employment and pay policies, investment projects, resettlement programs and budget allocations. It more broadly assesses the justification for government interventions in different aspects of the economy, and the impact of such interventions on key development outcomes, including poverty reduction. Financial reviews are thus combined with statistical analyses of survey data, and with direct feedback from households and enterprises. Given the broad coverage of the report, most issues are treated in a succinct way. However, that treatment is backed up by much deeper studies, conducted in partnership between Vietnamese and international experts over the last few months and years. These studies are listed in the bibliography section at the end.

While many concrete recommendations for improvement can be made based on the report, a broader sense of purpose emerges from it. The Vietnamese economy has changed dramatically since the time of *doi moi*. The expected accession to the World Trade Organization (WTO), which could happen by end-2005, signals the progress accomplished in moving from a command economy to a modern market economy. As the country embarks in the preparation of its next Socio-Economic Development Plan (SEDP), this is an appropriate time to rethink the role of government in Vietnam. The changes which are currently taking place in accountability, decentralization, financial management and public administration will fundamentally affect the way the government operates. But at deeper level, the question is not just "how to" run an

efficient government machinery, but also "what for". Vietnam's continued commitment to inclusive development provides the vision to answer this question. Securing rapid economic growth, sustaining continued poverty reduction, and attaining the Vietnam Development Goals (VDGs) are part of that vision. It is this sense of purpose that gives a meaning to the expression "a market economy with a socialist orientation".

With this vision in mind, the report flags several areas for concern.

Planning versus budgeting. The process through which government resources are allocated involves two ministries making decisions in often disconnected ways. The Ministry of Finance (MOF) plays a key role in the preparation of the budget, and is committed to improving public financial management and increasing transparency. But a forward-looking dimension is still lacking, resulting in considerable inertia for budget allocations. The Ministry of Planning and Investment (MPI) is in charge of long-term plans and strategies, and bears considerable responsibility for the compilation of the Public Investment Program (PIP). But its drive to develop the infrastructure of the country, especially in transport, is increasingly leading to the implementation of projects for which no proper budget funding is available. Inadequate appraisal of socio-economic benefits, insufficient resources to assist the populations displaced by investment projects during the construction phase, and inadequate funding for maintenance subsequently, can lead to inefficiencies, discontent and rapid depreciation of infrastructure. The creative mechanisms being used to implement projects for which no budget resources are available could undermine the progress being accomplished in terms of transparency and accountability. In order to translate a medium-term vision into short-term, a much better coordination between the decisions of MOF and MPI would be needed. Medium-Term Expenditure Frameworks (MTEFs) could play an important role in supporting a synchronized and integrated process for planning and budgeting.

Modernizing planning. The transformation of the budget process in recent years has not yet been matched by a similar transformation of the planning process. Until not long ago, the preparation of five-year plans was conducted without fully integrating the fact that government is not directly in charge of the production of goods and services anymore. While household businesses, private enterprises and relatively autonomous State-Owned Enterprises (SOEs) were increasingly making the key decisions in this respect, five-year plans continued to set detailed targets for material production across a range of sectors. In this context, the preparation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which was approved in 2002, represented a considerable change in perspective. The CPRGS is much more focused on attaining development outcomes, such as the VDGs, than production targets. Through data analysis and consultation processes, it identified the policies that appeared most suitable to attain the chosen development outcomes, made some progress in the costing of such policies, and proposed a set of monitoring indicators to measure progress in implementation. One shortcoming of the CPRGS is that it was produced "outside" the normal planning cycles of Vietnam. But recognizing the merit of the CPRGS approach, the government has decided to integrate it in the preparation of the SEDP for 2006-2010. This is a very welcome development, which could lead to a considerable modernization of planning process at all levels. At the same time, many government units (including provincial governments) are not used to planning towards development outcomes. The modernization of planning on the ground will therefore represent an enormous effort, that will need to be actively supported by the central government.

Better service delivery. Continued productivity gains and further progress in poverty reduction will very much depend on the quality of the education and health services available to the population in general, and to the poor in particular. The transition to a market economy opens the possibility to diversify the suppliers of these services, bringing in the private sector and

enhancing the range of choices available to the population. But the government retains a responsibility for the accreditation of providers and the regulation of services and prices in some circumstances. The government is also responsible for the provision of basic education and health services to the population at large. This includes expanding the coverage of primary school to the last 10 percent of children who are currently left out (almost half of whom are from ethnic minorities) and improving the overall quality of education. Responsibility for service delivery also includes ensuring access to affordable health care to the poor. Developments in these two sectors are somewhat encouraging. The budget for education and training is increasing, and quality standards for primary schools have been introduced. New financing mechanisms to cover some of the health care expenses of the poor have also been implemented at the provincial level. But the quality of education remains a concern, and the overall allocation of resources to public health remains surprisingly modest, at a time when the demographic and epidemiological transitions of Vietnam are bound to increase health expenses dramatically.

Redistributing to the poorest. Vietnam's targeted programs have been effective at channeling resources to the poorest households and communities. Coverage varies across individual components of the Hunger Eradication and Poverty Reduction (HEPR) program, but the fraction of the poor benefiting from some of those components (such as the exemption from education fees) is not negligible. Moreover, while benefits also reach households who are not poor, the extent of mis-targeting is reasonable for a country at Vietnam's development level. Program 135, which allows communities to choose among a range of local investment projects, also has broad coverage as it reaches roughly one fifth of all communes. However, not all the components of these programs are equally effective at reducing poverty. Whether access to subsidized credit actually makes a difference, for instance, remains unclear. Moreover, the remarkable capacity of local officials to identify the poorest households is not matched by a capacity by higher levels of government to systematically allocate more resources to the poorest places. The HEPR program needs to be consolidated, focusing on its most effective components, and adopting transparent funding modalities like those used by Program 135. Meanwhile, a parallel effort should be made to improve tax administration so as to increase government revenue from Corporate Income Tax (CIT) and Value Added Tax (VAT). Transferring some of the additional resources to local levels could reduce the reliance on highly regressive (and not always transparent) local fees. A radical simplification of the CIT incentives offered to investors would be an important step in this direction.

Budget allocation norms. The ongoing decentralization process relies on the allocation of block grants to the provinces, which can also retain a portion of the tax revenue collected on their territory. The combination of block grants and retained tax revenue has resulted in massive transfers from the richest to the poorest provinces. Moreover, the budget allocation norms behind the block grants are transparent, and defensible. The allocation of resources from provinces to districts and communes is less encouraging. Old budget norms, involving inputs such as the number of civil servants or the number of hospital beds, are used in this process. As a result, the resources available at local levels are not commensurate with local needs, and the allocation process itself is not always fully transparent. The ongoing revision of poverty measurement, which could lead to reliable (and comparable) poverty rates across provinces, districts and communes, raises the prospect of much simpler and more equitable budget allocation norms across all levels of government. Simple formulas involving population and poverty would considerably increase transparency, as it already happens with the norm used by Program 135 (although the latter is not necessarily optimal). The main objection to norms of this sort is that they could erode the incentive for local authorities to reduce poverty. But this objection can be addressed by making their careers depend to a larger extent on their success at making their communities more prosperous. Budget allocation norms taking poverty rates into account would

also help mitigate the social impacts of economic reforms in general, and of the integration with the world economy in particular. It is difficult to tell, a priori, who could be adversely affected by the accession to the WTO. Trying to build in trade-related safeguards, or margins of protection, to address any possible adverse impact of trade integration would be inefficient. Trade policies are an inadequate tool for social policy. Budget norms which automatically guarantee more resources to communities where poverty increases, or declines too slowly, can be seen as a domestic protection mechanism to complement the international commitments of Vietnam.

Delegation to spending units. One of the key elements in the ongoing reform of public administration in Vietnam is the increased autonomy given to spending units to make their own decisions. Managers of those units are empowered to reorganize their structures, streamline their procedures, and use the savings as they see fit (among others, to increase staff remuneration). In the case of service delivery units in sectors such as education, health, scientific research or transport, the new delegation mechanisms allow to expand the range of services provided, and to charge users for those services going beyond the basic obligations of the unit. These units also have considerable discretion to set individual salary increases and widen pay differentials for their staff. The experience with these delegation mechanisms is mixed so far. Spending units have gained considerable flexibility as compared to the overly rigid control that existed before. In the health sector, the range of services has expanded and the number of patients treated has increased. In some cases, such as in hospitals, irregular payments have been converted into official fees, increasing transparency but not necessarily the burden on users. On the other hand, increased delegation has not been matched by increased accountability and measures to ensure equity and access. The new mechanism creates an incentive to save on service delivery and increase the salaries of staff. The considerable flexibility to adjust remuneration in service delivery units is particularly dangerous in this respect. While being appreciated by the beneficiaries, it can be perceived as unfair by the vast majority of civil servants. Further progress in delegation to spending units should be conditional on the introduction of minimum standards of service, internal audits, mechanisms to collect feedback from the population they serve, and on the adoption of tighter guidelines on staff remuneration.

Management of state assets. Due to its long period as a command economy, Vietnam has an unusually vast range of assets in state hands. Most agricultural land has been allocated to rural households, but the government still manages most of the forest and upland areas through its State Forestry Enterprises (SFEs), whereas SOEs control valuable plots of urban land. Releasing forest land currently in the hands of SFEs, especially to households in the uplands and to communities from ethnic minorities, could contribute to poverty reduction and to increased sustainability of forests. The new Land Law is a promising step in this direction, but its implementation remains a challenge. Releasing urban land currently in the hands of SOEs will be key to the development of an urban land market, hence to release one of the biggest constraints faced by the private sector. The government should seriously envision the possibility for SOEs to legally sell or lease the land they hold. In spite of steady progress in the equitization program, the government has also retained some four thousand SOEs, accounting for 31 percent of industrial output and 30 percent of non-oil exports. In fact, the total capital of the roughly two thousand SOEs equitized, sold or liquidated so far only represents about one tenth of total state capital. While the performance of the state sector considered as a whole is far from dismal, there are indications that many SOEs could be doing better. Others are behind the Non-Performing Loans (NPLs) that are increasingly burdening the banking sector. Recent decisions to restrict the number of strategic sectors, and to accelerate the divestiture of state capital, including large SOEs, are welcome. But the lack of progress in monitoring SOE performance is unjustified. The government also retains five large State-Owned Commercial Banks (SOCBs) which are responsible for about three quarters of total bank credit. In spite of much progress to transfer

policy lending out of SOCBs and improving their infrastructure, technology and credit culture, their corporate governance is still weak, and their provincial branches remain heavily dependent on local governments for their lending decisions. Bringing in strategic investors to the SOCBs, as already planned for one of them, would strengthen their commercial orientation. But a more decisive separation of SOCB ownership and management, as was done more than a decade ago for SOEs, would need to be considered. A more effective exercise of the ownership function by MOF, through a holding company with high standards of governance and professionalism, could be considered. Such a move would also require to refocus the State Bank of Vietnam (SBV) as the supervisor of the banking system, divesting it of ownership functions, including of SOCBs.

Administrative reform. The Public Administration Reform program currently under implementation is ambitious in its objectives and broad in scope. Some of its components, such as the functional reorganization of ministries and government agencies are necessary, but bound to increase public sector efficiency in the medium to long run. Others, such as the generalized adoption of the OSS model, could improve the quality of administrative service delivery in the short run, and reduce the opportunities for corruption. Results so far are encouraging. The emphasis on grassroots democracy, to increase accountability at local levels is particularly promising. At the same time, there are perception gaps regarding the extent of information, consultation and participation between local officials and their communities. Discussions related to commune-level budgets, including the approval of local fees, are revealing in this respect. They suggest the need to increase awareness on the implications of grassroots democracy, both among officials and among communities. Another area in need of attention is pay reform. The public administration reform agenda starts from the premise that government employees are underpaid and this is one of the main causes of corruption. But it is dubious that higher pay alone will do much to reduce graft. And it is not at all clear that government employees are consistently underpaid, especially when taking into account the other, non-salary benefits they enjoy. Moreover, the gap between public and private sector remuneration varies considerably across occupations and skills. Therefore, similar adjustments across the board are bound to lead to excessively high pay for some government employees, and still excessively low for others. Given the fiscal implications of pay reform, a more considered analysis of pay in and out of the public sector is recommended.

Fighting corruption. Cross-country surveys tend to suggest that corruption is prevalent in Vietnam. A more careful analysis, "unbundling" different modalities of corruption in service delivery, in business transactions and in public projects, reveals a more complex picture. There are indeed serious corruption issues in Vietnam. Problems seem to be more severe in some service delivery units, such as Land Registration Agencies (LRAs). There are also systematic indications of collusion in public projects. On the other hand, Vietnam does not appear to be an outlier in terms of corruption, once its development level is taken into account. And public resources used to pay for public investment projects, such as those under Program 135, can be tracked through the government system without much evidence of leakage. Value for money remains a problem, however, with limited competition for construction projects emerging as a consistent issue, from small local investments to large-scale infrastructure projects. The determination of the government of Vietnam to tackle corruption should be applauded. An ongoing diagnostic study to better understand the extent and modalities of corruption across a range of activities could do much to inform the government's strategy in this area. For now, the Government Inspectorate (GI) has been instructed to revise the Anti-corruption Ordinance, the Law on Complaints, and other key legal documents. Meanwhile, the systems through which government operates need to be modernized in order to reduce the opportunities for corrupt behavior. The ongoing public financial management reform initiative is a welcome step in this

direction. A strengthening of public procurement, and the development of electronic interfaces to minimize personal contact in dealings with government will also be key in this respect.

Making the most of aid. Vietnam receives a considerable transfer of resources under the form of Official Development Assistance (ODA), but is not an aid-dependent country. Based on current trends, the burden from ODA loans will remain manageable, with their service steadily declining as a share of exports. This is because part of the assistance received by Vietnam is under the form of non-refundable grants, and also because ODA loans to Vietnam are still made in very favorable terms, implying that they have a large grant component built in. But the terms of ODA loans are bound to become less advantageous as the country grows, and Vietnam should make the most of the resources it can tap. Slow disbursement is a matter of concern in this respect. Slow disbursement is to some extent due to the reliance by donors on their own procedures for procurement, financial control, resettlement of displaced population and environmental safeguards. Such reliance is in turn justified by the weakness of Vietnamese procedures in these areas. An alternative to accelerate disbursement is to rely to a larger extent on direct budget support, instead of project financing. But for a large scale-up of budget support to be considered, fiduciary controls need to be strengthened and clear strategic plans at the sectoral level have to be developed. Moreover, budget support and project funding are complements more than substitutes. Donors are actively working in harmonizing their own procedures, and Vietnam could be a model in this respect. But the most effective way to accelerate disbursement in project funding is to improve Vietnamese procedures up to the point where donors can confidently operate through them. Better procurement rules, stricter financial controls, appropriate assistance to resettled populations, and adequate environmental impact assessments are the key for Vietnam to use ODA to its fullest extent.

These are only a few key recommendations emerging from the report. The following chapters cover a range of issues related to public finance, public management and public policies. In doing so, they build upon the enormous amount of knowledge accumulated by Vietnamese researchers and policy makers, jointly with international experts and academics. The main contribution of the report is to provide an analytical summary of that knowledge, and to derive policy implications out of it. Much deeper assessments can be found in some of the key building blocks for this report, including the ongoing *Public Expenditure Review-Integrated Fiduciary Assessment*, and the also ongoing *Evaluation of HEPR and Program 135*. But even those building blocks and the vast array of studies used in the preparation of this report only provide a partial perspective of the economic issues faced by Vietnam. In this respect, the current report should be seen as a complement to the previous one, on *Poverty*, and to the next one, on *Business*. The reform agenda faced by Vietnam is also broader than suggested by the already diverse range of policy recommendations in the following chapters. An assessment of progress across such broader reform agenda can be found in the *Taking Stock* volume that complements this report.

I. Public Finance: Expenditures and Revenue

1. THE BUDGET PROCESS

Budget elaboration and execution has become more transparent over the last decade, with the National Assembly playing an increasingly important role in the process. In parallel, there is a trend towards decentralization, especially to provinces, and an attempt to move away from an input-control system towards laying the foundations for results-oriented budgeting. But the institutional setting of Vietnam reflects a still ongoing transition from plan to market. Investment decisions, in particular, are made separately from decisions on recurrent expenditures. Not only are two different ministries in charge of preparing long-term investment plans and annual budgets: there is also limited coordination between them. The result is a mismatch between capital and recurrent expenditures, reflected among others in the insufficient maintenance of road infrastructure. The budget process also suffers from the fact that Vietnam is still a low-income country, one where information systems and accountability need to be strengthened.

The Institutional Setting

Budgetary arrangements in Vietnam follow a "nested" or "Matruska-doll" model that was common in the former Soviet Union. Each province, district and commune has a legislative authority, the People's Council, and an executive authority, the People's Committee, with the latter appointed by the former. The budget at each level has to be approved not only by the corresponding People's Council, but also by the upper level of government. Eventually all sub-national budgets get consolidated into the state budget, which is approved by the National Assembly.

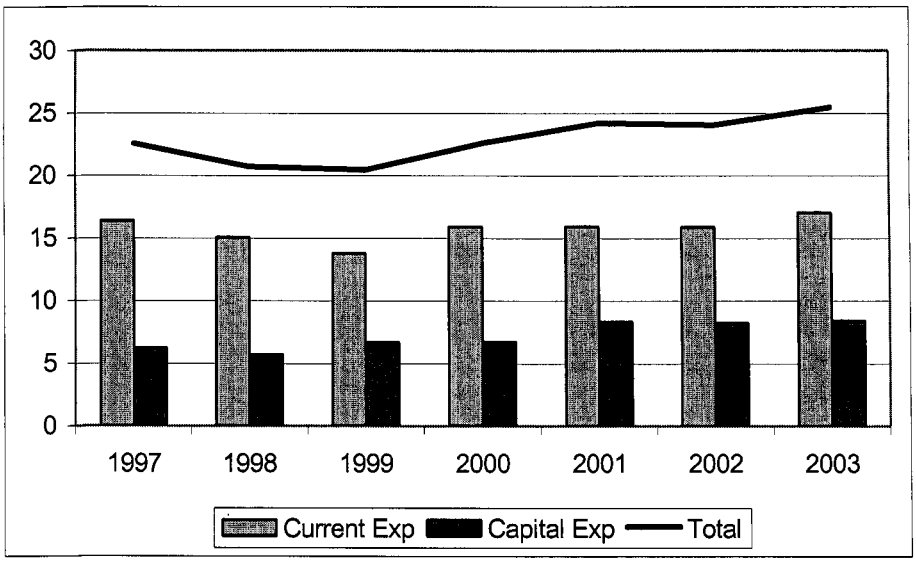
But the budgetary institutions of Vietnam are evolving rapidly, reflecting the broader transition of the Vietnamese economy, from plan to market. One of the salient traits of the institutional transition is the increasingly important role played by the National Assembly.

The 2001 amendment to the Constitution gave the National Assembly the power to hold votes of no-confidence in leaders that it elects, including government ministers. The 2002 State Budget Law, which came into effect in January 2004, further expanded the powers of the National Assembly in the budgetary arena. Now, its plenary not only approves the overall budget but also its composition and, in particular, the allocations to line ministries, central agencies, cities and provinces. The National Assembly also has a say on financing norms. Such norms are traditionally used to estimate needs and determine budget allocations for the various sectors and provinces, depending on criteria such as population, poverty rates, degree of remoteness and presence of disadvantaged population groups. In the past, norms used to be established in an circular of the Ministry of Finance (MOF). Now, they need to be submitted to the standing committee of the National Assembly for review, before their introduction by the government.

As a result of these changes, members of the National Assembly are increasingly involved in the budgetary process, giving much more transparency to the discussion of resource allocations. They are questioning ministers, proposing legislation amendments and raising tough questions on governance and corruption issues.

The budget allocates a large fraction of the resources mobilized by the Vietnamese public sector, but not their totality. The government and local authorities' spending that gets reviewed and approved by the National Assembly and Provincial People's Councils amounts to roughly one quarter of the Gross Domestic Product (GDP) (Figure 1.1). The share has slightly increased in recent years due to an expansion of capital expenditures, especially to finance large-scale infrastructure projects. Extra-budgetary funds and community-level expenditures amounting to some 5 percent of GDP are not consolidated into the budget.

Figure 1.1: Spending through the Budget



Note: Figures are in percent of GDP.

Source: Own calculations based on data from MOF and GSO.

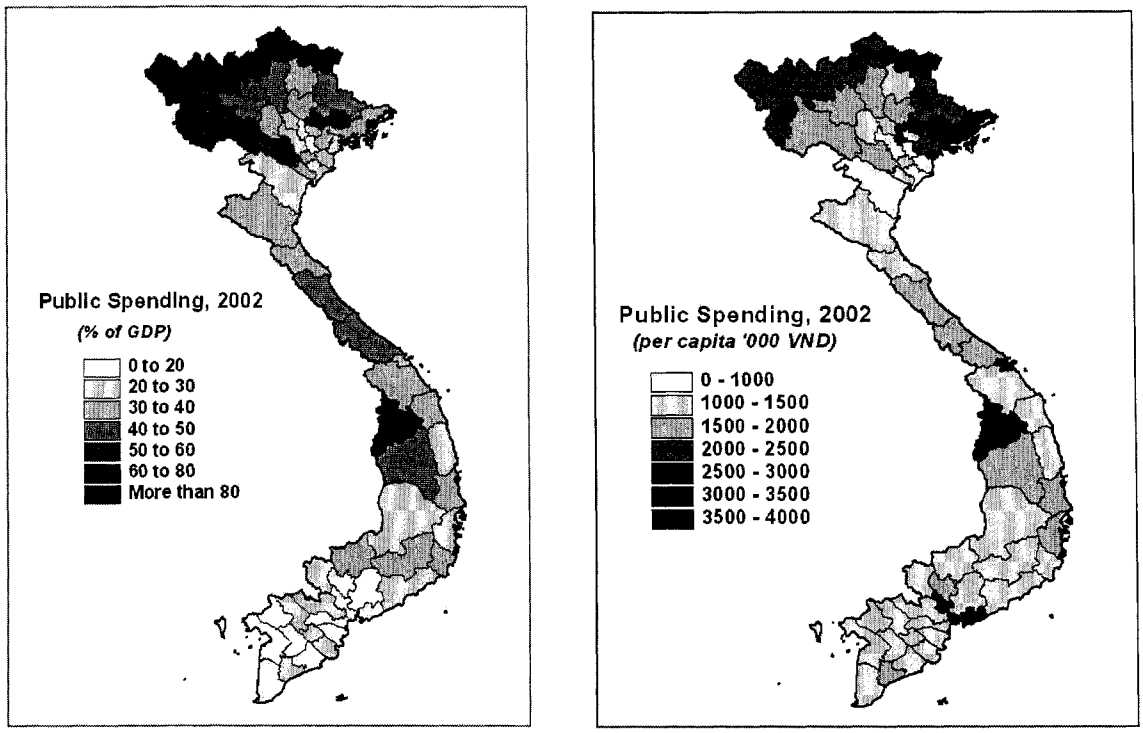
Decentralization is another important trait of the ongoing institutional transition. Under the 2002 State Budget Law, provinces receive a block grant. Within that envelope, the power to allocate resources rests with Provincial People's Councils, which also decide how much of the envelope is transferred to the district level. Most investment projects are approved by ministries and local governments, as only the largest ones are decided by the National Assembly. Provincial People's Councils can also set some of the spending norms to be followed by districts and communes. Only a few requirements are imposed on local governments. Among them, townships and cities under a province must be assigned responsibilities for the construction of public schools, lighting, water supply and sewerage, urban traffic, and other public infrastructure. Similarly, local governments are mandated to spend on education and training in line with the spending on these items in the total state budget.

The ongoing decentralization process significantly limits the direct involvement of line ministries in the preparation and execution of the budget. The new system provides for Provincial People's Councils and Provincial People's Committees to allocate the budgets within their jurisdiction, while the line ministries only elaborate the overall financing proposal for the sector. Line ministries continue to be responsible for the preparation of sector strategies, which sub-national levels of government are expected to follow in determining budget allocations. But there is no system in place to ensure this consistency. Only in the context of national targeted

programs do line ministries keep control over the amount and composition of resources devoted to the achievement of sector goals.

Decentralization is not associated with increased autonomy to decide on revenue collection, however. The authority to introduce new taxes, or to set the tax rates for existing ones, has been retained fully by the central authorities. User fees are still regulated by the center, with Provincial People's Councils only allowed to decide on their rates. Provinces can borrow, which districts and communes cannot do. But important restrictions apply. Borrowing can only take place in the domestic market. The resources raised can only be used to finance capital expenditures, and only for projects which are part of the public investment plan approved by the Provincial People's Council. Moreover, a province's stock of outstanding debt cannot exceed 30 percent of its annual capital budget. This limit does not include contingent liabilities associated with the debts of provincially-owned SOEs.

Figure 1.2: Spending Where?



Source: Own calculations based on data from MOF and GSO.

Despite limited revenue autonomy, there appears to be a considerable diversity in the amount of public resources spent in each province, in one way or another. But weak information systems make it difficult to get precise estimates. The resources actually spent depend on the envelope allocated by the National Assembly to the province, the fees and contributions raised at the local level, the recurrent expenditures of line ministries in each of the provinces, the investment programs undertaken from the central level, and spending by national targeted programs. Given the trend towards decentralization, a detailed breakdown of public expenditures

by province along these lines, identifying the agency entrusted with each of these components, should be made available. At present, however, several assumptions are needed to produce such breakdown, and a non-negligible portion of total public expenditures (about a sixth) remains difficult to allocate on a province-by-province basis.

With these data caveats in mind, it appears that the geographical allocation of public spending is progressive if measured against the economic activity of each province, but somewhat more neutral if measured against its population (Figure 1.2). These two assessments can be easily reconciled: poorer provinces have a lower GDP per person, so that a similar amount of public resources per person translates into a higher amount of resources per output unit.

The left panel of Figure 1.2 shows that public spending represents a very large fraction of provincial GDP in the Northern Mountains (especially, along the border with China), in the North Central Coast and in the Central Highlands. It is much lower in the more prosperous Red River Delta and South East, as well as in the relatively poorer Mekong Delta region. On the other hand, spending per capita is much more evenly spread, probably reflecting the use of budget allocation norms which are to large extent based on population figures.

Another important avenue for decentralization has been the granting of significant discretion to some government units. Decision 192/2001/QD-TTg allows state administrative units to manage their operational funds and make decisions concerning staffing levels and remuneration above the minimum levels mandated by the central government. Decree 10/2002/ND-CP extends the discretion to revenue-generating service delivery units, which can also decide how much to charge for non-core services (Box 1.1). These two measures follow the approval of a pilot "block grants experiment" for Ho Chi Minh City, in 2000.

Decision 192 has been rolled out slowly. By end-2003, only three ministries and three agencies at the central level had adopted its approach. At lower levels of government, 35 percent of provincial administrative units and 22 percent of district offices were operating according to Decision 192. The rate of adoption at the commune level is still close to zero. And even in Ho Chi Minh City, only half of the 22 districts had implemented the new approach by end-2003.

In contrast, the implementation of Decree 10 has gone much faster. Unlike Decision 192, Decree 10 is not formally piloted. Rather, the responsibility for implementation is assigned to line ministries, which issue the guidelines for their sectors. As of May 2003, 50 percent of all revenue-generating service delivery units were operating under Decree 10. The implementation rate is probably close to 100 percent by now.

Planning and Budgeting

Proper coordination between the Ministry of Planning and Investment (MPI) and MOF is central to the efficiency of the budgeting process. The 2002 State Budget Law maintains the duality inherited from the time of central planning. Thus, provincial governments and line ministries send their financing requests to both MPI and MOF. The former is responsible for the allocation of the investment budget whereas the latter is in charge of budget allocation for current expenditures. Each ministry plays a supporting role to the other in the area where it does not take the lead.

Box 1.1: Delegation Mechanisms: Spot the Differences

Both Decision 192/2001/QD-TTg and Decree 10/2002/ND-CP convert State Budget appropriations to the spending units into a block grant that is fixed for three years. Within this resource envelope, managers of those spending units are given substantial authority to reorganize administrative structures and streamline procedures. In both cases, the bulk of the savings can be used to increase staff remuneration, within certain limits. But there are also differences between these two measures.

First, the two measures differ in scope. Decision 192 targets administrative units. While potentially increasing government efficiency, this measure should also bring in improvements for households and businesses as they deal with registration, licensing and other administrative procedures. In contrast, Decree 10 targets service delivery units that provide the core public services, including education, health, culture and media, scientific research institutes, sports, transport and agricultural services. Its implementation could have a more direct social impact because it affects the delivery of these services.

Second, the two measures have different impacts on financing. Under Decision 192, administrative units remain dependent on the state budget. On the other hand, Decree 10 allows service delivery units to borrow from banks and the Development Assistance Fund (DAF) to expand and improve services. These units can also retain depreciation on capital, as well as receipts from liquidated assets, which had to be transferred to supervisory ministries in the past. And they have more autonomy for setting user charges for non-core services.

Third, the two measures have substantially different human resource implications. Under Decree 10, service delivery units have considerable discretion to recruit more staff if needed. They can also set individual salary increases and widen pay differentials for their staff. Administrative units, on the other hand, are constrained by Decision 192 to grant wage increases in accordance with the official salary coefficients. As a result, all the staff in the unit benefits from cost savings in the same proportion.

Source: Christine Wong (2004)

Based on the broad development strategy of the government, MPI is in charge of preparing Vietnam's five-year plans. This is done in collaboration with line ministries and provincial authorities, through a process which also involves consultation with mass organizations. There are two main components of the plan. One of them, which takes the form of a report, assesses the progress accomplished under the previous plan, identifies the challenges faced by the economy, sets targets for a range of economic and social indicators, and makes policy recommendations. The other component, known as the Public Investment Program (PIP), can be seen a detailed catalog of investment projects.

The competence to approve the projects compiled in the PIP varies depending on their size. The largest ones, in the so-called Group A, are delegated to line ministries and provincial governments. At the other end, ministerial departments and People's Committees at the district and commune levels can make decisions on smaller projects. As for the funding, projects in the PIP can mobilize resources from the state budget, DAF, Official Development Assistance (ODA), commercial loans or retained SOEs profits. Because some of these funding mechanisms have implications for government expenditures, or public debt, the PIP can be seen as a budget-related activity. However, it has important weaknesses in terms of setting priorities and supporting an efficient allocation of resources (Box 1.2).

MPI also coordinated the preparation of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which was approved in 2002. While formally similar to the "report"

component of the five-year plan, the CPRGS embodied a fundamental innovation in the planning process of Vietnam. The cross-sectoral coordination involved was much deeper than for the five-year plan, as was the extent of consultation with civil society. The assessment part of the CPRGS also made a more systematic use of empirical evidence and analytical work. Instead of setting more or less arbitrary targets for a range of economic and social indicators, the focus was on development outcomes. A special effort was devoted to adapting the Millennium Development Goals (MDGs) to the Vietnamese context, under the form of eleven Vietnam Development Goals (VDGs). Subsequently, a monitoring system was gradually set up to assess progress in the implementation of CPRGS, with the General Statistics Office (GSO) playing a pivotal role in this respect.

Box 1.2: Questionable Practice: The PIP

If it were fully implemented, the PIP would absorb almost one fifth of Vietnam's GDP, year after year. This is more than the overall recurrent spending through the state budget. It is vastly more than the spending on targeted poverty alleviation programs at the national level, which amounts to roughly two percent of GDP. And more than the combined spending on health and education, which absorbs six to seven percent of GDP. These crude comparisons suggest that securing a high "quality" for the projects in the PIP is essential to support economic growth and poverty reduction. As the most desperate needs in terms of infrastructure are being addressed, the contribution of an investment project to socio-economic development cannot be taken for granted. But the process through which projects are selected into the PIP and subsequently chosen for implementation, does not necessarily ensure a high socio-economic impact.

Project identification and appraisal mechanisms remain rudimentary in Vietnam. There are no systematic principles to assess the contribution of a project to economic growth, or poverty reduction. There is a general agreement that Decree 52/1999/ND-CP is not explicit enough to guide the overall process. And the capacity of staff at MPI, line ministries and provincial governments varies considerably. Admittedly, forecasting the impact of a large investment project on regional development is difficult. But cost-benefit analysis could be applied on a more systematic basis. And even profitable projects should be ruled out if the rationale for public sector intervention is dubious (as in commercially-oriented activities).

Given the sheer size of the PIP, and the variety of funding modalities it involves, there is some arbitrariness in the selection of the projects that get actually implemented. Decisions involving the state budget are made by the National Assembly or by Provincial People's Councils. Other decisions lie in the hands of line ministries, Provincial People's Committees, and SOEs. MPI coordinates ODA funding, whereas MOF supervises operations by DAF. But there is much less transparency when it comes to the use of commercial borrowing or retained SOE profits to carry out projects in the PIP.

As a result of this diversity of mechanisms, the trade-offs involved are not transparent, not even to insiders. It is by no means clear that the projects with the highest socio-economic impacts get selected. And over the five-year period covered by the PIP, many projects change in scope, size, location, and timing. But there are limited data on actual project implementation. As a result, the impact of the investment program, and of its individual components, is difficult to evaluate.

Much the same as the PIP, CPRGS has budget implications. But they extend beyond capital expenditures. For instance, attaining the VDGs has direct implications on recurrent expenditures in education and health. More generally, the CPRGS approach involves identifying the policy actions needed to attain the chosen development outcomes, and aligning budgetary resources behind those outcomes. The decision to increase the education share of the budget to

18 percent by 2005 and to 20 percent by 2010 actually comes from the CPRGS. A similar approach was adopted within the education sector, in the context of the Education For All (EFA) initiative. In both cases, the result is a somewhat more direct link between the planning process and its budget implications (Box 1.3).

Box 1.3: Better Practice: CPRGS and EFA

As the CPRGS was prepared, line ministries with a key role to play in delivering the strategy were encouraged to cost out their core priorities. These sectors worked in conjunction with MPI to identify the outputs considered essential to achieving the main development outcomes. For example, based on the VDGs, the Ministry of Health (MOH) identified four priority outputs: improved health status and reduce of communicable diseases (including HIV/AIDS) among the poor, improved geographic access to basic health care for the poor, improved quality of health human resources in poor and remote areas, and improved access to health services through reducing financial burden of the poor. A detailed cost schedule was then prepared for each output for the 2003-05 period, combining requirements for both capital and recurrent expenditures.

Similar efforts have been undertaken within sectors, too. The EFA action plan is a strategic planning framework identifying targets to be reached by 2015 in four education areas: early childhood, primary, lower secondary and non-formal. The Ministry of Education and Training (MOET) then produced detailed estimates of the cost of meeting these targets over a 15-year period. Calculations were based on clearly spelled-out policy principles, paying special attention to excluded groups. The cost projections cover all targets and inputs identified in the EFA and are calculated using the EFA Analysis and Projection Model. Projections bring together recurrent and capital costs, set the total funding needs in the context of a macroeconomic framework and identify funding sources. This analysis allows MOET to plan for a gradual decline in the community contributions to primary education while identifying measures to address the possibility of a cumulative funding gap.

These exercises have their limitations, however. The EFA action plan covers only part of the education sector needs. And the CPRGS costing falls short of describing the total investment needs of any sector because it focuses on priority outputs in eight sectors or sub-sectors only.

But despite delivering only a partial picture of overall spending needs, these exercises were helpful in a number of respects. First, they provided a cost estimate for the core program of policy actions to be undertaken by the government (in the case of CPRGS) or MOET (in the case of EFA). This is a useful lower bound for budgeting purposes. Second, they helped identify short-term funding gaps. And third, the process itself was valuable, as it necessitated substantial coordination within and across sectors, thus strengthening the links between planning and budgeting processes.

Capital and recurrent expenditures

The disconnect between planning and budgeting processes leads to a lack of integration between capital and recurrent expenditures, resulting in inefficiencies and an insufficient maintenance of public assets. This lack of integration is reflected in the adoption of a given split between the two types of expenditures. At present, the aggregate share of capital spending is set at 28 percent of the total. A constant ratio of this sort is associated with considerable inertia in budget allocations, with capital expenditures being too high in some sectors and too low in others. In primary education, for instance, the gradual decline in the size of children cohorts, combined with the need to move to full-day schooling, means that fewer teachers and more classrooms are

needed. Increasing capital expenditures at the expense of recurrent expenditures would therefore make sense. The opposite happens in the transport sector, where the considerable expansion of infrastructure assets has enormously increased the need for road maintenance. Increasing recurrent expenditures would be sensible in this case.

Box 1.4: Medium-Term Expenditure Frameworks

Medium-Term Expenditure Frameworks (MTEFs) comprise a series of simple scenarios for sectoral or provincial government spending and its allocation over a period of three to five years. They are prepared within the context of a sustainable medium-term fiscal envelope for each sector or province. Scenarios for the capital and recurrent sides of the budget are developed in an integrated way, for each sub-sector and level of government, with reference to the development goals of the sectors.

The recommendation to pilot MTEFs in several sectors and provinces was made in 2000, but implementation started in 2003 only. An inter-ministerial task force, including MOF and MPI, has been established to oversee the experience. Four pilot sectors have been identified (education, health, transport and rural development) and a working group has been established for each of them. Similar arrangements are expected in four pilot provinces: Binh Duong, Hanoi, Phu To and Vinh Long.

The education sector is the most advanced so far, although the pilot is still at an early stage. Work to date has focused on consolidating government expenditure data on the sector at each level of government, on both the recurrent and capital sides of the budget. Simple analytical tools for costing objectives and forecasting expenditure needs have also been developed. And valuable policy insights have already emerged from this process. They refer, in particular, to the possible impacts of falling school age cohorts. Insights from the education MTEF are already being reflected in the 2005 budget discussions. The are also expected to influence the next Five-Year Plan and the associated PIP.

Similar analyses are expected to get underway in other sectors in the coming months, with provincial level pilots starting later in 2005. In the longer term, the pilot MTEFs may evolve into a "bridge" between the capital and the recurrent sides of the budget. Alternately, on the basis of these pilots the government may decide to move beyond dual budgeting. Either way, the forward-looking tools and skills being developed through these pilots have an important contribution to make.

Steps are being undertaken to achieve a more efficient allocation of budgetary resources. One of them is the introduction of a three-year "stability period" for budget appropriations. The amount of resources available thus becomes more predictable, allowing a forward-looking allocation that is more commensurate with actual needs. By extending the time horizon faced by policy makers in line ministries and provincial governments, the stability period narrows the gap between planning and budgeting. A more decisive step in this direction is the introduction of MTEFs, currently being piloted in four line ministries and four provinces (Box 1.4.).

Accountability and Information

The Vietnamese government operates under a system of dual accountability. Local authorities are accountable to the People's Council at that level but also to the upper level government and ultimately to the central authorities. While the principle is clear, lack of clarity in expenditure assignments makes its implementation difficult. Another limitation of the reporting system stems from insufficient budget coverage. Not all fees and contributions paid by

citizens, for instance, are covered in official documents. This is despite the fact that they are among the most problematic budget items, from the equity and accountability perspectives.

For covered items, on the other hand, there has been much progress in terms of disclosure. The 2002 State Budget Law states that budget plans, budget final accounts, and auditing results of the central budget, the local budget, budget planners, and organizations financed by state budget, must be made public. It has become compulsory to publicly announce budgetary policies, such as expenditure and allocation norms, budget processes, budget figures, data, and materials related to annual budget planning. In 1998, the state budget was made public for the first time ever, with some breakdown for about 75 percent of expenditures. Since then, requirements and the degree of specification of published budgets and final accounts have increased. The timing, format and content of publicity for the state budget was regulated in 2001. Information has to be posted in the official MOF website. By now, all state budget expenditures are made public, including aggregate figures for national defense.

There is a need for more transparency at local levels, especially regarding the resources mobilized from the community for investment projects. Encouragingly, MOF systematically monitors the implementation of disclosure requirements. But limited information on how provinces are actually allocating resources is a matter of concern, given the increased discretion they enjoy as a result of the decentralization process.

Delegation to spending units, under Decision 192 and Decree 10 also raises important accountability issues. While the increased flexibility could in principle improve public sector efficiency, it could also lead to a deterioration of service delivery if users have limited voice. Some progress in this direction has been achieved, at least on the legal front. For instance, schools are mandated to post their budgets, detailing their revenues, fees and contributions as well as the use of these resources. However, how many schools are indeed posting their budgets and with which degree of detail and accuracy is not clear.

External audit, a traditionally weak aspect of the budget process, has been strengthened since 2003. The 2002 State Budget Law assigns more power to audit agencies. With the adoption of the State Audit Law in the coming months, the audit function will be transferred to the National Assembly, to ensure its independency and legal status.

Financial Management

The budget process is also being strengthened from the inside. An ambitious public financial management reform program is under way. It includes the adoption of public accounting standards in line with international practice and the development of an integrated treasury and budget information management system, thus allowing a more effective monitoring of economic policies. The new system will process all budget-related transactions down to the commune level, establishing clear responsibilities for approvals and allowing a more effective monitoring of public spending.

Two of the existing charts of accounts have already been merged, but the process should be completed so as to encompass spending units as well. At present, there is an incompatibility of budgeting and (Treasury-based) executed expenditure accounting formats, which significantly impairs the comparability of budgeted and executed expenditures. The ongoing preparation of a unified chart of accounts in close line with international practice to be used by all budget spending units will represent a significant step forward.

At the same time, decentralization makes internal control more difficult. Budget allocations to sub-national levels of government are now directly transferred to them, instead of going through line ministries. This change will certainly expedite budget execution and allow for improved planning and more flexibility by spending units. But the fact that resources no longer go through line ministries has the potential to further weaken their role and the amount of information available to them regarding expenditures in their sector.

One of the risks with decentralization is the unplanned expansion of fiscal liabilities. Provincial governments may borrow excessively if the public believes that the central government will bail them out in times of crisis. But this risk appears to be appropriately addressed in Vietnam. Limits on provincial borrowing are set up by the 2002 State Budget Law and enforced through the Treasury. In addition, provinces have to regularly report to MOF on their outstanding debts, their debt service obligations, and their borrowing plan by type of instrument.

2. SPENDING IN KEY SECTORS

Social policies, especially in education and health, as well as policies for integration with markets and for rural development, will be essential to keep development inclusive in Vietnam. The transition to a market economy is increasing the returns to human capital, so that the same inequalities in educational attainment and health status translate into bigger income inequalities. Increased integration with world markets will primarily benefit urban areas, whereas poverty remains mainly rural in Vietnam. Further progress in poverty reduction will very much depend on the volume of resources allocated to education, health, transport and rural development, and on efficiency in their use. But the recent experience of these sectors is quite diverse. Trends in education are encouraging. Public spending is increasing steadily, it is already progressive on average, and the strategy for the sector will make it even more progressive at the margin. Trends in health are less encouraging. At a time when health costs are bound to increase substantially, public spending remains modest and out-of-pocket expenditures represent an increasingly heavy burden on poor households. While important initiatives have been undertaken to develop health insurance and cover the health costs of the poor, a coherent approach backed by sufficient resources is still missing. In transport, a relatively weak institutional structure has led to a bias towards overspending in new infrastructure and under-spending in maintenance. The disconnect between project approvals and budget approvals conflicts with the ongoing efforts to increase transparency and accountability on budget-related matters. Spending on rural development is very much focused on irrigation, but the operation and maintenance of existing investments is unsatisfactory, especially for small schemes. Spending on forestry is important too, but excessive reliance on sectoral SOEs may limit the role of the private sector, and casts doubts on the soundness of investments. On the other hand, funding for agricultural research needs to be substantially increased, and the approach to agricultural extension reconsidered.

Main Trends

With a relatively stable share of Vietnam's GDP channeled through the budget, an increase in appropriations for one sector can only be accomplished at the expense of other sectors. Unfortunately, a breakdown of all government expenditures by function (health, education, etc.) is only available until 2002. Assessing more recent trends is thus difficult. But the trends observed up to that point are interesting on their own (Figure 2.1).

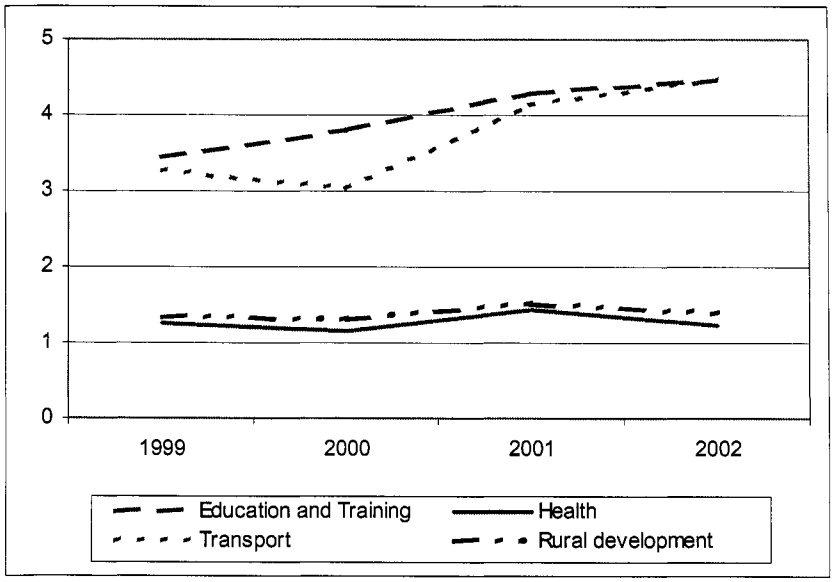
Public spending on education and training has grown considerably over the past decade, reaching some 4.4 percent of GDP by 2002. The government has also shown its commitment to increase the amount of resources devoted to this sector even further. The National Assembly raised its share of the budget to 17.1 for 2004, so that the 18 percent target set for 2005 in the education strategy and confirmed by CPRGS seems attainable. However, additional public spending will be necessary given the very rapid growth in enrollments in lower secondary schools, flowing through from increased primary enrollments.

Trends are less encouraging in the health sector. Measured in percent of GDP, public spending in the sector is low in comparison with countries at a similar development level; measured in percent of budget expenditures, its share has declined in recent years. Health care

spending is increasing through health insurance and social welfare funds. But the system relies to a large extent on large private contributions, including by the poor. Meanwhile, health costs are surging. Vietnam is going through rapid demographic and epidemiological transitions, which raising the population shares of the elderly and of those affected by chronic diseases. Health care costs are much higher for these two groups. Economic development is also fostering the demand for high-quality health services, not only in technical terms but also in terms of modern facilities and equipment.

Public spending in transport is increasing very rapidly. In percent of GDP, it had caught up with spending in education and training by 2002. It is presumably larger by now. A determined effort to develop the transport network is understandable, given the enormous infrastructure needs of Vietnam. The effort also seems to reflect an attempt to accelerate economic growth. But the very success of this strategy, which has led to a substantial improvement in roads and ports across the country, also brings with it a need to scale up maintenance expenditures. Also, as the most obvious infrastructure gaps are filled in, the socio-economic benefits from additional investments should be systematically compared with their costs. Investments for which no resources have been secured should not be undertaken additional costs. This is clearly a sector that will need to reconsider the focus of its spending, from quantity to quality.

Figure 2.1: Government Expenditure by Sector



Note: Figures are in percent of GDP. They include both recurrent and capital expenditures, by all ministries and agencies involved, at all levels of government.

Source: Own calculations, based on data from MOF.

Agriculture receives a consistent share of about five percent of the total state budget. The resulting increase in the budgetary resources available to the sector, given the current rate of economic growth, seems to be stretching the implementation capacity of the spending units. Within rural development, priority is given to investments in irrigation and forestry, which represents the bulk of spending by the sector.

Education

The coverage of education continues to increase at all levels. Net enrollment rates for primary education reached 91 percent in 2002, compared to 88 percent in 1998. The expansion is even faster for lower secondary education, with the net enrollment rate increasing from 62 to 72 percent over the same period. The rate is likely to climb to levels similar to those observed in primary education without much difficulty. But reaching the last 10 percent of children out of primary school is proving difficult. Of this group, 46 percent are children from ethnic minorities, with the remainder including children with disabilities, and migrant and street children. Also, for the children who attend school, there is a high variation in learning outcomes. Disparities in learning have a strong geographical dimensions, with the Northern Mountains, the Central Highlands and the Mekong River Delta as the regions with the highest concentration of poorly-performing pupils.

MOET has overall policy responsibility for the education sector. Broadly, the ministry manages higher institutions, provinces manage secondary schools, and districts and communes manage primary and pre-primary facilities. But the actual pattern varies across provinces. The removal of norms and controls from the centre, combined with increased revenue-raising powers and related incentives at the local level, have made service provision much more decentralized. Education spending norms include pro-poor factors, such as supplementary allocations for ethnic minority students and students in mountainous areas, but local governments have considerable discretion on funding allocations for local level.

The main objective of the education sector strategy is to increase coverage at all levels, and especially in disadvantaged communities. In the case of primary education, the goal is to achieve full participation of the relevant school age population by the end of the decade. For secondary education, it is to expand participation by abolishing all fees and targeting interventions (such as classroom construction) on those areas where enrollment rates are below the national average. A second major objective of the sector strategy is to increase the quality of the education imparted.

Table 2.1: Spending on Primary Education, from Poor to Rich

Quintile	Public spending per child (in 000 VND)	Children in school			Children of school age not in school		
		Number of children per household	Percent of children in school	Percent of spending (average)	Number of children per household	Percent of children out of school	Percent of spending (marginal)
Poorest	837	0.77	29.4	28.6	0.11	51.9	51.6
Near poorest	831	0.63	24.1	23.1	0.04	21.8	21.5
Middle	840	0.50	19.0	19.4	0.03	13.8	13.8
Near richest	848	0.41	15.7	16.6	0.01	7.2	7.2
Richest	859	0.31	11.9	12.3	0.01	5.3	5.4
Total	841	0.52	100.0	100.0	0.04	100.0	100

Source: Own calculations, based on data from the 2002 Vietnam Household Living Standards Survey (VHLSS) and MOET.

These objectives are effectively supported by a progressive allocation of public spending, in the sense that poorer households receive a larger share of it than richer households (Table 2.1). Given the high participation in primary education, the redistributive nature of education spending mainly reflects the fact that the poor have more children. However, this pattern refers to actual ("average") spending. With CPRGS calling for a sustained increase in public spending on education over time, one important question is whether the additional ("marginal") spending would be progressive as well. If spending goes into bringing the last 10 percent of children out of primary school into the system, then the answer is a resounding yes. This is simply because it is mainly poor households who have their children out of school.

In addition to budget-financed expenditures on education, policies with regards to direct public participation in the funding of the service also give rise to revenue from fees and charges. On the surface, such revenue remains a relatively modest component of total education finance. But from the household perspective, it is also necessary to take into account costs such as uniforms and travel, as well as "contributions" to building funds, parent-teacher associations and private lessons. Often, the latter are voluntary only in name. As shown by recent poverty assessments, both quantitative and qualitative, these out-of-pocket expenditures represent a considerable burden on poor households and somewhat mitigate the progressiveness of public spending on education.

Box 2.1: Pupil-Teacher Ratios

Double shifts are still the norm in many parts of the country, leading to a short school day for pupils whose parents are unable or unwilling to pay for additional tuition outside normal hours. But moving to full-day schooling requires a major expansion in the stock of classrooms, which can only be achieved through considerable capital investment and the alignment of that investment with teacher provision and operating cost provision.

At present, a major expenditure realignment of this sort is difficult because of the separation of recurrent and capital expenditure planning. However, the rapid demographic change of Vietnam would make a change of this sort feasible. As age cohorts become smaller, pupil-teacher ratios have been declining steadily. The trend is not apparent yet in upper secondary. But in lower secondary the average pupil-teacher ratio has fallen from 28.7 in 1998, to 23.5 in 2004. The decline is even faster in primary education, where the corresponding figures are 30.4 and 23.1. By comparison, the EFA strategy envisaged a pupil-teacher ratio of 26 in primary schools.

There is a sense that the scale of the decline reflects a course of least resistance, given than training institutions continue to produce new teachers. But presently, a reduction of the average ratio by one pupil per teacher costs the equivalent to some 228 billion VND nationally. Given that such resources could be used to support school construction, the pupil-teacher ration should be treated as a policy variable, requiring strategic choices and active management, rather than as a residual consequence of demographic change. To do this could require measures such as restricting new recruitment, encouraging early retirement, replacing non-qualified teachers where appropriate, and introducing incentives for teachers to be redeployed to where they are most needed.

Improving the quality of education will require the introduction of consistent and objective tests to gauge attainment levels, and assess their improvement over time and across provinces. Externally applied tests of attainment in key subjects have so far been purely one-off. A better quality of education will also need the development of benchmarks against which to judge whether public spending at the school level is appropriate. The problem is being partially

tackled with the definition of Fundamental School Quality Level (FSQL) standards in 2003. While the FSQL is being used as a guide for specific projects in a limited number of schools, it has potential as a benchmark for them all. As yet, however, it has not been turned into a series of unit costs per student for funding purposes. An important issue in terms of benchmarking is the adequate level of pupil-teacher ratios, especially if full-day education is to be generalized in disadvantaged communities (Box 2.1).

Health

Vietnam's health indicators are better than would be expected for a country at its development level, and they continue to improve at rates that equal or surpass those in most neighboring countries. In terms of life expectancy adjusted for years lost to disabilities, Vietnam ranks 116 among 191 members of the World Health Organization (WHO), not very different from much wealthier countries such as Greece and Brazil. It has also continued to make impressive progress in reducing infant mortality and under-five mortality rates, although there is some controversy regarding the current level of those indicators. Progress in controlling vaccine-preventable diseases, such as measles, diphtheria and tetanus, has been rapid as well; polio was completely eradicated in 1996. Improvements are considerable in reproductive health too. The total fertility rate fell from 3.8 in 1988-1992 to 2.7 in 1992-1996. Estimates for 1998-2002 put it at 1.9, below replacement level.

Still, the health sector is in the midst of a dramatic transformation. Two decades ago, it was firmly controlled by the central government. But over time the ability of MOH to shape activities has diminished significantly, due to the rapid growth of the private sector, the greatly increased role of out-of-pocked expenditures, and the continuing process of fiscal decentralization. New policy tools have been developed during this period, including user fees, health insurance and health-care funds for the poor. What these tools have in common is their focus on the financing of health. But resources continue to be allocated through two different channels. One of them is based on the size of the population, taking into account disparities among regions. The other one operates under the form of National Health Programs (NHPs). There is little coordination between those programs, despite the fact that they often have similar target populations (as in the case of tuberculosis and HIV/AIDS), and no mechanism in place to ensure that they are discontinued once their objectives are achieved.

The transformation of the health sector is having a profound impact on public spending. Despite the generally equitable procedures that are used in the process, the distribution of government health spending still favors richer provinces, which are generally able to raise more revenue locally. For instance, in 2000 government health spending per capita varied from 36,439 VND in Ha Tay to 244,029 VND in HCMC.

Overall, public spending on health is regressive, in the sense that richer households get a larger share of it than poorer households (Table 2.2). But this pattern hides important differences by health-care outlets. Government hospitals are more easily accessible to richer households. Despite their higher operating costs in remote areas, which tend to be poorer, most of their spending benefits richer households, with the top quintile getting almost one third of the total. The opposite is true for spending in commune facilities, which disproportionately benefits the poor. In fact, Vietnam's health success is to a large extent based on its wide net of commune health stations. About 96,604 medical staff are working in 116,359 villages nationally, and only 1.4 percent of communes lack a medical station.

Table 2.2: Spending on Public Health, from Poor to Rich

Quintile	Government hospitals			Commune facilities			All
	Percent of annual visits	Public spending per visit (VND)	Percent of public spending	Percent of annual visits	Public spending per visit (VND)	Percent of public spending	Percent of public spending
Poorest	10.9	9838	10.7	25.5	1118	24.4	13.5
Near poorest	15.2	7440	15.3	24.2	943	24.2	17.3
Middle	19.9	6982	20.2	20.5	922	20.6	20.3
Near richest	24.8	6963	22.4	19.3	937	19,6	21.9
Richest	29.1	7038	31.4	10.5	1003	11.2	26.9
Total	100.0	7375	100.0	100.0	989	100.0	100.0

Note: Figures include both inpatient and outpatient visits.
Source: Own calculations, based on data from the 2001/2 VNHS and 2002 VHLSS and MOH.

Despite continuing disparities in government health spending among and within provinces, the main source of inequality in the distribution of health costs is out-of-pocket spending. With total public expenditures representing barely more than one percent of GDP, health care costs are mainly borne by households. Under Decree 10, an increasingly large number of health treatments is provided by public hospitals on a paying basis (Box 2.2). According to the National Health Accounts, out-of-pocket expenditures amounted to 63 percent of total health finance in 2000, varying widely across regions. It is estimated that at present over 80 percent of health outlays are on an out-of pocket basis. Unofficial payments of various sorts imply that the burden on households is even heavier than suggested by this figure.

Inequalities in the distribution of health spending explain the persistence of substantial disparities in health status indicators by region, income and ethnicity. In 2002, a four-fold range could be observed in the infant mortality rate between the Northern Mountains (40.9 per thousand) and the Southeast (11.3), as well as between those with no education (58.6) and those who had completed secondary school (13.2). Differentials also exist in morbidity rates. For example, the average annual number of days people are unable to work due to illness is more than twice as high in the poorest quintile of the population than in the richest quintile.

To address its financing crisis, the strategy of the sector is increasingly turning towards the introduction of health insurance and the funding of health care expenses by the poor. In particular, Decision 139/2002/QD-TTg has strengthened earlier targeted interventions by creating province-level Health Care Funds for the Poor (HCFP). These funds are allocated 70 thousand VND per beneficiary per year, with 75 percent covered by the central budget and the rest by other sources such as individual and community contributions. Provinces can allocate HCFP resources to the direct reimbursement of health care costs, or to the purchase of health insurance cards. As of 2003, there were 11 million HCFP beneficiaries, representing 84 percent of the target population. Out of this group, one third had been granted health insurance cards and two thirds had been entitled to direct reimbursements of health care costs.

Box 2.2: Public Hospitals and Decree 10

Saint Paul Hospital, which is located in Hanoi and has 460 beds, has been implementing Decree 10 since October 2002. Its state budget funding has been practically unchanged since 2001, but its overall resources have increased by 86 percent (27 billion VND) in two years. About 15 percent of this increase is accounted for by revenue from normal user fees and health insurance reimbursements. The rest is due to a 350 percent increase in revenue from "special services". These services, which are available on request, are of much higher quality. Subject to local government approval, the hospital can set the associated fees substantially above those authorized for normal services. Special services accounted for more than half of total revenue in 2003. Meanwhile, the value of fee exemptions for children under 6 and the poor remained the same as in 2000.

Gaining a good reputation was essential for Saint Paul hospital to raise more revenue. In order to improve its quality and image, it invested on a waste disposal system, hired a team of security guards, renovated old facilities, built new patient rooms, and sent its staff for training. Resources to pay for these investments were mobilized from a variety of sources, including loans from hospital staff, the hospital's own revenues, ODA, and the state budget.

Other hospitals, particularly at the district level, have been less successful. A typical example is Kim Boi district hospital, located in a poor mountainous district of Hoa Binh province. This hospital was allowed to operate under Decree 10 in January 2003. However, given its location, it is in no position to collect more than 150 million VND annually, whereas its annual recurrent expenditure is 1.2 billion. Problems were exacerbated with the increase in minimum wages, which forced the hospital to transfer 30 percent of its user fee-generated revenue (previously distributed to staff as a bonus) to cover the higher salary costs.

Profit-sharing arrangements also create potential conflicts of interest. In 1999, doctors in the Binh Duong general hospital invested in a much-need ultrasound machine, which cost 300 million VND. The agreed arrangement was that they would be repaid within three years, with a monthly interest rate of 1.2 percent. Subsequently, they would receive 40 percent of the profits from using this equipment. The interest rate was above that charged by commercial banks at the time (0.7 percent). But given that hospitals did not have the formal right to borrow, this seemed an innovative solution to meet treatment needs. The equipment purchase was approved by a hospital committee, which also set the loan terms and user charges. However, information asymmetry in medical services, and lack of alternative providers, could create an incentive to prescribe too many ultrasound scans. With the user fee set at 30,000 VND and a planned utilization rate of 30 times per day, the investment can be repaid in one year.

Source: James Knowles (2004), MOH (2004) and Christine Wong (2004).

While the level of HCFP funding per beneficiary is inadequate to cover the cost even of their user fees and basic drugs at government health facilities, Decision 139 paves the way to make public health spending much more progressive. MOH is now calling for a doubling in the level of funding provided to HCFPs. Most of this additional spending would benefit people in the poorest two quintiles of the population.

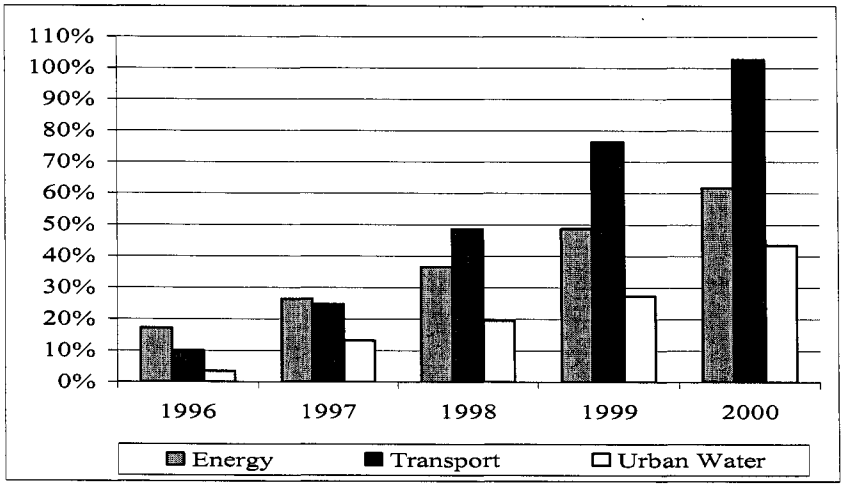
Transport

The transport infrastructure of Vietnam has improved substantially. At 0.63 km per square km of surface, the density of the road network is now similar to that of more developed

ASEAN countries, such as Thailand. The percentage of paved roads increased from 60 percent in 1999 to 84 percent in 2003. The number of communes lacking access to district centers was reduced from over 600 in 1999 to 269 today, or only 2.6 percent of all communes. Many road and rail bridges were repaired or rebuilt. The major ports were expanded and modernized and their handling capacity increased to more than 70 million tons per year, almost double the throughput observed five years earlier. The transport fleet grew dramatically. Including motorbikes, Vietnam had 125 vehicles per thousand people in 2002, compared to 73 in the Philippines. New ships were built (the first Vietnamese tanker was launched recently) and new aircrafts acquired. Rail traction equipment and rolling stock, however, remain in poor shape.

From an institutional point of view, the Ministry of Transport (MOT) and the Ministry of Construction (MOC) are the leading players in the transport sector. Private sector financing and involvement in management remain limited, and there is little use of toll charging. Unlike roads and inland waterways, the maritime, air and rail modes have direct revenues and are therefore less dependent on public expenditures for their development. As a result, road network issues dominate the sector, with its funding accounting for 87 percent of public expenditure in transport as of 2002. However, there is a clear shift in responsibilities among levels of government. The share of local expenditures increased significantly, from about 40 percent of the budget for transport in 1998, to 60 percent in 2004. Coherence in public spending decisions across all levels is supposed to be ensured by the main administrative body for the sector, the Vietnam Road Authority (VRA). But after 10 years of existence, VRA activities are still very much limited to the maintenance of the national road network. Meanwhile, Project Management Units (PMUs), which were supposed to be temporary arrangements, have proliferated (there are 10 of them under MOT) and become permanent organizations.

Figure 2.2: PIP Implementation by Sector



Note: Figures indicate accumulated spending on a sample of large-scale infrastructure projects, in percent of the originally planned amount.

Source: Theo Ib Larsen, Huong Lan Pham and Martin Rama (2004).

This relatively weak institutional structure is behind the bias to overspend in new infrastructure. A detailed analysis of the implementation of large (Group A) projects in the 1996-2000 PIP revealed diverging trends across infrastructure sectors (Figure 2.2). After five years of implementation, the actual spending in energy projects fell short of the planned figures by a

margin of roughly 40 percent. At more than 50 percent, the gap was even wider in the case of urban water projects. But in the transport sector, despite the fact that many projects span an implementation period of more than five years, by the year 2000 actual spending had exceeded the planned amount. Such buoyancy resulted from changes in the nature of the projects approved at the beginning of the period, as well as from the implementation of new projects, which were not part of the PIP.

The bias to overspend in new infrastructure is also apparent in the mismatch between spending figures by MOF and MPI. For the year 2000, MPI reports capital expenditures in transport for 18,550 billion VND, compared to 10,055 billion according to MOF. More recently, provincial public expenditure reviews carried out in Vinh Long and Phu Tho provinces found that the figures reported by MOF were only 33 and 40 percent respectively of the figures reported by the corresponding local governments. Some of the discrepancies are probably due to double counting, as transport investments are funded by both line ministries and targeted programs. The magnitude of the gap, however, suggests that the problem goes beyond accounting.

Which additional investments were undertaken and how were resources mobilized to pay for them is to some extent unclear. But it would seem that overspending in new infrastructure concerns projects which were part of the PIP, and had been approved by the Prime Minister, but had not been allocated funding through the budget process. Outstanding commitments for projects of this sort totaled 14.4 trillion VND as of 2002. As for resource mobilization, the role of borrowing by affiliated SOEs should not be neglected. MOT has contracted out the work to its affiliated SOEs, on the assumption that they would receive the funding at a later date. This has placed a significant debt burden on the contractors. Eventually, MOF has been called upon to bail out the ministry and its affiliated SOEs. In August 2004, the Prime Minister allocated 1.8 trillion VND to repay outstanding debts to contractors. The MOF website also states that 6 trillion VND have been allocated for payment of previous construction projects.

The flip side of this bias to overspend in new infrastructure is insufficient spending on road maintenance. The allocation for national roads has increased substantially, from 592 billion VND in 2002 to 1,096 billion in 2004. But VRA estimates that 2,960 billion VND would be needed to cover all maintenance needs in 2005. The situation is worse for the network of roads managed by the provinces as they only appear to be spending four to five percent of their budgets on maintenance activities. Only the South East and the Red River Delta regions have sufficient expenditure levels for province and district roads.

The maintenance of the commune and village road network relies heavily on community contributions and community labor. Although there are no adequate data, communities could be contributing about 1,200 billion VND towards maintenance each year. In the more prosperous areas this strategy is probably sustainable, because the burden per person is low. However in poorer and more remote communities this is not a sustainable approach in the long run. For instance, contributions represent almost 10 percent of the poverty line in the Northern Mountains, compared with less than five percent in the country as a whole.

Insufficient spending on maintenance, and the burden of community contributions on the poor, are prompting calls to establish a dedicated road maintenance fund (Box 2.3). But modalities matter, and there is some tension between this approach and the overall direction of Vietnam's transition on budget issues. A more fundamental reform would be to strengthen the institutions in charge of the transport sector, blocking their ability to invest beyond the approved capital expenditure ceilings, and forcing them to disclose more reliable and timely data on the projects under implementation and their sources of funding.

Box 2.3: A Road Maintenance Fund?

Policy makers are struggling with the management and maintenance of a network of over 200,000 km. Discussions focus on the sources of the funds to be used, and the modalities to ring-fence them and prevent their diversion towards other objectives.

Additional taxation on petroleum could provide much of the needed funds. As early as 1994, a special transport fee of VND 300 per liter of gasoline and diesel had been introduced with the aim to "generate funds for the regular repair and maintenance of the transport system." The fee was increased in 1996 to 500 VND per liter for gasoline and remained unchanged for diesel. The fuel surcharge became part of the general budget revenue, but the case can be made that most petroleum is used for means of road transportation. Other sources of revenue considered so far include vehicle registration fees, transportation license and register fees, driver license fees, additional fees for heavy-load capacity vehicles, and an additional tax on diesel vehicles.

Regarding the ring-fencing modalities, there is a proposal to allocate the additional resources to an off-budget fund that would be managed by an independent board formed of relevant Ministries and road user associations. This would have the advantages of a secure and stable financing mechanism and an administration dedicated to roads maintenance. But the creation of an off-budget fund would conflict with the overall direction of the budgetary transition of Vietnam, which is aimed at putting the allocation of public resources under the control of the National Assembly. Splitting financial resources could affect the integrity of the budget and weaken the control on spending. More modest proposals include the creation of an on-budget road maintenance line item that would perform the same functions as above but would be dependent on MOF allocations to the transport sector. If the single block grant to MOT is to be maintained, then the ministry should devote a greater proportion to maintenance activities.

Ultimately if there is a commitment to increase funding for road maintenance there is no particular need to set up a special road maintenance fund. And independently of the mechanism chosen, MOT should concession more of the maintenance activities to private sector providers, who would in return be allowed to charge a toll.

Rural Development

Significant policy reforms in the 1990s, following earlier agricultural de-collectivization, unleashed the tremendous growth potential of rural Vietnam. Key among those reforms was the allocation of farm land, which granted households the right to exchange, rent, mortgage or transfer long-term land-use rights certificates (LUCs). By 2003, 91 percent of households using agricultural land had been issued LUCs. As a result, a land market has started to emerge. The percentage of rural households with some land leased in or out has increased from 5 percent in 1993 to 15 percent in 2002. Combined with the introduction of the contracting mechanism and the liberalization of the markets for agricultural products, the allocation of farm land led to a strong supply response, with annual GDP growth in the agriculture, forestry and fishery sectors averaging over 4 percent between 1996 and 2002. Rural livelihoods and production continued to diversify. The result of these trends has been a decline in the share of rural households living in poverty, from 46 percent in 1998 to 36 percent in 2002.

The Ministry of Agriculture and Rural Development (MARD) is responsible for setting agricultural policy, implementing large investments and delivering on the sectoral component of the five-year plan. But given the trend towards decentralization, the instruments at its disposal have changed from direct control to facilitation. Almost 80 percent of the agricultural budget was allocated to the provinces in 2002, compared to 44 percent in 1997. A large portion of this

allocation is for the operation of the provincial SOEs responsible for irrigation service delivery. Other SOEs, especially in rubber, sugar and coffee, deliver marketing and processing services to growers that could be provided by the private sector.

Irrigation is responsible for the largest share of public expenditure in the sector. But the nature of spending in irrigation has changed over time. While considerable resources have been spent on the consolidation of channels and ditches, the building of new works has declined in importance. The upgrading of existing works, which accounted for 28 percent of the budget in 1996, increased its share to 48 percent in 2000 and 64 percent in 2003. In spite of this upgrading effort, however, many schemes have not been completed or maintained appropriately. While the irrigation system covers some 80 percent of the 7 million ha. of cultivated land, the area actually irrigated is reported to be less than 60 percent of the designed capacity. The utilization is higher in large schemes, although supplementary pumping is often used to overcome water distribution problems, with a resulting increase in costs. In smaller schemes, the actual utilization is as low as 25 percent. More active involvement of water user associations will probably be key to improve the efficiency of these schemes.

Box 2.4: Agricultural Research and Extension

The research share of public spending in the sector has remained fairly constant, at 2 to 2.5 percent of the sectoral budget. This allocation is unusually low by any measure and probably explains the low contribution of productivity gains to agricultural growth. A large number of research organizations absorbs most of the resources, but there is no rigorous evaluation of output or impact. At present, there are 25 national research institutes and 120 research centers. Most are in the Red River Delta and close to Hanoi. But it is unlikely that having 17 research institutes in the Red River Delta and only two in the Mekong River Delta represents an optimal distribution of resources, given the status and potential of agriculture in both areas. Measures to rationalize the system are being adopted, however. Among them are the consolidation of the overall research program and its funding based on qualified bodies submitting competitive bids for specific parts of it.

Most of the extension services are provided and funded by the provinces. The year 2002 saw the creation of the National Agricultural Extension Center (NAEC), an autonomous body reporting directly to MARD and responsible for extension policy and support to its implementation at local levels. This is a service delivery unit operating under Decree 10, hence able to charge fees. NAEC currently has about 30 staff expected to support provincial extension centers in 61 provinces. Each province has about 15 to 20 full-time professionals supporting extension to districts. About two thirds of the latter have extension agents. At the commune level and below, extension is considered part of the general socialization and community education program, and is carried out by mass organizations. MARD reports that there are also 46,272 voluntary agricultural extension clubs in the country. This is a low-cost approach and perhaps explains why Vietnam has had such a strong performance in agriculture, in spite of apparently incomplete extension service. However, there is also an excessive tendency to decide on behalf of farmers what should be cultivated in each region, and insufficient attention to rural producer organizations.

Forestry is second to irrigation in terms of its sectoral budget share, but its allocation is only 15 percent of total spending. The largest part of the forestry budget goes to the Five Million Hectares program, which is aimed at reforesting cleared lands of little agricultural potential in hilly locations throughout the country. Reforestation creates employment, ends the practice of shifting cultivation, and protects natural forests. The program is implemented by SOEs, while it could be contracted out to private enterprises. Moreover, it has led to the establishment of sugar

mills, rubber and tea processing plants and other non-forestry operations, with SOEs as the main beneficiaries. This is said to be an effective way to create jobs and industries in the countryside, but it is by no means not clear that the economics of these investments are sound. No analysis of the cost and benefits of the sub-projects is required to obtain financing, and expected benefits are expressed as commodity targets.

Other expenditures directly under MARD control include research and agricultural extension (Box 2.4). A top-down approach characterizes extension activities. The government has focused on developing new seed and breeding varieties aimed at improving the planting and animal husbandry structure. But delivery is necessarily decentralized in a country where 98 percent of farms are 3 ha. or less in size and the most common farm size is in the range of 0.2 to 0.5 ha. Current practice is to rely on community organizations to manage service delivery to farmers within the commune and to use the district professional apparatus to deliver these services to the organizations.

3. TARGETED PROGRAMS

Vietnam has been characterized by remarkably pro-poor economic growth since the start of *doi moi*. The percentage of the population living on less than 2100 calories per day fell from 58 to 29 percent between 1993 and 2002. This spectacular success results from the combination of sound macroeconomic management, increased reliance on market mechanisms, a strong emphasis on the delivery of social services, and sustained improvements in infrastructure. But it also owes to determined action to reach the poorest households and the poorest communes across the country. Vietnam relies on targeted programs to ensure that national goals are met in spite of the increasing extent of decentralization. Some of those programs related to health and education. But there are also a range of targeted programs aimed at improving livelihoods through exemptions of user fees, access to credit or the development of local infrastructure. Overall, these targeted programs have performed quite well, especially in terms of identifying poor households and poor communes. But they are currently hampered by the low quality of poverty measurement, which means that the geographical allocation of resources is not commensurate with local needs. Targeted poverty alleviation programs could also be made more effective through a simplification and consolidation of their benefits, as some of their most expensive components do not appear to be helping the poor much.

HEPR and Program 135

The national targeted program on Hunger Eradication and Poverty Reduction (HEPR) was formally launched in July 1998, as Program 133. It was renewed in 2001 for the period 2001-2005 and combined with the Employment Creation Program (Program 120) to become Program 143. The main feature of HEPR is to target households. Those identified as poor, have access (at least in principle) to a range of benefits, including exemption of school fees, health care cards, access to subsidized credit, exemption from compulsory public work and exemption from agriculture tax and other contributions. But the households identified as poor do not usually get the entire panoply. Because of limited resources, the benefits available tend to be distributed among a larger number of households so as to increase the coverage of the program.

Program 135, also known as program for socio-economic development in communes faced with extreme difficulties, was approved in July 1998 too. These communes get a resource allocation that they most often use to invest in a local infrastructure project of their choice, out of a menu of options including roads, health centers, schools, irrigation systems, water supply systems and the like. Program 135 can also finance infrastructure projects serving a cluster of communes, such as inter-commune roads, clinics and markets. Other objectives of Program 135 concern the settlement and of ethnic minorities, sedentarization, agricultural extension, and the training of commune-level staff.

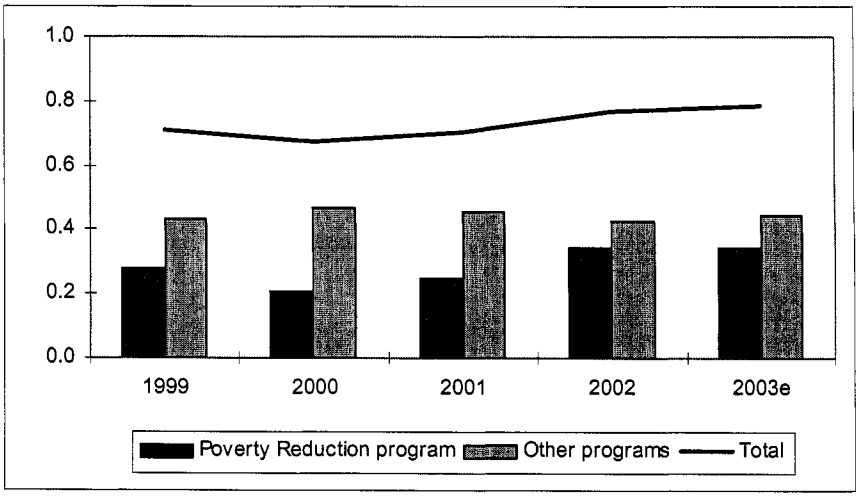
The creation of HEPR and Program 135 represented an attempt to consolidate and rationalize a series of provincial initiatives, launched as the social complement of the economic reforms introduced by the *doi moi* process. Not surprisingly, the first HEPR-type effort was initiated by Ho Chi Minh City (HCMC), which was well ahead of other provinces in the transition to a market economy. Following HCMC's lead, 44 provinces set up HEPR-type funds

to coordinate resource mobilization and spending for a range of central and local poverty reduction activities. Most of these funds were focused on granting loans with preferential interest rates to help individuals set up new businesses. But the shortcomings of such proliferation of initiatives became apparent soon. There was little integration between programs, a neglect of interventions focused on health, education or infrastructure, inconsistency in spending levels nationwide, and a lack of community mobilization behind poverty reduction.

Despite their separate management structures, there is no clear borderline between the two programs. Because poverty has a strong regional dimension in Vietnam, there actually is a substantial geographical overlap between the two. In practice, their coordination is achieved through annual plans at the provincial level. Funds for targeted programs are transferred to provinces as block grants, thus allowing a decentralized allocation of resources, according to local circumstances and priorities. While provincial People's Committees are responsible for setting the targets and coordinating the programs, they often delegate the implementation authority to the district level. HEPR Boards have been established in all provinces and most districts and poor communes. But the division of labor between People's Committees, HEPR Boards, and local departments of the Ministry of Labor, Invalids and Social Affairs (MOLISA) is not always well-specified. Moreover, for many of the staff involved, participating in the implementation of these two programs is one among many responsibilities.

In principle at least, Program 135 has features akin to community-driven development (CDD) activities. While People's Committees at the district level remain the "owners" of local infrastructure projects, communes are responsible for the overall planning and supervision of the projects, including the mobilization of local resources (mainly labor). From 1998, it was decided that the implementation of Program 135 should happen with full democratic participation at the local level, even if the plans need to be approved by the corresponding district and province People's Committees. The intention to gradual decentralize the process to the commune level was reinforced by various implementation guidelines. In practice, however, most provinces have decentralized the implementation of Program 135 to the district level only, allegedly due to insufficient capacity at the commune level.

Figure 3.1: Spending on Targeted Programs



Note: Figures are in percent of GDP.

Source: Own calculations, based on data from MPI and GSO.

The annual sums allocated to targeted poverty alleviation programs have grown steadily since the year 2000 (Figure 3.1). This trend mainly reflect the expansion in the number of communes covered by Program 135, whose overall envelope is by now is almost twice the size of HEPR's. If resources were distributed evenly, a beneficiary household under the HEPR program would be allocated the equivalent 170 thousand VND per year, and a household in a beneficiary commune under Program 135 the equivalent of 500 thousand VND per year. By comparison, the level of expenditures associated with the poverty line, for a household of five, is 9,580 thousand VND per year.

When looking at spending by components, subsidized credit, the exemption of education fees and health support receive the bulk of resources under HEPR. However, the HCFPs are increasingly taking over as the main source of funding for health support among the poor. Within Program 135, a vast majority of resources is used for local infrastructure projects, with only two percent going to population resettlement and agricultural extension, and one percent to the training of local officials.

Identification of Beneficiaries

There is considerable capacity to identify poor households at the local level, and to help them to the extent permitted by the resources available. In principle, the method to select the beneficiaries of the HEPR program is a combination a statistical approach and a participatory approach. The statistical part is based on a rudimentary survey mainly aimed at estimating household income and applied to those generally considered poor or near poor. However, consultation is an essential part of the process. This was confirmed by a qualitative survey (QHS) conducted in 2004, which involved 3,700 households in 20 provinces scattered across all regions. More than 98 percent of QHS respondents reported that the list of poor households had been drawn after holding meetings with villagers and local organizations. Such meetings amount to a participatory classification of households according to their poverty status, which is often more influential than the statistical classification. A previous study on poverty measurement at the community level found that the end result was remarkably reliable. Certainly more than any classification based on statistical methods only.

In practice, however, not all the households identified as poor are included in the list of HEPR beneficiaries. Some of the discrepancy has to do with popular perceptions of what it is to be a "deserving" poor. Households whose adult members display socially reprehensible behaviors, such as drinking or gambling, tend to be excluded, despite the potentially adverse consequences on their children. Unregistered migrants may be excluded as well. But to large extent, poor households fail to make it to the list of beneficiaries simply because of resource constraints. Typically, there is a pre-determined number of poor households "allocated" to each village. The QHS asked about the reasons for poor households not to be in the list of beneficiaries. For about a quarter of them, the main reason was lack of knowledge. But lack of funds accounted for 42 percent of the exclusions, and for a staggering 96 percent in the North West region of the country. Lack of consultation came only third, although it accounted for 77 percent of the exclusions in the Mekong Delta region.

The poor communes participating in Program 135 are selected based on a combination of criteria. Remoteness in one of them: communes in border areas, or distant more than 20 km from a development center, do qualify. Infrastructure is another important criterion. Communes with

significant transport problems, with no access by car, and with little electricity supply, irrigation, clean water, schools or health centers, are covered by the program too. A third criterion is social, and involves communes where the poverty rate (as measured by MOLISA) exceeds 60 percent, the illiteracy rate exceeds 60 percent, or health problems are prevalent. Unfavorable production conditions, the use of shifting cultivation and reliance on forest products for a significant proportion of household incomes, also make communes eligible for support. These criteria were further refined with the introduction of Program 143.

Initially, 1,715 beneficiary communes were identified. Out of this group, a sub-set of 1,000 was selected to receive targeted funds in the first phase of the program. The identification of this sub-set was largely delegated to provinces. The list of beneficiary communes was expanded to 1,870 communes by 2002, and to 2,362 at present.

Coverage and mis-targeting are two key indicators to assess the performance of targeted programs. The coverage indicator measures the fraction of poor households who actually benefit from the program. The mis-targeting indicator measures the fraction of non-poor households among all program beneficiaries. Note that in some cases, mis-targeting occurs by design, as when a program aims to reach a community or a population group whose members are poorer or more vulnerable than the average population, but not consistently poor.

For the main components of HEPR, mis-targeting stands at around one fourth, which is not too high by international standards (Table 3.1). Coverage, on the other hand, varies considerably across components, and is also sensitive to the estimation methodology used. Overall, it appears that the exemption of school fees has a relatively high coverage, in the range of 12 to 20 percent. Some 10 percent of poor households benefits from health support, in one form or another. But barely more than five percent have access to subsidized credit. It should be noted, however, that these figures refer to a single year. The fraction of poor households having access to HEPR benefits at one point or another is presumably higher. For instance, according to government estimates, 16.8 percent of poor households had access to subsidized credit over a three-year period.

Table 3.1: Targeting Effectiveness of HEPR in 2002

Component	Coverage (percent)		Mis-targeting (percent)	
	(A)	(B)	(A)	(B)
Credit for the Poor	5.8	5.7	25.1	33.1
Health Care Certificate	2.6	-	27.3	-
Health Insurance	9.9	9.8	28.6	38.1
Education for the Poor	20.0	12.1	30.2	37.7

Note: Coverage is the fraction of the poor households who benefit from the program. Mis-targeting is the fraction of the non-poor households among beneficiaries. Both are estimated using data from the 2002 VHLSS.

Source: UNDP and MOLISA (2004) for column A and Paul Shaffer and Nguyen Thang (2004) for column B.

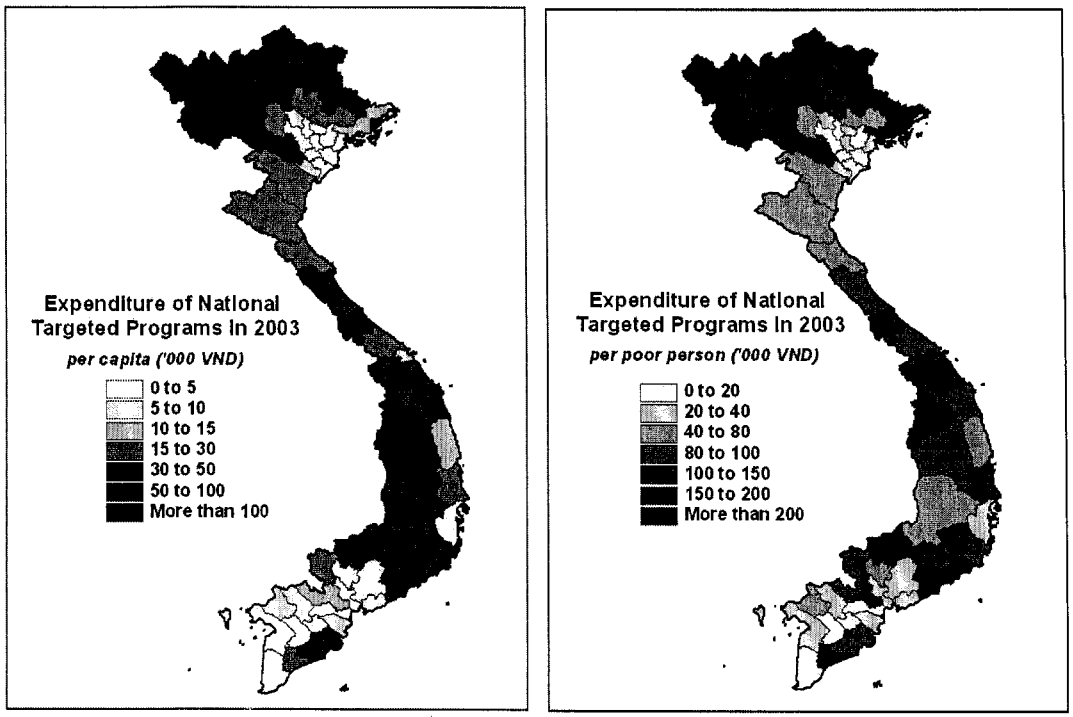
One in four communes in Vietnam benefits from Program 135. Given that nearly 30 percent of poor households live in poor and remote communes, Program 135 goes some way

towards attaining its objectives. When looking specifically at the beneficiary communes, nearly two thirds of their population lies in the bottom two quintiles, classified according to expenditures per capita. At the same time, however, 45 percent of the households in the beneficiary communes are not poor. Not surprisingly, high coverage is achieved at the cost of benefiting people who are not among the poorest. But this is so by design.

Financial Management

Provincial allocations for the HEPR program are based on a combination of criteria, including the poverty rate of the province, its vulnerability to natural calamities, and its potential access to other sources of funds. However, these criteria are far from mechanical, and there is some lack of clarity as to how the end-result is determined. Program 135 is more transparent in this respect, as it relies on a fixed budget per commune, currently set at 500 million VND over a period of three years. The overall transfer for HEPR and Program 135 favors poorer regions such as the Northern Mountains or the Central Highlands, which get a higher allocation of resources per capita (Figure 3.2). The disparity in favor of poorer regions persists even when considering the allocation per poor person.

Figure 3.2: Spending on HEPR and Program 135 by Province



Note: The poverty figures used in the right panel are based on household expenditures per capita in 2002, and correspond to a poverty rate of 29 percent at the national level.

Source: Own calculations based on data from MOF, GSO and the 2002 VHLSS.

Provincial governments determine the distribution of HEPR resources to district levels based on their own plans and funding priorities. No general norms are used in the process. This degree of variation is likely to lead to inequity between communes with similar poverty alleviation needs. In the case of Program 135, on the other hand, resources are transferred to each district based on their number of qualifying communes. Districts may exercise some discretion in the allocation to the next level, based on the communes' capacity to implement investment projects within the year. Funds are transferred from one commune to another mostly based on the scope of works. But fairness is maintained over time, with beneficiary communes getting on average the 500 million VND they are entitled to.

Another potential source of inequity results from the process of "topping up" targeted programs with local resources. Additional funding from mass organizations, state corporations, households and donors plays an important role in the implementation of HEPR and Program 135. For instance, several mountainous provinces benefit from donor-funded projects supporting local investments in the spirit of Program 135, albeit with a stronger emphasis on community participation. Household contributions usually take the form of free labor or in-kind resources applied directly on projects.

Measuring these top ups is difficult. ODA resources are disbursed and monitored outside the usual treasury system, with different donors often insisting on their own procedures. Household contributions are not recorded at the provincial level. On a sample of four provinces, top ups accounted for roughly one quarter of central allocations in HEPR and about 30 per cent for Program 135. But these ratios mask large differences across provinces. In the case of HEPR, Tuyen Quang's additional resources were nearly twice the central allocation, compared to only one-fifteenth in Quang Ngai.

A relevant concern is whether the resources from targeted programs are being used efficiently. Apart from resource leakage, there are several potential sources of inefficiency. Unused or underused infrastructure facilities, such as poorly maintained roads or irrigation dams without water, are common. Also, the resource allocation mechanism for Program 135, based on a single amount per commune, has the merit of being clear and transparent, but it results in substantial per capita disparities across communes, which is another form of inefficiency. Considerable delays in the allocation of poor household certificates and health care cards are frequent as well. Time lags of several months severely limit the use of a benefit which is in principle valid for one to two years only. Not all the households with health care cards benefit from the exemption of health care costs when seeking medical care. According to the QHS, northern provinces fare the worst, with only two thirds of the respondents claiming to have always received the exemption. Respondents in Southern provinces were more positive.

Poverty Alleviation Impacts

The best way to assess the efficiency of a public program is not to consider its immediate outputs, but rather to assess whether it attains its development objectives. In the case of HEPR and Program 135, this boils down to estimating the impact of the programs on poverty reduction. But performing a rigorous impact evaluation is not an easy task.

At a superficial level, some "baseline" is needed, so that the situation before and after the public intervention can be compared. But such baseline is not available the individual households who benefit from HEPR and Program 135. Poverty rates are computed by MOLISA at the commune level, and they could therefore be used as an aggregate baseline. But these poverty

rates are not really reliable, because they are often influenced by the availability of resources. For instance, the reported poverty rate is simply equal to the number of poor household certificates the local authorities are entitled to distribute. At a more fundamental level, the right question is not whether the situation after the public intervention is better than before, but rather whether it is better than it would have been in the absence of the intervention. Because it involves a hypothetical situation, this question is much more difficult to answer. Which makes the results of impact evaluation studies controversial.

Two methodologies have been used in Vietnam to assess the impact of HEPR and Program 135. One of them is qualitative, and relies on the views of the beneficiaries themselves. The QHS asked respondents to assess the impact of targeted programs according to their perceptions. The other methodology is quantitative, and requires the use of data from a large sample of households, such as the 2002 VHLSS. This methodology involves identifying households which benefited from a component of HEPR, or lived in a commune under Program 135, and then finding one or several households who are very similar, but were not among the beneficiaries. Of course, the main difficulty here is to determine what "very similar" means. A statistical tool known as propensity score matching can be used for this purpose. This tool, much the same as the subjective perceptions of the beneficiaries, can be criticized as being potentially biased. But the possible biases from the two methodologies are in principle quite different. If they yield the same conclusion, then there could be some truth to it.

The conclusion is very similar indeed in the case of the exemption of education fees, under HEPR. A vast majority of respondents of the QHS considered the money saved because of this exemption to be either very important or important. Moreover, there was a high degree of uniformity to this result across regions, ethnic groups and gender categories. Around 12 percent of respondents claimed that they would not have enrolled their children in school in the absence of the exemption. This figure is very close to the program impact estimated using the propensity score matching methodology. The estimated gap in primary school attendance between beneficiary and non-beneficiary households is roughly 11 percent. It is thus safe to conclude that the exemption of education fees makes a substantial difference. Interestingly, beneficiary households do not report worse treatment of their children by teachers.

Results are encouraging in the case of health support too. The money saved as a result of this support was said to be either very important or important by QHS respondents. Again, the result was consistent across regions, ethnic groups and gender categories. Given that four out of five beneficiaries of health support are among the poorest 40 percent of the population, this result suggests a sizeable poverty alleviation impact. On the other hand, the statistical analysis reveals no significant impact on the use of medical facilities. In principle, more frequent use could be expected as a result of lower health care costs. But it could well be the case that the poor seek medical treatment only in case of serious health problems, and would be unlikely to visit a physician more often just because it has become cheaper. Results from the QHS do not suggest that beneficiaries receive a worse treatment by health care providers.

The actual impact of access to subsidized credit is more difficult to establish. Around half of the QHS respondents said that the impact was positive, but one third deemed it insignificant. These mixed views contrast with the results of a community questionnaire, which showed an implausible 97 percent of local officials reporting a positive impact of subsidized credit on household income. The statistical analysis contradicts this upbeat assessment, as the impact of this HEPR component on the expenditure level of households turns out to be insignificant. The result of the statistical analysis is actually more in line with the perceptions of observers and practitioners (Box 3.1).

Box 3.1: Are Credit Programs Really Helping the Poor?

Poor households can in principle borrow from a variety of sources. The Bank for Agriculture and Rural Development (VBARD) provides credit for agricultural production, secured by agricultural LUCs. Though it has a facility for lending without collateral, aspiring borrowers report that in practice an LUC is to be submitted to the bank, which keeps them as evidence that it is not being used as security against other loans. In regions where poverty is associated with growing landlessness (such as in the Mekong Delta) or where poor groups are living on land that does not yet have a formal title (such as in the uplands), the absence of LUCs can be a barrier to accessing credit. Further, low interest margins discourage VBARD from serving small loans and savings that often meet the demand of the poor best.

The picture is more confused in the case of the Vietnam Bank for Social Policies (VBSP), which is in a state of transition from the old Vietnam Bank for the Poor (VBP) and whose portfolio is still partially managed by VBARD. During the period 1996-2002, 3.5 million concessional loans were provided, 80 percent of which to households in the two poorest quintiles of the population. The average loan amount in 2003 was 3.1 million VND, but it was smaller among the poor. Repayment rates on this portfolio are reportedly low. For instance, in two districts of An Giang Province, 26 percent and 48 percent of loans outstanding were found to be overdue. The extent to which poor households have access to credit from VBSP is difficult to estimate based on survey data. In practice, local officials classify households in three groups: the hardworking poor, those with limited labor and a dependent attitude, and those with social problems. Only the first group has access to credit. Participatory analyses in An Giang suggested that slightly less than half of the poor belong to such group.

Donors and NGOs have also financed a range of microfinance activities over the last decade, many of them relying on mass organizations such as the Women's Union to manage their schemes. It is difficult to identify common features to all these activities, as they differ widely in objectives and approach. Moreover, the quality of the evaluations available varies considerable. Studies on the schemes at work in Ha Tinh suggest that these microfinance schemes do reach the poor. Whether they are financially sustainable is unclear.

The credit component of HEPR is an additional to this range of schemes. Seen as a job generation program, it is not restricted to lending to the poor. In fact, few poor households appear to have access to this source of funding. Moreover, field work reveals severe repayment problems. In An Giang, 36 percent of loans were overdue in one district and 23 percent in a second district. Yet, during the period 2001-03 a substantial proportion of total central allocation for HEPR (close to 85 percent in Tuyen Quang and Quang Ngai, and around 50 percent in Son La and Soc Trang) was to support this component of the program.

Results are mixed regarding other components of HEPR. For instance, around 60 percent of the respondents to the QHS considered that agricultural extension had a positive impact, whereas roughly one third said that it had not. The lowest ranking, across all HEPR components, goes to resettlement policies, with three out of four beneficiaries feeling that it had had an insignificant impact on their lives.

The assessment of Program 135 is more positive. Agreement rates among QHS respondents are close one hundred percent for all local infrastructure projects. This is regardless of the extent of local consultation in selecting those projects. While such unanimity could result from some positive response bias, there are indications that households exercise judgment in their responses. For instance, in the case of roads, 85 percent of those surveyed maintained that the impact had been positive. But the 15 percent who disagreed cited the poor quality of the road as the main justification for their answer. Similarly, in the case of irrigation projects, the 25 percent

of respondents who reported an insignificant impact blamed this outcome on the poor condition of the system.

4. TAXES, TARIFFS AND FEES

The government's economic program envisages to keep revenue in the range of 20 to 21 percent of GDP in the next few years. This would be achieved with a mix of measures aimed at increasing non-oil revenue and better enforcement of existing non-oil tax legislation. Achieving this goal could be challenging at a time when economic activities are increasingly shifting from SOEs (the major taxpayers) to a private sector that is harder to tax because it is made of smaller units. But in spite of serious institutional and administrative weaknesses, the "productivity" of taxes is relatively high in Vietnam especially in the case of the Value Added Tax (VAT). In addition, this turns out to be a redistributive tax, in the sense that the rich pay a higher average rate on their consumption. Another frequently voiced concern is whether trade liberalization under ASEAN and the World Trade Organization (WTO) agreements could lead to a severe decline in tariff revenue. But under plausible assumption the growth in the volume of imports will more than offset the decline in tariff rates. More serious issues on the revenue front are related to the proliferation of incentive schemes and the increased reliance on user fees to finance government services. The range of benefits of different sorts provided to investors is so complex by now that it has become practically impossible to compute the size of the transfers involved. This lack of transparency is at odds with the overall tendency of the tax system towards greater simplicity and uniformity. Reliance on user fees tends to be regressive in Vietnam, as it results from the inability of poorer localities to address local needs out of budgetary allocations. Increasing the coverage of Corporate Income Tax (CIT) and VAT, and simplifying the incentive regime, could provide the additional resources needed at local levels, and relieve poor localities from the excessive burden from fees. Local governments could also rely to a much larger extent on property taxes.

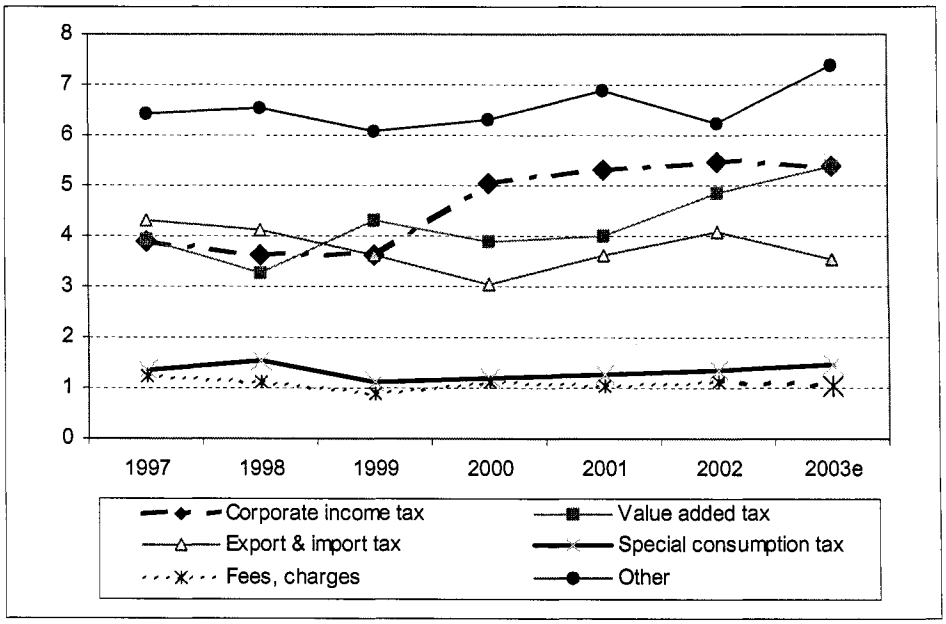
4.1. Main Trends

Government revenue, measured as a share of GDP, has remained relatively stable in recent years. But its composition has gradually changed and it is bound to change even further as the economy develops (Figure 4.1). Trade-related taxes bring in about three to four percent of GDP in revenue. Local fees and charges account for about one percent of GDP, which is roughly the same amount raised through special consumption tax. On the other hand, CIT and VAT account for an increasingly larger share of government revenue, with each of them raising more than five percent of GDP by now. At less than two percent of total government revenue, personal income tax (actually, a high-income tax, given its exemption thresholds) plays a much more modest role.

While all tax collections are centralized, clearly spelled-out rules guide the allocation of their proceeds across provinces. The General Taxation Department, in charge of all domestic taxes, has offices which extend through the provinces and the districts. The Customs Department collects all taxes falling on imports. The allocation rules were established by the 2002 State Budget Law, which distinguished between taxes whose proceeds accrue entirely to the central government, taxes and fees whose revenue stays with the province where they are collected, and taxes to be shared between the two levels of government. The first group comprises trade-related

taxes (including VAT on imports), oil-related taxes, and CIT on enterprises with uniform accounting. The last group includes most CIT and VAT proceeds, personal income tax, excise taxes on domestic goods and services, and gasoline fees. The revenues entirely assigned percent to provincial governments are those from land and housing taxes, licenses, fees on land use rights, land rent, registration fees.

Figure 4.1: Government Revenue by Source



Note: Figures are in percent of GDP.

Source: Own calculations, based on data from MOF and GSO.

Sharing rates vary across provinces depending on their wealth. The poorest provinces are allowed to retain all the revenue from shared taxes, whereas provinces such as Hanoi and HCMC must transfer a considerable portion of that revenue to the central government. Given the considerable differences across provinces in their ability to raise revenue, this sharing-mechanism is clearly redistributive.

It could be argued that centralized collection does not create an incentive for the tax authorities in each province to mobilize all local revenues. But the dual subordination system of Vietnam mitigates this incentive problem, as provincial tax collectors are in practice subordinated to both the central tax administration authority and the provincial government. Such dual subordination means that local authorities have a recognizable influence on the decisions and activities of tax administrators. The important role played by local incentives to collect taxes is captured by the practice of letting local authorities retain a share of the collections above the targeted amount for taxes. The "surplus" collections retained at the local level include not only local and shared taxes but also those entirely assigned to the central government.

Tariffs and Trade Integration

One commonly voiced concern is the potential decline in tariff revenue as trade barriers are reduced. Over the negotiation process to accede to the WTO, this concern even operated as a deterrent to consider substantial reductions in tariffs, despite the efficiency gains that could result. Now, with WTO accession at hand, the issue at stake is whether the commitments made in the process, combined with previous commitments under the ASEAN agreement to construct the regional ASEAN Free Trade Area (AFTA), could put fiscal sustainability at risk. Given that taxes on international trade (import tariffs, export duties, and certain specific consumption taxes) contribute around 17 percent of total government revenue, this concern needs to be addressed.

A distinction between short-term and medium-term impacts is convenient in this respect. In the short term, the trade integration process involves replacing non-tariff barriers by explicit tariffs. While the former transfer resources to producers, government coffers benefit from the latter. In recent times, commitments made in the context of AFTA have led to both a decrease in tariffs and a removal of non-tariff barriers, with the net impact on the overall collection being modest and, in some years, actually positive. However, almost all import quotas have been replaced by tariffs already and those remaining (on oil products and sugar) are unlikely to be abolished soon, so that no further revenue gains of this sort should be expected for now.

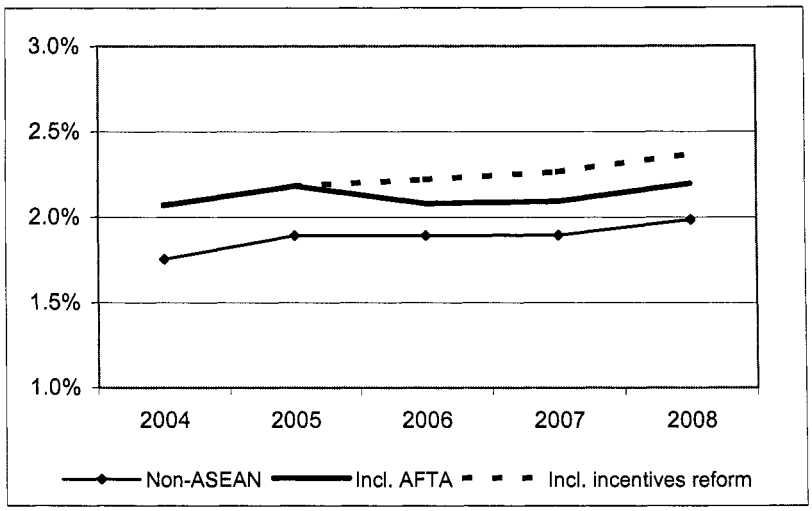
Other forces might lead to an increase in tariff revenue in the medium term. First, even though tariff rates are bound to decline, total imports, or the base to which tariff rates are applied, will undoubtedly increase. Lately, they have been growing at about 25 percent per year. While such rate is probably unsustainable in the long run, it is possible that the increase in import volumes will be faster than the decline in tariff rates. Second, a large component of trade-related revenue is generated by VAT and specific consumption taxes on imports, which are not bound to decline as a result of the international commitments of Vietnam. Lower tariff-inclusive prices of imports will reduce this source of revenue, but bigger import volumes will boost it. And third, increasing international integration is likely to accelerate economic growth which will in turn lead to rising revenue from domestic tax sources such as VAT and CIT.

At a more fundamental level, the concern about tariff revenue implicitly assumes that imported quantities are independent from tariff levels. But tariff reductions do make imported products cheaper, hence boost their demand. Whether the resulting increase in quantities offsets the decline in tariff rates very much depends on the level of the latter. When tariff rates are small, their reductions tends to be associated with a decline in revenue. To see why, just consider a modest tariff rate being scrapped: by definition revenue will drop to zero, regardless of its initial level. On the other hand, when tariff rates are almost prohibitive, revenue tends to increase. Vietnam is characterized by a situation where trade barriers are relatively low in most sectors, but prohibitive or almost prohibitive in a few of them. Automobiles, cement, chemical products, fertilizers, liquor, motorbikes, paper, sugar and tobacco are among the sectors that currently benefit from trade protection, but will be exposed to increased import competition as a result of the international commitments of Vietnam. This should lead to higher, not lower, trade-related revenue.

A simulation over a five-year period, suggests that trade-related revenue from non-oil imports will decline in the context of AFTA, because the agreed tariff reductions are substantial. But using a tariff schedule consistent with the tariff offer made by Vietnam to the WTO in June 2004, trade-related revenue will increase in the case of non-oil imports from non-ASEAN countries. The net outcome of these diverging trends is a modest increase in trade-related revenue amounting to some 0.13 percent of GDP (Figure 4.2, solid line). This is an under-estimate, to the

extent that the growth rate of imports in each sector was based on historic trends, without taking into account that lower tariff rates (on average) should lead to higher import volumes, hence to an overall increase in the growth rate of imports. Moreover, the assumed tariff schedule does not allow tariff rates to rise above current levels on any import item even though this could be done under the terms of the June offer by Vietnam.

Figure 4.2: Non-Oil Tariff Revenue in the Next Five-Years



Note: Figures are in percent of GDP. The solid line incorporates the effects of changes in tariffs only. The broken line also assumes a rationalization of the incentive scheme.

Source: Own estimates, based on data from MOF and General Department of Customs.

This simulation is based on the assumption that tariff revenues are actually collected on the basis of statutory tariff rates, but this is not so in practice. At present, there is a wide gap between actual revenue collections and what should be collected on the basis of statutory rates. To some extent, this gap reflects administrative weaknesses. But it also results from duty exemptions granted in the context of various incentive schemes to promote investment and exports. The planned modernization of the Customs Department should address some of the administrative weaknesses. A move towards rationalizing incentive schemes could lead to abolishing many of the current exemptions or, at least, to replacing them by partial exemptions. For instance, a ten percent reduction in exemptions phased in over a three-year period could boost trade-related revenue by an additional 0.2 percent of GDP (Figure 4.2, broken line). It follows that trade integration will need to be accompanied by an appropriate set of complementary reforms to ensure that budget revenues remain strong in the medium term.

CIT and VAT

In the longer term, Vietnam will need to rely on increased revenue from domestic taxes, and especially from CIT and VAT. In an encouraging move, the National Assembly approved in

2003 a wide-ranging reform package aimed at simplifying domestic taxes and making them more transparent. The number of VAT taxes was reduced from three to two, while goods and services which are subject to the special consumption tax became subject to VAT. A uniform tax treatment of domestic and foreign investment enterprises was introduced in the case of CIT, both with respect to the standard rate (now 28 percent) and to other tax incentives. Changes to the personal income tax were introduced in 2004.

Even before these changes had taken place, CIT and VAT were remarkably "productive" for a country at the development level of Vietnam. The productivity of a tax is defined as its revenue yield, expressed in percent of GDP, for each percentage point of its standard rate. The design of tax schedules, the efficiency of the administrative system and the structure of the economy are the main determinants of tax productivity. In the case of CIT, design features include an antiquated depreciation system, with detailed schedules for different types of capital goods which are difficult to administer and apt to give rise to controversy at the margin. In spite of these complexities, CIT productivity in Vietnam was comparable to that of countries with a much higher GDP per capita (Table 4.1).

Table 4.1: CIT Productivity across Countries

	CIT Revenue (percent of GDP)	CIT Rate(s)		CIT Productivity (Revenue/Rate)
		Domestic enterprises	Foreign enterprises	
Cambodia	0.6	9, **20**, 30	9, **20**, 30	0.03
Indonesia	2.7	10, 15, 30	10, 15, 30	0.09
Lao, PDR	1.4	35	20	0.04
Malaysia	8.9	**28**, 38	**28**, 38	0.20
Philippines	2.5	32	32	0.08
Singapore	5.2	24.5	24.5	0.21
Thailand	2.9	20, 25, **30**	20, 25, **30**	0.10
Average				0.11
Vietnam	5.4	15, 20, 25, **32**, 50	10, 15, 20, **25**, 50	0.09

Note: Figures are for 2002. The main tax rate in each case is indicated in bold characters.

Source: IMF (2004).

In the case of VAT, Vietnam's productivity is nothing short of astounding. At 0.54, it compares favorably with that of New Zealand and Singapore, two countries which are known for having the best designed and administered VAT system (Table 4.2). It is higher than the average productivity in Latin America (0.30), Eastern Europe (0.35) and Western Europe (0.50). And this was before the 2003 reform, at a time when goods and services subject to special consumption tax were still exempted from VAT. One possible explanation for such high productivity is related to "cascading", or unwanted design features implying that some items are taxed more than once. In Vietnam, cascading could be associated with incomplete VAT refunds with respect to capital goods, and the simultaneous operation of two different methods of imposing the VAT. Improper tax treatment of residential property and life insurance might also be contribute to the high VAT productivity. These features are undesirable and should be corrected.

Administrative efficiency and the structure of the economy are other important determinants of the productivity of taxes. The Vietnamese General Taxation Department, with its

offices extending throughout provinces and districts could be more effective than is generally acknowledged, and perform better than the tax administration agencies of other countries at a similar development level. Whether this is so remains unclear. But from this perspective, keeping tax collection centralized, in spite of the ongoing decentralization of expenditure decisions, could be a sensible move to preserve tax productivity.

As for the structure of the economy, some 80 percent of CIT receipts and 60 percent of VAT proceeds are collected from SOEs. Whether this helps or hinders tax productivity very much depends on the profitability of the SOE sector, and the extent to which the government is able to keep track of their operations. Compared to other transition economies, the SOE sector of Vietnam is in reasonable shape. With the transition to a market economy, there is a real risk to see the GDP generated by the private sector growing much faster than its contribution to government revenue. Taxing small businesses is particularly difficult. A typical characteristic of a tax like the VAT is that the bulk of the revenue (80 to 90 percent of it) is collected is collected from a small proportion of potential tax payers (10 to 20 percent of them). A decline in tax productivity in the coming years cannot be ruled out. And fixing the VAT design features behind the current cascading could actually accelerate such decline.

Table 4.2: VAT Productivity across Countries

	VAT Revenue (Percent of GDP)	VAT Rate(s) (Percent)	Productivity (Revenue/Rate)
Cambodia	2.7	10	0.27
Indonesia	3.5	5, **10**, 15	0.35
Philippines	2.9	10	0.29
Singapore	1.4	3	0.47
Thailand	2.6	7	0.37
Average			0.35
Vietnam	5.4	5, **10**, 20	0.54

Note: Figures are for 2002. When several tax rates exist, the most important one is indicated in bold characters.

Source: IMF (2004).

From a medium-term perspective, therefore, it is important to develop the capacity of the tax administration to raise revenue from private businesses as they grow into sizeable enterprises. Introducing self-assessment methods is key in this respect. Self-assessment for CIT and VAT was introduced on a pilot basis in January 2004, for selected enterprises in two provinces. So far, the pilot has been a success with the corresponding tax offices reporting increases in revenue against initial revenue targets. The self-assessment pilot should in principle be extended to other enterprises within the two pilot provinces, to other provinces, and to other taxes. By 2007, a review is scheduled to precede the nationwide rollout of self-assessment. Among the issues to address before the roll-out can proceed on a large scale is the revision of legislation which currently makes the collection of tax arrears difficult.

Incentive Schemes

The productivity and increasing clarity of CIT and VAT is in sharp contrast with the complexity and lack of transparency of Vietnam's incentives to investors. While those incentives are in principle based on objective criteria, with limited room for discretionary application, technical difficulties and ambiguities in their proper application abound. As a general rule, incentives are available to three broad groups of enterprises. The first group is made of start-up businesses in a long list of activities, businesses with a minimum number of employees, or in targeted areas. A second group includes existing enterprises which relocate to targeted areas. Firms meeting any of an additional list of miscellaneous conditions, such as expanding exports or using new technology, belong to the third group.

Some of the incentives operate through tax holidays and reduced tax rates. The former range from two years to indefinite; the latter from five to 20 percent over periods of ten to 15 years. The most common incentive form is a fixed period of CIT holiday, commencing in the first year a qualified enterprise has taxable income, followed by a fixed period during which the normally applicable reduced CIT rates are cut by half, and then by a fixed period during which the normal reduced rates apply. But complexities should not be under-estimated. The periods and rates depend on whether the enterprise has more than 20, 50 or 100 employees; on whether it locates in cities of first and second grade, in normal regions, or in targeted regions; on whether it is a cooperative, a joint stock enterprise or a foreign firm; on whether it exports more than 50 percent of its production; and on whether it derives profits from patents, know how, technology processes, technical services or products under testing.

Other incentives operate through import duties and land fees. Following standard international practices, enterprises are exempted from import duties on products bound to be processed for export. Foreign enterprises are also exempted for import duties on fixed assets, including equipment, machineries, specialized means of transport, materials for specific infrastructure projects, and spare parts. Foreign firms are exempted from land rent during the term of construction. The exemption extends for an additional seven to 11 years depending on the socio-economic difficulties of the area where the project takes place.

Industrial zones represent an additional mechanism to attract investors, both foreign and domestic. As of March 2004, almost one hundred zones of different sorts had been authorized, of which two thirds were operational. Most of them are located in the vicinity of HCMC and Hanoi. These zones usually provide an investment environment that is superior to that available outside: the physical infrastructure is better, rents are subsidized, and one-stop approval and licensing procedures are available. Until recently, investors in these zones also enjoyed CIT holidays and reduced rates. The tax reform package approved by the National Assembly in 2003 allowed no separate incentive provisions for investments within the special zones. While benefits for existing investors were grandfathered, zone-specific CIT incentives were abolished. However, following strong objections from the business community tax incentives for special economic zones have now been reinstated.

From an economic point of view, there is no justification for investors in these special zones to enjoy tax privileges greater than those available in the regions immediately outside. Beyond such geographical distinction, it is clear the incentive scheme needs to be simplified and rationalized. Some of the current discussion focuses on replacing tax holidays and reduced rates by tax credits and accelerated depreciation. This would be a way to encourage investors to bring in their capital, without subsequently distorting the way they use it. A rationalization of import duty exemptions, under the form of clear duty drawback rules, would also be sensible.

Beyond these incentives, there is no particular rationale for Vietnam to be offering benefits which are among the most generous in the region, and yet do not seem to influence investment decisions much (Box 4.1). Such benefits could be justified at a time when investing in Vietnam seemed a particularly risky business. By now, however, the ratio of Foreign Direct Investment (GDI) inflows to GDP surpasses that of China. Opening up the infrastructure sector to private participation could do more to attract additional capital than the complex incentive schemes used at present. Above all, such complexity is increasingly at odds with the overall trend towards increased transparency and a level playing field. Pressures to create (or reinstate) incentive provisions outside the tax legislation, and to apply different incentives to domestic and foreign investors, should be resisted.

Box 4.1: Private Sector Views on the Incentive Regime

A survey of 140 private, domestic companies was conducted to determine whether they were benefiting from the incentive regime, to quantify the transfer of resources they were enjoying under the form of incentives, and to gather their views on the system. All these companies were located in HCMC, Tien Giang province and Binh Duong province, in the south of Vietnam.

Roughly half of the companies were benefiting from incentives. Out of them, only 14 percent claimed that they had made deliberate changes to their investment projects in order to qualify for those incentives. Typical adjustments included increasing the number of employees, increasing the scale of production, or moving their production activity to an industrial zone. The remaining companies said that they would have made the same investment decision without the provision of incentives. Slightly more than three quarters of all companies interviewed agreed with the statement that incentives were "a nice bonus, but none of my investment plans were altered".

Based on the results of the survey, the redundancy rate of incentives can be estimated at around 83 percent. This rate indicates the fraction of the investors enjoying tax incentives who would have invested even without them. Using the new standard CIT rate of 28 percent, the amount of revenue foregone was between 62 and 75 percent, depending on the assumptions. The implicit public subsidy to investors was lowest in Tien Giang province, and highest in HCMC.

Just over half of the companies surveyed felt that FDI projects face more attractive incentives than domestic projects, compared with 14 percent that disagreed. Almost 58 percent of the companies declared that incentive schemes are managed in a subjective and inconsistent manner, compared with 16 percent who disagreed. On the other hand, the incentives offered for firms to locate in difficult and remote areas were widely seen as insufficient to compensate for the additional costs of doing business in such places.

Source: Canh Thi Nguyen and others (2004).

Distributional Impacts

Vietnam seems well positioned to maintain government revenue in the range of 21 percent of GDP, as planned. But how equitable is the distribution of this burden among the population? Answering this question is difficult, as taxes influence prices, wages and profits, making it difficult to track their impact all the way down to specific households. However, given the current trends in the composition of government revenue, the two main areas of concern are VAT and local charges user fees. VAT is bound to become the main generator of tax proceeds in

the coming years. Meanwhile, the ability given to delivery units to charge for the services they provide is leading to an increased reliance on out-of-pocket payments, as in the case of public hospitals. And provinces resort to local fees, to bridge the gap between the block grants they receive from the central government and the needs they have to attend. Examples include school contributions, fees for water, sewerage, and solid disposal services, irrigation and transport charges, and in-kind contributions for the maintenance and improvement of rural roads.

Reassuringly, VAT is a progressive tax (Table 4.3). This conclusion, obtained from the analysis of survey data, rests on several assumptions about the formal or informal nature of the suppliers different households buy from. But those assumptions are plausible, and the resulting orders of magnitude are consistent with those obtained from aggregate sources. VAT proceeds amount to 3.5 percent of expenditure based on household survey data, which is not too far from the 5.4 percent of GDP estimated based on aggregate data. Roughly two thirds of these proceeds come from the two richest quintiles in the population. And because poor households rely more on self-consumption and on informal suppliers, the average VAT rate they paid on their expenditures is lower than among the non-poor.

Table 4.3: Taxes Paid, from Poor to Rich

	VAT			Local fees		
Quintile	Per household (000 VND)	Percent of all proceeds	Percent of household expenditure	Per household (000 VND)	Percent of all proceeds	Percent of household expenditure
Poorest	186	6	2.5	249	13	3.2
Near poorest	294	10	3.1	326	18	3.4
Middle	411	14	3.5	375	21	3.2
Near richest	610	22	3.9	379	24	2.5
Richest	1364	48	4.3	381	24	1.4
Total	608	100	3.5	347	100	2.7

Note: Local fees include agricultural taxes, irrigation fees, contributions to school construction and furniture, to parent-teachers associations, to construction of health centers, to health funds, to disaster-relief funds, and to funds to assist poor households.

Source: Own calculations, based on data from the 2002 VHLSS.

Local taxes and fees, on the other hand, are rather regressive. On the surface, the burden on households appears to be limited, at least compared to VAT. But these figures seriously underestimate such burden, for several reasons. First, there are a variety of local contributions that are not properly captured through the VHLSS (Table 4.4). Second, contributions to road maintenance are reported at their cash (or rather, rice) value, but many poor households make them in labor, which is generally agreed to be more burdensome. And third, these figures do not include a range of user fees collected at the local level, especially for health and education, whose main purpose is to compensate for the insufficiency of budget allocations to meet the cost of service delivery. Those fees appear to be progressive only because the poor make a more limited use of the services.

Overall, replacing revenue from local taxes and contributions by revenue from CIT and VAT would probably make the distribution of the finance burden more equitable. Confronted with a gap between budget allocations and social needs, local governments are resorting to regressive sources of revenue, and raising the cost of social services beyond what is affordable to the poor. If reliance on local revenue is seen as important to develop the tax autonomy of districts and communes, the best choice would be to start preparing for the introduction of a modern real estate property tax. However, any property tax will take time to yield significant revenues. The key to its success is a fiscal cadastre, fair and efficient valuation or appraisal methods, and a fair and transparent administration of the tax, including efficient appeals procedures.

Table 4.4: Local Fees and Charges at the Village Level

	Fee, charge or contribution	Amount	Decided by		
			Commune	Village	Others
1	Security and Defense Fee	1kg grain/sao	✓		
2	Field Security Fee	2kg/sao	✓		
3	Sanitation and Environment Fee	3,000 VND/family/year		✓	
4	Irrigation Fee	From 7.5 to 19.5kg/sao/year	✓		
5	Electricity	690VND/KWh			
6	Canal and Ditch Maintenance Fee	7kg/sao/year	✓		
7	Canal and Ditch Fund	2kg/sao/year			✓
8	Flood and Storm Prevention Fund	Unspecified			
9	Agricultural Extension Fund	2kg/sao/year	✓		
10	Resident Land Tax	0.4kg/m²	✓		
11	Pond and Garden Tax	0.4kg/m²	✓		
12	Fund for Public Works	20kg/year	✓		
13	Kindergarten	30-95,000 VND/child/month		✓	
14	Primary school	200,000 VND/child /year	✓		✓
15	Secondary school	400,000 VND/pupil/year	✓		✓
16	High school	500-700,000 VND/pupil/year	✓		✓
17	Extra Study	1-2,000 VND/pupil/lesson			✓
18	Honor Acknowledgement Fund	At will		✓	
19	Fund for the Poor	From 2-5,000 VND/year		✓	
20	Temple Construction Fund	At will			
21	Fund for flood and storm victims	At will			
22	Grain drying fee	Unspecified			
23	Administration fees	2,000 VND/stamp	✓		
24	Payment for using public land	Bidding price	✓		
25	Market fee	Varies	✓		

Note: The information was compiled in villages 1 and 2 of Huong Ngai commune, Thach That District, Ha Tay province. One sao is equivalent to 360 square meters. One kilo of grain costs approximately 2,000 VND. Education charges include construction fees, repairs, school health insurance and books.

Source: Asia Foundation (forthcoming)

II. Public Management: Efficiency and Integrity

5. EMPLOYMENT AND PAY

The government wage bill of Vietnam is moderate compared to other countries, but it is growing rapidly. By now it accounts for 4.5 percent of GDP, reflecting sizeable pay increases, including a 38 percent raise in 2003. And further increases are planned. The Public Administration Reform (PAR) program adopted in 2001 aims at making pay a major motivation for civil servants, ensuring a good living standard for them and their families. Higher pay is also seen as a way to reduce the incentive for corruption. But the mechanism chosen to raise pay may prove inefficient. Government salaries are governed by a rigid grid that is increasingly disconnected from the pay structure observed in the market. Simply moving the coefficients up by some percentage may lead to salaries which are too high for some, but still too low for others. More or less arbitrary adjustments of the grid may also fail to match the market. Allowing service delivery units which can charge for their services to pay higher salaries to their personnel might work well for the few beneficiaries, but be perceived as unfair by all the rest. As for retrenchment, it may lead to serious pitfalls if it does not serve a clear purpose and is not well designed. Around the world, losing qualified personnel, spending more in compensation than is really needed and re-hiring separated civil servants in other units, or under different contractual arrangements, are among the most common problems with downsizing. The PAR agenda of Vietnam does not pay enough attention to those problems.

Public Administration Reform

The PAR Master Program combines institutional, organizational, human resource and public finance reforms. In practice, it is structured around seven programs: on the development and issuance of normative legal documents; on revising tasks, functions and organizational structures; on modernizing administrative systems; on staff downsizing; on quality improvement of cadres and civil servants; on salary reform; and on improvement of financial management mechanisms for administrative and public service delivery agencies.

Substantial progress has been accomplished during the first three years of implementation of the PAR Master Program. But immediate outcomes have been somehow constrained by the lack of proper timing and sequencing of policy measures and actions. For example, organizational reform and human resource reform should be more closely connected than they currently are. Policy and program coordination is weak, horizontally across ministries, departments, and agencies at central as well as local level. Encouragingly, the Government has recently strengthened the PAR Steering Committee.

In the area of organizational reforms, a number of critical policies have been undertaken. They concern the working procedures, functions, and responsibilities of 18 government ministries and six agencies. A plan for the decentralization of state management to local governments has also been set up. It concerns economics and finance, organization and personnel, and culture, society, health and education. In addition, the laws on the Organization of the People's Councils and People's Committees at All Levels and on the Election of Members of the People's Councils

have been amended in 2004. These two laws address issues related to the functions, responsibilities, and powers of local government authorities.

Good progress has also been made on the decentralization of public service delivery. The OSS model has been adopted nationwide. By October 2004, it has been implemented by about 40 percent of provincial departments, 86 of districts, and about 11 percent of communes. The OSS model is applied to business licensing, land administration, construction, notarization, and social affairs. Transparency and efficiency have been greatly improved through clear and published guidelines indicating the documentation needed, the time allowed to process applications, and the fee levels. For example, after five months of implementation of the OSS model in land administration in Quang Tri province, the time for issuing land tenure certificates fell from 91 to 23 days in the case of urban land, and from 90 to 13 days for rural land.

In the area of improving the quality of civil service, the Amended Ordinance on Cadres and Civil Servants established a new framework in 2003. One of its features is the clear distinction between administrative civil servants and public servants working in public service delivery agencies. This paved the way for establishing different policies for each group. Another important feature is the inclusion of public servants working at commune levels into the coverage of the amended ordinance.

As regards remuneration, the PAR Master Program envisions reforming the minimum wage so that it can ensure a decent living standard, and to adjust the salary multipliers and coefficients in the salary scales to take into account the labor skills required in the civil service. The program also foresees that salaries in the civil service will have to be fully monetized, and adjusted in line with the growth in incomes in the society at large.

Government versus Market

Public administration reform programs typically set ambitious goals for human resource management. Career ladders, job descriptions, performance-related pay and selective downsizing are among the usual reform tools. However, experience shows that implementing changes of this sort in an effective manner can take decades. And pitiful failures along the way are not uncommon. On the other hand, there is much to be gained from aligning salaries and benefits in government to the labor market alternatives of civil servants. Attractive pay is necessary to retain qualified personnel in government, especially at technical and professional levels, and to preserve a high morale in the civil service.

The very concept of "alignment" is problematic, however, as pay structures are substantially different in and out of government. Pay is usually more compressed in government than out of it, meaning that the gap between high and low earnings is much narrower than in the private sector. In the latter, a widening pay gap between the skilled and the unskilled has been a common characteristic of rapid integration with the world economy across developing countries. Which means that in relative terms the same government pay structure looks increasingly compressed over time. Another important difference between remuneration in and out of government concerns its composition. Civil servants tend to be entitled a variety of benefits, such as old-age pension or health insurance, which are not often available to those in the private sector. At least not in practice. They also enjoy less tangible benefits, such as shorter working hours, higher income security, lower effort levels, lower retirement ages and, in some cases, more prestige. It is difficult to account for all those monetary and non-monetary benefits when comparing pay in and out of government.

In Vietnam, civil service pay is based on a complex grid. Government officials are classified in four categories: A and B for higher education graduates, C for graduates from vocational and technical school, and D for the rest. Absent a general pay raise, an employee can get a higher salary through seniority increases or through promotion to a higher grade. Seniority increases take two years in categories C and D, and three years in categories A and B, provided that no serious faults were committed during that period. Promotions require a number of years in the public service, a passing grade on an examination and a certain amount of training. For example, moving from expert (grade 01.003) to principal expert (01.002) requires nine years of seniority and passing an exam. An additional six years and another exam are needed to become a senior expert (01.001).

It is unlikely that a grid of this sort will lead to pay histories resembling those observed out of government. Which in turn suggests that gaps between pay in and out of government may turn out to be quite different for civil servants with different grades. Unfortunately, the method that is most frequently used to estimate such gaps in practice is bound to produce biased results in developing countries. This method focuses on the salaries of a set of private sector jobs whose description is similar to that of public sector jobs. The problem when applying this approach to developing countries is that comparable jobs are mainly or exclusively found in formal sector enterprises. Jobs of this sort might be the relevant alternative for public sector workers at the professional and technical levels. However, tracer studies of public sector workers separated in the context of downsizing programs suggest that the relevant alternative for the government rank-and-file is self-employment, or casual work in informal activities. As salaried jobs in formal sector enterprises are among the best in a developing country, the method based on comparable jobs overestimates the extent to which public sector workers are underpaid, or underestimates the extent to which they are overpaid.

The alternative is to compare the earnings of public sector workers to those of similar workers in the private sector, regardless of whether they are employed in the formal or the informal sector of the economy. Household surveys like those used to estimate poverty are useful in this respect. Those surveys typically report the wages (often including cash bonuses and the value of in-kind benefits) of the household members who do salaried work, and also the labor earnings of some of those who are self-employed. Based on this information, it is possible to compute the average earnings of individuals with different occupations, in different sectors of the economy. In the case of Vietnam, crude comparisons of this sort suggest that civil servants generally enjoy a higher pay than those working out of government (Table 5.1). More specifically, government employees earn less on average than their counterparts in SOEs and foreign enterprises, but more than those in the domestic private sector and the self-employed. Underpayment appears to be substantial for civil servants in professional and administrative occupations, whereas government workers and agricultural laborers appear to be overpaid.

Gaps in Pay and Living Standards

Civil servants differ in several important ways from workers out of government, and those differences should be taken into account when estimating the pay gap between government and market. For instance, according to the 2002 VHLSS the average civil servant has 13 years of formal education, compared to seven years for the average worker out of government. Similarly, roughly one out of two civil servants lives in urban areas, compared to one out of five workers out of government. Clearly, a more educated person who lives in an urban area has better job opportunities. A crude comparison like the one shown above ignores differences of this sort, and

may therefore yield a blurred image of the true pay gap between government and the market. The relevant comparison is between the actual remuneration of civil servants and the remuneration they would enjoy if they left their government jobs. Of course, such alternative remuneration is not directly observable. But there are statistical regularities, known as earnings functions, which allow to predict those alternative earnings reasonably well. Those regularities can be estimated using household survey data, and used to assess whether pay in government is higher or lower than in the jobs that would be accessible to civil servants, were they to leave.

Table 5.1: Pay in the Civil Service and Elsewhere

	In government	Out of government	SOEs	Private firms	Foreign enterprises	Self-employed
All	9568	3099	10572	5143	11993	1788
Professionals	10107	13539	13737	14581	21201	4532
Administrative	5971	11515	10016	9025	13770	12088
Technicians	9574	6483	10244	6457	10099	4864
Workers	6095	2206	6915	4013	9853	1598
Agriculture	7230	3981	8173	5767	6000	3412
Employment share (percent)	5.8	94.2	4.7	22.2	0.7	66.5

Note: Figures include wages and cash benefits, and are expressed in thousand VND per year. Farmers and unpaid family workers are excluded from the analysis.

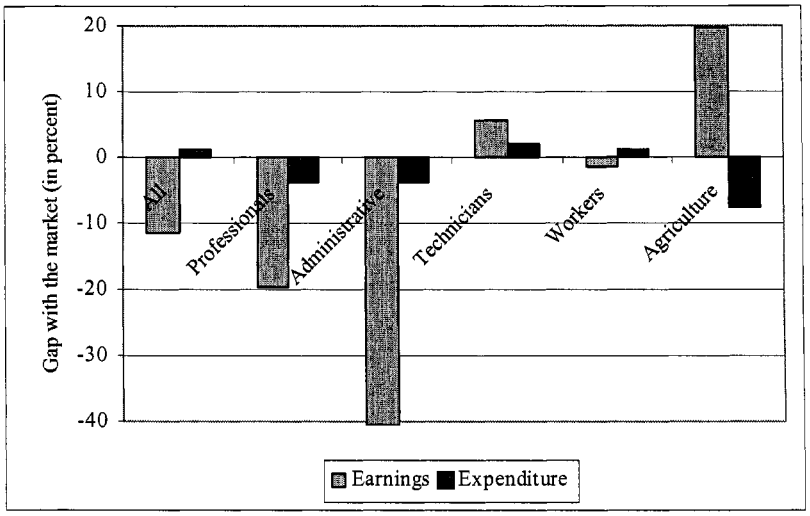
Source: Own calculations based on 2002 VHLSS.

Controlling for differences in individual characteristics, such as the level of education, substantially modifies the gaps between pay in and out of the civil service. For instance, a crude comparison of earnings suggests that technicians earn 48 percent more in government than out of it (9574 thousand VND per year versus 6483 thousand, in Table 5.1). However, this comparison ignores that technicians in government are on average much more educated than those out of it. Once individual characteristics such as education, gender, region of residence and the like are controlled for, it turns out that technicians earn only 6 percent more in government than out of it ("earnings" bars, in Figure 5.1). Civil servants as a group earn 11 percent less than they would out of government. The most disadvantaged categories are administrative employees (they earn 41 percent less) and professionals (20 percent less). Agricultural laborers are the most advantaged one, as they earn 20 percent more than they would out of government.

The comparison above refers to pay only, not to living standards. Because they are generally covered by old-age pension, and have more stable earnings, civil servants can afford to save less, hence to consume more. Also, shorter working hours allow them to hold secondary occupations, hence to supplement their earnings. Such could be the case of teachers (counted among administrative workers in the analysis above), who can "offer" after-school lessons to the families of their pupils. From this perspective, the relevant comparison is not between pay in government and out of it, but rather between the expenditures of civil servants' families and those of similar families, but with no civil servants among their members. Corruption is an additional reason why the relevant comparison involves expenditures, rather than earnings. Low-paid civil

servants could still enjoy decent living standards thanks of the unofficial earnings they can collect thanks to their government jobs.

Figure 5.1: Who is Better-off?



Note: Alternative pay is estimated using a standard earnings function including education, experience, gender and region of residence as explanatory variables. Alternative earnings are estimated based on the same characteristics, plus family characteristics such as its size, age composition and gender of the household head.

Source: Own calculations based on data from 2002 VHLSS.

Gaps in living standards are much narrower than gaps in earnings. Overall, civil servants appear to live slightly better than their counterparts out of government. Professionals and administrative employees are among the most disadvantaged groups, but the gap in household expenditures does not exceed 5 percent, much less than suggested by the gap in earnings. Technicians are better off. Agricultural workers are the most disadvantaged.

These gaps in earnings and household expenditures are for the year 2002. Since then, both the salaries of civil servants and the earnings of workers out of government have increased considerably. Government pay was raised by 38 percent, across the board, in 2003. Based on household survey data, labor earnings out of government have been growing by roughly 10 percent per year. Therefore, as of 2004, the gaps in earnings and expenditures reported in Figure 5.1 should be inflated by roughly 14 percentage points (or 1.38 twice divided by 1.10). Which would still leave the earnings of professionals and administrative employees below the market reference, but would put all other groups clearly above the market.

One potential shortcoming of this statistical approach to the estimation of gaps in pay and living standards is that workers in and out of government may be compared among some dimensions (such as their educational attainment, or whether they live in urban areas) but be different in more subtle ways. For instance, civil servants could be more talented, or less ambitious, or better connected, than their counterparts out of government. Comparing the earnings or expenditures of a civil servant to those of an apparently similar private sector worker

could thus be misleading. What matters is the earnings or living standards this civil servant would have if he or she were to leave his or her government job, taking into account his or her talent, ambition or connections. But those characteristics are difficult to assess based on household survey data. By ignoring relevant unobservable characteristics, the statistical approach could therefore lead to misleading results. How serious is the potential bias introduced by unobservable worker characteristics? A study dealing with SOE workers in Vietnam concluded that they did not make a substantial difference (Box 5.1). Presumably, the same holds true in the case of civil servants.

Box 5.1: Can Pay Gaps Be Credibly Measured?

The presumption that workers in the public sector can be different from workers out of it, not just in their observable characteristics, but also in more subtle ways, is particularly strong in the case of Vietnamese SOEs. For many years after independence, jobs in SOEs were seen as an income transfer, to be allocated in priority to those with the required "political quality", and to the "children and other relatives of existing cadres, of soldiers, of war martyrs, of revolutionaries" (Circular 2/LD-TT/1960). Subsequently, in the early 1990s, SOEs were subject to a massive downsizing program that led to the separation of roughly one third of their workforce, partly on a voluntary basis. Those who remained were probably less entrepreneurial, and had worse earnings opportunities in the private sector. Therefore, both recruitment and separation were based on characteristics (such as political loyalty or business orientation) which are not directly measurable, but could have an impact on the earnings alternatives of public sector workers, if they were to leave their jobs.

Several statistical techniques were used to assess how large that impact was, compared to that of observable characteristics such as age, gender, educational attainment or region of residence. Two, in particular, have an intuitive appeal. One of them focuses only on households who have at least one member working for an SOE and one member working out of the SOE sector. It is reasonable to assume that political connections and business orientation are family characteristics more than individual characteristics. Earnings comparisons across members of the same households allow to disentangle the effect of all characteristics (observable and unobservable) from the gap in pay between the SOE sector and the rest of the economy. The other technique simply "follows" over time individuals who switch from an SOE job to a job out of the public sector, or vice-versa. Because both the observable and unobservable characteristics of those individuals remain roughly the same before and after the switch, all the resulting change in earnings can be attributed to the change in sector of activity.

These two techniques, as well as other, less intuitive ones, yielded estimates of the pay gap between SOEs and the rest of the economy which are similar to those obtained with much more crude statistical methods. It is thus possible to conclude that the estimates are robust and not too sensitive to unobservable worker characteristics.

Source: Sarah Bales and Martin Rama (2001).

This said, in a matter as sensitive as pay policy, it is worth taking additional precautions. One of the main goals of pay reform is to improve morale and retain qualified and committed staff. This will not happen if there is a perception of unfairness, with some colleagues earning much more than they "deserve", and others much less. In the end, the real test to assess whether civil servants pay is aligned with the market is provided by the market itself. Openings for positions which are much more remunerating than the alternatives out of government should attract large numbers of applicants. Vacancies for jobs with low pay, on the other hand, may remain unfilled for long periods of time. A systematic analysis of the number of applicants per vacancy, for all jobs open to competitive recruitment, would be a useful complement to statistical

analyses based on household survey data. Unfortunately, data on applications were not available for the preparation of this report.

Trends in Pay Reform

The current approach to pay reform rests on a distinction between administrative civil servants and government employees who work in service delivery units. The former group was expanded by the Amended Ordinance on Cadres and Civil Servants, passed on 29 April 2003, which included public servants working at the commune level in it. This is a welcome development, as commune employees play a fundamental role in channeling resources to the poor and advocating on behalf of their communities with higher levels of government. At the same time, this Ordinance paved the way for establishing different policies for each of the two groups. Greater flexibility in setting the salaries of employees in the second group will make it easier to develop public-private partnerships for service delivery, thus improving quality and reducing the burden on government. But this strategy is not without risks. It creates an incentive for those who work in service delivery units to charge higher fees, and use the proceeds to increase their own pay. It may also lead to a widening gap in the earnings of otherwise similar government employees, except that they happen to work for different government units.

For civil servants, the PAR master program states that minimum wages have to be raised in order to secure "decent living standards", and the salary grid revised "taking into account the qualities and characteristics of labor of different types". It also stipulates that by the year 2005, the salary system will have been fundamentally reformed, leading to the full monetization of salaries, and the adjustment of pay scales to the increased income levels in society.

In practice, the 38 percent pay raise granted in 2003 increased the share of wages and salaries in total expenditure to 36.5 percent, while it traditionally fluctuated between 27 and 33 percent. This is still modest by international standards, but subsequent increases, foreseen under the public administration reform agenda, are bound to increase this share further. Moreover, these average figures hide considerable regional disparities. Salaries can represent over 80 percent of total expenditures for many local governments. The current pay reform strategy could therefore lead to a squeeze in expenditures related to operations and maintenance at the local level. It may also create an incentive to raise more revenue from the kind of user fees and contributions which are under the control of local governments, despite the fact that these fees and contributions are clearly regressive.

Admittedly, the government of Vietnam is aware of the fact that simply moving the salary grid of civil servants up may not be enough to accomplish the objectives of the PAR Master Program. Discussions are also under way on how to simultaneously decompress government pay. While no formal decisions have been made yet, some sectors are more advanced in their pay reform scenarios. Those scenarios involve changing the "multipliers" of the minimum wage that apply to different grades and steps of the salary grid. The combination of minimum wage increases and changes in the multipliers can substantially affect the overall distribution of salaries.

The education sector provides an interesting illustration (Table 5.2). As of 2002, when the minimum wage was 210 thousand VND per month, the average salary of public education employees in HCMC, Nam Dinh and Nghe An was 511 thousand VND per month. This was clearly less than the average monthly earnings of all individuals working in the education sector (both public and private), which can be estimated at 794 thousand VND. At that time, only

administrative personnel in public education had remunerations "above the market". All other categories, and especially professionals, were "below the market". Pay was also more compressed in public education, the salary of an employee in the top 10th percentile being 1.4 times higher than that of an employee in the bottom 10th percentile. The corresponding "market" ratio, on the other hand, was 4.6.

Table 5.2: A Pay Reform Scenario for the Education Sector

Occupation	2002		Reform scenario	Percent change
	Market	Public employees		
College or university instructor		613	1096	78.8
Secondary school teacher		541	1007	86.3
Primary school teacher		536	873	63.0
Pre-school teacher		450	830	84.6
Other professionals		527	924	75.5
All professionals	814	525	927	76.6
Administrative	415	373	564	51.1
Technicians	323	468	646	38.1
Laborers	568	550	759	38.1
Average	794	511	892	74.7
Top 10 percent/ Bottom 10 percent	4.6	1.4	2.3	

Note: Salary data are in thousand VND per month. Market figures are from the 2002 VHLSS, figures for public employees are based on administrative records from HCMC, Nam Dinh and Nghe An. The ratio between top and bottom salaries is computed based on the cutoff points for the corresponding deciles.

Source: Own calculations based on data from VHLSS and MOET.

As of end 2004, the minimum wage stands at 290 thousand VND per month. If an alternative set of multipliers currently under consideration was applied to the same MOET employees in HCMC, Nam Dinh and Nghe An, their average salary would reach 892 thousand VND. This would amount to an increase of roughly 75 percent. However, the increase would vary by category. For laborers and technicians, the only change would result from the minimum wage raise, as their "multipliers" would remain the same. But the increase would reach 86 percent in the case of secondary school teachers, and 85 percent for pre-school teachers. The overall ratio between the 10th and the 90th percentile would increase to 2.3. A scenario of this sort would bring salaries in public education closer to the market on average. Whether it does so for all categories remains an open question.

Current public administration reform efforts do not spell out what is expected from the civil servants who benefit from pay raises. For instance, up to now low teaching hours had been seen as a mechanism to give teachers the opportunity to earn money through private lessons. If their salaries are to be increased substantially, the question is: what does the government seek to "buy" in return? In exchange for higher pay, one possibility would be to extend teaching hours so as to facilitate the move towards full-day schools. Higher salaries would then compensate for the squeeze in income-earnings opportunities during after-school hours. A commitment to take jobs

in schools located in remote and mountainous areas could be another alternative to consider. Similar "deals" could be proposed to civil servants in other sectors.

The Downsizing Initiative

The current reform in civil service pay is happening in parallel with an ambitious downsizing initiative. Vietnam does not have a bloated bureaucracy, but the broad government reorganization associated with PAR and, more generally, the transition to a market economy, may require selective reductions in staff. There is also a need to make room for younger and more qualified personnel. The objectives, scope and key measures for the implementation of payroll reduction in administrative agencies and public service units were spelled out in the Government's Resolution 16, dated October 8, 2000. The stated target of the program was to reduce by about 15 percent of the direct payroll in the administrative civil service, which includes some 300 thousand employees. However, by October 2004 only 25 thousand civil servants had been retrenched through this mechanism. This could be interpreted as a failure to deliver on the downsizing program, but given the weaknesses in the design of such program, slow progress in its implementation is to some extent reassuring.

Vietnam's downsizing program is part of a broader effort to reform the civil service, including improvements in the issuance of legal documents, a functional reorganization of government agencies, the introduction of information technology and public financial management reform. Labor downsizing is supposed to take place in the context of functional reorganization, based on the redefined roles and functions of government ministries and administration agencies. It is also meant to result from a streamlining of activities and processes, leading to a higher labor productivity even in units whose functional organization does not change much. Downsizing is also seen as a mechanism to layoff civil servants who lack the qualifications, competency or capacity to perform their tasks properly, those with poor ethical standards, and those in poor health.

The compensation policy for retrenched workers combines severance pay and early retirement mechanisms. Redundant employees who are close to retirement are given their pension plus a lump-sum equivalent to three months of salary. Those who are not close to retirement see their severance pay accruing by one month of salary per year of service. Those who voluntarily leave the public sector get two months of salary per year of service, and the government commitment to continue paying social security contributions on their behalf. This compensation policy does not seem to be based on an assessment of the earnings alternatives of retrenched civil servants. In this respect, it is quite different from the social safety net policy set up under Decree 41/2002/ND-CP for redundant SOE workers. It is not clear that the fiscal cost of this compensation policy was assessed either.

In practice, most of the retrenchment has taken place in the context of delegation to spending units, where it has been used as a mechanism to raise the salaries of the rest of the staff (Box 5.2). Moreover, monitoring and evaluation of the conditions under which separations took place appears to be weak. For instance, there has been no tracer survey of retrenched civil servants, to assess whether the compensation policy was appropriate, or insufficient, or excessively generous. This, again, establishes a clear difference with the social safety net for redundant SOE workers, which has already been subject to one thorough evaluation, and will go through a second one in 2005. Also, there are indications that some employees separated from service delivery units got jobs elsewhere in government. But it is unclear whether they actually received compensation, as they were reassigned rather than retrenched.

Box 5.2: Human Resource Management and Delegation Mechanisms

Under Decision 192/2001/QD-TTg and Decree 10/2002/ND-CP, spending units are entitled to reallocate expenditures between line items, without having to seek special permission. In particular, they have some margin to reduce staff numbers and to use the ensuing savings to increase staff remuneration.

After three years of piloting Decision 192, service delivery units in HCMC reported a net staff reduction of about 14 percent. Of the 221 staff who left, 51 were normal retirements, 38 were early retirements and nine resigned voluntarily. The remaining 123 were transferred to other units. In 2002, staff incomes were raised by an average of 241 thousand VND per month in city-level departments, and 507 thousand VND in district agencies. These are very significant amounts compared to the initial salaries, which were close to 600 thousand VND on average. Budget savings totaled 17 billion over three years, equivalent to about one quarter of the block grants. Of these savings, five billion came from staff reductions.

Similar patterns are observed under Decree 10. Information is available on 13 service delivery units in the Ministry of Justice (MOJ), Ministry of Industry (MOI) and MOT. Salary increases in these units averaged 52.3 percent. They were highest in MOI, where they reached 87 percent, and lowest in MOJ, at 32.7 percent. Other service delivery units were also able to support important pay raises thanks to Decree 10. For example, Hanoi University of Law had salary increases of 33.2 percent, Industry Advanced College 4 had increases of 146.5 percent, and the Transportation Hospital One was able to double the wages of its staff. On the other hand, increases were more modest for local service delivery units. According to reports received from 575 of them, the average increase was only four percent, but there was considerable dispersion. For instance, staff pay was increased by three percent in service delivery units in Ben Tre, 15 percent in Dong Thap, 23 percent in Tien Giang and 46 percent in Vinh Long.

Source: James Knowles (2004), MOH (2004) and Christine Wong (2004).

6. INVESTMENT AND RESETTLEMENT

Public sector investment is substantial in Vietnam, reflecting the government's determination to improve infrastructure and boost economic growth. Capital expenditures by the government increased from 6 percent of GDP in 1997 to 8.5 percent of GDP in 2003, one of the highest figures in the region. However, as the most crying infrastructure needs are being addressed, it cannot be taken for granted that all additional investment projects will have high returns. The difficulty to further increase the share of GDP devoted to public sector investment makes it essential to focus on high-return projects that only the government can undertake, leaving it to the private sector to invest in commercially-oriented activities, and also in infrastructure when it is profitable to do so. Unfortunately, the mechanisms to identify and appraise public investment projects in Vietnam are weak. Meanwhile, the drive to accelerate growth is increasingly leading to the approval of projects for which no proper funding is available. Lack of budgetary resources for operations and maintenance is associated with excessively rapid deterioration of infrastructure assets. Lack of funding for the projects themselves is prompting the use of a variety of mechanisms which could eventually undermine the transparency of public financial management. The issuance of sub-national debt and the creation of provincial infrastructure development funds are a matter of concern in this respect. Lack of resources to appropriately handle the resettlement and compensation of the populations affected by the projects is creating social tensions. But there are good provincial experiences in handling public sector investment programs too; the government should consider their "scaling up" through policy guidelines at the national level.

Quantity versus Quality

Investment rates indicate the amount of resources devoted to capital accumulation, but not their impact on key development outcomes, such as economic growth and poverty reduction. Put differently, they measure the quantity of investment, not its quality. While Vietnam is undoubtedly devoting a very large share of its GDP to capital accumulation, the payoff it is getting out of such effort is less clear.

A crude indicator of the productivity of investment, at the aggregate level, is the so-called Incremental Capital-to-Output Ratio (ICOR). This indicator measures how many percentage points of GDP are spent on investment for each additional point of GDP in economic growth. The lower the ICOR, the smaller the amount of resources needed to get an extra one percent of GDP in economic growth. By construction, the growth rate of an economy can be expressed as the investment rate divided by the ICOR. The larger the numerator (or the bigger the quantity of investment) and the lower the denominator (the better the quality of investment) the faster is economic growth.

From an international perspective, Vietnam has done remarkably well in terms of investment quantity, but less so in terms of quality (Table 6.1). Out of a set of 23 countries for which comparable data on capital accumulation, economic growth and poverty reduction could be

assembled, Vietnam came out in third position in terms of its investment rate, but in the seventeenth position in terms of its investment quality (i.e. it had the sixth highest ICOR). The conclusion is similar when looking at poverty alleviation impacts, instead of impacts on economic growth. Vietnam has managed to reduce its poverty rate, in relative terms, by 1.04 percent for every one percent in GDP growth. This indicator is often called the elasticity of poverty reduction to economic growth. By construction, the rate of poverty reduction can be computed as the product of this elasticity times the investment rate divided by the ICOR. Again, Vietnam comes close to the top of the list (fourth out of 23 countries) in terms of its elasticity of poverty reduction to economic growth.

Table 6.1: Investment, Growth and Poverty across Countries

Country	Period	Investment rate (in percent of GDP)	Incremental capital-to-output ratio (ICOR)	Elasticity of poverty to economic growth
Bangladesh	1996-2000	21.5	4.5	-0.04
Belarus	1998-2000	25.3	3.5	2.70
Bolivia	1997-1999	20.7	18.4	-0.15
Burkina Faso	1994-1998	26.7	6.2	0.00
Chile	1996-1998	27.2	6.8	-1.48
China	1996-1998	38.5	4.8	-1.14
Colombia	1991-1992	16.3	5.4	1.50
Dominican Republic	1992-1998	21.7	4.4	-0.50
Egypt	1996-2000	18.9	4.4	-1.45
Honduras	1992-1993	29.7	4.6	1.00
India	1994-2000	23.1	4.2	-0.60
Jordan	1991-1997	31.0	11.4	-0.60
Kyrgyz Republic	1997-1999	18.4	3.8	3.99
Madagascar	1997-1999	14.2	3.1	-0.33
Mauritania	1996-2000	20.9	6.0	-0.90
Pakistan	1993-1999	18.5	7.6	0.60
Peru	1994-1997	23.5	4.6	-0.60
Philippines	1994-1997	23.8	5.2	-0.70
Sri Lanka	1991-1996	25.0	5.2	0.87
Thailand	1990-1992	41.4	4.9	-2.04
Tunisia	1990-1995	29.6	7.5	0.70
Vietnam	*1998-2002*	*33.3*	*6.9*	*-1.04*
Zimbabwe	1991-1996	20.7	24.0	2.85
Vietnam's ranking		3 in 23	17 in 23	4 in 23

Note: Investment rates are computed at current prices; ICOR ratios are computed at constant prices. Rankings are defined in such way that the "top" country has the highest investment rate, the lowest incremental capital-to-output rate, and the highest elasticity of poverty to economic growth (in absolute terms).

Source: Own calculations, based on World Bank (2003) and GSO data.

Looking forward, it will be difficult to increase the investment rate much above its current level. It will also be difficult to continue reducing poverty at the same pace, as an increasingly large fraction of the poor is accounted for by groups with special difficulties (and chiefly among them, ethnic minorities). Just keeping growth as pro-poor as in the past will

actually be a major challenge. This leaves the quality of investment as the main vehicle to sustain faster economic growth and further gains in the fight against poverty.

Impacts of the Investment Program

Aggregate indicators such as the ICOR do not provide enough guidance on how to improve the investment program. In particular, the ICOR does not tell whether the allocation of resources across regions, or across sectors, is sensible. But assessing the effects of a public sector investment program at more disaggregated levels is a difficult task. Infrastructure projects reduce transportation costs, increase the power supply and provide water and sewage connections. But they also have a range of other, more indirect impacts. Better infrastructure makes businesses more profitable, thus leading to job creation and poverty reduction. At the same time, it may be associated with increased congestion, environmental degradation, and traffic accidents. Moreover, some of these impacts might not even be local. A better highway can improve the situation of communities which connect to it through a network of smaller roads. A new power source can increase the energy supply in distant places.

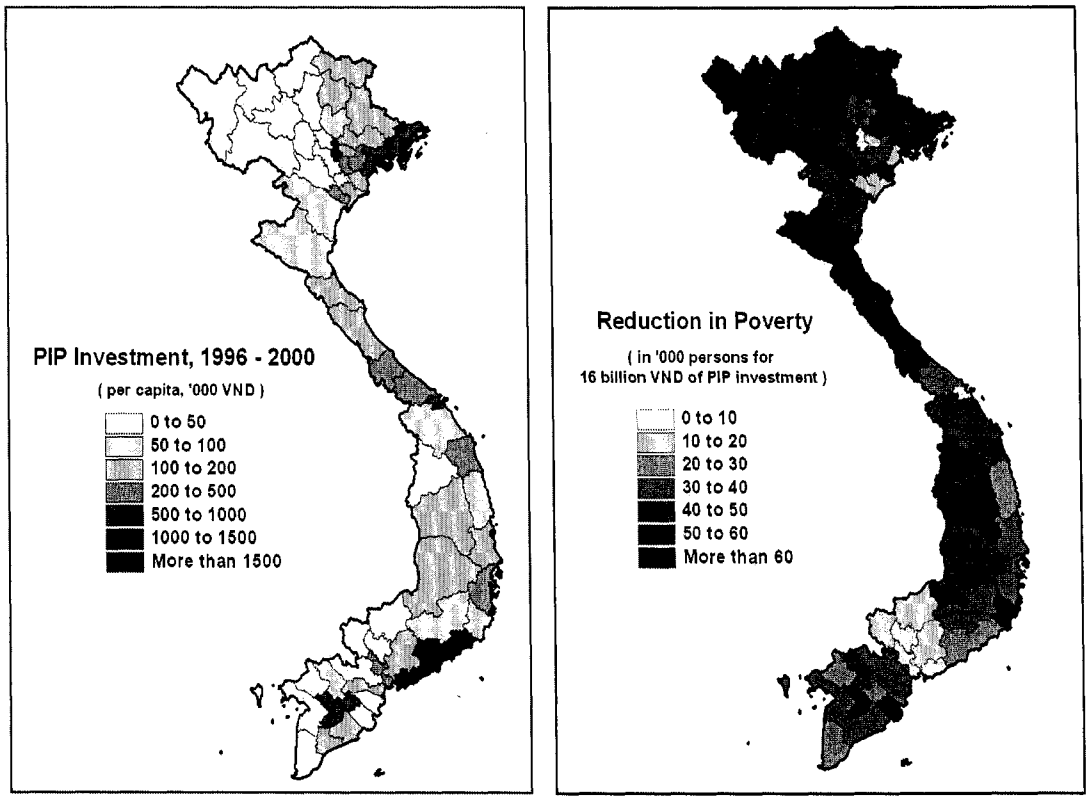
From a statistical perspective, however, the main difficulty in assessing the impact of large-scale infrastructure projects comes from the fact that their size and location are not randomly chosen. A bridge or a road involving very substantial costs will only be built in places with high "potential". Therefore, even with the best information available to compare development outcomes before and after the project becomes operational, the doubt will remain: how much of the change in outcomes was due to the project, and how much to the fact that the place had a high "potential" to begin with?

Keeping these methodological constraints in mind, it is still possible to get a sense of how effective the public investment program of Vietnam has been so far. The focus here is on the largest infrastructure projects in the 1996-2000 PIP, and their impacts on the entire provinces where they were located. (The 2001-2006 PIP is still being implemented, so that it is too early to assess its impact). With help from PMUs and donors, detailed information on location, funding and disbursements could be assembled for 71 of the 109 "A-type" infrastructure projects in the 1996-2000 PIP. These projects also account for roughly 71 percent of all PIP spending in infrastructure. The coverage of these projects varies considerably across sectors. For instance, no "A-type" irrigation projects could be included in the analysis, because information was limited and inconsistent on almost all of them. At the other end, data could be assembled on as many "A-type" projects in energy as there were in the PIP (though they were not necessarily the same ones). Projects in transport and water and sanitation fell in between these two extremes.

For each of these projects, actual spending between 1996 and 2000 was disaggregated by province. This was not always easy. Highway 1, for instance, crosses 30 provinces. Different projects under the 1996-2000 PIP, funded by different donors, have aimed at improving various segments of it, or at upgrading bridges all along its way. Assumptions on costs per kilometer were therefore needed to achieve a meaningful breakdown. The provincial public investment figures resulting from this analysis were then matched with provincial data on poverty reduction, computed out of comparable household surveys, namely the 1998 VLSS and the 2002 VHLSS. Given the time it takes to complete an infrastructure project, it is sensible to consider a two-year lag between investments and impacts, and link investments in 1996-2000 with changes in development outcomes in 1998-2002.

The results of this analysis suggest that the public investment program of Vietnam has made an important contribution to economic growth and poverty reduction (Figure 6.2). These results control for the initial development level of each province, and take into account other investments in each of them (by local governments and by foreign investors). Overall, it appears that an additional ten percent of GDP in public investment has been associated with a proportionate reduction in poverty in the order of two to three percent. The relative reduction in poverty was more important in the richest provinces. But the provincial ranking is reverted when the absolute number of people lifted out of poverty is considered instead. For the same volume of investment, the reduction is much smaller in richer provinces, which have fewer poor people to begin with. Large-scale infrastructure makes a bigger dent in poverty in poorer provinces.

Figure 6.1: PIP Investment and Poverty Reduction



Source: Theo Ib Larsen, Huong Lan Pham and Martin Rama (2004).

Investments in large-scale infrastructure do not necessarily go to the poorest provinces, and understandably so: returns might simply be too low is scarcely populated areas characterized by limited dynamism. Still, the 1996-2000 PIP involved considerable development of public infrastructure in the North East, the North Central Coast and the Mekong Delta. Poverty was high in all these regions, and the PIP may have considerably contributed to its reduction. From this perspective, it is reassuring that the 2001-2005 PIP increased the share of infrastructure investment going to the poorest regions of the country.

Differences across sectors are revealing as well. The provincial poverty impact of public investment in transport, and especially in water in sanitation, is substantially higher. This can be explained in part by the fact that the poverty reduction impact of public investment in energy is geographically less concentrated. Dams, power stations and power lines can indeed raise the consumption of electricity throughout the country, while having a more limited impact on the poverty rates of the localities where they are set up. It also appears that public investment in transport and in water and sanitation is highly progressive, in the sense of having a more considerable poverty reduction impact in poorer provinces.

It is worth pointing out that the analysis relies on a statistical methodology which "corrects" the results for the fact that the size and location of the projects are not randomly chosen. This methodology exploits the gaps in implementation between donor-funded and Vietnamese-funded investment projects. Implementation is much slower for the former group, because donor rules to deal with procurement of goods and services, with environmental standards, and with the resettlement of affected populations, are much more stringent than Vietnamese rules. It also took time to the government officials in charge of implementing donor-funded projects to get acquainted with donor rules. The resulting delays, which could not be anticipated at the time the 1996-2000 PIP was compiled, mimic in some way a random allocation of investment resources, with projects in some provinces being implemented much more rapidly than in others, but for reasons which are not related to the "potential" of those province.

Project Appraisal

Reallocating investment resources across infrastructure sectors, or across regions, should enhance the contribution of the public investment program to economic growth and poverty reduction. But within each sector and within each province, this can only be accomplished on a project-by-project basis. The chapter on large-scale infrastructure, added to the CPRGS in late 2003, proposes a compelling way to do it. This chapter states that investment in infrastructure must be linked to goals for socio-economic development in general and must be planned over a period of several years. It recommends that the selection of priority projects be based on concrete analyses of impacts on each period, each region and each sector. It instructs that the selection be informed by cost-benefit analysis, emphasizing cost recovery. And it requests that impacts on poverty reduction be evaluated, and the beneficiaries of each project clearly identified. The new chapter also states that trade-offs between growth and poverty reduction objectives should be considered, in an effort to harmonize these two goals.

While it is in principle difficult to disagree with these directions, translating them into practical recommendations is not easy. At present, the guidelines for project preparation, appraisal and implementation are spelled out by Decree 52/1999/ND-CP. This decree refers to the need to conduct an economic and financial evaluation of each project, taking into account the investment size, the duration of the operation, the cost and the financial and economic results. It also distinguishes between financial efficiency and socio-economic efficiency. However, it does not provide enough guidance on which costs and benefits to take into consideration (Box 6.1). In practice, competent appraisal agencies often rely on standard indicators such as the net present value or the internal rate of return. But projects are assessed in terms of their direct costs and benefits only, and those costs and benefits are evaluated at market prices. This is a solid starting point, but it may prove insufficient in a developing country. This is because some of the relevant markets can be distorted, imperfect, or missing altogether.

Consider distortions first. Vietnam is now undergoing an accelerated process of integration with the world economy. But tariffs and other trade barriers imply that domestic prices in many sectors are above the corresponding international prices. This is so, in particular, in sectors traditionally dominated by SOEs. An investment project in one of those sectors may yield a high net present value, or a high rate of return, if the additional output from the project is valued at current domestic prices. But the same project may become unprofitable if assessed at international prices. This is just a way of saying that in sectors where it does not have a clear comparative advantage, Vietnam could save resources by importing the goods, rather than trying to produce them domestically. While this may seem a trivial point, it suggests the need to re-appraise all large investment projects by SOEs in light of the commitments made by Vietnam to access the WTO, and of the tariff schedule agreed under AFTA. Investment projects which are not profitable under the protection structure that will prevail in the medium- to long-term should be abandoned, no matter how attractive they look at current prices.

Box 6.1: Rural Roads: Paved or Gravel?

There has been considerable debate in Vietnam on whether rural roads should be paved or gravel. Engineers and communities tend to give different answers to this question. This is not because they have different information on the technical merits of the alternatives, but rather because they have different views on the institutional environment in which road maintenance takes place. Both sides have in mind a rational criterion to make the decision, but they focus on a different set of options.

The duration of a gravel road depends not only on its surfacing, but also on a range of other factors, including its terrain slope, the propensity to flooding of the area it is built on, its use by overloaded vehicles, and the like. This damage can be addressed through proper maintenance. Paved roads remain operational for longer periods. But eventually they have to be almost entirely re-built, which is expensive. Engineers point out that rich countries, like the US, do have gravel roads, because this can be the most cost-effective solution in sections of flat terrain, low risk of flooding and light travel loads. Communities, on the other hand, often claim that maintenance does not take place and, in the absence of maintenance, paving can still be the most cost-effective solution.

To make the source of the disagreement more transparent, consider a simple mathematical example. Let CP and CG be the cost of building a paved road and a gravel road respectively. Assume that the paved road lasts for YP years and needs to be rebuilt subsequently. With annual maintenance costs M, the gravel road lasts for YM years. Without maintenance, it lasts for YG years only. The annual cost is thus CP/YP for the paved road, CG/YM + M for the gravel road with maintenance, and CG/YG for the gravel road without maintenance. Engineers compare CP/YP with CG/YM + M and, if the former is higher, recommend gravel. Communities, on the other hand, compare CP/YP with CG/YG; if the latter is higher, they favor paving. Which of these comparisons is the right one depends on the quality of maintenance. Engineers emphasize the need to improve maintenance capacity. But this is a potentially demanding institutional reform. If it takes more than YG years to be implemented, then it is the communities who are right.

Market imperfections are typical of developing countries, and many public investment projects actually aim at correcting them. The most obvious example is business development and job creation. A road may reduce transportation costs, and this is clearly the first benefit that should be computed when appraising the project. But it may also be decisive for enterprises to settle along its way. This is what many policy makers have in mind when they talk about creating development poles, or igniting local growth. The fact that a number of enterprises will find it profitable to set up their businesses because of the investment project needs to be factored in. But it is equally important to avoid double counting. Clearly, it would be a mistake to add the entire

output of such enterprises to the returns of the project, because absent the project the land, labor and capital these enterprises use would have been devoted to other activities.

One practical shortcut is to estimate the number of workers who are expected to move out of agricultural or informal sector jobs into these new enterprises, and to also estimate the increase in pay they could experience as a result of this move. The overall, net gain in labor earnings could then be added to the returns of the project. Admittedly, predicting the impact of an infrastructure project on business development is difficult. But in the case of transport projects, at least, the experience elsewhere in the country could serve as an indication. For instance, previous assessments of the social impacts of infrastructure projects, such as those conducted for Highway 5 and the My Thuan bridge, could serve as a reference for similar projects.

Missing markets are at the roots of environmental problems. From a purely financial perspective, there are no "costs" attached to the pollution a project may generate, or to the additional congestion it may create, or to the death toll and health damage that may result from associated traffic accidents, despite the fact that those costs are very real for the society as a whole. But public investment projects ought to take them into account. In the case of pollution, clean-up expenses should be added to the overall project cost when estimating its returns, even if clean-up activities are not part of the project. Estimating these expenses is bound to become easier, as Environmental Impact Assessments (EIA) are being mainstreamed for investment projects at all levels. In the case of congestion, it is the cost of the additional infrastructure needed to cope with the vehicle traffic generated by the project that needs to be factored in. Unfortunately, congestion costs tend to be overlooked in the drive to invest in the most thriving locations, which also tend to be the most crowded ones. As for traffic accidents, incorporating their costs in terms of lives lost and damaged should become a standard practice in project appraisal.

The Funding for Infrastructure

Public sector projects should not be put through if they do not display a high rate of return, after taking into account that the relevant markets might be distorted, imperfect or simply missing. But not all projects with a high rate of return should be the responsibility of the public sector. On the contrary, it is preferable to leave it to the private sector to undertake as many projects as possible, and to use the government's limited resources to focus on socially desirable projects that would not be implemented otherwise. For instance, there is no particular reason for the public sector to invest in commercially-oriented activities, unless they are deemed in any way strategic. Decision 155/2004/QD-TTg is a positive step in this direction, as it spells out a "positive" list of sectors where public sector participation is considered desirable, in the understanding that in the remaining sectors it is not.

Increased reliance on private investment, including private participation in infrastructure projects, would relieve some of the current pressure on public resources. The 2001-2005 PIP is expected to mobilize 550 trillion VND, or 70 percent more than the previous PIP. The government budget will contribute some 36 percent of this total, with the rest coming from DAF (including the on-lending of ODA) and retained SOE profits. In principle, the budget will not be used to invest in SOE projects. But the latter can get DAF support as long as the SOE business plans are approved by the competent authorities. The terms for DAF support have been considerably strengthened under Decree 106/2004/ND-CP. But despite these improvements in policy lending mechanisms, or maybe because of them, the amount of resources available for

public sector investment falls short of the current demand, by a wide margin. Confronted with such shortage, line ministries and provincial governments are creatively designing new mechanisms to mobilize additional funding. While such mechanisms may seem sensible from the perspective of the investing units, they are more questionable from an aggregate perspective, and especially at a time when considerable efforts are being made to increase the efficiency and transparency of public financial management.

Issuing debt is one of such mechanisms. Some of that debt is explicit, as in the case of infrastructure bonds. A first series was issued, in 2003, reaching 5,000 billion VND, of which 3,200 billion were reportedly spent on transport. Another bond issue, in 2004, should raise 9,000 billion VND. HCMC's municipal bonds are also part of the explicit investment-related debt. In late 2003, the city sold 1,750 billion VND in two-year and five-year bonds, at annual interest rates of 8.52 and 9.0 percent respectively. This is the first operation of such kind in Vietnam. Other provincial governments lack the credit-worthiness to issue debt or borrow from financial institutions. Which means that for now there is no fiscal threat posed by sub-national debt. But given the demand for infrastructure investment, it is expected that the outstanding volume of municipal bonds will increase substantially. For this process to be sustainable, it has to be conducted in an orderly manner, and preserving fiscal discipline. In particular, there is a risk that a rapid move to issue debt by the richest provinces may crowd out the poorest ones later on.

Some debts are less explicit, however. Several ministries have been financing investment projects by borrowing from commercial banks through their affiliated SOEs, in the expectation of being bailed out by the government later on. In the case of MARD, where budget appropriations account for 60 of the investment needs only, outstanding debts for capital construction in irrigation have reached 800 billion VND. MOT arrears with contractors are reported as 1,200 billion VND, and those of the Transport Construction Corporation, under MOT too, as 1,000 billion VND. The VRA also spends more than its allocated resources, by incurring arrears to contractors to be paid in subsequent years. Its arrears are presently estimated at 800 billion VND. Not surprisingly, the actual implementation expenditures of the transport sector exceed the planned budget by a margin of 25 to 30 percent. By now, many localities have become debtors for years, and many contractors have been forced to borrow from commercial banks at high interest rates for years while waiting for government agencies to repay them.

It has been argued that clearing these bad debts is a priority. And there are precedents for such clearance. Decision No 244/1999/QD-TTg allowed to cover a capital overspending worth 2003 billion VND, and Decision No 1116/2001/QD-TTg did the same for an additional 1060 billion VND. But this solution also entails a moral hazard problem, as the indebted ministries and provinces could simply start borrowing again. The government thus requested line ministries and local governments to distinguish between projects that were part of a master plan and projects that were not. Debts linked to the former, estimated at 5 trillion VND, will be gradually absorbed through future allocations by the state budget. The remaining 6 trillion VND of outstanding debts will have to be balanced by the project owners themselves. In the meantime, other creative solutions to fund infrastructure are being developed, especially under the form of provincial investment development funds (Box 6.2).

Population Resettlement

Limited finance is not the only obstacle faced by infrastructure projects: dealing with the population groups who live along their way has proved equally difficult. Conflicts over the

resettlement of affected populations can be bitter, which is not surprising given how scarce land is in Vietnam. A case in point is the An Khanh industrial zone, in Ha Tay province, whose construction was authorized in 2001. The 854 households living in the 30 hectares of agricultural land affected by the project actively resisted this development, on the grounds that the compensation offered was insufficient, and certainly lower than for similar projects in nearby Hanoi. It took years, and the intervention of high levels of government, to convince these households to accept a deal. In the meantime, investors which had been allocated land within the industrial zone were put out by the conflict.

Box 6.2: Urban Infrastructure Development Funds

Like many other provinces of Vietnam, HCMC is confronted with state budget allocations that are insufficient to meet its infrastructure development needs. To address this problem, in 1997 the government established on a pilot basis the HCMC Investment Fund for Urban Development (HIFU). This is a state financial institution under HCMC People's Committee, aimed at increasing the effectiveness in the use of the state budget and non-state funds. HIFU operates as a legal entity with an independent accounting system. It must cover its costs and operate at its own risk, being responsible for raising capital and repaying debts. Based on HIFU's encouraging results, similar investment funds were established in 12 other provinces.

So far, HIFU has disbursed 1,200 billion VND in trust fund resources. It has also lent 1,800 billion VND to some 155 projects in transportation, treated water, development of residential areas, industrial parks, health and education. This lending is funded out of HIFU's own capital and syndicated bank loans. In addition to direct financing of infrastructure projects, HIFU has also founded or invested in several companies, including the HCMC Securities Company, with a registered capital of 50 billion VND, the Housing Development Commercial Joint Stock Bank (70 billion VND) and Viet A Commercial Joint Stock Bank (70 billion VND). HIFU has also invested in a range of equitized companies, with an eye to becoming a financial holding exercising state shareholder rights.

Before the creation of HIFU, budget resources were allocated to public investment projects without any payback obligation. But when HIFU was founded, the local government assigned it a capital with the mandate to manage resource disbursement, utilization, and repayment. This new mechanism amounted to replacing budget disbursement by budget lending. Over the years, HIFU has organized loan syndication with banks to finance large infrastructure projects. It has also mobilized funds through joint stock companies, in what is claimed to be a model of public-private partnership. And it has been the organizer of the first issuance of sub-national debt in Vietnam.

Vietnam's resettlement policies have improved considerably in recent years. Before 1992, land could be recovered without compensation, or with compensation paid only to the local government or the collective organizations that had been allocated that land. Starting with the 1992 Constitution and the 1993 Land Law, the legal foundations for resettlement policies were gradually spelled out, with operational guidance provided by Decree 22/1998/ND-CP, and further improvements taking place under the 2003 Land Law. It is by now accepted that compensation should be provided for the loss of land and properties attached to the land. Assistance measures for stabilizing the living standards of affected populations have been introduced, and the general principle that resettlement sites should offer conditions which are equal or better than the previous ones has been acknowledged.

One of the main difficulties with the practical implementation of resettlement policies in Vietnam concerns "illegal" land occupants. According to international practice, all land occupants prior to the launching of an investment project are entitled to assistance and

compensation. Only subsequent occupants are treated as illegal. In Vietnam, however, only households with an LUC are legally entitled to receive assistance. Given how slow the issuance of LUCs has been in urban areas, many of the "illegal" occupants are actually long-term residents. Decree 22 opened up the possibility for a more generous approach, by stating that "Provincial People's Committee will consider to assist illegal land users on the case-by-case basis". But given limited resources, not all local governments are keen to use this prerogative.

Other differences with international practice concern the methods used to determine the amount of compensation to be offered. In donor-funded projects, for instance, a precise estimate of the replacement cost of each of the assets lost is established through a market-based valuation process. Vietnamese policies, while requiring that compensation for land lost be calculated at a price "close" to the market transfer of the corresponding LUC, also grant provincial governments the authority to set the prices of different categories of land. These administrative prices often fail to reflect market conditions and are not updated on a regular basis. Donor guidelines also require that businesses lost be compensated in full, which is not considered in Vietnamese policies. Another important difference refers to the timing of compensation. In donor-funded projects, it has to be completed before any resettlement takes place. In locally-funded projects, land clearance often takes place before any assistance can be provided.

Many of the gaps between international principles and Vietnamese policies disappeared, on paper at least, with the 2003 Land Law. The remaining gaps at this point refer to the need to inform and consult the resettled populations, and to actively help them integrate in their new host communities. While provincial governments can undertake these additional steps if they wish, they are not mandated to do so. Independent monitoring of the implementation of resettlement plans is not part of Vietnamese policies either, although it tends to be required on donor-funded projects. But these differences notwithstanding, there is a fundamental similarity between donor guidelines and Vietnamese policies. In both cases, the approach to compensation is based on the costing of a list of material items, more than on the actual attainment of a level of subjective wellbeing (Box 6.3).

A tracer survey was conducted in three major cities to assess how resettled populations had fared in terms of wellbeing. The focus was on investment projects for road widening, apartment building and other infrastructure construction in HCMC, Hanoi and Danang. None of these projects involved donor funding, so that affected households were assisted under the Vietnamese policies in force before the issuance of the new Land Law, not under donor guidelines. In each of the three cities, a random sample of 320 households affected over the last six months to two years was drawn. However, the fraction that could be located was much higher in Danang than in HCMC and Hanoi (Table 6.2). Counting 28 households which were still living in temporary arrangements, and whose responses were thus not counted, around 85 percent of the sample was actually located and surveyed in Danang, compared to roughly 55 percent in HCMC and Hanoi. The inability to locate a large fraction of the resettled households in HCMC and Hanoi is possibly associated with a statistical bias. The households that could be located are those who managed to get (and keep) a piece of land or an apartment. These households are presumably better off, compared to those who had to find new accommodation on their own. Or, put differently, the average wellbeing of resettled households in HCMC and Hanoi is probably lower than indicated by the tracer survey.

Overall, it appears that the livelihoods of resettled households were affected in many, very diverse ways. Direct compensation was clearly insufficient, if measured against the value of the assets lost. However, resettled households in Hanoi and Danang managed to make substantial capital gains subsequently. In Hanoi, those gains are probably related to the broader real estate boom, meaning that resettled households may not have fared better than the rest. In Danang, the

gains were to a large extent associated with access to land at below-market prices. Other substantial gains are related to the broader quality of life in the new neighborhoods. While the ability to provide for everyday needs seems to be slightly worse than before resettlement, there is a general level of satisfaction with access to education and health, and with the neighborhood environment in terms of security and the ability to maintain social life. Satisfaction in this respect is particularly high in Danang.

Box 6.3: Job Loss versus Land Loss

Much the same as investment projects require that households be moved out of specific locations, economic reforms often entail job losses in specific sectors of activity, mainly in government or SOEs. In both cases, it has become common practice to identify mechanisms to compensate those who otherwise stand to lose, so that the fruits of economic development can be shared by all. But the approach to compensation turns out to be quite different in both cases.

In the case of job loss, an estimate of the change in earnings and wellbeing to be experienced by retrenched workers is produced beforehand. This estimate is usually based on household survey data, focusing on the earnings, benefits and living conditions of workers who are similar in all respects to those who stand to lose their jobs. The estimate is in turn used to develop a compensation formula that could yield fair outcomes, in the sense of transferring more resources to those who stand to lose more. Typical formulas involve some number of years of salary, or months of salary per year of service, and may also include a lump-sum component. Ideally, compensation is offered on a voluntary basis, and its acceptance by redundant workers is seen as confirmation that (in expectation, at least) the deal does not involve a loss in wellbeing. In practice, voluntary schemes may raise self-selection problems, whereby the most qualified workers tend to leave, and the least qualified to stay, which might be considered detrimental for the reform program. Regardless of whether the package is voluntary or mandatory, tracer surveys of retrenched workers can be used to assess the resulting change in earnings and wellbeing, and adjust compensation formulas if necessary. This is actually the approach followed in Vietnam under Decree 41/2002/ND-CP, which created a safety net fund for redundant SOE workers.

In the case of land loss, the compensation formula is based on the valuation of a list of assets, mainly the land itself and any buildings and businesses facilities on it. In the most extreme case, compensation takes the form of "land for land". This is despite the fact that resettlement might entail losses and gains in a variety of other areas. Job opportunities, neighborhood life, social services, criminality are obvious examples, which "land for land" deals cannot easily take into account. The equivalent of such deals, in the case of job loss, would be to find jobs with the same pay and benefits for workers to be retrenched. Moreover, in the case of Vietnam, some of the most important gains that resettled households can achieve are related to their access to under-priced land. The ensuing capital gains are potentially one of the most important components of Vietnamese compensation packages, but they are not considered in donor guidelines.

The wide diversity of gains and losses from resettlement suggests that even the most carefully designed compensation package may create winners and losers. From this perspective, monitoring efforts should not be focused only on the formal compliance with resettlement guidelines, but also on the assessment of wellbeing before and after resettlement, and the systematic use of redress mechanisms for the population groups who are adversely affected. Monitoring along these lines can also be used to learn from experience, and adjust resettlement policies accordingly.

This said, half of the respondents across the three cities consider that their situation deteriorated as a result of resettlement. Only a fifth to a third declare that they did not regret having to move. By comparison, roughly two thirds of the SOE workers assisted by the social safety net fund set up under Decree 41 declared that their situation had not deteriorated as a result of retrenchment. It follows that the Vietnamese resettlement policies in force before the new

Land Law were not generous enough. Whether additional resources should be provided under the form of land or cash, and what the compensation rules should be, remain open questions. But it seems quite clear that resettlement programs need to be more generous.

Table 6.2: Household Views on Resettlement

	HCMC	Hanoi	Danang
Could refuse the compensation package	0.0	2.2	12.5
The compensation entitlement was easy to understand	27.6	70.4	17.9
Received compensation before being resettled	56.5	70.4	45.8
Complained about the process and was listened to	27.1	10.5	49.1
Ability to provide for everyday needs similar or better	44.7	43.0	44.6
Ability to keep family together similar or better	62.4	66.5	66.3
Quality of residence similar or better	84.1	49.2	76.3
Access to education for children similar or better	73.5	78.2	87.5
Access to healthcare similar or better	77.1	82.7	86.7
Ability to maintain friends similar or better	69.4	64.2	81.3
Level of security similar or better	82.9	82.7	82.1
Compensation package exceeded 75 percent of lost value	18.9	17.7	20.6
Land/apartment value exceeds 150 percent of price paid	6.3	50.3	47.0
All things considered situation is similar or better now	50.6	49.7	52.5
Does not regret having been resettled	33.1	19.0	22.5
Resettled households which could be located	170	179	240

Source: IER (forthcoming), HISEDS (forthcoming) and CERUPAD (forthcoming).

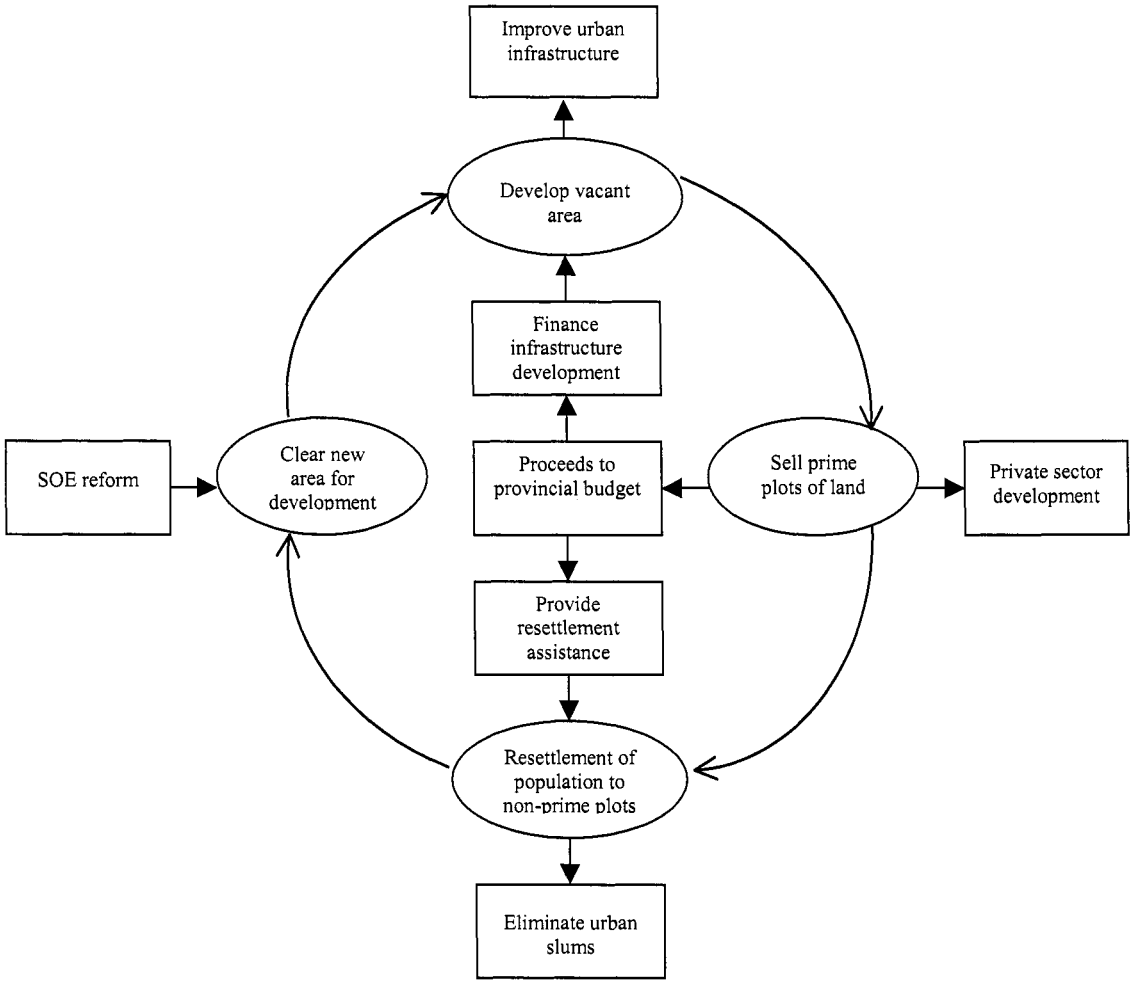
The Way Forward?

The case of Danang might not stand out in terms of the generosity of the compensation provided, but it does in terms of its transparency. The fact that some 85 percent of the households in the sample of the tracer survey could be located is in itself revealing. The cities' resettlement boards and PMUs knew where the households affected by the infrastructure projects lived. This was not the case in HCMC and Hanoi, where massive efforts, involving neighbors and the police, were needed to locate a much smaller fraction of the affected households. Admittedly, part of the difference can be accounted on the basis that HCMC and Hanoi are bigger cities. But another part seems to be due to a stronger focus on household wellbeing. Resettlement boards in Danang have well-staffed offices to handle queries and complaints. The Provincial People's Committee has open-door days, every week, to receive households affected by investment projects. Not surprisingly, the share of households who complained and felt that their concerns had been heard turned out to be much higher in Danang. And this is despite the fact that initially much fewer of them understood what their entitlements were.

Fairness has actually been at the center of Danang's approach to resettlement. It is well-known by the population that the chairman of the Provincial People's Committee had his house

demolished, and is currently living in a rented place while waiting that land be allocated to his family. It has also been a common practice, despite official claims to the contrary, to process donor-funded projects under Vietnamese resettlement policies. This is because different treatment for different households (often neighbors), depending on whose resources are being used, could undermine the overall perception of fairness. Consensus on the transparency of the mechanisms in place has been instrumental for the Provincial People's Committee to reclaim idle land from provincially-owned SOEs and the Army. Which in turn has allowed a very ambitious program of urban infrastructure development.

Figure 6.2: Danang's Virtuous Circle



Over a seven-year period, one in five households was resettled to make way for new roads, pipes and electric grids. By the time the master plan is fully implemented, one in three households will have moved. The change in the quality of the infrastructure and the living standards of the population is visible. And the whole process is to a large extent self-financed, as a large proportion of the resources for infrastructure development and population resettlement come from the sale of prime land, once the roads, pipes and electric grids are in place (Figure 6.2). With proper adjustments to ensure that there is no decline in living standards for the

affected populations, this approach could easily become a model for infrastructure development at the national level. The new Land Law, and a revised version of Decree 22, could pave the way to scale up the Danang experience.

7. ASSETS AND LIABILITIES

Owing to the long period under central planning, the range of assets owned by the government is much broader in Vietnam than in other countries at a similar development level. The use of agricultural land has been in the hands of rural households for about a decade now, but the government still retains control of large portions of forest land, and of valuable plots of urban land. Such land is currently in the hands of SOEs and State forestry enterprises (SFEs), which are often reluctant to let it go. And yet, its recall could improve the living conditions of ethnic minorities in the uplands and help develop the private sector in urban areas. Also, because the economic transition of Vietnam has not rested on massive privatization, the government still owns thousands of SOEs, as well as five SOCBs accounting for three quarters of commercial credit to the economy. The ability of the government to monitor the performance of these SOEs and SOCBs, and to exercise its rights as a shareholder, are very limited for now. But failure to strengthen their corporate governance, to dispose of poorly performing SOEs and to improve the overall supervision of the banking system could create massive contingent liabilities for the government. This risk is enhanced by the increase in competition that will result from WTO accession. Foreign banks could succeed in attracting the best customers, in which case SOCBs would end up cornered into lending to the worst-performing SOEs. The issuance of debt by provincial governments, and the potentially low quality of DAF credit, are other potential sources of government liabilities. On the other hand, the external debt of Vietnam is manageable and its burden can be expected to decline steadily, provided that the economy, and especially exports, keep growing at a reasonable pace.

Land

Between 1988 and 1993, almost all of the agricultural land of Vietnam was distributed to rural households. Admittedly, land ownership has remained in state hands, with only its use allocated on a long-term basis. Still this process of de-collectivization amounted to a massive transfer of wealth to a poor segment of the population. Given the high population density of Vietnam, land is arguably the country's most valuable asset. A back-of-the-envelope calculation can give a sense of magnitudes. Nowadays, a hectare of irrigated land is worth about 85 million VND, and a hectare of non-irrigated land perhaps 30 million. LUCs have been allocated on roughly 4 million hectares of irrigated land and 3 million hectares of non-irrigated land. This is the equivalent of 430 trillion VND, or roughly 70 percent of Vietnam's GDP, which shows how sizeable the redistribution from land reform was.

Despite such massive transfer, not all land has been allocated and the land market remains underdeveloped. By end-2003, LUCs had been issued on 90 percent of agricultural land, 75 percent of rural residential land, 25 percent of forest land, 20 percent of urban industrial land, and only 15 percent of urban residential land. Ethnic minorities, which are among the poorest population groups in Vietnam, were not among the beneficiaries of the de-collectivization of the early 1990s. The land they live on and the forests which sustain their often precarious livelihoods are still in state hands, and most often under the control of SFEs (Box 7.1). Other concerns refer to the lack of transparency and accountability in the administrative processes of land survey,

land-use zoning, and certification, thereby facilitating opportunities for manipulation by local elites, particularly with respect to forest land. Owing to high transaction costs, many LUC transfers remain unregistered, making the titling process obsolete.

Box 7.1: Releasing Unused Forest Land

SFEs currently control 40 percent of the 11 million hectares of land classified as "forest", which are often located in the poorest parts of the country. SFEs generally have contracted-out this land to local households to grow trees or other perennials. Many among the poor depend on it for their livelihood, especially in the North East, North West and the North Central Coast regions. This is particularly true for ethnic minorities in the northern regions of Vietnam who "have" on average almost 1 hectare of forest land each. But the poor seem to have benefited little from this asset. The persistence of poverty in many of the upland areas is related to the inability to turn forest land into more productive uses. Weak land tenure security, and the lack of suitable-land use technologies for upland areas, are among the reasons for low productivity.

A decree is currently in preparation to speed up the allocation of forest land to local people and provide them with secure tenure arrangements. This decree aims at equitizing the commercially viable parts of SFEs and handing over their environmental protection functions to Forest Management Boards. LUCs for the land that SFEs cannot exploit commercially and does not have conservation value will be handed over to local households and communities.

Further, the revised law on Forest Protection and Development, submitted to the National Assembly in May 2004, provides the overall framework for a move towards social- and community-based forestry. For the first time, the rights of households, communities and other sectors to use forests, as well as their ownership of plantation forest, will be explicitly recognized. The law also proposes to assign an economic value to each forest production area as the basis for their allocation or lease to forest managers.

The amendment of the Land Law which came into effect in 2004 represents an important improvement to this situation. The new law should speed up the registration of land legally occupied thanks to a network of district Land Registration Agencies (LRAs), and to time limits on several of the administrative procedures involved. It also strengthens the enforcement of recall and reallocation decisions concerning underutilized land in the hands of SOEs and SFEs. As for market development, the new law introduces an allocation system whereby businesses can pay a lump-sum fee in exchange for full land-use rights, including the possibility to transfer or guarantee the land, or to contribute it as capital. It sets up a more market-oriented mechanism to "price" land, and recognizes the rights of participants in the land market.

In the end, much will depend on the implementation guidelines for this law. One of the most important difficulties concerns the practical steps to set an administrative price of land which is "based on normal market circumstances". The new land law stipulates that land prices shall be determined either by provincial People's Committees, by auction of LUCs, by agreement among land users and concerned parties, or based on the price registered by the owner, provided that it is within an acceptable range. Open public bidding has been successfully piloted for urban estate development projects in Hanoi and HCMC. Extending this pilot to land for industrial and commercial use would be a welcome move.

Lack of land for business purposes is becoming an obstacle to private sector development (Box 7.2). Most of the land allocated for commercial or industrial activities is in the hand of SOEs, often for an indefinite period of time. Yet, this land is not counted as an asset of the beneficiary SOEs, and has no LUCs attached to it. A nominal annual use fee is paid for it, either by the SOEs themselves or from the government agencies they report to. In principle, SOEs may only use the land for the purpose for which it was allocated. They may not sell it or transfer it, and are not formally authorized to sub-lease it either. As for equitized SOEs, guidelines on the treatment of the land previously granted to them are unclear. In practice, SOEs have been equitized without any value assigned to the land they occupy, so tended to be under-priced. After equitization, these SOEs typically apply to convert the land they occupy in order to get the corresponding LUCs.

Box 7.2: Access to Land for Business Development

The Hanoi province illustrates the disadvantages faced by private enterprises in their access to land, compared to SOEs. Owing to historical factors, most available land in Hanoi is already allocated,. As a result, only 428 new rental contracts covering about 3 million square meters were issued between 1994 and 2002. More than half of those new contracts, involving 95 percent of the land rented out, went for SOEs. The rest was for private firms and cooperatives.

By law, SOEs are required to return any unused land to the state and cannot sublease the land they have been granted to any third party. But procedures to recall such land are ineffective to date. To address this problem, the draft implementation guidelines for the new land law require all SOEs to apply for LUCs. Land that is unused, or not used for the purpose it was originally allocated for, would be recalled. The draft guidelines also state that in the future land will not be allocated without land use fee to SOEs or any commercial organizations, which should help level the playing field. The practical difficulty, of course, will be to make SOEs apply for LUCs.

Meanwhile, many private firms are informally subleasing land from SOEs, at a negotiated rate which is usually much higher than the official leasing rate from the state. But in those cases, the government cannot claim any tax on the rental income, while private firms cannot deduct the rent as a business expense. In light of these practices, and the difficulties to formally recall any unused land, the government should consider enabling SOEs to sell or lease part or all of the land allocated to them.

Source: Amanda S. Carlier and Son Thanh Tran (2004).

State-Owned Enterprises

The newly available enterprise censuses suggest that SOEs are becoming more profit-oriented and their overall performance is certainly not dismal. While less dynamic than their private sector counterparts, SOEs in manufacturing have been expanding their output at a consistent 12 percent per year, which would be considered more than satisfactory in many countries around the world. A study on labor over-staffing in SOE found that it was modest, if not negligible, in sectors such as textiles, garments and food processing. Even in coal, where as many as 40,000 workers could be redundant, run of mine is growing at around 20 percent per year. Increased competition in product markets, and a gradual tightening of the budget constraint faced by SOEs, have probably been the main forces behind this relatively good performance.

However, faster productivity gains in SOEs are hampered by their weak corporate governance (Box 7.3). Bringing in non-state investors and putting the operation of SOEs under the same rules that govern private sector firms could improve matters. This is what equitization is supposed to accomplish. Equitization is a process through which shares are sold and the SOEs are converted into joint stock companies under the Enterprise Law. And on the surface, it has been quite successful. The annual number of equitizations increased markedly in 1998, and accelerated again in 2002, after 104 three-year restructuring plans were approved, one for each line ministry, central agency and provincial government (Figure 7.1). Formation of new SOEs largely ceased in mid 2001. Moreover, equitization is not the only mechanism to divest state capital and change the rules for corporate governance. Taking into account the transformation of SOEs by other means, such as direct sales and lease contracts, as well as a few liquidations, the total number of enterprises operating under the SOE Law has fallen from almost six thousand in 1997 to about four thousand in mid 2004. A tracer study of 422 equitized SOEs found clear evidence of an improvement in their performance, across a range of indicators.

Box 7.3: Main Findings of SOE Diagnostic Studies

Detailed assessments of the situation of 41 SOEs, affiliated with 9 General Corporations (GCs), were conducted over the last three years. The main objective of this exercise was to improve the understanding of the financial health of major SOEs. It was also expected that the exercise would help identify key performance indicators for the monitoring of SOE performance. The sectors covered include seafood, rubber, food products, sugar, paper, steel, cement, textiles and garments, and ports.

One of the main findings of these studies is that the current incentive structure of SOEs does not encourage management and staff to put in their best efforts. There are penalties for loss-makers, so that SOEs are likely to at least break even. But there are limited encouragements to compete and improve performance. As a result, the variance in SOE returns is much smaller than could be expected, given their differences in competitiveness. On average, the return on equity is 8.6 percent. Many of the SOEs diagnosed have the potential to achieve higher returns.

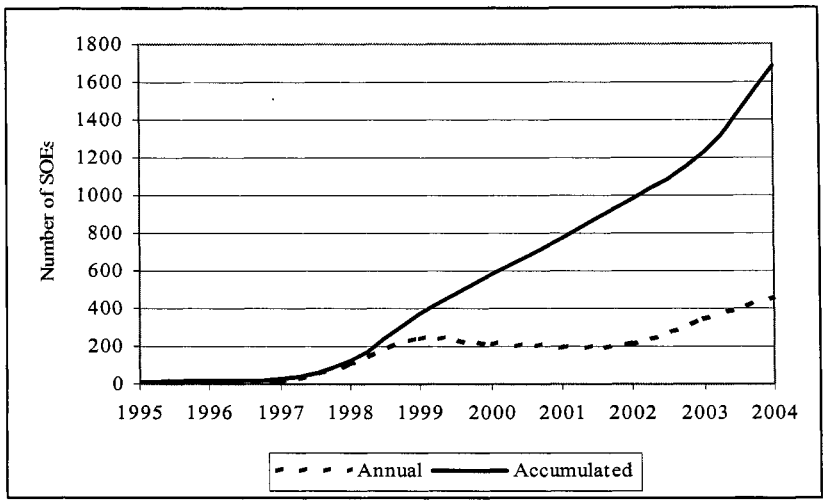
Ineffective corporate governance is one of the main reasons for SOE under-performance. Governance issues are especially serious in the case of GCs, where the roles and responsibilities of ownership and management are not well defined. No single entity is made fully accountable for enterprise performance. As SOE directors enjoy limited decision-making power, they spend much time seeking permission from administrative superiors for routine matters.

Internal control policies of SOEs were also analyzed as part of the diagnostic studies. It was found that SOEs often manipulate depreciation expenses to minimize tax payments and the transfer of profits to the budget. An incorrect calculation of depreciation charges can be used to distort cost estimates, hence profit margins. Another issue for concern was the incorrect valuation of work in progress, finished goods, the cost of goods and services and accounts payable, in order to meet the desired profit target for the year.

Source: Tu Anh Le Packard and VICA Consultants (2004).

But so far progress in equitization has not amounted to a fundamental transformation of the SOE sector. This is because the SOEs chosen for divestiture have been among the smallest ones. Equitized SOEs had an average of 215 workers at the time of their handover, compared to 421 workers in the average SOE. The gap is even bigger when considering the companies' assets. The total capital of the roughly two thousand SOEs equitized, sold or liquidated so far only represents about 10 percent of total SOE capital in 2004.

Figure 7.1: Progress in Equitization: Slow but Steady



Note: Figures for 2004 are extrapolated based on data for the first seven months of the year.

Source: Own calculations, based on data from NSCERD and Ernst & Young.

One promising direction is to widen the scope for equitization. The decision to divest large SOEs, such as the insurance company Bao Minh and the construction corporation Vinaconex, was made in late 2003. Since then, Decision 155/2004/QD-TTg restricted the number of sectors considered strategic, paving the way for equitization in economic activities which had been previously reserved to the state. While these are welcome developments, the equitization of large SOEs is likely to take time. And whether it will lead to substantial divestiture and improved corporate governance is still unclear. In the case of Bao Minh, the bulk of shares actually went to other SOEs, at a preferred price, raising the prospect of a future web of inter-linked SOEs that could be hard to disentangle.

Extending the coverage of the Enterprise Law so as to include all SOEs in its scope of application could be a faster way to improve their corporate governance. But the resolve to make such a bold decision seems to be lacking, and a more "voluntary" scheme for SOEs to gradually "move" to the Enterprise Law is under consideration.

There is little doubt that the state share of economic activity will keep declining. But this will be a protracted process, and in the meantime the performance of the SOE sector will need to be monitored much more closely.

A mechanism to supervise SOEs, and to even dismantle them in the event of consistently poor performance, has been formally set up. Decision 271/2003/QD-TTg provides guidelines to annually classify all SOEs in three groups (A, B and C), according to a series of indicators. For instance, increases in revenue are associated with an A grade, and decreases with a C. Profits lead to an A grade, and losses to a C. Enterprises servicing their debts on schedule and displaying a current ratio greater than one get an A grade. Enterprises not making all their debt service payments or with a current ratio of less than 0.5 get a C grade. In order to have an overall A rating an SOE must have no individual C grades and shall be ranked as A on several of the key indicators. Senior managers of SOEs graded C for two consecutive years are supposed to have their posts "rearranged".

It is certainly possible to quibble with the set of indicators specified under Decision 271. In this respect, it would be useful to compare the ratings obtained based on its guidelines with the overall assessment resulting from much more detailed diagnostic studies of SOEs. This would be a straightforward way to assess whether the A-B-C classification is meaningful. But at present, the main problem is not with the technicalities of performance measurement. It is rather with the fact that the government agencies in charge of SOE monitoring have not undertaken any serious step towards the implementation of Decision 271.

In parallel, several other measures could contribute to the improvement of SOE performance. The framework for corporate governance would need to be strengthened, including the mandatory disclosure of accounts. The recent introduction of accounting standards based on international practice (the same as for the private sector) and the authorization to get SOEs subjected to independent audits, constitute a building block for increased disclosure. The newly created Debt and Assets Trading Company (DATC) could handle the liquidation of insolvent SOEs, and systematically clear their inter-enterprise debts, hopefully releasing their assets for productive use by others. However, the actual operation of DATC has barely started, with many months elapsed in simply choosing the first 20 SOEs for debt classification. The creation of a State Finance Investment Corporation (SFIC), with a mandate to allocate state assets in a profitable way, could lead to a massive selling of shares in equitized SOEs, de facto completing their privatization. But much will depend on its operating rules.

State-Owned Commercial Banks

The past five years have seen rapid growth in the banking sector. But the four biggest SOCBs still account for about three quarters of total credit, despite the deficiencies in the services they provide, both in terms of cost and quality, and the increase in competition from Joint-Stock Banks (JSBs). SOCB lending goes to a narrow segment of the economy, thereby limiting growth opportunities elsewhere. It absorbs too much by way of administrative expenses, and the share of non-performing loans (NPLs) is estimated to be over 11 percent of all credit to the economy. The unavailability of a precise estimate of the share of NPLs is a clear indicator of the current problems with SOCBs. Even the State Bank of Vietnam (SBV), which is the supervisory agency for the financial sector, lacks updated information in this respect. The most recent audits of SOCBs based on international accounting standards are for the year 2002.

Deficiencies of this sort result from weaknesses in operational, credit appraisal and risk management procedures. At a deeper level, they reflect the inadequate governance structure of SOCBs. Although they have moved some way in the direction of operating on a commercial basis, SOCBs remain vulnerable to pressures to lend. Regionalism is one of the dimensions of the problem. There seems to be an expectation, both within banks and at the SBV, that provincial People's Committees must have a role in influencing local financial policy.

The core of the corporate governance problem lies in the uncertainty surrounding who is responsible for providing management oversight as a shareholder and the separation of the roles of the shareholder, supervisor, and manager of the SOCBs. The current Law on Credit Institutions, and the new amendments, allow for SBV intervention in terms of operational, management, and almost all other changes within the banks, such as appointments of Board of Directors and Board of Management members. Decree 52/2003/ND-CP elaborates these roles further by explicitly giving the SBV the sole role of ownership of the SOCBs. Meanwhile, the revised Law on SOEs 14/2003/QH11 gives the MOF general roles of ownership and ownership representative as well, but does not spell out clearly the direct ownership roles over SOCBs.

The opening-up of more of the market to foreign banks is envisaged by the government, and bound to happen as a result of WTO accession and other international commitments of Vietnam. Foreign banks will be able to bring their sophisticated information technology and streamlined procedures to bear on Vietnam. This will benefit the economy as a whole. But it will also represent a threat to the dominant position of the SOCBs. It is quite likely that SOCBs will be able to retain a sizeable market share, even if their services are second-rate, by charging below-cost prices (ultimately at the expense of the budget). But in that case, large portions of the economy will remain without the benefit of top-quality financial services. While the scenario of a large-scale meltdown seems unlikely at present, the fiscal cost of keeping unreformed SOCBs afloat could be considerable.

Much progress is being made on technical aspects of banking reform. Ongoing improvements concern the legal underpinnings for lending, banking infrastructure, bank staff skills, management, accounting and the bank supervision function. But technical measures, however complex and sophisticated, will not be enough. The key area on which SOCB reform efforts should be focused is bank governance.

Designing viable governance structures for a market-oriented SOCB is much more difficult than for a privately-owned, profit-driven bank. In order to resist pressures to lend, the governance structure needs to be embedded in the political power structures of the country. This requires a strategic engagement by the top leadership, ensuring that bank management is rewarded for engaging in profitable banking, and penalized for bowing to provincial or sectoral pressures to lend. It also requires the introduction of mechanisms ensuring that local bank staff are not pressurized by provincial People's Committees. In contrast to the management of services such as education or health, where decentralization is crucial for balanced development, most elements of national financial policy need to be set centrally. This is because finance is like a common pool resource. Attempts by one province to grab some privilege from a financial institution imposes costs on all.

One way to put bank management at arms length from the state is to designate a single specific agency to exercise the bank ownership functions of the state. This agency needs to have a very high level of political authority, with a direct line to the top leadership. Political authority is also essential to address the NPL problem. The resolution of uncollateralized loans requires decisions about the future of the delinquent SOEs, which the SOCBs are in no position to make. The flip side of an arrangement of this sort is that SBV would no longer exercise the ownership role. This is primarily because of the conflict of interest involved in having the role both of owner and of prudential regulator. At the same time, the SBV supervisory capacity would need to be vastly enhanced to ensure the safety and soundness of the system because at the moment, the SBV uses its management powers in the SOCBs as a surrogate method of banking supervision.

Meanwhile, and much the same as for SOEs, opening up the capital of SOCBs to outsiders can be an effective way to improve governance in the short term. The decision to bring in a strategic investor for Mekong Housing Bank is encouraging in this respect. A sizeable share of capital taken by a major international bank could introduce better technology and a new corporate ethos. Whether the announced equitization of Vietcombank will actually lead to better bank governance, or simply serve to raise capital, is a different matter altogether. Due to the high savings rate of Vietnam, and the limited range of long-term savings instruments available to the population, the issuance of shares could allow Vietcombank to attract a considerable amount of resources. But small investors will not have much say (or information, for that matter) on the business orientation of the bank. And they could face serious losses if the prices at which they buy the shares do not take into full consideration all the facts regarding the bank. Such losses could eventually undermine the credibility of the stock exchange, the banking system and

government policies more widely. This is why equity stakes should not be sold without a complete and precise disclosure of the bank state of affairs.

As long as the corporate governance of SOCBs remains weak, the government should be cautious in providing them additional resources. So far, they have received about 10 trillion VND in capital injections. But in a state-controlled bank, capital does not necessarily insulate the depositor, nor induce prudent behavior. Further re-capitalizations should take place only as the governance of SOCBs improves.

Contingent Liabilities

The management of debt information is currently fragmented within the public sector, with multiple record-keeping systems operating in each of the various agencies involved. This makes it difficult to know the overall indebtedness position of government at any point in time. Moreover, any comprehensive picture of the government's obligations needs to take into account not only the bonds issued by central and provincial authorities, but also the contingent liabilities associated with extra-budgetary funds and SOCBs.

Domestic debt has financed around 55 percent of the budget deficit in recent years. The fraction is likely to rise to around 75 percent in 2004. In addition, the government has issued bonds to fund various infrastructure projects, including the north-south Ho Chi Minh highway, roads along the borders with China and Cambodia, and irrigation projects in the central provinces. Although these bonds are off-budget, their issuance took place under the scrutiny of the National Assembly. For 2004 the plan was to sell about 8.2 trillion VND of bonds for infrastructure development and 2.5 trillion for the education sector. The main players on the purchasing side of government bonds have been SOCBs and insurance companies. The interest rates on the bonds have been marginally higher than the deposit rates offered by the banks for similar maturities.

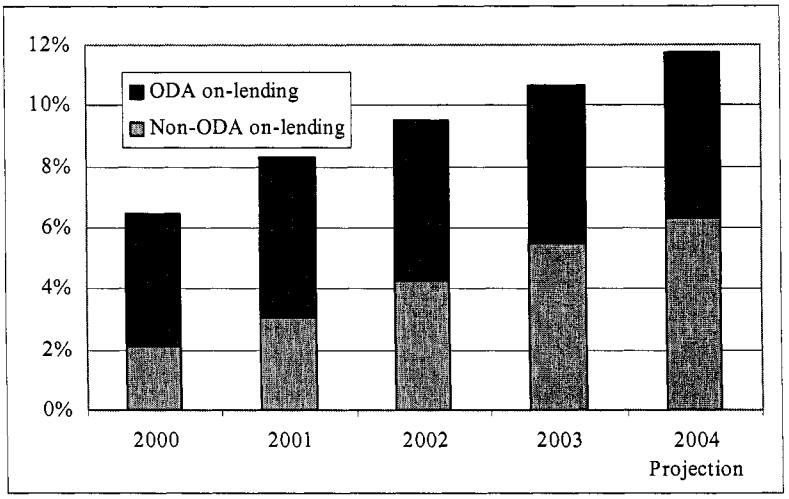
At the sub-national level, municipal bonds have been issued by HCMC, whereas Hanoi is considering a construction bond. The new budget law allows provincial governments to borrow without prior approval by the central government, provided that their debt does not exceed specified limits. This is despite the fact that provincial People's Committees face significant capacity constraints and suffer from weak accountability. Under Decree 10, service delivery agencies are also given some limited opportunities to borrow domestically.

DAF is another source of potential fiscal liabilities. Established in 1999, as part of a broader effort to separate commercial lending from policy lending, DAF is aimed to channel resources to public investment programs but also to SOE projects which are deemed worth supporting. While directly reporting to the Prime Minister, it is managed by a board where MOF, SBV and MPI are represented. In principle, MOF monitors DAF operations, sets the terms of the credits, manages risks, establishes the target groups, and makes policy on capital mobilization. MPI develops the state investment plans for the credits and supervises DAF activities. SBV guides it on currency and credit issues. Other line ministries, provincial governments, and political organizations monitor and collaborate with DAF. In practice, this complex division of labor has resulted in some conflict and overlap of functions.

Notwithstanding its weak corporate governance, DAF is by now one of the largest financial institutions of Vietnam. At the end of 2003, it had mobilized 48 trillion VND in domestic resources, in addition to the on-lending of Official Development Assistance (ODA). The domestic resources mobilized are mainly from postal savings and the Vietnamese Social Security (VSS) system, as well as from direct bond issuance (Figure 7.2). Non-ODA loans

totaled 32 trillion VND. Their quality remains a matter of concern. Overall, some 80 percent of the funds raised domestically have been lent to SOEs. But most loans are still in their grace period, which precludes an assessment of their quality.

Figure 7.2: DAF On-lending



Note: Figures are in percent of GDP. For 2004, they are extrapolated based on data for the first seven months of the year.

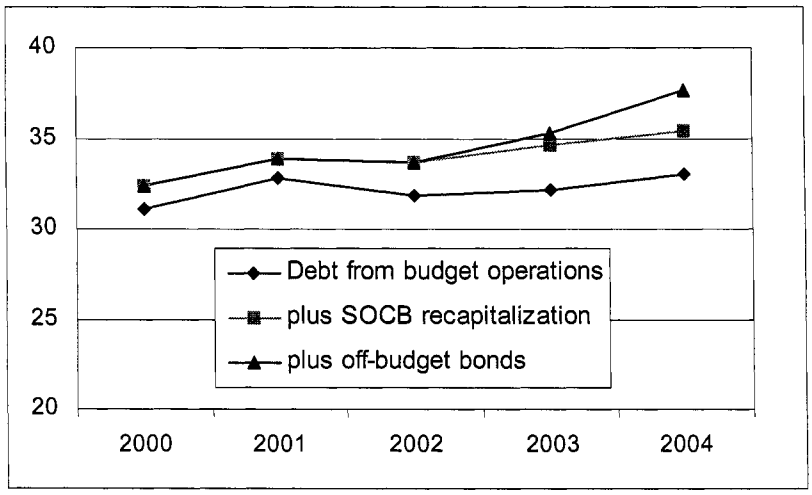
Source: MOF

The recent Decree 106/2004/ND-CP should help improve the quality of DAF's portfolio over time. This decree states that only projects that are capable of direct repayment are eligible for DAF support, and their assets are to be used as security. An element of risk-sharing, through co-payments by other government bodies or by commercial banks, is also introduced. The new framework limits the number of support mechanisms and leads to a partial reliance on commercial lending. Those mechanisms are project loans, interest rate subsidies and credit guarantees. Only the former will be extended by DAF itself. Both interest rate subsidies and guarantees apply to financial support by commercial banks. And subsidies apply only to projects that have been completed and put into commercial operation, and whose debts have been fully repaid. All of these innovations go in the right direction. But Decree 106 will not improve the quality of the loans already issued by DAF.

The four large SOCBs represent another major source of contingent liabilities. In 2000 these SOCBs identified 23 trillion VND of NPLs for resolution; by end-2003 around 70 percent of them had been resolved. In parallel, the four large SOCBs received a combined capital injection of about 10 trillion VND. This recapitalization was largely in the form of government bonds. A full picture of the government liabilities should include such bonds. And it should also include those that may be issued in the future. Credit by SOCBs has been expanding rapidly, but the quality of the new loans remains unclear. The credit function is the area where banking reform has been slower. Admittedly, credit to SOEs has declined from 58 of SOCB lending in 1998 to 36 percent in 2003. But given the overall expansion in lending, credit to SOEs represents a relatively stable share of GDP. Information from audits conducted based on international standards up to 2002 suggests that the accumulated NPLs of SOCBs could by now represent about 10 to 11 percent of all banking credit to the economy, or close to 5 percent of GDP.

The government debt that is attributable to budgetary expenditures and ODA on-lending stands currently at around 33 percent of GDP. However, when realized contingent liabilities and off-budget debts are taken into account, the figure is about five percentage points higher (Figure 7.3). Adding DAF-related contingent liabilities would raise the figure another five percentage points. And the figure would be even higher if the liabilities associated with the pension entitlements of civil servants and the eventual increase in the capital-adequacy ratio of SOCBs were taken into account. While the overall situation remains manageable, it warrants stronger policy action to keep contingent liabilities and off-budget items under control.

Figure 7.3: Government Debt



Note: Figures are in percent of GDP.
Source: Own calculations, based on data from MOF

External Debt Sustainability

Given Vietnam's enormous needs in terms of infrastructure development and social service delivery, borrowing from abroad is a sensible choice, especially for as long as lending concessional terms last. Relying on foreign resources allows a higher level of domestic consumption in the short term. But one frequently voiced concern is whether this strategy could lead to an external debt level that is unsustainable in the long term.

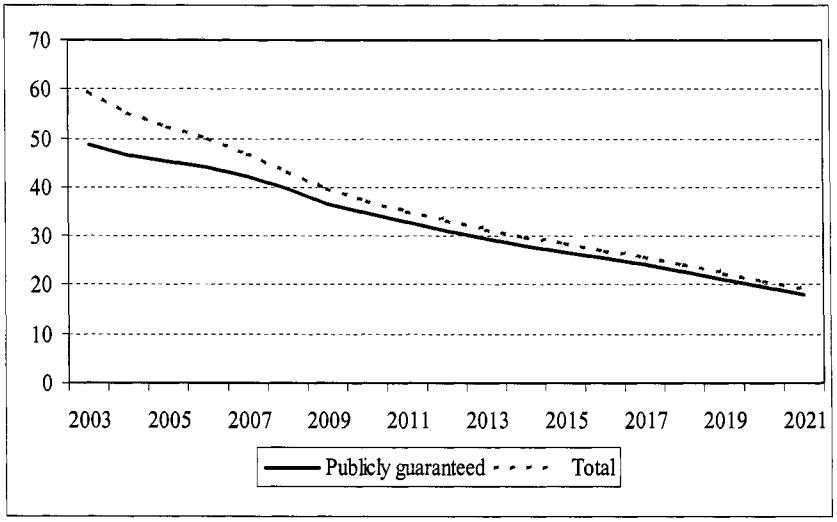
To address this concern it is first necessary to have a good estimate of Vietnam's external position. The debt burden declined considerably during the late 1990s, due to the rescheduling of outstanding loans and arrears with Russia and other creditors on non-convertible debts, such as Bulgaria, Poland, Hungary, the Czech Republic, the Slovak Republic, Germany and Romania. But assessing the net impact of such rescheduling on the external liabilities of Vietnam is not straightforward, as it also depend on the terms agreed for the servicing of debts. One practical approach is to compute the net present value of the agreed debt service of Vietnam. On that basis, the external debt of the consolidated public sector amounted to slightly less than 60 percent of the total exports of goods and services by 2003 (Figure 7.4). A further difficulty is to disentangle, out of that amount, the fraction of the external debt that is publicly guaranteed.

Unfortunately, the information available on some of the debts contracted by SOEs under central planning is not detailed enough. A plausible estimate, however, puts the net present value of publicly guaranteed debt at slightly less than 50 percent of exports as of 2003.

Predicting what could happen to this debt burden over the medium term requires a plausible scenario for the development of the Vietnamese economy over the coming years. A cautious base case scenario assumes a less buoyant continuation of recent trends for the main macroeconomic variables. In this scenario, real GDP is expected to grow by 7 percent per year until 2007, and by 6.5 percent from 2008 onwards. Inflation, as measured by the GDP deflator, fluctuates between 2.5 and 3.3 percent per year. A modest 10 percent annual growth rate is assumed for exports and imports of goods and services. FDI declines gradually, from 3.7 percent of GDP to 1.7 by 2021. And access to lending on concessional terms is supposed to drop substantially after 2012. In spite of these prudent assumptions, in the base case scenario the net present value of Vietnam's external debt declines to less than 20 percent of exports by 2021. The distinction between total public sector debt and publicly guaranteed debt becomes increasingly irrelevant over time, as old SOE debts become a smaller fraction of the total.

To assess debt sustainability under adverse economic conditions, a stress scenario was considered as well. It assumes a slow down in the growth of GDP and exports, while domestic demand continues to boost imports in the medium term, in part through domestic credit expansion. FDI inflows are also supposed to decline, while the interest rates on commercial debt increase as a result of the higher risk premium required by international investors. In this stress scenario, the net present value of external debt increases gradually but steadily, until representing 72 percent of the value of exports of goods and services. Vietnam would still be ineligible for debt relief under the terms of the Highly-Indebted Poor Countries (HIPC) initiative. But this stress scenario underlines the importance of sustaining a robust economic performance, with a strong emphasis on the growth of exports.

Figure 7.4: External Debt as a Fraction of Exports



Note: Figures indicate the net present value of external debt in percent of total exports.

Source: Own estimates.

8. DECENTRALIZATION AND PARTICIPATION

Vietnam's administrative structure includes 64 provinces, altogether comprising 611 districts subdivided into 10,602 communes. Within each commune, there are several villages or *thons*. The ongoing decentralization process means that an increasingly larger number of government decisions are made at lower levels in the administrative structure, and especially at the province level. Administrative units and service delivery units are also being given the autonomy to design their own strategies and make their own spending choices. But resources and needs differ vastly across provinces, districts, communes and villages. And the accountability of the newly empowered service delivery units remains limited. The combination of a formula setting the share of locally-raised tax revenue each province can retain, and the block grant it receives from the state budget, results in a considerable inter-provincial redistribution of resources. But the allocation norms underlying the block grants are mainly based on the size of provincial populations. And they are not followed through at lower levels of government, where allocations are much more focused on the administrative process (such as the number of civil servants, or the number of hospital beds). A simpler set of norms could be considered, where allocations are modulated based on income per capita or poverty rates, and applied consistently through different levels of government. Norms of this sort would make the resource allocations to districts and communes more commensurate with local needs, and transparent. A stronger focus on development outcomes is also needed in the case of service delivery units. Their increased autonomy has to be counterbalanced by the introduction of service delivery standards, on which they have to be held accountable. Systematic reliance on feedback from users, for instance under the form of "report cards" surveys, would strengthen accountability. But it might be difficult for the government to monitor events across 10,602 communes and many more villages. Participation and transparency are the key to accountability at lowest levels of government. The experience with popular participation in the preparation of commune-level budgets is mixed so far. But an assessment of participation by villagers in the selection and supervision of local infrastructure projects yields encouraging results, suggesting high payoffs to grassroots democracy initiatives.

Provincial Redistribution

Sub-national government expenditures have increased steadily, from 26 percent of state budget expenditures in 1992 to 44 percent at present. In international perspective, this makes Vietnam a highly decentralized country. Sub-national spending is funded through a combination of locally-raised revenue and transfers from the central budget. In the case of wealthier provinces, the transfer is actually to the central budget rather than from it.

The way the "size" of net inter-provincial transfers is determined in Vietnam is quite unique from an international perspective. Such size can be seen as the joint outcome of two mechanisms. One of them determines the share of locally-raised government revenue each province can retain. The other one allocates a block grant from the state budget to each province. The resources directly available to each province are thus the sum of retained revenue and the block grant received from the central budget (if any). In addition, provinces are allowed to issue debt within certain limits, a possibility which has for now been used by HCMC only.

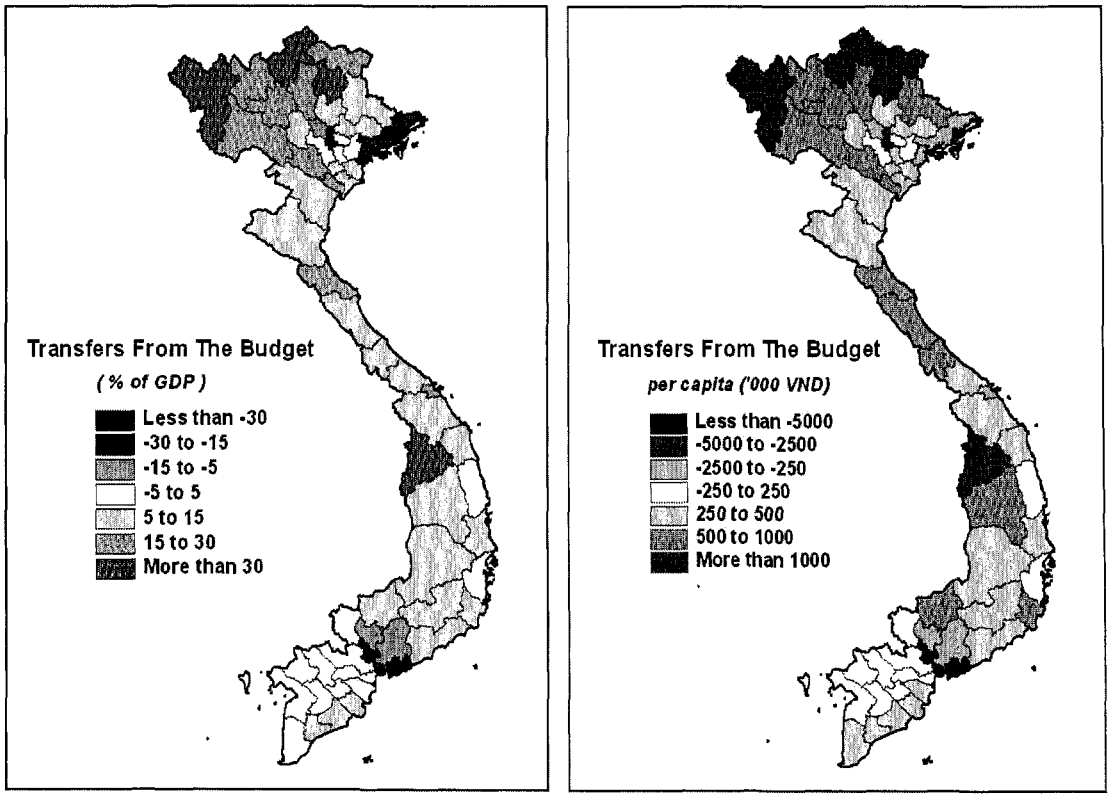
The current tax sharing mechanisms was established by the 2002 budget law, in a way that represents a substantial improvement over the negotiated, "gap filling" transfers of the past. At one end, provinces can retain all the proceeds from land and housing taxes, fees on the transfer of land, revenues from the leasing and sale of dwellings publicly owned, and a range of other fees and charges. At the other end, they must transfer to the central government all the proceeds from CIT on enterprises with uniform accounting, and from taxes on gasoline, oil, exports and import. In between, they have to share the proceeds from all other taxes. But sharing rates vary by province, and are determined as part of the budget process at the start of each three-year stability period. These sharing rates result from an estimate of the gap between provincial expenditure needs and provincial revenue capacity. The former is evaluated on the basis of a series of norms; the latter on the basis of past revenues. The result is a large dispersion of sharing revenue rates. The poorest 56 provinces can retain 100 percent of the revenue from shared taxes. But HCMC can only retain 24 percent, Hanoi 30 percent, Vung Tau 48 percent, Binh Duong 52 percent, and Dong Nai 53 percent.

Block grants, in turn, are determined based on a series of budget norms, which are discussed in more detail below. Such norms are intended to capture the recurrent costs of delivering public services in different provinces. The result is topped up to account for the associated capital expenditures. For 2004, the overall ratio of capital expenditures was set at 28 percent. But there is room for negotiation in the ratio applying to each province. For example, the central government recently agreed to finance 50 percent of a provincial road in Haiphong. On the other hand, provinces whose retained tax revenue is expected to exceed their annual budget receive no transfer from the central government. This was the case for 15 of them in 2004.

The combination of the tax sharing mechanism and the block grant allocations yields a considerable dispersion in the composition of provincial government revenues. On average across all provinces, 23 percent of the revenue is from fully retained taxes and fees, 23 percent from shared taxes, and 54 percent from block grants. But in Bac Can the block grant accounts for 94 of provincial resources, compared to less than 9 percent in the case of HCMC.

The result is also a considerable extent of inter-provincial redistribution (Figure 8.1). The latter can be computed as the difference between the actual spending of a province, including sometimes massive capital expenditures, and the tax revenue raised on its territory. Poorer provinces in the central highlands, and especially in the northern mountains, are the main beneficiaries of such redistribution. The amounts involved might seem modest, as they only exceed one million VND per person per year in five provinces, and not by a wide margin. But one million VND is not a negligible amount when taking into account that the poverty line associated with an intake of 2100 calories per day and a set of basic non-food items is about 1.9 million VND per person per year. The magnitude of the transfers becomes more clear when considering the GDP of the poorest provinces. Two provinces in the northern mountains currently receive the equivalent of more than half of their GDP under the form of transfers (including infrastructure development). Another six provinces, in the same region, receive more than 20 percent of their GDP in transfers. The regions of HCMC and Hanoi, and wealthy provinces such as Danang and Quang Ninh, are the biggest contributors, transferring more than three million VND per person per year each. Whether this redistribution actually matches needs is difficult to assess. But the size of the transfers is certainly impressive. And the availability of information of this sort represents an important step towards an open discussion of the appropriate criteria to allocate budgetary resources.

Figure 8.1: Net Transfers to and from the Central Budget



Source: Own calculations, based on data from MOF and GSO.

Budget Norms and Development Indicators

A clear and predictable allocation of budget resources across levels of government is essential to allow proper planning by local authorities. An allocation that is commensurate with local needs is key to attain development goals on a national scale. Currently, the norms used to determine transfers to provincial governments are regulated by Decision 139/2003/QD-TTg. These norms cover ten areas of expenditure, namely: education, training, health, sport, culture and information, television broadcasting, general administration, defense and security, social assistance and economic services. Except for education and economic services, transfers for all other types of expenditure are calculated based on the population of each province. Transfers for education expenditure are calculated based on the school-age population. Adjustments are also made on a regional basis, with transfers varying between urban areas, plain areas, low mountainous and remote areas, and high mountainous areas and islands. The norm for economic services encompasses a variety of activities, including sanitation, road repair and maintenance, irrigation and so on. In the absence of a clear basis to compute needs for this combined type of expenditure, a block of 12 percent of total recurrent budget transfer is provided.

In addition to these general norms, provisions are made to allow for topping up expenditures to address special needs of different localities. For example, for communes under 135 Program, there is an additional education grant of 49 thousand VND for each person under age 18. Provinces also get additional resources for their HCFPs. Those in the northern

mountainous and the central highlands are given extra funding to implement preferential socio-economic development policies. Cities in categories "2" and "3" are entitled to a supplement of 10 and 5 billion VND respectively to pay for economic services. And to encourage revenue collection efforts, provinces whose tax revenue exceeds their expenditure needs enjoy a special treatment. Thus, Hanoi and HCMC get 20 percent more than the general norm for education, training, health, general administration, culture and information, sport, social assistance, defense and security. Haiphong and Danang get 10 percent more, and other surplus provinces 6 percent.

The norms regulated by Decision 139 are used in budget formulation, but not in budget execution at local levels. Since the 2002 Budget Law, provinces have the authority to decide on the use of the block grant they receive from the state budget. The norms they use vary from place to place, and the indicators they rely upon are not necessarily the same as those used by the budget norms under Decision 139. For example in the case of health, provinces tend to allocate resources on the basis of hospital beds, rather than on the basis of general population. In the case of education, they give priority to meeting the salary costs of the existing contingent of teachers. These province-level agreements, and the resulting allocation of resources across districts, are not always published.

The autonomy currently enjoyed by provincial governments reflects the commitment of Vietnam to decentralization. But it also weakens the link between central policies and local budgets, as well as the transparency in the use of public funds. The current flexibility given to provinces in the allocation of their block grants needs to be countervailed by the setting of standards for the services they are expected to deliver to their populations, or the development outcomes which are supposed to ensue.

The education sector has set an interesting precedent in this respect. In 2003, minimum quality standards for primary schools were adopted nationwide. These standards refer to physical infrastructure, teaching staff, school organization and management, social participation in education, educational activities and quality, and expected educational outcomes. In parallel, a survey covering all districts was launched to assess the situation of primary schools relative to these quality standards.

At present there is no mechanism in place to systematically track outputs, beyond this primary education example. However, there has been considerable progress in refining a set of indicators related to development outcomes which can be effectively measured at provincial levels. Some of those indicators are directly derived from the VDGs. Others are associated with the development objectives of CPRGS. And yet others are more traditional economic statistics, related to output and its composition. The recent increase in the sample of household living standards, aimed at estimating reliable poverty rates at the province level, allows a better measurement of provincial human development indicators. The wide coverage of the now annual enterprise census should lead more precise economic statistics at the province level as well. Therefore, even if the example of primary education cannot be replicated across sectors in the same, precise way, mechanisms already exist to hold provinces accountable for the effective use of their block grants.

Focusing on development outcomes, in turn, would be consistent with the use of more meaningful norms for budget allocation. The increasing availability of reliable economic and social indicators on the situation of each province provides a solid foundation to assess local needs. In particular, the complicated topping up mechanisms used at present, could be replaced by a simpler modulation based on the income per capita and the poverty rate of each province, so as to transfer more resources to those places that need them most.

An advantage of a simpler norm of that sort is that it could be followed through at lower levels of government. Explicit norms for districts and communes would facilitate local planning and provide a useful quantification of budget needs. The ongoing effort to improve the measurement of household incomes and poverty rates at all levels should yield reliable indicators of social needs across districts and communes. It could thus be used to sustain a more effective allocation of resources within each province. Budget norms that can be applied consistently across different government levels do not amount to bypassing the fiscal authority of the provinces. They rather provide a mechanism for the current hierarchical relationship between provinces, districts and communes to operate in a more equitable and transparent manner.

A potential disadvantage of simple norms of this sort is that they could create an incentive for local officials to try to slow down economic growth and poverty reduction, so as to get more resources. However, such perverse incentive can be removed by making local officials accountable for the improvement of key development outcomes such as income per capita and the poverty rate of the localities they work for. The same indicators can be used for both block grant allocations and career promotions, but with opposite signs.

Delegation to Spending Units

In parallel with the decentralization from central to sub-national governments, Vietnam is delegating substantial amounts of budget discretion to administrative and service delivery units. The latter cover a vast and complex group of activities, including schools and universities, hospitals and clinics, cultural units, research institutes and agricultural extension services. What these activities have in common is their ability to raise some revenues of their own, which in turn puts them at the boundaries between the public and the private sector. As of 2004, spending units are free to re-allocate resources across line items within each of four blocks of expenditures: wages and salaries, operations and maintenance, capital and other. This flexibility could allow a more efficient use of resources. But in the absence of sound monitoring and accountability, discretion could also be used to improve staff wellbeing at the detriment of national policy goals.

Weak accountability is likely to be a more serious problem in service delivery units than in administrative units, because the former have been granted more autonomy than the latter regarding the salaries of their staff. It could be claimed that discussing the merits and demerits of the autonomy granted to service delivery units is specious, as Decree 10/2002/ND-CP simply formalized practices that had existed for some time. Under budgetary appropriations that were increasingly inadequate for meeting expenditure needs, hospitals have for more than ten years relied on user charges and mark-ups on the sale of drugs as supplementary support.

Given these realities on the ground, the issue is not whether to delegate authority to spending units, but rather how to manage the process so as to minimize its risks. Good management means protecting access for the poor and other vulnerable groups, protecting against excessively high prices in markets with few alternative providers, ensuring the delivery of core services, and accounting for state assets. This certainly goes beyond accountability measures focused on inputs, such as number of personnel, facilities or expenditures.

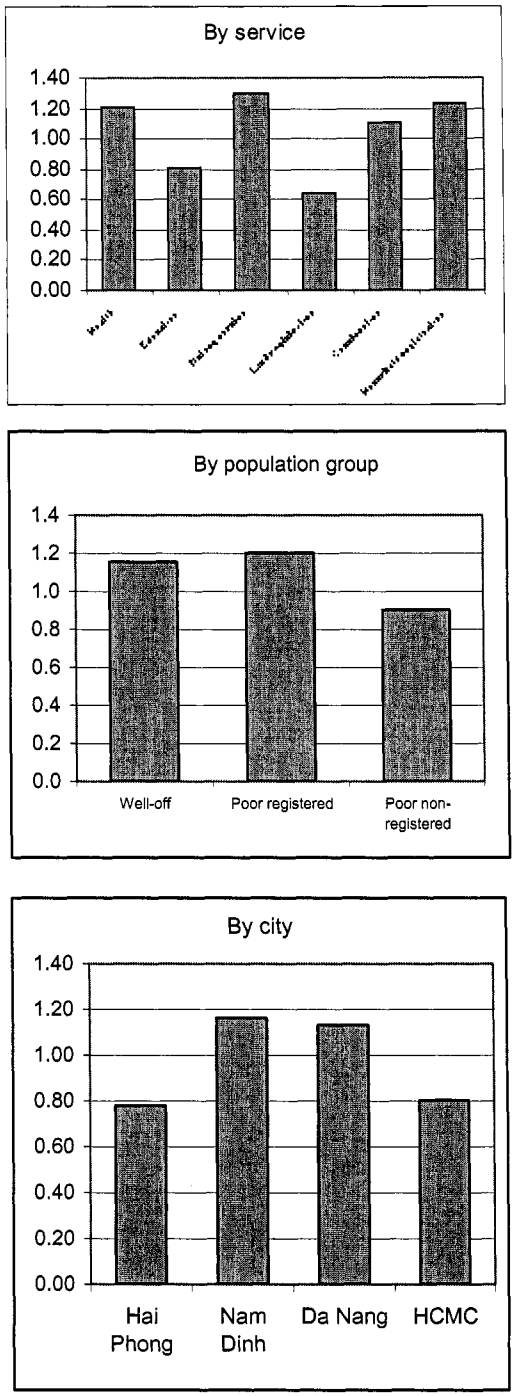
Direct feedback from users is of interest in this respect. Report cards surveys allow citizens to comment on the quality of the services, as they perceive them, and the problems they face in their interactions with the service providers. Citizens may not be able to discuss technical features and standards. But they are eminently qualified to say whether the service meets their needs, whether the agency is responsive, and whether it meets the expected integrity standards. Report card surveys can also reveal if specific social groups are denied access to services, and highlight the quality of services as assessed by these social groups.

Report surveys have been recently conducted on a pilot basis in four localities: HCMC, Danang, Nam Dinh and Haiphong. They were initiated by donors, jointly implemented by local research teams and GSO, supervised by the corresponding People's Committees and People's Councils. Their focus has been on service delivery in education, health and administrative services.

Findings from these surveys show an acceptable level of satisfaction across population groups, services and cities. Average responses fall between "satisfied" and "somewhat satisfied" or, in the worst cases, between "undecided" and "somewhat satisfied". For the combined samples from all four cities, the average response is close to "somewhat satisfied".

However, this encouraging result also hides important differences. Among population groups, unregistered migrants are the least satisfied (Figure 8.2). Migrants rely three times as often as the better off or the registered poor to "outside agents" when accessing notary services. And they are refused land registration four times as often as well-off people. More than 40 percent of the surveyed migrants who felt the need to change residency status did not even apply, either because they lacked the necessary documents or because they did not know how to do it.

Figure 8.2:
Satisfaction with Service Delivery



Note: Very satisfied = 2, somewhat satisfied = 1, undecided = 0, somewhat dissatisfied = -1, very dissatisfied = -2.

Source: Soren Davidsen and Carrie Turk (forthcoming).

Report card surveys are also helpful to identify bottlenecks in service delivery. Land registration comes through as a major problem. More disaggregated responses reveal concerns about the level of fees, the lack of transparency on what is official and what is not, and the attitude of land registration officials. At the other end, notary services, and health and household registration receive the highest marks. The surveys also suggest that broader disparities exist across localities. Overall satisfaction with services in Danang and Nam Dinh is higher than in Haiphong and HCMC. However, caution should be exercised when comparing responses across cities, as the most disadvantaged are not necessarily the most vocal. More generally, simple comparisons of average scores along one dimension only (population group, services or city) can be misleading, as they amount to ignoring the other dimensions. A more detailed analysis of the results of the report cards survey is under way. But these preliminary results show the potential of surveys of this kind to make spending units more accountable. Provided, this is, that bad grades by the users of administrative services have an impact on the careers of those responsible for delivering them.

Commune Budgets

The grassroots democracy initiative encompasses various forms of participation. People need to be informed on actual laws and policies, administrative procedures, local socio-economic development strategies, land-use plans, budget planning and expenditures, state-funded programs, and activities related to poverty reduction. They are called to decide regarding their contribution to infrastructure development, the formulation of customary rules, and the monitoring of local funds. They need to be consulted on draft plans by local governments. And they are supposed to monitor and check on the activities of People's Councils, implementation of resolutions, settlement of claims, use of funds and the like.

The ongoing decentralization process gives greater autonomy to communes in the collection of revenues and in deciding expenditure priorities. It also gives a "gate keeper" role to the Treasury, which in principle adds clarity to the system. In the past, disbursement to communes had to transit through districts, whereas now they are directly made by the Treasury, thus bypassing district officials. Additionally, Circular 01/2002/TT-BTC on financial transparency requires that communes disclose finalized budgets and accounts. Decree 79/2003/ND-CP, on grassroots democracy, also requires that plans be discussed with local communities, and expenditures be disclosed to them. These are important steps towards increased accountability by the lower tiers of government. But very much will depend on how these regulations are interpreted and implemented in practice.

Field work in eight communes of four districts in Ha Tay province has tried to assess how decentralization mechanisms operate in practice. Such field work is part of a broader research project that will cover a much larger number of provinces across all regions of Vietnam. It also bears similarity with research conducted independently in Tra Vinh province. While only a few communes have been covered for now, a few patterns emerge.

First, it appears that both district and commune authorities generally follow the regulated budget process. The district authorities send the guiding documents for budget preparation to the communes in July. By December, commune budget estimates are submitted to the corresponding People's Committees and People's Councils. Next, the estimates are sent to the immediate level up. Typically, a tentative budget is decided by January of each year. If anything, the preparation

for the fiscal year 2004 has somewhat lagged behind the schedule because this was the first year of implementation of the new budget law.

In Tra Vinh, transactions related to commune revenues and expenditures also appear to be implemented in accordance with regulations, and to be properly paid through the Treasury. If anything, some flexibility is exercised to facilitate the operation of the communes while waiting for budgets to be approved. For instance, for small expenditure items, within the limits of a few million VND, the Treasury does not require the communes to follow the procedures related to infrastructure works, and actually reports them as "small repairs".

On the other hand, participation in these commune-level budget exercises seems more limited. Local populations involve in the budgeting process through their village chiefs, their local heads of mass organizations, and their representatives in the People's Councils and People's Committees. Direct participation by the population is infrequent. Among the reasons for this limited participation, government officials report the lack of interest of local populations in the allocation of resources transferred from the district level. Some villagers, in turn, consider that the budgeting work is a task for the authorities; and others are simply busy making ends meet. But several villages do not organize the meetings that would provide the villagers with an opportunity to participate.

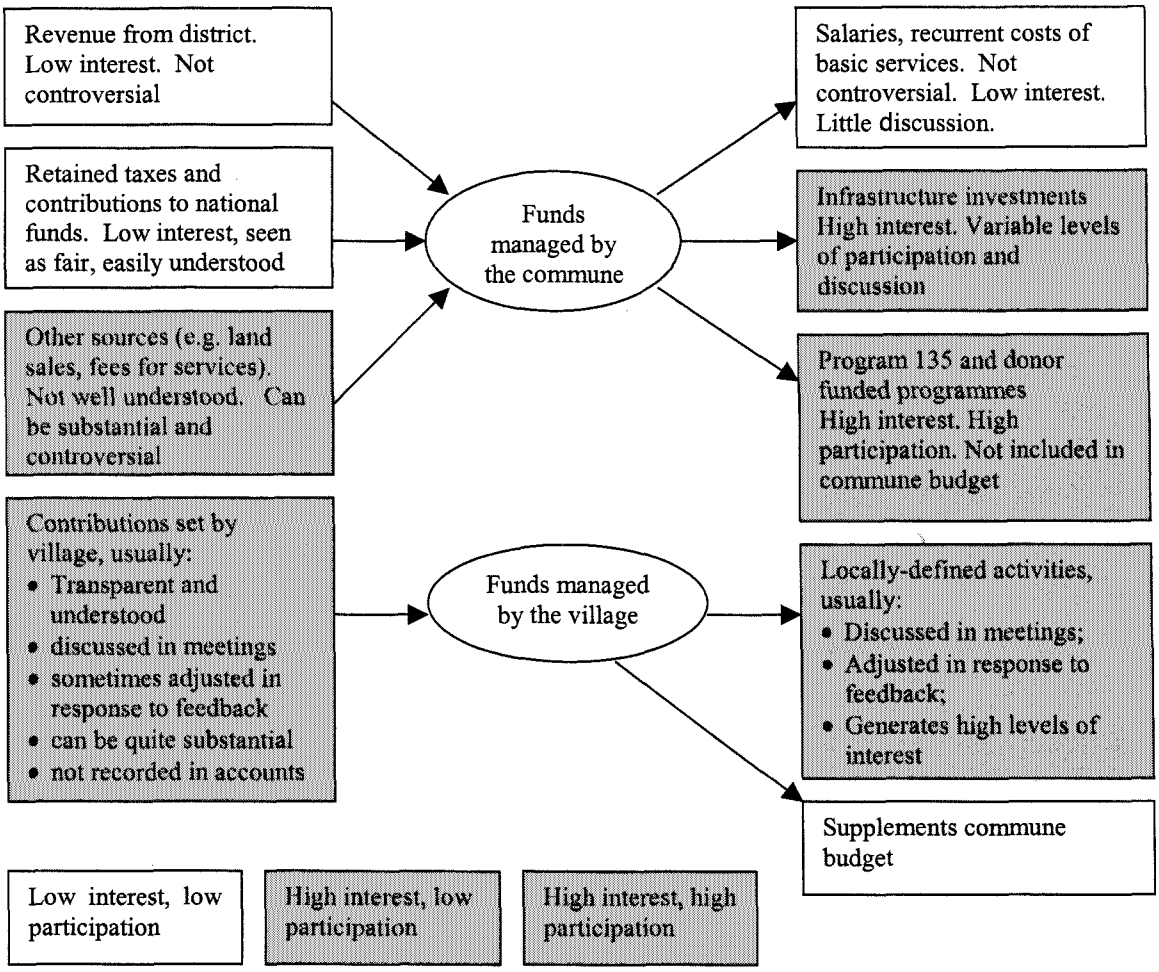
Gaps between the prescribed framework and actual actions are not surprising, given that the former involves more than seventy legal documents. The preliminary findings of the field work reveal some systematic differences across components of commune budgets (Figure 8.3). Retained taxes and contributions to national funds are seen as fair and easily understood, whereas infrastructure investments show a diverse level of participation and discussion. Contributions managed and spent at local levels are seen as more transparent. The means used to disseminate information matter too. Circular 01 requires that approved budgets and final accounts be published in written form, but a more usual practice is to provide a verbal summary in village meetings or through public address systems. Focus group discussions indicate that villagers would appreciate details of the revenues and expenditures being displayed in nearby village offices, rather than at the more distant commune offices. Many complain that public address systems have poor sound quality, and are often operated when villagers are working on the fields.

While the legal framework gives an important oversight role to commune People's Councils, the preliminary feedback from the field work suggests that this function is not a strong mechanism for accountability. People's Councils' representatives felt they were under-informed about how they were supposed to fulfill their oversight function, receiving little guidance from higher levels. They also felt relatively powerless in overruling or changing the actions of the People's Committees. The People's Inspectorate unit, which has a role in representing the interests of the community in the supervision of expenditures, was typically not regarded as strong enough to ensure integrity in commune finances.

However, activities that take place at the village level, and especially those funded through locally collected contributions, tend to be subject to transparent debate and to be generally well-supported. Around 70 percent of respondents to a structured survey said that villages had raised money locally for village-level activities. Nearly all of them declared that they had taken part in discussions about the raising and use of such revenues, and 70 percent felt that they had actually played a role in deciding the level of such contributions. This contrasts with other local fees raised by communes. Though 70 percent of the respondents said that such contributions had been levied, only 17 percent of respondents reckoned that a public meeting had been held to decide their amount. Both the quantitative survey and the interviews indicate

dissatisfaction with the size of some of the contributions levied and with the level of information that residents received about how their proceeds were spent.

Figure 8.3: Villagers and Commune Budgets



Source: Soren Davidsen, Lan Thi Thu Nguyen and Carrie Turk (2004)

Village Investments

Vietnam has been experimenting with different modalities of community participation at the village level for several years now. Program 135 allows villages in a list of communes to choose among a "menu" of local investment projects, including rural roads, small-scale irrigation projects, schools, health centers, rural markets and meeting houses. In principle, the direct beneficiaries are actively involved in the selection of the projects and their supervision. In practice, and often under the excuse that local capacity is limited, officials at the district level are heavily involved in these tasks. Other, donor-funded projects, based on a CDD approach, have been more demanding in terms of local participation. Those projects often propose a similar "menu" of options, and involve amounts of resources that are comparable to those of Program

135. But they have more stringent requirements in terms of meetings by villagers, pay more attention to women's preferences, put the construction process under local supervision, and focus on capacity building.

The government of Vietnam is currently considering changes to the regulations for local investments, shifting the responsibility for their management and supervision from the district level to the commune level. Communes would also become the owners of any assets built through local investment projects. It is expected that these changes will create a greater incentive for community participation, much in line with grassroots democracy principles. In a way, they would make Program 135 more similar to CDD projects.

The changes under consideration implicitly recognize that local capacity is not a constraint. A field study undertaken in Soc Trang to look in more detail at the operation of Program 135 confirms this view. All communes have accountants who have finished college or were following mid-level training courses held by provincial authorities. All commune leaders have finished upper secondary school. And each commune has at least one computer. Increasing the extent of community participation in local investments is thus feasible. But will it make a difference on the ground?

To answer this question, a systematic comparison of Program 135 projects and CDD projects was undertaken in 24 communes in Yen Bai, Phu Tho, Hue, Quang Nam, Nghe An and Lam Dong. These provinces cover all three regions of the country. Separate focus groups discussions were conducted with villagers and with government officials on the characteristics and impacts of 158 projects, of which 71 had been implemented under Program 135, and the remaining 87 under two, World Bank funded CDD projects, offering a similar "menu" of projects and a similar funding envelope. Resources had been used to build rural roads in 48 cases (24 under Program 135 and 24 under CDD projects). The next most popular projects were school buildings (15 and 13 respectively) and small-scale irrigation schemes (11 and 12). Participants in the focus groups discussions were asked to rank these projects along a variety of dimensions, with the rankings increasing with their level of satisfaction.

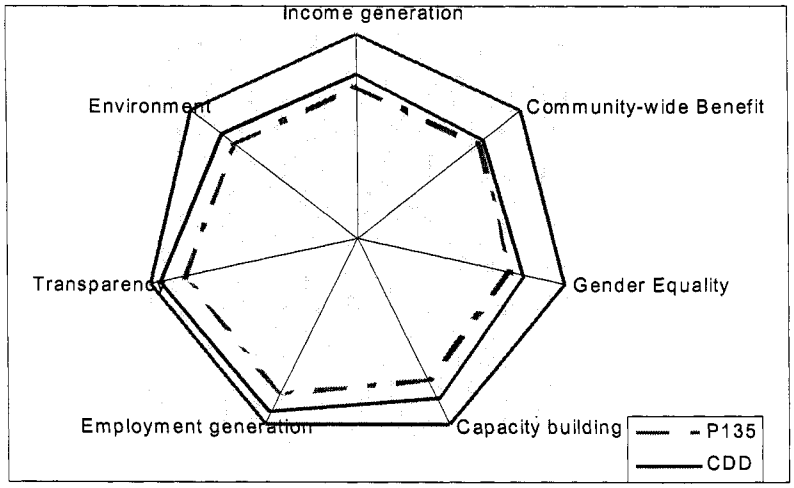
In terms of the process, both villagers and community officials acknowledged a higher degree of participation in CDD projects. Satisfaction was considerably higher in CDD projects in terms of their selection, location and volume of local contributions. On the other hand, the difference was thin in terms of design, bidding process, and supervision of project implementation. The overall satisfaction with these dimensions of local investments was low in both types of projects. It also appeared that project implementation under the CDD approach takes longer than under Program 135. On average, the approval of feasibility studies for CDD projects took 67 days, compared to 54 days for projects under Program 135. District's acceptance of bidding outcomes also took slightly longer (21 days instead of 17).

But it is the differences in the outcomes of the projects that matter most (Figure 8.4). In this respect, it appears that CDD projects substantially outperform those under Program 135 in terms of transparency, employment generation, and capacity building. They also do better in terms of environmental protection and income generation. The gap is more modest in terms of income generation, community-wide benefits and gender equality. The level of satisfaction in all these areas is high under both types of projects. It is also worth noting that CDD projects do at least as well as projects under Program 135 in all dimensions. Disparities only refer to the satisfaction gap between the two modalities.

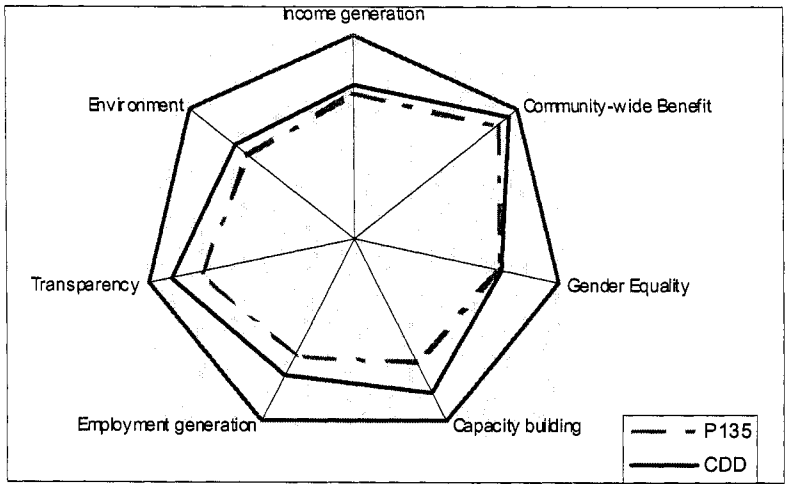
These findings can be criticized on methodological grounds, as has often been the case with studies on the impact of participation. The main problem with studies of this sort is the heterogeneity of communities. Some of them are able to organize themselves, apply for funding, master the administrative procedures and deliver. Others are not. CDD projects only take place

in communities of the first type. Those communes are already, in a fundamental way, "better" than the others. The question is whether the better outcomes that are usually associated with CDD projects reflect the better design of those projects, or rather the better quality of the communities that can actually implement them. The study whose findings were just discussed tried to address this methodological concern by focusing only on communities that had undertaken projects under both modalities. A statistical method allowing to "remove" the effect of the commune quality confirms that the CDD design does have a positive impact on the quality of development outcomes. With the exception of income generation and gender equality, the impact is statistically significant. It follows that the policy changes currently under consideration, aimed at increasing community participation, could improve the effectiveness of local investment projects in Vietnam, and of Program 135 in particular.

Figure 8.4: What a Difference Does Participation Make?



Views by local officials



Views by the community

Note: Figures indicate village-level satisfaction, based on focus group meetings. Satisfaction increases with distance from the center.

Source: Quang Hong Doan and Martin Rama (2004)

9. FIGHTING CORRUPTION

Assessments of corruption in Vietnam are mostly based on cross-country surveys. According to those assessments, the extent of corruption roughly matches what could be expected, given the country's current development level. But the experience of other countries during periods of rapid economic growth suggests that Vietnam is particularly vulnerable at present, as the opportunities for graft could develop faster than the government's accountability. Stiff penalties alone will not be enough to address this risk. An effective anti-corruption strategy has to reduce the scope for corrupt behavior, and to increase the probability to identify those who incur in such behavior. This, in turn, requires a good understanding of corruption modalities in different parts of the government machinery. Cross-country surveys are not informative enough in this respect. A diagnostic study currently carried out by the Central Committee for Internal Affairs, involving surveys of households, enterprises and government officials, is more promising. While waiting for its results, the available evidence suggests that corruption is pervasive in infrastructure investment, in land use administration and in some public services, including education and health. Corruption in tax administration is comparable to that of other countries at a similar development level; access to public utilities and public procurement fare slightly better. A review of World Bank funded projects uncovered indicators that may suggest collusion among bidders, mainly because of the similarity of bids and price quotation. But the similarity of bids could also be due to generalized reliance on SOE costing norms. An expenditure tracking survey for Program 135 found limited leakage of funds. But there could still be considerable waste, if not wrongdoing, in their allocation to local contractors. The revision of the Anti-corruption Ordinance, the compilation of the new Law on Denunciations, and the development of a database of personal assets of top civil servants, should help mitigate the abuse of public function. Meanwhile, efforts should focus on strengthening government systems. The public financial management reform initiative, the modernization of public procurement, the increased participation of communities in local spending decisions, and the generalization of the one-stop-shop model for administrative delivery, could do much to help Vietnam win in the fight against corruption.

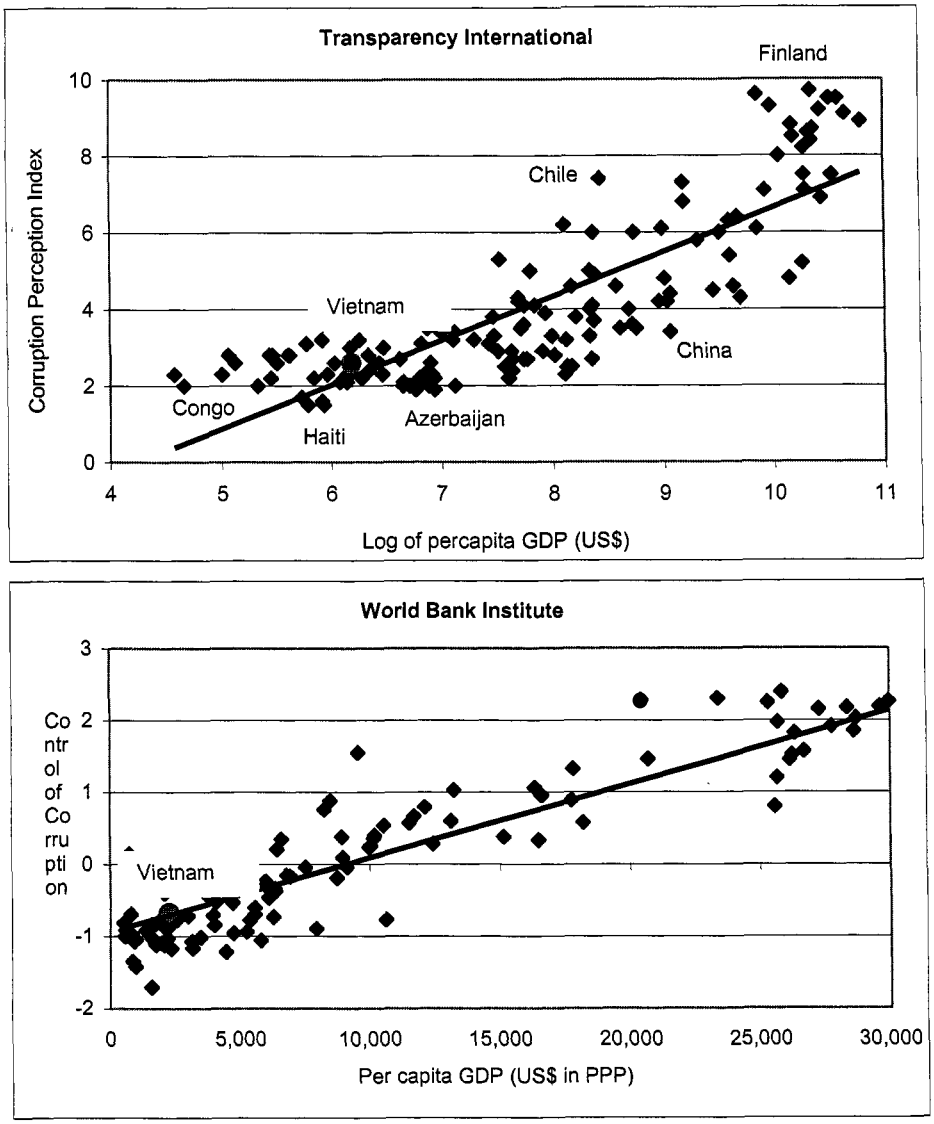
A Development Issue

Corruption is one of the most serious challenges faced by Vietnam. The long-term pattern of development will very much depend on the government's ability to tackle it, and to overcome it. But Vietnam is not the only country facing such challenge. To a large extent, corruption is a development issue. And it is inaccurate to portray Vietnam as unusual in this respect. By several standard measures, the extent of corruption is actually comparable to that of other countries at a similar development level.

One of the most frequently used measures is the Corruption Perception Index computed by Transparency International (TI), an international NGO. This index, released on an annual basis, relies on several independently produced surveys. These are the Global Competitiveness Report produced by the World Economic Forum, the Country Risk Service and Country Forecast produced by the Economist Intelligence Unit, the Risk Ratings produced by the World Markets

Research Centre, the State Capacity Survey produced by Columbia University, a survey by the multilateral development banks, the Grey Area Dynamics Survey produced by the Merchant International Group, and the Asian Intelligence Issue by Political Economic Risk Consultancy. The questions asked by these surveys relate to bribery in procurement, tax payments, licensing and the like.

Figure 9.1: Integrity and GDP per Capita



Note: The TI index measures corruption on a 0-10 scale with 10 denoting maximum integrity. The WBI "control of corruption" index ranges from –3 to 3 with 3 denoting maximum integrity.

Source: Transparency International (2004), World Bank (2004d), and Daniel Kaufmann, Aart Kraay, and Massimo Mastsuzzi (2003).

Another frequently used measure is the Control of Corruption indicator, computed by the World Bank Institute (WBI). This indicator measures perceptions of corruption, conventionally defined as the exercise of public power for private gain through a composite of different surveys. These include the Global Competitiveness Report by World Economic Forum, the Country Risk Service by the Economist Intelligence Unit, International Country Risk Guide by the Political Risk Service, and the Country Risk Review by Global Insight's DRI McGraw-Hill.

Box 9.1: Lessons from US History

By several measures, the United States is among the 10 least corrupt countries worldwide. But this reputation is a modern phenomenon. Conventional histories of nineteenth century America portray it as similar to today's developing countries. City governments were corrupt in the purchasing of inputs such as street cleaning or construction services, and bribes were given in exchange for overpayment for these inputs. City governments were also corrupt in the distribution of publicly-owned property such as land or access to a port, all of which were sold not to the highest bidder for the good of the citizens but to most generous briber for the benefit of the few. Finally city governments were corrupt in the administration of rules, such as prohibitions on gambling and prostitution, and accepted bribes for leniency in this administration.

The extent of corruption actually increased for quite some time, in parallel with unprecedented economic growth. One objective way to assess trends in this respect is through the press, by searching for the words "corruption" and "fraud" and counting the appearance of articles or pages containing these words. This count is then deflated by the number of articles or pages containing the words "January" or "political". This second count produces a measure of the overall size of the newspaper (in the case of January) or of the overall amount of attention given to politically-relevant stories. This methodology was applied to two sources that are available electronically on-line in fully searchable editions: the *New York Times* and a large group of small-town newspapers (*Ancestry*). The results turn out not to be too sensitive to the exact choice of search words. They reveal one major trend: the extent of corruption increased until the 1870s, and declined between the 1870s and the 1920s, with most of the decline concentrated in the mid-1870s to 1890 and in the 1910s.

The rise in corruption across the nineteenth century can be explained by the fast increasing scale of both government and the economy. But the decline in corruption between the mid-1870s and 1920 was not associated with declining returns to corruption. The size of the government continued to rise and the returns from corruption in the judiciary increased as well. The big change was in the costs facing corrupt officials. In 1900, many actions that would be prosecuted today were deemed acceptable. Governments rarely prosecuted themselves, and their higher levels were sufficiently weak that they could not provide a check on local corruption. In many smaller cities the news media was sufficiently tied to the political establishment that it was unlikely to trumpet information unfavorable to that establishment.

The dominant political movement of the early twentieth century (Progressivism) was in fact dedicated to the elimination of corruption. From 1901 to 1917, under presidents Roosevelt, Taft, and Wilson, a legislative and administrative agenda was justified in part by a need to reduce corruption. At a more local level, throughout the twentieth century municipalities and states regularly elected reform slates that promised to exercise a strong hand to root out corruption. By the early twentieth century, the full apparatus of modern checks on corruption was in place. Rules had generally replaced discretion. Different levels of government more effectively patrolled each other. And greater competition and independence in the news media meant that corrupt activities were more likely to be reported everywhere in America, not just in the big cities.

While scholars can debate the impact of these various forces, there is no doubt that US history offers many examples of reform movements that claimed as a primary goal to reduce corruption, just like reformers in developing countries today.

Source: Edward L. Glaeser and Claudia Goldin (forthcoming).

By both measures, the extent of corruption observed in Vietnam roughly corresponds to what could be expected at its current level of development (Figure 9.1). A robust cross-country relationship exists between GDP per capita and measures of corruption like those produced by TI and WBI. In both cases, poorer countries are substantially more corrupt than wealthier ones. Vietnam's reported level of corruption matches almost exactly what could be predicted based on the estimated cross-country relationship.

However, even more interesting than the cross-country relationship are the deviations from it. Some countries, like Chile, appear to be less corrupt than could be expected given their development level. Others, much more. And over time, corruption actually increased in some countries as they were developing, for the simple reason that the opportunities for graft were expanding much faster than the government's accountability (Box 9.1). A rapidly growing country like Vietnam is thus vulnerable to an increase in corruption in the short- to medium-term. But this would be extremely damaging for its long-term development prospects, as it could lead to investors' mistrust and to social discontent. Some of such mistrust and discontent is already noticeable. Hence the need for swift and determined action.

Box 9.2: Beyond Anecdotes and Perceptions

A number of caveats are required when interpreting the TI Corruption Perception Index for anything more than a broad picture.

First, comparisons with the results from previous years should be based on a country's score, not its rank. A country's rank could change simply because new countries enter the index and others drop out. But even comparing a country's score over time should be done with caution. A change in the score from one year to the next can be explained by reasons not directly related to the extent of corruption in the country, such as the inclusion of new sources, or a change in the methodology of existing ones. From this perspective, it is safer to see the Index as a broad indication of the extent of corruption, with only limited relevance on a year-to-year basis.

Second, the index focuses on relatively narrow groups of respondents. One of its sources, the Global Competitiveness Report, is based on a survey of business representatives from both domestic and international companies. Other sources rely on interviews with expatriates. Business representatives and expatriates play a fundamental role in decisions related to FDI and international trade, among others. Their opinions are undoubtedly relevant from an economic point of view. But the index is not representative of the perceptions of all population groups. In particular, it does not capture the views of households, despite the fact that they among the most direct victims of corruption.

Third, the Index strongly relies on subjective perceptions. Rumors, anecdotes or media attention may have a general effect on the perceptions of both experts and ordinary people. For instance, media attention to corruption in Vietnam has increased significantly during the last few years, partly as the result of a stronger determination by the government to address the issue. But increased media attention can also suggest that corruption is becoming worse.

Unbundling Corruption

Gauging the overall level of corruption is not the same as understanding its modalities. From a policy perspective, it is necessary to identify the government agencies which are most susceptible to corruption, to assess the frequency of illegal acts, to estimate the size of the bribes collected, and to evaluate the distortions and inefficiencies that arise in the process. Knowing

where to restrain administrative discretion, and where to improve transparency, is key to effectively reduce corrupt activities. Identifying the best mechanisms to process and investigate denunciations, would help identify the culprits and sanction them, once corrupt activities have occurred. The strategy to reduce corruption will be considerably more effective if it is based on a sound diagnosis of corruption modalities. Indicators like those produced by TI and WBI provide useful snapshots and allow informative international comparisons. But they are not specific enough to guide an anti-corruption strategy on the ground (Box 9.2).

Recognizing the need to better grasp the nature and extent of corruption in Vietnam, in 2002 the Central Committee of Internal Affairs of the Party embarked on a three-year diagnostic effort. Supported by Sweden, this project includes a diagnostic survey on corruption, with the aim of identifying its causes and understanding the reasons for the low effectiveness of the anti-corruption measures used so far. Ultimately, the project is expected to propose concrete measures to reduce corruption, and to enhance government effectiveness in this respect. Given the multi-dimensional nature of corruption, the project includes a wide range of stakeholders such as the Communist Review, the Ministry of Justice, The Government Inspectorate (GI), the Central Committee of Inspection and the Ministry of Home Affairs.

In January 2004, the Swedish Institute of Public Administration and the National Economics University were awarded the subcontract to assist in preparing, conducting and analyzing the survey. This survey involves the use of an internationally recognized methodology, based on the triangulation of information collected from households, enterprises and government officials. The focus is on the extent and modalities of corruption in a range of public services, business activities and investment projects. The methodology also pays special attention to eliciting truthful answers by not immediately referring the questions to the personal experiences of the respondents. Currently, the questionnaire design is being tested. The survey will be undertaken in December 2004 and January 2005. Reportedly, its findings will be made publicly available. This survey and analysis comes in a timely fashion to feed into the design of the new anti-corruption strategy of Vietnam. While waiting for its results, however, other sources of information can be used to assess where the worst problems are.

Corruption in Services

Petty corruption in the delivery of basic services to households does not necessarily involve large sums of money, but it can be a source of considerable irritation, leading to understandable social discontent. Knowing that interactions with the civil servants who work on education, health or administrative services are likely to involve unofficial payments to be processed or completed in time can undermine public faith in government policies. But not all service delivery agencies are equally corrupt, and not all population groups are confronted with the same pressures to make unofficial payments.

Report cards surveys provide useful information on where corruption is more prevalent, and through which modalities it operates. A survey of this kind is currently being conducted on a pilot basis under the supervision of MOHA in four cities: Danang, Hanoi, HCMC and Nam Dinh. The survey gathers households' views on health, education, water, garbage collection and administrative service delivery. It focuses on the households' access to these services, the transparency of entitlements, the operation of redress mechanisms, and the overall level of user satisfaction. Given Vietnam's rapid urbanization process, the delivery of public services to the urban poor, including migrants, is an important concern. Therefore these two groups are over-

sampled by the report cards survey. In total, 4300 households were interviewed, of which 1600 in HCMC, 900 in Danang, 1200 in Haiphong and 600 in Nam Dinh.

The report cards survey confirms the prevalence of petty corruption in public services (Table 9.1). It also shows that it is difficult for service users to tell the difference between official and unofficial fees. For instance, only one quarter of respondents found that official fees were clearly posted in land registration offices. In this respect, the formalization of fees that is taking place under Decree 10 could increase transparency.

But there are important differences across services as well. In education, unofficial fees are prevalent when enrolling children into schools. Well-off people are more willing to pay those fees, probably because they are the ones who can afford to do so in order to send their offspring to better schools. In health, about half of respondents, in all groups, say that not paying unofficial fees would put them at risk, in terms of getting a lower quality of medical care. In land registration, it is preponderantly migrants who resort to unofficial payments. They also rely extensively on middlemen to get household registration. On the other hand, corruption in notary services did not come through as a major issue, with only a small percentage of respondents reporting that they had to pay extra fees.

Table 9.1: Frequency of Unofficial Payments across Services

Service	Corrupt action	Well-off	Poor registered	Poor non-registered
Education	Paid unofficial fee for primary enrollment	6.9	2.4	4.8
	Paid unofficial fee for secondary enrollment	5.1	1.4	0.0
Health	Were suggested to pay unofficial fees	2.3	3.9	0.5
	Paid unofficial fees without suggestion	10.6	12.4	6.7
Construction Permit Service	Paid unofficial fee to get construction permit	5.1	0.5	0.0
	Paid unofficial fee for not having permit	4.6	3.2	3.5
Land Registration Service	Paid unofficial fees to speed up paperwork	3.3	1.6	9.5
Household Registration	Paid unofficial fees to speed up paperwork	0.5	1.2	1.3
	Relied on someone outside of the service	16.0	17.4	55.7

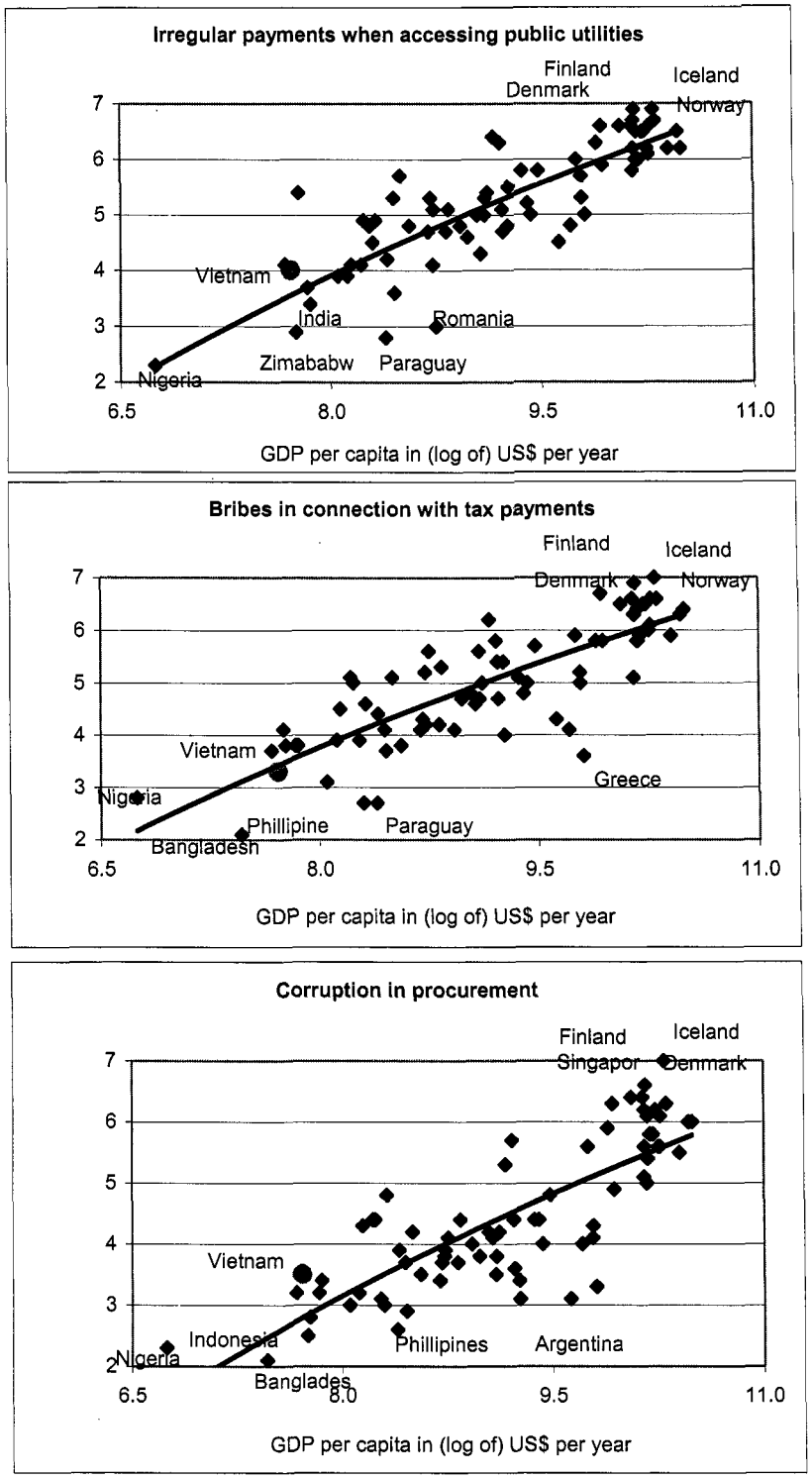
Note: Figures are in percent of respondents. They are drawn from household surveys conducted in the context of the report cards pilot study in Haiphong, HCMC, Danang and Nam Dinh.

Source: Soren Davidsen and Carrie Turk (forthcoming).

Corruption in Business

Interviewing managers to get their views on corruption is a common international practice. Enterprises have to deal with government officials on a regular basis, on issues such as licensing, access to land and utilities, tax payments, customs clearance, labor inspections and the like. Needless to say, their responses can be biased because the unofficial payments they

Figure 9.2: Views from the Enterprise Perspective



Note: 1=common, 7=never
Source: Constructed based on data from World Economic Forum (2003) and World Bank (2004d).

sometimes make to support their businesses can be seen as a corrupt act (and rightly so). Households are less likely to fear being accused if they report paying a bribe to, say, a traffic police officer. In spite of such bias, surveys of the business community can be informative, if not to assess the actual extent of corruption, at least to compare its prevalence across government agencies within one country, or across countries for the same government agency. Unfortunately, no survey of managers' opinions regarding corruption has been conducted in Vietnam for several years now. But the Global Competitiveness Report produced by the World Economic Forum captures the views of the business community on a range of countries, including Vietnam. And some of the questions asked are of interest from a corruption perspective (Figure 9.2).

As for the overall corruption indicators produced by TI or WBI, there is a robust cross-country relationship between corrupt acts in specific government agencies and the level of development of a country. But the dispersion of countries around this relationship is broader than in the case of overall corruption indicators, as the latter averages out the specificities of many agencies. In spite of this broader dispersion, Vietnam appears to be quite close to what could be expected based on that cross-country relationship in terms of integrity (or lack thereof) in access to public utilities, tax collection and customs administration. If anything, it seems to be slightly less corrupt than could be expected in some of the areas, and especially in the case of procurement. But the awarding of public contracts is particularly vulnerable to corruption all over the world. Which makes it an area warranting much closer scrutiny.

Corruption in Projects

Vietnam invests 8.5 percent of its GDP through the budget, and more than that if the creative financing mechanisms used by ministries and provinces are taken into account. It also receives the equivalent of 1.5 billion dollars in ODA every year, mainly under the form of funding for investment projects. The government of Vietnam also sees local investments in rural roads, health clinics or small-irrigation projects as one of the main tools to reduce poverty in remote, mountainous and other difficult areas. All these investments involve the awarding of contracts for construction and other civil works. Contracts for public works have been at the roots of some of the most serious corruption problems all over the world. But uncovering such corruption requires more than opinion surveys.

More proactive techniques, such as procurement reviews for specific projects, systematic comparisons of bids, and technical assessments of the quality of the civil works delivered, bear more promise. The World Bank has recently relied on these techniques to investigate fiduciary risks in its portfolio. The main goal of this exercise was to improve the understanding of fiduciary risks in donor-funded projects. Besides reviewing the adequacy of fiduciary practices and compliance with procurement guidelines and contracting procedures, the review intended to develop a broader set of recommendations that could be used in the design of new projects, and incorporate appropriate safeguards in ongoing projects.

A total of 400 contracts under six credits were analyzed. They involved almost one thousand companies, 1500 persons, 50 banks, and more than 250 transactions. Based on this initial analysis, 110 contracts were selected for an in-depth review. No irregularities in financial management or disbursements were uncovered. And the overall quality of the physical works was acceptable in a majority of the 40 works that were inspected. However, this in-depth analysis found indicators consistent with collusion among bidders in most of the transactions reviewed. Such indicators were present in all six projects and all five provinces where the review was

undertaken, in both national and international competitive bidding transactions. In particular, the investigation found that most bidding prices fell within a very narrow range. This could be justified on the grounds that many bidders rely on the same official costing norms, as they are mostly SOEs. Similarities going well beyond bidding prices were also common. It is thus possible that the procurement process was manipulated to provide the appearance of competition. Involvement of PMUs, while not proven, cannot be excluded.

On the other hand, under-spending has not been unusual in Vietnam. Out of a total of five projects in the World Bank portfolio for the power sector, one had roughly 70 million dollars in savings, whereas two others are reporting possible savings in the order of 10 to 20 million dollars each. These are considerable amounts, as the average project size was about 180 million dollars. Some of the under-spending reflects the speed at which the sector is growing, which is prompting the reliance on other sources of funds. To some extent, the under-spending also results from the use of excessively onerous official costing norms at the appraisal stage. However, the occurrence of large savings, and its reporting, would not be expected in a context of generalized corruption. The professionalism of EVN, and its reliance on internationally competitive bidding, might explain this encouraging outcome.

Box 9.3: Fiduciary Risk in Local Investments

Fiduciary risk is defined as the possibility that funds are not used for their intended purposes, that they are not properly accounted, or that they are not used efficiently. The second and third concerns seem to be relevant in the case of targeted poverty alleviation programs in Vietnam. The first one much less so. This is the main conclusion from an expenditure tracking survey conducted in Son La, Tuyen Quang, Quang Ngai and Soc Trang. These four provinces were selected based on advice from MOLISA and MOF, as they are considered regionally representative. Two districts were chosen within each province, and two communes within each district.

Program 135 was found to be well conducted. Actual spending corresponded with the allocation of capital funds. The use of the latter was public and transparent. There was no finding of loss or misappropriation of funds along the way. Where there are specific norms for investment, such as for Program 135 and for the "Housing Support for the Poor" component of the HEPR program, the process and flow of funds were transparent and based clearly on delegation of management authority. Each level of government had information on funding and clear arrangements for monitoring expenditure. On the other hand, the costs of recurrent expenditure for HEPR sub-programs could not be separated from recurrent costs for sectoral agencies, which merge HEPR funds with their own, mainstream spending.

The main weakness in accounting for expenditure seems to be at the commune level where due to limited skills and frequent changes in responsibilities, the reporting of expenditures was not always accurate or thorough. Funds from non-central or provincial sources were not always integrated in the reports.

The potential for abuse in the HEPR program is probably much higher than in the case of Program 135. Indeed, it is difficult to track allocations to expenditure, even at the province level. Financial reporting to the centre is limited in details of actual project spending because of capacity limitations at lower levels of government. And recurrent spending cannot be tracked separately.

Source: UNDP and MOLISA (2004)

Expenditure tracking surveys are another useful tool to assess the extent of corruption. In this case, resource allocations are followed through the administrative system, to verify that they reach their intended beneficiaries, and that they do so in full. One such survey was recently applied in Vietnam in the context of a thorough evaluation of targeted poverty alleviation programs. Program 135 is sometimes called Program 5-3-1, suggesting considerable resource leakage. However, this view was not confirmed by the expenditure tracking survey, as it only found relatively small discrepancies which could be explained (Box 9.3).

A similar conclusion was reached by the GI in 2003, after conducting an in-depth assessment of Program 135 expenditures in 23 provinces. The SI found errors and misreporting in the order of five percent of program funds. The review of financial systems and data on allocations and spending suggested that resource leakage could not be much higher than this. An error rate of five percent is within international standards for a capital program.

However, resources could still be wasted in the process of selecting contractors. Fully competitive bidding is only applicable for capital works in excess of two billion VND. Almost all infrastructure projects under HEPR and Program 135 smaller than this ceiling, or broken down into smaller components. Contractors are designated by district authorities, even when the construction work is funded through local contributions. Limited competition at the district level may lead to excessive costs being charged. Leakage of funds may also occur through deficiencies in the quality of project implementation, such as in materials not being of the correct quality, or insufficient materials being used.

Whether waste of this sort can be effectively controlled through better project design is unclear. A systematic evaluation of 158 local investment projects undertaken in 24 communes in Yen Bai, Phu Tho, Hue, Quang Nam, Nghe An and Lam Dong is revealing in this respect. The evaluation compared investments under Program 135 with investments under two World Bank funded CDD projects. It revealed a similar extent of dissatisfaction by villagers with transparency in the design of the civil works, with the bidding process, and with the supervision of project implementation. This is despite the fact that CDD projects had a much stronger design in terms of village participation and containment of fiduciary risks.

The apparent inability of strengthened procedures to overcome resource waste and potential collusion in local investments resonates with the findings of the investigation of World Bank funded projects, mentioned above. Indicators of collusion are prevalent enough to suggest that the government operates in a contrived construction market. SOEs under the Ministry of Construction (MOC) tend to share prices, methods, suppliers, consultants and contractors. Which suggests that limited competition among suppliers of civil works is one of the main sources of problems. And even well-designed administrative mechanisms might not be strong enough to overcome the effects of limited market competition.

An Anti-Corruption Strategy

The fight against corruption remains based on a punitive approach in Vietnam, but a new emphasis on prevention is taking root. Imposing sanctions (though not necessarily the death penalty) to those who abuse their public sector functions is clearly part of deterrence. But sanctions are unlikely to make much of a difference when the scope for abuse is massive. Pay increases in the civil service will not be enough either. To begin with, it is not at all obvious that richer people have higher moral standards. If the chances to abuse public function continue to exist, and the probability of being sanctioned remains low, higher pay may do little to reduce

graft. Success in economic growth will make Vietnam more vulnerable to corruption in the coming years, as the payoffs to corrupt acts will be much higher. Increased decentralization may also reduce the ability of those committed to fighting corruption to identify violators. Successfully moving from a punitive to a systemic approach requires progress on two fronts: reducing the opportunities for corrupt behavior, and increasing the probability that those abusing such opportunities get caught. In the absence of such progress, stiff penalties will most likely remain ineffective.

Recognizing the limitations of the current approach, the government has embarked in the development of a new anti-corruption strategy. A resolution to this effect was passed by the Central Committee of the Party in December 2003. As a result, a long-stalled diagnostic study of corruption and its modalities is now being conducted. In parallel, the GI has been empowered as a lead player by the 2004 Inspection Law. It is now preparing for the revision of the Anti-corruption Ordinance and the Law on Complaints, and to develop a database of assets of top civil servants as a mechanism to monitor instances of abuse of public function. The GI has also been instructed to seek and coordinate donor assistance in designing and implementing the anti-corruption strategy, and to prepare for the approval and implementation of the Anti-Corruption Convention of the United Nations. There is an expectation that the findings of the diagnostic study will feed into such strategy. But whether this will be so remains to be seen. For now, there is some sense of disconnect.

Meanwhile, the systems through which government operates need to be strengthened in order to reduce the opportunities for corrupt behavior. The ongoing public financial management reform initiative is a welcome step in this direction. The 2002 Budget Law and the new Accounting Law are part of this initiative. As a consequence of the latter, MOF has been issuing accounting and auditing standards which are consistent with international practice. The reporting of the State Auditor of Vietnam to the National Assembly has been strengthened. The reform initiative also involves unifying the accounting systems used by the Treasury and by spending units, and integrating all budget-related transactions down to the district level in an electronic information management system, with clear rules for approvals and disbursements.

Further progress in terms of strengthening budget allocation norms at sub-national levels would also add transparency to public financial management. The comparison between Program 135 and HEPR is revealing in this respect. The former, involves a less-than-perfect but certainly clear rule, whereby each beneficiary commune is entitled to 500 billion VND for local infrastructure projects and other poverty-reducing initiatives. This rule makes it easy to track expenditures, and results in very limited resources being unaccounted for. On the other hand, the allocation norms under HEPR are much more complex, so that it is difficult to tell whether the resources reach the intended beneficiaries. Clear budgetary norms to transfer resources to districts and communes, possibly involving their population and their poverty rates (provided that consensus is reached on the measurement of the latter), could go a long way towards increased transparency in public financial management at all levels.

Procurement is another area in need of considerable strengthening. Finalizing the Procurement Ordinance, issues guidelines for its effective implementation and developing model procurement documents are among the priorities in this area. In the medium term, further progress requires a reduction in the monetary thresholds for direct purchase, a simplification of procurement procedures, the issuance of guidelines to handle complaints, and strengthening of procedures for tender committees.

The basic principle that publicity is the foundation of competition, fairness and transparency in procurement was clearly stated in Decree 66/2003/ND-CP. At present, MPI is

working towards setting up a Procurement Bulletin and Website. A pilot version of the latter is currently under pilot testing. The system will store data of bidders involving in procurement activities in Vietnam. Those who violate procurement regulations will not be eligible to bid again for public contracts, for a period of time commensurate with the violation. But these improvements will not do much to increase transparency in the case of smaller investments, implemented at local levels. Stronger auditing and increased community participation are key to fight corruption at those levels.

Last but not least, the fight against corruption involves a strengthening of the interaction between government officials and service users. Websites and other electronic interfaces can reduce the scope for abusive behavior in dealings with enterprises. The One-Stop Shop (OSS) model is key to transparency in administrative services. The experience gained by other countries in the region in their fight against corruption offers interesting lessons as well (Box 9.4).

Box 9.4: What Has Worked in the Region?

No country can demonstrate a perfect track record in combating corruption, but regional experiences nevertheless provide a glimpse into specific examples of what could work.

Hong Kong and Singapore are renowned for instituting efficient anti-corruption agencies. A range of conditions and factors were vital for the successes of Hong Kong's Independent Commission Against Corruption and Singapore's Corrupt Practices Investigation Bureau. They included:

- political will and broad political support, combined with operational independence
- a focus on reducing incentives and opportunities for corruption.
- adequate financial resources and skilled staff
- sufficient legal powers for investigative and preventive work
- public awareness of the mission of the agencies.

But Hong Kong and Singapore are not the only examples of countries which have launched successful anti-corruption measures. Indonesia has used surveys to fight petty corruption in service delivery. Increased transparency regarding fees, service standards and entitlements, has also helped closing the accountability gap.

Likewise, increased transparency was essential to strengthen public procurement in the Philippines. A single public procurement portal was introduced, serving as primary information source and allowing procurement of common supplies. The e-procurement portal minimized the face-to-face interaction between civil servants and contract bidders and ensured equal access to information by bidders for public contracts. Substantial savings were recorded as a result of e-procurement.

III. Public Policies: Vision and Partnership

10. THE PLANNING PROCESS

Vietnam's transition to a market economy has not yet translated into a parallel transformation of its planning process. An increasingly large share of output is generated by the private sector, agricultural land has been transferred to rural households for about a decade now, and even SOEs make their business plans on their own. And still, over all the period following *doi moi*, the five-year plans of Vietnam have continued to deal with production targets, in excruciating detail. The CPRGS, approved in 2002, represented a first attempt to plan strategically towards the attainment of development goals (including poverty reduction and other VDGs) in addition to more traditional economic growth objectives. The new directives for the preparation of the SEDP raise the prospect that the CPRGS approach will be integrated into the next planning cycle, for the period 2006-2010. This would entail a fundamental change in the way plans are prepared. Planning towards the attainment of development goals requires that the most effective economic policies be identified, and budgetary resources be aligned accordingly. Policy-oriented analysis, cross-sectoral debate and consultation of stakeholders are key to choose the right policies. A reliable system of indicators, not subject to influence by those in charge of implementing the plan, is key to monitor progress. Above all, what is needed is a much stronger integration of planning and budgeting processes. In a context of increased decentralization, this transformation has to happen at sub-national levels for Vietnam to attain its national development goals. With roughly half of public spending now being decided out of the central government, provincial authorities must be able to produce a sound assessment of the challenges they face in terms of economic growth and poverty reduction, and to prioritize resource allocations accordingly. This will be a demanding process, requiring technical assistance and support for capacity building over the medium-term. But the modernization of planning at the national and provincial levels, crucial as it is, will not solve all the coordination problems that will necessarily arise in a context of massive rural-urban migration. Increasingly, the regional dimension of planning will need to be developed as well.

Towards Development Goals

The planning process of Vietnam was well suited for the command economy that preceded *doi moi*. Then, like now, the government was responsible for the provision of public goods, the development of infrastructure, the reduction of poverty and the attainment of other social goals. But in addition, a large number of SOEs and collective farms under direct government control were also in charge of producing most of the goods and services available at the time. In a market economy, by contrast, the production of goods and services is mainly in the hands of private enterprises, independent farms, and household businesses. Even SOEs are responsible for their business decisions, in principle without direct interference from government authorities. The variety of goods and services available has expanded enormously as a result of the transition to a market economy, which makes it technically impossible to predict demand trends in each case, and to plan supply accordingly. But the planning process in Vietnam has only partially assimilated this dramatic change in the economic context.

An illustration is provided by the 2001-2005 Five-Year Plan for the rural sector. Despite the fact that most agricultural land had been allocated to rural households for about a decade, and these households could make their own choices regarding what to cultivate, the plan was still strikingly specific on material production targets to be attained by 2005. It envisioned increasing the corn-growing area to one million hectares, the cashew nut area to half a million hectares, pepper to 35,000, rubber to 430,000, tea to 104,000 and cotton to 70,000. The growing areas of other crops were to remain stable, with 4 million hectares of irrigated land devoted to rice, 250,000 to sweet potato, 250,000 to cassava and 300,000 to sugarcane. Targets for livestock included a 24 million headcount for pigs, 10 million for cattle and 300 million for poultry. Output levels were specified as well. Vietnam was supposed to produce 33 million tons of rice, 2.5 million tons of meat, 3 million tons of corn, 2 million tons of pork and 1.1 million tons of salt, among others. All of which would add up to 5 billion dollars of agricultural exports.

On the other hand, the plan for the rural sector did not emphasize the constraints faced by farmers when trying to attain these (or any other) agricultural production goals. Issues of poor maintenance and inefficient operation of irrigation systems were in no way central. There was no focus either to the weakness of regulatory frameworks, the absence of internationally acceptable technical and sanitary standards, the inadequacy of veterinary and agricultural extension services, or the constraints posed by poorly developed trade logistics (roads, ports, cold-storage facilities and the like) Even more surprising is to find, among the long list of targets, one for the poverty rate, supposed to reach 10 percent by 2005. How this could be accomplished, or how this particular target related to the other, production-oriented ones, was unclear.

Modern planning for a market economy is usually organized around stated national priorities for economic growth, poverty reduction and social development. This involves a move away from setting production and investment targets towards relying on development outcomes as motivators for public action. Expanding output, reducing the prevalence of poverty, attaining the VDGs and other related social goals, are not simply a few targets among many others, but rather the main objectives towards which the entire planning exercise is geared.

While conducted to some extent "outside" the normal planning cycle of Vietnam, the preparation and adoption of CPRGS represented the first large-scale attempt to adopt a strategic planning approach suited to a market economy. The CPRGS and the 2001-2005 Five-Year Plan have similarities at a formal level, but they are quite different in substance (Box 10.1). The outsider nature of CPRGS made it somewhat controversial at the time, and it is possible to question whether CPRGS would have actually seen the day, or been conducted in the same way, in the absence of active donor support. But such debate has lost much of its relevance by now, as the recently issued Prime Minister's Directive 33/2004/CT-TTg clearly instructed government agencies at all levels to integrate the CPRGS approach, and Vietnam's commitment to attaining the VDGs, into the 2006-2010 SEDP.

Unfortunately, the old command approach to planning remains firmly rooted in several government ministries and agencies. As the country moves towards the preparation of the 2006-2010 SEDP, there is a real risk that these ministries and agencies will continue to focus on the setting of production targets. There is also a risk that the PIP will remain a compilation of projects by line ministries, provincial governments and SOEs, with weak links to the broader economic and social objectives of the country. Government officials at local levels might find it particularly difficult to switch from the old to the new planning approach, and could prove unable to do so in the absence of clear guidelines and considerable training efforts. Grasping the nature of strategic planning in a market economy is essential at this juncture.

Box 10.1: "Old" and "New" Planning: Differences and Similarities

A comparative review of the content of the official documents presenting the Five-Year Plan 2001-2005 and the CPRGS is revealing. The overall strategic direction of the two documents is similar, as they both draw from the vision set out in the ten year Socio-Economic Development Strategy (SEDS). But there are some key differences too:

Five-Year Plan 2001-2005	CPRGS
Consultation within the administrative structure and with mass organizations.	New participatory methods in developing the stategy, with reliance on NGOs
No explicit poverty analysis, but integrated approach around economic transformation	Analysis of data and review of existing studies based on international approaches
Detailed targets for production in all sectors and major branches	Identification of strategic actions to tackle the structural causes of poverty
Sets targets for poverty reduction, hunger eradication and improvement of people's lives	Structured around the VDGs and other development outcomes
Includes regional plans based on the perceived comparative strengths of six regions	Is essentially a national-level document, without regional directions
Strong focus on the development of infrastructure, especially in transport	Only small-scale infrastructure included originally; expanded to large-scale infrastructure in 2003

These differences have sometimes been the source of confusion within government, with officials feeling obliged to consider parallel documents for guidance in strategic direction. These differences, having pushed the boundaries of planning in the last cycle however, have also helped to set the new agenda for planning in the 2006-2010 period outlined in Directive 33.

Source: Adapted from Irene Norlund (2004).

Main Building Blocks

Planning for development goals requires a good understanding of the effects of the economic policy instruments the government controls. With most economic units making decisions on their own, the only way for the government to influence their choices is to modify the environment in which they operate. For instance, increasing the extent of competition in the markets for goods and services, hardening the budget constraint faced by SOEs, and leveling the playing field between enterprises of different sorts, can be ways to stimulate productivity gains, hence to raise incomes. Better physical infrastructure, improved access to land and less interference of government officials with local businesses could support private sector development and job creation, thus reducing poverty. Increased funding for health, improved access by the poor to health insurance mechanisms, and appropriate regulation of the prices of key pharmaceutical products and medical treatments could mitigate the risks from health shocks, and help keep development inclusive.

Links between economic policies and development outcomes are not mechanical, however, and a recipe that works in one country might well fail in another. Hence the importance of involving local research institutes and think tanks in the preparation of policy-based analyses that can inform planning processes. Cross-departmental debate on the link between strategic objectives and priority actions is another important planning tool, much the same as consultation. The latter usually involves government officials, but it should also elicit feedback from a broader range of stakeholders, including mass organizations, academics, the private sector, civil society and development partners. In practice, this requires explaining the challenges associated with achieving outcomes to diverse groups, actively seeking their feedback and guidance, and incorporating their perspectives into final plans.

Box 10.2: Players and Referees: the Role of GSO

Success in the implementation of development plans partly depends on the availability of an appropriate monitoring system. With the adoption of the CPRGS the government introduced a set of 136 indicators, most of which were new and many of which referred to the attainment of actual development outcomes as embodied in the Vietnam Development Goals (VDGs). It also proposed to disaggregate indicators along various dimensions, including gender, ethnicity and location. But simply adding these indicators to the existing ones may lead to a system that is simply too large. A preliminary list of indicators for the 2006-2010 SEDP contains 293 of them. This is more than policy makers can absorb. And data collection efforts need to be kept manageable, in particular at the provincial level. So priorities need to be set, perhaps in the form of an agreed list of 30 to 60 "core" indicators.

But who chooses the indicators? Line ministries have an important stewardship role to play in this respect. As they go through their own planning process, they need to identify national priorities, against which they can be held accountable. Provincial governments should go through a similar process, agreeing on a set of priorities at the local level, within the framework of the national level VDGs and other national goals. MPI could serve as the overall coordinator of this process, supporting inter-ministerial consultations, as well as interaction with organizations outside government.

Indicators related to development goals can be difficult to measure. Those dealing with governance, such as progress in grass-roots democracy, represent perhaps the most extreme example. Poverty measurement also raises important technical difficulties. And even the measurement of child mortality, which might seem straightforward, is controversial too. While line ministries and provincial governments certainly should have a say on what to measure, GSO is often well-placed to advise on the how to do it. An agency with technical expertise, and the capacity to refer to international practice, has an important role to play in this respect. Actual measurement is another specialized task. Gathering information on development outcomes requires that information be collected directly from households and enterprises through surveys. GSO can also collaborate in the compilation of information collected by sectoral ministries and provincial departments through own reporting systems.

For information to be useful, it has to be publicly available. If line ministries and provincial governments are to be held accountable on attaining development goals, indicators of progress towards those development goals need to be accessible. GSO has become increasingly active in disseminating its data, definitions and methodologies. In that sense, the freshly opened GSO website (www.gso.gov.vn) is an important step in the right direction. But there is scope to be more transparent about the strengths and weaknesses of the data. More importantly, to promote policy-oriented research and discussion, the dissemination of raw (micro-level) data should be stepped up. The Statistical Law adopted in 2003 already provides the legal framework for that.

Another key feature of modern planning is its very close link with the budget process. Stating the development goals the country wants to reach, and identifying the most effective policy actions to get there, are only the first steps. Implementing those actions requires that budgetary resources be aligned accordingly. To ensure that plans generate change at a practical level, the public measures identified as necessary have to be backed up by capital and recurrent expenditures. Plans should thus serve as a framework to allocate public resources over the medium term and also, hopefully, as a mechanism to align donor support to national priorities. The admittedly rudimentary "costing" exercise for the VDGs, undertaken as part of the CPRGS preparation, illustrates how plans can be used to inform budgets. For instance, the decision to substantially increase the budget allocation for education and training, to 18 percent of the budget by 2005, was one of the consequences of such costing.

Last but not least, planning towards development goals also requires a well-defined set of indicators to monitor and evaluate progress in implementation. Reliable data on the VDGs and other economic and social objectives is key for the National Assembly and Provincial People's Councils to hold government at different levels accountable. Although considerable progress has been made in improving the quantity and quality of the data available in Vietnam, those data still need to be organized and delivered in a way that facilitates the planners' work. Efforts should also focus on indicators for strategic priorities which are currently less well-measured, in particular in relation to grassroots democracy. Institutional arrangements for specifying and using monitoring systems could be improved, with a stronger role for inputs from line ministries. Different data needs for different users across government should be clarified.

Previous five-year plans also used statistical indicators to assess whether targets had been met. For instance, there would not be much difference between old and new planning approaches in terms of monitoring economic growth, exports or foreign direct investment. But many of these indicators can be seen as intermediate outcomes towards broader social goals related to the overall quality of life, such as the poverty rate and other VDGs. Traditional Five-Year Plans did not perform that well in this respect. Quite often, the same government agencies in charge of implementing the plan where also the ones measuring the progress accomplished. While those agencies clearly have a role in identifying the goals of the planning exercise, and deciding the means to attain them, self-reporting creates a potential conflict of interest (Box 10.2). The case of poverty rates was among the most extreme, as the People's Committees responsible to reduce those rates also had, in practice, considerable room to influence the rates reported. An encouraging sign in this respect is the current initiative to reformulate the measurement of poverty at all levels (Box 10.3).

In stating that that the Five-Year Plan and the CPRGS have to be merged in the coming planning period, the Prime Minister's Directive 33 stresses the importance of some of the building blocks just described. The Directive specifically requires the SEDP to address the VDGs, which might motivate a more outcome-focused plan. It also states that the analyses used to underpin the plan should make use of international methods and standards. This opens up the possibility to address more openly sensitive issues such as ethnicity and migration, which were more fully addressed in the CPRGS than in the Five-Year Plan. Last but not least, the Directive proposes that the preparation of the SEDP emulate some of the participatory approaches to planning that characterized the preparation of the CPRGS: "when preparing the five–year plan, the ministries, sectors, provinces and cities under the Central Government should take into account all comments and opinions voiced by research institutions, universities, non-governmental organizations, different social groups and resident communities, particularly by investors and businessmen".

Box 10.3: A New Approach to Poverty Measurement

Two methods to measure poverty coexist at present in Vietnam. One of them, designed and implemented by MOLISA, operates "from the bottom up". Local officials compute the number of poor households at the level of each village or *thon*, partly on the basis of a survey measuring household income, but mainly on the basis of the very good knowledge they have of their communities. The resulting figures are aggregated to the commune level first, then to the district and province levels, and finally consolidated into a national poverty rate. The main weakness of this method stems from the different criteria applied by different officials. Not only are perceptions of poverty different across villages, but also the number of reported poor is heavily influenced by the availability of resources to help them. The method is also vulnerable to manipulation by local authorities, most often to report fast progress in the fight against poverty in the jurisdictions they are responsible for.

The other method, applied by GSO relying on more frequent international practice, goes "from the top down". A nationally representative household survey allows a reliable measure of the poverty rate for the country as a whole. This rate is defined as the fraction of the population whose expenditures are not enough to sustain an intake of 2100 calories per day. As the sample of the household survey expanded considerably in 2002, this method produces reliable poverty rates at the level of most, if not all provinces. A statistical technique known as poverty mapping, which combines data from population censuses with the results from the household survey, allows to estimate poverty rates at the district and commune levels. But this technique becomes increasingly reliable as the population of the units considered becomes smaller. Its results cannot be trusted at the level of the *thon*, where local officials do a much better job at identifying the poor.

An effort to combine the strengths of these two methods is currently under way. Final decisions have not been made yet, as the new approach to poverty measurement is being assessed on a pilot basis in three provinces. However, it appears that the new approach will retain an adapted version of the GSO method for the measurement of poverty at the national and provincial levels. It will also adapt the questionnaire used by local officials so that it becomes more consistent with the outcomes of the nationally representative household survey. And it will force a distinction between counting the number of poor at the local level (which should be independent of the resources available) and identifying the beneficiaries of whichever programs can be funded. These changes should help reconcile, at the district or commune levels, the poverty rates estimated from the bottom up and from the top down. If this happens, then it would be possible to compare the needs of provinces, districts and communes on a rigorous basis, and to allocate budget resources accordingly.

Provincial Plans

Because of the ongoing decentralization process, local governments will play an increasingly important role in attaining national development goals. Roughly half of budget spending is now under the control of provinces, districts and communes. But progress in the transition from old to new planning at local levels has lagged behind the progress in decentralization. There is by now some tension between the unprecedented spending authority of the provinces, and their limited preparedness to plan towards development goals. The success of decentralization in Vietnam, and the ability to keep development inclusive, will crucially depend on the ability of local governments to embrace strategic planning, leading to sound policy choices, supported by commensurate budget allocations, and monitored through an appropriate set of provincial-level development indicators.

During the last two years, about twenty provinces have started experimenting with the preparation of strategic plans, in the context of a donor-supported initiative to "roll out" CPRGS to sub-national levels of government. The experience has been diverse, if measured in terms of success on ground, but rich in terms of learning (Box 10.4). The preparation of the 2006-2010 SEDP, under the Guidance of Directive 33, provides the opportunity to scale up this initiative to all provinces. In Vietnam, the preparation of five-year plans tends to rely on universities and research institutes to a larger extent than other government activities. Academics and researchers might be faster than local government officials to grasp the implications of economic transition for planning. The preparation of the provincial five-year plans thus offers an unusual opportunity to improve the policy making process at local levels.

Box 10.4: "Rolling Out" the CPRGS: Lessons from Tra Vinh

Tra Vinh was among the first provinces to embrace modern strategic planning. This was before the central government officially decided to integrate the CPRGS into the next SEDP, meaning that formal support for Tra Vinh's initiative was still limited. The experience gained during this exercise can be of interest to other provinces. It can be summarized as follows:

- Translating the CPRGS into provincial budget planning is a forward-looking exercise that must involve both provincial and central government authorities. In the context of the decentralization processes launched under the revised State Budget Law, it prepares the provinces to take ownership for their development choices and tests new cooperation mechanisms between government levels.
- Local ownership of development choices and budgeting decisions emerges from building a local consensus on the assessment of the poverty situation, the selection of development goals and the appropriate policy measures to attain them. The consensus must be built based on stakeholders' opinions and debate. Data reporting is not enough.
- Measuring the VDGs at a local level, and comparing the province's progress towards attaining key social and economic indicators to that of similar provinces is an effective way to increase awareness on the province's development needs.
- GSO must be actively involved in supplying information and sharing its experience in data collection and analysis with experts and officials at the local level. When new data needs to be produced, GSO should provide guidelines so locally produced statistics are comparable. Data should be widely disseminated and be accessible by all concerned stakeholders.
- Active participation of the poor, both directly and through grassroots organizations, helps to better identify the real causes of poverty, provides valuable feedback on community expectations, and contributes to formulate innovative pro-poor initiatives.
- Coordinated government and donor involvement strongly modified participants' attitudes on gender issues. There is still, however, a long way to go before gender concerns are mainstreamed into local development plans and budgets.
- Policymakers should focus on a reduced set of key targets when formulating provincial socio-economic plans. This is necessary to formulate and cost strategies that can lead to prioritized budget allocation for poverty reduction.
- Reducing uncertainties about future funding, and strengthening the coordination between central and local budgets, will increase the capacity to effectively integrate CPRGS into socio-economic plans at the provincial level.

Source: UNDP (2004).

But the preparation of the SEDP proceeds under tight deadlines, and it would be naive to expect a radical change across all 64 provinces in just a few months. Following up on the provincial five-year plans on an annual basis will be key to process a policy change in the medium term. Engagement with provincial authorities beyond the submission of their plans, and the provision of technical assistance and capacity building over a several-year period, will be key to sustain the modernization of planning at the local level.

The Regional Dimension

The average province in Vietnam has slightly more than one million inhabitants. By transferring a large number of policy decisions to provincial authorities, the ongoing decentralization process is bringing government closer to citizens. But in several respects, one million inhabitants is too small a population. The autonomy of provincial governments to make their own choices, while commendable in terms of responsiveness to local needs, may actually raise important coordination problems. Such problems could be particularly severe in a context of massive rural-urban migration. While some of this migration will take place within provinces, much of it will be across provinces. Those growing rapidly will have to factor in the consequences of slower development elsewhere in the country. Other coordination problems will be related to the development of infrastructure requiring a scale beyond the province's population. Highways, deep sea ports and international airports are obvious examples. Finally, there are also potential tensions between sector-wide choices made by line ministries and their implications at local levels. Problems of this sort are already becoming serious in the fastest growing regions of Vietnam (Box 10.5). Those regions also illustrate the enormous gains that could result from a better coordination of the various plans affecting them in one way or another. But at present Vietnam does not have appropriate mechanisms for regional planning.

Box 10.5: The Halong Corridor

The coastal region of the Quang Ninh and Haiphong provinces illustrates Vietnam's emerging challenges in regional and sectoral planning. This corridor covers a dramatic land and seascape with thousands of limestone islands, including Halong Bay, a World Heritage site. It is a complex area of extraordinary beauty and biological richness. It is also the center of the coal mining industry, one of the major foreign exchange earners of Vietnam. And it possesses port facilities of major significance for Vietnam's integration in the regional and global economy.

With such endowments, not surprisingly, the Halong corridor is one of the fastest-growing regions in the country, characterized by rapid urbanization and fast declining poverty. But it is not immune to social problems. In spite of the sustained expansion in coal production, as many as 40 thousand miners could be redundant. Quang Ninh is also affected by emerging social problems, including drug use among disaffected youth.

Sectoral plans call for continuing the strong growth of established industries such as coal mining and cement production, as well as continued expansion of port infrastructure, shipyards, industrial parks, and transport and urban infrastructure to serve the industrial base and the growing urban population. Meanwhile, there are plans to build Halong City into a major international tourism center.

Development in the Halong corridor brings economic benefits to millions of Vietnamese, but there are substantial environmental impacts. Coastal waters are being degraded as a result of land and marine-based pollution from coal mining, industrial parks, oil spills, and municipal waste. In places like Coc Sau, the aqueous run off from the open pit has a low pH (1.8 to 4) and flows directly into the bay. Also, landscape restitution is not done after mining, and this would be costly to correct.

Economic growth and environmental protection in the Halong corridor should be pursued as compatible rather than exclusive objectives, to ensure that industrial development does not compromise the needs of the tourism industry and the health of local residents. The Halong case is a good illustration of the challenge of sustainable development in Vietnam, but is not unique. Many cases, although probably not as complex, are being played out elsewhere in the country. At the same time, the booming economy of the region makes it possible to envision much less painful social adjustments. Massive labor redundancies in mining tend to occur in remote and isolated places, where few other jobs are available, while the Halong corridor offers enormous opportunities for re-conversion.

Regional plans and strategic environmental assessments are among the tools that could help Vietnam meet these emerging challenges. Regional plans can, by design, balance and reconcile conflicts in land and natural resources uses arising from sectoral and provincial plans, particularly if they are developed with strong economic, social and environmental inputs. Strategic environmental assessment is a process that provides decision makers with information on potential environmental impacts of a policy, plan or program.

Vietnam's recent Strategy for Sustainable Development (Agenda 21) recognizes the problem with weak or absent coordination between sectoral, provincial, and regional planning and the need to build up sustainable development programs at the regional level that are informed by broad participation, particularly of local stakeholders.

11. THE NEXT FIVE YEARS

The transition from a command to a market economy requires a reassessment of what the government should focus on, and what should be left to the private sector. Much of the debate on "how" to strengthen governance. But an equally important question is: "what for"? Improved processes, at all levels, are essential. But they are no substitute for a vision. The preparation of the next SEDP offers an opportunity to rethink the role of government in Vietnam. Much the same as WTO accession is a contract with the rest of the world, on the rules of engagement for integration with the global economy, the SEDP is a contract between the government of Vietnam and its people, on the policy actions to sustain economic growth and keep development inclusive. And there are several areas where the government will have a fundamental role to play in the coming years. Business development will be constrained in the absence of effective enforcement of contracts and creditor rights, a level playing field with SOEs, a soundly regulated financial system and proper land titling and registration. Infrastructure will not be sufficiently developed without adequate government funding when full cost recovery from users is not possible or desirable, and without an adequate framework for private participation wherever feasible. Poverty will not continue to decline at the same pace as it did in recent years if the specific problems of ethnic minorities and rural-urban migrants are not addressed, and the poverty focus of policies in education and health is not preserved. Social protection, against ageing without earnings, against health shocks and natural disasters, requires the development of modern insurance mechanisms, broad in their coverage and financially sustainable in the long term. Collective goods, such as a clean environment, traffic safety or public health, will be in short supply without active government intervention. Making progress in some of these areas requires embracing a "second generation" of reforms, which Vietnam can now envision as its transition to a market economy is being successfully completed.

Foundations for Markets

Increased competition in the markets for goods and services has been one of the main drivers of Vietnam's economic reform strategy. It first affected product markets, mainly through the gradual liberalization of foreign trade. Enterprises were allowed to directly export and import, thus bypassing the trading-rights system. Quantitative restrictions on imports were gradually dismantled for most sectors. At present, they only affect sugar and petroleum products (although tariff rate quotas apply to some agricultural and dairy products). Import tariffs have also been falling, especially in the context of AFTA. In some cases, such as telecommunications, competition has involved SOEs only, but it has been fierce nonetheless. The USBTA, signed in 2001, paved the way for competition in services such as banking. Accession to the WTO, which could take place in late 2005, would only reinforce the trend towards market contestability.

Greater freedom of entry across a range of markets has been associated with the development of a vibrant private sector. Legislative and regulatory changes have promoted the development of a mixed economy comprising foreign, state and private domestic firms. Reducing the number of licenses has also helped increase competition in some sub-sectors. By now the private sector accounts for more than 70 percent of industrial output and two thirds of

non-oil exports. The combined investment of the domestic and the foreign-owned private sector amounts to 43.5 percent of total capital accumulation.

The distribution of enterprises remains skewed, however. At one end of the spectrum, according to the surveys used to assess poverty, three quarters of households are involved in farming, and 38 percent of them run a small business of one sort or another (a third of which are not related to farming). While accounting for the activities of household businesses is difficult, this small-size end of the spectrum is clearly thriving. At the other end, Vietnam is a prime destination for foreign investors, with the ratio of FDI to GDP now surpassing that of China. But the middle ground is somewhat emptier, reflecting important obstacles to the growth of domestic private enterprises.

One of those obstacles is the preferential treatment received by SOEs in many areas. Legal regimes for the operation of businesses, incentives schemes, and state agencies dealing with enterprises, are all based on ownership. Private sector participation is restricted, or altogether banned, in several sectors of the economy, including telecommunications, ports and aviation. Line ministries, provincial governments and SOCBs (or their regional branches, at least) give priority to SOEs in government contracts, access to land and credit. Limited access by the private sector results not only from regulatory restrictions but also from deeply engrained informal practices. Progress in the direction of open and transparent competition has also been slow in the area of public contracts, where a bias in favor of SOEs remains. Private enterprises are still subject to cumbersome procedures and harassment. Dealings with government in areas such as tax assessment, custom filing, and public services are time-consuming and often based on "ask-grant" approach. Unofficial payments are common as a result.

At a deeper level, Vietnam still has to build the legal institutions for a market economy. The transactions of family businesses can be sustained on trust, without involving formal contracts. As for foreign investors, they have mainly relied on direct deals with Government, especially through association with SOEs. Their concerns are dealt with through direct negotiations, relying on commitments made by the Government of Vietnam, and involving the investors' own governments in cases of disagreement. But for most private enterprises, the dearth of effectively independent courts to deal with commercial disputes makes it difficult to enforce contracts and have creditors' rights respected. Protection of original ideas and creativity is weak: it takes at least one year to register a patent or trademark, while it takes only some months for an innovation to be copied. Business failure is for now punished rather then being treated as a normal part of a market economy.

Accession to the WTO could represent the most important step towards strengthening market institutions, as it entails legal reforms in a wide range of areas. But the far-reaching nature of the commitments made by Vietnam in the accession process means that implementation will remain a challenge during the entire 2006-2010 period. In the meantime, public registers for rights, secured transactions and enterprises should be systematically developed. Appropriate training programs for law-enforcement officials in the police, customs, tax administration and other government agencies could also contribute to a well-functioning legal system.

Making land and capital markets more efficient is also key to sustain rapid economic growth. Slow issuance of LUCs in urban areas, combined with ineffective registration and administration systems, has led to a highly distorted market. The 2003 Land Law offers the opportunity to develop a centralized system to register land transactions, increasing transparency on land entitlements and facilitating the use of LUCs as collateral. It also allows customary land tenure to be formally recognized through community land titling, offering substantial potential benefits to ethnic minorities in forest-land areas. And it foresees the transfer of LUCs among

households and organizations at market prices. Implementing these measures will be a formidable challenge, however.

SOCBs are still half-way in their transformation from government windows to profit-making institutions, able to assess credit risk under proper supervision. At present, their lending is too much concentrated in the SOE sector, thus depriving other potentially more efficient enterprises from access to credit. The quality of such lending remains difficult to evaluate based on internationally accepted standards, which reveals how weak bank supervision remains. Whereas policy lending has been formally moved out of the commercial banking system, pressures to lend remain strong at provincial levels. With SOCBs still accounting for about three quarters of the credit market, strengthening their governance should be one of the main government priorities for the next five years.

An organized stock exchange has been established and the insurance sector is growing rapidly, but the development of the non-banking financial sector is still limited. Over a period of four years, only 24 enterprises have been listed in the stock exchange. They have not raised any money since their listing, and their market capitalization is less than one percent of GDP. One reason for this limited development is the continued weakness of information infrastructures, including accounting standards and auditing practice. The regulation of the stock market needs to be improved. The process and infrastructure of the exchange must ensure that the modalities for price discovery and settlement are state-of-the-art. High disclosure standards must be implemented. Rules of conduct for brokers have to be enforced. A fair, transparent and prompt dispute resolution process needs to be set up.

Not all markets are intrinsically competitive, however, and some may need active government intervention. Health services and pharmaceutical products are an obvious example. Vietnam has made much progress in ensuring that the health services provided by both the public and the private sector meet acceptable standards of quality. Registration of drugs and inspection of their quality was introduced during the 1990s, jointly with lists specifying which drugs could be dispensed by various categories of providers. The prices charged by hospital pharmacies were regulated in 1999, and broader controls on the prices of curative drugs were introduced in 2001. The framework for regulating the private sector was also put into place during the early 1990s, and a new Ordinance on private medical services and pharmaceutical products issued in 2003. However, insufficient resources have been allocated so far to the regulation of the health sector, which remains an area of frequent popular discontent.

Infrastructure Development

The markets for infrastructure services have distinctive features as well. This is partly due to the network nature of many infrastructure investments. Rural roads connect to highways, telephones to grids, and power outlets to transmission and distribution lines. Developing one segment of these networks brings benefits to all those who are connected to it, even if they do not use that particular segment. Charging users for all the benefits they derive from infrastructure development is therefore difficult. At the same time, the owner of the network (typically, the public sector) has an enormous advantage over potential entrants, and can abuse its monopoly power. Sizeable fix costs are associated with infrastructure development. Recovering those costs through user charges could make infrastructure services more expensive than is socially desirable. Ideally, the fees a user pays should equal the cost of providing the service, and this cost tends to be very low once the bulky investments have been made. Last but not least, governments around

the world are willing to provide specific infrastructure services (such as water and sanitation in urban areas, or power in rural areas) to users who can hardly afford to pay for them. Clearly, no private provider would be interested in delivering services for free, or below their cost.

Government interventions in infrastructure typically take two forms. One of them is to finance investments that are worth undertaking from a social point of view, but whose costs cannot be fully recovered through user fees. The provision of basic infrastructure services to the poor obviously falls in this category. But many projects to develop infrastructure networks (such as highways, fixed telephone lines, or transmission lines for energy) are also part of this group. Investments of this sort need to be funded, either totally or partially, through tax revenue or the issuance of public debt. But this does not mean that they have to be undertaken by the public sector itself. Subsidies and guarantees can be used to attract private investors when returns seem too small, or too risky. A successful example in this respect is the Phu My 2.2 project for power generation, built under a Build-Own-Transfer (BOT) scheme in 2002.

More generally, and given the sheer volume of investments needed in Vietnam, the government should be ambitious in seeking private participation in infrastructure. It should have realistic expectations too. BOTs can be used to leverage finance more easily in some areas than in others. In energy, where significant revenues are generated and prices are usually close to cost-recovery, BOTs tend to be more successful than in sectors like water and sanitation, where prices are low relative to costs. However, BOTs can also fail in energy, if the economics of the projects are not sound. In transport, there are considerable difficulties to project demand, so that the expected traffic volumes fail to materialize. The prospect of large contingent liabilities has led to the failure of many BOTs in transport, worldwide.

China is now using the build and transfer method, concessioning the completed highways for operations and maintenance and toll collection to partially recover the investment cost. Vietnam needs to decide which model is the most appropriate for its conditions. For now, only two transport projecs have been considered by foreign investors, but they did not materialize. Only a few small domestic BOTs, contracted out to SOEs for a duration of less than two years, have seen the light for now.

The second type of government intervention is to support the development of markets for infrastructure services when some form of competition is possible. The aim here is to develop rules for private providers to access to the market, to settle disputes and, occasionally, to set the price of services in a way that would "mimic" the outcomes of a competitive market, despite all the network effects, social objectives and the like. Restricting the discretion of the public sector in operating the network to which competitors connect is actually one of the most important contributions of infrastructure regulation.

Telecommunications provide a good example in this respect. A gradual liberalization of this sector is taking place in Vietnam. The monopoly of VNPT has ended and entry by new operators (all of them SOEs for now) has led to significant reductions in telephone charges. But further entry by private investors requires guarantees that they will be allowed to connect to the fix line network, predictability of the connection fees they will be charged, and the availability of an independent dispute settlement mechanism in case of disagreement. Similarly, EVN is currently planning an ambitious equitization program for its affiliated units, and aims to develop an internal market for electricity in the longer term. In irrigation, fees for water use have been set so as to cover recurrent operation expenses under normal weather conditions. Lower fees are allowed in localities that are too poor or too prone to natural disasters, but no responsibilities have been assigned so far to fund the ensuing deficit. Capital investment remains fully subsidized. Progress is less clear in water and sanitation. The possibility for private providers to participate

in this sector in the absence of subsidies depends on the extent of cost recovery allowed by government regulations, an area which still seems subject to some confusion.

Government interventions to create, develop and regulate the markets for infrastructure services are in a way more demanding than the (already demanding) mobilization of funds to build large infrastructure projects. These interventions require a deep understanding of the operation of each infrastructure sector, and their unbundling into different segments based on their scope for competition. In electricity, for instance, private participation is possible in power generation, but much more difficult in transmission and distribution. Port services can become commercial operations, allowing free entry for shipping lines and freight forwarders, as well as greater participation of the private sector in port operations, rail, barge, and truck terminals. The arrival of other SOEs and a privately-owned terminal in HCMC, next to Saigon port, have already resulted in intense competition and service improvement.

In other areas, it is participation by the users of infrastructure services that could make all the difference. In irrigation, some 13,000 cooperatives, boards, teams and groups of water users have become important links between the government and households. Practical experience over the last few years shows that these groups have helped ensure a sustainable supply of water for users. Interestingly, cost recovery is not a problem in small private pump schemes that supplement the operations of the state scheme in the Red River Delta. However, no legal framework to build upon this experience is available at present.

Poverty Reduction

Vietnam's performance in terms of poverty reduction has been spectacular. But there are also clear signs that development is becoming less inclusive over time. Most striking are growing disparities in social outcomes between rural and urban areas, among regions and, especially between the majority Kinh and ethnic minorities, which could account for as much as 40 percent of the poor in 2010. Economic growth alone will most certainly be insufficient to lift ethnic minorities out of poverty, especially in remote and mountainous areas. Unregistered urban migrants are another group potentially at risk. While living standards are higher in cities, unregistered urban migrants often are insufficiently planned for and public services are not always delivered to them. Social problems associated with migration are emerging in the fastest-growing regions, revealing what could become the new face of poverty in Vietnam.

Policies to keep development inclusive will need to be sustained on appropriate budget allocations. The remarkable capacity to identify the poor at the local level has not translated into a parallel capacity to measure poverty at more aggregate levels, and to use this information as an input when deciding about budget norms, or about public investment programs. This has led to a lack of budgetary resources for social service delivery in poorer provinces, creating pressures for local cost recovery and the multiplication of user fees, which have proved unaffordable for many of the poor. While current poverty rates are in principle obtained by aggregation of the information provided by local officials, their comparability is limited. Aggregate poverty rates not being objective enough, they are subject to manipulation by local authorities. Targeted programs, such as HEPR, have performed relatively well, but they are spread over a variety of components of uneven quality, some of which do not benefit the poor. And local officials are insufficiently empowered to implement and supervise local investments under Program 135.

Ongoing efforts to improve the measurement of poverty offers the opportunity to strengthen the poverty focus of economic policies, and to revisit the budget norms used to

allocate resources to provinces, and further down to districts and communes. Reliable poverty data should allow policy makers to track progress towards reaching the social outcomes and goals that they have set for themselves. Progress in decentralization will increasingly require that resources available in the neediest communes be sufficient to cover the cost of social services. The final allocation of benefits and investments at the local level can be entrusted to local officials, especially if community participation and supervision is enhanced. But there is not much these officials and communities can do if they lack funding.

Further progress in poverty reduction also requires that the specific problems of ethnic minorities and unregistered urban migrants be explicitly addressed. In the case of ethnic minorities, finding the right fit between their livelihood strategies and government policies will be essential. Actions might include developing social services in local languages, strengthening tenure security of forest land, redistributing land currently held by the state in an equitable way, legally recognizing communal tenure arrangements, and improving local infrastructure. Building good governance in the most remote areas of the country is key for these efforts to succeed. In the case of migrants (registered and unregistered), carefully assessing their situation should pave the way to appropriate planning of public actions, from land zoning policies to the accelerated development of urban infrastructure and social services.

Policies in the social sectors, and especially in education and health, should retain their traditional poverty focus. Bringing the last 10 percent of children to primary schools will require special efforts. A first step is to identify who these children are, and to understand the reasons why they are out of school. These children often come from disadvantaged backgrounds almost half of them are from ethnic minorities and have special needs. Their distinct characteristics imply that the costs and the approach for mobilizing them to school will need to be different. For the children who do attend school, there is currently a very high variation in learning outcomes. Disparities have a strong geographical dimension, with the Northwest, the Central Highlands and the Mekong River Delta as the regions with the highest concentration of poorly-performing pupils. A focus on the quality of basic education in the poorest regions is thus warranted.

In health, the creativity and commitment of the authorities is illustrated by the flow of innovative policies and policy instruments. Among them is the important move towards targeted financing of health services, first through the introduction of free health cards for the poor, in 1999, and then through the creation of province-level HCFPs, in 2002. But disparities in health spending per capita remain considerable, reflecting the increasing reliance on out-of-pocket payments. As a result, there is disappointing progress in health-related indicators among the poor. The infant mortality rate is twice as high among several ethnic minority groups as it is among the majority Kinh. It is four times as high in the Northern Mountains as it is in the Southeast. While limited resources are not the only constraint facing the sector, the current level of spending on health should be increased. The government should estimate carefully the resources required to implement the critical actions needed to perform its key health functions and proceed to secure those resources. In parallel, the role of health insurance, as opposed to direct payments to the hospitals, should be expanded.

Social Protection

The possibility for households to insure against catastrophic shocks, from bad health to natural disasters is usually limited. Private provision of insurance for shocks of this sort tends to fall short of what is really needed, for well-known reasons. There is always the possibility that insured households will abuse the terms of the contract, by over-spending in health care or not

taking enough precautions to protect their property. More importantly, those who seek insurance tend to be those who are more prone to need it, because they have a bigger propensity to fall sick, or a bigger exposure to natural disasters. For some of them, private providers would only offer an insurance contract at a very high premium. Others would simply be left out as bad risks. Similar problems arise with retirement. Most people are unable to continue working after a certain age, but they cannot tell in advance how many more years they will live subsequently. The prospect of unusual longevity makes it necessary to save large sums during working years. More than would be really necessary to cope with normal life expectancy. More modest savings would do if a market for annuities existed. A private supplier of annuities would take the savings, as a lump-sum, in exchange for the promise to pay a fix amount on a monthly or an annual basis for as long as the person lives. But markets for annuities tend to be thin, even in rich countries.

One of the key functions of the government in a market economy is to provide insurance for events such as health shocks, natural disasters and lack of earnings in old age. In traditional societies, this function tended to be performed by households themselves. Extended families support relatives in poor health, the younger generation takes care of aging parents and grandparents, and communities mobilize to help those most affected by typhoons and other calamities. But these forms of solidarity are relatively inefficient, as they entail limited risk pooling. Few households are likely to be prosperous enough to support the rest in a community hit by a typhoon. And there is not much the generosity of relatives can do to cope with a serious illness by a breadwinner. Moreover, extended family networks tend to suffer as a result of economic development, and especially of rural-urban migration. As the economy develops, more formal modalities of social protection are needed. But the provision of efficient social protection raises difficult technical issues.

The two main social protection programs at present are the Vietnam Social Insurance (VSI) program and the Vietnam Health Insurance (VHI) program. VSI was introduced in 1995, building on an earlier scheme that covered state employees and the armed forces. It basically pays old-age and disability pensions and survivors' benefits. VHI dates back to 1993, but was thoroughly reformulated in 1998, when its management was transferred from the provinces to the central government, and spending caps and co-insurance mechanisms were introduced. The current coverage of both programs is largely restricted to wage earners in the public sector and in private sector enterprises with 10 employees or more. Given that many private firms in Vietnam are small, and others remain informal, only 14 percent of the labor force is currently covered by VSI. As of 2002, about 17 percent of the population was enrolled with VHI.

The government has made the expansion of coverage one of its priorities in this area. Universal health insurance, if feasible, would reduce inequalities in health care spending. It would also ensure that the burden of health care financing is shared equitably between the seriously sick and injured and the much larger group of those in good health. The government is also determined to extend the coverage of the pension system. Enrollment with VSI is in principle mandatory for all formal sector workers, regardless of the size of the employer. Previously, it was mandatory only in enterprises with ten or more employees. In parallel, the new social security law under preparation envisions a voluntary pension scheme for farmers and those in the informal sector. Guidelines on the implementation of voluntary health insurance scheme were already issued in 2003.

In a country with a young population and a rapid formalization rate, the broadening of the social security system, and especially of its old-age pension component, could help mobilize a considerable amount of resources. Increasingly large numbers of workers will be contributing towards their retirement, while there will still be very few retirees to cash in their benefits. VSI could thus be accumulating reserves in the range of one to two percent of GDP per year, over

several decades. Wisely managing these reserves is one of the most difficult challenges faced by countries all over the world.

One common temptation is to provide generous social security benefits, which seem affordable while the population remains young, but become unsustainable as the number of retirees increases. Benefits like those currently provided to public sector workers, where pensions amount to 75 percent of the average salary in the last five years of service, will be unaffordable in the long term. Current retirement ages, at 60 for men and 55 for women, might need to be raised as well, and the gender gap reduced.

In a transition economy like Vietnam, another dangerous temptation is to use the reserves of VSI to financially support SOEs and SOCBs, despite their weak corporate governance, or to foster the development of the stock market even if it does not meet the necessary disclosure standards. For now, investing the reserves of VSI in public bonds for infrastructure development would be the most sensible choice. From a public financial management perspective, that would contribute to a "clean" funding of public investments, in contrast with some of the less-transparent mechanisms used at present. From a macroeconomic perspective, infrastructure development would help to create the future tax base for the repayment of public debt.

The expansion of coverage also raises equity problems. Social security programs are based on formal jobs, and therefore tend to exclude the poor. Introducing voluntary schemes for farmers and those in the informal sector is necessary. But the international experience indicates that coverage could remain limited in the absence of an important subsidy element. There is much that can be learned from existing voluntary pension schemes introduced by provinces in recent years. The case of Nghe An is of interest in this respect. Established in 1998, this old-age insurance program has some 77,000 contributors, but only 30 retirees. The current rate of return on investments stands at 8.2 percent per year, which is acceptable. But the benefits are too generous for the system to be sustainable in the long run. And yet, in spite of this generosity, coverage remains low. The main issue is to determine which incentives will make it attractive to different types of individuals, and concentrate the subsidy element on those who really need it. From this perspective, a voluntary scheme based on a "menu" of option bears more potential than one simply mimicking the social security program for the formal sector.

Another way to expand coverage is through targeted poverty alleviation such as HEPR. Targeting is often seen as a tool for social assistance, but it can also be used as a complement for social insurance programs which aim to be universal. Such is actually the philosophy of the HCFPs. According to Decision 139, provinces can either reimburse health-care providers for the expenses incurred by the poor, or purchase health insurance for the poor. In the long term they shall come to select health insurance. A similar arrangement could be considered regarding old-age pensions, with the annual contribution towards the minimum retirement benefit being computed for those identified as poor. A simultaneous expansion of coverage through formalization, voluntary schemes and targeted programs could make social protection reach a large share of Vietnam's population over time.

Because of its geographical position and topography, Vietnam is one of the most disaster-prone countries in the world. An unusual frequency of typhoons, tropical storms, and floods causes large human casualties, economic losses and environmental damage. From 1990 to 2000, around eight thousand people were killed, six million houses collapsed or were washed away, and nine thousand boats and ships were sunk. Total economic losses over the past decade are estimated at 2.8 billion dollars, corresponding to an average annual loss in the order of two percent of GDP. Recognizing the need to better protect people and assets, the government has developed a strategy for the mitigation of natural disasters. It involves improvements in early

warning and communications systems, more resources for reconstruction and recovery, and better institutional coordination. The strategy also considers the need to involve communities in planning and implementing activities. As in many other cases, much hinges on implementation. Greater use of an integrated watershed management (river basin) approach will be key in this respect.

Public Goods and the Environment

Vietnam has considerably improved the policy framework for environmentally sustainable development. Two recent examples of advances are the amendments to the Law on Environment, raising the EIA requirements for project appraisal, and the regulation on the country's worst polluter offenders. The government has also strengthened its oversight of environmental protection. The creation of MONRE was an important step in this direction. MONRE is currently working on amendments to the Law on Environmental Protection to enable new policy tools and remedies for pollution prevention and cleanup and adjustments to cover the private sector. In parallel, mechanisms for integrated river basin management are being established under the new Law on Water Resources, which would then serve as one basis for ministries and provinces to develop their own planning.

There has been less progress on the ground. Environmental degradation is expected to worsen as a result of continued economic growth. Industrial enterprises have poor environmental performance, but their production is growing fast, especially in sectors such as oil and gas, electricity, and cement. Many of those enterprises use old equipment, which is less efficient and more polluting. Many are also without systems to control and treat wastewater and air emissions. And many are located in urban and near-urban areas. Meanwhile, regulations for environmental protection are not fully operational. Provincial and local governments lack administrative capacity and human and financial resources, and there is weak awareness among the public for the importance of environment. More fundamentally, there is a lack of environmental integration into planning at programmatic levels, especially in public investment planning process and in regional plans for land and resource use.

The challenge is to make sure that the environmental reforms (in particular in pollution-intensive or resource-extracting sectors) are put in place before severe environmental degradation has occurred. Failure to take preventive measures may result in substantially higher clean-up costs once damage has occurred.

Measures are also needed to boost bio-diversity conservation and sustainable use. Vietnam is one of the ten most bio-diverse countries in the world. But it is also at the center of international markets in endangered plant and animal species, both as a supplier of species and as a transit point for trade between regional neighbors. The activities that are needed to address this problem have been developed in action plans by several line ministries, but their implementation has been slowed by inadequate resources.

Unsustainable natural resource use and management threatens rural livelihoods. Existing farming and forestry practices often result in land degradation and contamination, increased risk of flooding, and public health insecurity. Although forest cover has increased from 28 percent in 1996 to 36 percent in 2002, the quality of forest has deteriorated. Greater local participation in land-use planning would help manage natural resources more efficiently. Priority should also be given to more effective conservation and restoration of forests and wetlands of high biodiversity value. Better management of water resources is needed, by promoting small-scale investment in

upland areas and adopting better water-control technologies. Enhanced participation of forest- and wetland-dependent people in the management of natural resources is needed as well. The new Forestry Law is already a step in the right direction.

Rapid economic growth is also taking a toll under the form of lives lost or damaged due to traffic accidents. At 9.4 lives lost each year for every 10,000 vehicles, the death toll remains high by international standards. And this is probably and underestimate, as the number of injured people who later die in the hospital is not counted. An improvement is noticeable since 2003, thanks to the strengthening of measures for traffic safety, including propaganda among the community, drivers' tests, vehicle verification, and more stringent enforcement of traffic regulations. Additional measures should include the broadening of corridors along roads passing through cities or towns, on which most fatal accidents occur.

Public health is another key public good, very much depending on government stewardship. The focus of public policies should be on transmittable diseases, such as HIV/AIDS, and risky behaviors, such as smoking. Implementation of the recently formalized National HIV/AIDS Strategy needs to be accelerated, particularly through the development of appropriate harm reduction programs for intravenous-drug users and the promotion of safe practices among commercial sex workers. The fact that many preventive measures are more common among those with more schooling suggests that health education might be an effective tool. The campaigns recently initiated against smoking, targeted to adolescents, are an example of the kind of focused health education that is needed in many areas.

12. INCREASED AID EFFECTIVENESS

Vietnam is not an aid-dependent country, but it receives the equivalent of 6 percent of the country's GDP in grants and concessional loans. The ensuing debt is manageable, given the rapid growth of the economy and the very favorable terms of ODA loans. But highly concessional terms will not last forever, and Vietnam needs to make the best possible use of foreign aid. One important decision refers to the choice of the most appropriate ODA modalities in each case. Direct budget support, to the central government or to line ministries, has the advantage of fast disbursement and minimum administrative burden. But in order to be scaled up, appropriate fiduciary controls and a sense of strategic direction are needed. Few ministries would qualify for now. Direct project funding allows a better control of the resources spent on the projects themselves (although ODA resources may actually allow increased spending elsewhere). But demanding donor procedures for the procurement of goods and services, the resettlement of populations affected by the projects and environmental safeguards, have resulted in painfully slow disbursement. Initiatives to simplify those procedures and enhance the local capacity to operate through them are currently under way. They include the pooling of funds under procedures by one donor and the harmonization of procedures by various donors. The ultimate goal should be to strengthen Vietnamese procurement, resettlement and environmental guidelines, to the point where they are reliable enough for donors to operate through them. At that point, the distinction between direct budget support and project funding will lose some of its relevance. Between now and then, these two ODA modalities should not be seen as alternatives but rather as complements. Projects have important demonstration effects; direct budget support is necessary to support the policy dialogue between the international community and the government. More important than the harmonization of procedures, in the end, is the harmonization of content. Donor support has not been immune to duplication of activities, poor matching between instruments and objectives, and lack of policy coherence. The most effective way to overcome these weaknesses is for donors to align around a nationally-owned development strategy. If it builds on the strengths of CPRGS, aiming for ambitious reforms to support long-term growth and inclusive development, the next SEDP could become the key coordinating device to make aid more effective over the next five years.

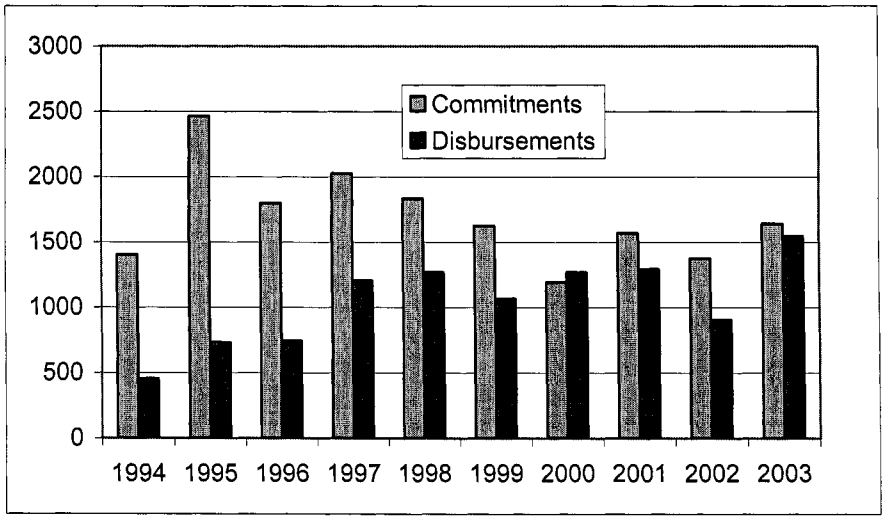
How Much Aid?

Vietnam has been one of the major recipients of ODA in recent years. Between 1994 and 2003, donors pledged a total 22.6 billion US dollars in aid. The pledges have translated into signed commitments for 21.1 billion dollars. While these are large figures in absolute terms, they are more modest when compared to the size of the Vietnamese economy. At roughly 2.5 billion dollars per year, annual ODA commitments represent six percent of GDP, 24 percent of public expenditures and 10 percent of imports. As the Vietnamese government often emphasizes, foreign aid has been an important source of finance, but not an indispensable one.

Part of this large inflow of ODA resources does not need to be reimbursed by Vietnam. Total grants over the period 1993-2004 amounted to 4.2 billion dollars, with the remaining 16.9 billion in commitments corresponding to loans. Of the latter, 10.5 billion were actually disbursed

so far (Figure 12.1). These loans are in highly concessional terms. The average grace period of ODA loans has been close to 10 years since 1994, and the average interest rate has fluctuated between one and two percent per year. Yet, some question whether the service of this debt, added to what is in the pipeline for future ODA lending, will not become too burdensome for the country in a not-so-distant future. This is a legitimate question, that needs to be answered.

Figure 12.1: ODA Loans to Vietnam



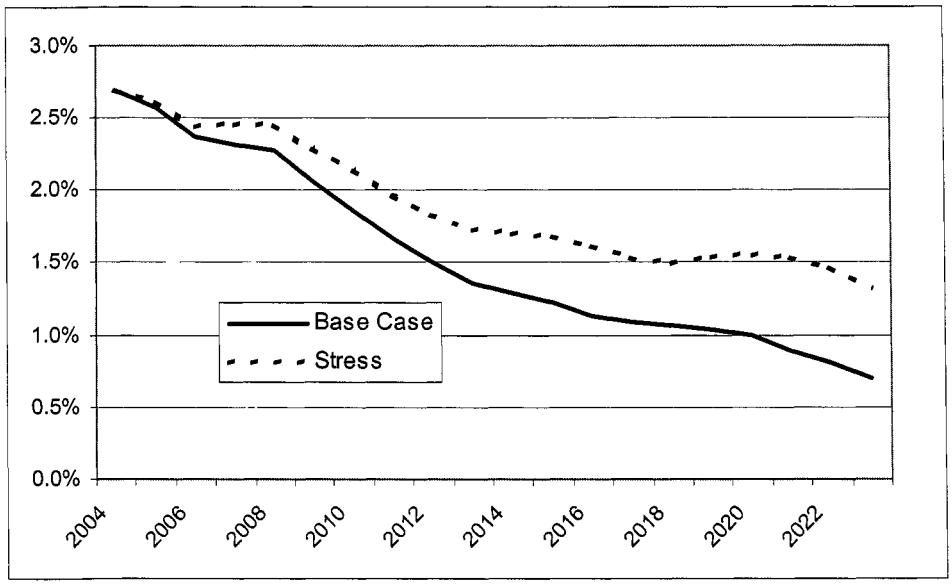
Note: Figures are in million dollars.
Source: Own estimates.

For simplicity, two main scenarios are considered. In the base case, Vietnam is supposed to receive 1,200 million dollars in ODA loan disbursements per year until 2008, and 1,000 millions per year from 2009 until 2015. Until 2010, lending terms are similar to those currently offered to Vietnam by concessional lenders. After that, the country moves to less concessional terms, similar to those currently offered to countries such as India. From 2016 onwards, inflows decline until reaching 400 million dollars by 2020, with a further reduction in concessionality. All other macroeconomic assumptions are those used to assess the sustainability of Vietnam's external debt. In the stress scenario, Vietnam borrows considerably more. Annual loan disbursements on the most concessional terms are 300 million higher, and continue until 2011. From them onwards, less concessional disbursements are also 300 million higher than in the base case. They do decline from 2016 onwards, but still reach 500 million dollars by 2020 with no reduction in concessionality. Implicit in this stress scenario is the assumption that borrowing in commercial terms is delayed, compared to the base case.

In both of these scenarios, aid-related debt remains perfectly manageable (Figure 12.2). The service of ODA loans currently absorbs the equivalent of 2.7 percent of exports. Over a 15-year period, this figure would decline to 1.0 percent in the base case scenario, and to 1.5 percent in the stress scenario. In terms of public finances, by 2020 the service of ODA loans would absorb the equivalent of 3.5 and 5.5 percent of government revenue respectively, compared to 7.5 percent at present.

Despite the heavier debt service, the stress case is actually more favorable to Vietnam. This is because of the important grant component implicit in concessional loans. A simple way to assess such component is to compare the burden from an ODA loan to the burden from domestic public debt. The government recently issued five-year bonds, which will be rolled over for another five years, at an interest rate of 8.3 percent per year. The alternative to receiving foreign aid would be to borrow more heavily in the domestic market. Assuming a devaluation rate of 2 percent per year, the interest rate of domestic debt, measured in dollars, is 6.1 percent. The present value of Vietnam's new ODA debt, using a 6.3 percent discount rate, is about 6.3 billion dollars, compared to a nominal value of 15.6 billion. The difference between these two figures is the implicit grant component of ODA lending. This component is much greater than the 4.2 billion dollars in grants received so far by Vietnam. With the ODA debt service being manageable, and the grant component of ODA loans amounting to roughly 60 percent, it is in the interest of Vietnam to make as much use of foreign aid as possible.

Figure 12.2: ODA-Related Debt Service in Percent of Exports



Source: Own calculations.

The Right Instrument

The distinction between grants and loans is relevant when assessing the amount of resources transferred through ODA, or when forecasting the burden associated with the ODA debt service. But an equally important distinction concerns the modalities through which ODA resources are channelled to the recipient country. An important decision refers to the choice between project funding and budget support.

Project funding is typically associated with "visible" undertakings, such as building highways and bridges, laying water pipes in urban areas, installing computer networks for the management of information systems, or developing small-scale infrastructure in poor communes. These undertakings usually require massive purchases of goods and services (cement, software,

and the like) and involve strict supervision, to make sure that funding is only used for its intended purposes. Considerable effort goes into designing the projects, so that they have a large development impact through their direct output, but also through capacity building and demonstration effects. Projects of this sort are managed by PMUs, which operate in enclave, following both government and donor procedures as best they can.

Budget support can take place at the national level, as in the annual Poverty Reduction Support Credits (PRSCs), or under the form of programmatic sectoral support, as in Sector-Wide Approaches (SWAPs). It amounts to transferring ODA resources directly to the central government, or to a ministry, which will then spend them according to their needs and based on their own procedures. Therefore, it is not possible to trace the resources committed to any particular expenditure item. But budget support is usually provided in the context of policy changes which shift the overall direction of spending (by the central government, or by line ministries) in a direction considered desirable. For instance, the PRSC process has supported the reform of SOCBs, the creation of a safety net for redundant SOE workers, the increase in the national budget for the education, sector and the establishment of provincial HCFPs. The additional budget spending associated with those measures far exceeds the amount of resources contributed through PRSCs.

Box 12.1: Donor Responses to Corruption

The responsibility for implementation of projects financed by donors lies with the borrowing country, which is therefore accountable for any potential misuse of the funds. In spite of this general principle, however, donors should ensure that their resources are used only for the purposes intended. The longer-term vision is to rely on Vietnam's own system for fiduciary risk management, rather than on donor procedures and controls. However, given the existing capacity and high-risk fiduciary environment in Vietnam, the shift of control mechanisms is expected to be gradual. In the short term, fiduciary oversight tools and methodologies need to be rationalized and strengthened. These improved tools and methodologies could in turn become useful building blocks for government systems as well.

In developing an approach to reducing fiduciary risks in the portfolio, the Vietnam team of the World Bank considered other country programs (such as Indonesia and China), where considerable experience has been gained in dealing with these issues. The strategy emerging from this exercise comprises four elements:

- Addressing the risks to the existing stock of operations in the portfolio through strengthened supervision.
- Addressing the risks in the flow of new operations through improved project design and risk mitigation arrangements.
- Strengthening enforcement and sanction mechanisms, both within government and at the World Bank, and
- Upgrading the capacity of staff to address fiduciary risks in the portfolio.

Both grants and loans can be used to support these two modalities for the disbursement of ODA resources. Most large-scale projects, especially in infrastructure, are funded through loans. But smaller projects like those undertaken by NGOs are on a grant basis. And yet others combine a loan by one donor and one or several grants by other donors. The same applies to budget support operations. In Vietnam, PRSCs are a combination of both ODA modalities. These operations are formally processed as World Bank loans. But a large number of co-financiers participate in their preparation. Some of them (ADB and JBIC) provide parallel ODA loans;

others (CIDA, DANIDA, DFID, the European Commission and NMDC) contribute their resources under the form of grants.

Donors are reluctant to provide budget support when fiduciary guarantees regarding corruption and misappropriation are weak, or when the lack of strategic direction raises the prospect that resources will not be used efficiently. Project funding is subject to more stringent supervision, and its output can be "seen". Fiduciary controls and mechanisms to minimize the risk of corruption can and should be set up (Box 12.1). But money being fungible, the distinction between project funding and budget support is not as clear-cut as it seems. Consider a project that would have been undertaken by the government, even in the absence of ODA resources. Foreign aid allows the government to free those resources, and spend them somewhere else. But there is not much donors can do to strengthen fiduciary controls or strategic directions where the additional spending actually takes place. Most likely, they do not even know where that is.

On the other hand, budget support leads to faster disbursement, thus allowing Vietnam to take advantage of its limited window for concessional lending. Also, budget support does not require a parallel government structure made of a myriad PMU monitoring compliance with donor procedures. Whether PMUs of this sort serve to raise local capacity, or rather amount to mounting a parallel government machinery, remains a matter of debate.

Because of these uncertainties, discussing the merits of project funding and budget support on an "either-or" basis is not very conducive. To a large extent, these two ODA modalities are complements, rather than substitutes. What matters, more than the way the money is disbursed, is the development impact. Projects are a way to transfer best practices, not only at the technical level, but also on policy-related matters. In Vietnam, projects with a strong CDD component have influenced the views of key policy makers on accountability at the local level, whereas projects in energy have opened the door to private participation in infrastructure. Budget support operations, especially when they allow for a strong coordination of policy messages between donors, provide an opportunity to foster economic reforms. The very reforms that are needed to make project funding more effective. For instance, the adoption of quality standards for primary schools nationwide can substantially increase the impact of project funding the in education sector. Similarly, a sound regulation of water-use charges could make all the difference for project funding in urban development.

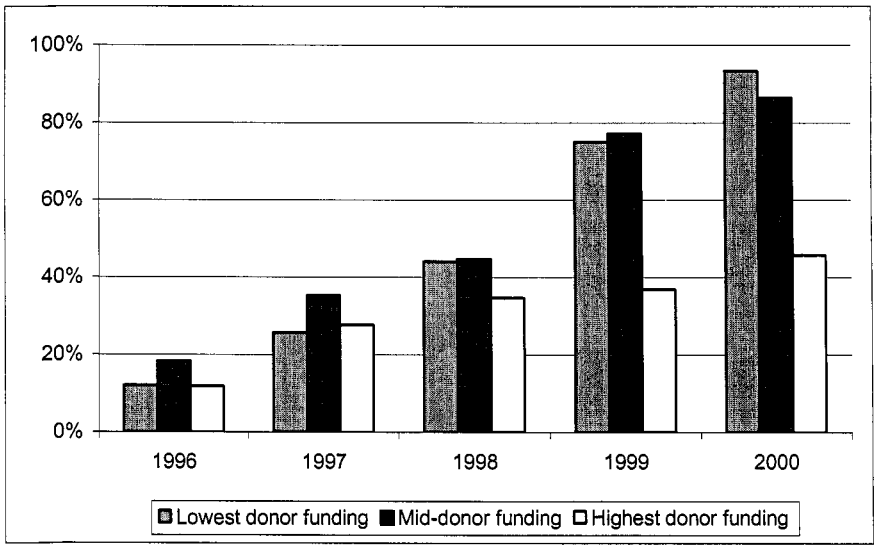
The policy dialogue has arguably the biggest impact as its effects are felt throughout the economy. But it is not clear that the government would be willing to seriously engage in such a dialogue with donors who cannot contribute a considerable amount of resources, especially to support reforms with a clear cost in terms of budgetary resources. The PRSC process, in particular, envisions two different levels of funding depending on the pace of reforms, and no funding whatsoever if they get stalled. On the other hand, the modulation of ODA lending has limited chances to influence policies in a country that is not aid-dependent, like Vietnam. Government ownership is, in the end, the most decisive driver of the reform process.

Harmonization of Process

The disbursement of ODA funding for projects is painfully slow in Vietnam. As a result, the attainment of development outcomes is delayed, and the potential for demonstration effects reduced. The limited capacity of the Vietnamese government, especially at local levels, is often singled out as one of the main causes for slow disbursement. However, other developing

countries have much weaker capacity, and still manage to disburse faster than Vietnam. More strikingly, investment projects without donor funding do disburse well in Vietnam. A comparison of 71 large-scale infrastructure projects in the 1996-2001 PIP is revealing in this respect. Those projects can be ranked according the share of their total cost paid for by ODA resources. It turns out that project completion is much more advanced, in any of the years between 1996 and 2000, among the projects with the lowest share of donor funding (Figure 12.3).

Figure 12.3: Project Implementation with and without Donor Support



Note: Figures based on cumulative investment per year, as a fraction of planned investments across 71 large-scale infrastructure projects in the 1996-2001 PIP. The three groups are defined by the share of donor funds in investment.

Source: Theo Ib Larsen, Huong Lan Pham and Martin Rama (2004).

To some extent, differences in implementation speed are related to sector characteristics. The top third of projects in terms of donor support is more concentrated in the water and sanitation sector, which has not been the main priority of the government. The bottom third includes many transport projects, and this is a sector the government has made enormous efforts to develop, sometimes even through questionable funding arrangements. The different speeds in implementation could thus reflect the varying priorities attached by the government to infrastructure projects in different sectors.

But to a large extent, differences in disbursement speed are related to the more demanding nature of donor procedures, especially on the procurement of goods and services and on the resettlement of populations affected by the projects. These procedures aim at minimizing collusion and embezzlement and at protecting the livelihoods of those who lose their property to the projects. While sensible, they are different from those used in Vietnam, so that it takes time for government officials to get acquainted with them.

The problem is compounded by the diversity of procedures and documents involved. Each donor has its own set of rules for procurement, financial management, auditing, resettlement

of displaced populations, environmental safeguards, and the like. It is unrealistic to expect that civil servants can be simultaneously proficient in all of these rules. One possibility to overcome this problem is to pool resources from various donors together, and to operate under the rules of only one of them (Box 12.2). A more ambitious approach is to harmonizing donor procedures, so that the set of rules to follow and of documents to rely upon is the same for ODA from a wide range of sources. The ongoing Harmonization Initiative represents an effort to implement this approach in practice (Box 12.3)

Box 12.2: Multi-Donor Trust Funds

Donors have pooled resources to support the implementation of reform programs in a range of areas, from the modernization of public administration (with MOHA as counterpart) to the implementation of CPRGS (with MPI). In Vietnam, one of the broadest Multi-Donor Trust Funds (MDTFs) currently in operation was set up in 2004 to support the public financial management modernization initiative. The counterpart in this case is MOF.

The MDTF for public financial management is jointly funded at present by the LMDG, including CIDA, DANIDA, DFID, NMDC, NORAD, SDC and SIDA. It is administered by the World Bank, but executed by the government of Vietnam. Under this arrangement the government is responsible for identifying its own technical assistance needs. The World Bank plays a supportive role on technical matters, at the government's request. It also clears transactions, on a non-objection basis.

This MTDF supports technical assistance in six areas: state budget management, state revenue management, public debt management, SOE financial management, state asset management and price management. This technical assistance is helping the government identify options, articulate priorities and specify reform requirements. It is also building up the government's capacity to plan, implement and operate new financial management processes.

The MDTF for public financial management reform also serves a coordinating mechanism. The donors involved would otherwise have required the government to access funding through separate donor agreements, requiring compliance with multiple donor procedures. MOF is thus spared potential inconsistencies in approaches and overlapping of activities.

Strengthening the operation of Vietnamese guidelines, mechanisms and safeguards, so that donors can confidently operate through them, is a more sustainable solution in the long term. Not only would delays in disbursement be reduced in ODA-funded projects, but there would also be an improvement in governance going well beyond PMUs. Embezzlement and graft would be reduced, and the wellbeing of displaced populations better protected, across all projects, and not only in those enjoying financial support by donors.

Policy Coherence

As important as the harmonization of process, if not more, is the harmonization of content. ODA funding aims at supporting the development of Vietnam, through financial resources, improved incentives, technical knowledge and policy advice. But insufficient coordination, among donors and sometimes across operations by the same donor, may reduce the effectiveness of foreign aid. Duplication of activities, conflicting incentives, inadequate matching of instruments and objectives, and diverging advice are among the most common problems.

Box 12.3: The Harmonization Action Plan

Based on the Rome Declaration of 2003, the government of Vietnam and the donor community are jointly working to prepare a harmonization action plan, and to develop the local capacity required to implement it.

Streamlining is a key component of the plan. Donors are harmonizing their procedures with an ultimate objective to align to government systems. This involves simplification of procedures by specific donors, utilization of new aid modalities such as joint financing mechanisms or delegated cooperation, and decentralization of authority by donors from headquarters to country offices.

It also involves strengthened cooperation between five development banks: ADB, Agence Française de Développement (AFD), JBIC, KFW and the World Bank. The focus of this cooperation is to establish common procedures for project preparation, procurement, financial management, environment and social safeguards and portfolio management.

International NGOs, which jointly disburse more than 100 million dollars per year in Vietnam, have also made notable progress in harmonization. Being more flexible than other donors in their procedures, they have been able to adjust to the rules of their Vietnamese counterparts. Overall, slow disbursement is not seen as a major issue by the NGO community.

The training of government officials, so that they can operate more effectively under the streamlined procedures, is another main component of the harmonization action plan. A Comprehensive Capacity Building Program (CCBP) has been set up. This program is funded by the LMDG, by the government of Japan (through a grant managed by the World Bank) and by the government of Vietnam. The main goals of the CCBP will be to review Vietnam's framework for aid management, to identify capacity shortcomings, and to codify lessons learned.

Source: PGAE (2004).

On-lending terms provide a clear illustration. Many ODA loans are deliberately designed so that a set of embedded contracts is signed between the government and executing units. Depending on the case, those units can be provincial water companies, local power suppliers, or universities, among others. The embedded contracts refer to the conditions under which ODA resources are transferred to the executing units. Their objective is to create strong incentives for effective delivery of the output of the project: water connections, power generation, or libraries, for instance. A wide disparity in the terms of the embedded contracts can be expected. In some cases, they are similar to those of the ODA loan; in others they include an interest rate subsidy; and yet others are pure grants. But a systematic analysis of the link between on-lending terms, the extent of cost recovery and the ability to pay of the end users is often missing. Should for instance the terms be the same for all universities and all disciplines, regardless of their ability to charge for tuition? Should the terms for provincial water companies and water suppliers be the same regardless of the extent of poverty among the users of their services? More reliance on economic analysis when designing the projects could help identify incentive schemes which are consistent with the overall objectives of the operation.

Coordination failures are another frequent problem. Some of them seem to be internal to donors. It is always tempting to develop complex and innovative project designs, trying to address several development issues at once. But as a result, activities in one area may end up interfering with those in another area. Similarly, support for specific sectors of activity be at odds with the attainment of a level playing field. A possible remedy for these problems is to systematically screen the policy components of donor initiatives. Simple project designs, taking

advantage of the core competencies of each donor and team, and addressing few development issues at once, would also help.

Coordination failures also occur among donors. Partnership groups, involving all the donors active in one particular area, and the leading ministry or government agency in that area, have been useful in supporting the exchange of information on policies, projects and initiatives. But not all partnership groups have been equally effective. Some do not meet regularly. The annual PRSC operations are also raising new coordination problems. Discussion of the policy reforms supported through the PRSC process is organized by areas, much the same as partnership groups. But not all donors involved in a partnership group do co-finance PRSC operations. Effective coordination with the donors who do not would be important to ensure that all viewpoints are listened to, and information is widely shared.

To be effective, coordination must aim at aligning foreign aid with the development strategy of the government of Vietnam. In recent years, the CPRGS provided a very useful reference for many donors to identify priority areas for action, and to organize their support accordingly. No government strategy is ever perfect, and CPRGS was no exception in that respect. But compared to five-year plans and other strategic documents of the government of Vietnam, CPRGS was much more focused on attaining development outcomes, including poverty reduction and other VDGs. It identified the necessary policy reforms, through a process involving solid analysis and extensive consultations. And it tried to establish a link between planning and budgeting processes.

Joint analytical work, involving donors and their experts as well as Vietnamese researchers and practitioners, is another important coordination tool. Increasingly, the filling of knowledge gaps, the preparation of strategies and the evaluation of policies are undertaken by teams including one or several donors and involving close collaboration with government, local universities and think tanks, and NGOs. The ongoing *Public Expenditure Review-Integrated Fiduciary Assessment*, the also ongoing *Evaluation of HEPR and Program 135* and the production of this report, are examples of this kind of collaboration. These exercises lead to shared views and mutual understanding, making the subsequent collaboration between donors and government much more effective.

Looking forward, the next SEDP, if built on the same principles as CPRGS, could serve as the main coordinator of ODA activities over the period 2006-2010. For this to happen, it is necessary for government and donors to vigorously embark in its preparation. The international community will be willing to align to the next SEDP only if it embodies an ambitious transformation program. One aimed at completing Vietnam's transition to a market economy and at launching the second generation of reforms that are needed to sustain growth over the longer term, and to keep development inclusive. Improving the way government works, from public financial management to public investment policies to the effective containment of corruption, will be the key to translate such vision into reality.

Aligning ODA activities to the next SEDP will also require that the yardstick to measure progress in implementation be adjusted accordingly. Donor-funded projects usually include a range of indicators to assess whether their development objectives are actually attained. Budget support operations also spell out triggers to be met, under the form of policy actions to be adopted by the government, or outcomes to be attained. The effectiveness of aid will be clearly enhanced if the indicators and triggers used by donors in their projects and operations are consistent with the objectives and targets of the government of Vietnam, and especially with the attainment of the VDGs.

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Table 1.1: POPULATION
(thousand persons)

Year	Population (mid-year)	Growth Rate	By Sex Male	By Sex Female	By Area Urban	By Area Rural
1975	48,030	-	-	-	-	-
1976	49,160	2.35	23,597	25,563	10,127	39,033
1977	50,237	2.19	24,197	26,039	10,116	40,114
1978	51,337	2.19	24,813	26,524	10,105	41,226
1979	52,462	2.19	25,444	27,018	10,094	42,368
1980	53,630	2.23	26,047	27,583	10,295	43,335
1981	54,824	2.23	26,665	28,159	10,499	44,324
1982	56,045	2.23	27,297	28,747	10,708	45,336
1983	57,292	2.23	27,944	29,348	10,921	46,371
1984	58,568	2.23	28,607	29,961	11,138	47,429
1985	59,872	2.23	29,285	30,587	11,360	48,512
1986	61,109	2.07	29,912	31,197	11,817	49,292
1987	62,452	2.20	30,611	31,841	12,271	50,181
1988	63,727	2.04	31,450	32,277	12,662	51,065
1989	64,774	1.64	31,589	33,185	12,919	50,801
1990	66,017	1.92	32,203	33,814	12,880	53,136
1991	67,242	1.86	32,814	34,428	13,228	54,015
1992	68,450	1.80	33,242	35,208	13,588	54,863
1993	69,645	1.74	34,028	35,616	13,961	55,683
1994	70,825	1.69	34,633	36,191	14,426	56,399
1995	71,996	1.65	35,237	36,758	16,938	55,057
1996	73,157	1.61	35,857	37,299	15,420	57,737
1997	74,037	1.20	36,473	37,564	16,835	57,202
1998	75,456	1.92	37,090	38,367	17,465	57,992
1999	76,597	1.51	37,662	38,935	18,082	58,515
2000	77,635	1.36	38,166	39,469	18,805	58,830
2001	78,686	1.35	38,684	40,002	19,481	59,205
2002	79,727	1.32	39,197	40,530	20,004	59,723
2003e	80,902	1.47	39,755	41,147	20,870	60,033

Population by sex and by area may not add to the total due to the possible exclusion of the armed force and migrant workers.
Source: General Statistical Office, Statistical Yearbook 2004

Table 1.2: POPULATION BY SEX AND LOCALITY IN 2003

(thousand persons)

Provinces/Cities	Total	By sex		By locality	
		Male	Female	Urban	Rural
Ha Noi	3,007	1,504	1,503	1,834	1,173
Hai Phong	1,754	866	889	646	1,108
Ha Giang	648	321	327	71	578
Tuyen Quang	709	351	359	67	643
Cao Bang	503	242	261	68	435
Lang Son	724	359	365	143	582
Lai Chau	643	324	319	84	559
Lao Cai	639	319	320	130	509
Yen Bai	713	356	357	141	572
Bac Can	292	146	146	44	248
Thai nguyen	1,086	541	545	249	837
Son La	955	480	476	107	849
Hoa Binh	792	393	399	119	674
Vinh Phuc	1,143	557	586	129	1,014
Phu Tho	1,303	640	663	193	1,110
Bac ninh	977	473	504	103	874
Bac Giang	1,547	755	792	128	1,420
Quang Ninh	1,056	538	518	483	573
Ha Tay	2,479	1,201	1,279	208	2,272
Hai Duong	1,689	820	869	237	1,453
Hung Yen	1,112	540	572	113	1,000
Thai Binh	1,831	879	952	132	1,699
Nam Dinh	1,935	942	993	252	1,683
Ha Nam	815	396	419	77	738
Ninh Binh	906	441	465	125	781
Thanh Hoa	3,620	1,770	1,850	352	3,268
Nghe An	2,977	1,465	1,513	313	2,664
Ha Tinh	1,284	630	654	128	1,156
Quang Binh	818	403	415	105	713
Quang Tri	609	310	299	145	464
Thua Thien - Hue	1,102	541	561	344	758
Quang Nam	1,439	696	743	219	1,220
Da Nang	747	369	378	591	156
Quang Ngai	1,250	607	643	178	1,072
Binh Dinh	1,530	743	787	381	1,149
Phu Yen	837	415	422	168	669
Khanh Hoa	1,097	543	554	434	662
Ninh Thuan	546	269	277	177	369
Binh Thuan	1,120	559	561	386	734
Gia Lai	1,075	535	541	284	791
Kon Tum	357	180	178	113	245
Dac Lac	2,018	1,017	1,000	414	1,604
Lam Dong	1,120	560	560	447	673
Ho Chi Minh City	5,555	2,675	2,880	4,860	694
Binh Duong	851	404	447	252	600
Tay Ninh	1,017	499	518	172	846
Binh Phuoc	765	388	377	129	636
Dong Nai	2,143	1,061	1,082	673	1,470
Baria - Vung Tau	885	443	442	387	498
Long An	1,392	683	710	233	1,159
Dong Thap	1,626	798	828	244	1,382
An Giang	2,147	1,057	1,090	518	1,629
Tien Giang	1;660	804	856	230	1,431
Ben Tre	1,338	649	689	130	1,208
Vinh Long	1,036	503	534	153	883
Tra Vinh	1,003	500	503	139	863
Can Tho	1,882	944	938	671	1,211
Soc Trang	1,234	602	633	228	1,006
Kien Giang	1,607	791	816	370	1,237
Bac Lieu	776	380	396	200	576
Ca Mau	1,181	583	598	223	959
Total	80,902	39,755	41,148	20,870	60,033

Note: Population by sex and by area may not add to the total due to the possible exclusion of the armed force and migrant workers.

Source: General Statistical Office, Statistical Yearbook 2004

Table 1.3: TOTAL EMPLOYMENT BY SECTOR
(thousand of persons)

	1999	2000	2001	Rev 2002	Prel. 2003
Total Employed Labor Force	35,976	36,702	37,676	38,282	39,526
State	3,433	3,501	3,604	3,751	3,858
Non-state	32,543	33,201	34,073	34,532	35,668
State Sector Employment	3,433	3,501	3,604	3,751	3,858
Central	1,422	1,442	1,499	1,569	1,573
Local	2,011	2,059	2,105	2,181	2,285
Employment by Sector					
Agriculture, forestry & fisheries	24,792	24,326	24,520	23,314	23,554
Industry and Construction	4,300	4,445	4,712	5,781	6,486
Services	6,884	7,931	8,444	9,188	9,486

Note: Figures are rounded.
Source: General Statistical Office, Statistical Yearbook 2004

Table 2.1: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR

(VND billion, current price)

	1999	2000	2001	Rev 2002	Prel 2003
Total	399,942	441,646	481,295	535,672	605,586
State	154,927	170,141	184,836	205,652	236,666
Non-State	245,015	271,505	296,459	330,020	368,920
Agri, Forestry and Fishery	101,723	108,356	111,858	123,383	132,193
Agriculture	83,335	87,537	87,861	96,543	101,209
Forestry	5,737	5,913	6,093	6,500	6,657
Fisheries	12,651	14,906	17,904	20,340	24,327
Industry and Construction	137,959	162,220	183,515	206,197	241,933
Mining	33,703	42,606	44,345	46,153	57,070
Manufacturing	70,767	81,979	95,211	110,285	125,984
Electricity and Water	11,725	13,993	16,028	18,201	23,241
Construction	21,764	23,642	27,931	31,558	35,638
Services	160,260	171,070	185,922	206,092	231,460
Trade	59,384	62,836	67,788	75,617	83,397
Hotel and Restaurant	13,412	14,343	15,412	17,154	18,911
Transportation and Telecom	15,546	17,341	19,431	21,095	22,589
Finance, Banking and Insurance	7,488	8,148	8,762	9,763	10,881
Science and Technology	1,902	2,345	2,646	3,009	3,696
Real Estate and Renting	18,260	19,173	21,589	24,452	27,518
Public Administration	11,683	12,066	12,784	13,816	16,675
Education and Training	14,004	14,841	16,245	18,071	21,461
Healthcare and social welfare	5,401	5,999	6,417	7,057	8,611
Culture and Recreation	2,378	2,558	2,800	2,897	3,319
Party and Association	584	614	651	712	778
Community and Social Service	9,323	9,853	10,412	11,412	12,516
Private Household Employment	895	953	985	1,037	1,108

Source: General Statistical Office, Statistical Yearbook 2004

Table 2.2: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR

(VND billion, constant 1994 price)

	1999	2000	2001	Rev 2002	Prel 2003
Total	256,272	273,666	292,535	313,247	335,989
State	103,531	111,522	119,824	128,343	138,056
Non-State	152,741	162,144	172,711	184,904	197,933
Agri, Forestry and Fishery	60,895	63,717	65,618	68,352	70,574
Agriculture	52,372	54,493	55,613	57,912	59,545
Forestry	2,535	2,544	2,556	2,568	2,589
Fisheries	5,988	6,680	7,449	7,872	8,440
Industry and Construction	88,047	96,913	106,986	117,126	129,247
Mining	17,200	18,430	19,185	19,396	20,519
Manufacturing	46,105	51,492	57,335	63,983	71,312
Electricity and Water	5,531	6,337	7,173	7,992	8,935
Construction	19,211	20,654	23,293	25,755	28,481
Services	107,330	113,036	119,931	127,769	136,168
Trade	41,994	44,644	47,779	51,245	54,747
Hotel and Restaurant	8,517	8,863	9,458	10,125	10,767
Transportation and Telecom	10,141	10,729	11,441	12,252	12,925
Finance, Banking and Insurance	5,327	5,650	6,005	6,424	6,935
Science and Technology	1,267	1,571	1,749	1,909	2,044
Real Estate and Renting	11,926	12,231	12,631	13,106	13,796
Public Administration	7,723	8,021	8,439	8,768	9,228
Education and Training	8,809	9,162	9,687	10,475	11,291
Healthcare and social welfare	3,707	3,946	4,151	4,464	4,853
Culture and Recreation	1,505	1,601	1,648	1,706	1,857
Party and Association	300	317	334	353	372
Community and Social Service	5,564	5,734	6,026	6,353	6,743
Private Household Employment	550	567	583	589	610

Source: General Statistical Office, Statistical Yearbook 2004

Table 2.2B: GDP BY INDUSTRIAL ORIGIN -- GROWTH RATE
(Billions of Dong in Constant 1994 Prices)

	1999	2000	2001	Rev 2002	Prel 2003
Total	4.8	6.8	6.9	7.1	7.3
State	2.6	7.7	7.4	7.1	7.6
Non-State	6.3	6.2	6.5	7.1	7.0
Agri, Forestry and Fishery	5.2	4.6	3.0	4.2	3.3
Agriculture	5.5	4.0	2.1	4.1	2.8
Forestry	3.1	0.4	0.5	0.5	0.8
Fisheries	3.8	11.6	11.5	5.7	7.2
Industry and Construction	7.7	10.1	10.4	9.5	10.3
Mining	13.4	7.2	4.1	1.1	5.8
Manufacturing	8.0	11.7	11.3	11.6	11.5
Electricity and Water	7.7	14.6	13.2	11.4	11.8
Construction	2.4	7.5	12.8	10.6	10.6
Services	2.3	5.3	6.1	6.5	6.6
Trade	2.0	6.3	7.0	7.3	6.8
Hotel and Restaurant	2.5	4.1	6.7	7.1	6.3
Transportation and Telecom	6.3	5.8	6.6	7.1	5.5
Finance, Banking and Insurance	10.0	6.1	6.3	7.0	8.0
Science and Technology	-9.0	24.0	11.3	9.1	7.1
Real Estate and Renting	2.1	2.6	3.3	3.8	5.3
Public Administration	-5.5	3.9	5.2	3.9	5.2
Education and Training	2.3	4.0	5.7	8.1	7.8
Healthcare and social welfare	4.0	6.4	5.2	7.5	8.7
Culture and Recreation	6.6	6.4	2.9	3.5	8.9
Party and Association	1.0	5.7	5.4	5.7	5.4
Community and Social Service	2.4	3.1	5.1	5.4	6.1
Private Household Employment	1.5	3.1	2.8	1.0	3.6

Source: General Statistical Office, Statistical Yearbook 2004

Table 2.3A: GDP DEFLATOR

	1999	2000	2001	Rev 2002	Prel 2003
Total	156.1	161.4	164.5	171.0	180.2
State	149.6	152.6	154.3	160.2	171.4
Non-State	160.4	167.4	171.7	178.5	186.4
Agri, Forestry and Fishery	167.0	170.1	170.5	180.5	187.3
Agriculture	159.1	160.6	158.0	166.7	170.0
Forestry	226.3	232.4	238.4	253.1	257.1
Fisheries	211.3	223.1	240.4	258.4	288.2
Industry and Construction	156.7	167.4	171.5	176.0	187.2
Mining	195.9	231.2	231.1	238.0	278.1
Manufacturing	153.5	159.2	166.1	172.4	176.7
Electricity and Water	212.0	220.8	223.4	227.7	260.1
Construction	113.3	114.5	119.9	122.5	125.1
Services	149.3	151.3	155.0	161.3	170.0
Trade	141.4	140.7	141.9	147.6	152.3
Hotel and Restaurant	157.5	161.8	163.0	169.4	175.6
Transportation and Telecom	153.3	161.6	169.8	172.2	174.8
Finance, Banking and Insurance	140.6	144.2	145.9	152.0	156.9
Science and Technology	150.1	149.3	151.3	157.6	180.8
Real Estate and Renting	153.1	156.8	170.9	186.6	199.5
Public Administration	151.3	150.4	151.5	157.6	180.7
Education and Training	159.0	162.0	167.7	172.5	190.1
Healthcare and social welfare	145.7	152.0	154.6	158.1	177.4
Culture and Recreation	158.0	159.8	169.9	169.8	178.7
Party and Association	194.7	193.7	194.9	201.7	209.1
Community and Social Service	167.6	171.8	172.8	179.6	185.6
Private Household Employment	162.7	168.1	169.0	176.1	181.6

Source: General Statistical Office, Statistical Yearbook 2004

Table 2.3B: CHANGE IN GDP DEFLATOR

(1995=100)

	1999	2000	2001	Rev 2002	Prel 2003
Total	156.1	161.4	164.5	171.0	180.2
State	127.3	129.8	131.3	136.4	145.9
Non-State	176.5	184.2	188.8	196.4	205.1
Agri, Forestry and Fishery	137.8	140.3	140.6	148.9	154.5
Agriculture	131.8	133.0	130.8	138.1	140.8
Forestry	191.0	196.2	201.2	213.7	217.0
Fisheries					
Industry and Construction	139.4	148.9	152.6	156.6	166.5
Mining	184.1	217.2	217.2	223.6	261.4
Manufacturing	135.2	140.2	146.3	151.8	155.6
Electricity and Water	152.6	159.0	160.8	163.9	187.2
Construction	104.7	105.8	110.8	113.2	115.6
Services	126.9	128.7	131.8	137.1	144.5
Trade	126.7	126.1	127.1	132.2	136.5
Hotel and Restaurant	123.1	126.5	127.4	132.4	137.3
Transportation and Telecom	132.0	139.2	146.3	148.3	150.5
Finance, Banking and Insurance	120.3	123.4	124.9	130.1	134.3
Science and Technology	127.3	126.5	128.2	133.6	153.3
Real Estate and Renting	120.3	123.2	134.3	146.6	156.7
Public Administration	129.1	128.4	129.3	134.4	154.2
Education and Training	133.6	136.1	140.9	145.0	159.7
Healthcare and social welfare	120.4	125.6	127.7	130.6	146.6
Culture and Recreation	138.1	139.6	148.4	148.4	156.2
Party and Association	153.6	152.9	153.8	159.2	165.1
Community and Social Service	131.2	134.6	135.3	140.7	145.4
Private Household Employment	140.9	145.6	146.3	152.5	157.3

Source: General Statistical Office, Statistical Yearbook 2004

Table 2.4/a: NATIONAL ACCOUNTS: SOURCES AND USES

(VND billion, current price)

	1999	2000	2001	Rev 2002	Prel 2003
Sources	411,360	452,524	492,277	563,446	651,311
GDP	399,942	441,646	481,295	535,762	605,586
Trade Balance	11,418	10,878	10,982	27,684	45,725
Uses	411,360	452,524	492,277	563,446	651,301
Total Consumption	301,690	321,853	342,607	382,137	434,721
Gross Capital Formation	110,503	130,771	150,033	177,983	212,480
Statistical Discrepancy	-833	-100	-363	3,326	4,100

Source: General Statistical Office, Statistical Yearbook 2004

Table 2.4/b: NATIONAL ACCOUNTS: SOURCES AND USES

(VND billion, constant 1994 price)

	1999	2000	2001	Rev 2002	Prel 2003
Sources	269,429	283,751	304,230	334,640	365,295
GDP	256,272	273,666	292,535	313,247	335,989
Trade Balance	13,157	10,085	11,695	21,393	29,306
Uses	269,429	283,751	304,232	334,640	365,295
Total Consumption	194,350	200,665	210,029	225,610	242,061
Gross Capital Formation	75,830	83,496	92,487	104,256	118,845
Statistical Discrepancy	-751	-410	1,716	4,774	4,389

Source: General Statistical Office, Statistical Yearbook 2004

Table 3.1: BALANCE OF PAYMENTS
(US$ million, unless otherwise indicated)

	1999	2000	2001	2002/r	2003/e
Exports (fob)	11,540	14,449	15,027	16,706	19,986
Imports (fob)	10,460	14,071	14,400	17,582	22,495
Trade Balance	1,080	378	627	-876	-2,510
Non-Factor Services	-547	-615	-572	-648	-778
Income (net)	-429	-597	-634	-794	-796
- o/w: Interest	550	529	345	293	290
Transfers (net)	1,181	1,476	1,250	1,898	2,239
Official	131	136	150	131	139
Private	1,050	1,340	1,100	1,767	2,100
Current Account Balance	1,284	642	671	-420	-1,845
Excluding official transfers	1,153	506	521	-551	-1,984
Capital Account	-334	-526	-476	885	3,992
Medium and Long-Term (net)	605	729	623	526	1,047
Disbursements	1,036	1,411	988	1,102	1,540
ODA loans	970	1,361	958	1,073	1,258
Amortization	431	682	365	576	493
Direct Investment	700	1,100	1,252	2,045	1,829
Overall Balance	768	116	194	464	2,148
Financing	-768	-116	-194	-464	-2,148
Memorandum items					
Gross official reserves	2,711	3,030	3,387	3,692	5,620

Note: Figures are rounded.
Source: International Monetary Fund

Table 3.2: MAJOR EXPORTS BY COMMODITY
(US$ million)

	1998	1999	2000	2001	Rev 2002	Pre 2003
Total Exports	9,365	11,540	14,448	15,027	16,706	20,176
Rice	1,024	1,025	667	625	726	721
Quantity (000 tons)	3,749	4,508	3,477	3,729	3,241	3,813
Average Unit Value (US$/ton)	273	227	192	168	224	189
Petroleum	1,232	2,092	3,503	3,126	3,270	3,812
Quantity (000 tons)	12,145	14,882	15,424	16,732	16,879	17,143
Average Unit Value (US$/ton)	101	141	227	187	194	222
Coal	102	96	94	113	156	184
Quantity (000 tons)	3,161	3,260	3,251	4,290	6,049	7,246
Average Unit Value (US$/ton)	32	29	29	26	26	25
Rubber	127	147	166	166	268	378
Quantity (000 tons)	191	265	273	308	449	433
Average Unit Value (US$/ton)	665	555	607	539	597	872
Tea	51	45	70	78	83	60
Quantity (000 tons)	33	36	56	68	75	60
Average Unit Value (US$/ton)	1,545	1,250	1,250	1,150	1,103	1,002
Coffee	594	585	501	391	322	505
Quantity (000 tons)	382	482	734	931	719	749
Average Unit Value (US$/ton)	1,555	1,214	683	420	449	674
Cashew Nut	117	110	167	152	209	284
Quantity (000 tons)	16	18	34	44	62	84
Average Unit Value (US$/ton)	7,313	5,978	4,892	3,474	3,358	3,390
Black Pepper	64	137	146	91	107	105
Quantity (000 tons)	15	35	37	57	77	74
Average Unit Value (US$/ton)	4,267	3,914	3,943	1,601	1,399	1,416
Marine Products	858	971	1,479	1,778	2,023	2,200
Vegetable & Fruits	53	105	214	330	201	151
Textiles and Garments	1,450	1,747	1,892	1,975	2,752	3,687
Footwear	1,032	1,392	1,465	1,559	1,867	2,268
Handicraft	111	168	237	235	331	367

Source: General Statistical Office, Statistical Yearbook 2004, and General Department of Customs

Table 3.3: MAJOR IMPORTS BY COMMODITY
(US$ millions)

	1998	1999	2000	2001	Rev 2002	Pre 2003
Total Imports	11,500	11,742	15,637	16,162	19,733	25,227
Petroleum products	827	1,054	2,058	1,828	2,017	2,433
Quantity (000 tons)	6,830	7,403	8,777	8,998	9,966	9,995
Average Unit Value (US$/ton)	121	142	234	203	202	243
Fertilizers	477	464	509	404	477	628
Quantity (000 tons)	3,554	3,782	3,973	3,189	3,824	4,119
Average Unit Value (US$/ton)	134	123	128	127	125	152
Steel	524	587	812	965	1,334	1,657
Quantity (000 tons)	1,735	2,264	2,868	3,938	4,951	4,574
Average Unit Value (US$/ton)	302	259	283	245	269	362
Machines and Spare Parts	2,052	2,005	2,571	2,741	3,793	5,359
Others						
Textile Fiber	175	194	231	247	314	298
Quantity (000 tons)	130	160	176	211	263	217
Raw Cotton	92	91	101	132	97	106
Quantity (000 tons)	68	77	84	113	97	91
Wheat	67	29	16	11	11	9
Quantity (000 tons)	271	143	86	62	60	51
Cars and Trucks	130	89	134	427	427	266
Quantity (000 units)	17.2	17.2	15.7	49.6	49.6	20.8
Sugar	32	7	22	21	0	0
Quantity (000 tons)	123	43	65	81	1	0
Motorbikes	351	399	787	670	422	329
Quantity (000 units)	368	509	1,807	2,503	1,480	
Pharmaceuticals	52	57	62	69	83	76

Source: General Statistical Office, Statistical Yearbook 2004, and General Department of Customs

Table 4.1: MONETARY SURVEY

ACCOUNT	1999	2000	2001	2002				2003/e			
				Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
				(in trillion of dong, end of period)							
Net Foreign Assets	61.2	95.7	117.6	116.9	120.8	120.3	117.4	127.4	125.6	129.9	131.4
Foreign assets	77.7	112.7	135.9	135.4	139.3	139.3	135.9	144.4	143.7	147.8	150.5
Foreign liabilities	-16.5	-17.0	-18.3	-18.5	-18.5	-19.0	-18.4	-17.0	-18.1	-17.9	-19.1
Net Domestic Assets	99.2	127.2	162.2	173.0	182.0	194.7	211.7	218.3	242.9	252.3	279.8
Domestic credit	115.7	155.2	191.2	201.4	211.4	224.6	239.9	246.5	274.8	290.4	316.9
Net claims on government	3.0	-0.5	2.1	2.8	2.2	5.3	8.8	2.6	9.0	12.7	20.1
Claims to the economy	112.7	155.7	189.1	198.6	209.2	219.3	231.1	243.9	265.8	277.6	296.7
Claims on state enterprises	54.3	69.9	79.7	81.7	84.1	86.9	89.5	92.3	97.8	101.2	105.4
Claims on other sectors	58.4	85.8	109.4	116.9	125.1	132.4	141.6	151.6	168.0	176.4	191.3
Other items net	-16.5	-28.0	-29.0	-28.4	-29.4	-29.9	-28.2	-28.3	-31.9	-38.1	-37.0
Broad money (M2)	160.5	222.9	279.8	289.9	302.7	315.0	329.1	345.7	368.5	382.2	411.2
of which: total deposit	119.1	170.7	213.5	215.2	232.3	245.8	254.9	266.8	288.5	301.7	320.6
Dong liquidity	116.7	152.5	191.1	202.7	209.2	219.3	235.5	251.6	274.7	288.6	314.1
Currency outside banks	41.4	52.2	66.3	74.7	70.4	69.2	74.3	78.9	79.9	80.5	90.6
Deposits	75.3	100.3	124.8	128.0	138.8	150.1	161.2	172.7	194.7	208.1	223.6
Foreign currency deposits	43.8	70.4	88.7	87.2	93.5	95.7	93.6	94.1	93.8	93.6	97.1
				(Change in percent since the beginning of the year)							
Net Foreign Assets	97.8	56.4	22.9	-0.6	2.7	2.3	-0.2	8.5	6.9	10.7	11.9
Net Domestic Assets	13.7	28.2	27.5	6.7	12.2	20.0	30.5	3.1	14.7	19.1	32.2
Credit to the economy	19.3	38.2	21.5	5.0	10.6	16.0	22.2	5.6	15.0	20.1	28.4
Claims on state enterprises	9.7	28.7	14.0	2.5	5.5	9.0	12.3	3.1	9.3	13.1	17.8
Claims on other sectors	29.8	46.9	27.5	6.9	14.4	21.0	29.4	7.1	9.3	24.6	35.1
Total liquidity	39.1	38.9	25.5	3.6	8.2	12.6	17.6	5.0	12.0	16.1	25.0
	(Yearly change in percent)					(Quarterly change in percent)					
Net Foreign Assets	97.8	10.9	2.5	-0.6	3.3	-0.4	-2.4	5.9	-1.5	3.5	1.1
Net Domestic Assets	13.7	14.0	9.2	6.7	5.2	7.0	8.7	12.1	11.3	3.9	10.9
Credit to the economy	19.3	10.7	4.8	5.0	5.3	4.8	5.4	11.2	9.0	4.5	6.9
Claims on state enterprises	9.7	7.9	3.6	2.5	2.9	3.3	3.0	6.2	6.0	3.5	4.2
Claims on other sectors	29.8	13.2	5.6	6.9	7.0	5.8	6.9	14.5	10.8	5.0	8.5
Total liquidity	39.1	12.5	6.4	3.6	4.4	4.1	4.5	9.7	6.6	3.7	7.6

Data from 1999 onwards comprise the SBV, six state-owned commercial banks and 83 non-state banks

Source: State Bank of Vietnam and International Monetary Fund

TABLE 5.1: STATE BUDGET REVENUES
(VND billion)

	Items	1999	2000	2001	2002	2003
			fianal account			estimate
A	Total budget revenues (I+VIII)	78,489	90,794	107,288	123,861	146,372
I	Total revenues and grants (II+VII)	78,489	90,794	103,888	121,716	141,930
II	Total revenues (III+VI+VII))	76,128	88,766	101,877	119,466	139,918
III	Current revenues (IV+V)	75,357	87,928	100,918	118,346	138,881
IV	Taxes	63,942	72,787	84195	98,599	112,797
1	Corporate income tax	14,532	22,240	25805	29,271	32,613
2	Individual income tax	1,856	1,831	2058	2,338	2,930
3	Capital user charge	1,543	1,642	1711	0	0
4	Land and housing tax	342	366	330	336	367
5	License tax	361	381	400	407	774
6	Tax on the transfer of properties	1,046	934	1191	1,332	1,808
7	Tax on land use right transfer	347	213	298	327	409
8	Value added tax	17,239	17,072	19327	25,916	32,680
9	Special consumption tax	4,475	5,250	6229	7,272	8,935
10	Slaughter tax					
11	Natural resources tax	4,552	7,487	8416	8,543	10,649
12	Agricultural tax	1,973	1,776	814	772	151
13	Export & import tax	14,441	13,437	17458	21,915	21,346
14	Other taxes	1,236	158	158	170	135
V	Fees, charges and non-tax	11,415	15,141	16,723	19,747	26,084
15	Net profit after tax	2,887	6,710	7,493	7,555	10,603
16	Revenue from discrepancy of IM-EX prices	950	131	116	168	133
17	Fees and charges	3,558	4,950	5,120	6,016	6,177
18	Rental of land	574	568	570	459	653
19	Others	3,446	2,782	3,424	5,549	8,518
VI	Capital revenues	771	838	959	1,120	1,037
20	Fixed capital asset sale	771				
21	Sale of stocks					
22	Others	0				
VII	Grants	2,361	2,028	2,011	2,250	2,012
VIII	Carry-over			3,400	2,145	4,442

Source: Ministry of Finance

TABLE 5.2: STATE BUDGET REVENUES
(share of GDP)

	Items	1999	2000	2001	2002	2003
			fianal account			estimate
A	Total budget revenues (I+VIII)	19.6	20.6	22.1	23.1	24.2
I	Total revenues and grants (II+VII)	19.6	20.6	21.4	22.7	23.4
II	Total revenues (III+VI+VII))	19.0	20.1	21.0	22.3	23.1
III	Current revenues (IV+V)	18.8	19.9	20.8	22.1	22.9
IV	Taxes	16.0	16.5	17.4	18.4	18.6
1	Corporate income tax	3.6	5.0	5.3	5.5	5.4
2	Individual income tax	0.5	0.4	0.4	0.4	0.5
3	Capital user charge	0.4	0.4	0.4	0.0	0.0
4	Land and housing tax	0.1	0.1	0.1	0.1	0.1
5	License tax	0.1	0.1	0.1	0.1	0.1
6	Tax on the transfer of properties	0.3	0.2	0.2	0.2	0.3
7	Tax on land use right transfer	0.1	0.0	0.1	0.1	0.1
8	Value added tax	4.3	3.9	4.0	4.8	5.4
9	Special consumption tax	1.1	1.2	1.3	1.4	1.5
10	Slaughter tax	0.0	0.0	0.0	0.0	0.0
11	Natural resources tax	1.1	1.7	1.7	1.6	1.8
12	Agricultural tax	0.5	0.4	0.2	0.1	0.0
13	Export & import tax	3.6	3.0	3.6	4.1	3.5
14	Other taxes	0.3	0.0	0.0	0.0	0.0
V	Fees, charges and non-tax	2.9	3.4	3.5	3.7	4.3
15	Net profit after tax	0.7	1.5	1.5	1.4	1.8
16	Revenue from discrepancy of IM-EX prices	0.2	0.0	0.0	0.0	0.0
17	Fees and charges	0.9	1.1	1.1	1.1	1.0
18	Rental of land	0.1	0.1	0.1	0.1	0.1
19	Others	0.9	0.6	0.7	1.0	1.4
VI	Capital revenues	0.2	0.2	0.2	0.2	0.2
20	Fixed capital asset sale	0.2	0.0	0.0	0.0	0.0
21	Sale of stocks	0.0	0.0	0.0	0.0	0.0
22	Others	0.0	0.0	0.0	0.0	0.0
VII	Grants	0.6	0.5	0.4	0.4	0.3
VIII	Carry-over	0.0	0.0	0.7	0.4	0.7

Source: Ministry of Finance

TABLE 5.3: STATE BUDGET EXPENDITURE

(VND billion)

	Items	1999	2000	2001	2002	2003
			fianal account			estimate
A	Total expenditures (I+II+III+IV)	81,817	103,151	119,430	133,877	158,415
	Total expenditures (I+II+III)	81,817	99,751	117,285	129,434	154,215
I	Current expenditures	55,120	70,127	77,049	84,216	103,212
1	Administration expenditure	6,793	8,089	8,734	8,599	11,322
2	Expenditure on economic affairs & services	4,772	5,796	6,288	7,987	8,378
3	Social expenditures	25,576	30,694	37,369	40,747	50,145
	of which					
3.1	Education	7,994	9,910	12,006	13,758	17,665
3.2	Training	2,341	2,767	3,426	4,086	5,099
3.3	Health	3,117	3,453	4,211	4,656	5,388
3.4	Science, technology & environment	859	1,243	1,625	1,852	2,012
3.5	Culture	713	919	921	1,066	1,198
3.6	Radio and Television	682	717	838	681	818
3.7	Sports	321	387	483	586	893
3.8	Population and Family planning	547	559	434	841	472
3.9	Social subsidies	9,002	10,739	13,425	13,221	16,600
4	Interest payment	2,327	3,514	4,485	5,330	6,692
5	Salary reform					
6	Others	15,652	22,034	20,173	21,553	26,675
II	Investment expenditure	26,697	29,624	40,236	45,218	51,003
	Investment expenditure	29,697	29,624	40,236	45,218	51,003
1	Capital expenditure	24,684	26,211	36,139	40,740	44,955
2	Others	2,013	3,413	4,097	4,478	6,048
III	Others (contingency funds)					
IV	Carry-over		3,400	2,145	4,443	4,200

Source: Ministry of Finance

TABLE 5.4: STATE BUDGET EXPENDITURE
(share of GDP)

	Items	1999	2000	2001	2002	2003
			fianal account			estimate
A	Total expenditures (I+II+III+IV)	20.5	23.4	24.6	25.0	26.2
	Total expenditures (I+II+III)	20.5	22.6	24.2	24.1	25.5
I	Current expenditures	13.8	15.9	15.9	15.7	17.0
1	Administration expenditure	1.7	1.8	1.8	1.6	1.9
2	Expenditure on economic affairs & services	1.2	1.3	1.3	1.5	1.4
3	Social expenditures	6.4	6.9	7.7	7.6	8.3
	of which					
3.1	Education	2.0	2.2	2.5	2.6	2.9
3.2	Training	0.6	0.6	0.7	0.8	0.8
3.3	Health	0.8	0.8	0.9	0.9	0.9
3.4	Science, technology & environment	0.2	0.3	0.3	0.3	0.3
3.5	Culture	0.2	0.2	0.2	0.2	0.2
3.6	Radio and Television	0.2	0.2	0.2	0.1	0.1
3.7	Sports	0.1	0.1	0.1	0.1	0.1
3.8	Population and Family planning	0.1	0.1	0.1	0.2	0.1
3.9	Social subsidies	2.3	2.4	2.8	2.5	2.7
4	Interest payment	0.6	0.8	0.9	1.0	1.1
5	Salary reform					
6	Others	3.9	5.0	4.2	4.0	4.4
II	Investment expenditure	6.7	6.7	8.3	8.4	8.4
	Investment expenditure	7.4	6.7	8.3	8.4	8.4
1	Capital expenditure	6.2	5.9	7.5	7.6	7.4
2	Others	0.5	0.8	0.8	0.8	1.0
III	Others (contingency funds)					
IV	Carry-over	0.0	0.8	0.4	0.8	0.7

Source: Ministry of Finance

Table 5.5. LONG-TERM DEBT
(US$ million, unless otherwise indicated)

	1999	2000	2001	2002/r	2003/e
DEBT OUTSTANDING (LDOD)	20,479	11,581	11,427	12,160	14,189
Public and publicly guaranteed	20,479	11,581	11,427	12,160	14,189
Official creditors	16,817	8,677	9,165	10,508	12,745
Multilateral	1,606	1,895	2,210	2,868	3,560
Concessional	1,584	1,846	2,156	2,794	3,852
Bilateral (1)	15,211	6,782	6,955	7,639	8,819
Concessional	3,975	6,015	6,193	6,850	7,828
Private creditors	3,662	2,904	2,262	1,652	1,444
Bonds	560	560	560	560	560
Commercial banks	2,322	1,685	1,101	552	406
Other private	781	659	602	540	464
Memorandum item					
IDA	989	1,113	1,344	1,715	2,472
Debt services - public					
- in percent of XGS	10.0	7.5	6.7	6.0	3.4
- in percent of GDP	4.9	4.2	3.7	3.4	2.0

Note: Figures are rounded.

(1) From 2000 onwards, data reflects the rescheduling of non-convertible Russian debt.

Source: World Bank, Global Development Finance 2004

Table 6.1A: MONTHLY CHANGE IN CONSUMER RETAIL PRICES

Month/Year	1999	2000	2001	2002	2003
January	1.7	0.4	0.3	1.1	0.9
February	1.9	1.6	0.4	2.2	2.2
March	-0.7	-1.1	-0.7	-0.8	-0.6
April	-0.6	-0.7	-0.5	0.0	0.0
May	-0.4	-0.6	-0.2	0.3	-0.1
June	-0.3	-0.5	0.0	0.1	-0.3
July	-0.4	-0.6	-0.2	-0.1	-0.3
August	-0.4	0.1	0.0	0.0	-0.1
September	-0.6	-0.2	0.5	0.2	0.1
October	-1.0	0.1	0.0	0.3	-0.2
November	0.4	0.9	0.2	0.3	0.6
December	0.5	0.1	1.0	0.3	0.8

Source: General Statistical Office, Statistical Yearbooks 2004

Table 6.1B: MONTHLY CONSUMER RETAIL PRICE INDEX (Jan 1995=100)

Month/Year	1999	2000	2001	2002	2003
January	130.7	129.1	128.3	130.4	135.3
February	133.2	131.2	128.8	133.2	138.2
March	132.3	129.8	127.9	132.2	137.4
April	131.5	128.9	127.3	132.2	137.4
May	131.0	128.1	127.0	132.6	137.2
June	130.6	127.4	127.0	132.7	136.8
July	130.1	126.7	126.8	132.6	136.4
August	129.5	126.8	126.8	132.6	136.3
September	128.8	126.6	127.4	132.8	136.4
October	127.5	126.7	127.4	133.2	136.1
November	128.0	127.8	127.7	133.7	137.0
December	128.6	127.9	129.0	134.1	138.0
Annual Index: (Jan 1995=100)	130.2	128.1	127.6	132.7	136.9
Annual Growth Rate	4.3	-1.6	-0.4	4.0	3.2
Dec/Dec Growth Rate	0.1	-0.5	0.8	4.0	3.0

Source: General Statistical Office, Statistical Yearbooks 2004

TABLE 6.2A: PRICE INDEX BY COMMODITY GROUPS --- Monthly Change

GOODS and SERVICES	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
General Index	0.9	2.2	-0.6	0.0	-0.1	-0.3	-0.3	-0.1	0.1	-0.2	0.6	0.8
Food & foodstuff	1.3	3.4	-1.9	-0.3	-0.3	-0.5	-0.5	-0.2	-0.1	0.0	0.9	1.1
of which: Food	*1.6*	*1.2*	*-0.9*	*-0.6*	*-0.9*	*-1.6*	*-1.2*	*0.1*	*0.0*	*0.5*	*2.8*	*2.0*
Foodstuff	*1.3*	*4.4*	*-2.4*	*-0.2*	*-0.1*	*-0.1*	*-0.3*	*-0.4*	*-0.2*	*-0.3*	*0.3*	*0.9*
Beverage & tobacco	0.9	2.2	-0.6	-0.2	-0.2	0.0	0.0	0.1	0.1	0.3	0.3	0.6
Garment, hats, footwear	0.8	0.6	-0.2	0.4	0.5	0.0	0.0	0.0	0.2	0.1	0.5	0.5
Housing & construction materials	0.6	0.5	1.9	0.4	-0.5	-0.4	0.2	0.2	0.1	0.0	0.5	0.6
Household appliancies	0.3	0.2	0.2	0.1	0.2	0.1	0.0	-0.3	0.0	0.2	0.5	0.4
Healthcare, pharmaceutical items	0.7	0.5	8.1	2.6	1.3	-0.2	0.4	0.3	2.7	2.0	0.9	0.1
Transport & Telecommunication	0.4	1.3	0.7	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	-3.3	-0.5	0.2
Educational items	0.3	0.1	0.0	0.1	0.0	0.5	0.0	0.3	2.0	1.1	0.4	0.1
Cultural and recreation items	0.3	1.3	-1.4	-0.1	-0.3	-0.2	-0.4	-0.1	-0.2	0.0	-0.4	0.2
Goods and other services	0.6	2.1	-1.1	0.1	0.3	0.1	0.0	0.1	0.1	0.0	0.3	1.7
Gold	5.5	4.8	-1.2	-3.1	0.2	3.8	-0.2	0.1	2.9	3.4	3.0	5.1
US Dollar	0.2	0.2	0.0	0.1	0.0	0.1	0.2	0.1	0.1	0.2	0.5	0.5

Source: General Statistical Office, Statistical Yearbooks 2004

TABLE 6.2B: PRICE INDEX BY COMMODITY GROUPS --- Jan 2003=100

GOODS and SERVICES	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
General Index	100.0	102.2	101.6	101.6	101.5	101.2	100.9	100.8	100.9	100.7	101.3	102.1
Food & foodstuff	100.0	103.4	101.4	101.1	100.8	100.3	99.8	99.6	99.5	99.5	100.4	101.5
of which: Food	100.0	101.2	100.3	99.7	98.8	97.2	96.0	96.1	96.1	96.6	99.3	101.3
Foodstuff	100.0	104.4	101.9	101.7	101.6	101.5	101.2	100.8	100.6	100.3	100.6	101.5
Beverage & tobacco	100.0	102.2	101.6	101.4	101.2	101.2	101.2	101.3	101.4	101.7	102.0	102.5
Garment, hats, footwear	100.0	100.6	100.4	100.8	101.3	101.3	101.3	101.3	101.5	101.6	102.1	102.7
Housing & construction materials	100.0	100.5	102.4	102.8	102.3	101.9	102.1	102.3	102.4	102.4	102.9	103.3
Household appliancies	100.0	100.2	100.4	100.5	100.7	100.8	100.8	100.5	100.5	100.7	101.2	101.3
Healthcare, pharmaceutical items	100.0	100.5	108.6	111.5	112.9	112.7	113.1	113.5	116.5	118.9	119.9	120.2
Transport & Telecommunication	100.0	101.3	102.0	101.8	101.6	101.5	101.4	101.3	101.3	98.0	97.5	97.6
Educational items	100.0	100.1	100.1	100.2	100.2	100.7	100.7	101.0	103.0	104.2	104.6	104.8
Cultural and recreation items	100.0	101.3	99.9	99.8	99.5	99.3	98.9	98.8	98.6	98.6	98.2	99.9
Goods and other services	100.0	102.1	101.0	101.1	101.4	101.5	101.5	101.6	101.7	101.7	102.0	102.0
Gold	100.0	104.8	103.5	100.3	100.5	104.4	104.1	104.2	107.3	110.9	114.2	120.1
US Dollar	100.0	100.2	100.2	100.3	100.3	100.4	100.6	100.7	100.8	101.0	101.5	102.0

Source: General Statistical Office, Statistical Yearbooks 2004

Table 7.1: AGRICULTURAL PRODUCTION
(VND billion, current prices)

	1999	2000	2001	Rev 2002	Prel 2003
Gross Output	128,416	129,141	130,178	145,021	153,770
Crop Cultivation	101,648	101,044	101,403	111,172	115,888
Livestock	23,773	24,960	25,501	30,575	34,431
Services	2,995	3,137	3,273	3,275	3,450

Source: General Statistical Office, Statistical Yearbooks 2004

Table 7.2: AGRICULTURAL PRODUCTION
(VND billion, constant 1994 prices)

	1999	2000	2001	Rev 2002	Prel 2003
Gross Output	106,368	112,112	118,990	122,150	127,111
Crop Cultivation	86,309	90,858	92,907	98,061	101,210
Food Crops	52,720	55,163	55,066	59,619	60,610
Industrial Crops	19,906	21,782	23,109	22,247	23,577
Livestock	17,337	18,505	19,283	21,200	22,944
Services	2,650	2,748	2,800	2,890	2,956
Memorandum Items:					
Paddy Ouput (000 tons)	31,394	32,530	32,108	34,447	34,519
Cultivated Area (000 ha)	7,654	7,666	7,493	7,504	7,449
Yield (ton/ha)	4.10	4.24	4.29	4.59	4.63

Source: General Statistical Office, Statistical Yearbooks 2004

Table 7.3: INDUSTRIAL CROP PRODUCTION AND YIELDS

	1999	2000	2001	Rev 2002	Prel 2003
Production (000 metric tons)					
Cotton	22	19	34	37	37
Jute	9	11	15	21	21
Rush	73	61	65	85	85
Sugar cane	17,760	15,044	14,657	16,824	16,824
Peanuts	318	355	363	397	397
Soybeans	147	149	174	201	201
Tobacco	36	27	32	34	34
Tea	70	70	76	90	90
Coffee	553	803	841	689	689
Rubber	249	291	313	331	331
Black pepper	31	39	44	51	51
Coconut	1,104	885	892	838	838
Area Cultivated (000 ha)					
Cotton	21	19	28	34	29
Jute	4	6	8	10	5
Rush	11	9	10	12	14
Sugarcane	344	302	291	320	306
Peanuts	248	245	245	247	243
Soybeans	129	124	140	159	167
Tobacco	33	24	24	27	24
Tea	85	88	98	109	116
Coffee	478	562	565	522	514
Rubber	395	412	416	429	437
Black pepper	18	28	36	48	50
Coconut	164	161	156	140	136
Average Yield (metric ton/ha)					
Cotton	1.0	1.0	1.2	1.1	1.3
Jute	2.3	2.1	1.9	2.1	4.3
Rush	6.7	6.6	6.6	6.9	6.2
Sugarcane	51.6	49.8	50.4	52.6	54.9
Peanuts	1.3	1.5	1.5	1.6	1.6
Soybeans	1.1	1.2	1.2	1.3	1.2
Tobacco	1.1	1.1	1.3	1.3	1.4
Tea	0.8	0.8	0.8	0.8	0.8
Coffee	1.2	1.4	1.5	1.3	1.3
Rubber	0.6	0.7	0.8	0.8	0.8
Black pepper	1.8	1.4	1.2	1.1	1.0
Coconut	6.8	5.5	5.7	6.0	6.2

Source: General Statistical Office, Statistical Yearbook 2004

Table 8.1: INDUSTRIAL PRODUCTION AND NUMBER OF INDUSTRIAL ENTERPRISES

(VND billion, constant 1994 price)

	1999	2000	2001	Rev 2002	Prel. 2003
Gross Industrial Production	168,749	198,326	227,342	261,092	302,990
State sector	73,208	82,897	93,434	105,119	118,448
Central	48,395	54,962	62,119	69,640	78,694
Local	24,813	27,935	31,316	35,479	39,755
Non-state sector	37,027	44,144	53,647	63,474	75,325
Collectives	1,076	1,334	1,575	1,668	1,681
Private, Households and Mixed	35,951	42,810	52,072	61,807	73,645
Foreign-Invested sector	58,515	71,285	80,261	92,499	109,217
Key Industries					
Coal	2,048	2,366	2,695	3,189	3,700
Oil and Gas	20,582	22,746	23,766	23,817	25,255
Mining and metal ores	191	209	239	281	339
Stones and other mining	1,759	2,015	2,398	3,039	3,709
Food and beverage	37,744	43,634	50,373	56,061	63,245
Cigarettes and tobacco	4,796	5,744	6,690	7,658	8,662
Textile products	8,388	10,046	10,641	12,338	14,224
Garment/apparel	5,218	6,042	6,862	8,182	9,892
Lether tanning and processing	7,725	8,851	9,529	11,096	12,971
Wood and wood products	3,180	3,598	3,903	4,488	5,203
Paper and paper products	3,470	3,930	4,562	4,877	5,187
Printing and publishing	2,012	2,274	2,453	2,876	3,352
Chemicals	9,682	11,123	12,852	14,714	16,825
Rubber products and plastic	5,427	6,456	8,128	9,706	11,562
Non-Metallic products	14,785	18,259	21,625	25,913	31,272
Metalic production	5,000	5,914	6,842	8,516	10,193
Metallic products	5,036	5,768	7,063	8,506	10,256
Machinery and equipment	2,163	2,761	3,421	3,711	4,181
Computer and office equipment	1,703	1,295	977	1,003	1,144
Electric and electronic equipments	2,944	3,622	5,172	6,520	8,206
Radio, TV and telecom	3,993	4,395	5,407	6,169	7,433
Production & repairing motor vehicles	1,846	3,232	4,265	5,774	7,902
Production & repairing other transport means	4,574	6,414	7,090	8,534	9,498
Furnitures	3,395	3,931	4,759	6,057	7,786
Recycles products	127	150	151	174	203
Electricity and gas	9,496	11,828	13,551	15,741	18,300
Water supply	971	1,066	1,152	1,328	1,561
Number of Industrial Enterprises					
Total	618,198	654,968	685,320	729,707	
State owned	1,786	1,633	1,541		
Domestic non-state	615,453	652,272	682,330		
Foreign invested	959	1,063	1,449		

Source: General Statistical Office, Statistical Yearbook 2004

Table 8.1: MAJOR INDUSTRIAL PRODUCTS
(VND billion, constant 1994 price)

Product	Unit	1999	2000	2001	Rev 2002	Prel 2003
Electricity	Mil. kWh.	23,599	26,682	30,673	35,888	41,117
- State		23,584	24,972	28,548	33,777	39,806
- Non-State		15	1,711	2,125	2,111	1,311
Coal	Mil. Tons	10	12	13	16	19
- State		9	11	13	16	18
- Non-State		0.2	0.5	0.4	0.7	0.8
Crude Oil	Mil. Tons	15	16	17	17	18
- State		0	0	0	0	0
- Non-State (JV)		15	16	17	17	18
Steel	000 Tons	1,375	1,583	1,914	2,503	2,682
- State		502	567	694	796	900
- Non-State		873	1,016	1,220	1,707	1,782
Chromium	000 Tons	59	76	70	66	64
- State		30	42	36	33	32
- Non-State		29	34	34	33	32
Tin (sticks)	Tons	1,693	1,803	1,728	1,565	1,670
- State		1,550	1,803	1,728	1,546	1,650
- Non-State		143	0	0	19	20
Assembled Tivi sets	1,000	903	1,013	1,126	1,597	2,099
- State		156	158	177	179	195
- Non-State		747	856	949	1,418	1,905
Diesel Motor	Pieces	15,347	15,623	18,721	32,570	55,678
- State		15,347	15,053	18,119	18,544	23,853
- Non-State		0	570	602	14,026	31,825
Electric Engines	Pieces	38,091	45,855	53,442	64,085	74,149
- State		37,949	45,132	52,437	63,066	73,146
- Non-State		142	723	1,005	1,019	1,003
Transformers	Pieces	10,264	13,535	15,664	18,633	17,269
- State		8,049	10,772	13,070	15,972	14,531
- Non-State		2,215	2,763	2,594	2,661	2,738
Water Pumps for Agri	Pieces	3,031	3,496	4,238	3,578	3,510
- State		1,106	723	750	968	950
- Non-State		1,925	2,773	3,488	2,610	2,560
Rice Mill Equipment	Pieces	12,136	12,484	18,298	13,433	13,150
- State		12,136	12,444	17,959	12,847	12,600
- Non-State		0	40	339	586	550
Chemical Fertilizers	000 Tons	1,143	1,210	1,270	1,158	1,288
- State		1,121	1,204	1,262	1,153	1,283
- Non-State		22	5	9	6	5
Insecticides	000 Tons	21.9	20.1	20.0	20.7	18.3
- State		20.3	18.4	18.5	15.0	12.5
- Non-State		1.6	1.8	1.6	5.7	5.8
Bicycle Tires	000 Pieces	18,326	20,675	21,656	22,778	23,110
- State		13,621	14,729	14,099	14,047	14,200
- Non-State		4,705	5,946	7,557	8,731	8,910
Bicycle Tubes	000 Pieces	21,544	21,917	22,997	24,032	24,610
- State		18,026	17,256	18,925	19,251	19,740
- Non-State		3,518	4,661	4,072	4,781	4,870

Source: General Statistical Office, Statistical Yearbooks 2004

Table 8.2: MAJOR INDUSTRIAL PRODUCTS (Continued)
(VND billion, constant 1994 price)

Product	Unit	1999	2000	Rev 2001	Rev 2002	Prel 2003
Cement	000 Tons	10,489	13,298	16,073	21,121	23,282
- State		7,890	9,560	10,684	14,256	15,559
- Non-State		2,599	3,738	5,389	6,865	7,723
Bricks	Mil. Pieces	7,831	9,087	9,811	11,365	12,865
- State		1,934	2,363	2,541	2,837	3,224
- Non-State		5,897	6,724	7,269	8,528	9,641
Glass Products	000 Tons	106	113	115	115	117
- State		10	11	11	6	5
- Non-State		96	102	104	109	112
Porcelain	Mil. Pieces	220	247	314	284	297
- State		16	19	18	26	28
- Non-State		203	229	296	258	269
Sawn Wood	000 m3	1,466	1,744	2,036	2,667	2,957
- State		91	224	186	86	80
- Non-State		1,375	1,520	1,850	2,581	2,877
Paper and Paper Products	000 Tons	349	408	445	490	534
- State		238	250	258	267	252
- Non-State		111	159	187	223	283
Salt	000 Tons	653	590	699	1,089	1,275
- State		108	82	119	186	200
- Non-State		545	508	580	903	1,075
Sugar	000 Tons	947	1,209	1,067	1,069	1,363
- State		412	495	388	394	552
- Non-State		536	714	679	675	811
Beer	Mil. Liters	690	779	971	940	1,050
- State		465	520	576	611	654
- Non-State		225	260	395	329	396
Cigarettes	Mil. Packets	2,147	2,836	3,075	3,375	3,729
- State		2,127	2,802	3,019	3,338	3,695
- Non-State		20	34	56	37	34
Tea	000 Tons	64	70	82	100	105
- State		32	26	27	26	26
- Non-State		31	44	55	74	79
Fish Sauce	Mil. Liters	174	167	162	176	193
- State		31	23	17	13	12
- Non-State		143	145	146	162	181
Textile Fibers	000 Tons	79	130	162	227	253
- State		73	78	97	90	93
- Non-State		7	51	65	137	160
Fabrics of all kinds	Mil. Meters	322	356	410	470	487
- State		147	165	166	192	173
- Non-State		175	191	244	277	314
Soap	000 Tons	214	247	326	361	396
- State		67	83	102	120	162
- Non-State		147	164	224	241	234
Assembled Automobiles	unit	n/a	13,547	20,526	29,536	40,883
- State		n/a	0	92	1,184	2,184
- Non-State		n/a	13,547	20,434	28,352	38,699
Assembled Motobikes	000' unit	242	643	610	1,052	957
- State		20	122	245	230	67
- Non-State		221	521	366	822	891

Source: General Statistical Office, Statistical Yearbooks 2004