PROJECT
SUPPORT FOR FORMULATION OF SOCIO-ECONOMIC DEVELOPMENT STRATEGY 2011-2020

"IMPROVING EFFICIENCY AND EFFECTIVENESS OF PUBLIC ADMINISTRATION, MANAGEMENT AND GOVERNANCE: WHAT CAN VIET NAM LEARN FROM INTERNATIONAL EXPERIENCE?"

HANOI, VIETNAM
OCTOBER 2011
"IMPROVING EFFICIENCY AND EFFECTIVENESS OF PUBLIC ADMINISTRATION, MANAGEMENT AND GOVERNANCE: WHAT CAN VIETNAM LEARN FROM INTERNATIONAL EXPERIENCE?"

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HANOI, VIETNAM
OCTOBER 2011

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The Socio-Economic Development Strategy (SEDS) serves as the top-most national development document of Viet Nam. It provides a system of policies for national socio-economic development at the overall, wholistic, fundamental and long-term level. SEDS reflects a system of fundamental development approaches and objectives, strategic breakthroughs, major modalities for and solutions to socio-economic development in a 10-year period of the country. It serves as the foundation for formulating sectoral strategies; socio-economic development master plans for regions and territorial areas; sectoral development master plans; and five-year and annual socio-economic development plans. The goals and directions stated in SEDS are translated into concrete programmes and action plans in individual planning periods to achieve such goals.

The 10-year Socio-Economic Development Strategy (SEDS) 2001-2010 was prepared on relatively solid scientific research foundations and through an open and participatory process. The United Nations Development Programme (UNDP), under Project VIE/99/002, supported the introduction of international experience and best practices into the SEDS 2001-2010 preparation process, and supported open and participatory policy consultations and discussions. Responding to the Government of Viet Nam’s request, UNDP has been continuing to support the sound evidence and best international experience- and knowledge-based; and open and participatory policy formulation of the SEDS 2011-2020 through the Project 00050577 entitled “Support for Formulation of Socio-Economic Development Strategy 2011-2020”. Following the approval of the SEDS 2011-2020 at the XIth Nationwide Party Congress in early 2011, UNDP continues supporting the formulation of the Action Programme for this Strategy.

Within the framework of the UNDP-supported Project 00050577 “Support for Formulation of Socio-Economic Development Strategy 2011-2020”, a series of research papers have been conducted. These research papers have been consulted among the SEDS Drafting team, policy makers, academia and international community. Their research results have partly contributed to supporting the definition of evidence-based prioritized goals and break-through policy options and measures of SEDS 2011-2020 development process; and the formulation of its Action Programme. This report was commissioned by the Development Strategy Institute (DSI) of the Ministry of Planning and Investment (MPI) and UNDP. It contains views of the consultant team and does not necessarily reflect the official views or positions of DSI or UNDP.

We are very pleased to publicly introduce the research paper to a wide range of audience for reference to the discussion and consultation process of SEDS 2011-2020 and its Action Programme formulation.

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Country Director  
United Nations Development Programme  
in Vietnam

Dr. Cao Viet Sinh  
Standing Vice Minister  
Ministry of Planning and Investment
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AFD</td>
<td>Agence Française de Développement</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>CC</td>
<td>Control of Corruption</td>
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<td>CIEM</td>
<td>Central Institute for Economic Management</td>
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<tr>
<td>CPC</td>
<td>Communist Party of China</td>
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<td>CPPCC</td>
<td>Chinese People’ s Political Consultative Conference</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>EIU</td>
<td>Economist Intelligence Unit</td>
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<td>EVN</td>
<td>Vietnam Electricity</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GE</td>
<td>Government Effectiveness</td>
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<td>GLC</td>
<td>Government Linked Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPP</td>
<td>Independent Power Producers</td>
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<td>LDIF</td>
<td>Local Development Investment Fund</td>
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<td>MPI</td>
<td>Ministry of Planning and Investment</td>
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<td>NDSC</td>
<td>National Development and Strategy Council</td>
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<td>NPC</td>
<td>National People’s Congress</td>
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<td>NPM</td>
<td>New Public Management</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PARMP</td>
<td>Public Administration Reform Master Program</td>
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<td>PCI</td>
<td>Provincial Competitiveness Index</td>
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<td>PIP</td>
<td>Public Investment Programme</td>
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<td>PPP</td>
<td>Public Private Partnerships</td>
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<td>PV</td>
<td>Political Stability and Absence of Violence</td>
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<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<td>RIA</td>
<td>Regulatory Impact Assessment</td>
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<td>RL</td>
<td>Rule of Law</td>
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<td>RQ</td>
<td>Regulatory Quality</td>
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<td>SEDS</td>
<td>Socio-Economic Development Strategy</td>
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<td>SIA</td>
<td>Singapore Airlines</td>
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<td>SIDA</td>
<td>Swedish International Development Agency</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<td>SOE</td>
<td>State-Owned Enterprise</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>USAID</td>
<td>US Agency for International Development</td>
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<td>VA</td>
<td>Voice and Accountability</td>
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<td>VASS</td>
<td>Viet Nam Academy of Social Sciences</td>
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<td>VND</td>
<td>Vietnamese Dong</td>
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<td>VNPT</td>
<td>Vietnam Posts and Telecommunications Group</td>
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<td>WB</td>
<td>World Bank</td>
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Chapter I. INTRODUCTION

A. Scope and Objectives of Study

Vietnam's ambitious Public Administration Reform Master Program 2001-2010 (PARMP 2001-2010) marks its 10th year anniversary this year. Envisioned in 2001, PARMP aimed to achieve “a democratic, clean, strong, professionalized, modernized, effective and efficient public administration system which operates in line with the principle of the socialist state ruled-of-law under the leadership of the Communist Party; public cadres and civil servants will have appropriate capacities and ethical qualities able to respond to the requirements of the cause of national building and development”.1

Ten years later, despite some achievements and mixed results, progress towards these ambitious objectives has been slow, ineffective and inconsistent. The goal of building a democratic, strong, clean, professionalized and modernized administration is still far away from reality.

Against this background, the aim of this paper is to make a set of recommendations to the Drafting Team of the Socio-Economic Development Strategy 2011-2020 (SEDS 2011-2020) on what Viet Nam can learn from international experience to improve the efficiency and effectiveness of its public administration, management and governance. More specifically, this research project aims to:

1. Review major models and objectives of public administration, management, and governance in the world and their links to stages of development, development models, and types of state and government.

2. Summarize the strengths and weaknesses of alternative models, including a synthesis of findings from Asian experiences and OECD reviews of public administration and governance systems.

3. Review models and approaches used to improve transparency and accountability of public administration systems in the region and the world, with an assessment of lessons for Viet Nam.

4. Assess Vietnam’s public administration, management and governance structure, and the strengths, weaknesses and rationale for this approach as well as identify causes of the slow reform of public administration, management, and governance in Viet Nam.

5. Provide an overview of the strengths and weaknesses of recent initiatives to reform public administration at different levels. Include an assessment of

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the relative effectiveness and efficiency of the top down approaches to public administration and governance reform, versus sectoral and grass roots initiatives, and an assessment of the relative effectiveness of alternative donor approaches to supporting such reforms. Provide an assessment of implications for planning and implementing reforms over the next decade.

6. Recommend reforms and improvements in public sector delivery and accountability mechanisms aimed at improving the efficiency, effectiveness and accountability of public delivery of development actions proposed under the SEDS. Recommend prioritized actions to improve public administration, management, and governance in Viet Nam, including mechanisms to improve efficiency, transparency and accountability, in the coming decade and beyond.

B. Data and Methodology

We derived our analysis and recommendations based on a review and synthesis of the findings from a large number of research reports on Vietnam. The studies that we reviewed included Vu (2009), the Harvard Report (2008), Vietnam Development Report Series (2005-2010), Vietnam Development Forum policy papers, studies by the Vietnam Competitiveness Initiative, the OECD Evaluation of Project 30, UNDP Governance reports (PAPI, 2010), Growth Report (2008), the AFD Focales Series (2010), Assessment of the implementation of the Master Plan for Public Administration Reform, reports by credit rating agencies such as Standard & Poor and Moody’s and other reports by donors such as SIDA, ADB, DFID, USAID, among others. In addition, we surveyed some 500 senior and mid-career civil servants from various ministries and local governments throughout Vietnam. We also interviewed representatives from government and donor agencies (DSI-MPI, CIEM, USAID, UNDP, ADB, WB, DFID and AFD), presented the preliminary findings and solicited feedback from a public meeting in Hanoi in May 2011. Most importantly, we had several rounds of meetings with key members of the SEDS Drafting Team, who provided the research team with valuable formal and informal feedback on both the structure and substance of the report.

C. Outline of the Report

The rest of the report is organized as follows. Chapter II consists of five sections. Section A provides a definition of public administration, management and governance and the concepts of efficiency and effectiveness. Section B provides a historical overview of the evolution of development thought and the role of institutions and governance and the experience of OECD countries. Section C reviews major models and objectives of public administration, management, and governance in the world and their links to stages of development, development models, and types of state and government. We summarized the strengths and weaknesses of these models, including a synthesis of findings from Asian experiences and OECD reviews of public administration and governance systems. In particular, we reviewed four models: patronage model; traditional model; New Public Management model; and the East Asian model. Finally in Sections D and E, we provide a review of models and approaches to improve transparency and accountability of public administration systems in the region and the
world, with an assessment of lessons for Viet Nam. In particular, we reviewed China’s model of accountability and rule of law as well as Singapore’s and S. Korea’s models of SOE governance.

In Chapter III, we provide an overview of the strengths and weaknesses of recent initiatives to reform public administration at different levels. We also provide an assessment of implications for planning and implementing reforms over the next decade. We then examined a number of strategic, interrelated issues such as industrial policy and macroeconomic governance, SOE reform, privatization, decentralization, productivity, and public-private partnerships. Finally, we present the result of the survey of some 500 civil servants from various ministries and local governments throughout Vietnam.

In Chapter IV, using our analyses in Chapters II and III, we outline a set of key recommendations to improve public administration, management and governance in Vietnam to support the implementation of the approved SEDS 2011-2020.
Chapter II. MODELS OF PUBLIC ADMINISTRATION, MANAGEMENT AND GOVERNANCE

The aim of this chapter is to provide a conceptual and comparative understanding of various models of public administration, management and governance, their strengths and weaknesses, links to stages of development and types of state and government. It consists of five sections. Section A briefly explains and illustrates with examples about the concepts of public administration, management and governance and their importance to economic development. We also explain the concept of efficiency, its various types and root causes, and finally provide a conceptual framework to understand effectiveness.

In Section B, we briefly show how the concept of governance and institutions evolved along with the evolution of development thought since the 1950s. We also step back some 400 years ago to show how market institutions in OECD economies evolved to illustrate the challenges of building institutions and why it is much easier now for Vietnam to learn from their experience. In Section C, we provide comparative models of public administration, management, and governance. We briefly explain their theoretical basis, provide examples where such models are applied, point to the criticism of the model and outline their practical implications. In particular, we cover the following models: 1) patronage based public administration; 2) traditional models based on Weberian model of a rational/legal bureaucracy and the Wilson model with strict separation of politics and administration; 3) New Public Management model using economics and business principles 4) East Asian model where the State is embedded with but autonomous from business interests. In Section D, we examine China’s model of accountability and rule of law because China and Vietnam share a similar institutional tradition. In the final Section E, we explore the Singapore’s and S. Korea’s models of SOE governance.

A. What is Public Administration, Management and Governance?

1. Public Administration

Public administration refers to: (i) the aggregate machinery (policies, rules, procedures, systems, organizational structures, personnel, etc.) funded by the state budget and under the management and direction of the executive branch of government; and (ii) the management and implementation of the whole set of government activities related to the implementation of laws, regulations and decisions of the government, as well as the management of the provision of public services. Public administration is also very comprehensive and includes process changes in areas such as the structure of organizations, decentralization, personnel management, public finances, results-based management, regulatory reforms, etc. It can also refer to targeted reforms such as the revision of the civil service statute and transparency in the public sector.

Essentially, the term administration means to carry out, follow or implement instructions. Public administration therefore refers to the implementation of public policies decided
by policy makers. Public administrators are not concerned with policy and strategy formulation but are rather concerned with operational or administrative matters. The focus of administrators is on the internal context of public bureaucracies - their systems, structure, procedures, and personnel, among others.

2. Public Management

Management – in the sense used in business management – essentially means achieving outcomes. There are three functions of management, namely: strategy (establishing objectives, priorities and operational plans); internal management (organizing and staffing, directing personnel and personnel management systems, and controlling performance); and managing external context (dealing with stakeholders, competitors, etc.). The theoretical foundations of public management, therefore, derive from economics (agency theory, contract theory) and business. In practice, public management refers to a category of public sector reforms known as New Public Management, which signals a departure from traditional models of public administration. We further elaborate on this in Section C with the New Public Management model.

3. Public Governance

While public administration and management refer to public bureaucracies as their units of analysis, governance refers to a broader process of how authority is exercised by a wide range of actors (government, markets, civil society, citizens) in order to achieve socially desirable objectives. In this sense, governance is more than just government. Government effectiveness is just one of the features of good governance.

There is broad consensus among social scientists and development actors on the significance of governance in development. Since early 1990s, the concept of governance has gained importance in developing countries and among the international development agencies. A large body of academic literature has already been built to show the importance of governance and institutions in the determination of long run economic performance. Theoretical foundation of governance and economic growth could be found in the literature of the New Institutional Economics and the new endogenous theory of growth. The former suggests that effective institutions can make a difference in the success of market reforms, and that institutions constitute one of the determining factors of economic growth in the long run. An effective and market-enhancing state institution would create a favorable environment for capital accumulation and growth, while defective institutions would create a market for nonproductive activities such as rent seeking and corruption, which in turn generate high transaction costs that handicap economic efficiencies.

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2 Theoretical work includes the New Institutional Economics and the new endogenous theory of growth. Empirical work includes cross-sectional studies of growth, which seek to establish a relation between governance or quality of institutions and economic growth.
In an effort to measure the quality of governance, the WB has developed a set of six governance indicators. It starts with a measurable definition of governance as “the traditions and institutions in which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kaufmann, Kraay, and Mastruzzi, 2010). Two indicators correspond to each of these three areas. Measurement of these indicators is elaborated in Table 1 below.

As pointed out by Kaufmann, Kraay, and Mastruzzi (2010), these six indicators are compiled from several hundred variables obtained from 31 different data sources, capturing governance perceptions as reported by survey respondents, nongovernmental organizations, commercial business information providers, and public sector organizations worldwide. So far, the World Bank has constructed these six governance indicators for 213 economies over the period 1996–2009; these data have been widely used by scholars and policy makers for research and monitoring of governance quality across nations.

Table 1: Capital expenditure of the Central Government Budget (% of GDP)

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<tr>
<th>Governance Area</th>
<th>Governance Indicator</th>
<th>Measurement</th>
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<tr>
<td>(a) The process by which governments are selected, monitored, and replaced</td>
<td>1. Voice and Accountability (VA)</td>
<td>Perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.</td>
</tr>
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<td></td>
<td>2. Political Stability and Absence of Violence (PV)</td>
<td>Perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.</td>
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<tr>
<td>(b) The capacity of the government to effectively formulate and implement sound policies</td>
<td>3. Government Effectiveness (GE)</td>
<td>Perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.</td>
</tr>
<tr>
<td></td>
<td>4. Regulatory Quality (RQ)</td>
<td>Perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.</td>
</tr>
<tr>
<td>(c) The respect of citizens and the state for the institutions that govern economic and social interactions among them</td>
<td>5. Rule of Law (RL)</td>
<td>Perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.</td>
</tr>
<tr>
<td></td>
<td>6. Control of Corruption (CC)</td>
<td>Perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.</td>
</tr>
</tbody>
</table>

Source: Kaufmann, Kraay, and Mastruzzi (2010)
4. What Explains Inefficiencies of Public Bureaucracies?

In this section, we provide a theoretical framework to understand the different types of inefficiencies common among public bureaucracies and the reasons for their persistence. There are essentially four types of inefficiencies in the public sector compared with the private sector: allocative inefficiencies; X-inefficiencies; dynamic inefficiencies and inefficiencies arising from inflexibility of the bureaucracy. To improve the efficiency of public administration in Vietnam, it is important to have a good understanding of these types and sources of inefficiencies. Figure 1 summarizes the types of inefficiencies and their root causes. We discuss each of these in the following section.

**Figure 1: Types and sources of inefficiencies in public bureaucracies**

<table>
<thead>
<tr>
<th>Inefficiencies</th>
<th>Root Causes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocative inefficiencies</td>
<td>Difficulty Valuing Outputs</td>
</tr>
<tr>
<td>X-inefficiencies</td>
<td>Limited Competition / non-bankruptcy</td>
</tr>
<tr>
<td>Dynamic inefficiencies</td>
<td>Rigidities / Civil service constraints</td>
</tr>
<tr>
<td>Inefficiencies from inflexibility</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Weimer and Vining (2004)

4.1 Allocative inefficiencies

Allocative inefficiencies mean that resources are not allocated to their best use. There are two reasons for this. First, it is difficult to value the outputs of public bureaucracies compared with the maximization of profit or shareholder value in the private sector. The outputs of ministries, schools, police, defense and other public agencies are difficult to measure and value. It is also difficult to assess the tradeoffs among multiple and conflicting goals among different agencies. As a result, it is difficult to determine the optimal size of a public bureaucracy, and consequently this leads to the inefficient allocation of resources.

The second reason for allocative inefficiency is the problem of agency loss, which is the cost of undesirable behavior of agents plus the cost to monitor and control such bad behavior. This problem arises because the interests of the principal (political leader for
example) are not aligned with the interests of the agents (for example bureaucrats). Agents maximize their self-interest (for example engaging in corruption or engaging in private business while receiving public salary), which harms the interest of the principal they are supposed to serve. Instead of allocating to more efficient and beneficial uses, scarce resources are used to control bad behavior of agents.

4.2 Dynamic inefficiency

Dynamic inefficiency refers to the failure of bureaucrats to be as innovative as the private sector. The reason for this is that public bureaucracies are natural monopolies, which are faced with limited competition. Compared with the private sector, there is little incentive to innovate in government because there are no competitors to imitate; bureaucrats are not able to capture full benefits of innovation; they cannot borrow funds for start up costs; civil service rules make it difficult to get specialized expertise; and bureaucracies are not faced with credible threat of bankruptcy. Because of these perverse incentives, bureaucrats have less incentive to innovate compared with entrepreneurs in the private sector.

4.3 Inefficiencies due to inflexibility

Bureaucracies tend to be rigid and inflexible. There are three reasons for this. First, there is too much red tape because bureaucrats tend to be risk averse compared to risk takers in the private sector. Second is the difficulty of firing incompetent staff for political reasons. Third is having fixed salary schedules (compared with the flexible systems in the private sector), a problem that leads to the under-rewarding of the most productive staff (and the resulting loss of that staff to the private sector) and the over-rewarding the least productive staff (and the resulting problem of a large number of underperformers and baggage in government who cannot be employed in the private sector).

4.4 Inefficiencies from production externalities

Public agencies often do not see the full social marginal costs of what they do (regulation) and as a result this leads to the oversupply negative externalities. For example, regulatory/ tax compliance costs, excessive waiting time for monopoly bureaus, and high cost of doing business. Table 2 below summarizes the types, sources and solutions to inefficiencies of public bureaucracies.
Table 2: Summary of the types, sources and solutions to inefficiencies of public bureaucracies

<table>
<thead>
<tr>
<th>Type/ Sources of inefficiencies</th>
<th>Solutions: principles and practices</th>
</tr>
</thead>
</table>
| Allocative inefficiencies due to difficulty of valuing outputs in public sector | • Emphasis on performance measurement  
• Tying budgets to measurable outputs and outcomes  
• Benchmarking  
• Result orientation and accountability  
• Giving citizens competitive choice or customer quality assurance  
• Shift from inputs/process to outputs/outcomes  
• Focus on value for money; cost effectiveness  
• Reduction of government functions through privatization, market testing, contracting, options review |
| Dynamic inefficiency to monopoly characteristics of government | • Performance contracts  
• Separation of “steering” from “rowing”, provision from production |
| Inefficiencies due to inflexibility: red tape due to risk aversion; difficulty of firing staff; inflexible salary schedules | • Regulate only when necessary  
• Use alternatives to direct regulations wherever applicable  
• Simplify regulations whenever possible  
• Greater flexibility  
• Specialized, lean, flat, autonomous units  
• Flexible performance contracts  
• Flexible personnel management systems |
| Inefficiencies from production externalities Bureaucrats don’t see the full social cost of regulation leading to an (oversupply of negative externalities) | • Use incentives and information as a first order solution rather than regulation  
• Apply regulatory impact analysis (RIA) on the costs and benefits of government regulation  
• Apply sunset provisions to regulations (regulations should be regularly reviewed) |

4.5 *What explains ineffectiveness in public bureaucracies?*

In management, effectiveness means “getting the right things done”. In public administration, effectiveness means ensuring that the output produced by a public agency leads to an outcome that is desired and valued by the public. The relationship between effectiveness and efficiency is illustrated in Figure 2 below.

Figure 2: The concept of effectiveness in public administration
From this framework, the ineffectiveness of a public bureaucracy is due to a focus on economizing (focus on the relationship between cost and inputs), or a focus on technical and economic efficiency (relationship between inputs and outputs). Public bureaucracies therefore become ineffective if they focus too much on the costs, inputs and process but not the desired outcomes. From this framework, a key goal of public administration and management reform is to achieve value for money or cost effectiveness, that is, producing publicly valued outcomes at the most cost effective manner. In Vietnam, value for money or cost effectiveness as criteria for investment decision-making is still a relatively new concept and is not yet widely adopted in the public sector.

B. Evolution of Development Thought: Why and How Governance Matters

1. Development Thought since the 1950s

To better appreciate why and how public administration, management and governance matter for economic development, it is important to step back and look at the evolution of development thought since the 1950s (Figure 3). This historical framework would be helpful for Vietnam’s leaders in thinking about strategies for governance reforms at its different stages of development and considering the possibility of pole vaulting or leapfrogging as a strategy for reform.

Figure 3: The evolution of development thought and the importance of governance

In the last 60 years, the goals of development have evolved from a focus on GDP (1950s-60s), Human Development Index (1980s), poverty alleviation (including the Millennium Development Goals) to the current focus on sustainable development (balanced and stable, equitable and environmentally sustainable growth). Among OECD countries, there is now an on-going debate to focus efforts on “happiness” as a goal of development.

Macroeconomic theory has also evolved from Harrod-Domar model (accumulation of labor and capital), to Solow’s sources of growth (productivity) to new growth theories (creativity and knowledge driven economy). Models of capital accumulation have shifted from physical, financial to social capital accumulation. Theories of state and market has also involved from the traditional market failures and government failures to new market failures and institutional failures. Theories on government intervention have also evolved from emphasis on programming and planning, to minimalist government to the current thinking of complementarity between government and markets (exemplified through public private partnerships). Finally, proposals for policy reform have also evolved from getting prices and policies right to getting institutions right.

Overall, the general direction of development thought in Vietnam appears to follow the historical trend from other countries. For example, the recent Decision 11 (2011) to moderate growth and stabilize the macro economy is compatible with sustainable development. Efforts to strengthen the regulatory framework for public private partnerships (Decision 7, 2011) are a step in the right direction in strengthening complementarity between state and market. Ongoing efforts to review the law on government, efforts to build a system of accountability based on rule of law, efforts to invest in infrastructure and human capital, modernization of bureaucracy, judicial and public administration reforms are just some of the on-going and protracted efforts in Vietnam to get its institutions right.

Vietnam, of course, is still at its infancy stage of institutional reform and will take more years and lots of political will to eventually get its institutions right and achieve a middle income status and sustain its progress. For now, there are two main challenges: getting the institutional fundamentals right and how to embed or institutionalize these reforms throughout Vietnam. In the next section, we explore the evolution of institutional reforms in OECD countries and draw lessons for Vietnam.

2. Evolution of Institutional Reforms in OECD Countries

Building governance institutions is not an easy task and will take time and patience. As the experience of OECD countries would show, it took many of them decades, some centuries, to build their institutions after these were first invented in other countries (Table 3) and many more years to fine tune them in their context. Poor transportation and communication and domestic politics certainly prevented faster institutional diffusion in these countries. However, in the case of Vietnam, institution building should be a lot faster for it can easily learn from the experience of other developed countries. Political conditions in Vietnam also make it easier to be more decisive and responsive to adopting and adapting institutions. Of these modern institutions of a market economy, Vietnam still lacks a modern bureaucracy and judiciary, as well as financial institutions and a robust stock market to support a market economy.
Table 3: Evolution of governance institutions in OECD countries

<table>
<thead>
<tr>
<th>Category</th>
<th>First Adoption</th>
<th>Majority Adoption</th>
<th>Last Adoption</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Democracy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male Suffrage</td>
<td>1848 (France)</td>
<td>1907</td>
<td>1925 (Japan)</td>
<td>1918</td>
<td>1870</td>
</tr>
<tr>
<td>Universal Suffrage</td>
<td>1907 (New Zealand)</td>
<td>1946</td>
<td>1971 (Switzerland)</td>
<td>1928</td>
<td>1965</td>
</tr>
<tr>
<td>Modern Bureaucracy</td>
<td>early 19th century (Prussia)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modern Judiciary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1930s</td>
</tr>
<tr>
<td><strong>Intellectual Property Rights</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patent Law</td>
<td>1474 (Venice)</td>
<td>1840s</td>
<td>1912 (Netherlands)</td>
<td>1623</td>
<td>1793</td>
</tr>
<tr>
<td>'Modern' Patent Law</td>
<td>1836 (USA)</td>
<td>1960s</td>
<td>1990s (Spain, Canada)</td>
<td>1852</td>
<td>1836</td>
</tr>
<tr>
<td>'Modern' Copyright Law</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1891 (1988)³</td>
</tr>
<tr>
<td>Trademark Law</td>
<td>1862 (UK)</td>
<td></td>
<td></td>
<td></td>
<td>1862</td>
</tr>
<tr>
<td><strong>Corporate Governance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generalized Limited Liability</td>
<td>1844 (Sweden)</td>
<td></td>
<td>1856 (1862)⁴</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bankruptcy Law</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>'Modern' Bankruptcy Law</td>
<td>1849</td>
<td></td>
<td></td>
<td></td>
<td>1898</td>
</tr>
<tr>
<td>'Modern' Auditing/ Disclosure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1948</td>
</tr>
<tr>
<td>Competition Law</td>
<td>1890 (USA)</td>
<td></td>
<td></td>
<td></td>
<td>1890</td>
</tr>
<tr>
<td>Effective Competition Law</td>
<td>1914 (USA)</td>
<td></td>
<td></td>
<td></td>
<td>1914</td>
</tr>
<tr>
<td><strong>Financial Institutions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>'Modern' Banking</td>
<td>mid-1920s (UK)</td>
<td></td>
<td></td>
<td></td>
<td>mid-1920s</td>
</tr>
<tr>
<td>Central Banking</td>
<td>1688 (Sweden)</td>
<td>1847</td>
<td>1913 (USA)</td>
<td>1694</td>
<td>1913</td>
</tr>
<tr>
<td>'Modern' Central Banking</td>
<td>1844 (UK)</td>
<td>1891</td>
<td>1929 (USA)</td>
<td>1844</td>
<td>1929</td>
</tr>
<tr>
<td>Securities Regulation</td>
<td>1679 (UK)</td>
<td></td>
<td></td>
<td>1679</td>
<td>mid-1800s</td>
</tr>
<tr>
<td>'Modern Securities Regulation'</td>
<td></td>
<td></td>
<td></td>
<td>1939</td>
<td>1933</td>
</tr>
<tr>
<td>Income Tax</td>
<td>1842 (UK)</td>
<td></td>
<td></td>
<td>1842</td>
<td>1913</td>
</tr>
<tr>
<td><strong>Social Welfare and Labor</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Accident Insurance</td>
<td>1871 (Germany)</td>
<td>1898</td>
<td>1930 (USA, Canada)</td>
<td>1897</td>
<td>1930</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>1883 (Germany)</td>
<td>1911</td>
<td>Still absent in the USA</td>
<td>1911</td>
<td>Still absent</td>
</tr>
<tr>
<td>State Pension</td>
<td>1889 (Germany)</td>
<td>1909</td>
<td>1946 (Switzerland)</td>
<td>1908</td>
<td>1946</td>
</tr>
</tbody>
</table>
C. Models of Public Administration, Management and Governance

In this section, we discuss several models of public administration and governance. In particular, we cover the following models: 1) patronage based public administration; 2) traditional models based on Weberian model of a rational/legal bureaucracy and the Wilson model with strict separation of politics and administration; 3) New Public Management model using economics and business principles; and 4) East Asia model where the state is embedded with but autonomous from business interests and the model of a developmental state highly capable of planning and implementing an effective industrial policy. In Chapter III, we refer back to these models in our analyses of Vietnam's case.

1. Patronage Based Public Administration

In a patronage-based system of public administration, the focus is on personal, private interests rather than the common good. Government posts are handed out on the basis of loyalty and patronage to the appointing authority. There are buyers and sellers of public posts. The basis of authority is the individual rather than the rule of law. There is no specific expertise involved in public administration. Official state business is discharged as a secondary activity. There is little distinction between public and
private spheres of activities. Public administration was based on personal ties - loyalty to a relative, patron, leader or party – and not to the system itself. Official actions are often inconsistent and arbitrary because they are not founded on a rational/legal basis. In this system of administration, public officials “try to make hay while the sun shines” – trying to help themselves, their families and kin while they are still in power.

This model of public administration remains prevalent in many developing countries today. In ancient times, the Greek, Roman, Spanish, Mogul Empires were all modeled as systems of patronage. In the former Soviet Union, this model was widely prevalent during the time of Stalin. In China, this model was prevalent during the time of Chairman Mao Tse Tung.

In the early days of the former Soviet Union, Lenin strongly criticized this patronage system of public administration. He expressed deep concerns on the concentration of power and ensuing corruption, the poor quality of bureaucrats, bureaucratic inefficiencies, the ineffectiveness of bureaucracies to get things done. For example, Lenin writes that “Comrade Stalin having become General Secretary has concentrated enormous power in his hands, and I am not sure that he always knows how to use that power with sufficient caution.”

2. Traditional Model of Public Administration: Rational, Legal and Separated

*In framing a government to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself.* - James Madison, Federalist No. 51 (1788)

Traditional models of public administration – from the experience of Anglo Saxon economies - have their roots based on the thoughts of Max Weber and Woodrow Wilson. Weber, the great German sociologist, has argued that the most efficient form of authority is one that is rational and legal as opposed to the charismatic (the appeal of an extra ordinary leader) and the traditional (such as the authority of the tribal chief). The general aim of a modern bureaucracy is certainty, impersonality and efficiency. Based on this argument, Weber proposed six principles of a modern bureaucracy, namely:

- The principle of fixed and official jurisdictional areas, which are generally ordered by rules, that is, by laws or administrative regulations.
- The principles of office hierarchy and of levels of graded authority mean a firmly ordered system of super and sub-ordination in which there is a supervision of the lower offices by the higher ones. This is assumed to be the best way to administer.
- The management of the modern office is based upon written documents, which are preserved. In general, bureaucracy segregates official activity as something distinct from the sphere of private life. Public monies and equipment are divorced from the private property of the official. Public administration is impersonal.
- Office management presupposes thorough and expert training through a process of rigorous system of examination. Career in the bureaucracy is prestigious and predictable. Bureaucrats are assumed to serve only the public interest.
When the office is fully developed, official activity demands the full working capacity of the official.

The management of the office follows general rules which are more or less stable and exhaustive and which can be learned.

In addition to Weber’s principles of a public administration based on a rational and legal basis, another principle was proposed by Woodrow Wilson - a professor and former President of the United States. Wilson has argued for the **strict separation of politics and administration** - of separating policy from the strictly administrative task of implementation. He believed that corruption will persist as long as politics is not separated from administration. The parliamentary form of government is one example of the separation of policy from administration.

**Application and limitations of the model**

The traditional model of public administration was widely applied during the industrial revolution in the late 19th century in Prussia, France, UK and later on to the United States and India. During this era, the traditional model was deemed an outstanding success and has been widely copied around the world. Compared with patronage models of public administration, which was rife with corruption, the traditional model was recognized as more efficient. The notion of a professional service was a great improvement on a personal and amateur one.

**Lenin’s critique of bureaucracy**

Lenin expressed considerable criticism on the maladies of the bureaucratization of the Soviet state apparatus. It is therefore useful for Vietnam’s leaders to reflect on these issues. Lenin emphasized repeatedly the dangers to the State and Party arising out of the pressures of backwardness and bureaucracy. During the 11th Party Congress, he blasted the Soviet bureaucracy in no uncertain terms:

“Our state apparatus is so deplorable, not to say wretched, that we must first think very carefully how to combat its defects, bearing in mind that these defects are rooted in the past, which, although it has been overthrown, has not yet been overcome, not yet reached the stage of a culture that has receded into the past.” (Works, vol. 33, page 487)

“If we take Moscow,” he said, “with its 4,700 Communists in responsible positions, and if we take the huge bureaucratic machine, that gigantic heap, we must ask: who is directing whom? I doubt very much whether it can be truthfully said that the Communists are directing that heap. To tell the truth, they are not directing, they are being directed.” (Works, vol. 33, page 288, our emphasis is italic).

Commenting on the direction of the State, Lenin warned: “Well, we have lived through a year, the state is in our hands, but has it operated the New Economic Policy in the way we wanted in the past year? No. But we refuse to admit that it did not operate in
the way we wanted. How did it operate? The machine refused to obey the hand that guided it. It was like a car that was going not in the direction the driver desired but in the direction someone else desired; as if it were being driven by some mysterious, lawless hand, God knows whose, perhaps of a profiteer, or of a private capitalist, or of both. Be that as it may, the car is not going quite in the direction the man at the wheel imagines, and often it goes in an altogether different direction.” (Works, vol. 33, page 179, our emphasis is italic).

Contemporary critique of the traditional model

Today, the theoretical pillars of public administration are considered to be inadequate to analyze current realities of government. For example, the theory of political control (separation of politics from administration) was often problematic in practice. The theory of bureaucracy is no longer the single best way of organizing government. Its limitations – concentration of power, reduction of freedom, focus on inputs and process, usurpation of political will – have been regarded as worse than its desirable features. Rigid methods of organizational control – developed at a time to control power and defeat political opponents – are no longer viable at a time when information flow is impossible to control and at a time when flexibility and adaptability are needed to survive in a hyper competitive and rapidly changing world. The assumption that public servants were automatons or unthinking individuals responding to simple stimuli, who cannot be trusted with the scope or responsibility to make decisions and for whom every conceivable contingency must be set out in operating manuals, is no longer valid today due to generally high levels of literacy of the civil. Today, this assumption of formal systems of hierarchy is no longer regarded as working very well in the private and public sectors (Hughes, 2003).

Summary

In summary, traditional models of public administration have been criticized on the following grounds (Box 1). Many of these criticisms are applicable to Vietnam. Because of the limitations of traditional models of public administration, a more flexible model - New Public Management – has been proposed as alternative, beginning in the mid 1980s going through the 1990s and early 2000s.

Box 1: Criticisms of traditional model of bureaucracy

- Bureaucrats, politicians maximize self-interest at expense of public interest;
- Traditional model does not have the same set of incentives and rewards like the market;
- It restricts freedom of choice;
- It is unresponsive to diverse demands;
- It imposes high social costs on beneficiaries;
- It is increasingly error prone and uncontrollable;
- Public / private groups engage in rent seeking.
3. **New Public Management (NPM) Model: Economics and Business Approach to Administration**

The problems of traditional public administration became manifest in the 1980s and 1990s due to a confluence of events: 1) the collapse of command-and-control economies in the former Soviet Union/ Central/ Eastern Europe; 2) the fiscal crisis of the welfare state in most of the established industrial countries; 3) the important role of the state in the “miracle” economies of East Asia; 4) the failed states and the explosion in humanitarian emergencies in several parts of the world.

The criticisms of the traditional model prompted a search for alternative models in the 1990s. NPM is based on the premise that markets are more efficient and effective compared with bureaucracies in the provision and production of public goods. Markets encourage competition, consumer sovereignty and choice which provide incentives to lower costs and be responsive to citizen preferences which are absent in the bureaucratic model of organization. Vincent Ostrom is one of the key theorists of the New Public Management (NPM) model of public administration.

NPM is based on two key principles. First, it is market based – derived from economics – using such theories as public choice, principal agent theory and transaction cost theory. Second, it aims to move away from bureaucracy as an organizing principle and employ principles of business management. In the 1990s, these two key principles were further elaborated into 10 principles of NPM (Box 2).

**Box 2: The 10 principles of New Public Management**

- **Principle 1:** Steering rather rowing – government should focus on policy making and strategic goal setting
- **Principle 2:** Empowering rather serving - government should not just deliver services but instead empower people to solve problems themselves
- **Principle 3:** Injecting competition into service delivery - competition leads to a more efficient delivery of services
- **Principle 4:** From rule-driven to mission - driven organizations
- **Principle 5:** Results-oriented government - funding outcome, not inputs
- **Principle 6:** Customer-driven government - meeting the needs of the customer, not the bureaucracy
- **Principle 7:** Enterprising government - earning rather than spending
- **Principle 8:** Anticipatory government - prevention rather than cure
- **Principle 9:** Decentralized government - from hierarchy to participation and teamwork
- **Principle 10:** Market-oriented government - leveraging change through the market
To operationalize the 10 principles of NPM, five strategies have been proposed: core strategy, consequences strategy, customer strategy, control strategy and culture strategy along with 14 approaches (Figure 4). Core strategy seeks to improve the aim of government (defining the appropriate role of government); clearing the decks (privatizing functions better undertaken by the private sector or decentralizing functions to local governments); and uncoupling (separating steering or policy making from rowing or administration). Consequences strategy makes use of markets, contracts, benchmarks and performance management to improve accountability. Customer strategy focuses on giving customers’ choices or providing customer quality assurance. Control strategy employs organizational, employee and community empowerment. Culture strategy aims to change habits, touch hearts and win minds.

**Figure 4: Strategies for reinventing government**

![Diagram showing strategies for reinventing government](Image)

**Source:** Osborne and Gaebler (1998)

**Application, advantages and limitations of NPM**

Principles of NPM have been widely applied among OECD countries since the late 1980s and 1990s in New Zealand, Australia, Sweden, UK, Singapore, US as well as among emerging economies such as China, India, Philippines, Thailand, and Malaysia although in varying degrees of efficacy.

NPM as an approach to public administration reform in developing countries has a number of benefits: 1) the value of consistent, comprehensive conceptual model (institutional economics); 2) the importance of clear performance definition; 3) focusing on what government does best; 4) focus on fundamental causes not symptoms; 5) providing consistency in design and implementation; 6) addressing all aspects/ levels of public management; 7) providing a guide to the sequencing and implementation of reforms; 8) aids in the marketing of reforms to the public/government; and 9) reform is more likely to be successful if based on analytically rigorous conceptual model.
For NPM to succeed, it requires a certain kind of institutional foundation: 1) a politically neutral, competent civil service; 2) minimal corruption; 3) consistent/well enforced legal code/contract law; 4) a well functioning political market; and 5) a competent (but suppressed) private sector.

In developing countries, NPM can be risky because formal markets and rule of law/regulatory framework are not well functioning but are instead dominated by informal markets and regulatory frameworks.

4. East Asia Model: Embedded Autonomy

The central idea in the East Asia model – referring to S. Korea, Japan, and Taiwan – is that the state and business should work closely with each other to accelerate economic development, create positive externalities and compete with other countries. The assumption behind this model – articulated by Stiglitz (2010) - is that industrial policy does work when the right technologies and industries are supported and when appropriate combinations of policy measures are implemented.

To make this happen, the state has to be embedded (or working very closely) with business in order to be effective but it should be autonomous enough to be able to discipline business interests and avoid being captured. This model differs from the idea of having a firewall separating government from business interests. The central idea is that in today’s globally competitive context, government and business should be on the same team competing not against each other but against other countries.

The three key assumptions in this model are as follows: 1) there is a strong, sophisticated and organized business sector in the country (like the zaibatsu of Japan, chaebols of S. Korea and electronic firms in Taiwan) which can help the government identify industry champions; 2) the government is highly capable of working with business groups as a team – identify industry champions, provide start up subsidies, able to discipline business and SOEs interests, has a keen strategic view of competition from other industries and countries, and strong capacity for implementation; and 3) there is strong rule of law/regulatory framework to guide and discipline industries to contribute to national objectives.

Singapore Model: Good Men/Women for Good Government

A variant of the East Asia model is that of Singapore model articulated by Lee Kuan Yew (1994) who argued for a different philosophy of governance compared with conventional western models. Western models - articulated by one of the founding fathers of the United States, Alexander Hamilton - suggest that you can have good governance if you have proper separation of powers, of checks and balances, even if weak or not so good men win elections and take charge of government.

In contrast, Lee Kuan Yew (1994) was of the view that “to get good government, you must first have good men in charge of government.” For Lee Kuan Yew, the central question is “how do you create institutions that would continuously produce leaders with character who will serve the public interest?”
In practical terms, this means building an elite cadre of civil servants – highly educated, well paid, professional technocrats who will implement and also help shape policies determined by political leaders. In a sense, this model brings together key ideas from Weber (rational/ legal administration), Wilson (separation of politics from administration), Confucius (importance of scholarship and virtuous public officials), and business (systematically identify, train, promote, pay, retire talent by paying top compensation and applying competition and use of incentives) and apply them to public administration.

5. Summary of Models, Links to Development, Type of State and Strengths/Weaknesses

In this section we summarize the four models of public administration, management and governance that we discussed previously and show their links to different stages of economic development and types of state (Table 4). We then summarize their strengths and weaknesses.

Table 4: Summary of models, links to development/ type of state and strengths/ weaknesses

<table>
<thead>
<tr>
<th>Models, objectives and conditions</th>
<th>Link to stage of development/ development model/ type of state</th>
<th>Strengths and weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Patronage model</strong>&lt;br&gt;Objective is to preserve power of the ruling elites through a system of patronage</td>
<td>Agrarian societies/ plantation economies/ transition/ low income economies Tribal, colonial and post colonial/ martial law states</td>
<td>Strength: Effective means of political control Weaknesses: Inefficient, endemic corruption, inherently unstable; prone to error; unable to solve problem of succession</td>
</tr>
<tr>
<td><strong>Traditional model</strong>&lt;br&gt;Objective is to develop a rational-legal approach to administration as the means to build an industrial society Separation of administration from politics</td>
<td>Pre-industrial and early industrial stage of development/ transition/ emerging economies Particularly applicable to developmental state model</td>
<td>Strength: More efficient, effective and stable compared to patronage model Weaknesses: Also suffers from allocative and dynamic inefficiencies due to a command and control orientation</td>
</tr>
<tr>
<td><strong>New Public Management model</strong>&lt;br&gt;Objective is to improve efficiency and effectiveness of public sector by applying economics and business principles to public administration</td>
<td>Mature/ emerging market economies Political systems governed by a strong rule of law/ effective government and a strong (but suppressed) private sector</td>
<td>Strength: More efficient than a command and control model because it relies on incentives. Some elements of NPM – contracting, user fees, benchmarking, performance management, customer focus, clarifying role of government – are useful for transition economies. Weaknesses: Some elements – i.e. contracting, privatization – require strong rule of law, capable government, and strong private sector.</td>
</tr>
<tr>
<td><strong>East Asia model</strong>&lt;br&gt;Objective is to embed the state with conglomerates to compete with other countries but at the same time avoid being captured by business interests</td>
<td>Pre-take off stage of economic development (S. Korea, Taiwan, Singapore)/ Developmental state model with industrial policy/ capable bureaucracy working with strong conglomerates</td>
<td>Strength: Government and business are on the same team competing with other countries. Weaknesses: Risk of state capture if rule of law is weak and government is not capable to discipline business interests and control corruption</td>
</tr>
</tbody>
</table>
D. China’s Model of Accountability and Rule of Law

In this section, we summarize China’s model of accountability and rule of law including its laws and regulations to control corruption. From this analysis, we draw the following implications for Vietnam.

1. Summary of Implications for Vietnam

   - The rule of law is the foundation of a robust and sustainable market economy, including a socialist market economy.

   - Political reforms - such as accountability, democratic governance, transparency, rule of law - should follow economic reforms due to the rising expectations of an educated middle class and the need to sustain the foundations of a market economy.

   - The legitimacy and survival of the ruling party have to be earned and kept in a socialist market economy. Legitimacy hinges on three things, among others: 1) the integrity of the ruling party (i.e. ability to control corruption); and 2) the ability of the government to sustain growth and provide employment (as a function of the rule of law); and 3) the ability of the state to administer justice.

   - Accountability is possible in a one-party state following the principles of reasonable structure, scientific distribution of checks and balances, rigorous procedures and effective restraint. These principles are applied to a power structure and enforcement mechanism featuring both restraint and coordination within the ruling party, and with and among the legislative, executive, judicial and political branches of government, including having a role for public supervision.

   - A developmental state should promote the helping hand of the government through a capable bureaucracy and effectively constrain the grabbing hand through an effective rule of law.

2. China’s Model of Accountability

In the last decade or so, China has been gradually establishing a power structure and enforcement mechanisms featuring both restraint and coordination within the Communist Party of China (CPC), and with and among the legislative, executive, judicial and political branches of government, including providing a role for public supervision. The evolving power structure is based on the principles of reasonable structure, scientific distribution of checks and balances, rigorous procedures and effective restraint (Figure 5). In short, China is developing a system of checks and balances with characteristics unique to a socialist market economy.

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3 This section draws mainly from the White paper on Corruption Control in China released by the Information Bureau of the State Council, December 2010. It also draws mainly from the White paper on Democracy in China, 2005. Both were quoted verbatim to ensure fidelity to their original versions.

This system of checks and balances consists of intra-Party supervision in the CPC, supervision by the National People’s Congress and the local people’s congresses, supervision within the governments, and democratic supervision by the Chinese People’s Political Consultative Conference National Committee and local people’s political consultative conferences (CPPCCs), judicial supervision, supervision by the general public and supervision by public opinion through the media. These relatively independent supervision mechanisms collaborate closely with one another to form an integrated force.

**Figure 5: Mechanisms for accountability in China**

- Judicial Supervision
- Supervision by general public
- Supervision by public opinion (through the media)
- Chinese People’s Political Consultative Conference
- Government Supervision
- Supervision by National and Local People’s Congress
- Intraparty Supervision at the CPC

**Source:** White paper on Corruption Control in China released by the Information Office of the State Council, December 2010.

3. **Rule of Law Reforms**

Rule of law reforms in China are intended to ensure credibility and fairness of the system. These reforms include 1) strengthening the constitutional separation and independence of judicial and procuratorial organs; 2) reform of procuratorial organs; and 3) reform in judicial practices such as open trials, people’s jurors, people’s supervisors, defining the rights and obligations of lawyers, strengthening of legal assistance and mediation. Each of these reforms is discussed below.

3.1 **Separation of judicial and procuratorial organs**

The Chinese constitution guarantees the independence and requires the separation of judicial and procuratorial organs under the people’s congresses. These organs are not subject to interference by any administrative organ, public organization or individual.
3.2 Reform of procuratorial organs

China has established the Supreme People’s Procuratorate and the people’s procuratorates at various local levels, as well as military procuratorates and other special people’s procuratorates. By the end of 2004, there were 3,630 people’s procuratorates at various levels, with 140,077 procurators. In recent years, the procuratorial organs have made public their operations, adopted the system of notifying litigants of their rights and obligations, adopting a system of public review of non-prosecution cases, criminal appeals and civil administrative counter-appeals, and a working mechanism that guarantees that lawyers perform in accordance with the law in handling criminal lawsuits, in an effort to ensure judicial justice.

As a result of these reforms, in 2004, procuratorial organs turned down requests for arrest warrants in 68,676 cases, reversed prosecution decisions in 26,994 cases, corrected 2,699 cases that had been improperly placed on file by investigation organs, allowed appeals in 3,063 criminal cases and 13,218 civil administrative judgments, demanded retrials in 4,333 cases, placed 5,569 criminal appeal cases on file for re-investigation, and changed 786 original decisions.

3.3 Reform in judicial practices

Chinese judicial practice abides, both in institutional and procedural terms, by the principle that everyone is equal and that the punishment must be made to fit the crime. The systems of trial by levels, challenge, open trial, people’s jurors, people’s supervisors, lawyers, legal assistance and people’s mediation have been introduced to safeguard judicial justice, and guarantee the democratic rights of the people and the legitimate rights and interests of citizens.

3.3.1 System of open trial

The system of open trial is prescribed in the Chinese Constitution. In recent years, the Supreme People’s Court requires courts at all levels to try cases openly, with evidence openly submitted, question the witness openly, and announce all judgments openly.

3.3.2 System of people’s jurors

In August 2004, China introduced reforms in its system of people’s jurors, which has been in place since 1949. The reforms define the scope of trials in which jurors could participate, as well as the qualifications and selection of jurors and their rights and obligations. People’s courts are now required to implement these reforms.

3.3.3 System of people’s supervisors

Since October 2003, the procuratorial organs have been experimenting with a system of people’s supervisors, which are now adopted in 86 percent of all procuratorates in China. People’s supervisors are selected at the recommendation of various organs, groups, institutions and enterprises, with such major duties as conducting independent
appraisals and submitting supervisory comments on cases the procuratorial organs
have directly placed on file for investigation but have later decided to withdraw or
halt the prosecution of, and in cases of refusal to submit to arrest. They can also
participate, upon invitation, in other law-enforcement examination activities organized
by the people’s procuratorates regarding crimes committed by civil servants, and
make suggestions and comments on violations of law and discipline discovered. By
the end of 2004, a total of 18,962 people’s supervisors had been selected, who had
supervised the conclusion of 3,341 cases.

3.3.4 Defining the rights and obligations of lawyers

In 1996, China adopted The Lawyers Law, which established the basic framework to
define the rights and obligations of lawyers in the course of judicial and administrative
procedures, and other social activities. By the end of 2004, there were 118,000 certified
lawyers and 11,691 law firms in China; the unitary state law firms had been replaced by
the coexistence of a multiple variety of law firms, including partnership law firms, state
law firms and cooperative law firms, with the partnership law firms accounting for 68.6
percent of the total. In addition, 148 foreign law firms from 17 countries had been allowed
to establish offices operating within the boundaries of China, and the Hong Kong Special
Administrative Region had established 48 law offices on the mainland of China. In 2004,
lawyers throughout the country handled over 1.5 million lawsuits and more than 800,000
non-lawsuit cases. The establishment and improvement of the system of lawyers enable
the lawyers to make use of legal means to protect the rights and interests of the litigants,
and ensure correct application of law and social fairness and justice.

3.3.5 Strengthening of legal assistance

In 1994, China launched a legal assistance program based on the principle that legal
assistance is a key to guarantee the legitimate rights and interests of the disadvantaged
groups and achieve judicial justice. In 2003, it introduced The Regulations on Legal
Assistance, which set the basic framework for legal assistance in China. Government
budget for legal assistance, from all levels of government, have increased by 212
percent annually since 1999.

As of the end of 2004, some 3,023 government-sponsored legal assistance organs had
been set up across the country, including 2,628 at county and district level. Nationwide,
some 10,458 persons are designated to provide legal assistance, of whom 4,768 are
professional lawyers. Over the past decade, legal assistance organizations throughout
China have organized lawyers, grassroots legal service workers and volunteers to
handle some 1.1 million legal assistance cases, providing such services to more than
1.6 million people.

3.3.6 Strengthening people’s mediation

China has encouraged the setting up of people’s mediation committees as an
institutional mechanism for resolution of civil disputes. China today has more than
a million people’s mediation committees manned by more than 6.6 million trained
people’s mediators who have provided mediation services to about 6 million civil disputes of various kinds, and the rate of success exceeded 95 percent.

4. Corruption Control

Within this framework of accountability, China has introduced or strengthened laws and regulations to control corruption. These laws and regulations cover a wide range of areas including regulations on the recruitment, appointment and training of leading party members; ensuring accountability of party leaders and government officials; discipline inspection and punishments for party cadres; rules on accepting gifts; regulations for officials of SOEs; supervisory functions of the people’s congresses; independence of the judicial organ from the procuratorial organ; laws on audit, administration, procurement; criminal laws and laws on criminal procedure; laws on transparency and protection of media in reporting corruption as well as laws to protect whistleblowers. The key features of these laws and regulations are summarized in Table 5 below.

Table 5: Anti-corruption laws and regulations in China

<table>
<thead>
<tr>
<th>REGULATIONS</th>
<th>DESCRIPTION/RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Interim Provisions on the Implementation of Accountability for Party and Government Leading Cadres</td>
<td>• Explicitly state that responsibility must be fixed for seven types of acts that incur heavy losses or produce baneful influences, including serious mistakes in decision making, dereliction of duty, and ineffective management and supervision.</td>
</tr>
<tr>
<td></td>
<td>• In 2009, some 7,036 leading cadres were held responsible for such acts.</td>
</tr>
<tr>
<td>• Guidelines for Deepening Reform of the Cadre and Personnel System</td>
<td>• Promote reform of the cadre and personnel system;</td>
</tr>
<tr>
<td>• Regulations on the Work of Selecting and Appointing Leading Party and Government Cadres</td>
<td>• Establish a scientific mechanism for selecting and appointing cadres as well as a management and monitoring mechanism, which aims to increase public trust in its selection and appointment processes.</td>
</tr>
<tr>
<td>• Supervisory Measures for the Selection and Appointment of Leading Party and Government Cadres</td>
<td>• CPC has drawn up a comprehensive plan for reforming the cadre and personnel system, made rigorous stipulations regarding basic principles, standards, procedures and methods for the selection and appointment of cadres, and tightened supervision over the work of cadre selection and appointment; overall the accountability and monitoring system has been improved.</td>
</tr>
<tr>
<td>• Accountability Measures for the Selection and Appointment of Leading Party and Government Cadres</td>
<td>• Promote education and develop a culture of integrity in the public service, businesses and schools</td>
</tr>
<tr>
<td>• Regulations for Cadre Education and Training</td>
<td>• Appointees are required to pass examinations in laws and regulations related to clean government before they are selected to take leading positions</td>
</tr>
<tr>
<td>• 50 national bases for education in clean government</td>
<td></td>
</tr>
</tbody>
</table>

5 This section draws mainly from published online documents primarily the “White Paper on Corruption Control in China” issued by the Information Office of the State Council of China, December 2010.
| **Guidelines of the Communist Party of China for Party-member Leading Cadres to Perform Official Duties with Integrity** | **Prohibit Party-member leading cadres from engaging in profit-making activities and from seeking illegitimate gains by taking advantage of their positions and power**  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| --- | --- |
| **Regulations of the Central Commission for Discipline Inspection of the Communist Party of China on the Strict Prohibition of Seeking Illegitimate Gains by Misuse of Office** | **Specify methods of handling eight types of misconduct of Party-member cadres, including abuse of power for personal gain**  
- Prohibit Party-member leading cadres from engaging in profit-making activities and from seeking illegitimate gains by taking advantage of their positions and power  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| **Regulations on the Executives of State-owned Enterprises for Performing Management Duties with Integrity** | **Prohibit leading officials of state-owned enterprises from seeking profit through misuse of office, undermining the interests of the enterprises**  
- Prohibit leading officials of state-owned enterprises from seeking profit through misuse of office, undermining the interests of the enterprises  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| **Regulations on Implementing the System of Registration for Gifts Received in Domestic Social Activities by Functionaries of Party and State Organs** | **Demand that the functionaries of Party and state organs must not accept any gifts or grants that might influence their impartial performance of official duties**  
- Demand that the functionaries of Party and state organs must not accept any gifts or grants that might influence their impartial performance of official duties  
- Regulations on Implementing the System of Registration for Gifts Received in Domestic Social Activities by Functionaries of Party and State Organs  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| **Regulations on Leading Cadres’ Report of Relevant Personal Matters** | **Require leading cadres to honestly report their incomes, housing and investment owned or made either by themselves or together with their spouses and children living with them, as well as the employment status of their spouses and children**  
- Require leading cadres to honestly report their incomes, housing and investment owned or made either by themselves or together with their spouses and children living with them, as well as the employment status of their spouses and children  
- Regulations on Leading Cadres’ Report of Relevant Personal Matters  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| **Interim Regulations on Strengthening Management of State Functionaries Whose Spouses and Children Have Emigrated Abroad** | **Play an important role in safeguarding the national interests and in the management of Party members and state functionaries in accordance with the law, as well as in enhancing the sense of leading cadres in performing their official duties with integrity**  
- Play an important role in safeguarding the national interests and in the management of Party members and state functionaries in accordance with the law, as well as in enhancing the sense of leading cadres in performing their official duties with integrity  
- Interim Regulations on Strengthening Management of State Functionaries Whose Spouses and Children Have Emigrated Abroad  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| **Law of the People’s Republic of China on the Supervision of Standing Committees of People’s Congresses at All Levels** | **Strengthen the supervisory role of those committees in the form of law over the administrative, judicial and procuratorial powers of the people’s governments, people’s courts and people’s procuratorates at corresponding levels**  
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| **Law of the People’s Republic of China on Administrative Supervision** | **Establish the systems of administrative supervision, audit supervision, administrative reconsideration and administrative procedure to strengthen supervision over the administrative organs and their staff**  
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- Law of the People’s Republic of China on Administrative Supervision  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| **Audit Law of People’s Republic of China** | **Define liabilities of corruption-related crimes, such as embezzlement, bribery, dereliction of duty and holding a huge amount of property with an unidentified source;**  
- Define liabilities of corruption-related crimes, such as embezzlement, bribery, dereliction of duty and holding a huge amount of property with an unidentified source;  
- From 2005 until 2009, over 69,200 cases of commercial bribery -- involving some 16.59 billion yuan in funds - were investigated;  
- Criminal Law of the People’s Republic of China  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| **Administrative Reconsideration Law of the People’s Republic of China** | **From 2003 to 2009, prosecutors at all levels investigated more than 240,000 cases of embezzlement, bribery, dereliction of duty, and rights infringement.**  
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- Administrative Reconsideration Law of the People’s Republic of China  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
| **Administrative Procedure Law of the People’s Republic of China** | **Define liabilities of corruption-related crimes, such as embezzlement, bribery, dereliction of duty and holding a huge amount of property with an unidentified source;**  
- Define liabilities of corruption-related crimes, such as embezzlement, bribery, dereliction of duty and holding a huge amount of property with an unidentified source;  
- From 2005 until 2009, over 69,200 cases of commercial bribery -- involving some 16.59 billion yuan in funds - were investigated;  
- Criminal Law of the People’s Republic of China  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
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| **Law of the People’s Republic of China on Administrative Supervision** | **Establish the systems of administrative supervision, audit supervision, administrative reconsideration and administrative procedure to strengthen supervision over the administrative organs and their staff**  
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- Law of the People’s Republic of China on Administrative Supervision  
- The guidelines have provided relatively comprehensive regulations on Party-member leading cadres in performing their official duties with integrity under the conditions of the socialist market economy, and have thus become the basic intra-Party rules regulating the behavior of Party-members leading cadres. |
### Regulations on Disciplinary Sanctions of the Communist Party of China
- Define conducts of Party members that go against the Party’s stipulations for clean government and self-discipline, embezzlement and bribery, as well as acts in violation of financial and economic discipline, and prescribe five measures for enforcing Party discipline: explicit warning, stern warning, removal from post within the Party, probation within the Party and expulsion from the Party.
- Further improved the 10 systems of intra-Party supervision, including those of collective leadership with individual responsibility in line with division of work, notification and report on important matters, democratic meetings of leading Party organizations, as well as question and inquiry.

### Criminal Procedure of the People’s Procuratorates and Measures of Supervisory Organs for the Investigation and Handling of Administrative Disciplinary Cases
- Provide a legal basis for the acceptance, investigation, trial and appeal work in respect of criminal and discipline-breaching cases, and have established systems of witness and reporter protection, case transfer and coordination, as well as the system of the protection of the rights of the defendants and those being sanctioned.

### Regulations of the CPC on Inspection Work of Disciplinary Inspection Organs
- Regulates the establishment and implementation of administrative licenses, and guarantees and supervises the effective administration of administrative organs.

### Administrative License Law of the People’s Republic of China
- Provides a legal basis for the acceptance, investigation, trial and appeal work in respect of criminal and discipline-breaching cases, and have established systems of witness and reporter protection, case transfer and coordination, as well as the system of the protection of the rights of the defendants and those being sanctioned.

### The Regulations of the People’s Republic of China on Making Public Government Information
- Follows the principle that sunshine is the best antiseptic and therefore transparency represents the best supervision of power;
- The regulations stipulate that government information, other than that related to state secrets, business secrets and personal privacy, should be made public in a timely and accurate manner, with the requirement of making public as the principle and holding back as the exception, to guarantee the people’s right to know, participate, express and supervise;
- The party and state organs and governments of the provinces (including autonomous regions and municipalities directly under the central government) have all established the news release system and spokesmen/spokeswomen system. Most governments above the county level have established government websites.
- The state judicial organs have established the system of open administration of judicial affairs to ensure openness of court, procuratorial, police and prison affairs, supplying a firm guarantee for strengthening supervision over judicial activities.
- The CPC actively makes Party affairs public through promulgating and implementing the Opinions on Making Party Affairs Public at Grass-roots Organizations, improving the Party affairs, promptly announcing Party affairs, such as important decisions made by Party committees, selection and appointment of Party cadres and the implementation of stipulations on combating corruption and self-discipline measures by leading cadres who are Party members, thus expanding the channel for Party members to be informed of intra-Party affairs and express their individual opinions.
These laws and regulations do not just exist in paper. China has backed the enforcement of these laws with sustained political will. For instance, from 2003 to 2009, prosecutors at all levels investigated more than 240,000 cases of embezzlement, bribery, dereliction of duty, and rights infringement, according to the report. From January to November 2010, the Party’s discipline watchdogs investigated 119,000 graft cases, resulting in 113,000 people being punished, of whom 4,332 were prosecuted. From 2005 until 2009, over 69,200 cases of commercial bribery - involving some 16.59 billion yuan in funds - were investigated, it said. In 2009, some 7,036 officials were held responsible for serious mistakes, breach of duty, and failing to manage and supervise subordinates, the report said. As a result of these efforts, public perceptions are also changing. For instance, a survey by China’s National Bureau of Statistics found that 83.8 percent of Chinese thought corruption was reduced to some extent in 2010, which was up from 68.1 percent in 2003.

E. Governance of State Owned Enterprises: Singapore and S. Korea

Any discussion on rethinking the role of the state in a market economy inevitably would have to address the question on the future of SOEs. Vietnam’s model of economic development considers the SOEs as the main engines of growth. However, with the recent crises in Vinashin, the credit downgrading of a number of large SOEs and state owned commercial banks as well as the generally inefficient performance of SOEs, it has become important to ask what should be done about the SOEs in the short and medium term. In this section, we discuss what Vietnam can learn from Singapore and South Korea in terms of the governance of SOEs.

1. Singapore SOEs

Singapore’s SOE sector is comprised of two components: statutory boards and government linked corporations (GLCs). GLCs and statutory boards are key components of the “Singapore Model” of governance, and they have significantly contributed to Singapore’s economic development since its independence.

GLCs are generally entities in which Temasek Holdings has majority or controlling shares. They are commercial entities in different strategic industries. As of March 2010,
Temasek has shares in 29 GLCs but only 20 of these are Singapore based companies while the rest have been acquired from other countries (Table 6). Statutory boards are quasi-government entities that report to a ministry. They are given autonomy to perform specific operational function. They have independence and flexibility in managing their finances as well as human resources. Statutory boards are structural innovations created to do away with the rigidities of the public service and to ensure effective policy delivery and change. Statutory boards have vertical structures that are permanent, have fixed resources and mission-focused and have mandates to implement policies directly. Independent boards govern them with representation from the private and public sectors (Neo and Chen, 2007, 411-414).

**Table 6: Government Linked Corporations in Singapore as of March 2010**

<table>
<thead>
<tr>
<th>Financial Services</th>
<th>Share Holding</th>
<th>Transportation &amp; Industrials</th>
<th>Share Holding</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Neptune Orient Lines</td>
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<td>PSA International Pte Ltd</td>
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<td>Sembcorp Industries Ltd</td>
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<tr>
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<td>74%</td>
<td>Singapore Technologies</td>
<td>50%</td>
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<tr>
<td>PT Bank Danamon Indonesia Tbk</td>
<td>68%</td>
<td>Singapore Airlines Limited</td>
<td>54%</td>
</tr>
<tr>
<td>Standard Chartered PLC</td>
<td>18%</td>
<td>SMRT Corporation Ltd</td>
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<tr>
<td>ICICI Bank Limited</td>
<td>6%</td>
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<th>Life Sciences, Consumer &amp; Real Estate</th>
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<td>Olam International Limited</td>
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<td>Singapore Technologies Telemedia Pte Ltd</td>
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<td>Fraser and Neave, Limited</td>
<td>15%</td>
</tr>
<tr>
<td>STATS ChipPAC Ltd.</td>
<td>84%</td>
<td>CapitaLand Limited</td>
<td>39%</td>
</tr>
<tr>
<td>Bharti Airtel Limited</td>
<td>5%</td>
<td>Li &amp; Fung Limited</td>
<td>4%</td>
</tr>
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<td>MediaCorp Pte. Ltd.</td>
<td>100%</td>
<td>Mapletree Investments Pte</td>
<td>100%</td>
</tr>
<tr>
<td>Singapore Telecommunications Limited</td>
<td>54%</td>
<td>Singapore Airport Terminal</td>
<td>44%</td>
</tr>
<tr>
<td>Wildlife Reserves Singapore</td>
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<th>Energy &amp; Resources</th>
<th>Share Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore Power Limited</td>
<td>100%</td>
</tr>
</tbody>
</table>

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Key features and strategies of Singaporean GLCs

Singapore’s GLCs are highly regarded globally due to their phenomenal performance characterized by high levels of efficiency and productivity. Corporate strategies played important role that paved way for GLCs’ remarkable feat. In particular, six major strategies are common to most GLCs: profitability, performance benchmarking, regionalization, diversification, collaboration, and support for national performance (Singh and Siah, 1998, 14). We discuss these strategies below:

1. **Profitability.** GLCs have adopted the strategy of setting profitability targets for the short and long terms. This approach ensures that business processes are guided by its metrics of profitability and thereby necessitates operating efficiency, consistent and significant levels of productivity, sustainability and viability of the enterprise.

2. **Performance benchmarking.** GLCs generally benchmark their enterprises with domestic and global industry leaders. Benchmarking is done in terms of operating efficiency, price standards, productivity and profitability. Benchmarking also takes the form of satisfying the expectations of the Singapore Government that GLCs will become industry leaders and national flagship corporations (Singh and Siah, 1998, 16).

3. **Regionalization.** GLCs have limited potentials for growth due to the country’s relatively small market base. As such, they also went beyond national borders. Once GLCs have already gained ground in their respective domestic niche, they ventured into emerging markets in Southeast Asia. With regionalization, however, Singaporean GLCs had been subjected to greater competition. This led to further enhancement in operating efficiency, development of new technology and creation of innovative practices that enabled them to compete with key players in the region. Today, GLCs have not only established strong presence in Southeast Asia but also ventured into OECD economies and the Middle East.

4. **Diversification.** In 2010, portfolio value of Temasek’s GLCs were diversified into 5 major sectors: financial services (37%); telecomm, media & technology (24%); transportation & industrials (19%); life sciences, consumer & real estate (11%); and energy & resources (6%)7.

5. **Clusters, collaboration and cooperation.** In many cases, GLCs cluster within industries that are given priorities by the government, including financial services, telecommunication, media & technology, life sciences, consumer & real estate, life sciences, consumer & real estate, transportation and industrials, and energy and resources (see Table 6 above).

6. **Independent Boards.** An independent board of directors governs GLCs. A unique feature of the governance of GLCs is that some of the elites in the bureaucracy

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7  [www.temasekreport.com](http://www.temasekreport.com)
or those holding senior level posts in statutory boards also serve on the boards of GLCs. Interlocking and exchanges of directorships among GLCs that are on the same line of business are also evident (Singh and Siah, 1998, 20). These are often the basis of cooperation among GLCs. While senior civil servants provide broad direction to GLCs, they do not interfere in the daily operations of the companies. Bureaucrats and the cabinet only interfere with GLCs when they lose money. Government intervention also occurs when there are conflicts between management and employees that threaten the short- and long-term viability of the companies.

7. **Support for national objectives.** GLCs regionalization efforts and investment in high technology projects are reflective of their support to the overarching policy of the government to transform Singaporean companies into industry leaders in a global scale and to develop Singaporean technological capabilities (Singh and Siah, 1998, 21). The structure of the GLC clusters, finance, transport, property, telecomm, life sciences, energy and resources broadly reflect the importance of these industries to the national goals of Singapore.

8. **Independence from government support.** While GLCs enjoyed quite a substantial support from the government during their start-up phases, they eventually become independent and devised innovative ways to sustain their business operations. Financial independence, in this sense, can be viewed as a by-product of the stringent rules and corporate culture of meeting the highest possible standards of profitability and performance.

9. **Performance based compensation.** The compensation system for senior executives is explicitly tied to performance and business cycles. GLCs - Temasek in particular - follow the principle of sharing gains and pains alongside its shareholder. They foster an ownership mindset through an incentive philosophy, which puts the institution before the individual, emphasizes long term over short term, and aligns employee and shareholder interests. Its compensation system offers competitive base salaries and an incentive plan which is subject to performance hurdles and time horizons to account for risks over market cycles and the sustainability of returns. Temasek’s incentive plan includes annual cash bonuses linked to individual, unit or company annual targets, and risk-reward sharing incentives over the longer term, linked to Wealth Added (WA) or Total Shareholder Return (TSR). Senior management have the bulk of their performance incentives deferred between three and 12 years, while junior staff have theirs paid proportionately more in cash.

10. **Corporate governance.** GLCs imbued with values of good corporate governance such as meritocracy, integrity, long-term outlook, creating and keeping best value for shareholders, use of risk management systems, among others. They stick to their core businesses and build lasting value through technology, product and market development as well continuously building intrinsic shareholder value, as against speculation in the property market as has been the case of some large SOEs in Vietnam.

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Box 3: The case of Singapore Airlines

Singapore Airlines (SIA) is one of the leading and multi-awarded carriers in the world. As a government-linked corporation, Temasek holds 54% of voting stock. The strategies mentioned above are not uncommon to SIA. It is an enterprise that is highly profit driven. The airline’s key goal is to become the most profitable airline in the world and cost consciousness is ingrained in the corporate culture. In SIA, meeting profitability goals determines the bonuses of the managers and other employees. Because the company’s profitability can only be achieved through high levels of operating efficiency and productivity, SIA closely monitors these measures through clearly defined indicators. These include: value added per employee and revenue generated per employee (Geok and Koh, 2004, 3).

Benchmarking is also an established practice at SIA. The company benchmarks its performance and products against other leading competitors. This strategy has led to the development of innovative services, which have become industry standards. Product differentiation has always been a top priority for the company. SIA is the pioneer in offering in-flight meal choices, complimentary drinks and free headsets in the economy class. More recently, SIA has become the first airline to offer commercial flights of the superjumbo Airbus A380.

SIA’s regionalization and expansion initiatives have taken two main channels. In the early years of its operations, SIA relied on bilateral agreements of Singapore to allow the national carrier to fly to new routes and destinations. SIA’s expansion in the USA and the UK were initially achieved through this channel. The other mode of expansion was carried out through joint ventures, mergers and acquisitions and equity investments. In 1999, for instance, SIA acquired a 49% stake in Virgin Atlantic, which further strengthened its presence in Europe.

SIA’s portfolio has also substantially diversified from its traditional services. SIA group is now comprised of subsidiaries that operate in other aviation-related services such as aircraft maintenance and engineering, air cargo, catering services and it operates its own flight school.

SIA’s board of directors is composed of high-ranking officials of the public service and notable figures from the private sector. In the late 90s, public sector officials from ministries and statutory boards including directors of other GLCs dominated the seats in SIA’s board. In recent years, however, the composition has changed with a richer mix of directors. The board now includes incumbent and former executives of Fortune 500 companies.
2. S. Korea’s SOEs

Korea’s experience in managing SOEs can be segregated into two periods. The first period (pre-1983) was mired with issues on business efficiency and profitability. At that time, SOE management was based on enacted laws and principles that encouraged excessive government intervention. The system also lacked effective management evaluation mechanisms to assess the performance of enterprises. The interaction of these inherent weaknesses resulted in conflicts on governance and accountability between SOE officials and government authorities. The second period was the onset of reforms in Korea’s SOE sector.

In 1983, the government enacted the State-Owned Enterprise Management Standards Act to develop independent and responsible management systems within SOEs (Lim, 2003). Under the new management policy, three core changes had been emphasized: autonomy in SOE operations, establishment of a new SOE evaluation program and creation of SOE evaluation board.

The government provided greater autonomy to SOEs by reducing its control and intervention in terms of budgeting, procurement and personnel functions. Fiscal budget preparations had become the scope of SOE management instead of the Economic Planning Board (EPB). Similarly, the centralized system of procurement was also changed. SOEs were given independence on procurement and were made responsible to execute their contracts. Appointment of members of the board of directors was also relegated back to the president or chief executive officers of SOEs (Lim, 2003).

Political influences were also minimized because the new system banned appointing outsiders for senior executive positions (Chang and Singh, 1993). Although the government had a previous SOE evaluation program, it was viewed as ineffective because assessments were primarily based on financial ratios and evaluation was not tied to any kind of performance reward system.

The new SOE evaluation program, however, has these features. For instance, assessment indices were redesigned to incorporate financial ratios, quantitative and qualitative measures. Indices used for evaluation purposes include: a) general index for overall business efficiency; b) management goal index; c) quantitative indices to measure short term profitability and operating efficiency; and d) non-quantitative index that evaluates the qualitative aspects of the management system and enterprise operations (Lim, 2003).

The Korean government also formed specialized SOE evaluation board lodged within the EPB. The Minister of the EPB headed the evaluation board and seated by other ministries involved in the SOE sector. The board provided common “guidelines” on budget and business report preparations, incentives and evaluation methods. An SOE evaluation group – comprised of university professors, accountants and experts on SOEs – was also created to design and develop accurate appraisal system and indices (Lim, 2003).
Box 4: The case of POSCO

POSCO is one of the largest steel maker and one of the most profitable global companies. Its beginnings trace back to President Park’s administration (1968) when the government envisioned developing its own steel industry to supply the growing demand of its domestic economy. While POSCO’s inaugural leader was a political appointee, the enterprise largely remained autonomous in its operations. Its management relied on competitive bidding practices and not on government procurement agencies. POSCO also insisted on having exclusive control over capital management to ensure that government agencies would not redirect project funding for other purposes.

POSCO underwent further changes in 1993 when its founder resigned. POSCO’s new management emphasized greater flexibility, autonomy, and consensual decision-making processes. The chairman also moved to devolve more autonomy to the profit centers and changed the organizational structure from a strictly hierarchical to one based on teams. Highest level of worker productivity became the paramount objective within the organization. POSCO avoided over production and severe losses. At the outset, POSCO, although largely a state enterprise, operated as a private and profit-oriented company. Developing technological capabilities and highly skilled workforce was also central to POSCO’s strategy. It took advantage of the technological cooperation extended by the Japanese steel industry and consistently invested in worker training and education (Hogan, 2001, 17). Similarly, POSCO also promoted linkages and cooperation with leading research organizations in Korea to boost innovation.

As part of the privatization process (2000 to present), POSCO’s new elected chairman began efforts to introduce a professional management and governance system of global standards. Under the new governance system, the management made accountability to shareholders a top priority. POSCO also introduced a new performance-based evaluation and compensation system.
Chapter III. PUBLIC ADMINISTRATION AND GOVERNANCE IN VIETNAM

The aim of this chapter is to provide an assessment of public administration and governance in Vietnam. In Section A, we provide an overview of the strengths and weaknesses of recent initiatives at public administration reform in Vietnam and our assessment of the causes of slow reform. We then outline the broad implications for planning and implementing reforms over the next decade. In Section B, we provide in-depth review of the following strategic issues: industrial policy and macroeconomic governance, SOE reform, privatization, decentralization, productivity, and public-private partnerships. In Section C, we present the result of the survey of some 500 senior and mid-career civil servants from various ministries and local governments throughout Vietnam.

A. Overview of Strengths and Weaknesses of Recent Initiatives at PARMP

When Vietnam transitions into a market-based economy, the public sector plays an important role in supporting the poor, ensuring the public resources to be wisely used, and fostering the private sector development. However, the public sector in Vietnam suffers from some problems common to many developing countries – a very large public sector, low wages, inappropriate structures, lack of transparency, inadequate skills and equipments. Corruption has emerged as a major issue, widely acknowledged as social cancer which disproportionately hurts the poor and threatens the legitimacy of the Party. Therefore, modernizing the public sector through public administration reform (PAR) is considered a central mission of Vietnam government. On September 17th, 2001, the government issued the Decision No. 136/2001/ND-CP to promulgate the Public Administration Reform Master Program for the 2001-2010 period (PARMP 2001-2010). The PARMP aimed to achieve “a democratic, clean, strong, professionalized, modernized, effective and efficient public administration system which operates in line with the principle of the socialist state ruled under the leadership of the Party; public cadres and civil servants will have appropriate capacities and ethical qualities able to respond to the requirements of the cause of national building and development”.

1. Strengths

Public administration reforms over the past years have resulted in significant improvements in the public administration and step-by-step change in the organisation and operation of the public administration apparatus. The PARMP is also part of the SEDS’s three-pronged aim to “build up the institutional system for a socialist oriented market economy”, through (i) improving the legal system and market institutions, (ii) developing the capacity of key participants in the development of a market economy, and (iii) improving state planning and management mechanisms.

Achievements of the public administration reform include:

- Benchmarking of provincial governments (competitiveness, public administration reforms)
- Adjusting and clearly defining the functions, tasks, authorities and responsibilities of each agency in the administrative system
- Operation of administrative agencies became distinguished from that of delivery agencies
- Reduction of transaction costs (cutting of red tape, one stop shop pilot projects)

2. Weaknesses

Ten years after the launch of the PARMP, despite some achievements and mixed results, progress towards its ambitious objectives has been slow, ineffective and inconsistent. The goal of building a democratic, strong, clean, professionalized and modernized administration is still far away from reality (Acuna, 2008).

Compared with its peers in the region, government effectiveness - capacity of the government to effectively formulate and implement sound policies - and regulatory quality in Vietnam is very low. In particular, it refers to perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. Regulatory qualities, on the other hand, refer to perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. On the both accounts, Vietnam lags behind its neighbours (Figure 6).

Figure 6: Government effectiveness and regulatory quality, 2009

![Graph showing government effectiveness and regulatory quality](source: Data from Worldwide Governance Indicators, World Bank (2011))
3. Possible General Explanations for Inefficiencies and Ineffectiveness

We offer several possible explanations as to why public administration, management, and governance in Vietnam remain inefficient, ineffective, and unaccountable.

3.1 The patronage system of public administration in Vietnam remains persistent. Buying and selling of positions in public office remain common. Building a system to attract the best and brightest to serve the public interest remains a major concern in Vietnam today. Meritocracy is not yet widely institutionalized.

3.2 A rational and legal approach to policy-making and administration is still in its nascent stage of development. Major projects are proposed without undergoing proper appraisal.

3.3 Vietnam still lacks a modern bureaucracy and judiciary to support a market economy. The qualifications of civil servants are weak and they are poorly motivated according to our surveys. Civil servants are also not adequately trained in alternative modes of public administration, management, and governance.

3.4 Separation of politics from administration remains a challenge. The role of the Party and Government is blurred making accountability challenging.

3.5 New modes of public management - contracting, benchmarking, application of user charges, empowerment, performance management, decentralization, use of incentives - is growing in application but still at their infancy in Vietnam and not yet consistently applied throughout Vietnam.

4. Possible Explanations for Slow Progress in PARMP Implementation

4.1 Lack of strategic focus

The first generation of public administration reform – one stop shop, computerization, budget and accounting reforms, deregulation and removal of red tape, among others, are useful for improving operational efficiencies but they lack strategic focus and rely too much on command and control administrative mechanisms rather than the use of incentives to effect systemic reforms.

4.2 Complexity

The PARMP itself was a little too ambitious and complex to be completed in so short a time (10 years). The experience of other countries has shown that public administration reform can succeed (such as the cases of Germany, France, UK, Japan, S. Korea, Singapore, etc.) if there are strong and long term political support, strategic focus on key issues, leverage on incentives, among others. Civil service reforms will take much longer time because one would have to work with the given constraints including
political economy issues of reform. Reforming administrative systems (accounting, budgeting, personnel management, performance management, etc.) will take time as the experience of developed economies has shown.

4.3 No sense of urgency for reform

Implementation of policy reforms over a long period of time eventually suffers from inertia. The sense of urgency for reform is lost overtime as incumbent officials do not have strong incentives for dynamic efficiency as previously explained in Chapter 2. Also, there may not be enough reform champions throughout the country at all levels of government.

5. Implications for Planning and Implementing Reforms over the Next Decade

From the preceding analyses, we conclude some implications for planning and implementing reforms over the next decade.

5.1. Consolidate the 1st generation of PAR reforms and continuously roll out the pilot projects within the next 5 years. The gains from the 1st generation of PAR should be consolidated because they provide valuable operational foundations for continuing reforms.

5.2 Focus on strategic issues for the 2nd generation PAR. These strategic issues include accountability and rule of law reforms, economic governance and SOE reforms, public private partnership, decentralization reform, productivity reforms and shift from patronage based and command and control model to a rational-legal and incentives based approach to a modern, professional bureaucracy. We discuss these issues in the next section.

5.3. Create a sense of urgency, develop a large number of reform champions at all levels of government, and train and retrain civil servants to be reform champions. There is also the need for leadership renewal by bringing in a younger generation of reformists to lead the reform process.

B. Strategic Issues in Public Administration and Governance

The aim of this section is to provide a more strategic and in-depth review of key public administration and governance issues in relation to SEDS 2011-2020. We examine a number of interrelated issues: industrial policy and macroeconomic governance, SOE reform, privatization, decentralization, productivity, and public-private partnerships.

1. Industrial Policy and Macroeconomic Governance

1.1 Industrial policy

Vietnam is still in the early stages of economic development characterized by agglomeration and by simple manufacturing driven by foreign firms (Figure 7). Foreign
firms invest in Vietnam because of relatively low labor costs and a young and sizable domestic market. Vietnam has achieved its current level of economic development largely through liberalization of its economy.

However, for Vietnam to advance to a middle-income country, it needs an effective state that is capable of steering the economy to move up the value chain, identify industry champions, absorb and create technology and increase total factor productivity. Vietnam, at present, does not have this capacity to effectively plan for and manage industrial policy in the same way that S. Korea and Taiwan did for their economy. Developing this strategic capacity should be a key component for the next generation of public administration reforms in Vietnam.

As a consequence of this low stage of industrial development, Vietnam’s GDP per capita is still the lowest compared with its peers (Figure 8). To transition to a middle-income country like Malaysia and Thailand, Vietnam needs to absorb technology and develop indigenous supporting industries (Ohno, 2009). This would require significant investments in tertiary education, technical training for a skilled workforce, a restructuring of higher education policies and substantial investments in research and development.

Figure 7: The structure of Vietnam’s economy

Source: Ohno (2009)
This phase also requires further restructuring of the state sector, redefining its role in relation to the market, strengthening of the helping hand of the state while also restraining its grabbing hand, disciplining market forces, fighting state capture by vested interests and effectively managing risks in the macro economy.

To reach the stage of high-income countries such as Taiwan and Korea, Vietnam needs to develop, among others, a highly skilled and creative workforce who are not only able to absorb but also to develop and master technology and management skills to produce high quality products (Ohno, 2009). S. Korea’s ability to break the middle-income trap, not surprisingly, was correlated with the rise of its capabilities – particularly among business groups (chaebols) to absorb and develop technology.

Figure 8: GDP per capita of Vietnam compared with East and Southeast Asian countries

Source: Data from the Conference Board Total Economy Database (2011)

In addition, and most importantly, Vietnam should avoid the problems of state capture and crony capitalism that has put Malaysia and Thailand in the middle-income trap. For Vietnam, this is a matter of choice. According to the Harvard Report (2008), “the defining characteristic of the East Asian development model — in particular in its Korean, Taiwanese and Singaporean forms — was the government’s ability to discipline economic interests opposed to efficient capital accumulation, rapid industrialization and national economic competitiveness.” It notes that in these countries, access to state favors was linked to performance rather than political connections and that even politically powerful groups and individuals were routinely denied government contracts,
bank credits and other facilities if their plans were not feasible or socially beneficial or if past projects had been poorly implemented. It concludes that the “crony capitalism” of Southeast Asia is in fact the failure of the state to achieve a clear separation of economic from political power. Vietnam today is faced with the same problem.

1.2 Macroeconomic governance issues

1.2.1 High inflation as a result of loose monetary and fiscal policy

Vietnam has recorded higher levels of inflation compared to its Asian peers since 2008. In 2011, inflation rate is expected to reach double digit levels (18.8%), compared to only 3-6% for its other Asian peers (Figure 9). While a high growth model of fiscal policy played a key part of this problem, the other part of the problem is a monetary policy that lacks discipline because the central bank lacks independence from political pressures. As the experience of other ASEAN countries has shown, an independent central bank is key for an effective and credible inflation management.

Figure 9: Inflation

Source: Data from EIU (9/2011)
Notes: *Data for 2011 are forecasts; according to the GSO, Vietnam’s inflation in the first nine months of 2011 was 16.6%

1.2.2 Strenuous fiscal condition

Vietnam’s budget deficit has also been much larger than that of its Asian peers, with the exception of Malaysia. In 2011, Vietnam’s budget deficit is expected to be -4.9% of GDP, while this figure for most of its peers is about -2% to -3% of GDP (Figure 10). Official figures on Vietnam’s budget deficit are generally considered underestimated due to the non-reporting of significant amounts of off-budget items, including those of local government units. The ability to monitor and control the fiscal situation and plan for and respond to economic shocks will be an important economic governance challenge for Vietnam in the next decade. Vietnam has a very limited fiscal space to maneuver around.
The International Monetary Fund (IMF) has concluded in its review that the fiscal situation in Vietnam is at best strenuous. Figure 11 provides an overview of fiscal projections until 2020.

Government and government guaranteed debt as a percentage of GDP is assumed to decline to 40% while debt service to revenue is assumed to decline from 22% to around 10%. Inability to solve the fiscal problem will lead to a vicious cycle of low credit ratings, high interest rates and higher cost of capital and its contractionary effects on investments and growth leading to lower tax collections, and the vicious cycle repeats itself. The experience of Latin American countries in the 1980s and 90s has shown the pernicious effects of the boom and bust cycles. Solving this problem will be one of the most challenging governance issues for the next decade.

**Figure 11: Vietnam’s fiscal condition**

*Source: Bingham (2010)*
1.2.3 Structural trade deficit

Figure 12: Trade balance

Vietnam has also suffered large trade deficits in consecutive years, while its Asian peers, with the exception of the Philippines, have run trade surpluses. In 2011, Vietnam's trade deficit is expected to be -6.7% of GDP, while its peers (except for the Philippines) are expected to enjoy trade surpluses ranging from 3.3% (for China) to 16.6% (for Malaysia) to 16.7% of GDP (for Singapore) (Figure 12).

1.2.4 Currency

The lack of confidence in the local currency is a major setback that causes the vicious cycle of macroeconomic instability. The Vietnamese Dong (VND) has been under persistent depreciation pressures and there has been a notable differential between the official and black market exchange rates. In 2011, VND is expected to devalue by over 9%, while the currencies of all its peers are expected to gain strength against the US dollar (Figure 13). Vietnam’s new efforts on imposing stricter controls in the foreign exchange market may not be the right solution to the problem.
Figure 13: Local currency

Source: Data from EIU (9/2011)
Notes: *Data for 2011 are forecasts

1.2.5 Credit downgrades

Sovereign credit ratings are another set of evidence that suggests Vietnam’s weaker performance as opposed to its regional peers. Credit ratings are important measures of a country’s current financial health and it provides indications on changes that might occur in the immediate term. As of March 8, 2011, Vietnam’s credit ratings were below all its peers. Moreover, Vietnam’s sovereign rating was sharply downgraded from BB/Stable in 2008 to BB-/Negative in 2011 by Standard & Poor’s and from Ba3/Positive in 2008 to B1/Negative in 2011 by Moody’s. These ratings are in stark contrast to its peers that have strengthened their ratings significantly (Table 7).

Table 7: Sovereign credit rating: Vietnam vs. Asian peers

<table>
<thead>
<tr>
<th>Country</th>
<th>Standard &amp; Poor’s</th>
<th>Moody’s</th>
<th>2008*</th>
<th>2011**</th>
<th>Change</th>
<th>2008*</th>
<th>2011**</th>
<th>Change</th>
</tr>
</thead>
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<tr>
<td>Vietnam</td>
<td>BB/Stable</td>
<td>BB-Negative</td>
<td>Worse</td>
<td>Ba3/Positive</td>
<td>Worse</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>A/Positive</td>
<td>AA-/Stable</td>
<td>Better</td>
<td>A1/Stable</td>
<td>Aa3/Positive</td>
<td>Better</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>BB-/Stable</td>
<td>BB/Positive</td>
<td>Better</td>
<td>Ba3/Stable</td>
<td>Baa1/Stable</td>
<td>Better</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>A-/Positive</td>
<td>A-/Stable</td>
<td>Slightly Worse</td>
<td>A3/Stable</td>
<td>A3/Stable</td>
<td>Unchanged</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>BB-/Positive</td>
<td>BB/Positive</td>
<td>Better</td>
<td>B1/Stable</td>
<td>Baa1/Stable</td>
<td>Unchanged</td>
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<td>Singapore</td>
<td>AAA/Stable</td>
<td>AAA/Stable</td>
<td>Unchanged</td>
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<td>Aaa/Stable</td>
<td>Unchanged</td>
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<tr>
<td>Thailand</td>
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<td>Baa1/Stable</td>
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<td>Unchanged</td>
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</tr>
</tbody>
</table>

Source: Asian Bonds Online
Notes: *As of January 10, 2008; **As of March 8, 2011
Vietnam’s credit downgrades were triggered by poor macro-economic indicators and compounded by the bankruptcy of Vinashin and the resulting fear of systemic risks from large SOE and State owned banks, local government contingent liabilities and a growing budget deficit.

From a governance perspective, the problem is compounded by lack of an internationally credible team of economic technocrats in Vietnam to signal the ability of the government to deal with macroeconomic issues. Unlike Indonesia which has a credible and capable economic management team, Vietnam has yet to develop a core of internationally respected team of economic technocrats.

2. Large, Inefficient and Risky SOEs

2.1 Evidence on the performance of large SOEs

There is no question that large SOEs in Vietnam are faced with serious problems. First, return on equity is volatile with some SOEs with nearly zero returns (Table 8). Second, a major concern of these SOEs is that many of them are highly leveraged with very high debt to equity ratios and are highly indebted compared to their revenue and profitability potentials (Nam, 2010). Third, SOE incentives are not tied to long-term performance. Of the 10 large SOEs in 2009, five of them (VNPT, Textile and Garment, EVN, Coal and Mineral, and Viettel) have registered significant growth revenues in 2009 while four others have moderate growth. The problem is, even SOEs with moderate growth in revenues tend to reward themselves very well (Figure 14). For example, the average annual growth in revenues for Vinashin in 2009 was about 18 percent while the average rate of increase in salaries was about 16 percent. Similarly, Baoviet registered a 21 percent growth in revenues but their managers also received 17 percent salary increases. Clearly, this creates perverse short run incentives for SOE managers to generate short-term revenues through speculative activities such as property and securities investments. Sales of real estate properties in the short term could dramatically increase revenues and benefits for the SOE but does not necessarily create intrinsic value over the long term.

The problem of speculative investments by SOEs as a mechanism to generate short term rewards becomes clear when one examines their non-core financial investments which went into banks, investment funds, securities companies, real estate as well as other non-core investments (Table 9).
Table 8: Volatile return on equity of large SOEs

<table>
<thead>
<tr>
<th>Company</th>
<th>Return on Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>VNPT</td>
<td>7.2%</td>
</tr>
<tr>
<td>Coal and Mineral</td>
<td>15%</td>
</tr>
<tr>
<td>Textile and Garment</td>
<td>16.9%</td>
</tr>
<tr>
<td>Rubber</td>
<td>169%</td>
</tr>
<tr>
<td>Housing and Urban</td>
<td>8%</td>
</tr>
<tr>
<td>Viettel</td>
<td>19.7%</td>
</tr>
<tr>
<td>EVN</td>
<td>0.01%</td>
</tr>
<tr>
<td>Construction</td>
<td>1%</td>
</tr>
<tr>
<td>Chemical</td>
<td>0.42%</td>
</tr>
<tr>
<td>Vinashin</td>
<td>Bankrupt</td>
</tr>
</tbody>
</table>

Source: Nam (2010)

Figure 14: Short term and perverse incentives

Source: Nam (2010)

Notes: Green bar represents average annual growth of salaries. Blue bar represents growth of revenues, both in percentage terms.
2.2 Why are SOEs inefficient?

We offer several explanations as to why Vietnam’s large SOEs or State Economic Groups (SEGs) are inefficient: inappropriate governance structure and problems with corporate governance.

2.2.1 Inappropriate governance structure

The governance structure SOEs are inappropriate in contributing to their inefficiencies. For example, SOEs in Vietnam are regarded as business units of ministries rather than as autonomous profit making enterprises. This practice of running the SOEs based on command and control from the ministries instead of commercial basis is a major source of inefficiency of SOEs. SOEs are best run by entrepreneurs and business professionals rather than by bureaucrats who – as discussed in Chapter 2 above – suffer from inherent incentive problems such as dynamic and allocative inefficiencies. The most successful SOEs – such as those in Singapore – are professionally run as businesses where ministries do not interfere with commercial decisions.

In addition, large SOEs in Vietnam are subject to conflicting regulations that affect their ability to develop commercially successful enterprises. For example, they have to comply with state regulations on defence, security, culture, or obligations to undertake money-losing businesses or provide money to unrelated projects for the interest of some government ministries. As a result, SOEs tend to diversity to non-core businesses, often speculative businesses.

As the Vinashin example illustrates, the supervision of SOEs has become problematic because the supervisory mechanisms are not appropriate, non-transparent and unwieldy. Simply put, the organizational set-up of SOEs is fragmented and not focused on the commercial aspects of running a successful enterprise. Officially, the Prime

Table 9: Non-core business exposures of large SOEs

<table>
<thead>
<tr>
<th>Number of SOEs involved</th>
<th>VND billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total non-core investments</td>
<td>23,300</td>
</tr>
<tr>
<td>Financial investments to Banks</td>
<td>13,888</td>
</tr>
<tr>
<td>Investment funds</td>
<td>4,426</td>
</tr>
<tr>
<td>Securities companies</td>
<td>1,061</td>
</tr>
<tr>
<td>Real estate</td>
<td>420</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>1,463</td>
</tr>
<tr>
<td>Other non-core investments</td>
<td>6,518</td>
</tr>
<tr>
<td>Total investments to other entities</td>
<td>9,412</td>
</tr>
<tr>
<td>Total debt</td>
<td>164,637</td>
</tr>
<tr>
<td>Owner's equity</td>
<td>514,465</td>
</tr>
<tr>
<td>Debt to Equity ratio</td>
<td>377,081</td>
</tr>
</tbody>
</table>

Minister makes all the key decisions on the SOE. The CEO and Board members are appointed by the Prime Minister and are held accountable to the Prime Minister. In practice, line ministries make key decisions such as personnel appointment, investment strategy and performance evaluation.

The Ministry of Finance provides some checks and balances by reviewing investment plans, monitoring and supervising financial activities, and evaluating the performance of holding companies. On the other hand, the Ministry of Planning and Investment supervises investments by holding companies on other firms, investments by SOEs in projects in unrelated fields (diversification), and evaluates the performance of the government as the SOE owner.

Vietnam’s model of SOE governance is unique compared to other countries. In Eastern Europe, SOEs underwent massive privatization (with not so good consequences as the Russian experience shows). In S. Korea, economic development was driven by chaebols and in Japan by the zaibatsus, both are private sector, family owned conglomerates. In China and Singapore, SOEs are managed by holding companies.

2.2.2 Problems with corporate governance

a. There is lack of effective governance mechanisms compatible with long-term maximization of economic value of the SOEs. For example, there is mismatch between average annual growth rate of salaries and annual rate of returns. On a good year, SOE managers tend to reward themselves with higher bonuses. The problem with this model is that it creates short-term incentives but not a long term perspective of creating wealth for the company and its shareholder.

b. There is conflict of interest when ministries are involved in both the functions of ownership on one hand and as a regulator/policy maker on the other hand. The experience of China, Singapore, S. Korea and Sweden has consistently shown that relying on ministries to run SOEs is a bad mechanism.

c. Accounting and finance is non-transparent and are not up to global standards. SOEs still lack mechanisms to detect financial difficulties or insolvency. The collapse of Vinashin is a stark reminder on the pitfalls when accounting and financial controls are weak and non-transparent. It is very likely that the accounting practices of other SOEs are also questionable.

d. Vietnam still lacks efficient mechanisms to deal with insolvent SOEs. This could lead to serious problems of asset stripping as what happened to SOEs in the former Soviet Union.

e. Governance mechanisms in banks and financial agencies, which lend to target SOEs, are themselves weak. As government owned banks, they have weak incentives to ensure that the loans they make are commercially viable.
3. Inconsequential Privatization

Equitization in Vietnam is found to target small SOEs and not larger ones, and it does not address the efficiency problem with state ownership since the state typically remains a controlling share of the equitized SOEs. Moreover, economic theory and experience from other countries suggest that the Vietnamese approach with diffused ownership in SOEs and in equitized firms, equitization to employees and management, and little participation of strategic investors, might not be the most efficient approach to public ownership and to equitization. Table 10 compares Vietnam’s privatization transactions since the 1990s with its neighbors.

Table 10: Privatization transactions over the period 1990-2005

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Number of Transactions</th>
<th>Total Proceeds</th>
<th>Relative to GDP in 2000, %</th>
<th>Average Transaction Size (US$ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>229</td>
<td>57,706</td>
<td>4.8</td>
<td>252.0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>107</td>
<td>318</td>
<td>1.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>35</td>
<td>8,418</td>
<td>5.1</td>
<td>240.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>50</td>
<td>12,394</td>
<td>13.7</td>
<td>247.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>79</td>
<td>4,180</td>
<td>5.5</td>
<td>52.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>23</td>
<td>5,946</td>
<td>4.8</td>
<td>258.5</td>
</tr>
</tbody>
</table>

Source: Vu (2009)

4. Perverse Incentives

State owned banks making loans to target companies or SOEs create problems of moral hazard. They become reckless in their lending and borrowing behaviors especially if there are no credible hard budget constraints faced by these SOEs. State owned banks – run by politicians and bureaucrats – are not in a position to say no and managers of large SOE borrowers are aware of this. The same situation has occurred in S. Korea in the 1980s. Financial regulations of state owned banks were weak but they kept on lending to target SOEs on orders of supervisory ministries, eventually leading to mass insolvency of state owned banks. This problem is not far-fetched for many of Vietnam’s State owned banks.

5. Weak Stock Market

A weak stock market renders SOE ownership non-contestable (Figure 15). When SOEs are not exposed to market discipline, they get little incentive to be efficient. In the last few years, Vietnam’s stock market has been a laggard in the region, reflecting the underlying weaknesses of the private sector and the inefficiencies of a state driven economy. Strengthening the local stock market and pursuing the listing of SOEs in the stock market are two key strategic goals as part of SOE reform.
6. Decentralization and Its Weaknesses

Vietnam has a remarkable record at decentralization. In 2001, local governments undertook some 50 percent of investments. By 2007, the share had increased to 61.8 percent in which provincial governments and lower levels of government were in charge of 48.8 and 13 percent, respectively. The share directly controlled by the central government is expected to decline even further in 2008, from 38.2 percent to a mere 33 percent (Albrecht, Hocquard and Papin, 2010).

In the last three years alone, a number of laws and decrees were passed to further strengthen local autonomy, especially for provincial governments. These include Decree 12/2009 which delegates further authority to local governments on matters of public investment except in cases of national importance. Law 30/2009 on urban planning gave city governments more power to define zoning and building legislation. Decrees 117, 88 and 59 (all of 2007) gave local government units more power on water, sanitation and waste. Equally important, Decree 138 (2007) created an investment fund and gave provinces with financial authority (Albrecht et al., 2010).

Despite its advantages, decentralization has its downsides. There is now an emerging view that decentralization in Vietnam has gone too fast and too soon, resulting into inefficiencies. We focus on three problems.

6.1 Inefficiencies and incoherence in investment planning

First, there is the risk of proliferation of poor quality public projects undertaken by provincial governments. The Public Investment Programme (PIP) has not yet evolved into a comprehensive screening/approval process because many local governments still lack the capacity to undertake investment appraisal and project implementation.
At present, there is no agency in government with the capacity and the authority to review public projects prepared by local government units and recommend changes, including their postponement or cancellation, when they do not meet minimum cost-effectiveness standards.

Second, there is no coherent manner of prioritizing which investments would create the most value. Provincial governments, often acting on their own, are unable to take advantage of economies of scale and synergy that could result from a more coordinated manner of investment planning. As a result, investments and economic development remains concentrated in only a handful of provinces. In light of these, there is now a necessity for a strategic review of roles of national and sub-national governments especially on how to achieve a more optimal method of investment planning.

6.2 Burden from administrative and service delivery units

Along with the decentralization from central to sub-national governments and resource transfers among provincial governments, Vietnam adopted Decree 10/2002/ND-CP which formalized the practice of administrative and service delivery units charging user fees. These units include schools and universities, hospitals and clinics, cultural units, research institutes and agricultural extension services. In addition to charging user fees, these service units are also free to re-allocate resources across line items within each of four blocks of expenditures: wages and salaries, operations and maintenance, capital and other. Discretion plus the lack of effective monitoring and accountability has led to increases in the prices of basic services such as education and health thereby increasing the burden to the poor. For instance, hospitals have for more many years relied on user charges and mark-ups on the sale of drugs to support their operations.

6.3 Transparency

Empirical studies to monitor the economic governance/competitiveness of provinces suggest that overall progress has been noted in the areas of 1) entry costs; 2) access to and security of land; 3) time costs; 4) labor quality; 5) confidence in legal institutions. However, there has been a decline in the areas of transparency, informal charges and proactivity of local leaders. Two out of three survey respondents believe that personal connections in the government are necessary to obtain documentation (Malesky, 2009).

The decline in transparency of provincial governments (according to the 2009 survey) is particularly a concern because of the way it affects the business climate. For instance, studies have shown that a one-point decline in transparency is associated with a 13 percent decline in enterprise per capita, a 17 percent decline in investment per capita and a VND 62 million decline in firm profitability (Malesky, 2009).

7. Productivity

Research productivity in Vietnam remains low and has not improved considerably
The number of scientific and technical journal articles published in Vietnam (per million people) is only 2.7 compared with 31.9 in China (Table 11). While China’s research productivity improved by about five times in 15 years, that of Vietnam improved only 2 times, from a rather low base.

This poor level of research productivity reflects an underlying problem of weak strategic and operational capacity of the government to direct efforts towards a viable industrial policy underpinned by research and development and technology absorption. In contrast, in S. Korea, its economic take off in the 1980s was distinctly driven by investments in R&D directed by a strategic and capable bureaucracy which was able to plan and execute a viable industrial policy. If Vietnam aspires to become a middle-income country, it has to develop its strategic capacity to direct investments in industries that will drive the next generation of growth for Vietnam. Doing this requires a capable and professional bureaucracy that will bring together academia, science, technology and industry to closely work together. At present, Vietnam lacks this strategic capacity.

Table 11: Research productivity: Vietnam vs. China

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of applications filed by residents to Local Patent Office</th>
<th>No. of Scientific and Technical Journal Articles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>China</td>
<td>Vietnam</td>
</tr>
<tr>
<td>1991</td>
<td>6.41</td>
<td>0.55</td>
</tr>
<tr>
<td>1992</td>
<td>8.60</td>
<td>0.49</td>
</tr>
<tr>
<td>1993</td>
<td>10.25</td>
<td>0.45</td>
</tr>
<tr>
<td>1994</td>
<td>9.39</td>
<td>0.31</td>
</tr>
<tr>
<td>1995</td>
<td>8.31</td>
<td>0.32</td>
</tr>
<tr>
<td>1996</td>
<td>9.55</td>
<td>0.50</td>
</tr>
<tr>
<td>1997</td>
<td>10.3</td>
<td>0.40</td>
</tr>
<tr>
<td>1998</td>
<td>11.05</td>
<td>NA</td>
</tr>
<tr>
<td>1999</td>
<td>12.44</td>
<td>0.48</td>
</tr>
<tr>
<td>2000</td>
<td>20.07</td>
<td>0.44</td>
</tr>
<tr>
<td>2001</td>
<td>23.62</td>
<td>NA</td>
</tr>
<tr>
<td>2002</td>
<td>31.09</td>
<td>NA</td>
</tr>
<tr>
<td>2003</td>
<td>44.06</td>
<td>NA</td>
</tr>
<tr>
<td>2004</td>
<td>50.60</td>
<td>NA</td>
</tr>
<tr>
<td>2005</td>
<td>71.40</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Vu (2009)

Labor productivity

Along with research productivity, Vietnam suffers from declining labor productivity in the public sector at the same time that labor productivity in the private sector is
increasing (Figure 16). Our survey of 500 civil servants also reveals that the labor productivity among civil servants is only 50% of potential. Part of the reason for this is that the formal compensation of civil servants constitutes only 60% of their total income, indicating that they spend considerable official time trying to supplement their government income with other sources (Table 12).

**Figure 16: Declining labor productivity in the public sector**

![Figure 16](image)

*Source: Vu (2010a)*

**Table 12: Efficiency of civil servants**

| The average efficiency rate of staff utilization in government organizations |
|---|---|---|---|---|---|---|---|---|
| Below 30% | 30% | 40% | 50% | 60% | 70% | 80% | Above 90% |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 4.4 |

| Percentage of formal compensation to actual income of the average government official |
|---|---|---|---|---|---|---|---|---|
| Below 30% | 30% | 40% | 50% | 60% | 70% | 80% | Above 90% |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 5.2 |

*Source: Vu (2010b)*
8. Public-Private Partnerships

While Vietnam is a favorite destination of foreign investors, it is a laggard when it comes to attracting private, non-government investments for infrastructure financing. This is a serious concern because government and donor resources alone are not enough to meet the projected annual financing requirements for infrastructure development in Vietnam at a level to that will propel it to a middle income country status (Figure 17).

**Figure 17: Vietnam needs private capital for infrastructure development**

![Graph showing annual investment and financing from 2002 to 2010.]

**Source:** World Bank (2009)

Recently, however, Vietnam has passed Decision 7, 2011 providing mechanisms for the development of public-private partnerships (PPP), especially for infrastructure projects. There remain some issues, however, that could be an impediment to its success. For example, a closer review of Decision 7 would show that while the current regulatory framework has adequate provisions to protect the interests of the government, it does not have enough incentives to attract private investors for major infrastructure projects. The main issue is that the regulatory framework has not adequately addressed major risks in infrastructure. In this section, we identify some of these risks, which we discuss below.

8.1. Government participation and guarantees

The recent PPP regulatory framework provides that the extent of government participation in a PPP project must not exceed 30% of the total investment level of a project, except as otherwise decided by the Prime Minister. The issue with this is that 30% may not be sufficient to attract private investors if the gap between the project’s financial feasibility and economic desirability is substantial. In the end, there will be little interest in the PPP projects.

As defined in the regulatory framework, government participation means a combination of all forms of state participation, including state capital, investment incentives and relevant financial policies, which are included in the total investment level (total investment capital) of a project with a view to increasing its feasibility.
While Vietnam may have the resources to contribute its 30% share of the partnership, such projects - low financial feasibility, high economic benefits - are better financed by ODAs, because they are subject to clearer rules than through a hybrid PPP that has none of the financial discipline of the private sector. Since such financing is a disguised public expenditure, it is actually a subsidy that should be treated as sunk costs, e.g. right of way acquisition, feasibility studies, etc. It should be made clearer in the implementation guidelines if such sunk costs are treated as part of the 30% ceiling on government participation in PPP.

8.2. Regulatory risks

Regulatory risk is the threat associated with a change of laws or regulations governing a given industry, country or project that negatively impacts on investments. It may also take the form of investors being unable to adjust rates or tariffs to contractually agreed levels by virtue of orders issued by regulatory agencies or the courts.

More important than financial guarantee is assurance to the private proponents that the government can credibly commit to minimize regulatory risks and will actually enforce contractual commitments. This is an important issue for private investors because the current regulatory framework does not clearly spell out the regulatory mechanism, formula and process for rate adjustment, compensation for expropriation and repatriation of profits. There is uncertainty for private investors whether government regulatory bodies responsible for hearing petitions for user-charge adjustments will act in a timely and decisive manner.

In addition, mechanisms for dispute resolution including arbitration, insurance, and recourse to international disputes resolution are also not explicitly addressed in the regulatory framework. There is also the lingering perception among foreign investors of uneven playing field when competing with SOEs and Local Development Investment Funds (LDIF) in PPP projects. The operation of these SOEs and LDIF are non transparent which is what turns off potential private foreign investors. The role of SOEs and LDIFs in the PPP process needs to be clarified and differentiated, i.e. either as project implementers or as investors but not both.

8.3. Take or pay arrangements

The current regulatory framework on PPP in Vietnam is vague on the subject of “take or pay provision” and do not categorically rule out indirect guarantees for commercial risks. As shown by the experience of the Philippines, this can lead to abuse. Take or pay provision essentially allowed independent power producers (IPP) in the Philippines to be paid whether or not the power plants they have built are producing electricity. This has to be clarified in the implementation guidelines particularly whether or not this falls under the ambit of the 30% ceiling of government participation in a PPP project.
8.4. **Financial risks**

In the current regulatory framework, there is little reference on how to deal with financial risks such as debt-service coverage; project or sovereign risk and exchange rate risk including denomination of contracts. Exchange rate risks are particularly problematic for Vietnam whose economy suffers from the effects of dollarization. The value of the VND has also dropped by 20 percent since 2007 in large part because of currency controls adopted by the government. These issues are particularly important for foreign investors and would be interested to have them clarified.

8.5. **Procurement issues**

There are also a number of outstanding procurement issues in PPP in Vietnam such as bidding procedure, the mechanism for rate-setting and adjustment, funding of future capital upgrading and expansions, and restriction of ownership transfer (i.e. the government wants to lock the private partner who wants to be able to change its portfolio over investment lifetime). There also remain unclear provisions on issues of tax concessions such as rates and exemptions, energy tariffs, and credits or waivers for certain outstanding liabilities. Moreover, issues on investment protection such as mechanisms for dispute resolution, repurchase or bailout options are yet to be clarified under the current legal and regulatory framework.

8.6. **Risk based regulation**

As the current PPP regulatory framework would show, there remains a problem of inadequate understanding or appreciation of the importance of a risk based approach to PPP and the principles of risk allocation. For instance, the framework in Vietnam does not explicitly recognize principles of risk allocation: 1) that risk should be allocated to the party with the best capability to control the events that might trigger its occurrence; 2) that risks must be properly identified and understood by all parties involved in the project; 3) that the party must have the technical and managerial capability to manage risks; 4) that the party must have the financial ability to sustain the consequences of the risks or prevent the risks from occurring; and 5) the party must be willing to accept the risks.

8.7. **Implementation issues**

Even while the regulatory and legal framework for PPP in Vietnam has been defined, a major challenge is in its implementation. Some of these likely challenges include 1) weak capacity (in terms of staff competence and resources, and ability to identify, appraise, and package PPP projects); 2) credible-commitment problems in dealing with line agencies which could discourage reliance on contracts (and therefore increase transaction costs); 3) weak accountability that results in collusive and rent seeking behavior; and 4) weak fiscal capacity that makes it more difficult for the government to provide subsidies for regulated industries and provide adequate resources for state
participation. These issues are important because based on the experience of the Philippines, PPP projects which failed were the ones which were poorly designed in terms of technical, legal, financial and economic viability.

C. Survey of Civil Servants

The assessment of the effectiveness of government is consistent with the perception of 500 senior and mid-career government officials who took part in a survey as a part of the Asian Development Bank’s Public Policy Training Program. The survey response rate was 90%.

1. Performance on Provision of Public Goods

The respondents were asked to rate their level of satisfaction with regard to the government’s performance on provision of public goods using the 5S framework (1=Shocking; 2=Sacrifice; 3=Satisfactory; 4=Surprising; 5=Superb). That is, the score below 3.0 is evidence for some sense of unhappiness; while the score above 3.0 shows certain level of satisfaction. Figure 18 summarizes the results of the survey.

Figure 18: Government performance and provision of public goods

Source: Vu (2010b)
In this assessment, the government’s overall performance is 2.8, which is significantly below 3.0 (the standard error is 0.04). The government’s performance is also far below 3.0 on the important pillars of long-term development as shown in Figure 18: urban planning and management (2.2); control of corruption (2.2); environment protection and natural resource reservation (2.4); quality control (2.5); education (2.6); healthcare (2.6); capacity building and public administration reform (2.7); and infrastructure development (2.7).

2. Government Priorities to Foster Development

Figure 19: Perception on government priorities to foster development

Source: Vu (2010b)
Notes: The rating scale (on the urgency level): 5=very high; 4=high; 3=average; 2=low; 1=very low.

On the other hand, among a list of government’s priorities for promoting the country’s economic growth and development, the respondents gave the highest level of urgency to the followings (Figure 19): bolstering the fight against corruption (4.4); reforming the education system (4.4); enhancing the quality of the legal framework and public policy (4.3); broadening the country’s vision and enhancing the competence of government (4.3); and infrastructure and urban planning (4.1).
3. Critical Challenges

While enhancing government performance is an urgent priority for Vietnam, there will certainly be inevitable challenges that will confront authorities in carrying out this task. These challenges lie in two critical areas: leadership and management (organizational and institutional constraints) and staff readiness for change (human resource constraints).

3.1 Leadership and management

The challenges related to leadership and management in Vietnamese government organizations are shown in Figure 20.

**Figure 20: Leadership and management**

- **Your organization can overcome the current institutional constraints to enhance its performance**: 3.3
- **Your organization has leadership with strategic vision and strong commitment to common goals**: 2.9
- **Your organization has paid special attention to retaining and promoting high-performing staff**: 2.9
- **Your organization can confront the truth to search for the root cause of the problem**: 2.8
- **Your organization has made serious efforts to attract and recruit talents**: 2.5

**Source:** Vu (2010b)

**Notes:** The rating scale on the level of agreement with a given statement: 5=strongly agree; 4=agree; 3=neither agree nor disagree; 2=disagree; 1= strongly disagree.

One major challenge is the absence of effective leadership (score on strategic vision and commitment=2.9). Other challenges include limitations in management, which are associated with retaining and promoting high-performing staff (score=2.9), willingness to confront the truth to search for the root cause of the problem (2.8), and making serious efforts to attract and recruit talents (2.7). It is also important to note that these problems are related to institutional constraints. The indicator on “whether an organization can overcome the current institutional constraints to enhance its performance” recorded
a score of 3.3. This implies that although institutional constraints do not completely prevent organizations from raising their performance, these constraints preclude government agencies from achieving their optimum performance.

### 3.2 Quality of civil servants

**Figure 21: Quality of civil servants**

![Bar chart showing the quality of civil servants including sense of responsibility, efforts for enhancing competence, professional competence, integrity, cooperation and teamwork, commitment and motivation of all staff, and commitment and motivation of young staff.]

**Source:** Vu (2010b)

**Notes:** The rating scale on the level of quality: 5=very high; 4=high; 3=fair; 2=low; 1=very low.

Our survey shows that the qualification of government staff remains weak despite 10 years of PAR (Figure 21). They were rated barely average on integrity (3.0), professional competence (3.1), and a sense of responsibility (3.1). At the same time, they were rated below average on commitment and motivation (2.9) and collaboration and teamwork (2.9). Especially, younger staff of the public service even garnered lower ratings on commitment and motivation (score=2.5). This reflects a serious concern for Vietnam and points to the urgent need to significantly upgrade the qualifications of civil servants.
Chapter IV. RECOMMENDATIONS


Institutional reform to enhance the effectiveness and efficiency of state governance is critically important for development. These tasks require exceptional efforts from the Vietnamese Communist Party and State, the most important of which are profoundly changing the country’s mindset and firmly establishing the strategic goals of national development. From this important base, other efforts should concentrate on the following: (i) building and strengthening fundamental institutions, (ii) mobilizing talent, (iii) boldly making breakthroughs, (iv) embracing global integration to the fullest, and (v) unleashing the nation’s potential. This report’s recommendations consist of two parts. Section A elaborates the reform imperatives mentioned above. Section B suggests initial steps for implementing these reform endeavors.

A. The Essential Contents of Reform

1. Profoundly Changing the Country’s Mindset

Changes in the country’s mindset should aim to deepen the appreciation of the following truths:

1.1 *Building prosperity for a poor country requires far more than investment and infrastructure modernization. Rather, it is a remarkable transformation.*

*This is an all-out endeavor that is characterized by the following features:*

a. The pace and vigor of the reform depend on the vision and goals set for the future, the commitment to free market principles, and capability to identify global social, economic, and technological trends. Miraculous development will not occur if it is constrained by a narrow vision, vague goals, disrespect for the laws of mankind, and incompetence in embracing global trends.

b. This reform requires concerted changes in all areas: economy, social infrastructure, and governance institutions. Stand-alone reforms in an isolated area will tend to fail or face major obstacles due to the resistance of or setbacks from stagnant areas.

c. This reform also requires profound transformational efforts. Incremental changes alone will not create major breakthroughs, which are critical to ushering in a new era of development.

1.2 *Making a breakthrough is only possible if we boldly attack the root cause of the problem, fostering the fundamental factors that underpin long-term development.*
It is impossible to make a breakthrough in development if efforts mainly address non-root cause factors, even though they may be very important, such as increasing the number of doctorates, raising civil servants’ salary, shortening time in granting business licenses, and building some large development projects, such as airports, seaports, and industrial zones. In order to make a breakthrough for a new phase of development, reform should be focused on substantially upgrading the following fundamental factors:

- Respect for the laws of mankind, especially free market principles and the institutional foundations of a modern civil society. Good governance plays a crucial role in the success of a development endeavor. The core of governmental excellence lies in its vision, strategic intent, sense of responsibility, accountability, practical mindset, and honesty.

- Mindset, aspiration, competence, and learning attitudes of businesses, people and society.

1.3 Turning idiosyncratic features into unique strengths.

There are three idiosyncratic features of Vietnam’s development: the economy is in transition, the government plays a strong and proactive role in the economy, and development has the socialist orientation. Vietnam should wisely turn these idiosyncratic features into unique strengths for development. Without this effort, these idiosyncratic features may turn into weaknesses, having severely adverse effects on development. Table 13 elaborates on this point.

Table 13: Vietnam’s development: Turning idiosyncratic features into unique strengths

<table>
<thead>
<tr>
<th>Idiosyncratic Features</th>
<th>Opportunities</th>
<th>Challenges</th>
</tr>
</thead>
</table>
| **Transitional economy** | • Leaders make proactive, timely, and courageous decisions to make great strides at every turning point.  
• Always seek truth from reality and make every effort to adapt and innovate.  
• Avoid dogmatism.  

**Turn into unique strengths if...** | • Leaders lack a strategic vision and the determination to reform due to dogmatism, conservatism, and self-interest.  
• Government is mired in reactive responses to immediate difficulties and the current context.  
**Become severe weaknesses if...** |

| **Strong and proactive government role in development** | • Build a highly effective and efficient government with a strong emphasis on meritocracy.  
• Make robust institutional arrangements, ensuring government officials will faithfully serve people.  
• Pay strategic attention to consultation with citizens and the private sector in policy formulation, implementation, and evaluation.  
• Pioneer efforts to build a modern civil society.  

**Turn into unique strengths if...** | • Maintain a large, overwhelming government with low effectiveness and efficiency.  
• Make important decisions without careful deliberations, disregarding analysis, supervision and critical assessments.  
• Influenced by interest groups and paralyzed by corruption.  
• Constrained by an ideologically driven personnel policy in attracting and promoting talents  
• Public servants can abuse power in pursuit of their personal self-interest.  
**Become severe weaknesses if...** |
**Socialist-oriented development**

- Place the people at the center of development endeavors, with prosperity and happiness as the ultimate goal.
- Invest as much as possible in human capital, particularly education, healthcare, housing, and living and working conditions.
- Foster humanity, a sense of responsibility, and commitment to serving people and society.
- Unleash the nation’s potential to realize the ultimate goals of building socialism: prosperous people, a strong country, democracy, equality, and civil society.

- Economic policies and reform efforts are constrained by outdated ideological doctrines.
- Discrimination against businesses based on type of ownership.
- State-owned enterprises (SOEs) are considered the major pillar of the economy, and are given privileges and unfair access to subsidies and scare resources.
- Lack of appreciation for the role of the private sector as the major driving force of development.
- Lack proper and effective strategy for building strategic alliances and embracing global integration.

### 1.4 Correct government officials’ common misconceptions:

a. **Profound reform is harmful to political stability.** On the contrary, profound reform with strategic vision is urgent and crucial for national development and thus plays a fundamental role in maintaining political stability.

b. **Cutting red tape is the main focus of the reform efforts for enhancing the effectiveness and efficiency of the government.** On the contrary, cutting red tape should be an inevitable outcome of fundamental reforms carried out decisively in each of the three areas: institutions, organizations, and human resource.

c. **Economic development can be achieved simply by opening up the economy, attracting foreign direct investment, and building major infrastructure projects such as airports, seaports, and industrial zones.** This perception has induced many local governments to lobby for investment in local projects, tolerating corruption, incompetence, and lack of robust economic analyses, all of which are detrimental to long-term development. Instead, reforms to strengthen and improve the fundamentals are essential and must be the foundation of development endeavors. A project must not be undertaken until fundamental elements, namely strategic vision, respect for economic and scientific principles, practical consideration, and meritocracy, are fully in place. However important they may be, no projects should be allowed if they undermine or weaken these fundamentals. Furthermore, short-sightedness and selfish motivations should be eradicated.

d. **The most effective measure to control corruption is making some exemplary cases with severe punishments.** On the contrary, anti-corruption efforts should start with robust and strategic efforts in selecting and promoting honest, competent, and highly motivated officials. It is necessary to drastically reform institutional arrangements so that officials are motivated to be clean and society would expect an honest government and should supervise government behavior to ensure honesty.
e. **Effective leaders should be authoritarian in making decisions; debates or consultation only cause delays, which let opportunities pass and waste time.** On the contrary, leaders' effectiveness depends on the thoughtfulness and quality of their decision-making, and they should benefit from the knowledge and intelligence of the best and brightest and convince the society of the value of their decisions. Therefore, the efficacy of consultation and continuous improvement in its mechanism are important indicators of the effectiveness of a leader and a government.

2. **Firmly Establishing a Strategic Intent**

2.1 *Establish the strategic intent to transform Vietnam into a prosperous country in three to four decades.*

2.2 *Determine to overcome all challenges to realize the above-mentioned strategic goal and make great strides in development by launching profound reforms in all areas, especially through efforts to build good governance.*

2.3 *Devise a plan to narrow the gap between Vietnam and the following ten benchmark countries/groups (by the order of time required for Vietnam to catch up):*

   i. India
   ii. Indonesia
   iii. Thailand
   iv. China
   v. Malaysia
   vi. Average OECD countries
   vii. South Korea
   viii. Singapore
   ix. Japan
   x. The United States

2.4 *Develop a catch-up strategy across sectors and industries at both national and provincial levels.*

*This strategy (at any level) should focus on:*

a. Vision of the future (with benchmarks against the world; strategic goals; primary principles for fostering catching up).

b. Thorough assessments of the gap between Vietnam and the benchmark countries, and the threats of failing to narrow the gap with critical attention to identifying the factors that help ensure success.
   i. Tangible indicators include per capita GDP, labor productivity, energy cost per GDP unit and industrial product, environmental quality.
ii. Intangible indicators include measures of institutional quality, morale and competence of public servants, beliefs and values governing social behaviors.

c. Formulation of strategies and policies for catching up.

2.5 *The government takes a leading role in establishing the spirit of reform and the determination to catch up.*

a. Pass party and government resolutions to pave the way for sweeping reforms to considerably upgrade government effectiveness, making it the strong engine and a solid foundation of development.

b. Evaluate the performance of state governance based on clear goals for achieving noticeable improvements in the four following indicators:

i. Policy quality
ii. Government effectiveness
iii. Control of corruption
iv. Rule of law

c. Table 14 below suggests government achievement targets for 2015 and 2020 for the four above-mentioned governance indicators:

**Table 14: Institutional quality targets from 2011 to 2020**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Current rank (2009)</th>
<th>Target</th>
<th>Current rank (2009) of some countries</th>
<th>Examples achieving dramatic rise in rank in 5 years' time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Singapore: 1</td>
<td>Indonesia, 29 ranks (2004: 149 → 2009: 120)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Malaysia: 89</td>
<td>Turkey, 45 ranks (2002: 130 → 2007: 85)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Romania, 19 ranks (2002: 108 → 2007: 89)</td>
<td></td>
</tr>
<tr>
<td>Rule of law</td>
<td>125 110 90</td>
<td>China: 117</td>
<td>Hong Kong, 32 ranks (2000: 47 → 2005: 15)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Brazil, 13 ranks (2004: 120 → 2009: 107)</td>
<td></td>
</tr>
</tbody>
</table>
2.6 Select the key reform priorities (KRPs) needing fundamental changes and considerable improvement, on which the highest level of the government’s determination, efforts, and resources will be concentrated.

a. The criteria for selecting a KRP:
   i. Potential impact of reform in the area must have at least one of the following characteristics:
      • Core and fundamental;
      • Key, critical for making breakthroughs, and having potential spillover effects;
      • Urgent, quick results, highly appreciated by people.
   ii. Feasibility.
   iii. Receptivity and social consensus.

b. The 10 proposed key reform priorities (KRPs) are:
   i. Upgrading institutional arrangements that determine social behavior, especially by improving the quality of regulation formation, rules, and decisions through regulatory impact assessment (RIA), enhancement of public consultation, and the capability to coordinate policies to maximize the effectiveness and efficiency of government policies;
   ii. Government reform: enhance the accountability of leaders at all levels;
   iii. Macroeconomic stability;
   iv. State-owned enterprise reform;
   v. Education reform and investment in human capital;
   vi. Restructuring and enhancing the overall competitiveness of the economy (with focus on the vibrancy of the private sector, innovations, and the reallocation of resources towards higher value-added activities);
   vii. Making major improvements in the quality of governance and the competitiveness of the two strategic economic hubs: Ho Chi Minh City and Hanoi; concurrently, a number of special economic zones should be built as the labs and models for Vietnam to grow into in the future;
   viii. Upgrading science and technology capabilities;
   ix. Making major progress in enhancing competitiveness and narrowing the gap with benchmark countries in the economic sectors that are highly integrated into the world economy, such as tourism, aviation, logistics, and export-oriented industries;
   x. Making major progress in enhancing the quality and effectiveness of urban planning, natural resource management (land, mines, water), land clearance, environmental protection, and energy and resource conservation.
3. Five Main Dimensions for Reform Efforts

3.1 Strengthen fundamental institutions

Efforts to strengthen fundamental institutions should concentrate on three primary, interlinked areas: upgrading the quality of institutions that foster the strengths of the market mechanism, building an effective and efficient government, and investing in and leveraging human capital.

a. Upgrading the quality of institutions that foster the strengths of the market mechanism and competition. The power of a nation depends on the soundness and effectiveness of its market. Therefore, improving and enhancing the market mechanism should be a top priority of reform efforts. The government should only be involved in the economy when the involvement is critical to enhancing the soundness of the market’s functioning or in necessary cases when the market may have some short-term adverse impacts on the social welfare.

b. Building an effective and efficient government. In this endeavor, priorities should take into account the following principles:

i. Steering rather than rowing: Efforts should be made to enhance the government’s role in formulating strategy and coordinating development efforts across sectors. The government should refrain from investing in the projects that can be better carried out by the private sector, especially in production, services, and real estate.

ii. Empowering rather serving: A typical problem of governments is that they assume too great a share in providing services to people, causing severe problems related to deficiency, poor quality, and resource shortages. Empowering people is a form of socialization in which the government works hand in hand with people in a strategic partnership to enhance the quality of public services provided to the society.

iii. Injecting competition into the delivery of services: using international benchmarks and regularly surveying citizens’ satisfaction to foster competition among government agencies to improve their performance and quality of services.

iv. From rule-driven to mission-driven organizations: This principle motivates people to embrace change and reforms that are necessary to improve performance.

v. Results-oriented government - funding outcome, not inputs: budget allocation and awards should be based on performance, which is measured based on well-thought out, fair, transparent, and consistent criteria.

vi. Customer-driven government - meeting the needs of the people, not the bureaucracy: use public assessments and citizens’ satisfaction as key measures evaluating the performance of government agencies.

vii. Prevention rather than cure: solving social problems such as environmental
pollution, traffic problems or corruption by attacking their root causes is far more efficient and effective than providing services to deal with the problems, especially when they have become serious.

viii. **Maximizing the power of the market mechanism in the formulation and implementation of policies:** The power of a government is shown in its capacity to strengthen the soundness and to leverage the effectiveness of the market. Government's strategies, policies, and decisions should faithfully uphold this principle, fostering innovation and the vibrancy of the private sector. Regulations and policies should be formulated emphasizing market incentives and competition; bans or prohibitions should be restricted as much as possible.

With regards to the aforementioned guidelines, Singapore provides an important lesson on separating the policy implementation from the policy-making function of government ministries. This reform will allow ministries to focus on their primary responsibility in strategy and policy formulation. The government agencies in charge of policy implementation operate upon business management principles:

- They set their own vision and mission in fulfilling the task assigned by the government.
- Their governing board consists of representatives from government, the private sector, and academia to provide the agency with the best governance (particularly on strategic planning and management quality monitoring). These agencies recruit staff using market mechanisms (therefore, compensation and recruitment policies can vary among different agencies).
- The agencies have motivation and flexibility to mobilize various resources and apply innovative management to achieve their objectives.
- The agencies are supervised by their respective ministries and their performance is regularly evaluated using results-based management methods.

The government should quickly establish a consultative council to propose specific measures for reforming the government’s organizational structure and agencies based on the above-mentioned guidelines and best practices from other countries.

c. Investing in and leveraging human capital. People are the center and engine of development. Accordingly, efforts to strengthen fundamental institutions should be concentrated on enhancing the motivation, attitudes, and competence of people. Institutional reforms should be carried out so that people have a strong motivation to shift from rent seeking to hard work, from cheating to upholding honesty, from low morale to strong commitment to the shared goal. The reform should include building a strong civil society that is characterized by the rule of law, belief in justice, and respect for moral power.

### 3.2 Mobilize talents

a. Making vigorous efforts to attract and utilize talents. The first important step in this effort is establishing an inspiring vision and fostering competition.
b. It is necessary to specify criteria to find talents beyond the common credentials of academic degrees or certificates. International practices apply the following ten criteria, which belong to three categories of qualification:

i. **Capability**: 5 criteria: analytics, learning ability, creativity, pragmatism, and professionalism;

ii. **Achievement**: 3 criteria: motivation; socio-political sensitivity; determination to reach the set target;

iii. **Leadership**: 3 criteria: vision, ability to motivate others, integrity and incorruptibility.

c. Expanding the sources of personnel for appointments (to all positions) with an appreciation for outside nomination and self-nomination. Conducting serious recruitment examination with an emphasis on capabilities honed through real life experience. Eradicating the constraints that currently prevent many excellent individuals from making contributions to national development.

d. Leaders of government, provinces and economic or technological sectors need to have an updated list of outstanding Vietnamese people and international experts who are passionate about the development of Vietnam.

e. Reforming on-going practices in promoting and assessing performance to enhance their substantiveness and effectiveness.

### 3.3 Boldly make breakthroughs

a. Study international best practices in every area of development. Ensure that all the policies formulated by the Vietnamese government have been carefully deliberated with references to these international best practices.

b. Build an image of Vietnam as a nation that was not only brave in the past but also courageous in its efforts to clear the path to its future, introducing bold and innovative policies that surprise the world.

c. Set up special development zones (SDZs, which could be named VN2045 to demonstrate the will to achieve prosperity in Vietnam by 2045 in commemoration of the centennial of the nation’s independence). These special zones are entitled to all policies and measures as long as they foster development, shed light on the country’s way to the future, and strengthen the confidence of people in the government. In particular, it is necessary to conduct in-depth studies to learn as much as possible about the success of Special Economic Zones, e.g. Shen Zen, in China and other countries. The government should establish an advisory council to propose plans on establishment of these SDZs.

### 3.4 Fully embrace global integration

a. Strategically embrace global trends and change; proactively seek lessons from international experiences.
b. Intensively and comprehensively adopt international standards in all sectors, fostering change and modernization, particularly in education, infrastructure, sustainable development, environmental protection, response to climate change, conservation of resources and energy, and preparation for future adverse scenarios.

c. Provide strategic support for Vietnamese enterprises and individuals to succeed in global markets, creating a strong image and many world-class brand names for Vietnam.

3.5 Unleash the nation’s potential

a. Deliberate on policies and conduct public consultations to enhance the quality and effectiveness of every government policy and decision, building a long-term, solid foundation for a civil society with vibrant public participation in the government’s decision making.

b. Leverage partnerships with citizens to identify and attract talents and to unleash to the fullest the society’s potential for development.

c. Collaborate closely with people to overcome any challenges and obstacles, be they educational reforms, control of social evils, environmental protection or natural resource management.

d. Encourage major universities and research institutes to establish centers for studying and monitoring public perceptions about the quality of government policy and the performance of key government agencies at both central and local levels.

B. Some Specific Recommendations on the First Steps to Implement

The following suggestions are a simple outline of specific steps for the government’s consideration. With regard to implementation of the suggestions that the government will give the highest priority, the government should form a task force to carry out further research and discussions and to learn from international experiences.

1. Organizational Initiatives

1.1 Set up the National Development and Strategy Council (NDSC) as an independent organization appointed by the Prime Minister and composed of representatives from the government, business sector, social organizations, and international and local experts.

- Main tasks:
  - Analyze the current development context and strategic trends;
  - Propose ideas and policies to accelerate the development;
  - Assess and monitor the reform’s progress.

- Task forces should be established for key reform areas and priorities.
1.2 Set up a Reform and Development Coordination Committee (reporting to the Prime Minister).

1.3 Set up a Performance Management Council, which will monitor the performance of government agencies.

1.4 Set up the SOEs’ Performance Supervision Council, which will supervise the performance of SOEs and provide this information to the public.

1.5 Set up centers for policy research, consultation, quality control, and evaluation.

2. Capacity Building Initiatives

2.1 Apply performance-based management to all government agencies and SOEs

2.2 Develop a robust database that is accessible to the public, with the following priorities:

   • Notable international experiences and best practices for policy initiatives in key development areas, particularly:
     - Reforms to enhance government efficiency and effectiveness;
     - Building civil society;
     - Revitalization of the ruling party;
     - Enhancing the effectiveness of policy implementation (e.g., saving electricity, attracting talented personnel);
     - Control of corruption, including the disclosure of elected and appointed public office holders’ assets, liabilities, and income.
   
   • International and domestic investment indicators (such as cost to build one km of express highway or to produce one kWh of thermal power); construction time required for typical development projects, particularly on infrastructure.
   
   • Details of key reform projects and updates on the progress of implementation.

2.3 Establish a robust process for approving government policies, decisions and projects

Information on assessments on the following should be carefully recorded and archived:

   • The purpose of the policy/decision/project is clear and well-thought-out.
   
   • Evidence and arguments prove that the best choice has been made among several alternatives (based on transparent selection criteria and reference to international best practices).
   
   • Person(s) accountable for the success/failure of the policy/decision/project is (are) identified.
   
   • Person/organization responsible for quality control for this policy/decision/project is identified. The evaluation of this policy/decision/project should be based on the following three main criteria:
- Compliance with free market principles and economic and social benefits;
- Contribution to development efforts;
- Contribution to building good governance and enhancing institutional quality.

- Assessments of outcome and impact of the policy/decision/project (as compared to targets)

2.4 **Change the key performance indicators for assessing the progress of development at both national and provincial levels.**

- Replace the current bias towards GDP growth and the increase of the share of the industrial sector in the economy with an emphasis on the overall development indicator, labor productivity, and sustainable development.
  - The overall development indicator is a composite index of: per capita income, inequality, job creation, wage and working conditions, traffic conditions, healthcare, quality and costs of education, housing and living conditions, level of pollution and environmental protection efforts, quality of family life, security and safety, cultural entertainment and recreation, satisfaction with local governments.
  - Labor productivity is the value-added averaged per employee. Special attention should be paid to monitoring the progress towards narrowing the gap between Vietnam and the benchmark countries on this indicator for key industries and economic areas.
  - The sustainable development index includes: pollution, traffic congestion, and consumption of energy per unit of GDP or key product.

- Revise and improve the Provincial Competitiveness Index (PCI) to better capture the sustainability of development in each province and its efforts to integrate into the regional and national economy.

2.5 **Reform and upgrade the Ho Chi Minh National Academy of Politics and Public Administration to become an excellent research and training center with a critical impact on changing the mindset of party/government officials, capacity building, and competence strengthening.**

3. Initial Steps

3.1 **The Party’s Central Committee will pass a resolution establishing the party’s determination to carry out sweeping reforms and laying out a development strategy for the nation to make major catch-up achievements over the next three decades. The government will develop an action plan for implementing this resolution.**

3.2 **The government/party will launch programs to train and examine the qualifications of the leaders of government agencies, with a special focus on vision, strategic mindset, policy-making capacity, leadership qualification, professionalism and modern management skills.**
3.3 To facilitate consultation with the public and relevant agencies, the National Development Strategy Council will provide the public with the details of the government’s action plan for implementing the catch-up strategy, as set out in the party’s resolution. This action plan will elaborate the ten KRPs presented in Section A, Sub-section 2.6. Those are:

i. Upgrading institutional arrangements that determine social behavior, especially by improving the quality of regulation formation, rules and decisions through regulatory impact assessment (RIA), enhancement of public consultation and the capability to coordinate policies to maximize the effectiveness and efficiency of government policies;

ii. Government reform: enhance the accountability of leaders at all levels;

iii. Macroeconomic stability;

iv. State-owned enterprise reform;

v. Education reform and investment in human capital;

vi. Restructuring and enhancing the overall competitiveness of the economy (with focus on the vibrancy of the private sector, innovations, and the reallocation of resources towards higher value-added activities);

vii. Making major improvements in the quality of governance and the competitiveness of the two strategic economic hubs: Ho Chi Minh City and Hanoi; concurrently, a number of special economic zones should be built as the labs and models for Vietnam to grow into in the future;

viii. Upgrading science and technology capabilities;

ix. Making major progress in enhancing competitiveness and narrowing the gap with benchmark countries in the economic sectors that are highly integrated in the world economy, such as tourism, aviation, logistics, and export-oriented industries;

x. Making major progress in enhancing the quality and effectiveness of urban planning, natural resource management (land, mines, water), land clearance, environmental protection, and energy and resource conservation.
CONCLUSION

The current and future progress of Vietnam’s development critically depends on the government and the Communist Party’s will and boldness in making fundamental and profound reforms. The authors of this report expect that the country’s leadership will have the determination necessary to undertake the needed reforms and ensure that Vietnam will make miraculous achievements in the decades to come.
REFERENCES


REFERENCES


