

SUMMARY OF VIET NAM GOVERNANCE ASSESSMENT

Basic Parameters of Governance

Historical Background

Governance institutions in Viet Nam have been influenced by many external factors, including 1,000 years of Chinese rule ending in the 10th century and a tributary relationship with PRC for the next 900 years. (This summary draws from ADB 2000g.) A continuing challenge has been the difficulties of successive governments in ruling a narrow, 1,500-square kilometer piece of land, and warding off both internal and external challenges to this rule. The French colonial administration, starting in the late 19th century, failed to address the long-standing issue of concentration of landholdings in the hands of a small elite, and offended many by dividing the country into three parts. A brief period of Japanese occupation during World War II was followed by the formation of a provisional government of the Democratic Republic of Viet Nam, a nationalist-communist group led by Ho Chi Minh, and a rival government supported by the French and the United States, the Associated States of Vietnam. Nine years of struggle between the French and the Democratic Republic of Viet Nam followed, resulting in the end of French colonial rule in 1954.

The cease-fire agreement established a provisional demarcation line 5 kilometers wide at the 17th parallel, and provided for unified national elections

in 1956. However, a provisional government in the south building on the Associated States of Vietnam regime was promised continuing support by the US in 1955 and became the Republic of Vietnam. The Democratic Republic of Viet Nam initially tried to address this challenge through political means, but shifted to escalating armed struggle by the late 1950s. Direct US military support to the Republic of Vietnam began in 1961, and escalated until reaching a peak strength of 525,000 US troops in 1968. Following a successful communist offensive that year, the US came under intense domestic pressure to reduce its military support. A peace agreement was signed in 1973; the US withdrew in 1975; and a unified, communist-led government took control over all of Viet Nam in 1976.

Viet Nam paid a steep price for victory, including an estimated 1.5 million deaths and the loss of another 1 million citizens who fled the country after the war, including many skilled professionals and technicians. For this and other reasons, the unified government did not initially succeed in achieving its goals for economic development and poverty reduction.

To address these problems, the Fifth National Party Congress held in 1982 sanctioned privately-held small enterprises and the “family economy” for agriculture. The latter gave greater scope for individual initiative, and began to lead to increased agricultural production. Building on this, a major economic reform process known as the Doi Moi renovation was launched in 1986. The importance of the reforms was signaled in 1987, when 12 ministers were dismissed, including the ministers of national defense

and interior, and several ministries were merged or restructured, allowing the Government to effectively pursue macroeconomic stabilization, price liberalization, and deregulation. Some political prisoners were released, and a larger number of candidates than in the past were allowed to stand for seats in the National Assembly. In 1990, 18,000 officials were dismissed or charged with corruption. The 1992 constitution recognized individuals' ownership rights of and legitimized the private sector. These changes took place in response to severe economic problems, including famine in the north in 1988, limited foreign trade, and major deficit spending by the government with resultant hyperinflation.

Aid also fell dramatically. Aid from the former Soviet Union alone had been 10 percent of GDP, but by the late 1980s total aid to Viet Nam was less than 1 percent of GDP (Dollar and Pritchett 1998, pp. 105-108). Yet the limited aid received was put to good use, for example, to hold meetings with other reformers in Southeast Asia to improve understanding on the workings of a market economy, trade liberalization, and foreign investment; consultations between the private sector and government officials; and rural workshops to discuss how donors could best help with poverty reduction.

The results of the Doi Moi reforms were impressive. In comparison to the 40 poorest countries in the world in 1986, Viet Nam had the highest economic growth rate over the next decade, while maintaining or improving human development performance. Real income rose by 39 percent in real terms between 1992 and 1998, while the poverty rate was cut from 55 to 30 percent. These changes meant that Viet Nam was well positioned to benefit from the windfall market opportunities of the Asian region in the early 1990s, and became attractive to foreign investors just as the US embargo was lifted in late 1993. These events led to a major infusion of foreign investment and international donor commitments, resulting in economic growth of almost 9 percent per year during 1993-1997. In addition to capital investment, these international interests brought much needed management and technical expertise to Vietnamese ventures and public sector projects.

The Government and party leadership have continued to devote much attention to corruption through such means as the 1998 Ordinance against Corrup-

tion and the establishment of a hotline to receive complaints from businesses.

Analysts of Viet Nam's policy reforms since 1986 (Fforde and de Vylder 1996; McCarty 2001) find a number of reasons for the rapid, largely successful transition from a planned to a market economy, including the timing and gradualist approach of policy reforms, the fact that central planning had only been partially implemented, the maintenance of political stability, the ability to benefit from being located in a rapidly growing region, and the credibility and advantages of citizens perceiving the reforms as being of domestic origin.

The Public Sector

Structure of Government

The structure of Viet Nam's Government has undergone major transformation since the introduction of Doi Moi. It currently consists of five state institutions, namely, the 450-member, elected National Assembly, which meets twice a year; the president; the executive government; the Supreme Court and local people's courts; and the Supreme Institute of Procuracy³ and the local people's procuracy. The three other component institutions of the political system are the Viet Nam Communist Party (VCP), with a 160-member Central Committee; the Vietnamese Fatherland Front, the umbrella organization of the mass organizations; and the trade unions.

A unitary system of government is in effect. Under the 1992 constitution, the VCP is the dominant political force and the National Assembly is the leading representative institution.

All state bodies are held accountable to, and are appointed by, the National Assembly. Over time, the National Assembly has enhanced its legislative role and oversight of executive government bodies, and the VCP is committed to further enhancement of the National Assembly's role. As a consequence, draft legislation submitted by the Government is now publicly debated, and in several cases the National Assembly has rejected the Government's proposals.

The Government is the highest executive body, charged with overall economic management and with supervising public sector agencies. The prime minister can appoint deputy prime ministers, minis-

³ This body prosecutes criminal cases and facilitates civil cases.

ters, and members of provincial people's committees and can establish, dissolve, or restructure public agencies. The president has the power to recommend that the National Assembly dismiss the prime minister and is commander-in-chief of the armed forces. The president is elected by the National Assembly from among its members for a five-year term. The National Assembly elects and dismisses the prime minister at the request of the president.

Although the leadership of the VCP and the Government have considerable authority, decisionmaking is characterized by consensus seeking, thereby sharing responsibility and reducing the political risks involved in making difficult decisions. While the emphasis on collective leadership and consensus has the merits of maintaining stability and involving many elements of society in decisions, it also results in a slow government response to critical issues and makes it difficult to establish independent watchdog units to help ensure transparent and accountable government. In other countries such units are based on a model of competing interests keeping the system honest, while the Vietnamese system assumes that the VCP can decide what is best after extensive consultations (McCarty 2001). In implementing decisions, coordination by relevant state bodies is required before a designated authority takes action.

The Executive

The central Government consists of 22 ministries, recently decreased from 27 through the merger of 8 ministries and state committees into 3 new ministries; 26 ministry-level agencies; 28 general committees; and a number of other central government agencies. The restructuring into multisectoral ministries reflects the new approach to economic management.

The reorganization of the Government's organizational structure has had a direct impact on the organizational structure of the functional agencies of the People's Committee at all levels. The number of key line agencies has been reduced from 30 to 20 at the provincial level and from 20 to 10 at the district level.

Office of the Government

The Office of the Government (OOG) provides direct support to the prime minister. Its functions include such activities as disseminating and enforcing the Government's and prime minister's decisions,

ensuring collaboration and coordination among ministries and provinces, and recommending policy issues to the prime minister to assign to relevant agencies for research.

The Party Congress sets the overall policy direction. After consultation with stakeholders, the prime minister makes decisions about new laws and policies, which are then endorsed by the cabinet and National Assembly as necessary. Ministers provide policy submissions to the appropriate vice-chair at the OOG, who can return them if they are incomplete, inconsistent with past decisions, inadequately consulted on, or potentially illegal. In doing so the OOG's role may be administrative (ensuring that submissions are complete) and/or substantive (analyzing the content). Once a policy submission is complete, the relevant deputy prime minister reviews it. In some cases it goes to the Prime Minister's Research Commission for further redrafting before approval. Presumably the seven-member Politbureau Standing Committee reviews many issues brought to the prime minister during its daily meetings.

Viet Nam's central Government policy-making institutions can be viewed as a hybrid of classic cabinet and presidential models. Like the cabinet model, Viet Nam's system is underpinned by collective accountability for decision making. However, the cabinet is only one of the key structures, and consensus building stems mainly from informal rather than formal processes. The cabinet neither makes decisions nor formally questions decisions once made. Like the presidential model, the prime minister relies on bilateral or trilateral arrangements between himself and ministers, who are accountable for decisions within their particular spheres.

Public Financial Management

Financial and economic policy making follows the broad outline of the process sketched out earlier (for more details see World Bank 2000b). The Ministry of Planning and Investment is the main source of policy advice on long-term financial strategy, macroeconomic management, expenditure, and foreign investment. The Ministry of Finance is responsible for tax policy and also advises ministries about policies and their application.

The budget process begins with a request to all ministries for their budget projections. The Ministry of Finance consolidates individual projections into

the proposed state budget for approval by the prime minister and National Assembly. However, a considerable amount of spending consists of off-budget expenditures, which include a number of funds (such as the Social Security Insurance Fund) and capital spending by SOEs. The prime minister approves these expenditures separately from the state budget.

Nevertheless, progress in building a more coherent financial management system has been considerable since the passage of the 1996 State Budget Law, which defined the authority and responsibility of state agencies in finance and budget management. The budget system has been reorganized into four tiers in line with the structure of the administrative apparatus (central level, provinces, districts, and communes) based on the principle that tasks that could be better performed by local levels should be assigned to them. At the same time, each level has been authorized to collect revenues. To encourage local authorities, they are allowed to increase their expenditures if they are able to increase their revenue collection beyond that laid down in the budget. In addition, state administrative agencies have introduced new procedures for revenue collection and expenditure management that have rationalized the work and reduced waste. Finally, a system of auditing agencies has been established to oversee financial management operations.

However, many weaknesses remain. First, management reform has only recently been added as a component of PAR. Second, decision making among administrative agencies in the use of public financial resources is often delayed. Third, in implementing their budgets for assigned tasks, the administrative agencies face a number of obstacles, including insufficient and inconsistent policies, procedures, and expenditure norms. Fourth, the practice of estimating administrative expenditures according to the number of staff in a particular agency provides incentives for agencies to hire more staff so that they can get larger budgets. Fifth, the issuance of financial regulations and policies is not keeping pace with the PAR process. Finally, the responsibilities of auditing agencies have not been differentiated from those of other inspecting agencies, resulting in an overlap of functions (PAR Working Committee 2000).

The Civil Service

Excluding the police, army, and SOE employees, the civil service consists of about 1.3 million people, 200,000 working for the central Government and 1.1 million working at the provincial level.

Despite some recent increases, civil service salaries are low: the basic salary is equivalent to about \$12 per month, while the most senior civil servants receive around \$104 per month. However, salaries represent only part of civil servants' remuneration. They also receive allowances (including for housing) and collect various payments for services rendered in their work. In some cases, the ministry or agency pools these unofficial payments and distributes them to staff at the end of the month. Despite this, many civil servants cannot make ends meet without a second income. However, the salary system has been upgraded, and staff are motivated to increase their salaries through such means as improving their qualifications.

Paradoxically, the civil service can be viewed as both overstaffed and understaffed. Staff qualified to meet the new requirements are in short supply, but at the same time many civil servants are unable to meet current performance requirements. The Government's planned efforts to reduce the civil service by 15 percent may help to rectify the second problem. What is important is "rightsizing" the public service to ensure the rational allocation of staff.

Personnel management systems have improved. Most civil service applicants are now required to take an entrance examination, which not only helps to select the best staff, but ensures social equality. However, each ministry and agency does its own recruitment, thus moving between ministries is uncommon.

In-service training has focused on new management knowledge and skills, and the number of civil servants participating in this kind of training is increasing. The training also emphasizes the basic knowledge civil servants need to perform their jobs, such as economic management in a market environment and computer and foreign language skills.

Although some results have been achieved, the knowledge and skills of Viet Nam's civil servants are low in comparison with other countries and a number of weaknesses need to be overcome.

To begin with, the Ordinance on Public Employees does not distinguish clearly between different types of public employees, which has a negative effect on both management and staff development. A number of subordinate legal documents have still not been promulgated, thereby delaying the implementation of policies.

The manpower and staff development planning system is not sufficiently developed. One reason for this is that the information system does not yet provide the necessary data. In addition, the current job grading system perpetuates irrational staffing structures and the personnel management system is overly centralized as regards staff allocation and management. In terms of recruitment, given that civil servants earn a half or two thirds of what they could earn in a comparable private sector job (including benefits and “informal” income), attracting and retaining qualified staff is difficult. Plus the processes for job assignment and promotion are still not objective or centralized.

The training of civil servants is only at an initial stage. It has not been implemented in an orderly fashion and the content is not fully relevant. Theories are overemphasized and relevant skills training is underemphasized. Both training methods and facilities need to be upgraded to improve the effectiveness of training. The poor quality of the training means that even staff with formal qualifications may be incompetent.

Many civil servants behave in a way that is clearly not service oriented, and is therefore inappropriate. Some civil servants abuse the power of their positions by being involved in corrupt practices and making money illegally.

A number of reasons account for these weaknesses. First, the systems for developing civil servants were implemented shortly after the Government’s orientation had changed from central planning to a market orientation, and some civil servants have not changed their behavior accordingly. Second, staffing procedures have not yet been rationalized. Third, there is no system for feeding back knowledge from lessons learned from the implementation of new staffing rules to improve the rules. And fourth, policies to motivate and encourage civil servants have had a limited impact. Procedures to select and promote tal-

ented staff are also lacking, especially for selecting leaders and staff skilled in socioeconomic management.

Local Government

Viet Nam’s local administration system is divided into three levels: provinces (61 units), districts (600 units), and communes (10,330 units). Each locality at all three levels has a representative body, the people’s council, and an executive body, the people’s committee, which correspond to the National Assembly and the Government at the central level. Although they are set up as separate bodies, the people’s committees and people’s councils often have overlapping membership. The people’s councils are elected by the local people, with candidates usually nominated by the Viet Nam Fatherland Front. The people’s councils select the chairs and vice-chairs of the people’s committees.

While ultimate legislative authority rests with the National Assembly, provincial and local government departments report to the local people’s committees and assemblies and to the central line ministries. Responsibility for planning, implementation, and operation of facilities is also split, although large urban centers and a number of provincial governments enjoy a high degree of autonomy. Overall, the interrelations between different levels of government are complex in terms of supervision, accountability, reporting, and allocation of tax revenues.

In principle, local authorities cannot carry out any public administration functions unless they are explicitly assigned such responsibilities by national legislation. In this regard, in accordance with the provisions in the 1992 constitution, the Law on Organization of the People’s Council and the People’s Committee (1994) and the Ordinance on the Concrete Tasks and Powers of the People’s Council and the People’s Committee (1996) were promulgated to provide the basic legal framework for local government organization and operation, and the Budget Law (1996, 1998) formalized the fiscal arrangements between different levels of government, assigning important budget responsibilities to local authorities, especially at the provincial level. As a result, the people’s committees now have both budgetary and administrative responsibilities, including maintaining law and order, forwarding budget requests to

higher levels and executing the budget, and reviewing and approving plans for socioeconomic development.

Also according to the 1992 constitution, the popularly elected people's councils are the local organ of state power that elects the people's committees as their executive body. However, the people's councils face a number of obstacles to carrying out this function effectively. While their tasks are increasing, they often have inadequate resources, skills, and infrastructure. In addition, as they meet only twice a year, their contribution to policy discussions at the national level is limited.

Despite the significant degree of autonomy extended to local administrations, many people perceive the Government as still being overcentralized and the institutional framework needed for greater decentralization as weak. However, political and administrative practice may be more decentralized than suggested by the formal lines of command.

Complexity with respect to the relations between different government agencies is increased by the unclear demarcation of the mandates of various agencies, leaving room for discretion in the interpretation of responsibility and accountability, and with overlapping functions. This makes more coherent decentralization of management to local administrations a high priority goal of the PAR. However, the lack of capacity within local authorities to provide public services efficiently presents a hindrance to decentralization. Problems with efficiency and accountability in part reflect the low morale of underpaid local officials and their lack of training, along with inadequate recurrent funding (Rondinelli and Hung 1997).

Legal and Judicial System

As mandated by the 1992 constitution, Viet Nam has been engaged in building a state ruled by law. Many laws have been passed, courts and legal aid centers established, courthouses built, standards set for judges, lawyers educated, prosecutors and law enforcement officials trained, legal information systems developed, programs to disseminate legal information to the public instituted, and legal education and professional training institutions created and/or expanded and improved. The international donor system has complemented Viet Nam's own heavy in-

vestments in developing its legal system by providing substantial assistance to all the main components of the legal and judicial system. Although much has been achieved, officials and donors agree that much remains to be done.

Current efforts in developing the legal and judicial system have the following shortcomings: the lack of a clear law development strategy; an inadequate institutional framework for effective implementation and enforcement of the law, especially in regard to the quality and independence of trials; and the lack of a coordination strategy and action plans.

The quality of laws and regulations is weak in several respects. Superior and subordinate regulations are often inconsistent. Sometimes provisions contradict each other. The resulting uncertainty is aggravated by the practice of not precisely specifying what provisions of previously issued legal documents are to be abrogated when a new legal document takes effect. Provisions in superior regulations are sometimes too general, leaving too much discretion to lower-level regulations. In other cases superior regulations may be too detailed and cause difficulties in implementation and the need for a lengthy process to revise inappropriate provisions.

The process of preparing legal documents sometimes fails to encourage active participation by relevant state organs and entities with legal expertise, and public opinion is also not sought. The mechanism for reviewing draft legal documents to check their constitutionality, legality, uniformity, consistency, and enforcement feasibility is also still weak. Another weakness is that preparation tends to be done without proper policy studies and research, which means that legal documents often have to be revised shortly after their promulgation. In addition, subordinate regulations are often not prepared together with superior regulations, causing implementation delays and uncertainties. These weaknesses are caused partly by inappropriate rules and procedures and partly by a lack of capability on the part of those entrusted with the tasks.

Local authorities play an important role in implementing legal institutions; however, they issue too many legal documents, which leads to fragmentation of administrative power and nonuniform application of legal provisions. One reason for this situation is that no law regulates the promulgation of

legal documents by local authorities. The situation is similar at the national level, in that there is no requirement that legal documents must have been published before they take effect.

The legal framework needed to meet the requirements of modernization is not yet complete. In the field of economic management a number of necessary legal institutions are not yet in place, such as regulations promoting competition and preventing monopolies. Regulatory institutions are still inadequate and do not reflect the state's role and functions during this transition period. Similarly, the institutions regulating people's rights in relation to the administration are not yet well developed.

Many administrative procedures are cumbersome and excessively regulated, creating opportunities for abuse of power and corruption by state officials, and the quality of services provided does not yet meet the expectations of people and business. State agencies have been slow to implement reforms in this area, perhaps because of a lack of awareness of the needs, an inability to find ways to improve procedures, and a lack of motivation.

As concerns application of the principle of rule of law, state agencies still interfere unduly in economic activities. The openness of state agencies in a number of aspects and fields is still weak and restricts the exercise of citizen's rights. Not only are the activities of state agencies less than transparent in a number of areas, but they also restrict citizens from exercising their rights.

Finally, fundamental attitudes in relation to respect of the law have not yet developed. State agencies and individuals regularly violate laws, and those responsible for law enforcement also often violate the law in their adjudication practices.

Civil Society

The number of civil society organizations has grown significantly in recent years, with much donor support having been provided for capacity building of development NGOs and other types of nonprofit organizations. The Government has been exposed to international best practice in legal frameworks for nonprofit organizations and has expressed its intent to finalize the drafting of the Law on Associations.

Another area to which the Government has given high priority is improving the dissemination of legal information to the public at the district and lower levels, as well as increasing transparency, accountability, and citizen consultation through the Grassroots Democracy at the Commune Level decree.

Accountability Institutions

The Government and VCP are rightly focused on the need to fight corruption and waste. It was widely reported that nearly one third of Viet Nam's public investment expenditure in 1998—equivalent to 5 percent of GDP—was squandered without result and the Government is committed to tackling the problem.

Corruption in Viet Nam thrives because of complicated and unclear administrative procedures, excessive regulations, the opaque nature of decisionmaking, lack of public information, bureaucratic discretion on the part of middle-level officials, and long delays. A contributing factor is low public sector pay. This results in civil servants pursuing various strategies to augment their incomes, ranging from holding multiple public sector offices or maintaining other employment to petty bribe taking and corrupt practices. Another factor that increases the risk of corruption is the strong autonomy of major provincial areas, for example, some municipalities have set up dozens of public enterprises, many of which are nonproductive vehicles for rewarding loyal cronies. The Government has tried to cut back on the creation of such new enterprises through stricter regulations, with only intermittent success.

Businesses report many types of corruption, including "speed money," e.g. payments to move a tax matter more rapidly through the tax bureaucracy, payments to secure a rapid, true estimate of taxes owed, or bribes in exchange for understating tax obligations. There is also reportedly embezzlement through falsification of records, such as tampering with official receipts for tax payments. There are reports of overprinting of documentary strip stamps, auxiliary labels, and cigarette stamps. There are also cases of the selling of choice positions; delaying tax payments and benefiting from the "float"); paying bribes to investigators to sit on cases, delay investigations, or

dismiss complaints; and irregularities in public procurement.

Both government and VCP policies emphasize their opposition to public sector corruption, and the Government has issued new decrees on corruption and on the elimination of wasteful practices in the public sector. A number of instances of corruption received attention recently as the Government took strong enforcement action. Disciplinary actions as a result of investigations by the State Inspectorate and the VCP are also increasing. Nevertheless, the continuing pervasiveness of these problems highlights the governance challenge for the Government, especially in view of its limited resources.

One problem in addressing corruption is that Viet Nam's judicial system is centralized, with ultimate decision-making authority resting with the National Assembly. The system has not yet developed the predictability and quality of decision making needed to support a market-based system in areas such as contract dispute resolution. Only the National Assembly is authorized to interpret its legislation and the concept of precedents has not been established. Neither the reasoning underlying decisions nor the decisions themselves are published in a systematic way for the record.

Many judges do not have legal training and their appointments are based on patronage. The credibility of the system is low, and viewed as open to bribery. Modernizing this system is essential to provide a foundation of relative certainty for private investment decisions, but to date the necessary reforms have received only limited attention.

Present Reform Prospects

Both the Government and the VCP recognize that further profound reforms are required to maintain the country's growth momentum. During a recent National Assembly meeting, which for the first time involved public questioning of ministers, members expressed impatience with the slow speed with which administrative reforms are being implemented and with weaknesses in the bureaucracy.

While some progress has been made in PAR, a comprehensive strategy is still lacking, and this has

contributed to the lack of consensus on reform. Another complication is that many civil servants lack the knowledge, skills, and attitude needed for effective implementation of PAR. The implementation of PAR is also affected by the lack of clear consensus on the direction and pace of economic reform. Tension remains between those who see the state as having a pervasive responsibility for ensuring social equity and controlling the economy through direct intervention, and those who see the role of government as concentrating primarily on a broad economic policy framework and the provision of legal institutions and the regulatory framework needed to promote market-based growth.

Civil Service Reform

Recent achievements include simplifying administrative procedures in ministries and agencies at the central and local levels, restructuring ministries through mergers, defining roles and functions more clearly, and introducing more transparent personnel procedures.

The Government's recently completed PAR review proposes a number of reforms, many of which are broader in scope than pure PAR. The PAR review is built on four pillars, namely, institutional reforms, organizational reforms, human resource reforms, and, public finance reforms. The review's recommendations include a variety of provisions, such as obtaining public comments on draft legislation, improving the dissemination of information about new legislation and about court judgements, streamlining the corporate regulatory framework, and professionalizing the civil service. Principles are emerging from global experience that can help Viet Nam as it tackles the challenges of implementing such wide-ranging reform.

In undertaking PAR, Viet Nam will not be able to realize substantive and enduring reform without radical changes in human resources and in organizational practice and policy. Focusing on the critical training needs of civil servants and moving toward a performance-oriented system are essential components of PAR. The Government's priority of reducing the size of the civil service will be facilitated by the new computerized personnel system. Equally important

is that the public service has a clear mission and well-defined goals. Systems and procedures need to be revised to foster a new working culture of excellence. As concerns local government, ensuring that local administrations are fully empowered and strengthened requires greater decentralization to achieve a more rational allocation of both functional and financial authority between central and local levels.

To date the Government has focused on formal administrative systems and institutional reforms, with little in the way of service delivery initiatives. Thus an important initiative would be to set and publicize standards for those services agencies at the central and local levels provide, not only to improve the quality of services, but also to enhance accountability and transparency. Information provided about service standards would include details about where and how services can be obtained, service delivery times, forms and other information required for a service, and charges if any.

Policy coordination and implementation present critical challenges. The role of central agencies, in particular, the OOG, is pivotal to ensuring that a proper mechanism for strengthened policy coordination, timely decisionmaking, and effective implementation of all government decisions is in place.

Managing PAR is as important as the reform itself to ensure smooth implementation. To achieve this, it is essential to develop a clear vision and strategy for the public service, which the Government is currently developing. Unlike most programs and projects with a sectoral focus, major changes in public administration are cross-sectoral and multidisciplinary. Hence, the ultimate authority for PAR lies at the highest levels of government.

International experience shows that institutional reform is rarely internally driven. Reform initiatives need to be planned and driven by suitably resourced task forces. The involvement of a broad cross-section of stakeholders minimizes the risk of changes being directed to meet the needs of narrow vested interests.

The Government is implementing PAR mainly by issuing regulations and decrees, which are used to convey directives on implementing new administrative improvement programs to all public sector agencies and civil servants. However, for greater clarity and more effective implementation, the decrees should

be accompanied by clear implementation guidelines and be reinforced by training.

The question of the resources required for effective PAR also needs to be addressed. Most developing countries that have embarked on PAR have, in the early planning and design stages, set up high-level steering committees supported by full-time, qualified staff. Viet Nam has a complex reform agenda, yet the resources allocated are inadequate. Thus, as the PAR review recognized, the capacity of the PAR government steering committee needs to be strengthened with full-time specialists to enable it to carry out the next phase of reform more effectively.

Public Financial Management Reform

Transparency lies at the heart of the Vietnamese constitution; however, achieving this vision will require changing how decisions in the public sector are taken and communicated. Progress made includes the publication of government financial statistics in IMF's yearbook, an improvement in external debt management and agency reporting of financial information, and the drafting of new accounting standards that are 95 percent in compliance with international accounting standards.

This progress provides a basis on which to build. Given that the budgetary system allocates financial resources according to society's goals, the need to improve budgetary data and information flows is imperative. Some of these measures could be undertaken immediately, such as the publication of more detailed information about the budget and public accounts.

Production of a fiscal and economic outlook publication would strengthen macroeconomic planning and management, though this would require strengthening capacity in the ministries of Planning and Investment, and Finance. The institutional framework for audit, centered on the Auditor General's Office, has been improved considerably. Like all state audit organizations, the office's independence and ultimate answerability to the National Assembly is important to safeguard prudent management of the public purse.

The duplication in the monitoring of budget expenditures by the Treasury, the Budget

Department, and the Public Expenditure Management Department of the Ministry of Finance will need to be addressed. Accounting requirements and reporting systems need to be simplified, with a greater focus on analyzing spending trends. Reorganizing the Vietnamese Accounting Association would present an opportunity to form a professional body consistent with good international practice and a Public Sector Accounting Standards Board should be set up to establish and implement public sector accounting standards. At the same time, the training of accountants, auditors, and accounting professors needs to be greatly expanded.

Legal and Judicial Reform

Ensuring Wider Access to Justice

The justice system is a broad concept that incorporates formal and informal legal systems, the penal system, and the role of the police. Lack of access to this system is a common concern among poor people in many parts of the world. The Government and donors should therefore consider legal reform in the broad context of access to justice.

Currently, Viet Nam has no comprehensive strategy for developing its justice system, and reforms have tended to be ad hoc and piecemeal. Donor efforts are also uncoordinated and fragmented. This is understandable given the early stages of legal system development and the fact that a variety of agencies manage different components of the legal system. Most mature legal systems have developed over centuries, but Viet Nam is keen to integrate quickly into global and regional economic systems. A comprehensive, long-term strategy for legal system development would help ensure that a complete, coherent, and well-functioning legal system is put into place relatively quickly. To this end, Viet Nam needs to focus on six major areas.

First, the legal framework for developing civil society and the economy needs to be improved. Priority objectives include drafting and amending laws to facilitate Viet Nam's integration into the international economy and those relating to tax reform and business registration rules.

Second, legal information systems need to be strengthened to increase transparency by making all laws,

treaties, and regulations easily accessible to the public. The principle that communicating laws is as important as passing them needs to be established, together with the predictability of legal consequences. A way to communicate all laws and rules is also required, for example, through publication of an official gazette.

Third, legal institutions to implement and enforce the law need to be provided or improved. Specific measures required include ensuring the independence of courts and lawyers; enhancing the power and prestige of courts and lawyers; improving arbitration and court procedures; training lawyers, judges, and law enforcement officers; establishing a centralized, computerized database; and reviewing the powers of state agencies.

Fourth, law-making processes and institutions need to be streamlined and improved. Priorities for action include institutionalizing consultation mechanisms and periods; improving law drafting, review, and passing procedures; codifying changes in a manual; requiring all new legal documents to cross-reference existing documents; and training National Assembly staff and lawmakers in international legal instruments.

Fifth, the legal professional requires education and training. Of paramount importance is the need for a pool of well-trained lawyers, judges, prosecutors, judgment enforcement officers, and police officers. Actions needed include revising the basic law curriculum to make it more relevant to current challenges, providing training and retraining at all levels, and developing appropriate training facilities and methodologies.

Finally, the issue of legal aid and access to justice for the poor needs to be addressed. While legal aid centers have been established in 57 of the 61 provinces and cities, many poor people still have problems accessing criminal law. One important step would be to set up a state public defender's office to defend poor people in criminal cases.

Creating a Level Playing Field

Viet Nam has taken important steps to shift from a centrally planned economy to a socialist-oriented market economy in which the private sector will play an increasing role. Nevertheless, the respective roles of the state, the private sector, and the nonstate sectors still lack clarity and the Government's intervention in the market is extensive. Complicated ad-

ministrative procedures and excessive regulations create opportunities for power abuses and corruption. For example, the recovery of overdue loans is hindered by unclear ownership of mortgaged assets and political pressure. The Government has issued many regulations to guide the implementation of laws and ordinances; however, these are often inconsistent with laws and their interpretation and application vary. Also regulations are frequently changed while accessibility to legal documents and dissemination about the changes are weak. This situation risks eroding the confidence of both domestic and foreign investors and creates a risky environment for long-term productive investments.

A related issue that is hampering the growth of the private sector is the different treatment that private businesses receive compared with their competitors among about 5,200 state enterprises. The legal framework also treats domestic and foreign businesses differently. Rather than a unified enterprise law, five different laws regulate business activities in different economic sectors.

Clear and timely policy measures are needed to rectify these issues. The public service needs to change from a traditional bureaucratic one to a proactive, modern, management-oriented approach, where the Government's role in the economy moves from one of active intervention to one of active support. The attitude of internal business underscores the need for such a shift: a recent study (Porter and others 2000) ranked Viet Nam 53rd out of 59 countries in terms of global competitiveness. Improved corporate governance must accompany greater freedom for the private sector. A framework to ensure that corporations act in a transparent, accountable, and nonmonopolistic manner is essential. Finally, frequent policy dialogue between government agencies and the business community is needed to further improve the investment and business climate.

Local Government Reforms

The current government administrative system is cumbersome and complex, with overlapping functions and lines of authority. This has sometimes led to disagreements between officials at different levels on priorities and rational mechanisms for revenue allocation.

Despite the promulgation of the Law on Organization of the People's Councils and People's Committee and the Budget Law and its amendments formalizing fiscal arrangements between different levels of governments, some view such reform efforts as a matter of form rather than substance, with management authority remaining at the center.

The PAR strategy views greater reform efforts at the local level as important for achieving good governance and regards greater participation at the local level as one of the cornerstones of decentralization policy. Thus the challenge involves creating effective administrative systems and management capacities at all local levels. What is required is a concrete plan of action for decentralization that clearly divides functional areas and autonomy between the center and local areas and clarifies responsibilities and reporting arrangements.

Reforms to Increase Participation

Government planning documents state that the people's voice will be strengthened, their access to information increased, their awareness of legal rights and obligations improved, and overall governance strengthened. While this is an admirable ambition, the Government needs to design a strategy to address the resource and capacity constraints likely to make implementation difficult.

Viet Nam's poor not only want information from the Government about the nature and timing of policies and programs that affect their lives, but want to be able to pass information to the government that will influence some of these policies and programs. Currently they feel that such access is limited to those with good connections. More equitable access would lead to a more equitable and inclusive pattern of development.

The Government is taking measures to address these shortcomings by institutionalizing grassroots participation through the 1998 Regulation of the Exercise of Democracy in Communes (the Grassroots Democracy Decree), which offers a legal framework for increasing community participation at the local level; stepping up its programs for disseminating legal information and providing legal aid; integrating community participation approaches into poverty programs; and creating an enabling environment for

civil society by strengthening partnerships with other organizations working for the people's benefit and eventually putting in place a legal and policy framework for associations and domestic NGOs.

To realize full community participation, government leaders need to understand that community participation involves more than the contribution of local resources, but includes actual involvement in decision-making. In seeking to implement the Grassroots Democracy Decree more fully, the Government will need to promote greater awareness of the decree among local officials and citizens, ensure that communication is truly two-way, increase the number of women and ethnic minority representatives on steering committees, and build the capacity of local officials so that they understand the meaning and mechanisms of the decree.

To benefit fully from the energy of citizens' groups, associations and NGOs not involved in charity or research—which are not covered by the emerging legal framework—need a comprehensive and clear law on associations that offers a supportive environment balanced by appropriate state oversight functions and accountability mechanisms. Simultaneously, sensitization and capacity building of government officials interacting with associations and NGOs, as well as of civil associations themselves, need to be stepped up significantly if these organizations are to fulfill their potential as partners with the Government. To ensure that women have an equal voice, Viet Nam has to take a gender-sensitive approach to participation. While Viet Nam has enshrined gender equality in its constitution and laws, women's greater likelihood of having a lower social and economic status than men, along with women's higher workload relative to men's, limit women's ability to influence decisions in their communities, at the local government level, and at the national level. While women are relatively well represented in the National Assembly (26 percent), their representation is much lower at all lower levels of government and in party structures. More equal participation in public life by women can be achieved through measures that ensure equal access to education and information.

Reforms to Improve Accountability

The Government has passed a number of ordinances and decrees to address corruption, such as the 1998 Ordinance against Corruption. In 1998 the prime minister established a hotline to receive business complaints, and in addition to the General State Inspectorate, several ministries now have units for tackling grievances and corruption. The VCP launched an anticorruption campaign in 2000, but results have been limited. Promulgation of the Civil Code in 1998 provided the public with avenues for redressing complaints and for mediation in disputes with government administrators. However, further measures are needed, for example, minimizing red tape and arbitrary discretion, increasing the amount of information in the public domain, harnessing citizens' groups to fight corruption, and developing an appropriate legal framework (World Bank 2000a).

Conclusion

Now that Viet Nam has succeeded in the mainly unguided emergence of unregulated markets, it faces different challenges in developing a sound basis for market-led growth, including the rule of law, transparency, and effective government regulation. This is proving difficult because, among other things, Viet Nam's prior reform success was mainly in response to external economic pressures and bottom-up societal changes, but the next stage of reform requires a more proactive approach for which the Government has little preparation or precedent; and because the *nomenklatura*, who enjoy rents and privileges under the present system, have much to lose from cutting back the remaining market distortions and opaque bureaucratic systems.

Many of the important early reforms involved dismantling controls where the political decision was difficult, but implementation was straightforward. By contrast, some of the administrative reforms now required are less controversial in principle, but are complex to implement. Some require new institutions, which necessitates agreement about appropriate models and the translation of agreed principles into appropriate legislation.

Another aspect of reform that has taken on increased importance relates to the coordination and division of labor between the various levels of government. The current emphasis by the Government and donors on rural development and enhancing economic opportunities for poor communities has focused attention on the need to maximize the scope for local initiative and to improve mechanisms for delivering services and programming investment at the provincial and lower levels of government.

In the particular form of pluralism that characterizes the Vietnamese system, building consensus in support of innovations can be time consuming. However, consensus building is a necessary step in ensuring national ownership of the reform agenda.

While further policy movement is necessary, in comparison to the late 1980s changes to date have

been profound and the speed of change has been faster than most external commentators expected. One of the sources of this success has been the clear sense of national ownership of reforms. Therefore, it is appropriate for Viet Nam's development partners to accept commitments to further reform at their face value, and to concentrate on joint efforts to identify the most effective means of using external support. The nature of the current stage of the reform process has implications for the design of donor support. Many key institution-building tasks are lengthy, involving deep-seated changes in systems, practice, and understanding, or they require parallel movement on a number of fronts. These sorts of reform do not lend themselves to simple conditionality, nor can they be fully accomplished within the time frame of a typical technical assistance project or loan. This has implications for aid program design.