

## FINANCIAL ANALYSIS

1. During 2005–2010, economic growth in Viet Nam averaged 7.26%, helping finance increased government expenditure on education; spending increased from 4.1% of gross domestic product (GDP) in 2001 to 5.1% in 2005, and an estimated 6.2% in 2011. The government has planned that state expenditure for education would be maintained at 6.2%. In a related estimate, education's share of public expenditure will grow from 18.1% in 2005 to 20% by 2010 and thereafter. In order to ensure all areas of Viet Nam benefit from good learning conditions, and that learning opportunities for disadvantaged children (children in low-income families) are provided, the expenditure will be increasingly focused on universal education, education in ethnic and disadvantaged areas, and fields where non-public funding is rare.

2. In 2008, spending in the education and training sector was apportioned as follows: pre-primary education, 8.5%; primary education, 28.5%; lower secondary education, 23.5%; and upper secondary education, 11.2%. The remaining 28.3% funded expenditures for vocational training, professional secondary education, higher education and other education. Spending on upper secondary education has been maintained at 11.2% for 2008–2011, a slight increase from 2001–2006, reflecting the continuing priority accorded to upper higher education.

3. In 2010, capital costs comprised about 25% of education spending, and recurrent costs 75%. Salaries accounted for 75% of recurrent costs (mostly teachers' salaries). At the school level, funds are raised through construction fees paid by parents and other contributions to augment the construction and maintenance of facilities. Although the government has revised the salary structure for Vietnamese public servants upward several times in the last 4 years, teachers' salaries remain low by regional and international standards.

4. The project will address financing issues by seeking to minimize recurrent costs for the government and community. The improvement of the quality support systems under the project should improve the internal efficiency of upper secondary education and reduce the cost per graduate in Viet Nam. The incremental recurrent project costs arise largely from increased access to secondary schooling and enhanced quality and relevance. The costs of building classrooms, as well as procurement of learning facilities, have been minimized by using efficient designs and maximizing the use of locally available resources and materials. Although new construction and renovation of classrooms are being financed, sustainability should be ensured by the commitment of local communities to operate and maintain the schools.

5. The financial sustainability analysis evaluates the impact of the project on the government's budget, with a total financial project cost—inclusive of taxes, duties, contingencies, and interest charges—of \$105 million over an implementation period of approximately 7 years. It is proposed that the Asian Development Bank (ADB) finance 85.7%, with the remaining 14.3% financed by the central and provincial-level governments.

6. The project will have a limited impact on the government's budget, given the following assumptions: (i) annual GDP growth averages 7% throughout and after the project period; (ii) education and training expenditures are maintained at 6.2% of GDP; (iii) expenditure for upper secondary education is maintained at the current level of 11.2% of education and training expenditures; (iii) capital costs remain at 25%, and recurrent costs (including salaries and operating costs) at 75% of education spending throughout and after project implementation; (iv) salaries account for 75% of recurrent costs throughout and after the project period; and (v) incremental recurrent costs include operation and maintenance of new school facilities and

equipment procured under the project after the project are maintained at minimal levels (\$660,000 per annum).

7. Given that the upper secondary education annual budget averaged 11.2% of total education and training budget over the last 5 years, the budgetary impact of the estimated annual recurrent costs after project implementation is considered minimal. The operating costs after project implementation account for just 0.239% of the USE operating cost during 2020–2025, well below the critical threshold of 5% (Table 1).

#### **A. Linkage of the Project to Macroeconomic and Education Sector Policies and Strategies**

8. **Fiscal impacts and sustainability analysis.** Key issues addressed include: (i) whether the project's objectives are clear and linked to the underlying the macroeconomic and education sector context in Viet Nam, and (ii) how investment made under the project will impact the macroeconomic framework and national education policies and strategies.

9. The Strategy for Socio-Economic Development 2011–2020 is the macroeconomic framework underpinning socioeconomic development in Viet Nam. The overall goals are to make Viet Nam into a modern, industrialized democracy with a stable socio-political environment, to improve the material and spiritual life of the population, and maintain the country's independence, sovereignty, unity and territorial integrity. Viet Nam's international status is increasing, and strong foundations have been laid for further development. The strategy's major initiatives are to (i) improve economic institutions, focusing on the creation of an environment that enables equal competition and administrative reforms; (ii) rapidly develop high quality human resources, focusing on comprehensive renovation of national education; and (iii) develop a synchronized infrastructure system that incorporates modern facilities, with a focus on the transportation network and major urban infrastructure.

10. **Education Development Strategy 2011–2020.** The government is committed to achievement of the Millennium Development Goals (MDGs), which include the elimination of gender disparity in primary and secondary education. Education is identified as a key sector that has strong, proven linkages with poverty reduction. The long-term MOET strategy includes substantially improving the quality of education, with a goal of an 80% secondary education (or equivalent) attainment level by youth at the age of 15–18 years by 2020. The government recognizes that continued socioeconomic growth and poverty reduction will depend on a well-educated and adaptable work force, and considers an efficient education system to be essential for realizing its socioeconomic objectives and improving the quality of Viet Nam's human resources.

11. The project should contribute significantly to a strengthened education sector and help overcome weaknesses that result in a human resource bottleneck, which impedes growth; in so doing the proposed project will help achieve the aims of the socioeconomic development and education development strategies for 2011–2020.

12. **Analysis of alternative project design.** Key issues to be addressed in ensuring that mutually exclusive, alternative project designs are considered include: (i) whether there is evidence of constraints to market-based solutions that should be validated before turning to public sector service provision and/or financing, (ii) which activities are better done by the private sector and which by the public sector, and (iii) whether a least-cost analysis has been made of the major alternative strategies and design options.

13. The provision of schooling in Viet Nam has largely been determined and financed by the government. Other private sector providers and financiers of education are available mainly in medium and large urban centers such as Ha Noi, Ho Chi Minh City, Da Nang, Hai Phong and in the higher education subsector. However, both scale and scope of education provision and financing are limited due because such investments are not always justified by the financial internal rates of return required by the investors and/or shareholders. A system for public-private partnership (PPP) in education financing in primary, secondary, and professional secondary education is in place, but is viable primarily in medium and large urban centers, and in higher education.

14. In the disadvantaged regions covered by the project, the physical conditions (e.g., basic infrastructure) and social conditions (e.g., awareness of education and income level) are far below the national average. Therefore, it is currently difficult to promote either private sector financing or PPPs with co-investment due to the limited incentives for private sector investment in upper secondary education.

15. Implementation of the project will create a basis for future PPPs in upper secondary education by (i) contributing to improved physical and social conditions in these areas, which may make promotion of PPPs to achieve complementarities between the private and public sectors viable; and (ii) supporting capacity building for teachers in private upper secondary schools. In addition, the project supports research on PPP models to find international PPP experience that can be applied to Viet Nam.

16. During the project preparation technical assistance, sample site visits, systematic surveys and workshops were organized to consult stakeholders, including beneficiaries, to obtain inputs into the design and monitoring framework of the proposed project and ensure that a variety of design options are examined, and that the selected option is optimal and has the lowest cost.

17. The design option proposed for the project is appropriate given that market-based solutions and/or PPPs are not currently feasible.

Table 1: Financial Sustainability Analysis, Projected, 2020–2025

	After Project Implementation					
	Year 8 2020	Year 9 2021	Year 10 2022	Year 11 2023	Year 12 2024	Year 13 2025
<b>USEDP II by Category (D billion)</b>						
Salaries						
Operating Costs	14	14	14	14	14	14
Capital Costs						
<b>Total</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Government input in USEDP II (D billion)</b>						
Salaries						
Operating Costs	14	14	14	14	14	14
Capital Costs						
<b>Total</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>USE Budget (D billion)</b>						
Salaries	14,936	15,982	17,100	18,297	19,578	20,949
Operating Costs	4,979	5,327	5,700	6,099	6,526	6,983
Capital Costs	6,638	7,103	7,600	8,132	8,701	9,311
<b>Total USE Budget</b>	<b>26,553</b>	<b>28,412</b>	<b>30,401</b>	<b>32,529</b>	<b>34,806</b>	<b>37,242</b>
<b>Total USE Budget (% Education Training Budget)</b>	<b>11.2%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>11.2%</b>	<b>11.2%</b>
<b>Education &amp; Training Budget (D billion)</b>						
Salaries	133,358	142,694	152,682	163,370	174,806	187,042
Operating Costs	44,453	47,565	50,894	54,457	58,269	62,347
Capital Costs	59,270	63,419	67,859	72,609	77,691	83,130
<b>Total Education &amp; Training Budget</b>	<b>237,082</b>	<b>253,677</b>	<b>271,435</b>	<b>290,435</b>	<b>310,766</b>	<b>332,519</b>
<b>Education &amp; Training Budget (% GDP)</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.2%</b>
<b>GDP (constant price, D billion)</b>	<b>3,823,897</b>	<b>4,091,570</b>	<b>4,377,980</b>	<b>4,684,439</b>	<b>5,012,349</b>	<b>5,363,214</b>
<b>USEDP II Impact on USE Budget</b>	Any simulated result equal or greater than 5% would negatively impact USEDP II financial sustainability					
USEDP II Impact on Salaries						
USEDP II Impact on Operating Costs	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%
USEDP II Impact on Capital Costs						
USEDP II Impact on Total Costs	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%

Note: Constant prices using \$ = D 20,295.

D = Dong, GDP = gross domestic products, USE = upper secondary education, USEDP II = Second Upper Secondary Education Development Project.

Source: Asian Development Bank estimates.