

THEMATIC ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT¹

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Viet Nam's exceptional gross domestic product (GDP) growth since the early 1990s has moderated since 2008. Since 1995, the country has recorded among the highest growth rates in the world, which in turn enabled record poverty reduction. GDP growth, however, fell from an average rate of 7.3% during 2000–2007 to 5.8% during 2008–2012 and to around 5.3% in 2013. The external sector has held up well despite the global situation, but domestic demand remains weak because of subdued private sector confidence, overleveraged state-owned enterprise (SOE) and (undercapitalized) banking sectors, and a weakening fiscal position.

2. Viet Nam is on track to achieve its Socioeconomic Development Plan targets for poverty reduction. The poverty headcount fell from 58.0% in the early 1990s to 14.5% by 2008, and by these standards is estimated to be well under 10.0% by 2010. Based on an updated poverty line developed for the 2012 poverty assessment (which better reflects Viet Nam's status as a lower-middle-income country), 20.7% of the population was still poor. The poverty line and methodology was updated in 2010. The new methodology takes into account the wider array of goods consumed today as compared to in the early 1990s in Viet Nam, and the poverty line is higher because the societal standard for basic needs involves a higher level of consumption than it did when Viet Nam was a much poorer country. Poverty measured using the internationally comparable \$1.25-a-day poverty line has nearly been eliminated: just 2.5% of the population is estimated to be below that line. The remaining poor are harder to reach and face challenges of isolation, limited assets, low levels of education, and poor health status.

3. Faced with rising domestic and external macroeconomic vulnerabilities, the government has had to reign in its expansionary stance. By 2011, the economy confronted high and rising inflation, extreme volatility in the foreign exchange market, rapidly dwindling reserves, a sharp rise in country risk following default by a large SOE, high levels of fiscal and trade deficits, and rising vulnerability in the banking sector. The government's commitment to stabilization measures has since helped restore macroeconomic stability.

4. As the global economic conditions begin to ease and Viet Nam moves to reposition itself on a high growth trajectory, structural reforms are essential to boost competitiveness. Cross-country competitiveness assessments show that Viet Nam is falling relative to others. Viet Nam's ranking in the Doing Business survey has fallen from 90th position in 2011 to 99th in 2014, despite business environment reforms. In the Global Competitiveness Index, although Viet Nam has regained some ground, overall it has fallen from 59th position in 2011–2012 to 70th in the 2013–2014 assessment.

2. Government's Sector Strategy

5. The government's development priorities are set out in its Socio-Economic Development Strategy (SEDS) (2011–2020) and the accompanying Socio-Economic Development Plan (2011–2015). The SEDS sets out goals for 2011–2020, and the Socioeconomic Development Plan specific policy actions and programs to achieve those goals. The SEDS has a long-term

¹ This summary is based on the second EMCC development operation. <http://documents.worldbank.org/curated/en/2014/04/19609059/vietnam-second-economic-management-competitiveness-credit-program>

growth strategy focused on structural reforms, environmental sustainability, social equity, and emerging issues of macroeconomic stability to minimize short-term vulnerability. It identifies three areas of “strategic breakthrough”: (i) improved market institutions and administrative reforms for a more competitive and equitable business environment, (ii) development of human resources and investment in science and technology, and (iii) improved infrastructure.

6. Since 2012 the government has further announced that it will prioritize structural reforms in three areas of economic governance that have a significant impact on national competitiveness—SOEs, the banking sector, and public investment management. On SOEs, the government has prioritized the restructuring of state economic groups and general corporations, strengthening corporate governance including information disclosure, and improving the regulatory environment for SOEs. With regard to the banking sector, the government has committed to restructure weak banks, prioritize policies for dealing with systemic risks including nonperforming loans, and improve banking supervision. On public investment management, it has committed to improve public investment planning, cut capital spending, and enhance the efficiency of projects.

3. ADB Sector Experience and Assistance Program

7. The Asian Development Bank (ADB) supports competitiveness reforms and public sector management reforms through the Economic Management Competitive Credit (EMCC) Program, a joint development partner budget support program aligned to government reform priorities.² The program supports reforms efforts in six policy areas: (i) banking sector, (ii) fiscal policy, (iii) public sector administration and accountability, (iv) state enterprise management, (v) public investment management, and (vi) business environment. The EMCC consists of a programmatic series of three policy-based operations (EMCC 1–3) implemented during 2013–2015. ADB did not provide parallel financing to the approved EMCC-1 because other program loans included related policy actions.³ This program supports EMCC-2 policy actions.⁴ ADB's further involvement will depend on implementation progress of EMCC-2 policy actions.

8. ADB has participated in joint development partner programmatic budget support in Viet Nam since 2003. A joint development partner evaluation suggested future program budget support should be more focused on a few important crosscutting issues, strengthen analytical underpinning of selected policy actions, and improve monitoring and communication of program impact. ADB's own evaluation is in line with this assessment. These assessments also take into consideration the falling number of donors as Viet Nam graduates from concessional overseas development assistance financing. Consequently, the design of the EMCC is more narrowly focused, and has dedicated technical assistance funds for analytical and advisory support as well as increased outreach to communicate results of the program.

9. The EMCC is aligned to the “enhancing economic efficiency” pillar of the ADB country partnership strategy, 2011–2015.⁵ It provides a common platform for development partners to engage in policy dialogue with the government. It enables better alignment of donor programs to government priorities and, as a result, leverages more resources for the country. Coordination is

² EMCC partners include the World Bank, ADB, the Government of Australia, the Canadian International Development Agency, the Department for International Development, the Japan International Cooperation Agency, and the Swiss State Secretariat for Economic Affairs.

³ World Bank. 2013. *First Economic Management Competitiveness Development Policy Operation*. Washington, DC.

⁴ World Bank. 2014. *Second Economic Management Competitiveness Development Policy Operation*. Washington, DC.

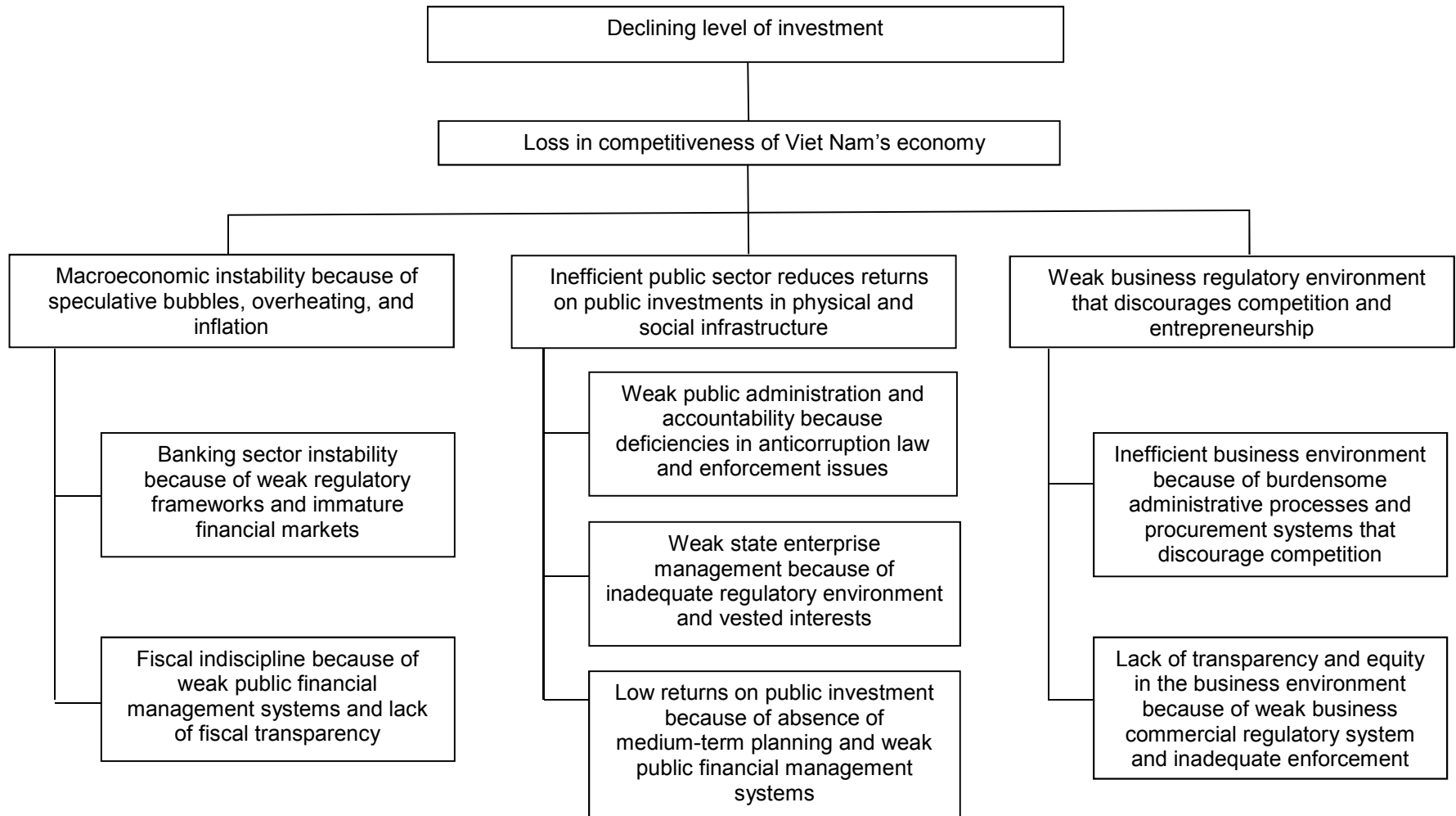
⁵ ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

improved and transaction costs are reduced. ADB can also leverage support for its own policy-based loans in the finance and corporate sectors, while broadening other related policy reforms.

10. The EMCC program policy matrix was designed jointly by all development partners. ADB actively participated during the program design phase, including stakeholder consultations on proposed objectives and areas of focus for the EMCC. ADB provided drafting inputs into the EMCC approach paper and EMCC-2 program document. ADB contributed across all reform areas but more so through areas of comparative advantage, especially SOE and procurement reforms. ADB contributions included (i) direct engagement in policy dialogue; (ii) provision of technical comments on drafts laws and regulations; (iii) diagnostics, particularly extraction from operational knowledge; and (iv) capacity building activities.

11. Aside from direct support through the EMCC framework, ADB also supports the government's structural reform agenda through closely aligned interventions such as program loans for finance sector development and small and medium-sized enterprise development. EMCC-2 policy actions complement ADB's other ongoing policy reform programs, as well as ADB's pilot SOE restructuring program. ADB is also providing policy advisory and capacity development support for selected policy actions through technical assistance projects.

Problem Tree for Improving Competitiveness Program



Source: Asian Development Bank.

Sector Results Framework (Public Sector Management, 2011–2015)

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contribution	Indicators with Targets and Baselines	Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
Improved and reformed public institutions, with fully functioning civil service, and improved efficiency and accountability of restructured SOEs	<p>Return on assets of selected SOEs increased by 15% (ROA averaged 10% in 2010)</p> <p>Restructuring of three additional large SOEs (one commenced in 2011)</p>	<p>Strengthened state enterprise management</p> <p>Improved business environment</p>	<p>Investments by SEGs in high-risk noncore areas as a share of SEG capital is reduced to 0% for securities, 0% for investment funds, 0.08% for insurance, 0.80% for banking, and 0.30% for real estate (2012 baseline: 0.13% for securities, 0.06% for investment funds, 0.16% for insurance, 1.53% for banking, and 0.70% for real estate)</p> <p>More enabling business environment as reflected by less than 10.00% of domestic firms spend over 10% of their time dealing with bureaucracy or bureaucratic regulations (2011 baseline: 11.26% in median province)</p>	<p>Planned target subsectors</p> <p>Not applicable</p> <p>Pipeline projects with estimated amounts</p> <p>Improving Competitiveness Program 2 - \$100 million</p> <p>Ongoing projects with approved amounts</p> <p>Improving Competitiveness Program - \$229.99 million</p>	Not applicable

ROA = return on asset, SEG = state economic group, SOE = state-owned enterprise.

Source: Asian Development Bank