

## FINANCIAL ANALYSIS

### A. Introduction

1. The financial analysis report includes (i) an overview of the financing of education, including an assessment of the financing of the broader education and training sector and the lower secondary education (LSE) subsector; (ii) an analysis of the fiscal impact of the project on the education and training sector and LSE subsector; and (iii) a financial sustainability analysis of the government's ability to sustain financial support throughout the life of the project.

### B. Funding Framework for Education

2. The Ministry of Education and Training (MOET) has overall responsibility for the education sector and sets broad policy directions for all levels of education. However, management responsibility for school buildings, staffing, and distribution of financial resources has been decentralized. MOET manages universities directly, but upper secondary and professional secondary schools are managed by provincial departments of education and training, while lower secondary schools and primary schools are managed by district or commune bureaus of education and training. The provision of services has also been decentralized, increasing local revenue-raising powers.<sup>1</sup> School funding is a complex process with revenue provided at the state, province, and local levels. Funds provided by the state are distributed in line with a per capita index weighted according to degree of economic disadvantage. The funds are supplemented locally through the application of fees that cover the necessary teaching and learning expenses and school development. Through targeted programs, the state provides fee relief and scholarships for students who are policy beneficiaries, such as ethnic minorities, students who live in difficult circumstances, and excellent learners at all levels of schooling, in public and non-public schools.

3. **Financing of education in Viet Nam.** The Government of Viet Nam increased annual spending on education and training from D120,785 billion in 2010 to D194,416 in 2013,<sup>2</sup> or a total of about 61% over the period (Table 1). Reflecting the importance of education and training in the government's integrated strategy for economic development, education and training expenditure has been maintained at about 20% of total government expenditure over the same period. As a percentage of the country's gross national product, annual expenditure on education and training decreased from 6.1% in 2010 to 5.4% in 2013.

4. Capital expenditure for education and training increased from D22,225 billion in 2010 to D30,015 billion in 2013 (an overall increase of about 35%), while recurrent expenditure rose from D98,560 billion to D164,401 billion in that period (an increase of about 67%). The trend in annual growth may be attributed to the government's effort to counter the impact of high inflation rates in 2011 and 2012 and expected in 2013. Further analysis indicates that the government allocated, on average, an additional D25,000 billion each year, for capital expenditure and training, from 2011 to 2013. The government's expenditure on education and training increased by 25.2% over the period 2010-2011, about double the rate (12.7%) from 2011 to 2012. For 2012-2013, growth is estimated at 14.1%. A similar decreasing trend is seen for capital expenditure and recurrent expenditure for education and training for the same periods (Table 1).

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<sup>1</sup> United Nations Educational, Scientific and Cultural Organization (UNESCO). 2011. *World Data on Education, Seventh Education 2010/11*. Geneva.

<sup>2</sup> The value of total government expenditure on education and training for 2013 is based on a Ministry of Education and Training (MOET) estimate.

**Table 1: Trends in the Financing of Education in Viet Nam, 2010–2013**

Item	2010	2011	2012	2013
Government expenditure on education and training (D billion) <sup>a</sup>	120,785	151,200	170,349	194,416
Government capital expenditure for education and training (D billion) <sup>b</sup>	22,225	27,161	30,174	30,015
Government recurrent expenditure for education and training (D billion) <sup>c</sup>	98,560	124,039	140,175	164,401
Government annual expenditure (D billion) <sup>d</sup>	582,200	725,600	903,100	978,000
Total education and training expenditure as % of total expenditure	20.7	20.8	18.9	19.9
Total Viet Nam gross domestic product GDP (D billion, current price) <sup>e</sup>	1,980,914	2,536,631	3,245,419	3,584,261
Annual growth rate of GDP (%)	...	28.1	27.9	10.4
Annual inflation (%)	...	22.2	22.6	5.0
Annual real growth (%) <sup>f</sup>	...	5.9	5.3	5.4
Proportion of total government education and training expenditure to GDP (%) <sup>g</sup>	6.1	6.0	5.2	5.4
Annual growth rates (%):	...			
Government education and training expenditure <sup>g</sup>	...	25.2	12.7	14.1
Government capital expenditure for education and training <sup>g</sup>	...	22.2	11.1	(0.5)
Government recurrent expenditure for education and training <sup>g</sup>	...	25.9	13.0	17.3

GDP = gross domestic product.

Notes:

(i) Capital expenditure includes new goods and civil works and rehabilitation.

(ii) Recurrent expenditure includes wages and benefits, subsidies, and services payment.

<sup>a</sup> Ministry of Education and Training (MOET), Department of Finance and Planning.

<sup>b</sup> MOET, Department of Finance and Planning.

<sup>c</sup> MOET, Department of Finance and Planning.

<sup>d</sup> Ministry of Finance, Budget Plan for 2013. <http://www.mof.gov.vn/portal/pls/portal/docs/1488843.XLS>

<sup>e</sup> General Statistics Office. <http://www.gso.gov.vn/default.aspx?tabid=622&ItemID=14774>

<sup>f</sup> World Bank. <http://www.tradingeconomics.com/vietnam/gdp-growth>

<sup>g</sup> ADB estimate.

**5. Financing of lower secondary education in Viet Nam.** Total LSE expenditure increased from D24,985 billion in 2010 to D39,374 billion in 2013, a total increase of 58%. Government allocations for LSE were maintained at about 20%, on average, of total expenditure on education and training over the same period. LSE expenditure consists of capital expenditure (buildings, other facilities, and equipment) and recurrent costs (teacher salaries, annual operation and maintenance expenses, and other related recurrent expenditure). LSE capital expenditure increased from D5,023 billion in 2010 to D7,061 billion in 2012 before declining slightly to D7,024 in 2013. The annual growth rate of LSE capital expenditure showed a declining trend, i.e., from a growth rate of 26.5% to –0.5% over the period 2011–2013. Recurrent costs increased from D19,962 billion in 2010 to D32,350 billion in 2013. The annual growth rate of LSE recurrent costs also trended down, i.e., from a growth rate of 24.4% to 15.5% during the period 2011–2013. These declining trends provide a strong rationale for the proposed capital investments envisioned under the Second Lower Secondary Education for the Most Disadvantaged Areas Project. Annual LSE expenditure as a percentage of total annual government expenditure remained, on average, at about 4% during 2010–2013 (Table 2).

**Table 2: Trends in the Financing of Lower Secondary Education in Viet Nam, 2010–2013**

Item	2010	2011	2012	2013
Total government expenditure on LSE (D billion) <sup>a</sup>	24,985	31,194	35,073	39,374
Total education and training expenditure (D billion) <sup>a</sup>	120,785	151,200	170,349	194,416
Annual inflation (%)		22.2	22.6	5.0
Total LSE expenditure as proportion of government education and training expenditure (%)	20.7	20.6	20.6	20.3

Item	2010	2011	2012	2013
Breakdown of LSE expenditure:				
Total LSE capital expenditure (D billion)	5,023	6,356	7,061	7,024
Annual growth rate of LSE capital expenditure (%)		26.5	11.1	(0.5)
Total LSE recurrent cost (D billion)	19,962	24,838	28,012	32,350
Annual growth rate of LSE recurrent cost (%)		24.4	12.8	15.5
Total LSE expenditure as proportion of total government expenditure (%)	4.3	4.3	3.9	4.0

LSE = lower secondary education.

Notes:

(i) Capital expenditure includes new goods and civil works and rehabilitation.

(ii) Recurrent expenditure includes wages and benefits, subsidies, and services payment.

<sup>a</sup> Ministry of Education and Training, Department of Finance and Planning.

Source: MOET, Department of Finance and Planning.

6. Based on the annual government expenditure for LSE, the average cost per LSE student is estimated to have risen from D5.052 million in 2010 to D7.802 million in 2013, an increase of about 54% over that period (Table 3).

**Table 3: Financing per Student, Lower Secondary Education, 2010–2013**

Item	2010	2011	2012	2013
Total number of LSE students	4,945,178	4,926,401	4,985,518	5,046,341
Total funding for LSE (D billion/year)	24,985	31,194	35,073	39,374
Average funding per LSE student (D/student/year)	5,052,396	6,332,006	7,034,976	7,802,485

LSE = lower secondary education.

Sources: Data on number of lower secondary education students obtained from General Statistics Office. Data on total funding for lower secondary education obtained from Ministry of Education and Training, Finance and Planning Department.

### C. Fiscal Impact and Financial Sustainability

7. A fiscal impact and sustainability analyses were undertaken on the government's ability, as the end-borrower, to cover loan repayment, provision of counterpart funds, annual operation and maintenance (O&M) requirements, and debt service.

8. **Fiscal impact.** Table 4 shows the financial plan presenting the fiscal impact of the project. It presents the projected total annual expenditure of the government, including those for the education and training sector and the lower secondary education subsector,<sup>3</sup> as well as the funding needed to finance project expenditures during the period implementation. Project costs are expected to be incurred annually and accumulate to about D1,680.0 billion (or about \$93.0 million) by the last year of the implementation (year 6). Since several commitments will terminate at the end of the project implementation period, they will not be an ongoing expense for the government.<sup>4</sup>

**Table 4: Fiscal Impact of the Project, 2015–2020**

Item	2015	2016	2017	2018	2019	2020
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<sup>3</sup> Total government expenditure grew annually, on average, at about 15% during 2010–2013, while expenditure on education and training grew annually at about 23%. Expenditure on lower secondary education grew at an annual rate of 28%. These rates were applied in the projections for 2014–2020.

<sup>4</sup> The exchange rate is estimated at D21,000 to \$1.00.

Item	2015	2016	2017	2018	2019	2020
<b>Fiscal Impact Analysis:</b>						
Government total expenditure (D billion) <sup>a</sup>	1,288,533.0	1,456,487.0	1,645,328.0	1,859,221.0	2,100,920.0	2,374,039.0
Government total education expenditure (D billion) <sup>b</sup>	277,035.0	313,049.0	353,746.0	399,733.0	451,698.0	510,418.0
Government total LSE expenditure (D billion) <sup>c</sup>	50,780.0	57,382.0	64,841.0	73,271.0	82,796.0	93,559.0
Project total cost (D billion)	25.997	69.709	438.974	477.339	470.807	470.173
- Counterpart funding (D billion)	6.257	9.649	60.764	66.075	65.171	65.083
- ADB loan (D billion)	19.740	60.060	378.210	411.264	405.636	405.090
Proportion of project total cost to government total expenditure (%)	0.00	0.00	0.03	0.03	0.022	0.020
Proportion of counterpart fund to government total expenditure (%)	0.00	0.00	0.00	0.00	0.00	0.00
Proportion of ADB loan to government total expenditure (%)	0.00	0.00	0.02	0.02	0.019	0.017
Proportion of project total cost to government total education expenditure (%)	0.01	0.02	0.12	0.12	0.104	0.092
Proportion of counterpart fund to government total education expenditure (%)	0.00	0.00	0.02	0.02	0.014	0.013
Proportion of ADB loan to government total education expenditure (%)	0.01	0.02	0.11	0.10	0.090	0.079
Proportion of project total cost to government total LSE expenditure (%)	0.05	0.12	0.68	0.65	0.57	0.50
Proportion of counterpart fund to government total LSE expenditure (%)	0.01	0.02	0.09	0.09	0.08	0.07
Proportion of ADB loan to government total LSE expenditure (%)	0.04	0.10	0.58	0.56	0.49	0.43

ADB = Asian Development Bank, LSE = lower secondary education.

<sup>a</sup> The Government of Viet Nam's total annual expenditure is projected to increase at 19% per year based on the average growth rate of government annual expenditure during 2011–2013, according to the General Statistics Office (GSO): <http://gso.gov.vn/default.aspx?tabid=621&ItemID=13843>

<sup>b</sup> Government total education expenditure is projected to increase at 17% per year based on the average growth rate of government annual education expenditure during 2011–2013, according to the GSO: <http://gso.gov.vn/default.aspx?tabid=621&ItemID=13843>

<sup>c</sup> Government total LSE expenditure is projected to increase at 17% per year based on the average growth rate of government annual LSE expenditure during 2011–2013, according to the Planning and Finance Department, Ministry of Education and Training.

Sources: MOET, Department of Finance and Planning and ADB estimates.

9. The total annual project cost (ADB loan and counterpart funding) as a proportion of the government's total annual expenditure is small, ranging from 0.00% in 2015 to 0.03% in 2017 before decreasing to 0.02% in 2020. Annual project cost as a proportion of the government's annual education expenditure is projected to increase from 0.01% in 2015 to 0.12% in 2017, and then decrease to 0.09% in 2020. Annual project cost as a percentage of the government's LSE budget is expected to increase from 0.05% in 2015 to 0.68% in 2017, and then decrease to 0.50% in 2020. Financial analysis confirms that the government has adequate financial

resources and will be able to fulfil all its financial obligations under the project as total project cost is significantly less than 1% of total government annual LSE expenditure (Table 4).

10. **Financial sustainability.** Further analysis shows that the government, as the end-borrower, is capable of covering both annual O&M costs and debt service requirements beyond the project implementation period. As a proportion of total government annual expenditure, annual O&M costs and debt service account for, at most, 0.018% in 2020, when amortization payments on the ADB loan are expected to begin. This is projected to decrease to 0.009% in 2025. Total annual O&M costs and debt service are also significantly lower than 0.1% as a portion of total government annual education expenditure and annual LSE expenditure (Table 5).

**Table 5: Financial Sustainability**

Item	2020	2021	2022	2023	2024	2025
<b>Financial Sustainability</b>						
<b>Analysis:</b>						
Annual O&M cost (D billion) <sup>a</sup>	23.5	23.5	23.5	23.5	23.5	23.5
Investment for replacing equipment (D billion) <sup>b</sup>	239.5					239.5
Annual cost of government salaries of project-assigned personnel <sup>c</sup> (D billion)	5.6	5.6	5.6	5.6	5.6	5.6
Annual loan repayment (D billion)	148.5	145.3	142.0	138.6	135.2	131.9
Total annual O&M cost and annual loan repayment (D billion)	417.1	174.4	171.0	167.7	164.3	400.5
Government total expenditure (D billion)	2,374,039.0	2,682,600.0	3,031,400.0	3,425,400.0	3,870,800.0	4,374,000.0
Government total education expenditure (D billion)	510,418.0	576,773.0	651,753.0	736,481.0	832,224.0	940,400.0
Government total LSE expenditure (D billion)	93,559.0	115,300.0	130,350.0	147,296.0	166,445.0	188,083.0
Proportion of O&M cost and loan repayment to government total expenditure (%)	0.018	0.007	0.006	0.005	0.004	0.009
Proportion of O&M cost and loan repayment to government total education expenditure (%)	0.082	0.030	0.026	0.023	0.020	0.043
Proportion of O&M cost and loan repayment to government total LSE expenditure (%)	0.446	0.151	0.131	0.114	0.099	0.213

LSE = lower secondary education, O&M = operation and maintenance.

<sup>a</sup> Annual O&M cost is estimated at 2% of total investment on civil works, equipment and furniture, and vehicles.

<sup>b</sup> Equipment is replaced every 5 years.

<sup>c</sup> Consultant estimates based on project cost estimates.

Sources: MOET, Department of Finance and Planning and ADB estimates.