DECENTRALIZATION OF ECONOMIC MANAGEMENT IN VIETNAM FROM INSTITUTIONAL PERSPECTIVES

EXECUTIVE SUMMARY

The decentralization of economic management in Vietnam started with Đổi mới (economic innovation) in 1986 and accelerated in the late 1990s. Since then, the scope of decentralization has continuously expanded. Indeed, Vietnam’s decentralization of policymaking ranked quite high - 25th out of 134 countries - in the World Economic Forum’s Country Competitiveness Index 2009.

From the central government’s perspective, it is expected that decentralization will help “promote strong dynamism, creativity, autonomy, self-responsibility at all local government levels in their management and implementation of socio-economic development tasks.” However, thus far the results have failed to meet their stated objectives.

Within the Vietnamese state hierarchy, four fundamental tensions have emerged during the process of decentralization. The first tension is that decentralization in such a hierarchical and unitary system like Vietnam’s necessarily requires a fundamental shift in the role of the state, from social planner and decision maker to facilitator and rule setter. However, as it not only involves changes in the government’s internal organization, but also undermines the inherently discretionary power of the Vietnamese government, this shift has proceeded slowly. The second tension results from the fact that in many cases, more decentralized responsibility is not accompanied by a sufficient increase in capacities and resources, causing serious overload for the local government. The third tension is between accountability and autonomy, increasing autonomy for the local government does not by itself ensure accountability. And finally, the local government’s increasing self-governance may break the consistency and uniformity of the national policies, creating major concerns for the central government.

At the request of the National Assembly’s Committee of Economic Affairs (CEA), this policy discussion paper provides a general and critical assessment of decentralization of economic management in Vietnam, focusing particularly on identifying common issues shared by different dimensions of decentralization. Its key findings include the following:

- Today, Vietnam still lacks even the most basic prerequisites for successful decentralization. The lack of the political will being the most pressing concern. The current top priority of the government is to enhance the centralized and unitary nature of both the politics and state management.
• The institutional and governance environment of Vietnam is rather weak, featuring nontransparent information, insufficient participation of the private business sector and the civil society, and limited government accountability.

• Decentralization in Vietnam has been unevenly deployed. While market, and to a certain extent, fiscal decentralization have advanced more rapidly, political and personnel decentralization have virtually stalled.

• The capacity of the government is weak, especially at the lower levels. Moreover, decentralization has not always been accompanied by a sufficient increase in capacities and resources, causing serious overload for the local government.

• Under the current budget sharing formula, local governments neither have incentives to nurture their own sources of revenue nor improve the expenditure efficiency. The one-size-fits-all decentralization policy exacerbates the problem even further since it limits the local government’s flexibility in mobilizing resources and developing innovative policies.

• Due to the lack of communication, coordination, and collaboration among both central ministries and provinces, decentralization has resulted in a fragmentation in the state management system as well as a race to the bottom among provinces.

• With regards to the supervision of decentralization policy, although the role of the People’s Councils has been strengthened, their effectiveness and efficiency are still limited due to both technical and institutional factors.

• The average size of provinces in Vietnam is too small to take advantages of economies of scale or to internalize the inter-provincial externalities. Moreover, the large number of provinces has led to unhealthy competition rather than cooperation.

For Vietnam, the highest priority in designing the decentralization policy is to prepare the prerequisites for effective and efficient decentralization. This task is only possible if the government adopts a more comprehensive concept of decentralization - rather than focusing only on decentralization of economic management functions - and accepts a fundamental change in the role of the state. The future of Vietnam’s decentralization depends critically on the political will to make these difficult decisions.
1. Introduction

The decentralization of economic management in Vietnam started with Đổi mới (economic innovation) in 1986 and accelerated in the late 1990s. Since then, the scope of decentralization has continuously expanded, and by the mid-2000s has covered seven major areas, including planning management, public investment, state budget, land and natural resources, state-owned enterprises (SOEs), public services, and administrative organization and personnel. It is expected that decentralization will help “promote strong dynamism, creativity, autonomy, self-responsibility at all local government levels in their management and implementation of socio-economic development tasks.”

However, after more than a decade of accelerated decentralization, the results are far below the expectations of the government. From the perspective of the central government, decentralization has undermined the uniformity of national policies, encouraged unhealthy competition between local governments, which has resulted in a decline in the level of control of the central government on the one hand, and an increase of localism on the other hand. From the perspective of the local government, decentralization has not always been accompanied by the institutional and resource conditions necessary to effectively implement decentralization. Moreover, there has been the lack of synchronization between central ministries and the lack of consistency between different dimensions of decentralization. As a result, the local government in many circumstances was confused, and therefore became passive, relying totally on the central instructions. Finally, the people and businesses - those ultimately affected by the decentralization policy - have not been involved or had a voice in even the most important policies that affect their economic activities and performance.

Within the Vietnamese state hierarchy, four fundamental tensions have emerged during the process of decentralization. The first tension is that decentralization in such a hierarchical and unitary system like Vietnam’s necessarily requires a fundamental shift in the role of the state, from social planner and decision maker to facilitator and rule setter. However, this shift is never simple as it not only involves changes in the government’s internal organization, but also undermines the inherently discretionary power of the government. The second tension results from the fact that in many cases, more decentralized responsibility is not accompanied by a sufficient increase in capacities and resources, causing serious overload for the local government. The third tension is between accountability and autonomy, increasing autonomy for the local government does not by itself ensure accountability. And finally, the local government’s increasing self-governance may break the consistency and uniformity of the national policies.

At the request of the National Assembly’s Committee of Economic Affairs (CEA), this policy discussion paper will provide a general assessment of decentralization of economic management in Vietnam. More specifically, the topics of CEA’s interests are: the theoretical foundation and principles of decentralization, the situation of decentralization in recent years and its consequences, and policy recommendations on reforming the current framework of decentralization policy. In line with the CEA’s request, this policy discussion paper will not go deeply into specific dimensions of decentralization - which are the subject of other papers in this Forum - but instead focus on the common and cross-cutting issues shared by different dimensions of decentralization in Vietnam. In addition, at the request of the CEA, this policy discussion paper focuses on the relationship between the two most important levels of government, namely the central and the provincial government. However, it should be emphasized that decentralization is a multi-dimensional concept, and as will
be discussed in this policy discussion paper, the narrow focus on certain dimensions will run the risk of over-simplification, or even superficiality in decentralization design.

The discussion of reshaping the decentralization policy is particularly timely now as the Constitution has undergone a process of amending under the leadership of the Chairman of the National Assembly. In this Constitutional amendment, the power relationship between the central and local governments is obviously a key issue. In addition, two especially important laws for decentralization, namely the Land Law (amendment) and the Law on Public Investment and Public Procurement, have been included in the legislative program of 2013. Furthermore, amendments to the Law on Organization of the National Assembly, the Law on Organization of the Government, the Law on Organization of People’s Councils and People’s Committees, the Law on Monitoring Activities of the National Assembly, the Law on Monitoring Activities of the People’s Council, and the Law on the State Budget will all be included in the legislative program of 2014.

All data used for this analysis were obtained either from official government sources, including the General Statistical Office (GSO), Ministry of Finance (MOF), Ministry of Planning and Investment (MPI), and Ministry of Natural Resources and Environment (MONRE), or from studies funded by international donors such as the World Bank, UNDP, and USAID. The analysis in this policy discussion paper is also informed by the author’s previous research on decentralization as well as his field studies in more than 20 provinces across Vietnam over the last five years.

The remainder of this policy discussion paper is organized into five sections. Section 2 presents briefly the concept of decentralization. Section 3 explains why it is necessary to decentralize from both theoretical and practical perspectives. Section 4 discusses the direction of decentralization policy adopted in Vietnam since Đổi mới. Section 5 provides a general assessment of the successes and limitations of decentralization in Vietnam. Section 6 concludes and provides some policy recommendations, which emphasize the need for a fundamental change in the concept and design of decentralization in Vietnam.

2. Concept of Decentralization

Decentralization of state management, in its broadest sense, is a process of transferring power and responsibility from the central level to local bodies, or the assignment of such tasks to the private sector, thereby bringing about more efficient, effective, and responsive delivery of services and governance processes. In transitional countries like Vietnam where the economic system has undergone fundamental transformation, decentralization also involves the transfer of powers and responsibilities from the central government to state-owned enterprises (SOEs), the market, and the civil society. The common feature of all these forms of decentralization is that they begin with the redefinition of the role of the state, on the basis of which to delineate powers and responsibilities between the central vs. local government, between the state vs. marker, and between the public sector vs. the private and civil sector.

The field of decentralization is vast. Generally, however, four key dimensions of decentralization are:

- **Political decentralization** aims at creating a supportive environment for people and electoral bodies to participate in the decision-making process, particularly at the local level where citizens interact the most with government. Under political decentralization, local governments and elected bodies will be more accountable to local communities.
- **Administrative decentralization** is the transfer of power and responsibility in performing public tasks from the central to the local government. Through administrative decentralization the tasks of planning, zoning, management, and part of the financing of
infrastructure and provision of public services will be transferred from the central level to local administrative bodies. Administrative decentralization can be divided into three groups:

- **Decentralization** is a form of sharing of decision-making authority and responsibility with representative offices of central government agencies located in different regions of the country. This is the weakest form of administrative decentralization. Some scholars even argue that this is not decentralization at all because it is essentially the internal re-division of responsibility within the central level.

- **Delegation** is a form of administrative decentralization according to which the higher level central government transfers decision-making and management authority to local governments and allows local governments to undertake activities on behalf of the higher level governments.

- **Devolution** is the strongest form of administrative decentralization. Under this form, complete authority over decision making, financing and management is transferred from the central government to independent bodies of the local government. At its highest level, devolution empowers local governments to hire and fire local staff, thereby making local officials accountable to elected officials, without any reference to higher level governments.

- **Fiscal Decentralization** is at the heart of decentralization. Agencies to which authority has been decentralized can only independently perform their tasks when it has necessary resources and power to make spending decisions. Four key dimensions of fiscal decentralization include (i) the transfer of expenditure powers and responsibilities; (ii) the transfer of powers and responsibilities of revenue collection; (iii) inter-government fiscal relationships; and (iv) the ability to borrow and issue debts by local governments.

- **Market decentralization** applies where the state transfers functions from the public sector to the private sector. As such, responsibilities which were previously performed by state agencies are carried out by private enterprises, business and civil associations, and other non-government organizations. Market decentralization can be divided into two groups. The first is privatization, by which assets and responsibilities (e.g., the provision of certain products and services) are transferred from the state to private entities. The second type of market decentralization is deregulation, which is designed to reduce administrative barriers and create the conditions for private entities to enter the markets.

Decentralization can also be classified not by its dimensions but by the functions in the policy making process. According to this classification, decentralization can happen at some or all functions of the policy-making process, from the inception of policy making to planning, implementation, monitoring, policy evaluation, and auditing.
The two types of decentralization classification are illustrated in Figure 1. The combination of these two classifications can result in various configurations of decentralization. In other words, the choice of decentralization design is not merely a “yes” or “no”, but how to combine the dimensions and functions of decentralization to create the desirable configuration. In addition, because the dimensions and functions of decentralization interact with each other, it is important to be conscious about their order and coordination when designing the decentralization policy to maximize its effectiveness and efficiency. For instance in fiscal decentralization, if the transfer of revenue generation power does not go ahead, or at least in parallel with the assignment of expenditure responsibility, then the local government will not have sufficient financial resources to carry out the new tasks. Another example is that if the decentralization of investment planning and implementation functions to the local government does not come with appropriate coordination, then local investments can be redundant and wasteful.

3. Why Decentralize?

Waves of decentralization in the world in recent decades stem from both theoretical analysis and practical experience. In terms of theory, according to Stigler (1957), “a representative government works best the closer it is to the people” and “people should have the right to vote for the kind and amount of public services they want.” Olson (1969) proposed the principle of “fiscal equivalence” as the standard for the division of responsibilities among different levels of government. According to this principle, the spatial incidence of the responsibilities and benefits of a public policy should coincide to ensure that the marginal benefit of providing public services is equal to its marginal cost and that there is no free-rider problem. Oates (1972) then suggested the “correspondence principle” by which “public goods should be provided by the level of government that most clearly represents the region that benefits from such service” and the “decentralization theorem” that says “each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision.”

The pioneers of decentralization as well as their successors (Shah 2004, WB 2010) assume that local, rather than central government – thanks to their proximity to the people – have better information on their needs and wills, and understand more about the local-specific conditions. Accordingly, local governments are able to respond more quickly and efficiently to the people’s needs, and make relevant decisions that have direct impact on their welfare. The people’s voice is more quickly and

---

2 See also Musgrave (1986) for the “principle of reciprocity”, which provides a similar allocative rule.
clearly listened by the local government due to its proximity. In general, decentralization theories assume that handing over power and responsibility from the central to local government, and thus, making the government closer to the people, will enhance the performance and responsiveness of the public sector.

These theories are based on some preconditions, in which the most important are:

- **Transparency of information**: The local community has access to full, timely, and accurate information on public decisions. For example, when the local government provides a public good or service, the people should be informed about the viable policy options, including their costs and benefits. Transparent information helps ensure the meaningful provision of public goods and facilitates the people’s effective supervision over local government activities.

- **The voice**: There are effective mechanisms by which the local community can convey their will and priorities to the government. This, combined with the requirements on information transparency and accountability, will encourage the people to actively engage in the process of making and implementing policies to protect their benefits as well as the benefits of the community.

- **Accountability**: The local government is supposed to have two-way accountability – upward accountability towards the central government where the responsibility and power are transferred from, and downward accountability with respect to the communities which are directly affected by decentralization. For instance, the local government should comply with policies issued by the central government and be accountable to local communities for its service delivery. If the mechanisms by which the two-way accountability is carried out are lacking, bringing the government closer to the people will not serve them better and will diminish the central government control.

- **Resources**: Even if information is transparent, people have a voice, and the local government is responsive, the people’s needs cannot be met without resources. In other words, if increases in power and responsibility are not followed by money and other resources, decentralization will be severely handicapped.

- **Efficient size**: The decentralized government should be large enough to take advantages of economies of scale, and cover the benefits and costs of the assigned activities or functions (in order to internalize both negative and positive externalities). Additionally the size of the decentralized localities must be large enough, or small enough in number, to best facilitate the co-ordination of central policies and policy combination of various localities. In contrast, if the size of the decentralized localities is too small and their number is too large, it may lead to unhealthy competition rather than cooperation between localities. This can increase the costs and undermine the effect of decentralization, leading to adverse impacts on the national economy.

These preconditions are necessary (but nevertheless not sufficient) for successful decentralization. These five preconditions are theoretically affected by, and to a certain extent, resulting from the greater institutional environment. Thus, successful decentralization requires an adjustment in the institutional and governance environment such that they move in the same direction and facilitate decentralization. However, institutions are usually persistent, and hence, in many cases, not only hardly help decentralization, but actively hinder it.

---

3 This list is by no means exhaustive, but we believe most relevant to Vietnam.
4 It also implies that, at least in theory, localities with different resources and capabilities should not be decentralized with uniform powers and responsibilities.
From the practical point of view, most of decentralization programs in the world in the last two decades come from political concerns and motives (Shah 2004). However, this does not mean that economic factors have no influence on decentralization. The transition from central planning to a market economy in former and current socialist countries definitely requires the fundamental re-definition of the roles of the state accompanied with the restructuring of the government apparatus toward more decentralization and devolution. In countries where the central governments are always overloaded, decentralization is promoted in the hope that it would remove obstacles to the decision making, release the inconvenience of administrative formalities, and increase the government’s sensibility and responsiveness to local people’s needs and wills. In countries with complicated religions and ethnic communities which are prone to conflict, decentralization is expected to bring about the participation and the voice of vulnerable minorities, and hence, contribute to the national solidarity.

From the public governance point of view, according to Shah (2004), decentralization in transitional and developing countries are driven by the wave of globalization and democracy that has washed over the earth since the late 1980s. Globalization has transformed the world into a “global village” and minimized the distances between nations. In turn, local governments are required to have more powers and be closer to the people so as to be more efficiently responsive to opportunities and challenges emerging from globalization. In parallel with this devolution, local governments should be more accountable and better responsive to people’s needs.


4.1. Decentralization in Vietnam from cultural and historical perspectives

Throughout the history of Vietnam, since Ngo Quyen regained national independence in the 10th century AD to Đổi mới -- either in the feudal period, under the colonial domination, or during the central planning system -- the formal structure of the Vietnamese state has been centralized rather than decentralized. The balance of power has always tilted in favor of the central government in almost every important dimension. As a result, the local government has been greatly dependent on the central government in terms of policies, budget, and personnel.

However, this centralized structure has always been paralleled by the Vietnamese “village culture.” The traditional village in Vietnam possessed power and an important position in the society. The proverb “The king’s laws stop at the village gate” (phép vua thua lê làng), and the observation that Vietnam has occasionally lost the country but it has never lost the village, clearly attest to the power of village culture. Village conventions (huống ước) were a unique feature of Vietnam’s legal system in the pre-modern period. Despite the central role of the village in Vietnamese state and society, it has never ever been officially recognized as an administrative unit of the government apparatus. Today, the village head (trưởng thôn) is not officially recognized as a civil servant (even though he receives allowances from the state budget); the same was true of the village chief (lý trưởng) before 1945. In other words, the power of the village is of an informal nature and as such can deal only with a limited set of local issues. However, as a community with certain degree of de facto “autonomy” the village has substituted for the role of the state in resolving numerous social issues during the Đổi mới era, especially with respect to issues directly relating to the interests of the people such as support for the poor and education promotion etc.

4.2. Decentralization during Đổi mới

From the beginning of Đổi mới, decentralization was recognized by the Party and was enshrined in the Resolution of the Sixth Party Congress in 1986:
“(We) Should restore order, discipline in social, economic management. It is the management mechanism - with a heavy nature of centralization and red tape, that has restricted the lower levels, and at the same time reducing the efficiency of centralized management which directly caused confusion in discipline and order. Therefore, it is impossible to overcome the confusion by returning to the old mechanism, (we) however have to resolutely implement decentralization of management in accordance with the principle of democratic centralism.

Decentralization of management should ensure the self-governance of all three levels: decision making right of the central level (including functional branches of the central government) with respect to the key areas, strategic issues, ensuring a balanced development of the whole economy; autonomy right of the local bodies in implementing social-economic tasks in their respective localities; autonomy right in production - distribution of economic entities, and the ownership role of collective workers. In delegation and devolution of management, responsibility should parallel with power, obligations should be linked to benefits.”

Thus, decentralization is rendered in Vietnamese as “phan cong, phan cap, phan quyen”, which literally means “hierarchical division of labor, administrative decentralization, power devolution”. For a long time, however, decentralization was pursued narrowly by the government as a process of relatively simple administrative decentralization and was a reactive and practical response to the serious economic woes that were threatening the country. In the earlier phase of reform, the state was successful in unleashing and harnessing the private sector’s energy and latent capacity simply by stepping back and relinquishing unnecessary control. Moving forward, however, as the market has become more mature, the private sector has grown and local governments are increasingly tasked with more responsibilities, the lack of a broader and more comprehensive understanding of and approach to decentralization is generating confusion and inefficiency.

Despite the fact that many decentralization policies have been implemented, decentralization has not fulfilled its stated objectives as recognized by the government in Resolution 08 dated June 30, 2004:

[T]he recent renovation in decentralization of economic management from the central to lower-level governments has not met the urgent demand of the reality, and many limitations and irrationalities remain:

- Decentralization has given rise to the break of uniformity in public management, dispersion and localism. The administrative disciplines have not been strictly kept. The supervision and monitoring have not focused on what have been decentralized to the localities.

- The duty, responsibility, and authority of each level of government in the implementation of public management, provision of public services, and representation of the state ownership of public assets and in SOEs have not been clearly defined. The responsibility of each level of governments, each individual, and each organization with respect to decentralized tasks has not been well defined.

- Decentralization has not been accompanied with the necessary conditions for the local government to carry out their tasks. There has been the lack of synchronization and consistence among different ministries and dimensions of decentralization. As a result, it’s difficult for the local governments to actively balance their resources and needs on their own.

- Some decentralized tasks have already been stipulated in laws and regulations but their implementation has been delayed or only partially carried out. On the other hand, current regulations on decentralization are not appropriate to the reality of each geographical region and do not take the urban-rural differences into account.

---

These above limitations and deficiencies have been resulted from various reasons, but mainly because: the conception and awareness of decentralization policies and solutions are unclear, incoherent, and inconsistent between the central and provincial governments; there has been a concern that radical decentralization may lead to localism and regionalism; there has been a lack of will and determination in the execution: from design to adoption and implementation of decentralization regulations; the review, assessment, and learning from decentralization experiences are not properly carried out; the legal system has not been synchronized and fallen short of the requirements for social and economic development in the current conditions.

Although the government’s assessment of the limitations of decentralization is superficially valid, it has not touched the root causes, which are deeply embedded in the current institutional system. Specifically, the central government has always tried to protect its supreme power, the most important of which are its political power, and its control of over budget allocation and personnel appointment. The specific expression of this resolution may change, but its spirit has never changed. This explains why the concept of decentralization in Vietnam is limited mainly to decentralization of economic management and hardly includes political or personnel decentralization.

In addition to the official views and principles mentioned above, the decentralization policy in Vietnam has also been driven by two other key principles, namely top-down decentralization and decentralization by scale.

**Top-down decentralization**: In Vietnam, rather than taking the bottom up approach to decentralization (i.e., subsidiarity concept), the reverse is more likely. It is the central government who decides which tasks it is willing to delegate to the local level and which tasks should be kept for itself. This approach helps maintain the hierarchical power structure between the center and the local in which the lower level feels unnecessarily constrained and unable to increase its capacity while the upper level is often overloaded and unable to either coordinate or monitor effectively. This situation increases the problems of moral hazard and ambiguous accountability, and explains why in Vietnam the lower levels of government tend to be passively dependent on the upper levels.

**Decentralization by scale** has always been a dominant characteristic of the decentralization process in Vietnam, especially with regard to the issues of investment management. The central government generally maintains the ultimate authority in bigger investment projects while allowing the local governments to take over smaller investment projects. Two main problems arise with this approach. First, the scale of an investment does not always correspond to the nature and impact of the project. Second, the application of “keep the big, release the small” principle has played a role in tempting provincial governments to fence break in order to attract more foreign investment.

---

6 The Resolution of the Sixth Party Congress in 1986 while promoting decentralization but also affirmed that “(we) however have to resolutely implement decentralization of management in accordance with the principle of democratic centralism.” Nearly twenty year later, the Resolution 08 of the government, whose main objective is to promote decentralization, once again affirmed that “firmly uphold the viewpoint that the state power is unified.”

7 As will be shown in the next section, fiscal decentralization in practice has not improved the autonomy of provincial governments but on the contrary increased their dependence on the central government.

8 See Vu Thanh Tu Anh, Le Viet Thai, and Vo Tat Thang (2007).

The assessment of a large and complex policy such as decentralization should be based on comprehensive and meticulous research, and be conducted in an objective way. Unfortunately, up to now there have been almost no such studies. Therefore, the purpose of this section is, to give a general review from the institutional perspective on the successes and limitations of the design and implementation of decentralization in Vietnam.

5.1. Some successes of the decentralization policy

Arguably, market decentralization is the most successful dimension of decentralization in Vietnam. The essence of the success of two decades of reforms since Đổi mới is the transformation of the role of the state in the economy, or more specifically, the withdrawal of the state and the emergence of the latent private sector. Although the government’s official position today is that the state-owned sector should play the “leading role” in the economy, in performance terms, however, these firms account for only about 25 percent of the nation’s GDP and 20 percent of the nation’s industrial value-added. Thus, to a great extent, Vietnam has successfully transformed the centrally planned economy into a decentralized market-oriented economy. Indeed, many of the most remarkable achievements of Đổi mới can be attributed to this form of decentralization.

Several examples stand out. The transformation of the rural areas in Vietnam in the late-1980s was the direct result of many achievements in agricultural development, which in turn were a consequence of land reform, which essentially returned the land to the households, and the state’s decision to renounce its directive role and monopoly position in the production and distribution of rice. After only a few years, the country escaped from chronic hunger to become one of the largest rice exporters in the world.

Another remarkable achievement of Đổi mới was recorded in the late 1980s and early 1990s when the Socialist Bloc collapsed in Europe, taking with it Vietnam’s single most important source of foreign aid. At the same time, because diplomatic normalization with the US had yet to be achieved, the US trade embargo remained. Vietnam was virtually isolated from the outside world. Once again, the private sector came to rescue.

The Law on Private Enterprise was passed in 1990 to acknowledge private ownership and the role of the private sector in the economy. As a result, Vietnam was able to stand firmly on its feet and build up foundations for further development. Since then, the state has gradually abandoned its monopoly in the manufacturing and service industries.

The passage of the Law on Enterprise in 1999 marked another significant step toward deeper market decentralization. After the Law was enacted, a record number of private enterprises have been established thanks to easier business registration procedures. The significant amount of domestic capital mobilized by these enterprises has helped Vietnam recover from the 1997-98 regional economic crisis and maintain a relatively high rate of growth since 2000.

---

9 Vietnam Development Report 2010 titled “The modern institutions” prepared by the World Bank Vietnam is an exception. However, even this report is not as objective as it should be.

10 See the Socioeconomic Development Strategy 2011-2020
Regarding the other dimensions of decentralization - including political, administrative, and fiscal decentralization - the progress has been far less successful than in market decentralization. This can be clearly seen through the assessment of all dimensions of decentralization set out in Resolution 08 of the Government, the Vietnam Development Report 2010, and the papers in this Forum. Without reiterating the efforts of others, the next section of this policy discussion paper will present key common limitations found across all dimensions of decentralization in Vietnam as well as analyze the underlying causes behind these limitations.

5.2. Weaknesses in the design and implementation of decentralization policy in Vietnam

a) Decentralization is not accompanied by the necessary pre-conditions

As discussed in Section 3, the theory and practice of decentralization suggest that the efficient and equitable decentralization requires many governance pre-conditions, such as information transparency, participation and accountability, sufficient resources, and a reasonable size. To assess these necessary pre-conditions, ideally, we need to compare the pre- and post-decentralization data. Historical data, however, is not available, and we have to limit ourselves to the use of current data.

- **Nontransparent information**: Data from Provincial Governance and Public Administration Performance Index (PAPI) in Vietnam reveals a low level of information transparency. For example in both 2010 and 2011, among thousands of interviewees, only a third had ever heard about the Grassroots Democracy Ordinance at the commune level, although it was issued in early 2007 (Figure 2). Besides, another third of interviewees had not ever heard the Party’s most popular slogan “People know, people discuss, people do, people verify”, although it has been constantly repeated from the Sixth Party Congress up to now.

**Figure 2. Awareness of grassroots democracy**

![Figure 2](image_url)

**Source**: PAPI 2010 and 2011

---

11 PAPI comprises 6 component indices: (i) residents’ participation at local levels; (ii) transparency; (iii) vertical accountability; (iv) control of corruption; (v) public administrative procedures; and (vi) public services delivery. PAPI was rolled out in 30 provinces for the first time in 2010, and then expanding in all 63 provinces in 2011.
Similarly, PAPI indicates that almost 80% of interviewees have not ever known about the land-use plan in their communes, despite that land is such an important asset. Far from improving, this percentage had been increasing from 2010 to 2011. In addition, less than 20% of the interviewees know about the land-use plan in their locality and this number has decreased from 18.6% in 2010 to 16.2% in 2011 (Figure 3).

**Figure 3.** Percentage of interviewees who know land-use plan in their communes

![Figure 3. Percentage of interviewees who know land-use plan in their communes](image)

*Source:* PAPI 2010 and 2011

Not only residents but also firms face difficulty in getting access to policy information (Table 1). Yet again, the situation has deteriorated in recent years. According to Provincial Competitiveness Index (PCI) by Vietnam Chamber of Commerce and Industry (VCCI) and Vietnam Competitiveness Initiatives (VNCI), most firms contend that it is necessary to have “relationships” to get access to provincial documents; and this figure increased from 62% in 2006 to 73.3% in 2011. Besides, the predictability of law enforcement was also very low and decreased from 10.5% in 2006 to only 8.9% in 2011. Overall, the policy transparency index at provincial level reduced from 5.8 to 5.3 (out of 10) during 2006-2011.

**Table 1.** Policy transparency of provincial governments

<table>
<thead>
<tr>
<th></th>
<th>“Relationship” is necessary to get provincial documents (important or very important)</th>
<th>Predictability in provincial regulation enforcement (always or frequently)</th>
<th>Overall transparency (min=0, max=10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>62.0%</td>
<td>10.5%</td>
<td>5.8</td>
</tr>
<tr>
<td>2011</td>
<td>73.3%</td>
<td>8.9%</td>
<td>5.3</td>
</tr>
</tbody>
</table>

*Source:* VCCI and VNCI

---

12 Data from Vietnam Development Report also reflect this situation of “People do not know”. Among those who are concerned, more than a half have no any information on the commune budgets and plans. Furthermore, even if they were informed, that information would not be sufficient to meet their demand.
Low accountability\textsuperscript{13}

As far as we know, there is no truly systematic and reliable research on the accountability of the decentralized bodies, and this is also true for quantitative research. Hence, this section uses a few case studies to illustrate the perception that both upward and downward accountability in Vietnam are low.

The first case relates to the serious issue of land claims by residents. For many years, complaints about land account for about 70-90\% of total complaints received by the Ministry of Natural Resources and Environment (MONRE) related to land soared right after the revised Land Law came into effect in July 1, 2004. It is noteworthy that, while it has always been a common phenomenon, complaints about land soared right after the issuance of the new Land Law that came into effect in July 1, 2004 (Figure 4).\textsuperscript{14} Obviously, the decentralization policy adopted under this Law does not ensure the local governments’ accountability to residents, resulting in a sharp increase in the quantity of complaints.

\textbf{Figure 4.} Complaints about land

\begin{center}
\begin{figure}
\includegraphics[width=0.8\textwidth]{complaints_land.png}
\caption{Complaints about land}
\end{figure}
\end{center}


The second case is the “fence-breaking” movement which provided extra-legal incentives for foreign direct investment (FDI) projects from 2001-2005 in the context of accelerate decentralization of FDI management \textsuperscript{15}. The remarkably widespread nature of the violations - the “investment incentive fence-breaking” - has encouraged competition among provinces in attracting FDI and thereby creating a serious clash between the central and local governments.

\textsuperscript{13} We can see the low accountability in authorized issues related to SOEs (such as Vinashin) and management of public investment (particularly PMU 18). See more in Summary Report of the Committee of Economic Affairs’ Spring Forum (2012).

\textsuperscript{14} Report by the National Assembly’s Standing Committee in 2012 revealed that during the period 2003-2010, the government’s administrative bodies had received 1,219,624 complaints, in which 851,176 (or 70\%) were related to land.

\textsuperscript{15} See Vu Thanh Tu Anh, Le Viet Thai, and Vo Tat Thang (2007).
In responding to this situation, the Prime Minister signed Decision No. 1387 on December 29, 2005 ordering an immediate suspension of extralegal regulations on investment incentives issued by 32 provincial governments. Many ministries, including the MPI, MOF, MONRE, Ministry of Justice (MOJ), Ministry of Trade (MOT), and the Office of the Government (OOG) were involved in the issuance of this Decision. The Decision ordered the People’s Committees of all 64 provinces to submit a report detailing all violations of investment incentive regulations. The 32 fence-breaking provinces were furthermore ordered to report on measures they have taken to correct violations.

Although the deadline for submitting the reports was March 1, 2006, by March 14, 2006 only 14 provinces had submitted reports, and only six of these provinces acknowledged violations. The central government then, once again, ordered the remaining 50 provinces to submit the required reports no later than April 15, 2006. By August 2, 2006, 22 provinces had still yet to file reports. Among 42 provinces that have submitted reports, some reported perfunctorily about corrective measures without even including a list of violations as required by the central government. This example shows that the level of compliance of local governments to the central government’s decision - the upward accountability - is very limited.

- **Resources of most provinces are very limited**

Having more resources is a prerequisite to carry out the additional decentralized tasks. At first glance, local governments seem to have larger budget share, reflected in the increase in both revenue and spending of local level relative to the national spending over the last 10 years (Figure 5). In particular, the ratio of local revenue to total national revenue increased from 25% in 2000 to 38% in 2010. The ratio of local spending to total national expenditure increased from 45% to 53% during the same period.

**Figure 5.** Local revenue, expenditure, and transfers from the central government

![Figure 5. Local revenue, expenditure, and transfers from the central government](source)

*Source: The author’s calculation from Ministry of Finance data.*

However, a closer look at the picture of revenue and spending reveals some important problems. Firstly, the ratio of local revenue that increased recently was not a result of fundamental changes in
decentralization structure towards a larger revenue share for local governments. Rather, it came from an increase in one-off revenue sources, particularly revenue from land, or more precisely, from the tax on the transfers of the land-use rights.

Secondly, the share of local revenue in the total national budget is still far lower than the ratio of local spending. This means that a large part of local spending is subject to transfers from the central, and hence, increases the local governments dependence on the center. This is especially true for the more than 50 provinces which currently receive transfers.

Table 2. Ratio of current expenditure vis-à-vis total revenue in some provinces (%)

<table>
<thead>
<tr>
<th>Province</th>
<th>2003</th>
<th>2005</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ho Chi Minh City</td>
<td>10.5</td>
<td>10.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Vinh Phuc</td>
<td>29.1</td>
<td>28.8</td>
<td>13.0</td>
</tr>
<tr>
<td>Da Nang</td>
<td>17.3</td>
<td>16.5</td>
<td>15.4</td>
</tr>
<tr>
<td>Ha Noi</td>
<td>12.5</td>
<td>12.4</td>
<td>17.6</td>
</tr>
<tr>
<td>Long An</td>
<td>81.6</td>
<td>39.9</td>
<td>24.4</td>
</tr>
<tr>
<td>Binh Duong</td>
<td>20.7</td>
<td>33.8</td>
<td>25.7</td>
</tr>
<tr>
<td>Khanh Hoa</td>
<td>30.4</td>
<td>24.1</td>
<td>29.3</td>
</tr>
<tr>
<td>Can Tho</td>
<td>54.4</td>
<td>27.1</td>
<td>36.3</td>
</tr>
<tr>
<td>Dak Lak</td>
<td>173.8</td>
<td>8.3</td>
<td>77.8</td>
</tr>
<tr>
<td>Binh Dinh</td>
<td>73.7</td>
<td>45.2</td>
<td>89.9</td>
</tr>
<tr>
<td>Quang Binh</td>
<td>-</td>
<td>108.2</td>
<td>109.7</td>
</tr>
<tr>
<td>Nam Dinh</td>
<td>107.0</td>
<td>174.3</td>
<td>114.5</td>
</tr>
<tr>
<td>Ha Giang</td>
<td>312.0</td>
<td>118.7</td>
<td>180.3*</td>
</tr>
</tbody>
</table>

Note: * is 2009 data.
Source: The author’s calculation from MOF data.

Thirdly, while the share of local spending has increased, a large part of this increase is regulated by the common cost norms, which restrict the flexibility and autonomy of the local government. Once again, this is particularly true for the poorer provinces that already have little or no fiscal autonomy. Table 2 shows the ratio of current expenditure relative to the total revenue in some provinces with different levels of development and in different regions in 2003 and 2005 -- which is right before and after the Budget Law came into effect in 2004, and in 2010 -- the latest year of which budget data are available. As indicated, the ratios of current expenditure relative to the total revenue are quite different across provinces; the lowest is 10% in Ho Chi Minh City and the highest is 180% in Ha Giang. Obviously, with such a high ratio of current expenditure, the total revenue of Ha Giang province can finance only half of the current expenditure, leading to chronic and large budget deficits, and consequently, the province has neither fiscal space nor autonomy.

- **The size of the decentralized area is relatively small**

The large number of provinces reduces the average size of the decentralized territories in Vietnam. In fact, this is a common feature of Southeast Asian countries. The average size of the decentralized territories -- in terms of area, population, and average GDP -- is much smaller in Southeast Asia than in Northeast Asia (Table 3).
Table 3. Average size of the decentralized territories: Northeast vs. Southeast Asia (2010)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Number of decentralized units</th>
<th>Average area (km²)</th>
<th>Average population (US$ million)</th>
<th>Average GDP (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Northeast Asia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>34</td>
<td>282.264</td>
<td>38.6</td>
<td>175.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>9</td>
<td>10.010</td>
<td>5.5</td>
<td>112.8</td>
</tr>
<tr>
<td>Japan</td>
<td>47</td>
<td>8.041</td>
<td>2.7</td>
<td>116.8</td>
</tr>
<tr>
<td><strong>Southeast Asia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>75</td>
<td>6.842</td>
<td>0.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Vietnam</td>
<td>63</td>
<td>5.257</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>80</td>
<td>3.750</td>
<td>1.2</td>
<td>2.5</td>
</tr>
</tbody>
</table>

With a relatively small size, local governments are not able to take advantage of economies of scale and to efficiently solve problems of externalities. In addition, the small size and large number of the authorized areas may indeed lead to unhealthy competition between provinces.

**Figure 6.** Institutional fragmentation in Vietnam: airports, seaports, and economic zones

In some respects, such as building the business environment or promoting the private sector development, competition among provinces is healthy and has led to better performance. However, in other respects, especially related to contesting for resources or getting favors from the center, the outcome may be very negative. In particular, the administrative boundary may become the economic boundary by which the national economy is split into many pieces and the public investment is diffuse and often redundant (Figure 6). This has indeed happened in Vietnam and has been received sustained criticism.
b) One-size-fits-all decentralization

In terms of the decentralization status, 63 provinces and cities in Vietnam are currently classified into three groups. Group 1 includes Ha Noi and HCMC which enjoy a special decentralization policy.\(^{16}\) Group 2 includes three other cities directly under the central government – Hai Phong, Da Nang, and Can Tho – for which the decentralization policy is stricter than that for Group 1 but more relaxed than Group 3, which includes the remaining 58 provinces. All provinces in Group 3 are subject to a common decentralization framework, despite their obvious differences in economic size, fiscal space, resources, and capabilities. From the point of view of the central government, it is understandable to have a common decentralization framework for this groups, but there has been evidence that this one-size-fits-all policy has rendered decentralization inefficient.\(^{17}\)

This suggests that it might be desirable to have a more differentiated system of decentralization, based not only on administrative criteria (as in the current system) but also, for example, on provincial economic performance (e.g., economic size, contribution to national budget, attraction of FDI and private investment, export performance etc.). The main idea behind this recommendation is twofold. First, a performance-based system of decentralization will reward the better performing provinces by widening their set of options in mobilizing and allocating resources. Second, the proposed system of decentralization will match a province’s degree of autonomy with its capacity and competence, which can be measured by its performance.

If this recommendation is accepted, a key question for its implementation would be in which dimensions and functions should decentralization be differentiated. In terms of dimensions of decentralization, fiscal and FDI decentralization can be differentiated since among all dimensions of decentralization these two are more closely related to provincial economic performance and relatively easier to measure.\(^{18}\) In terms of the decentralization of specific functions, formulation/planning, financing, and implementation functions can be more differentiated while monitoring/control and audit/evaluation should be less differentiated because of the general lack of checks and balances at the provincial level. In implementing differentiated decentralization, efforts should be made to ensure the extension of autonomy is accompanied by a stricter accountability.

c) Unbalanced decentralization

Decentralization in Vietnam has been unbalanced in at least two ways. Firstly, in many cases, decentralization dimensions/functions are not designed in such a way that they complement each other. As such, decentralization dimensions/function not only hardly create a resonant effect but also reduce the efficiency of decentralization. For example, decentralization in land management (especially regarding changes in land-use purposes), FDI management, and fiscal decentralization to a certain extent, have advanced more rapidly compared to other areas – such as political and personnel decentralization. This implies that while the autonomy space of the local level is broadening, the mechanisms by which the local government is empowered to act in the people’s interests are not correspondingly improved. As a result, the wider autonomy space can be abused, and even work against the people’s interests.

\(^{16}\) Regarding the fiscal decentralization, for example, see Decrees 123/2004/NĐ-CP and 124/2004/NĐ-CP on some special schemes of budget finance for Ha Noi and Ho Chi Minh City.

\(^{17}\) See more in Ninh Ngoc Bao Kim and Vu Thanh Tu Anh (2008).

\(^{18}\) One can also propose to promote provincial bonds to finance provincial social and economic infrastructure and other public goods. Given problematic macro imbalances since 2007 and the serious lack of accountability at the provincial level, we suggest that this proposal should be considered with the highest care.
The second unbalanced dimension exists between different levels of sub-national government. For example, the grassroots democracy policy has taken place at the commune level, while powers and responsibilities have been decentralized to the provincial level. This imbalance, again, weakens the residents' voice and reduces the provincial government's accountability.

c) Weak supervision and coordination mechanisms

The implementation of decentralization requires the participation and collaboration of many different government organizations at both central and local levels. However, the lack of communication and coordination among these organizations has given rise to many difficulties for the provincial governments in implementing decentralization.

The phrase “the law awaits the decree, the decree awaits the circular, and the circular awaits the ministries ...” is commonly cited in Vietnam to refer to the situation in which the implementation of a law is postponed until the guidelines have been issued by various ministries. Typically, many government agencies are involved in drafting laws and preparing the guiding sub-law documents. Moreover, the related parties may understand and interpret the law differently, making it very difficult and time-consuming to reach a consensus or, at least, a consistency among different sub-law documents prepared by those parties. One example of the inconsistency between different regulations is the land assignment procedure that investors have to follow to obtain a piece of land. The procedure is circular: (i) in order to be assigned a piece of land for their project, the investment project first needs to be approved; (ii) to be approved, the 1/500 surface plan of the project needs to be ratified by an authoritative agency; (iii) but land assignment is the prerequisite for this plan to be ratified.

All these limitations have been acknowledged in Resolution 08 of the government, but have remained unresolved. As already discussed, the relationship between provinces has been competitive rather than cooperative. There exist some regional coordination mechanisms, e.g. via Regional Steering Committees, but these committees operate on part-time or secondment basis and meet only once or twice a year. Furthermore, the human, financial, and organizational resources of the Regional Steering Committees are very limited. All of these factors lead to a loose coordination among provinces in the same region.

In terms of supervision, a mechanism that is increasingly playing an important role is via the People’s Councils, which are the elected representative agencies at the local levels. Up to now, however, the effectiveness and efficiency of the People’s Councils at all levels are still limited. There are both technical and institutional reasons. Technically, the time, budget, and other resources available for supervision are very limited, while information and data are insufficient; thus, elected representatives are unlikely to closely supervise the People’s Committee activities. Institutionally, the People’s Council members who are specialized in and fully devoted to supervision tasks account for a small percentage (10%-30% depending on each locality). The majority of representatives are working on a part-time basis, principally in addition to their positions as public servants. Besides, over 90% of

---

19 For instance, the Land Law and Construction Law were both passed on November 26, 2003 but it took quite a long time for the implementation decrees to be issued (11 months for the Land Law and 15 months for the Construction Law).
20 One example of the inconsistency between different regulations is land assignment procedure that the investors have to follow to obtain a piece of land. The procedure is circular: (i) in order to be assigned a piece of land for their project, the investment project first needs to be approved; (ii) to be approved, the 1/500 surface plan of the project needs to be ratified by an authoritative agency; (iii) but land assignment is the prerequisite for this plan to be ratified!
representatives are Communist Party members. This raises a question: for whom do they represent – residents, the government, the Party, or all of them?

**d) Limitations that emerge from the interactions between decentralization policy and the institutional environment**

This section illustrates a point raised in a previous section, that the performance of decentralization depends critically on the policy and institutional environment in which decentralization policies are designed and implemented.

When the rate (not quality) of GDP growth is used by the central government as nearly the sole measurement of the success of the provincial government’s performance, it follows that each province will seek to maximize their rate of GDP growth. One of the simplest ways to achieve this is by trying to get a bigger share of the central government investment budget. Yet, since provinces compete with each other for resources and growth performance, their investments have often been uncoordinated, which has resulted in much duplication and inefficiency. Indeed, the competition has become so fierce that each province only cares about the economic activities within its territory, and ignores the spillover effects or aggregate impacts. As a result, the administrative boundaries between provinces have become their economic borders, and the national economy has been divided into 63 smaller and inefficient ones. Additionally, the “political cycle” has made the race for GDP growth even more pressing. It’s not surprising that the quicker decisions are made, the larger the scope for error, especially if the decision maker will not be present in the next term to take responsibility for his or her decisions. So, in the current institutional setting, the vision of provincial leaders is limited in both space (administrative boundaries) and time (5-year terms).

There has been an opinion that the current inefficiency of investment results from excessive decentralization. In recent years, there have been movements in developing industrial zones and golf courses in many provinces because of provincial political decisions. More over, the decision is now much easier since according to the current Land Law, only a single decision issued by the chairman of the People’s Committee of a province is needed to convert thousands of hectares of agricultural land to industrial or commercial land.21 Although it is clear that the provincial government is responsible, at least partially, for duplicate, redundant and inefficient investments, the lack of the central government supervision and discipline, together with the low quality of planning, are certainly important causes. Arguably, in regards to the inefficiency of the biggest and most important infrastructure investment - airports, deep seaports, coastal economic zones, highways, and electricity - the central government, rather than provincial government, is to be blamed since all the key functions have not been decentralized at all (Table 4).

---

21 According to the statistics of the Department of Agricultural and Rural Development, during 2000 – 2010, on average there was 73,300 hectares of agricultural land taken back and transferred to industrial land, urban, and infrastructure.
Table 4. Functional authority of central vs. local government in major public investments

<table>
<thead>
<tr>
<th></th>
<th>Deep</th>
<th>Airports</th>
<th>Economic Zones</th>
<th>Highways</th>
<th>Electricity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td>Appraisal</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td>Approval</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td>Financing</td>
<td>CG</td>
<td>CG</td>
<td>CG:PG</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td>Implementation</td>
<td>CG</td>
<td>CG</td>
<td>CG:PG</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td>Evaluation</td>
<td>CG</td>
<td>CG</td>
<td>CG:PG</td>
<td>CG</td>
<td>CG</td>
</tr>
<tr>
<td>Auditing</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
<td>CG</td>
</tr>
</tbody>
</table>

The institutional fragmentation is not only visible between the central government and provinces, but also between different ministries and departments of the central government. The Vietnam Competitiveness Report 2010 prepared by The Central Institute for Economic Management (CIEM) and the Lee Kwan Yew School of Public Policy stated that policy making in Vietnam features:

- Lack of vision, focus and prioritization in making policies, especially at provincial levels;
- Inconsistency, overlap and even conflict among different policies and regulations; lack of connection between short term plans and long term strategies;
- Discretion and lack of transparency in interpretation and application of policies; and
- Low effectiveness in implementation and enforcement of policies.

This report also points out that the root causes of these problems come from the fact that “inter-ministerial coordination on policy substance as well as implementation details is poor primarily because mechanisms are lacking to encourage different ministries to work together.”

6. Concluding Remarks

After a quarter of century of decentralization, Vietnam finds itself at a cross-roads. From the societal perspective, arguably, many of the most remarkable achievements of Đổi mới can be attributed to market decentralization, which is indeed the most successful dimension of decentralization in Vietnam. The essence of the successful reforms since Đổi mới is the withdrawal of the state and the emergence of the market. Within the state hierarchy, decentralization has provided provincial governments with more policy space and autonomy in pursuing their development goals. In particular, fiscal decentralization has allowed the richer provincial governments to enjoy more flexibility in mobilizing and allocating their resources. In addition, FDI decentralization gives provincial governments almost full autonomy in granting FDI licenses.

However, after more than a decade of accelerated decentralization, the results are far below the government’s own stated expectations. For the central government, decentralization has undermined

---

22 See the section “Policy Making in Vietnam”, pages 67-68.
the uniformity of national policies and encouraged unhealthy competition between local governments. For the local government, decentralization has not always been accompanied by necessary institutional and financial resources for the effective implementation of decentralization. Moreover, there has been a lack of synchronization between central ministries and a lack of consistency between different dimensions of decentralization. As a result, the local government, particularly the poorer ones, is still dependent on the central government for both policy instructions and financial subsidies. Finally, for the people and businesses - those ultimately affected by the decentralization policy - participation in the policy making process is generally still out of reach.

These limitations of decentralization stem from several causes. The reality is that Vietnam still lacks even the most basic prerequisites for successful decentralization. First, there is a lack of political will. The main objective of the Party and government is to enhance the centralized and unitary nature of the politics and state management as revealed through the principle of “top-down decentralization” and the emphasis on the leading role of the state sector, despite its evident weaknesses.

Second, the institutional and governance environment of Vietnam is rather weak. Information is not transparent, the voices of the people, businesses, and civil society are choked, and government accountability is limited. As a result, the expectation that making the government closer to the people by means of decentralization will enhance the efficiency and of the public sector has not been met.

Third, decentralization in Vietnam has been unevenly deployed. While market, and to a certain extent, fiscal decentralization have advanced more rapidly, political and personnel decentralization have stalled. Another concern is that the capacity of the government is weak, and that the lower the level of government the weaker its capacity. Moreover, decentralization has not always been accompanied by a sufficient increase in capacities and resources, causing serious overload for the local government. In terms of the financial resources, under the current budget sharing formula, local governments neither have incentives to nurture their own sources of revenue nor improve the efficiency of expenditure. The one-size-fits-all decentralization policy only exacerbates the problem further since it puts additional constraints on provincial governments in terms of their flexibility in mobilizing resources and developing creative policies, which in turn have rendered decentralization inefficient.

Fourth, from the perspective of state management, the implementation of decentralization requires the participation and collaboration of various ministries and provinces. However, due to the lack of communication, coordination, and collaboration at all levels, decentralization has in reality resulted in a fragmentation in the state management system (i.e., among ministries) as well as a race to the bottom among provinces. With regards to the supervision of decentralization policy, although the role of the People’s Councils has been improved, their effectiveness and efficiency are still limited by both technical and institutional factors.

Finally, in the more technical aspects, the average size of provinces in Vietnam is too small to take advantages of the economies of scale and to internalize the inter-provincial externalities. Moreover, the large number of provinces has led to unhealthy competition rather than cooperation among them, which has increased the costs and undermined the benefits of decentralization.

For Vietnam, the first priority in designing decentralization policy is to prepare the prerequisites for effective and efficient decentralization. This mission is only possible if the government adopts a more comprehensive concept of decentralization (rather than focusing only on decentralization of economic management functions), and accepts a fundamental change in the role of the state. The future of Vietnam’s decentralization depends critically on the political will to make these difficult decisions.
REFERENCES