

HOW WILL VIET NAM BLOSSOM?

Reforming institutions for effective implementation



VIET NAM SYSTEMATIC COUNTRY
DIAGNOSTIC UPDATE - 2021



Every five years, the World Bank Group proposes a Systematic Country Diagnostic for its member countries. At the end of 2021, the emphasis for Viet Nam is on the priorities for an efficient, sustainable and inclusive post Covid-19 recovery toward a high-income economy in 2045. The country will have also to raise its implementation performance by considering five major reforms that will make its institutions fit for the 2045 aspiration.

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Reforming institutions for effective implementation

FULL REPORT

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CEMA	Committee for Ethnic Minority Affairs
COVID-19	Coronavirus disease 2019
CP-TPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EVFTA	EU-Viet Nam Free Trade Agreement
EVN	Viet Nam Electricity
FDI	Foreign direct investment
FIT	Feed-in tariffs
FTAs	Free trade agreements
GDP	Gross domestic product
GSO	General Statistics Office
ICT	Information and communications technology
IMF	International Monetary Fund
IT	Information technology
LMICs	Lower middle-income countries
MARD	Ministry of Agriculture and Rural Development
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health
MOIC	Ministry of Information and Communication
MOIT	Ministry of Industry and Trade
MOLISA	Ministry of Labor, Invalids and Social Affairs
MONRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
MTEF	Medium-Term Expenditure Framework
NCC	National Competition Council
NPLs	Nonperforming loans
NTPs	National Targeted Programs
OECD	Organization for Economic Co-operation and Development
PAPI	Public Administration Performance Index
PCI	Provincial Competitive Index
PPP	Public-private partnership
R&D	R research and development
RCEP	Regional Comprehensive Economic Partnership
RRC	Regulatory Reform Committee

SBV	State Bank of Viet Nam
SCD	Systematic Country Diagnostics
SEDS	Socio-Economic Development Strategy
SMEs	Small and medium-sized enterprises
SOE	State-owned enterprises
SP	Social protection
TVET	Technical and Vocational Education and Training
UMICs	Upper middle-income countries
UNCTAD	United Nations Conference on Trade and Development
US	United States
VAT	Value-added tax
WDI	World Development Indicators
WGI	Worldwide Governance Indicators

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INTRODUCTION

Viet Nam’s development aspiration to become a high-income country by 2045 has not changed in recent years, but the pathways to achieve that status have.

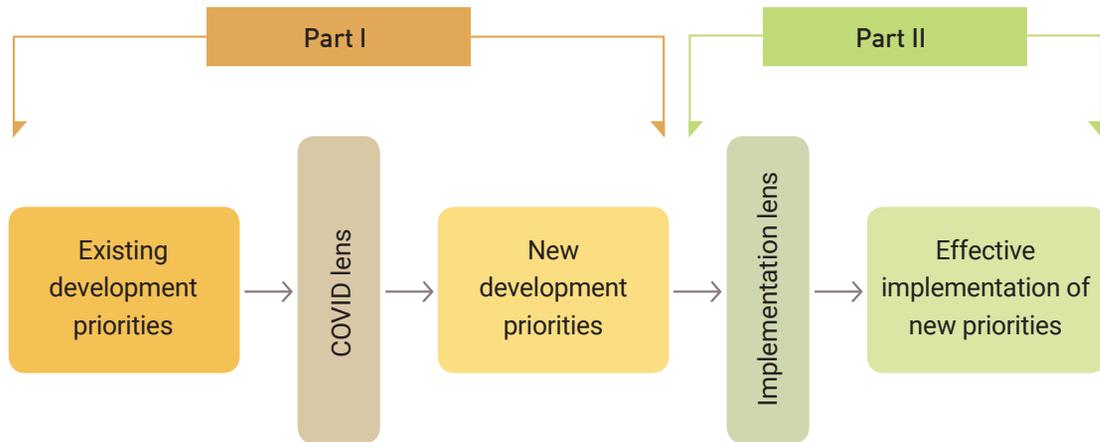
Such changes have been motivated by the rapid structural transformation of the Vietnamese economy, which is gradually becoming richer, with stronger domestic private sectors, and which has also become more urbanized, and, unfortunately, more polluted, and less environmentally sustainable. On the social front, people in Viet Nam are now living longer and healthier lives, are more educated, and are having fewer children. With a more gradual, incremental pace, institutions have also evolved, with more reliance on market mechanisms, rule of law, and contestability through the stronger roles of the national and subnational legislative bodies, the private sector, and the decentralization of several decision processes. These economic, social, demographic, and institutional changes have been acknowledged in several recent studies, especially the 2016 *Viet Nam 2035* report¹ produced jointly by the Government of Viet Nam and the World Bank. The subsequent policy dialogue has led to a solid convergence of what should be the main development priorities for Viet Nam over the next decade.

This convergence has been challenged recently by two important factors. First, the Covid-19 pandemic, coupled with the forces of deglobalization and higher recognition of the country’s vulnerability to external shocks, especially climate change, has unleashed undercurrents that pose significant challenges to Viet Nam’s current growth model. Second, the accumulated challenges of an uneven implementation record of the past 35 years have left Viet Nam’s institutions underprepared to address more complex development challenges, many of which are cross-cutting in nature, such as climate change and support of a higher-income society. The Systematic Country Diagnostics (SCD) Update will analyze how these two challenges—one contemporary and one historic—are expected to reorient the country’s development priorities and what Viet Nam needs to do differently to achieve its development aspiration.

The SCD Update has two parts (figure I.1.). Part 1 examines the impact of Covid-19 on the economy and the underlying policy agenda, Part 2 focuses on the implementation challenges. The SCD update concludes with a discussion about whether Viet Nam should accelerate the pace of its institutional reforms to address the dual challenges of Covid-19 and implementation.

¹ Ministry of Planning and Investment and the World Bank 2016.

Figure I.1. Organizing framework for the SCD Update



PART 1

THE COVID-19 CRISIS AND VIET NAM'S DEVELOPMENT PRIORITIES

The Covid-19 outbreak has been the biggest international shock in decades. Not only have millions of human lives been lost globally, but the world has entered its deepest economic recession since World War II. A strong but unequal rebound is expected in 2021, but the scars from the Covid-19 crisis will be with us for a long time. While the future remains uncertain, history suggests that the world economy will be different in the aftermath of such a crisis, forcing not only governments but also individuals to adjust their priorities.

The pandemic, coinciding with slower globalization and vulnerability to climate and external shocks, has unleashed undercurrents that pose significant challenges to Viet Nam. Prior to the pandemic, there was a relatively good understanding of the priorities for Viet Nam to become a high-income economy by 2045. These priorities have been altered by the magnitude of the shock and by changes in the global economy. Viet Nam has demonstrated exceptional resilience to the pandemic, but many people and businesses have been negatively affected by it, and the authorities have had to adjust several of their policies to respond to the crisis and support the recovery.

This SCD update assesses to what extent Viet Nam needs to revisit its development priorities to build back better in the aftermath of the crisis. It finds that while Viet Nam will not have to change the majority of its development priorities, it will have to reorient them to the post-pandemic world that is expected to be more inclusive, green, and digitally friendly.

Part 1 is organized into three chapters. The first chapter sets the stage by briefly describing the underlying development model that will be necessary for Viet Nam to achieve its goal of becoming a high-income economy. The second chapter documents Viet Nam's economic developments in light of the Covid-19 crisis and the recent trends in the global economy. The third chapter identifies six development priorities that should receive greater attention from Vietnamese policymakers in the aftermath of pandemic.

1.1. Viet Nam's shift toward a new economic model

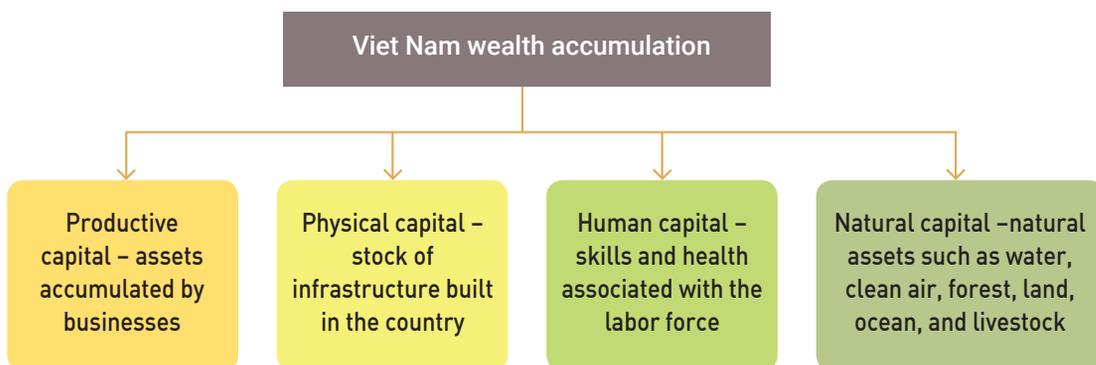
Viet Nam has epitomized development success over the past 35 years, but the government recognized as early as 2010 that it had to adjust the country's growth model. The traditional drivers of growth—accumulation of physical capital, demographic dividend, and manufacturing expansion, mostly in labor-intensive sectors—were gradually running out of steam. It was also

recognized that the existing model needed to consider the rapidly expanding middle class (defined as people living on more than US\$15 per day), which is projected to represent 50 percent of the population in 2035, compared to 18.5 percent in 2018.

As a result, the government and the World Bank together have been studying how this new model might be structured in the future. Between 2016 and 2020, three major diagnostics were produced: the *Systematic Country Diagnostics*, the *Viet Nam 2035 report*, and the *Vibrant Viet Nam report*.² The government, with the support of the development partners community, in 2020 produced the country’s Socio-Economic Development Strategy (SEDS) for 2021–2030, which was endorsed by the Viet Nam Communist Party Congress in February 2021. The main common message of these studies is that Viet Nam should shift its growth model toward more efficiency, following the successful structural change in countries such as the Republic of Korea between the 1980s and 1990s. This international experience has demonstrated that the road from low to middle income occurs mainly through the accumulation of physical and human capital and the use of natural resources, but the transition from middle to high income is driven by the efficient use of new and existing assets and resources, including human resources. Further efficiency will help generate the necessary productivity gains in outputs and will lead to improvements in quality that are expected by a more sophisticated middle-class population. These studies also give a greater emphasis to more efficient uses of natural capital and strengthening market-based institutions.³

There are multiple ways to analyze how the Vietnamese economy can become more efficient, but the wealth asset framework, which was used in the recent Vibrant Viet Nam report,⁴ provides a simple organizational framework. It defines national wealth accumulation as the combination of a country’s productive, physical, human, and natural capital (figure 1.1).

Figure 1.1. The new economic model for Viet Nam



Source: World Bank 2020b

² World Bank 2016; Ministry of Planning and Investment and the World Bank 2016; World Bank 2020b.

³ As in most low-income countries, Viet Nam has relied heavily on its demographic dividend (a young and abundant labor force) and natural resources, using its extensive stocks of agricultural and mineral resources to enhance its economic development over the past two decades. There is nothing wrong with Viet Nam using its natural advantages to enhance rapid and inclusive growth during its first phase of development. After all, the country is blessed with abundant agricultural land, water resources, and mineral reserves. However, such a model produces diminishing returns and has gradually become unsustainable over time.

⁴ World Bank 2020b.

There is near consensus among the government and development partners on what Viet Nam’s priorities should be to optimize its wealth accumulation over time (see Annex A for a description of how this consensus was built). The objective is to improve the efficiency of each of the above four categories of capital, starting with productive capital. Efficiency gains should be derived from the entry or development of competitive firms and the exit of noncompetitive ones, as this mechanism will ensure the allocation of resources to the most productive and innovative firms. This can only happen in a supportive business environment that facilitates access to infrastructure and public services, access to finance, and innovation, and that provides transparent regulations and legal protection to ensure healthy competition.

Improving physical capital, beyond the development of new and modern infrastructure, will require improvements in the efficiency of public investment management, including in the operation, maintenance, and use of existing public assets. This will raise the quality of services that infrastructure provides. Better public investment planning and coordination are also necessary to optimize synergies between sectors and across regions, including between urban and rural areas and between domestic and global markets. Priority should be given to the provision of quality infrastructure through partnerships with the private sector and more efficient state-owned enterprises (SOEs).

With regard to human capital, Viet Nam scores well on basic education, but advanced university-level and vocational-technical skills and social protection policies are underdeveloped for a middle-income economy. Further efficiency in human capital will also be achieved by removing barriers faced by those entering the labor market or suffering from discrimination or limited information during their education and job search, including ethnic minorities and women—not just for reasons of equity but also for economic efficiency as the relative size of the labor pool shrinks. While Viet Nam has almost achieved universal health coverage, the quality of health care requires greater attention by the authorities, especially in view of the rapidly aging population (about 15 percent of the total population is projected to be over 65 by 2030 compared to only 8 percent in 2020).

Finally, achieving efficiency gains in natural capital will require substantial progress on both sustainability and resilience as Viet Nam is lagging many of its peers.⁵ Sustainable development involves a shift from liquidating natural assets for short-term growth to using these resources far more efficiently. It will also require a transition toward a low-carbon economy, with many opportunities for more effective natural resources management, stricter pollution control, and preparing for inevitable climate change impacts. Viet Nam’s private sector will need to play a strong role in mobilizing finance to fund the country’s evolution towards a more sustainable growth model and help drive innovative solutions to de-carbonize business activities and adapt to the changing climate. According to the 2018 World Bank report, *The Changing Wealth of Nations*,⁶ countries that manage these natural assets carefully are able to move up the development ladder—investing more and more in manufactured capital, infrastructure, and “intangible capital,” such as human skills and education, strong institutions, innovation, and new technologies.

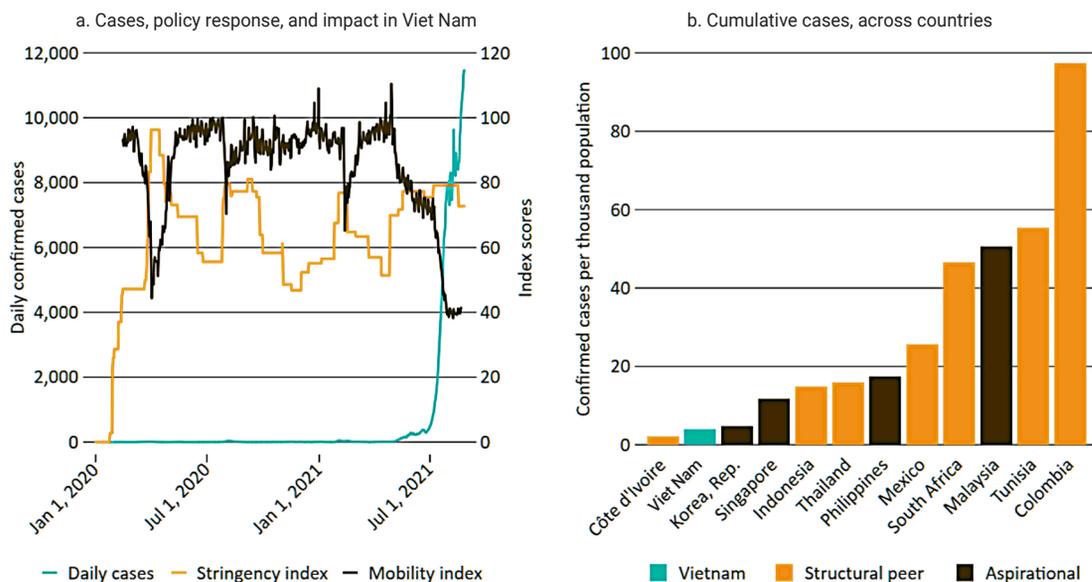
⁵ See World Bank (2021a), which uses the RISE (Resilience-Inclusion-Sustainability- Efficiency) methodology.

⁶ Lange, Wodon, and Carey 2018.

1.2. Covid-19 Impact and Global Megatrends⁷

The Covid-19 outbreak hit Viet Nam early in 2020 due to its proximity to China, the initial epicenter of the pandemic. The government reacted quickly by establishing the National Steering Committee for Prevention of Covid-19 in January 2020 to coordinate national efforts to manage the pandemic, and subsequently closing schools and borders. A national lockdown was ordered in April 2020, which was subsequently eased thanks to the control of domestically transmitted cases (figure 1.2). The country, however, faced new but localized Covid-19 waves in August 2020 and in January/February 2021 that were controlled rapidly by strengthened implementation of targeted mobility restrictive measures and effective tracing/testing policies. A fourth wave has been underway since late April 2021, triggering the adoption of heightened restrictive measures between April and late September, including in major cities and several manufacturing centers. This wave has forced the government to accelerate the pace of the vaccination program, which was one of the slowest in the region, with approximately one percent of the population fully vaccinated as of end-July 2021.

Figure 1.2. Viet Nam has fewer confirmed Covid-19 cases, per population, than its peers, but daily cases have been rising



Source: World Bank staff calculations using data from the Johns Hopkins University 2021, Google 2021, and Oxford 2021.

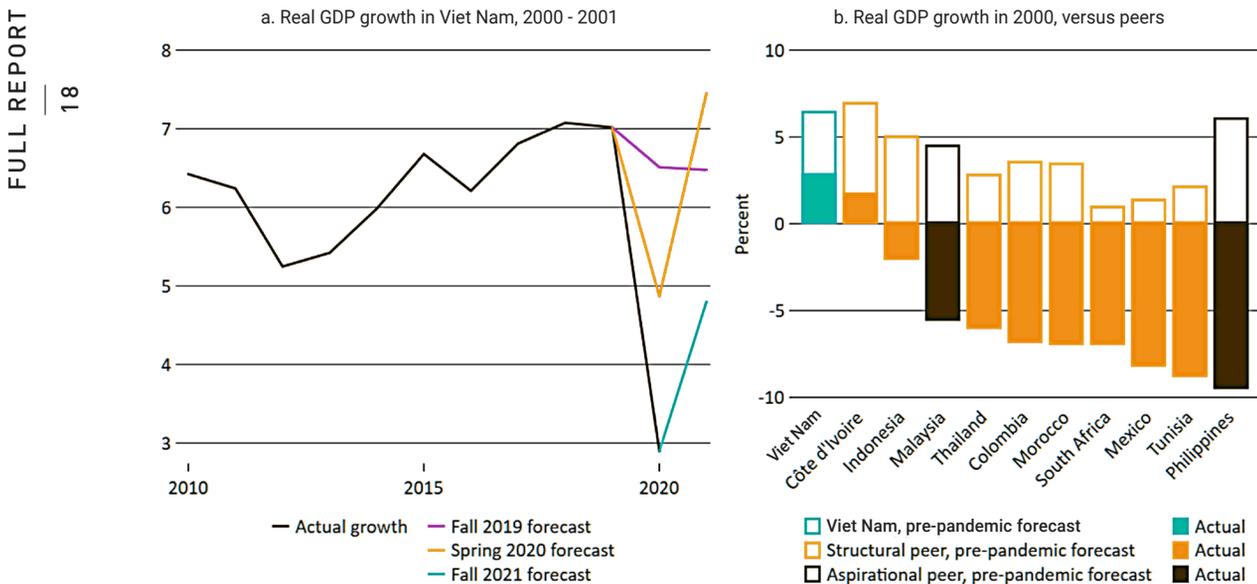
Note: The Oxford Government Response Tracker, known as the stringency index, measures common policy responses governments have taken to respond to the pandemic. It comprises 17 indicators, such as school closures and travel restrictions. The Google mobility index measures the percent change from a baseline equal to 100, averaging across retail, grocery, transit, park, and workplace locations.

⁷ For fuller details on the recent economic trends and impact associated to the Covid-19 crisis, see World Bank 2020c, 2020d, and 2020e.

Despite its relative resilience, the Vietnamese economy has been affected by the progressively more restrictive measures to contain the April 2021 outbreak amid low vaccination rates. The GDP growth rate fell by 6.17 percent in the third quarter due to the combination of domestic and external factors. On the domestic front, service sectors dropped by around 30 percent in retail and 70 percent in passenger transport due to the nation-wide lockdown during August - September. Manufacturing was also affected by the closure of industrial parks, mainly in the south of the country. On the external front, merchandise trade balance deteriorated as exports fell, while service export remains penalized by the closure of international borders. However, FDI commitment reached a total of \$14 billion in the first eight months of the year, reflecting foreign investors' continued confidence in Viet Nam's economic prospects in the medium to long term.

Figure 1.3. The pandemic hurt 2020 growth in Viet Nam, but not as much as it hurt peer countries

Forecasted and actual real GDP growth, over time and compared to peers



Source: World Bank staff calculations using World Bank Macro Poverty Outlook (MPO) data, 2019–2021. The pre-pandemic forecast is taken from the Fall 2019 MPO. The actual growth values are taken from the Spring 2021 MPO. a baseline equal to 100, averaging across retail, grocery, transit, park, and workplace locations.

The last wave of the pandemic also deeply affected the daily life of workers (especially in informal sectors), businesses, and households. The government estimates the number of jobs affected by the crisis to around 28 million during the third quarter of 2021, or about 40 percent of the labor force. The most affected regions were the Southwest and the Mekong Delta, while the service sector was the most hurt by the pandemic. The combination of unemployment and wage decline contributed to a decrease in the average labor income of 44 percent between June and September.

The State Bank of Viet Nam (SBV), the country's central bank, continued its accommodative monetary policies to support the economy; however, potential deterioration in banks' asset quality warrants a close attention.

The SBV has reduced its policy rates (by 2 percentage points in total) and the interest rates for short-term deposits, as well as lending rate cap for priority sectors, in the effort to support businesses during the Covid-19 pandemic. As a result, credit growth remains strong (12.2 percent in 2020 and 14.5 percent year-on-year as of the first nine months of 2021), providing a welcome buffer to affected businesses. However, there is a concern of a potential impact of increasing non-performing loans (NPLs) to the already low-capitalized banking sector (average capital adequacy ratio for all banks stood at 11.2 percent as of June 2021, as compared to 16-24 percent in peer ASEAN-5 countries). While the official NPL figures remain low (3.66 percent overall, including 1.93 percent of legacy NPL held by VAMC and 1.73 percent of NPL in commercial banks' balance sheets as of June 2021), the commercial banks' asset quality may have been deteriorating. Given the negative impacts of the last two Covid-19 outbreaks, particularly the April outbreak, on retail and selected manufacturing subsectors, firms and individuals have found it increasingly difficult to meet their debt service obligations. The forbearance measures introduced by SBV, which allow banks to restructure loans from borrowers who may have difficulty to pay principal and/or interest on schedule, thus providing temporary buffers for businesses and individuals adversely impacted by the pandemic, may mask the vulnerabilities of the financial sector.

The government returned to a more neutral fiscal stance during the first semester. The fiscal balance has remained well under control with a small surplus in the first nine months of 2021. The fiscal surplus has been mainly the result of the slow execution of the public investment program – only half of it was disbursed by mid-October, and the lack of ambition of the fiscal assistance packages. Direct support packages to affected businesses and people have been modest (less than 1 percent of GDP) and reached less than 40 percent of the intended beneficiaries due to complicated targeting and administrative procedures.

Looking ahead, the Vietnamese economy could expand by around 2 percent in 2021 and converge toward the pre-pandemic GDP growth rate of 6.0 and 6.5 percent from 2022 onward.

This projection remains positive, but it would be 4.5 percentage points lower than the GDP growth reported by Viet Nam during the pre-Covid-19 years. It also assumes that the economy will rebound in the fourth quarter thanks to the substantial acceleration of the vaccination program, which should cover at least 70 percent of the population by the end of 2021, and the easing of restrictions on domestic mobility. In the next few months, monetary policy will remain accommodative through a sustained expansion of bank credit. The government plans a faster execution of the budgeted public investment program, which may face initial difficulties due to the current mobility restrictions associated with the long recent outbreak but should be at full speed in the fourth quarter and at the beginning of 2022. The authorities have implemented a new financial assistance package from July 2021 and have temporarily reduced some tax rates (VAT and corporate income tax) on some priority activities. On the external front, these projections assume that both exports and imports will only increase gradually because of high transport and logistical costs on global markets, even if the demand for Vietnamese products should remain strong in its main export markets.

As the economy recovers, supportive policies will gradually wind down. From 2022 onward, the monetary authorities will resume their prudent approach to the balance between supporting economic growth and managing inflation, while closely monitoring the health of the financial sector. Fiscal consolidation will be resumed in the medium term to ensure debt sustainability. The authorities will need to improve their revenue performance and expenditure efficiency, especially the quality of public investment, to meet the expected increase in infrastructure and quality social services that Viet Nam will need in the next decade.

However, these projections should be made with caution as serious uncertainties remain around the magnitude and duration of the pandemic, including the rise of new variants and the pace of vaccination in Viet Nam and in the rest of the world. If these risks materialize, Viet Nam's economic recovery will be delayed, and the GDP growth rate in 2022 will be lower than the projected 6.0-6.5 percent. The convergence to the historical growth trend and fiscal consolidation in the medium term will also be slower than anticipated.

While Viet Nam's prospects remain positive, the authorities should address the heightened social, financial, and fiscal risks. They should:

- **Address the social consequences of the crisis.** The impact of the Covid-19 pandemic on the labor market and households has been exacerbated by the February and April outbreaks in 2021. Not only has the pandemic reduced workers' earnings, but it has also created deeper inequalities through its differentiated impact across income groups, sectors, genders, and locations. Mass migration out of epidemic centers, including Ho Chi Minh City and the Southeast provinces, will potentially create substantial shortages in labor supply as the economy recovers. The authorities should immediately consider strengthening the coverage, targeting, and benefit levels of the country's social protection programs to ensure that current and future victims of natural, health or economic shocks receive adequate support.
- **Watch for financial sector risks raised by the crisis.** While new or restructured bank credit offers a welcome buffer to affected businesses, it also contributes to transferring the risk from the real to the financial sector. The monetary authorities will need to be vigilant about the rising risks associated with NPLs, especially in the banks that were already undercapitalized before the pandemic. It would be useful to adopt a resolution plan for nonperforming loans, and to develop a well-defined mechanism for dealing with weak and troubled banks, while continuing to recapitalize banks to meet Basel II requirements and consider relaxing the limit on foreign ownership in the banking sector. A robust early warning system and risk-based supervision should be developed to identify potential threats to individual banks and the overall system. The authorities should establish a clear exit strategy for loan forbearance measures.
- **Watch for fiscal risks.** While the government still has sufficient fiscal space, with the public debt-to-GDP ratio of around 56.9 percent of GDP as of end-2020, international experience has demonstrated that the fiscal situation could deteriorate relatively quickly if the current outbreak is not rapidly controlled or new outbreaks materialize in the coming months. The government may be required to expand its fiscal assistance package (in both coverage and

levels of support), which has been modest so far, while revenue might be negatively affected by a weaker-than-expected economic rebound. At this stage, the fiscal risk appears under control but should continue to be closely monitored, especially as it relates to the financial health of state-owned enterprises (including in transport sectors), which could lead to contingent liabilities.

The consequences of Covid-19 on the Vietnamese economy have been magnified by the changes happening in the rest of the world. While the global implications of the pandemic are still unfolding and a great deal of uncertainty remains in the future, the experiences accumulated from previous health shocks strongly suggest that changes are likely to be felt for a generation or more.⁸ The acceleration of three megatrends is expected to influence the policy agenda in Viet Nam:

- **Rise of trade nationalism.** The global trade and financial systems have been shaken as the restrictive measures adopted to reduce mobility, and to protect against the pandemic, go against the nature of the globalization phenomenon.⁹ Many governments and multinational companies also realized their dependance on a few suppliers and countries for their provision of key products, which may lead to the revamping of global value chains worldwide and a reduction in foreign direct investment (FDI) flows (figure 1.4). The impact on merchandise trade was not as big as initially expected, since cargo shipments picked up in the last part of 2020 and in early 2021, but exports declined by an estimated 10 percent in 2020. The closing of international borders for travel has almost stopped the movement of people around the world and is expected to lead to deeper and more permanent changes in the transport and tourism industries.
- **Acceleration of the digital economy.** Social distancing has encouraged the development of a contact-free economy, including for commerce, but also for the delivery of basic personal services (e-learning, telemedicine), home-based work, and government transactions (e-government).¹⁰ While this trend was already in motion before Covid-19, it has significantly accelerated in the past year. This can be illustrated by online commerce, which increased in the last five months of 2020 as fast as in the past five years before the crisis (figure 1.5). People have also increased their use of social media; for example, Americans spent on average 82 minutes per day on social media in 2020, a seven-minute jump from 2019. All these changes have obvious economic and financial consequences, but they will also deeply transform how people will live, trade, communicate, work, and learn.
- **Upsurge in green initiatives.** The pandemic has emphasized the fragility of human life faced with exogenous shocks, making it imperative to improve our resilience against not only future health pandemics but also climate change. The short-term impact of the pandemic on the environment has been mixed with, on the one hand, a decline in greenhouse gas emissions due to lower mobility but, on the other hand, a diminished commitment by policymakers to introduce carbon pricing instruments and greener investment due to their negative impact

⁸ Jordà, Singh, and Taylor 2020.

⁹ Maliszewska, Mattoo, and van der Mensbrugge 2020; McKinsey Global Institute 2020.

¹⁰ Chernoff and Warman 2020.

on costs for consumers that were already affected by Covid-19. However, such increased awareness has translated into many countries initiating green programs as part of their longer-term recovery plans.¹¹ It has also led to multiple international initiatives, including by the G7, G20, and COP-26, and the creation of networks by finance ministers or central bank governors to green fiscal and monetary policies.

Figure 1.4. Falling global exports and FDI flows since the early 2010s

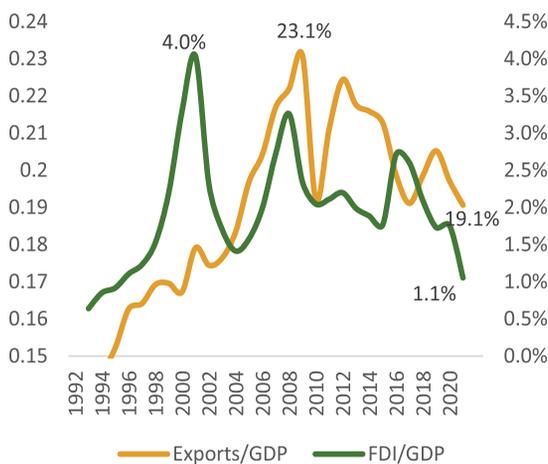
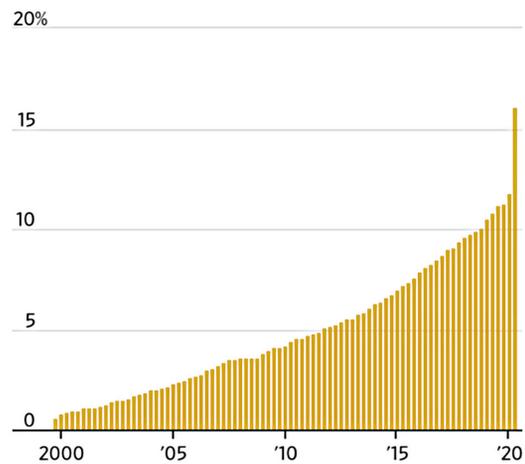


Figure 1.5. Online boom-e-commerce as a share of retail sales, worldwide



Source: World Bank

1.3. Six development priorities reshaped by the Covid-19 crisis

By considering the domestic effects of the pandemic and the acceleration of the above-mentioned global trends, this SCD Update identifies six priorities, a subset of other important ones, that should receive immediate and greater attention from the Vietnamese authorities. These priorities aim to help Viet Nam build better in the aftermath of the Covid-19 pandemic by putting more emphasis on the need to adjust to “a new normality.” This adjustment will require not only coping with increasing risks, such as financial and fiscal instability or rising inequality, but also taking advantage of new opportunities arising from the revamping of global value chains or the acceleration of a green growth agenda and the digital transformation.

These six priorities are slightly different from the ones identified in the 2016 SCD. This is explained not only by the impact of the Covid-19 crisis but also by the modifications made

¹¹ Examples of recent initiatives include the European Union, with 30 percent of Covid-19 recovery packages dedicated to climate-friendly investments over the next decade. Another example is Korea’s Green New Deal of July 2020, which committed US\$61 billion to boost renewable energy capacity over the next five years.

in the two subsequent diagnostics produced by the World Bank Group—the Viet Nam 2035 and the Vibrant Viet Nam reports.¹² The emphasis now is more on the digital transformation, the financial sector, social protection, and climate change, and perhaps less on the business environment, urbanization, and the reduction of extreme poverty. The proposed shift does not mean that the priorities defined by the SCD are no longer important, but that other priorities have become more urgent.

The six priorities reshaped by the Covid-19 crisis were also selected due to their expected contribution to the longer-term objective, which is for Viet Nam to improve the use of its productive, physical, human, and natural capital. Each priority should lead to better efficiency of the country’s accumulated capital for the benefit of all citizens, including the bottom 40 percent of the population, through greater effort to strengthen the nationwide social protection program. Of particular importance is the increasing urgency to better manage the country’s natural capital, as the pandemic has exacerbated the fragility of human lives to external shocks, including climatic shocks. For this reason, one of the proposed priorities in this report is to adopt a more sustainable and resilient growth model, justifying the preparation of a new core diagnostic—the *Country Climate and Development Report*—which will help Viet Nam identify opportunities for climate action by the public and the private sectors so that the country’s development goals can be achieved in the context of sustainability.

Priority #1: Readjusting to slowing globalization by focusing on higher value addition of exports and increased trade in services

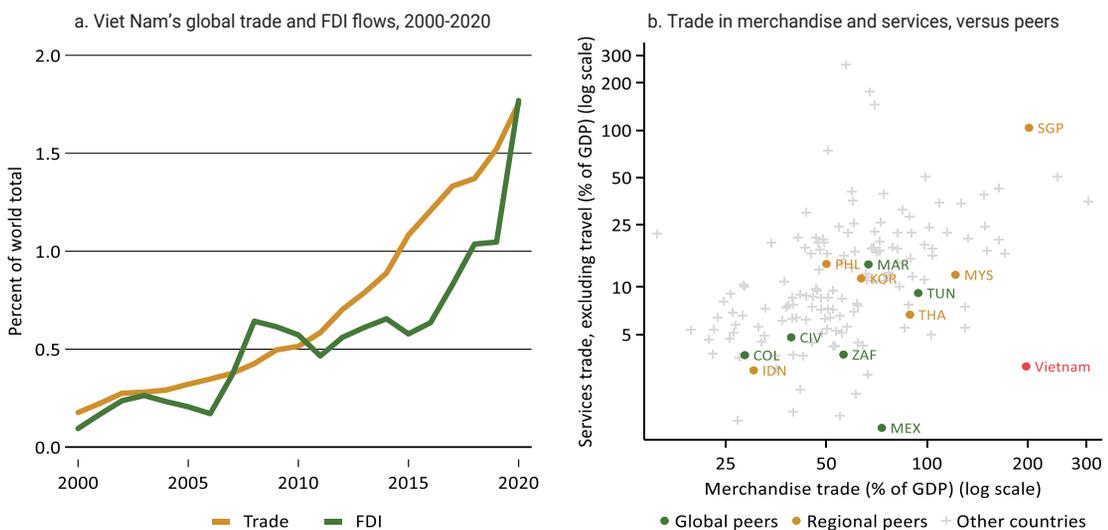
As the world pivots away from hyper-globalization to slowbalization, a phrase coined by Nobel Laureate Paul Krugman, and further accentuated by vaccine nationalism and the U.S.-China trade war, Viet Nam had succeeded, by 2020, in increasing its footprint on global economics (figure 1.6, panel a). Together, Viet Nam’s exports and imports of merchandise equal 197 percent of GDP—higher than almost every other country in the world—but trade in non-travel-related services is low by international standards (figure 1.6, panel b). Furthermore, its domestic value addition from exports is only 56 percent and falling—lower than the corresponding numbers for Thailand and Malaysia (figure 1.7). As a result, Viet Nam integrates into global value chains mainly through backward participation (high foreign value content in its gross exports, and low domestic value content in other countries’ exports). The share of finished and imported-material products in total exports barely changed—it was 84.5 percent in 2010 and 83.7 percent in 2019. With advanced economies increasingly embracing a policy of reshoring and self-sufficiency in strategic products, Viet Nam will have to find ways to increase domestic value addition and expand its exports basket by adding new products such as modern services, including information and communications technology (ICT) and digital services, e-commerce, telecommunications, and video games; and increase its more complex production and export capacity to include not only finished but also semifinished segmentation.

¹² Ministry of Planning and Investment and the World Bank 2016; World Bank 2020b.

Viet Nam’s trade competitiveness is hurt by a lack of diversification, overloaded infrastructure, the high cost of logistics services, and weak synergies between exporters and local firms. While the country has succeeded in moving the structure of its exports from agriculture to manufacturing over the past 15 years, most exports are today concentrated in a few countries (China, Japan, Korea, and the United States), sectors (electronics, textile, and chemicals), and firms (Samsung, Foxconn, and Intel). Yet, the limited diversification of Viet Nam’s trade is most apparent in services, which comprised only 13 percent of GDP in 2019 and only 3 percent when travel is excluded. Similarly, diminished levels of diversification are reflected in the increased share over the last decade of the total exports of the top-three subsectors, from 60.2 percent in 2007 to 70.8 percent in 2017. If Viet Nam is one of the most open economies in the world for merchandise, the barriers to entry and to trade services are high. According to the World Bank, these barriers were 10 to 15 points higher than in more advanced East Asian countries such as Korea, Japan, and Singapore, albeit lower than in China and Malaysia.¹³ This measure does not account for informal barriers that may be enacted by dominants players—SOEs in the communications, transport, education, and health services sectors.

Figure 1.6. Viet Nam’s share of global trade and FDI flows has increased in recent decades, but trade in services remains low

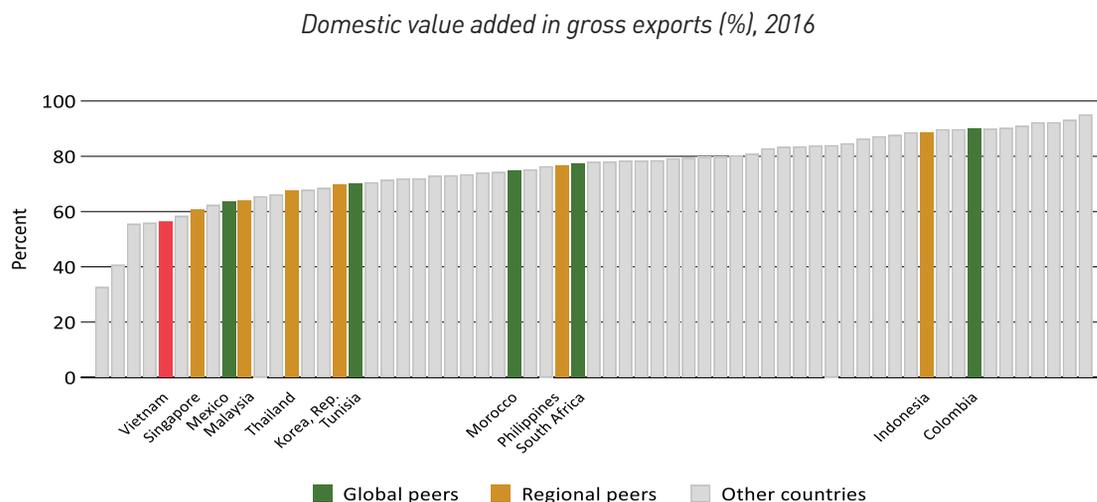
Merchandise trade and FDI flows, Viet Nam’s share of world total, and merchandise trade compared to trade in services, excluding travel, percent of GDP



Source: World Bank staff calculations using data from UNCTAD 2020; UNCTAD, Global Investment Trend Monitor No. 38, 2021.

¹³ World Bank 2020f.

Figure 1.7. Viet Nam has a low share of domestic value added in its exports



Source: World Bank staff calculations using data from OECD (2021).

Despite great progress in reducing tariffs, trade costs remain relatively high because of non-tariff measures and underdeveloped multimodal connectivity and corridors among regions (for example, the Mekong Delta, the Southeast Region, and Ho Chi Minh City). Viet Nam’s non-tariff trade costs for both imports and exports remain relatively high and above the ASEAN-4¹⁴ average. These costs are driven by compliance with specialized control regulations, border clearance procedures, port handling, and the efficiency of transport and logistics systems. Some of the key seaports operate at or near capacity, with limited room for capacity expansion due to their confines within built-up urban areas.¹⁵ Traffic congestion around these ports and along the connecting national highway systems exacerbates cargo movement, causing delays and negatively affecting the urban mobility in major cities. Viet Nam’s aviation sector has seen rapid growth in recent years, with air freight growing at an average rate of 10.8 percent per year from 2009 to 2017. Despite the growing importance of air freight transportation, which accounts for about 25 percent of Viet Nam’s export and import value, infrastructure is still limited. Only 4 of 22 airports in Viet Nam have separate cargo terminals, and only 2 have onsite logistics centers. Natural disasters and other hazards pose increasing threats to the country’s infrastructure and livelihood; the congestion in road transport, airports, and ports has contributed to uncompetitive logistics costs, which were estimated at around US\$41 billion in 2016 or about 21 percent of total GDP. This is high compared with the global average of 12 percent and much lower than in China (15.4 percent), the United States, and Singapore (both 8 to 9 percent).¹⁶

¹⁴ Indonesia, Malaysia, Philippines, and Thailand.

¹⁵ For more details on this constraint, see World Bank (2019a).

¹⁶ World Bank and International Finance Corporation 2021.

Weak synergies and/or linkages between exporters and local firms have led to low and declining local content of exports, which was estimated at around 56 percent in 2016, down from 62.8 percent in 2009. This was one of the lowest ratios in sampled developing and advanced countries—15 and 25 percentage points lower than in Morocco and India, respectively. The majority of foreign-owned exporting firms prefer to import their inputs from suppliers located in other countries for two main reasons.¹⁷ First, it is difficult to find local suppliers that are able to meet international quality standards. For example, the latest Enterprise Survey data show that half of foreign-invested firms operating in Viet Nam hold an internationally recognized quality certification—such as ISO 9001—on quality management systems—compared to less than 10 percent of domestic firms. Second, most exporters are foreign-owned companies that already have a solid network of suppliers at home (or in third countries), and they benefit from preferential tax treatment for their imported investments and inputs.

To overcome these shortcomings, Viet Nam will have to focus on the following three sets of actions:

- **Encouraging trade diversification toward services, more production and export complexity, and more global value chain forward participation.** The implementation of recently adopted regional trade agreements (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership [CP-TPP], EU-Viet Nam Free Trade Agreement [EVFTA], Regional Comprehensive Economic Partnership [RCEP]) should enhance production capacity for covering both finished and semifinished products and help liberalize this sector, as they include several clauses reducing barriers to entry and trades in services.¹⁸ This effort should be complemented by domestic reforms aiming to improve competition and transparency, as well as to level the playing field in the domestic market. This agenda has become even more important because the pandemic has increased trade opportunities in IT-related and digital services. It would also improve the quality of “producer services,” which play an important role in the competitiveness of agricultural and manufacturing exports.
- **Reducing trade costs by promoting trade facilitation and upgrading multimodal connective infrastructure.** Trade can be better facilitated by simplifying non-tariff procedures, which are still very high in several sectors. Trade-related infrastructure can be upgraded by the efficient allocation of public investment, by the smart use of public-private partnerships and by promoting private sector investments to decongest transport infrastructure in urban areas and better link urban centers with regional corridors. As Viet Nam’s trade grows, capacity at its largest international gateways grows increasingly constrained, while several gateways face serious inland connectivity issues. To address these challenges, Viet Nam needs to further develop multimodal connective infrastructure around key ports, and build new gateways with greater capacity and efficiency (as in the case of the planned Long Thanh International Airport and the multimodal connective infrastructure around the Lach Huyen Port), while improving coordination across the central and provincial governments in ensuring hinterland connectivity of main gateways. One policy direction would be to reorient and integrate transport and spatial planning to support critical value chains. Transport planning and investment strategies need

¹⁷ There is ample literature emphasizing the limited linkages between foreign exporters and domestic suppliers, including by the World Bank. See, for example, World Bank (n.d.).

¹⁸ Restrictions on foreign ownership of some logistics providers and difficult and costly processes to obtain licenses, particularly in the air sector, impede entry.

to be informed by value chain criticality, so that connectivity can best serve Viet Nam's further integration with global markets. It is also critical to promote private sector participation in transportation given the fiscal constraints mentioned above, by increasing financing options for smaller logistic service providers, removing constraints on foreign ownership of logistics providers, providing pricing guidelines for public procurement issued by subnational governments, and strengthening regulatory framework for transport of goods.

- **Cultivating synergies between exporting and local firms, notably through the use of backward and forward linkage programs as well as ensuring skilled labor supply.** A special effort should be made to enhance the acquisition of technologies and of new skills by local firms, so they can meet the quality standards requested by global innovators. Drawing on international approaches and models (that is, Chile, Costa Rica, the Czech Republic, and Malaysia) that have been successfully employed in addressing supply-side constraints and market failures hindering linkages and in implementing linkage programs, critical policy areas would be to (i) strengthen the institutional framework and inter-ministerial coordination; (ii) attract FDI with potential higher domestic value addition and spillover effects; (iii) facilitate information flows and contacts between domestic and foreign-owned firms; and (iv) provide targeted support to strengthen domestic suppliers and their workers, including by incentivizing transfers of technologies and competencies by a revision of the tax regimes and entry requirements for foreign investors.

These three sets of actions need to be accompanied by others, such as greening trade to face the potential introduction of green taxes at the border of Viet Nam's key destination markets. They are, however, important not only for boosting Viet Nam's competitiveness on international markets, but also for ensuring that the external sector will continue to be the main driver of job creation, as it has been over the past 15 years.¹⁹ With the acceleration of automation and digitalization in many industrial activities, it is expected that the labor intensity of the export manufacturing sector will decline, as will the demand for jobs in the next few years. Such a negative impact will have to be compensated by the further diversification in services and the development of value chains, as both actions would enhance the creation of new jobs on the local market. Yet, this new demand will be for high-value jobs that will require a different skill set than Viet Nam currently uses.²⁰ The challenge of skills development is further discussed below in other priorities, especially in the context of the digital transformation of the economy.

Priority #2: Accelerating digitalization of the economy

Social distancing measures have helped reduce the transmission of the coronavirus and encouraged the development of a contact-free economy. Over the past 12 months, digital tools have been embraced at an accelerated pace by Viet Nam. World Bank high-frequency surveys indicate that almost two out of three businesses have adopted IT tools, irrespective of their size and location, since the beginning of the pandemic.²¹ Internet penetration is also expanding—

¹⁹ The export sector created over 16 million jobs from 1998 to 2018 in Viet Nam (World Bank 2018a).

²⁰ The skills gap is already one of the major constraints to the development of the private sector. Almost half of employers who responded to a 2016 World Bank Enterprise Survey for Viet Nam identified "skills" as an obstacle to firm performance, compared with 31 percent of firms in the rest of developing East Asia and Pacific. Exporting firms are also three times more likely than non-exporting firms to identify this skills constraint.

²¹ World Bank, Viet Nam's high-frequency businesses surveys, third round, March 2021.

from 52.5 percent in 2017 to about 70 percent in 2020—with an even higher rate of penetration among the young population. As a result, Viet Nam was the fastest-growing e-commerce market in East Asia during 2020, and the number of households that shopped online increased by 30 percent since the onset of the pandemic.²² The government has also accelerated the digitization of its services, generating an increase of monthly visits to the national public service portal from 11,000 in January 2020 to 125,000 in April 2021.²³ The implementation of the national citizen identification (ID) program remained stagnant for almost a decade before accelerating in the first half of 2021, with the information collection and issuance of more than 50 million digitalized IDs by early July 2021.

The government has well understood that digital transformation can help the country’s transition from a middle-income to a high-income economy by setting ambitious goals in its new Socio-Economic Development Strategy (SEDS). The country can already count on several assets such as its good basic communication infrastructure and the penetration of mobile phones and internet among its population, including the poorest households (figure 1.8). Moreover, several of the world’s leading ICT firms are also hosted by Viet Nam. The private sector plays a central role in driving digitization of the economy, encouraging and financing innovation. The government can streamline business registration and licensing processes to encourage technology firm entries, strengthen the ecosystem for digital start-ups while creating an environment for risk financing for technology firms.

Viet Nam’s main weaknesses lie in its limited innovative capacity and shortage of digital skills, which is part of the larger skill deficit in Viet Nam, and the unbalanced emphasis between security and privacy in terms of access to and use of data. Today, despite the rapid adoption of IT tools, most firms cannot maximize the expected benefits because they continue to use them for basic operations such as business administration, accounting, sales, and payment methods.²⁴ Only large firms have demonstrated some capacity to use digital tools for more sophisticated business functions such as production planning, supply chain management, and fabrication, as they have both the financial and human resources to apply these digital instruments. Another weak area is the limited availability of digital skills. Viet Nam is lagging most of its competitors as only 40 percent of its labor force is estimated to have basic digital skills, while demand is widespread, with around two-thirds of mid- and high-skilled occupations in Viet Nam requiring digital literacy.²⁵ In addition, the registration rate in tertiary education is only half that recorded by Thailand or the Philippines (figure 1.9). Finally, if Viet Nam is perceived as managing cybersecurity risks relatively well, (it is ranked 62 out of 143 countries by the 2019 Cybersecurity Index), it has been underperforming in the area of internet user privacy.²⁶ Government interference in the internet and social media is frequent, and some important segments of the industry, such as fixed broadband and, increasingly, digital retail sales, are dominated by a few companies that

²² Statistics available at: <https://www.statista.com/statistics/986043/vietnam-ecommerce-market-value-revenue/>.

²³ Viet Nam Office of the Government. According to the World Bank high-frequency household survey conducted in January 2021, about one-quarter of households, or 6.7 million, were shopping online on business-to-consumer (B2C) platforms before February 2020. By January 2021, an additional 2 million households that were not previously shopping online began to do so for the first time.

²⁴ For example, only 6 percent of Vietnamese firms used cloud computing for business tasks and just under 2 percent used big data or artificial intelligence for marketing purposes (Cirera et al. 2021).

²⁵ Moroz, Nguyen, and Naddeo 2021.

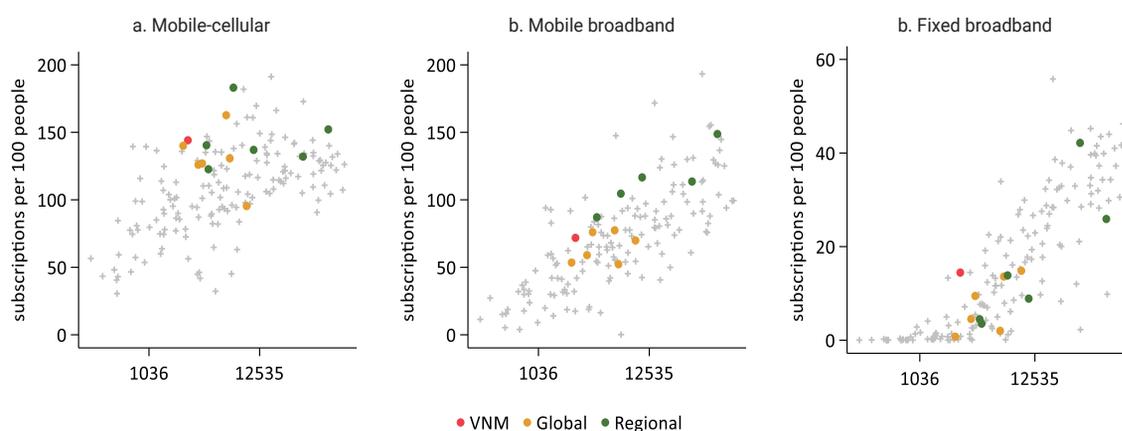
²⁶ [https://www.itu.int/en/ITU-D/Cybersecurity/Pages/global-cybersecurity-index.aspx#:~:text=The%20Global%20Cybersecurity%20Index%20\(GCI,different%20dimensions%20of%20the%20issue](https://www.itu.int/en/ITU-D/Cybersecurity/Pages/global-cybersecurity-index.aspx#:~:text=The%20Global%20Cybersecurity%20Index%20(GCI,different%20dimensions%20of%20the%20issue).

may abuse their position in the absence of proper regulation and enforcement to assure healthy competition and consumer protection (figure 1.10).²⁷

Addressing the challenges of limited access to open data, relatively weak innovative capacity, barriers to entry of new digital business and a small reservoir of workers with digital skills will be critical if the country wants to make the most of the ongoing digital transformation, especially to avoid the emergence of a digital divide. The main risk for Viet Nam does not lie so much in the unequal access to digital tools, since the use of mobile phones and even of the internet was already widespread in the poorest segments of the population in 2018, even if there are disparities in the amount of time spent and in the quality of connections.²⁸ The risk, rather, is in the uneven access to quality information and data. To date, only two key national registries (enterprises and social insurance) have been completed and shared among concerned government agencies. Other remaining national databases, including on land and citizen IDs—two critical registries for any digital nation—are yet to be completed, let alone shared. The World Bank’s 2021 World Development Report emphasizes that many of the benefits of a virtual economy will be shaped by the accessibility to and quality of the information that digital tools convey to users.²⁹ Such information is not only one of the key ingredients of artificial intelligence but is also a crucial input to many online services, smart cities, production processes, and logistics. Unfortunately, Viet Nam ranks only 91st out of 187 countries, according to Open Data Watch.³⁰

Figure 1.8. Viet Nam has high mobile-cellular adoption rates, but lags peers in mobile and fixed broadband

Mobile-cellular, active mobile broadband, and fixed broadband subscriptions per 100 people compared to gross national income (GNI) per capita, Atlas method (Current U.S. dollars)



Source: World Bank staff calculations using data from ITU 2021; WDI 2021.

Note: Countries with 200 or more subscriptions per 100 people are not shown. Middle-income countries are defined by the World Bank as those with a GNI per capita, Atlas method, of between US\$1,036 and US\$12,535.

²⁷ For example, the market share of the five large e-commerce companies was over 80 percent in early 2021, with Shopee counting for 35 percent alone.

²⁸ As of 2018, all the households in the two poorest quintiles of the population owned a phone and 59 percent used the internet. For the two wealthiest quintiles, these figures were, respectively, 100 percent and 81 percent.

²⁹ World Bank 2021b.

³⁰ <https://odin.opendatawatch.com/>.

The second risk for Viet Nam is associated with the potential destruction or displacement of jobs. Recent studies have emphasized that 20 to 30 percent of existing jobs are at risk in Viet Nam.³¹ Firms will substitute unskilled labor with digital capital during their transformation, and digitally capital-intensive sectors will grow faster than others due to higher productivity gains and a higher demand for their products. These negative effects on “traditional unskilled” jobs can only be compensated by an increase in skilled labor and by the generation of total productivity gains due to the adoption of new IT technologies by both the private and public sectors that will in turn generate a new demand for labor.³²

Figure 1.9. Deficit in digital skills

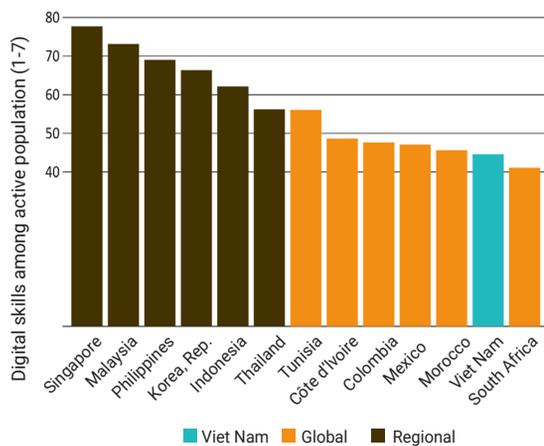
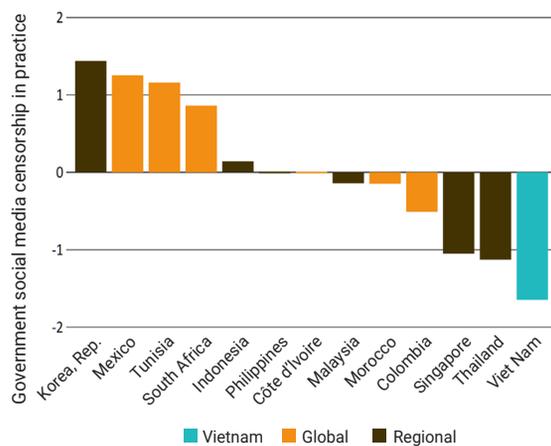


Figure 1.10. Limited privacy on the internet



Source: World Bank staff calculations using data from World Economic Forum Competitiveness Report (2019).

Source: World Bank staff calculations using data from Varieties of Democracy 2021.

Looking forward, Viet Nam will need to continue to invest in communication infrastructure, which will require maintenance and modernization over the next few years. The price tag to reach universal access to broadband is projected to be around US\$6 billion.³³ Beyond investing in modern hard infrastructure, the government will need to:

- **Reconsider its innovation policy** by giving less attention to R&D and instead encouraging more firms to adopt and adapt new digital technologies and tools.³⁴ This will require fostering an open and competitive environment and supporting the creation and development of innovative startups and small firms as well as digitalization of business operations. The

³¹ Cameron et al. 2019.

³² For more details on these results, see World Bank (2021c).

³³ Xalam Analytics estimates based on data from International Telecommunication Union, Cyber Security Maturity Assessments, Alliance for Affordable Internet (A4AI), and operators and regulators.

³⁴ For more details on the future of innovation policy in Viet Nam, see World Bank and International Finance Corporation (2021).

government should address some existing market failures by improving access to information and data, providing seed capital to innovators, and helping develop business integrators that offer digital services or content to startups and small firms that do not have the resources to develop these capacities on their own. Regulatory and policy sandboxes should be used more widely to speed up innovative experiments for potential scaling up.

- **Upgrade digital skills**, as an integral part of Viet Nam’s overall skill development strategy, by strengthening IT education and training at all levels, especially through the technical and vocational training system (TVET). It has become urgent for Viet Nam to undertake foundational reforms of its TVET system, including business models (for example, performance-based funding, public-private partnerships), curriculum design (for example, data science and analytics), efficient linkages, and secondary and higher education.³⁵ Reforming the TVET system is critical not only for the digitalization agenda (priority #2), but also for Viet Nam to enhance its capacity to integrate into global value chains (priority #1), move forward the green growth strategy (priority #3), promote financial inclusion (priority #5), and improve social assistance as well as sustainable livelihoods for vulnerable people (priority #6). In addition, it would be misguided to believe that the challenge of skills for Viet Nam is only associated with the shortage of technical skills. Because the digital transformation involves a rapid pace of change in business models and activities, developing skills should also be about building adaptability and critical thinking and problem solving. Such an effort will require an emphasis not only on basic literacy and numeracy, but also on the development of socio-behavioral skills in both the primary and secondary education cycles. International experience also suggests that supporting young, local talent and innovative startups are effective channels, including through joint programs with the private sector.

- **Promote better access to information, and balance security and privacy rights** by reforming the legal framework for a digital economy, while making open data a central element of the government’s mandate. As the government is in the process of finalizing the draft Decree on Personal Data Protection, it is important to strike a balance between data management, privacy protection, and facilitating digital data flows. This is especially relevant in relation to the requirements on cross-border data flows and data localization. Access to information can be improved through data portability and interoperability as the government has started to build its internal data portals, which will be piloted at three ministries and for four databases. The state will need to shift its role from producer to regulator and facilitator of an emerging market for data (the “new oil”), as the evolution of technology has made it possible for companies to collect, store, share, and use large amounts of data—challenging the state’s monopoly. In addition, leveraging the value of data for better information will require applications of digital technologies such as cloud computing or sensors, which will raise security and privacy concerns. Thus, balancing the security concerns and economic returns of open data and ensuring privacy protection will be required for the digital economy to thrive in Viet Nam.

³⁵ Acosta et al. 2020.

Priority #3: Moving away from “growth at any cost” to “building a green and sustainable economy”

The pandemic has emphasized the fragility of human life faced with exogenous shocks, raising the necessity to improve resilience against not only future health pandemics but also climate change. As a result, many governments and international organizations have reaffirmed their engagement in a green recovery worldwide.³⁶ While the environmental- and climate-related challenges have not yet led to significant changes in policies in Viet Nam, they have become one of the new pillars in the country’s 10-year strategy adopted in February 2021.

Such emphasis on green growth is the response to the recognized rapid deterioration of the country’s stock of natural capital and to the fast-increasing risks associated with global climate change. The recent country environmental assessment conducted by the World Bank emphasized that Viet Nam is lagging in terms of sustainability and resilience. Viet Nam systematically scores lower in these two areas than other East Asian economies, while performing better in the areas of economic efficiency and inclusion. Such imbalance reflects the past limited attention and action given to natural resources, the environment, and climate risks.

The environmental costs are indeed major for Viet Nam, and some have increased dangerously in recent years.³⁷ This is illustrated below by the examples of air and water pollution, and by solid waste management, but could be extended to the degradation of land, forest, biodiversity, and mining resources. Since the mid-1990s, Viet Nam has emerged as one of the fastest-growing per capita greenhouse gas emitters in the world, leading to a level of air pollution in the country’s major cities that exceeds by a wide margin the health safety levels recommended by the World Health Organization (figure 1.11). Water and waste management is critically underperforming, with only about 85 percent of domestic solid waste collected and treated in urban areas, and only 40 to 45 percent collected and treated in rural areas. Only about 15 percent of domestic wastewater is treated nationwide; the rest is discharged directly into canals and rivers that flow into the sea.³⁸

The economic costs associated with climate risks are already large and are expected to increase rapidly in the absence of effective adaptation and mitigation policies. Rising sea levels in the Mekong Delta, bigger and more frequent natural disasters (for example, storms) along the central coast, and higher and variable temperatures are all affecting labor productivity and destroying assets and human lives. Estimating these costs is difficult because of the multiplicity of potential sources of damage and the uncertainty regarding their evolution over time but, according to the World Bank, they will, under the business-as-usual scenario, increase from 3 percent of GDP in 2020 to almost 6 percent by 2050 (figure 1.12).

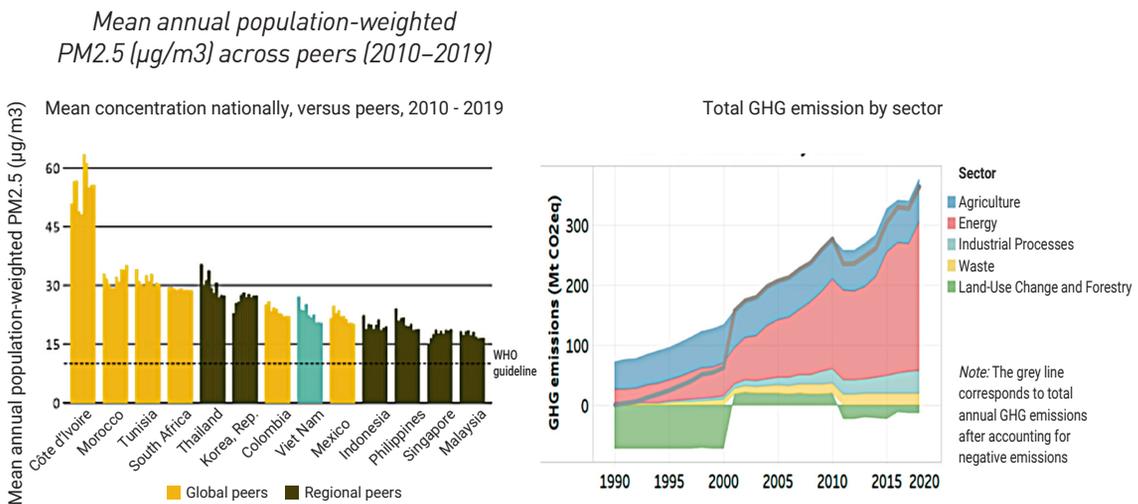
³⁶ For example, the European Union, with 30 percent of Covid-19 recovery packages dedicated to climate-friendly investments over the next decade. Another example is Korea’s Green New Deal of July 2020, which committed US\$61 billion to boost renewable energy capacity over the next five years.

³⁷ For more details on the benchmarking analysis, see World Bank (2021a), which used the RISE (Resilience, Inclusion, Sustainability and Efficiency) methodology.

³⁸ World Bank Group 2019.

The fiscal risks Viet Nam faces due to natural disasters are significant. According to a recent World Bank assessment, Viet Nam is likely to incur, on average, VND 30.2 trillion (US\$1.4 billion) per year in direct losses to modeled private and public assets due to floods, typhoons, and earthquakes. Of this, government contingent liability is estimated at VND 5.9 trillion (US\$278 million). The assessment estimates that in the next 50 years, Viet Nam has a 40 percent chance of experiencing an economic loss exceeding VND 141.2 trillion (US\$6.7 billion) and a 20 percent chance of experiencing a loss exceeding VND 171.2 trillion (US\$8.1 billion).

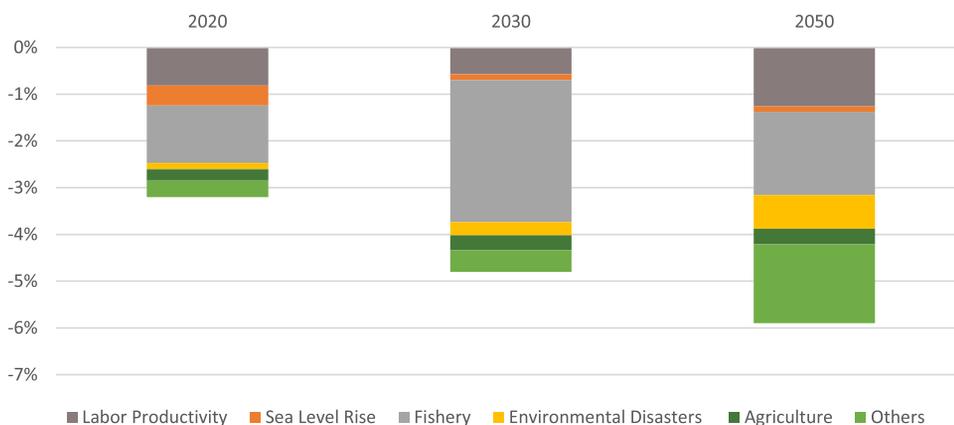
Figure 1.11. Greenhouse gas emissions are on the rise and air pollution is higher than safe levels



Source: World Bank staff calculations using data from WRI-CAT.

Source: World Bank staff calculations using data from Health Effects Institute 2021 and the World Bank.

Figure 1.12. Economic costs associated with climate change in status quo scenario, 2020–2050 (GDP loss, %)



Source: World Bank 2021a.

The private sector has a critical role to play in helping Viet Nam re-align to a more sustainable growth model. The implementation of mitigation and adaptation strategies in key priority sectors, such as transportation, agriculture, and energy generation, could cost Viet Nam as much as \$250 billion from now to 2040. Public financing will be essential to fill this need and MONRE estimates that private and international sources will be required to cover as much as 65-70 percent of the total financial needs of the climate change action plans and programs.³⁹ Only the private sector will be able to reallocate capital and raise the new capital needed to shift Viet Nam to a new grand greener growth path. Beyond closing the financing gap, the innovative capacity of the private sector will be essential in creating new solutions for the adoption of climate-friendly technologies and to identify ways to de-carbonize their business practices. This need for private sector innovation extends to the financial sector, which must play a key role in mobilizing finance towards sustainable investments.

Addressing the environmental damage and climate risks has become imperative for Viet Nam because of their impact not only on future generations but also on key policy areas (trade, investment) and priority sectors (transport and tourism), which have been among the most important drivers of the Viet Nam growth model in recent years. For example, many multinationals operating in Viet Nam have committed to a low-carbon transition in their corporate agenda, which may affect their location decisions in the not-so-distant future. Several countries importing Vietnamese products are now considering using green taxes at their borders that will reduce Viet Nam's competitiveness. The tourism sector is another priority area where failure to adopt stronger environmental controls, especially on waste management, could have a significant and negative impact. A growing number of travelers are expected to pay greater attention to the quality of the environment in the very near future.

Beyond aggregate economic impacts, the social consequences of climate change impacts in Viet Nam are of particular concern. By 2030, climate change could push more than 100 million people back into poverty globally, primarily through shocks to agricultural productivity and food prices, natural hazards, and climate-sensitive diseases and other health consequences.⁴⁰ In Viet Nam, simulations suggest that these impacts could push 400,000 to 1 million people into poverty.⁴¹ From a jobs perspective, climate change is leading to displacement of households from traditional livelihoods in agriculture and aquaculture in vulnerable areas, and puts many more at risk including in upstream sectors like agro-food processing.⁴² Transition to a low carbon economy and climate-resilient responses may lead to additional job losses, particularly in fossil fuel-related industries, even if such a transition can also lead to the creation of new jobs. Climate considerations must therefore be integrated into growth and poverty reduction strategies, while climate mitigation and adaptation policies should be designed to protect the poor.

³⁹ The third National Communication of Viet Nam to the UNFCCC, the Ministry of Natural Resources and Environment (MONRE).

⁴⁰ Hallegatte et al. 2016.

⁴¹ Rozenberg and Hallegatte 2016. This study found that more people are pushed into poverty in scenarios with slow structural change away from agriculture, low productivity growth in agriculture, high population growth, and low redistribution levels. Conversely, it found that, in scenarios with rapid, inclusive, and climate-informed development, climate change has no impact on extreme poverty, although it still has an impact on the income of the bottom 40 percent.

⁴² World Bank 2018a.

Helping Viet Nam define its green growth strategy will be part of the forthcoming core diagnostics—the World Bank Group’s *Country Climate and Development Report*—but the four following general directions should be embedded in the strategy:

- **First**, Viet Nam will have to become cleaner, including by reducing greenhouse gas emissions through smart investments in the transport, agriculture, industry, and energy sectors, but also by changing relative prices of carbon to encourage changes in the behavior of both firms and households. Preliminary results of a General Equilibrium Model (CGE) show that such a combination of carbon pricing and investments can help Viet Nam achieve its Nationally Determined Contribution targets, while promoting further economic growth including through the reallocation of resources from energy-intensive to innovative sectors and improvements in labor productivity. At the same time, this can be achieved by improving the quality of life and social welfare.⁴³
- **Second**, the country will also have to learn to better manage its nonrenewable resources, including its land, forests, mines, biodiversity, and water, by fostering the restoration of ecosystems. The use of pricing mechanisms (for example, taxing plastics, adjusting wastewater and solid waste tariffs) and effective public communication should provide the right incentives for both producers and consumers to adjust their behavior and manage these resources more sustainably over time. Encouraging the adoption of new and cleaner and/or smart technologies, including in farming and irrigation systems, should also be a priority. For an environmentally sustainable future, Viet Nam needs to value its natural resources, and ecosystem services to better inform policy and decision making. The improved enforcement of rules and regulations will further prevent illegal activities prevalent in several sectors such as forestry and sand mining.
- **Third**, Viet Nam will have to become more resilient by ensuring that new infrastructure developments are informed about disaster and climate risks to avoid high-hazard areas. Integrated national and regional spatial planning tools should be deployed effectively to enhance harmonization of infrastructure development, economic activities, and natural/ climate conditions. Design standards of buildings should be upgraded so they can withstand the impact of disasters and avoid the creation of new risks. There will also be a need to invest in adaptation measures and to use market instruments (for example, disaster risk insurance) to reduce/mitigate the risks of people and assets to climate and disaster risks, especially in the Mekong Delta region and coastal areas.
- **Fourth**, Viet Nam will have to invest in people so that they will be able to develop the necessary skills for the jobs that will be created in the transition toward a greener growth. Not only will people require new sets of skills, but they will also require a stronger and more adaptive social protection system to cope with growing climate shocks. To meet these two requirements, the government should provide strong TVET and employment service systems that will enhance skills development to harness new job opportunities and develop new instruments that will protect people against climate risks, including through insurance instruments.

⁴³ See World Bank 2020g.

Priority #4: Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions

Big infrastructure spending is necessary to address Viet Nam's considerable deficits in transport, energy, and water, and to maintain and modernize the existing networks. The Covid-19 crisis has amplified those needs as more investment will be needed to promote economic recovery and to cope with the emerging global trade and digitalization challenges. Moving toward a green growth strategy will also generate significant additional investments in renewable energy, clean transport, and the construction of more resilient buildings and roads. A rough estimate projects that Viet Nam will need around US\$25 billion to US\$30 billion per year in new infrastructure over the next decade (figure 1.13).⁴⁴

After four consecutive years of fiscal consolidation, the government increased the level of its capital expenditures in 2020 by 20 percent, reaching 8.3 percent of GDP or approximately the same level as in the mid-2010s. The policy was part of the government's short-term effort to stimulate aggregate demand and so speed up economic recovery during the Covid-19 crisis. It does not appear to be a permanent change toward more infrastructure spending since the authorities returned to a more conservative fiscal policy in the first five months of 2021. As reported in figure 1.14, the level of public investment has exhibited a marked downward trend over the past decade after it reached a peak of 13.1 percent of GDP in 2009.

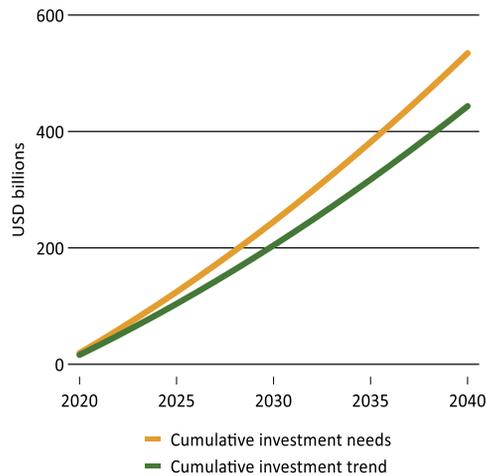
An increase in public infrastructure spending is subject to two major constraints in Viet Nam. The first constraint is linked to the limited fiscal space despite the government's recent efforts. If the authorities were able to reduce the level of public debt by almost 5 percent of GDP between 2015 and 2019, this was mainly achieved by cutting the public investment program (see figure 1.15). Concurrently, the level of non-capital expenditures remained almost constant, while total revenue fell slightly from 25.5 percent of GDP to 24 percent. Therefore, the additional fiscal space created before the Covid-19 outbreak was mainly achieved by delivering less infrastructure. The recent Debt-Sustainability Analysis conducted by the IMF in April 2021 concluded that Viet Nam's moderate risk of debt distress offers some fiscal space for a more ambitious stimulus package in the short term.⁴⁵ It did, however, emphasize that the room for a more accommodative fiscal policy toward capital spending in the longer term remains limited because of the relatively low revenue mobilization and the expected inertia in non-capital (recurrent) spending.

⁴⁴ In addition, Viet Nam's infrastructure needs substantial improvements. The Global Competitiveness Index (WEF 2019) ranked Viet Nam 77th of 141 economies in infrastructure, behind its regional peers Thailand, China, and Indonesia.

⁴⁵ IMF 2021.

Figure 1.13. Viet Nam is on pace to underinvest in infrastructure

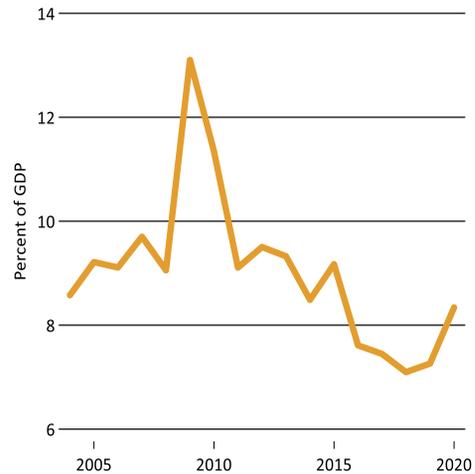
Estimated investment needs compared to trends (cumulative US\$ billions), 2020–2040



Source: World Bank staff calculations using data from Global Infrastructure Outlook 2021.

Figure 1.14. Downward public investment trend

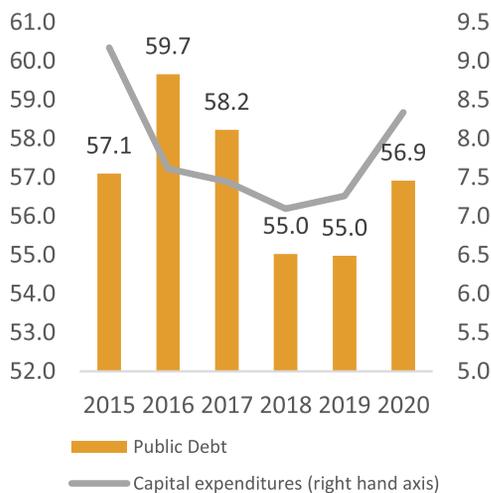
Public investment (% of GDP), 2004–2020



Source: World Bank staff calculations using 2021 MOF data.

Figure 1.15. Public debt and investment levels move together

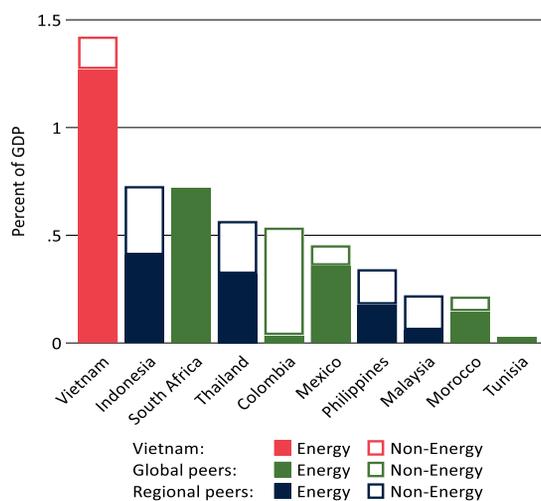
Percentage of GDP, 2015–2020



Source: World Bank staff calculations using 2021 MOF data.

Figure 1.16. Viet Nam had more public-private investment than its peers in recent years, mostly in the energy sector

Infrastructure investment with private participation, annual average 2017–2019



Source: World Bank staff calculations using data from WDI 2021. Non-energy investment comprises transport, water and sanitation, and ICT.

The second constraint lies in the inefficiencies of the public investment management system.

Persistent productive, allocative, and financial inefficiencies remain despite the amendments to the Public Investment Law in 2019. The major areas of weakness include (i) fragmented allocation of limited financial resources to a large number of projects, some of which are weak/low priority and/or unaffordable; (ii) failure to optimize the use of resources for investment once allocated, leading to cost overruns, delays, and obsolete design or departures from specification; and (iii) underprovision of complementary resources required for proper operation and maintenance to achieve service delivery targets for the assets created. In addition, use of existing assets has not been optimized through instruments such as asset recycling, leaving relatively large room for efficiency gains. These inefficiencies are exacerbated by sequential and long approval procedures (some of which can be redundant), lack of coordination between annual and medium-term investment planning, limited transparency in procurement procedures, limited supervision, and uneven evaluations.⁴⁶ Significant variations in the execution of the investment budget can be found across sectors and locations, suggesting that some of the underlying factors behind the weaknesses in the overall public investment management system can also be found at the local level.

To overcome the constraints on the fiscal space, the authorities have increasingly turned to private investors to find not only new sources of funding but also to ensure service quality and adoption of new technologies and ideas.

According to the World Bank's Private Participation in Infrastructure (PPI) database, only 116 public-private partnership (PPP) projects for a total value of US\$19.4 billion were approved in Viet Nam between 1990 and 2019, which is equivalent to less than 10 percent of total infrastructure spending during this period. While still low as a proportion of total investment, the number of PPPs have increased in recent years, exceeding the value reported in countries such as the Philippines, Thailand, and Indonesia (figure 1.16). Almost all these partnerships have been in the energy sector, with a few notable exceptions in the transport sector.⁴⁷ Despite the recent approval of the PPP law, there is still limited public sector capacity to identify, design, evaluate, and negotiate potential deals with private investors. While the new PPP law allows for a risk sharing mechanism and improved legal protection, in case of termination, for example, their application has been limited so far. International empirical evidence has demonstrated that these conditions are necessary for efficient and equitable partnerships.

Another private sector solution has been for the state to divest production activities and use market instruments to incentivize private participation.

While the role of the government remains justified in a number of priority infrastructure areas, the private sector can complement, and sometimes replace, SOEs. Within this vision, the government had set ambitious goals in terms of privatization or equitization of SOEs, as the plan was to equitize 127 SOEs and divest 406 between 2017 and 2020. However, progress has been slow, with only 36 SOEs equitized and 100 divested by the end of 2019 as a result of bottlenecks on the government side and a smaller appetite on the demand side. Setting the right incentives is critical. The government

⁴⁶ World Bank 2018b.

⁴⁷ The private sector contributed 42 percent of generation capacity in 2019 (20.4 gigawatts), an increase of approximately 54.8 percent from 2018 (13 gigawatts). Most of this capacity was added under the build-operate-transfer (BOT) and independent power producer (IPP) models using renewables.

has been successful in using market-based instruments in the energy sector to attract private investment in solar power projects. By approving attractive feed-in tariffs (FIT), the authorities have generated a significant response from private investors beyond all expectations, which has led to an increase in solar power capacity of over 10 megawatts in 2020, which is higher than in all other ASEAN countries combined. A solar auction is being designed to replace the current FIT regime (which has been considered overgenerous) now that the market has gained momentum.

Looking forward, the authorities will need to act on the following four policy areas:

- **Boosting tax revenue:** Stepping up public investment will require additional fiscal space, and an increase in revenue mobilization will be central as a long-term solution to fiscal constraints. Studies have shown that this can be achieved without raising tax rates or the tax burden on individual taxpayers. As emphasized by a recent World Bank report, the priorities should be consideration of measures to broaden the tax base, streamline tax incentives and exemptions to the CIT, harmonize VAT rates, rebalance the tax load for efficiency and equity, and expand the environmental tax base and introduce carbon taxes.⁴⁸ International experience has demonstrated that the taxation of real estate assets and land, as well as other land-value capture measures, should be central to the future revenue mobilization strategy, as they can become an important source of financing for infrastructure projects at the local level, especially in urban areas. Many countries are resorting to a carbon tax or an environmental tax to address the dual objectives of raising revenue in addition to achieving environmental objectives. A carbon or environmental tax can help achieve environmental objectives at the lowest possible overall cost to society by providing incentives for the greatest reductions in pollution by those firms that can achieve those reductions most cheaply.⁴⁹

- **Improving fiscal efficiency:** The government will not only need to spend more, but to spend better, to meet the country's infrastructure needs. This will require an improvement in the efficiency of public spending, including by the wider application of least-cost planning approaches, reduced fragmentation in resource allocation, and competitive/transparent public procurement procedures.⁵⁰ Improved efficiency of recurrent spending, including allocations for operation and maintenance, can help increase space for capital expenditure. Public investment management requires improvements at both the central and local level, since subnational governments are today responsible for the implementation of close to 70 percent of the public investment program. Many provinces suffer from weak technical capacity, which is exacerbated by the limitations of the existing decentralization framework that discourage regional cooperation. The absence of mechanisms for coordinated action across provinces prevents the emergence of economies of scale in the design and implementation of infrastructure projects and creates distortions in the allocation of resources. Horizontal coordination at both the central and local levels to ensure alignment of annual budget planning with medium-term investment planning, and of recurrent expenditure (for operation and maintenance) with capital expenditure, will be critical for improving fiscal efficiency.

⁴⁸ See World Bank 2021d.

⁴⁹ Rather than equalizing pollution levels among firms, market-based instruments equalize the incremental amount that firms spend to reduce pollution.

⁵⁰ For more details on these two recommendations, see World Bank (2020b), chapter 3.

- **Enhancing the performance of SOEs:** Considering the performance challenges of SOEs and their growing impact on global fiscal costs, and the risks faced by the public sector as a whole, it is necessary to strengthen the corporate governance framework for SOEs to ensure more proactive state ownership and oversight functions to mitigate these risks. The SOE performance monitoring system will need to include both nonfinancial and financial information (including on debts and financial exposure). The quality and frequency of SOE financial information needs to be improved for all SOEs, including through the adoption of International Financial Reporting Standards. The privatization/equitization program requires additional efforts to promote further transparency of the process. As an example, the government could list the SOEs in which the state still owns some shares.
- **Increasing the use of private sector solutions and market-based instruments:** With the recent approval of the PPP law, the government should demonstrate new partnerships with the private sector, not only to fill the expected financing gap but also to create a healthy PPP market and improve service quality and efficiency in the medium to long term. This will nonetheless require a thorough assessment of partnership opportunities, as the role of the private sector might differ significantly by sector (or project), depending on the level of risks and other market conditions. Government support through providing cash contributions, risk sharing, or land should therefore be adjusted appropriately to these conditions, making PPP projects ultimately viable (financially and legally). The successful approach used in the energy sector could be replicated, when possible, in other sectors, such as transport and wastewater treatment. The authorities could also incentivize private operators to invest on their own in some segments of the infrastructure sectors. This was recently done with success in several solar power projects. The additional benefits are that the government could focus on its regulatory role and on the implementation of the necessary complementary investments in transmission to connect these projects to the national grid. Asset recycling and performance-based contracts can be options to promote private sector participation in infrastructure sectors (including for operation and maintenance), while another solution, as discussed in the next priority, is to tap into both domestic and international financial markets.

Priority #5: Balancing banking sector stability with expansion of financial inclusion and deepening capital markets

Viet Nam's financial sector is both relatively developed and underdeveloped by international standards. It is developed in its capacity to deliver credit to the private sector, which, at 130 percent of GDP, is the highest among middle-income countries, close to what is observed in more advanced economies, and among the best in its peer groups. However, it is underdeveloped at the household and firm level. Approximately two-thirds of the adult population remained unbanked (without an account at a financial institution) in 2017, which is low compared to its peer groups (figure 1.17, panel a). The proportion of businesses, especially SMEs, facing difficulties accessing credit is not as much of an outlier but is still among the highest in the region. Approximately one-third of firms reported moderate, major, or very severe obstacles in accessing finance, worse than a quarter of the countries in the world for which data are available (figure 1.17, panel b). These two characteristics of the Vietnamese financial sector emphasize

its ambiguous role in the country's economic development—positive at the aggregate level with respect to overall credit, but negative with respect to financial inclusion. This implies that many people and businesses are excluded from the financial system and cannot take advantage of financial leverage on their economic activities.

Like most central banks around the world, the State Bank of Viet Nam (SBV) has eased its monetary policy during the Covid-19 outbreak. The authorities have reduced interest rates from 6 percent to 4 percent and encouraged banks to offer new credit or renegotiate/restructure existing credit to businesses and households affected by the Covid-19 crisis. As a result, nominal credit to the economy has continued to expand at an average annual rate of 10 to 12 percent, slightly slower than in 2019, but almost four times faster than the growth of the real economy (figure 1.18).

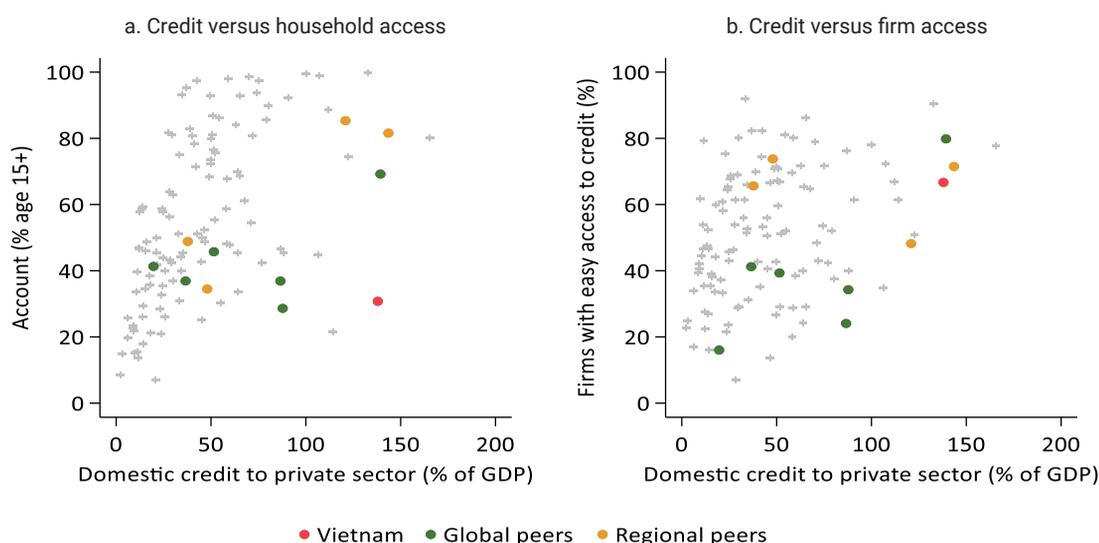
Such accommodative policies and measures have provided a welcome, albeit temporary, relief to cash-distressed customers, but it may also have increased risks for commercial banks. So far, this risk appears to be under control, since the proportion of nonperforming loans (NPLs) in bank portfolios only increased from 1.6 percent to 2.1 percent between September 2019 and September 2020, while the overall bank capital adequacy ratio declined from 11.95 percent at the end of 2019 to 11.3 percent in December 2020 (figure 1.19). These overall figures may, however, mask the vulnerability of banks to future NPL increases due to the potential nonviability of borrowers whose loans have been restructured or renegotiated, such as some individual commercial banks that have been obliged to renegotiate loans with their strategic borrowers in hard-hit sectors like transport and tourism/hospitality.⁵¹ ⁵²These new vulnerabilities add to the chronic ones among a group of weak financial institutions as well as the problem of connected lending that existed long before the pandemic. As a part of the banking sector structural challenges, many banks remain unable to meet the Basel II requirements for capital calculation.

⁵¹ Several enterprises in the aviation industry are facing huge losses. For example, Viet Nam Airlines lost VND 10 trillion in the first semester of 2020, and its overdue debt was VND 6.24 trillion. As a result, in May 2021, the MPI has asked the prime minister to instruct the SBV to amend and issue a circular allowing the restructuring of debts and rescheduling of debt payments, without reclassifying those debts, and to offer new loans at lower interest rates.

⁵² In the latest IMF Article IV staff report (published in March 2021), the Fund notes that NPLs would have risen from 4.6% at the end of 2019 to 7.0% at the end of 2020 if loans could be properly classified (i.e., without forbearance).

Figure 1.17. Overall credit to the private sector is high in Viet Nam, but many households and firms are excluded

Domestic credit to the economy (% of GDP), individuals with an account at a financial institution (% ages 15+), and firms that report no or minor obstacles to accessing finance (% of firms)



Source: World Bank staff calculations using data from WDI 2021; Global Findex 2018; and Enterprise Surveys various years.

Note: Data are the latest available. Firms with easy access to credit are equal to the proportion of firms reporting no or minor obstacles to accessing credit.

The lack of financial inclusion has diminished not only the efficacy of the easing of monetary policy but also that of other policy responses. It is well-known that monetary policies have limited impact in an environment where real interest rates are already very low. In Viet Nam, the effectiveness of banking policies is even further restricted by the small proportion of businesses (especially SMEs) and households that have access to bank credit or own a bank account. Furthermore, low financial inclusion, including limited financial literacy among vulnerable groups, negatively affected the implementation of the fiscal assistance package adopted in April 2020, partially because of the difficulty transferring money to vulnerable individuals who do not own a bank account.⁵³ Unbanked and underserved households also cannot fully participate to the rapid development of e-commerce.

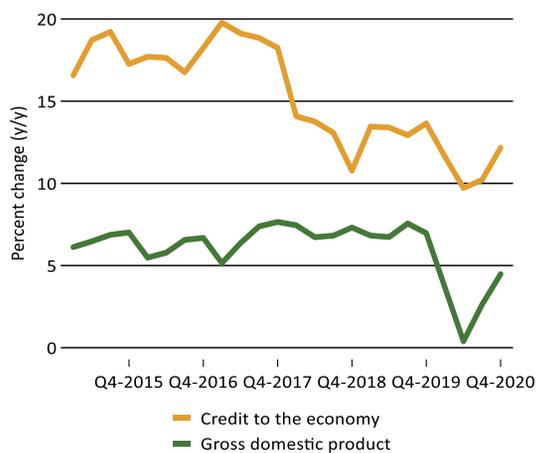
Concurrently, capital markets have continued to expand despite the negative impact of the Covid-19 crisis on the real economy. The stock market index in Ho Chi Minh City doubled between April 2020 and May 2021, while the size of the bond market has continued to increase due to the recent issuances by both the central government and private businesses. The volume of corporate bond issuances climbed 29 percent in 2020 compared to 2019. Such decoupling between capital markets and the real economy translates to some extent into the abundant

⁵³ Another reason for unsuccessful implementation of the support package was overly complex and stringent targeting procedures, which make it difficult to identify and qualify beneficiaries.

liquidity in the domestic market and the fact that many strategic investors have become more prudent and postponed their investments in the real economy due to the uncertainty created by the Covid-19 crisis. This is further confirmed by the decline in private investment, which is estimated at 3 percentage points of GDP between 2019 and 2020.⁵⁴ The recent development of the capital market has also been supported by recent improvements in regulations, such as the new Law on Securities (2019) and its implementing decrees, modified rules on corporate bond issuance with better alignment with international standards, and by diversification of instruments such as the bond funds and creation of the first private pension fund in March 2021. Despite these improvements, the domestic capital market is still constrained by substandard disclosure practices, inefficient infrastructure, and a limited investor base, especially institutional investors, creating a sense of vulnerability and limiting the development of new innovative instruments for households and businesses.

Figure 1.18. Credit to the economy grew faster than GDP, including through the pandemic

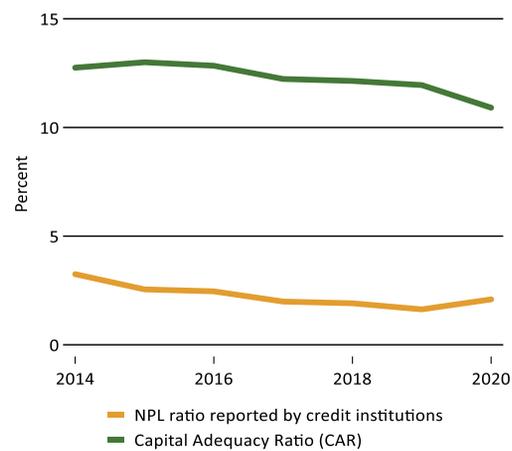
Credit to the economy (% change y/y) and GDP (% change y/y), quarterly 2015–2020



Source: World Bank staff calculations using data from the SBV and GSO 2021

Figure 1.19. The average CAR dipped while NPLs increased slightly during the pandemic

Nonperforming loans (NPL) reported by credit institutions (% of total) and average capital adequacy ratio (CAR) (available capital as a % of risk-weighted credit exposures)



Source: World Bank staff calculations using data from the SBV and GSO 2021

⁵⁴ Pent-up demand might have contributed to the high growth in corporate bond issuance in 2020, as the government closed a regulatory gap that existed in the private placement bond market. Many market participants rushed to issue bonds before the new regulation became effective in January 2021.

Climate change is also increasingly recognized as a financial sector risk in Viet Nam, yet there has been no assessment of the potential risks.

Shocks can stem from the increasing frequency and intensity of natural disasters or from sudden changes in policy, technology, or consumer preferences that leave carbon-intensive assets and fossil fuel reserves obsolete and ultimately stranded. The resulting financial sector losses and volatility in financial and commodity markets can adversely impact funding, liquidity, and lending conditions and weaken financial sector balance sheets, giving rise to negative feedback loops with macro-fiscal implications. Financial sector risks could include (i) operational risk from damage to the financial infrastructure, branches, and office buildings (physical risks), as well as reputational impacts of not adjusting to “green” investment policies (transition risks); (ii) credit risk from the borrower’s repayment capacity being adversely affected due to damage (physical risks), higher energy prices, or lower productivity (physical and transition risks), as well as lower collateral prices (particularly when uninsured); (iii) market and liquidity risks from the reassessment of financial projections and risk premia impacting asset valuations following the occurrence of droughts and disasters (physical risks), and shifts in the energy mix (transition risks) that affects commodity and energy prices.

The pandemic has exacerbated the need to address the risk of financial instability, to better regulate the domestic capital markets, and to promote further financial inclusion.⁵⁵

To address these challenges, the following three policy directions, which are not necessarily new, but which have become more urgent, merit strong consideration:

- **Improving banking supervision:** The SBV will need to closely monitor the asset quality of the overall banking sector and individual banks through risk-based supervision, including the development of an early warning system that should be accompanied by a roadmap for exiting loan forbearance measures. The SBV’s mandate for prudential regulations and supervision, including addressing potential NPL issues and developing an efficient commercial debt trading market (including NPL trading), should be strengthened by revising the SBV Law and the Law on Credit Institutions. Concurrently, the insolvency framework should be improved so that the restructuring of viable companies and the exit/liquidation of nonviable companies will be facilitated, avoiding transferring the entire cost to the financial system. The monetary cost of resolving an insolvency case is 15.7 percent higher than in China and almost five times higher than in Korea. Resolution of an insolvency case takes on average five years in Viet Nam, almost 10 times longer than the global best performer (Ireland). Reinforcing the insolvency framework could include easing of commencement rules to provide incentives to initiate cases early on; strengthening creditors’ rights, including in the appointment of insolvency administrators and in the divestiture of assets; building stronger national professional standards for insolvency administrators; and enhancing the role of commercial courts.
- **Continuing diversification toward capital markets while improving transparency and market infrastructure:** The development of capital markets will help Viet Nam with post-Covid-19 recovery, as it could mitigate (i) risk of debt overhang in the corporate sector through

⁵⁵ These three challenges are not exhaustive. Two structural weaknesses that should also receive attention from the authorities are the development of new lending instruments for SMEs and greening finance. For more details on potential new lending instruments, see World Bank and International Finance Corporation (2021).

equity fundraising, or (ii) liquidity risk through debt refinancing. It will also offer financing opportunities for the private sector (including for long-term infrastructure development), which remains highly dependent on banking credit, and provide additional long-term savings vehicles for households, pension funds, and financial institutions.⁵⁶ Yet, this expansion should be done by enforcing high standards of information disclosure, notably on the corporate bond market, because accessible and reliable information is necessary to foster and sustain investor confidence. The public corporate bond market should be further promoted by streamlining the issuance and listing processes, so that more bonds are available to the public with standard disclosures. The investor base should be broadened to reduce volatility, including by the diversification of the investments by the Viet Nam Social Security Fund (VSSF) and the participation of insurance companies and of private pension funds. Introduction of new capital market products/instruments (for example, securitization or project bonds) as well as an upgrade to emerging market status in global stock and bond indexes will also attract international investors to Viet Nam and support sustainable growth of the markets and diversified investor participation. The vulnerability of the financial sector to climate change and environmental risks (as well as potential regulatory and policy options for risk mitigation and management) need to be examined, as should opportunities for deepening financial markets to mobilize green finance at scale.

- **Enhancing financial inclusion through digitalization of financial services and increased participation of fintech players as well as through the implementation of a nationwide e-payments system and other innovative solutions:** While digital banking has developed relatively quickly in Viet Nam over the past few years, through the effort of the banks and the emergence of new operators (digital wallets), the country does not have a mobile payment system. After several years of discussions, the Prime Minister authorized the launch of a nationwide pilot mobile money project in March 2021. This decision is an important step forward, but it will require close collaboration between mobile operators and commercial banks, which will need to identify and create transactional accounts able to receive cash payments. Decisions regarding who will be authorized to support these payments and the modality of delivery (for example, card activation) require clarification. The development of a mobile money system has proved to be a catalyst for financial inclusion as it offers a rapid and secure payment system for unbanked and underserved households and businesses and potentially offers a basis for a microcredit system, as in a few countries such as Kenya and Tanzania. This effort should be complemented with an overall improvement in payment system efficiency and oversight, and in financial literacy—including through education and social protection programs.

⁵⁶ In fact, Viet Nam Electricity (EVN) and many of its subsidiaries are about to reach the single-borrower credit limits set by the Law on Credit Institutions. Therefore, credit ratings for EVN and National Power Transmission (NPT) would help them get better access to international capital markets.

Priority #6: Shifting from piecemeal poverty reduction efforts to a nationwide social protection program

The Covid-19 crisis, the most serious global health crisis in a century, forces societies to fundamentally rethink the notion of solidarity. The pandemic has led to a surge in poverty and created multiple and significant inequalities across, but also within, countries.⁵⁷ Those trends have brought renewed attention to the social contract and the role of the state in managing and reducing inequalities.

Despite the exceptional management of the Covid-19 crisis in 2020 and early 2021, the pandemic has produced prolonged and differentiated impacts in Viet Nam. The World Bank frequent household surveys identify impacts on households and reveal that as of March 2021, 30 percent of households were earning less than in March 2020. Only 15 percent of households were earning more than the previous year, and approximately 40 percent were reporting the same income (figure 1.20).⁵⁸ Around 12 percent of households were in financial distress as they reported to have lost at least 50 percent of their income. Interestingly, while the impact of the Covid-19 shock seemed to impact households equally, inequalities have crept in during the rebound. Some groups reported more adverse changes to income than others, especially women and the poorest households (box 1.1).

Box 1.1. Covid-19 impacts on women and the poorest households

As in most countries, the Covid-19 crisis has had a greater negative impact on women's income than on men's, and on the poorest households. Throughout the June 2020–March 2021 period, the calculated income index shows female respondents and households in the bottom 20 percent of the welfare distribution pre-COVID, those without any formal channels of income, and households in regions particularly hard-hit by Covid-19 (figure B1.1.1).

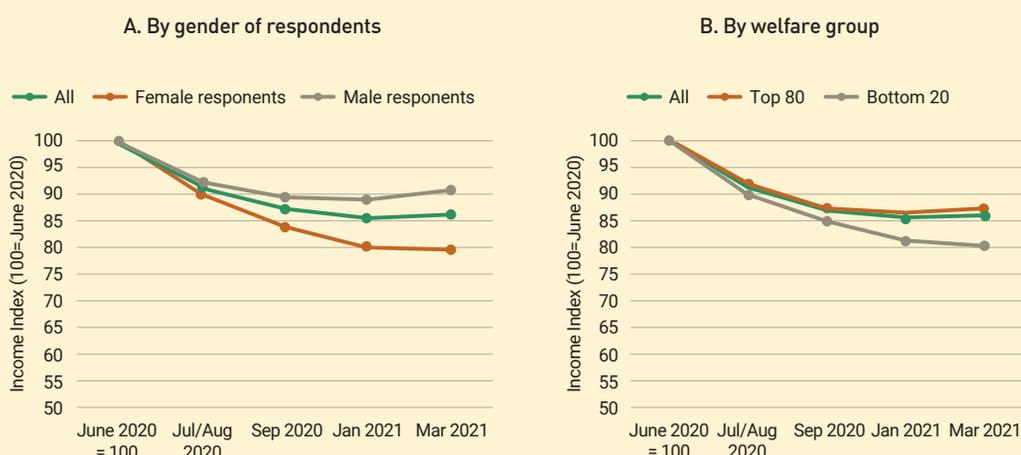
The crisis has been more gender-biased, as women typically bear a disproportionate responsibility for childcare, and the Covid-19 pandemic further exacerbated the pressure on women's time.

Informality is strongly correlated with a lower income index. Informal employment and businesses are very common, including in urban areas; only about 19 percent of households had either formal income sources through wage employment with a contract, or a family business with a tax identification number (ID). Informality is associated with lower labor productivity and limited access to finance. Informal workers or businesses also have less access to safety nets.

There have also been regional differences in household income trends, with the Northwest Coast (the Da Nang area) and Ho Chi Minh City being more affected by the preventive health measures and international travel restrictions due to a large tourism and business component of their economies. Hanoi, in contrast, was less affected as it is the seat of the central government. It is expected that the current outbreak, which is much larger in scale than previous ones, will exacerbate the impact on these highly vulnerable groups.

⁵⁷ The World Bank estimates that the pandemic led to 97 million more people being in poverty in 2020. See <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty-turning-corner-pandemic-2021>.

⁵⁸ These results are derived from the World Bank high-frequency surveys in Viet Nam.

Figure B1.1.1. Divergent recovery in an income index


Source: World Bank Viet Nam Covid-19 household surveys (R1, R2, R3, R4, R5) Panel subset.

Note: Trends reflect self-reported changes in current total household income. Ranges, not exact rates of income change, are recorded (< = 25%, 25-49%, 50-99%, and 100+%). Low-impact estimates are shown and assume the largest rate of change if income is reported to be increasing, or the smallest rate of change if income is reported to be declining. Estimates assume income levels are constant over off-survey periods.

Similar patterns can be observed regarding businesses. Respondents to World Bank high-frequency surveys report they were negatively affected by the crisis in the second quarter of 2020 but rebounded in the second half of 2020. Initially, a large number of firms closed temporarily, reduced their working hours, and reported a decline in sales.⁵⁹ Among formal businesses, only 2 percent were still closed as of January 2021 and only 19 percent had reduced their working hours, even if 53 percent were still reporting lower sales than a year ago. The differentiated impact was visible in the fact that about one in 10 businesses reported an increase in sales despite the pandemic. Family businesses reported approximately the same pattern, with low closure rates throughout 2020 but with a large proportion suffering a reduction in business income. Throughout 2020, the number of closed businesses increased by 13.9 percent compared to 2019, but the number opening reached 134,000 (up by 3 percent), emphasizing that the Covid-19 crisis has had a differentiated impact on the private sector and on earnings (figure 1.21).

The unequal impact of the pandemic is most apparent in the labor market. This could affect the foundation of the social contract in Viet Nam, which has been able to secure a job for every citizen. At first glance, the effects of the pandemic might appear relatively moderate, since at the end of 2020, few workers had lost their jobs (unemployment was up by 0.2 percent compared to end-2019), exited the employment market (labor participation was down by 1.7 percent), or earned less, as they received approximately the same labor income in 2020 as in 2019.⁶⁰

⁵⁹ For more details, see World Bank (2021e).

⁶⁰ World Bank 2021f.

Yet, this masks two important elements that need to be taken into consideration:

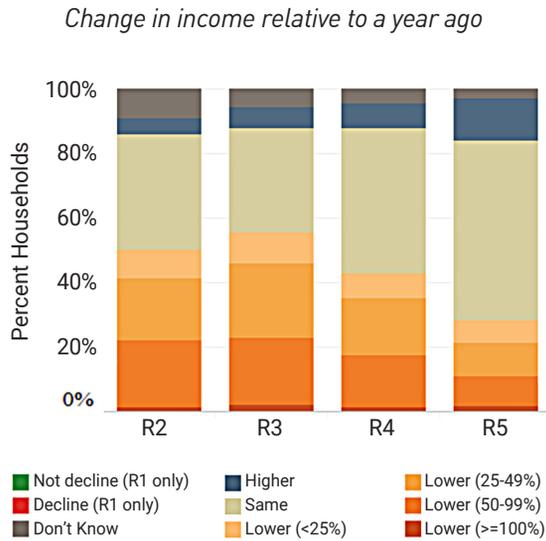
- **First**, the job market contracted by 1.9 percent and wages increased only modestly (around 1 percent) in 2020, while workers were used to an annual expansion of employment by 0.5 percent to 1 percent, and to higher wages (6 to 7 percent) almost every year (figure 1.22). Suddenly, new entrants into the labor market realized that securing a job, with a salary increase, was no longer automatic. Higher informality and underemployment rates have also been reported, and a larger share of the workforce has dropped out of the labor force.⁶¹
- **Second**, the impact of the pandemic has been extremely differentiated by sectors. Figure 1.23 compares the employment growth rate projected before Covid-19 with post-lockdown outcomes and shows that the sectors with the highest percentage of job losses in 2020 were real estate, banking, construction, transport, and hospitality. Employment in manufacturing was stagnant in 2020, against an expected surge of 6 percent before the Covid-19 crisis. Many of the losers in 2020 were found in the sectors that were the most dynamic before the pandemic.

The pandemic has created some new poor or near-poor groups but, above all, has affected the well-being of many citizens and generated significant inequalities in Viet Nam. Many of these vulnerable groups are not those that have been traditionally targeted by the government in its social protection program. The emphasis has been on extreme poverty, especially within ethnic minorities in mountainous areas, which account for approximately three-quarters of those who live on less than US\$1.9 per day in Viet Nam. As documented earlier, the new poor are more likely to live in urban centers and be employed in services or to some extent in manufacturing. The most exposed to labor market shocks might not be those employed in formal businesses but those who gravitate around the formal sector in informal activities such as travel agencies, tour operators, and guides in the tourism industry.⁶² The Covid-19 crisis has also heightened the importance of adaptive social protection, which addresses vulnerability to shocks by providing impacted groups temporary support or insurance.

⁶¹ For more details, see World Bank (2021g, pages 14–24).

⁶² According to the Viet Nam Tourism Association (VITA), 90 percent of travel agencies, tour operators, and guides were forced to close, and the remaining 10 percent scaled down operations.

Figure 1.20. Uneven impact of Covid-19 on households



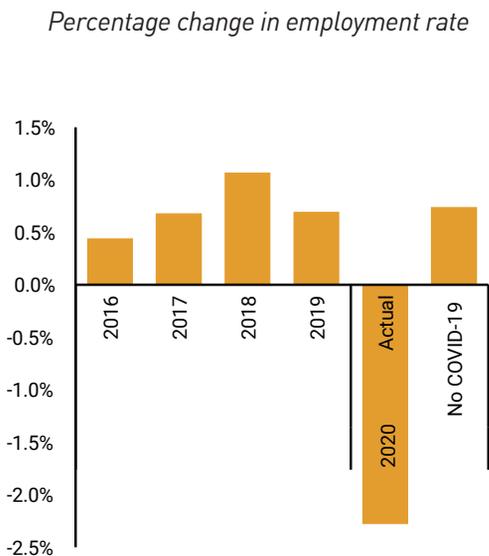
Source: World Bank high-frequency phone household survey. R2 = July 2020; R3 = September 2020; R4 = January 2021; R5 = March 2021.

Figure 1.21. Business openings and closures



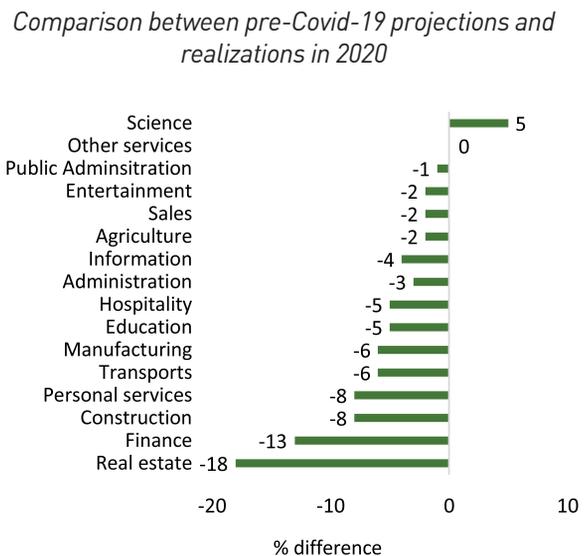
Source: Ministry of Planning and Investment.

Figure 1.22. Employment contracted in 2020



Source: World Bank staff calculations using data from MOLISA.

Figure 1.23. Differentiated impact on employment per sector



More fundamentally, Covid-19 has acted as an accelerator of the underlying structural changes in the Vietnamese economy. In the early 1990s, the main objective was to reduce extreme poverty, which was as high as 52.3 percent. The challenge today is to ensure that the poor and the near poor—those living on more US\$1.9 per day but less than US\$5.5 per day—can continue to climb the economic ladder and do not fall back into extreme poverty. In 2018, the extreme poor represented only 1.8 percent of the population, while the near poor now comprise as much as 20.6 percent. The pandemic has certainly most affected the category of population employed in informal or semi-informal activities, increasingly in urban centers. Another structural transformation has been the gradual shift from informal to formal employment, as today over 45 percent of workers are receiving wages, while the unemployment insurance and social security systems remain largely underdeveloped. The final category of vulnerable people that is growing very fast is those over 65 years old, who are expected to represent 15 percent of the Vietnamese population by 2030 compared to approximately 8 percent today. All these trends were described in detail in the recent World Bank job diagnostics report for Viet Nam.⁶³

Today, the government appears ill-equipped to provide social protection to new vulnerable groups emerging from recent demographic and economic trends. Currently, the instruments of a modern social protection system are largely absent, so little protection is offered to formal workers, elders, and near-poor in urban areas. It would be difficult for the authorities to introduce targeted safety nets such as conditional cash transfers because they do not have the database to identify the most vulnerable households or the tools to transfer money to them, except by using cash. These limitations prevented the authorities from implementing their Covid-19 fiscal package in 2020; only 10 percent of the funds allocated to the new programs was spent.⁶⁴

The government should reconsider its social protection policy to address the structural economic and social transformation of Vietnamese society. The future Vietnamese social protection (SP) system should use a whole-of-government approach to coordinate programs and agencies to efficiently distribute benefits and services across the population. Notably, this system needs to be able to finance an expanded range of programs and to distribute two forms of deliverables: money (such as pensions, social assistant benefits, unemployment insurance) and services (such as social care and active labor market policy services). Just as the various programs and pillars must be redesigned to strengthen each other at the policy level, so the financing and delivery systems for each of the programs should complement each other, consolidating when possible and minimizing the use of duplicate or parallel networks or information systems. The following will be key actions that should be taken to reform the SP financing and delivery systems, as a holistic entity, to achieve its 2030 vision:

- **Develop a strategy for financing a larger and more complex SP system.** It is unlikely that the full package of reforms outlined in the vision for 2030⁶⁵ (coverage expansion of SP benefits and services to informal sector workers and the rapidly growing elderly population, financial

⁶³ World Bank 2018a.

⁶⁴ More details can be found in the World Bank 2021h.

⁶⁵ For a more complete analysis and recommendations for an improved social protection policy in Viet Nam, see World Bank (2018c, 2019b).

sustainability of the pension system, strengthening the delivery system) would be affordable in the absence of significantly improved revenues performance, as the bulk of incremental SP spending would come from general revenues. Given its demographics and pension scheme parameters, there are major risks to the financial sustainability of Viet Nam's pension system in the absence of further reforms, including parametric reforms and gradual coverage expansion. Viet Nam spends relatively little on its safety net, which consequentially provides benefits that are low relative to global benchmarks. Above all, the fragmented delivery system is not guided by a clear central goal or vision.

- **Client interfaces should be integrated across the SP system.** At present, program beneficiaries must engage with each SP program individually. As the SP system integrates, so should the means through which beneficiaries enroll in, participate in, and receive benefits from SP programs. To start, policymakers should (i) *develop a robust national identification (ID) system* built on both foundational and functional ID platforms. A robust ID system is a crucial input for any integrated SP system, enabling the authentication of beneficiaries' identity when providing services online,⁶⁶ and facilitating the sharing of information about beneficiaries (for example, income, benefit levels) across SP programs. These systems also have indirect benefits from creating a reliable means of identity authentication that can also be used during interactions between third parties (for example, health providers or banks); (ii) *standardize targeting methods for identifying and enrolling beneficiaries in targeted programs.* The creation of robust identification systems and data management registries that are interoperable across SP programs (see below) will greatly facilitate the more unified targeting of program beneficiaries. This would also enable the system in which people apply for benefits to be more "on demand" and dynamic; (iii) *expand outreach efforts to enable two-way communication to all members of the Vietnamese population, especially ethnic minorities and people living in remote areas;* (iv) *consolidate front-end service delivery points across programs,* prioritizing the use of one-stop shop digital service windows. Such systems make it easier, for example, for people to apply for benefits or services, receive notifications and updates about their benefit levels or program status, or submit feedback about their experience in a program.
- **Build a national data sharing platform to allow for interoperable data management systems within and across SP agencies and programs.** Globally, there is growing emphasis on using "social registries"—harmonized SP information systems that serve multiple programs—as the foundation of an integrated SP delivery network.⁶⁷ Enabling more efficient data management and exchange across agencies helps minimize the burden of data collection, verification, and updating. In Viet Nam, an interoperable social registry could eventually replace the periodic poverty census as a means of identifying and targeting program beneficiaries, since household welfare could be assessed through a real-time cross-check of government databases on

⁶⁶ For example, by using an ID card, card reader, and PIN, or else with a mobile app and one-time password.

⁶⁷ See World Bank (2020h.) for a review of global experience with social registries in social protection programs and beyond.

household income and assets.⁶⁸ Such harmonized data systems have been built following a variety of physical and virtual trajectories, so Viet Nam is in a position to learn about the challenges to and possible outcomes of integration and interoperability from other middle-income countries. It should also be noted that while creation of a national database of social security programs, and streamlining administrative procedures, can enhance effectiveness and efficiency, technology is only an enabler in this endeavor. It is important for Viet Nam to learn from different platform architectural models (Brazil, Chile, Indonesia, Mexico, Turkey, etc.), to inform their own choice of adoption of the most appropriate platform architectural model.

- **Modernize and integrate SP payment systems into common platforms for government-to-person (G2P) payments.** Viet Nam has implemented digital payments across various government programs and should expand this trend to SP programs, where it currently lags regional and global comparators in the share of SP payments being made digitally.⁶⁹ Beyond making the delivery of program benefits more efficient, digital G2P payments can advance financial inclusion objectives by increasing the use of bank and other transaction accounts. Such a system would need to (i) *streamline the payment process, cutting out unnecessary intermediaries*; (ii) *apply digital payment* to ensure that the correct amount is efficiently distributed to the right people at the right time. Periodic social assistance, social insurance benefits, and payments for other programs managed by the Ministry of Labor, Invalids and Social Affairs (MOLISA), should be delivered directly to beneficiary accounts through banks or other payment service providers within easy reach of beneficiaries who should be able to freely choose their provider; (iii) *supply e-payment delivery alternatives to traditional bank accounts* given the limited banking infrastructure in some rural and remote parts of the country. A legal framework should be put in place to support development of bank agents and correspondents to serve this purpose.
- **Build the capacity of the SP system's human resources.** As the SP system and its delivery network become more complex and technology-driven, the skills required from those managing and implementing them will also need to increase. Thus, reforms are needed to (i) *strengthen the case management system* to facilitate the coordination of SP benefits and services. Furthermore, innovative tools exist to facilitate this process, such as a system of managing, triaging, and monitoring client flows in the front office, as well as an integrated case management system that supports screening, intake, enrollment, eligibility, case and benefits management, and case dispensation; and (ii) *prepare a well-trained cadre of professionals to staff and manage the SP service and benefit delivery network*. The future SP system will be more complex, spanning a wider variety of benefit- and service-delivery programs. More social workers and professionals trained in social benefit and service delivery will be needed to manage this delivery network. Furthermore, new models of training will be needed to meet the emerging demand for new or adjusted skills across the delivery network, especially for case management.

⁶⁸ Reforms have been made to the 2015 Poverty Census, yet the process of classifying households using a combination of proxy means test (PMT) and multidimensional poverty index (MPI) remains complex in a way that has the potential to undermine transparency and accountability.

⁶⁹ World Bank 2019c.

- **Increase government capacity for oversight and evaluation as more diverse actors take on a larger role in SP benefit and service delivery.** The state will no longer have the capacity to be the sole actor across all aspects of the SP system and will need to strengthen its capacity to act as the overseer of the system as a whole. MOLISA and the Viet Nam Social Security, for example, will have to take on greater responsibility for contract management as private actors become more involved in providing such services as long-term care. More specifically, there will be a need to (i) *strengthen program performance monitoring using an evaluative framework* that assesses how programs can be leveraged to promote inclusion and strengthen coordination; and (ii) *strengthen the culture of program evaluation* to assess where the country is getting the best value for money and social impacts, as well as the progress and impact of processes consolidating front-end services, reskilling human resources, and deepening public-private partnerships. A first step in this regard would be improving household-level data. While Viet Nam has a well-developed statistical and household survey system, the surprising absence of panel data on SP programs means that rigorous assessment of SP (and other) program impacts is restricted. Existing cross-section data should also be made more freely available to researchers to encourage deeper analysis of SP program impacts and cost-effectiveness.

PART 2

UNBUNDLING THE MECHANICS OF IMPLEMENTATION IN VIET NAM

The last Party Congress, in February 2021, recognized that the country has not achieved all its development objectives because of uneven implementation. Progress has been uneven in several of the priorities, which had been set in 2010, therefore making the challenge of implementation the top priority of the country's new Socio-Economic Development Strategy (SEDS) for 2021–30. *“The central task of the entire Party, the entire people, the entire army and all government levels is to successfully implement the country's key development priorities.”*⁷⁰

Part 2 of the Systematic Country Diagnostics (SCD) Update examines to what extent Viet Nam can improve the implementation of its development priorities. Building on a new methodological approach, it will show that the six priorities identified in Part 1 have been implemented unevenly so far and that a greater effort will be needed to achieve the ambition set by the government, which is for Viet Nam to become an upper middle-income economy by 2035 and a high-income economy by 2045. Such effort will require improvements in vision, capacity, and motivation through the adoption of a platform of five institutional reforms that are derived from the empirical evidence in Viet Nam and references to international best practices.

Part 2 is divided into three chapters. The first chapter assesses Viet Nam's implementation performance for the six priorities identified in Part 1; the second chapter explains some of the features of implementation performance through a deep-dive analysis of a combination of three key implementation determinants—vision, capacity, and motivation; and the third chapter examines how the government could act to improve these determinants by adopting institutional reforms and, so, move systematically toward efficient implementation.

2.1. What has Viet Nam's implementation

Viet Nam's implementation performance for each priority identified in Part 1 of this study has been assessed in two ways. First, we measure to what extent the government has met its promise made in the past that Viet Nam would become a lower middle-income economy. Second, we evaluate the effort made by Viet Nam to become an upper middle-income economy by 2035—the current promise found in the new national SEDS for 2021–2030.⁷¹ The measurement of past and expected performance is explained in further detail in box 2.1.

Box 2.1. Measuring the implementation performance in Viet Nam

Measuring a country's implementation performance is complex as it requires agreement, for each priority, on the promises made by the government, and their realization. For this study, the promise has been defined by (i) the goal set by the government in the past, which was for Viet Nam to attain lower middle-income status; and (ii) the new goal set in the SEDS 2021–2030, which is for Viet Nam to reach upper middle-income status by 2035.

The realizations have been captured by outcome indicators. Those indicators have been selected as much as possible from national strategies and plans to ensure consistency with the government's objectives and, when needed, completed through a consultation process with local and international experts. This process led to the selection of the three to four indicators for each of the priorities (see Annex B for the complete list of selected indicators).

The thresholds for lower middle-income countries (LMICs) and upper middle-income countries (UMICs) are derived from the World Bank's World Development Indicators (WDI).

Viet Nam's implementation performance has therefore been measured by the difference between the current realizations (or outcome indicators) and, first, the thresholds for low middle-income countries (the past promise) and, second, the thresholds for upper middle countries (the current promise). The first measurement reflects the country's past performance, while the second reflects the expected performance.

$$\text{Past performance (\%)} = 100\% - [\text{thresholds for LMICs/current realizations by Viet Nam}]$$

$$\text{Expected performance (\%)} = [\text{thresholds for UMICs/current realizations by Viet Nam}] - 100\%$$

Past and expected performances are measured for each of the indicators selected under individual priorities. Overall past and expected performance for a priority is measured by taking an average of performances of the included indicators.

The application of the methodology is illustrated in table B2.1.1 for the priority of digital transformation (results for all priorities are detailed in Annex B). The four selected outcome indicators include mobile phone subscription, use of internet, availability of digital skills (proxied by school enrollment for tertiary education/training); and innovation capacity (proxied by patents registration). The average past performance is equal to 21 percent, which means that Viet Nam has overachieved its promise as it has performed better than the threshold for lower middle-income countries. The average expected performance will require an improvement of 38 percent so that Viet Nam can attain the threshold reported by upper middle-income countries.

⁷⁰ Ministry of Investment and Planning, Viet Nam Socio-Economic Development Strategy: 2021–2030, February 2021, p. 30.

⁷¹ According to the World Bank's classification, for the current 2021 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of US\$1,035 or less in 2019; lower middle-income economies are those with a GNI per capita between US\$1,036 and US\$4,045; upper middle-income economies are those with a GNI per capita between US\$4,046 and US\$12,535; high-income economies are those with a GNI per capita of US\$12,536 or more. In 2019, Viet Nam's GNI per capita was equivalent to US\$2,590.

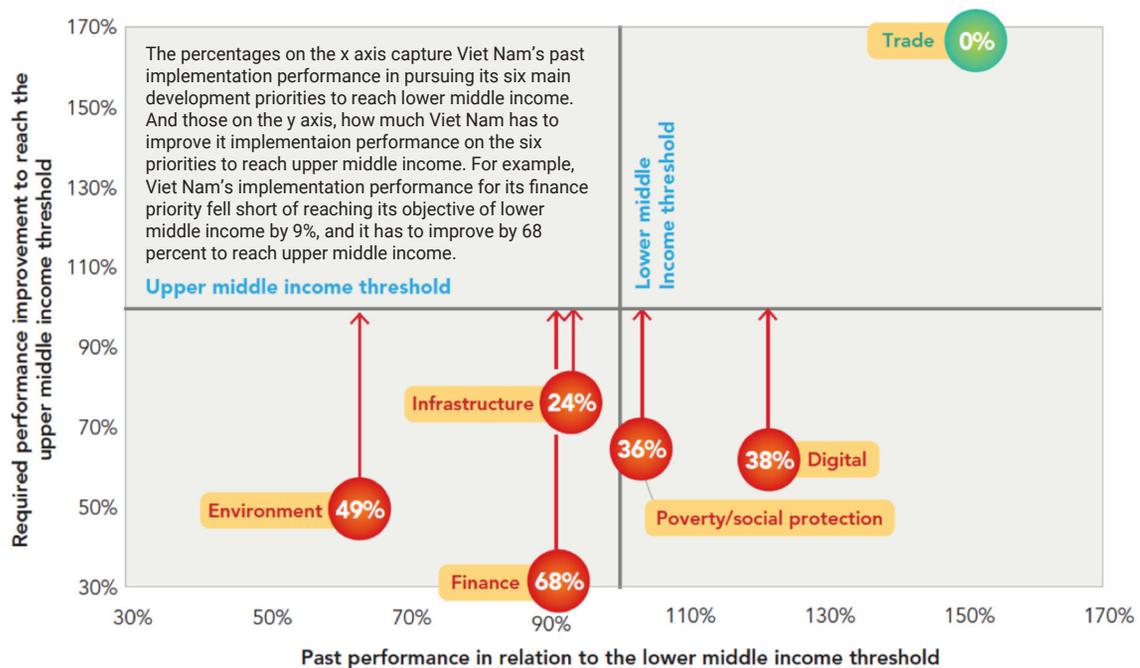
Table B2.1.1. Implementation gaps for the digital transformation priority

Indicator	Realized by Viet Nam (most recent data available)	Lower middle-income thresholds	Past performance	Upper middle-income thresholds	Expected performance
	(1)	(2)	(3) = 100% - [(1)/(2)]	(4)	5 = [(4)/(1)] - 100%
Mobile cellular subscription	141	94	33%	122	-13%
Use of internet	69	32	54%	56	-19%
School enrollment, tertiary	29	24	17%	53	83%
Patent registration	0.007	0.0083	-19%	0.015	101%
Average			21%		38%

A word of caution might, however, be necessary, as the above differences are assumed to explain the implementation performance while they can also be caused by the adoption of suboptimal policies. In other words, the government would not be a weak implementer but a poor policy decision maker when the implementation performances are weak. While this explanation cannot be fully discarded, it might not play such a significant role in Viet Nam because, as explained in Part 1, there has been a strong focus on the formulation of strategies and plans, leading to a relatively high degree of convergence on the policies to be adopted for each priority.

The main findings, summarized in figure 2.1, reveal that Viet Nam will need to strive much harder to move from a regime of “relatively good but uneven” implementation performance in the past to “consistently strong” expected performance in the future. The country’s past performance has been relatively good but uneven in the sense that the government has delivered its promise to catch up with lower middle-income countries in three out of six priorities but has failed to do so in the three others. While recognizing that several priorities are more complex than others because they require difficult policy trade-offs, the degree of unevenness is well demonstrated by the extremely poor implementation performance for the priority of moving toward greener growth, which is almost 40 percent below the lower middle-income country threshold. Looking forward, Viet Nam will need to strongly boost implementation performance in five of the six priorities in order to reach the respective thresholds reported by upper middle-income countries today. Viet Nam will also have to strive even harder in a dynamic world where all upper middle-income countries are making strong progress, hence raising the bar to the next level.

Figure 2.1. Viet Nam’s past and expected performance in the implementation of priorities



Note: The implementation performances are captured by the distance between the outcomes achieved to date and the thresholds for lower middle-income countries (past performance) and upper middle-income countries (expected performance). This is illustrated for the priority of “digital transformation” by the green arrows that show that Viet Nam was an overachiever in its past performance (+21 percent) but will require an improvement in its expected performance (+38 percent).

The detailed results for each priority are presented in Annex B, but the main takeaways are:

- Priority #1:** Readjusting to deglobalization by focusing on higher value addition of exports and increased trade in services. Viet Nam has been an overachiever, as it has consistently exceeded the threshold for lower middle-income countries. This achievement has been driven by becoming one of the most open countries in world for merchandise trade and by attracting massive FDI inflows, thereby positioning past performance at 51 percent above the lower middle-income country threshold. The country is already performing better than most upper middle-income countries by 67 percent, suggesting very specific areas for attention going forward. As discussed in Part 1, the future emphasis should be on more diversification into services, while strengthening competitiveness through enhancing multimodal connectivity, efficiency of logistic services, and improving linkages between the domestic and export sectors. In other words, if quantity of trade was Viet Nam’s past success, it is the quality of trade that will define the country’s future success.
- Priority #2:** Accelerating digitalization of the economy. The past implementation performance has been good, since Viet Nam has exceeded the threshold for lower middle-income countries by 21 percent. This has been driven by the high penetration of mobile phones among the

population, relatively widespread use of the internet, and decent digital skills, even though the country is lagging in terms of innovative capacity (measured by registered patents). But this is a priority in which the expected performance to be realized in closing the gap with upper-income countries will be quite significant (38 percent on average), especially in the areas of digital skills and innovative capacity.

- **Priority #3:** Moving away from “growth at any cost” to “building a green and sustainable economy.” This is the priority where the past implementation performance has been the worst relative to other lower middle-income countries (37 percent lower than the threshold for lower middle-income countries). Viet Nam today has the fastest rate of growth in greenhouse gas emissions per capita, is more vulnerable to climate change (including intensified natural disasters), and has managed its non-renewable resources (for example, water) less efficiently. The expected performance to attain upper middle-income country status would equal 51 percent.
- **Priority #4:** Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions. Viet Nam has underperformed relative to other lower middle-income countries by an average of 7 percent due to the limited use of private solutions (the gap is 41 percent), even if the efficiency of public spending and the quality of infrastructure has been slightly better than the thresholds. The implementation performance needed for Viet Nam to reach upper middle-income status is relatively large (+24 percent), as it lags in terms of efficiency of public spending, quality of infrastructure, and use of public-private partnerships.
- **Priority #5:** Balancing banking sector stability with expansion of financial inclusion and deepening capital markets. Viet Nam’s overall past performance has been decent, as it has missed the threshold of lower middle-income country status by a relatively small margin (-9 percent). Future implementation performance will have to improve considerably, as the gap between a lower and upper middle-income economy is relatively large. Viet Nam will have to increase financial inclusion (+125 percent), capitalize its banks (+45 percent), and further develop its capital market (+35 percent) to attain the respective thresholds reported by upper middle-income countries.
- **Priority #6:** Shifting from piecemeal poverty reduction efforts to a nationwide social protection program. Viet Nam has already outperformed other lower middle-income countries by 3 percent. This figure masks contrasted performances among the included indicators, as Viet Nam was an overachiever in terms of reduction of extreme poverty (15 percent) and inequalities (10 percent), but an underachiever in terms of coverage of its social protection system (-17 percent). A significant effort will need to be made in this last area, as Viet Nam is lagging the respective threshold for upper middle-income countries by as much as 106 percent.

Viet Nam will need to intensify its implementation effort across all its development priorities, except the one associated to trade, if it wants to achieve its goal of becoming an upper middle-income country by 2035 and a high-income country by 2045. The above results

corroborate the global observation that the transition from middle income to high income appears to be profoundly challenging. There have been only a limited number of countries that have successfully graduated from low- to middle-income status over the past 50 years, but even fewer that have moved from middle- to high-income status. Only 18 countries defined as middle-income countries in 1965 reached the status of a high-income country by 2013, including five East Asian countries and economies (Hong Kong SAR, China; Korea; Japan; Singapore; and Taiwan, China).⁷² The aspiration and challenge for Viet Nam is to become one of these graduates.

2.2. What are the key determinants of the implementation performance?

To avoid the middle-income trap, Viet Nam will have to not only clearly identify its development priorities, but also more effectively implement them. This will require a good understanding of the main determinants of strong implementation. However, if almost everyone agrees that efficient implementation is central to making policies impactful, there have unfortunately been relatively few attempts to systematically capture what makes a country a good or a poor implementer.

Drawing from the findings of the literature on public policy and political science, a new methodological framework has been developed to better understand the mechanics of implementation in Viet Nam. The implementation performance is deconstructed into three determinants (vision, capacity, motivation), which are in turn unbundled into six components (see box 2.2 for a description).

Box 2.2. A new methodological framework to understand the uneven implementation performance

The identification of the determinants of implementation was derived by combining insights from two strands of the existing economic literature. The first is from the public policy and political science strand, which breaks the implementation process into three key phases (“plan,” “do,” and “see”),^a while the second strand argues that an effective implementation process should evolve over time from experimentation to learning and evaluation through capacity building and engagement of various stakeholders, with the e-government’s willingness to engage in experiments determined by its motivation and by its ability to incentivize key stakeholders.^b

These two complementary approaches emphasize the role of vision, capacity, and motivation for effective and efficient implementation. The clearer the government’s vision, and the higher its capacity and motivation, the greater are the chances that the priorities will be implemented effectively. Because these determinants remain broad, they have been unbundled into six components, which are described in the table B2.2.1.

⁷² Vandenberg, Poot, and Miyamoto 2015.

Table B2.2.1. Determinants of the implementation performance

		
VISION	CAPACITY	MOTIVATION
LEADERSHIP	RESOURCES	ACCOUNTABILITY
commitment at the highest level and clear direction of priorities that, in Vietnam, are captured by strategies, resolutions, laws, and directives	adequate provision and allocation of financial and technical capacities	sets of incentives and sanctions that create a sense of individual and collective ownership and responsibility
COORDINATION	PLANNING/DESIGN	TRANSPARENCY /COMUNICATION
processes of organizing agencies so they work together properly across the same level (horizontal) or across levels (vertical)	translation of priorities into actions and targets through action plans and regulations	mechanisms to collect and share relevant information in real time with key stakeholders.

Note: a. For a summary, see Hudson, Hunter, and Peckham (2019). b. Andrews, Pritchett, and Woolcock 2012.

These three determinants and their components explain the uneven implementation performance across the six development priorities. Table 2.1 summarizes the quantitative outcomes of deep dives that were conducted for each of the six priorities, presenting the scores that were obtained for the determinants and their components through an intensive consultative process.⁷³ The lowest scores are associated with the weakest quality of implementation determinants, and the highest scores are associated with the strongest quality. For example, the quality of the vision, capacity, and motivation has been uniformly better for the priority on trade than for the one on environment or infrastructure. There is also a relatively large difference in the quality of each determinant, as the government has generally performed better on providing strategic leadership and planning than on accountability and transparency. The weakest determinants across almost all priorities appear to be coordination and accountability.

⁷³ The deep dives and consultative process was conducted in early 2021 through the establishment of specific groups within the World Bank Group that were chosen because of their technical knowledge and years of engagement with the authorities. These groups included the participation of external experts. For each priority, these groups assessed the implementation performance and quality of each determinant, which were then quantified by assigning specific ratings on a scale from 1 to 5 (with 1 being weak quality and 5 being strong quality).

Table 2.1. Heatmap of the quality of determinants

PRIORITY	VISION		CAPACITY		MOTIVATION	
	LEADERSHIP	COORDINATION	RESOURCES	PLANNING	ACCOUNTABILITY	TRANSPARENCY
Adjusting to slowing globalization	5	3	4	4	3	4
Accelerating digitalization	4	2	2	3	3	3
Moving away from a growth at any cost mindset	3	1	1	1	1	2
Stepping up infrastructure	3	2	3	3	2	3
Balancing banking sector stability with greater financial inclusion and deepening of capital markets.	4	3	3	4	2	1
Shifting from piecemeal poverty reduction efforts to a nationwide social protection program.	4	3	3	4	4	3

Note: **Red** is weak quality ([1–2 rating], **orange** is mixed quality [3 rating], and **green** is strong quality [4–5].

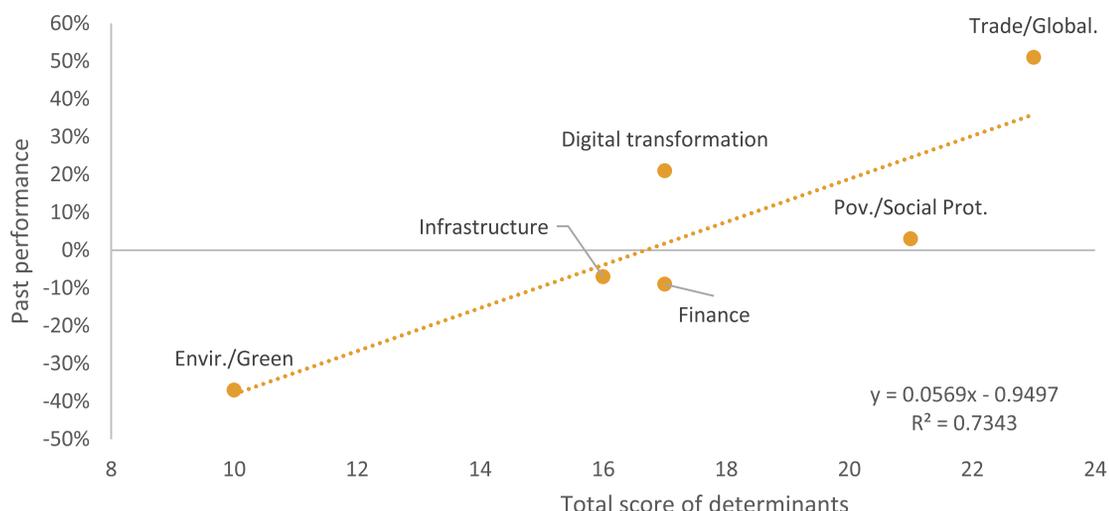
*The past implementation performance is measured by the distance to the thresholds for lower middle-income countries, which is set at 100 percent. Positive outcomes represent overachievements, while negative outcomes represent underachievements. The larger the absolute values of the outcome, the larger the over- or underachievement.

Further insight on the causal relationship between the overall quality of the determinants and the magnitude of the past implementation performance is provided in figure 2.2.

By comparing the total score of the determinants for each priority with the corresponding past implementation performance, one can measure by how much a change in the quality of determinants would influence the implementation performance. While this statistical correlation is only indicative, it confirms a positive causal relationship between the quality of determinants and implementation performance, suggesting that for each point increase in the total score of the determinants, the implementation performance would improve by 5.7 percent.⁷⁴ For example, if the government had demonstrated the same quality of vision, capacity, and motivation for infrastructure as for trade, it would have almost improved the implementation performance for the former priorities to the thresholds attained by lower middle-income countries.

⁷⁴ However, this statistical correlation should be interpreted with some caution as it assumes that all determinants have the same weight on the implementation performance. It also only captures the impact of a variation in the quality of the determinants across priorities at one time, but not its evolution over time. The number of observations is also limited.

Figure 2.2. The predictive power of determinants of the implementation performance



Beyond the above quantitative analysis, which is indicative, the deep dive in each of the identified development priorities provides complementary qualitative analysis with a menu of good and bad practices that can be useful to Vietnamese policymakers. Greater granularity on the determinants and their components is therefore presented below.

Priority #1: Readjusting to deglobalization by focusing on higher value addition of exports and increased trade in services [past performance: +51 percent; total quality of implementation determinants: 23/30]

Vision [leadership = 5, coordination = 3]: There has been a solid vision by top leaders that was anchored in the country’s strategy for international economic integration formulated in the early 1990s. This vision has been mainstreamed consistently in the country’s three SEDS in the past 30 years and reinforced by international commitments such as the adherence to global and regional trade agreements. It has been implemented by the strong leadership and coordinating role played by the Ministry of Trade (established in 1992), which was subsequently merged with the Ministry of Industry to form the Ministry of Industry and Trade in 2007. A multi-ministerial steering committee on international economic integration, chaired by a Deputy Prime Minister, was established in 2014 to ensure strong horizontal coordination among relevant agencies. These institutional anchors align well with Viet Nam’s priority on international economic integration, which might well explain the country’s success to date. Vertical coordination with provinces has not always been optimal, leading to misalignment of capital investment resources for multimodal connectivity, especially for inter-region transport network and in areas surrounding key international trade gateways.

Capacity [resources = 4; planning = 4]: The allocation of national budgetary resources, including Official Development Assistance, for investments in key international gateways (seaports, airports) has been relatively adequate, but multimodal connective infrastructures are underdeveloped by local governments. Technical capacities, especially at the national level, have been strengthened over the years through strong technical assistance programs supported by development partners and partnerships with the private sector. National action plans have been formulated for implementing each individual global and regional trade agreement since the mid-1990s, when Viet Nam joined ASEAN and the ASEAN Free Trade Area (AFTA). These action plans consider adjustments to the domestic laws/regulations and fiscal policies (mostly on the revenue side) necessary to effectively implement Viet Nam's international commitments. They also, to a limited extent, provide resources (often partial) for implementation and prepare business sectors (including SOEs) for increased exposure to international markets and competition. Nevertheless, policies and plans for promoting synergies between local firms and FDI exporters have been limited.

Motivation [accountability = 3; transparency = 4]: High visibility of the reforms and a good reporting system have contributed to motivating civil servants. Further incentives were provided by the devolution of responsibilities to sectoral ministries and subnational governments (FDI, industrial parks, export performance) that created competition across sectors and provinces to obtain the best results on the ground. The authorities have developed a good communication strategy (including with the use of benchmarking to measure the country's performance compared to other regional economies), which was designed and delivered in collaboration with the private sector. Yet, the complexity of the tax and customs regimes (especially tariffs and specialized inspections on imported goods/services) has contributed to the creation of an environment in which special deals can be negotiated between private sectors and public administration, even if the increasing use of electronic and single-window customs procedures have helped improve transparency and administrative efficiency over time.

Priority #2: Accelerating digitalization of the economy [past performance: +21 percent; total quality of implementation determinants: 17/30]

Vision [leadership = 4; coordination = 2]: Viet Nam has been lagging many countries, including lower middle-income countries, in defining its strategy for becoming a digital economy. It was only in 2019 that the Politburo resolution on Industry 4.0 clearly set out what would be the vision for Viet Nam to become a regional leading digital nation by 2045. A national digital transformation program was subsequently formulated in June 2020, and digital transformation has become one of the pillars of the new SEDS for 2021–2030. While the goals have been now identified, the institutional framework remains fragmented, preventing good coordination across ministries and between the public and private sectors. The responsibility for digital transformation mandates is diffused among nearly a dozen ministries and agencies, not to mention the role assigned to cities and provinces to implement the digital transformation reform agenda themselves. While the mandate of the digital economy will inevitably be allocated across various institutions, a strong coordination mechanism is required to ensure consistency and maximize synergies across agencies.

Capacity [resources =2; planning = 3]: The limited technical knowledge of many civil servants, who either do not have the necessary digital skills or are averse to new digitally enabled business processes, has slowed the adoption of new digital technologies within the public administration, while training opportunities have been scarce even if technical assistance by development partners is now on the rise. The adoption of emerging technological skills among private operators is also a source of concern as it prevents the use of digital platforms and solutions for their business activities. While there has been relatively limited resource allocation in the budget for this priority, at least to meet the ambitious targets set by the strategies, funding for building the necessary IT infrastructure has been made available by the SOEs operating in this sector. Planning is complicated by the fact that the vision has only recently been set and by adoption of vaguely defined targets and strategies.

Motivation [accountability = 3; transparency = 3]: Accountability and transparency has been improved with the establishment of the public service portal in late 2019. The government is now able to monitor and verify the quality of online services provided by various public agencies at all administrative levels. The portal has also created a new space for public feedback and complaints. However, how the feedback is received, and the complaints resolved is not clearly reported. In addition, the reporting mechanisms are weak in other policy areas, such as the development of digital skills or innovative capacity, partly because of diffused responsibilities. Transparency remains limited as databases remain incomplete and access to information and data is frequently controlled by the government, including on social media. There have been recent efforts to improve access to data through better classification of what is authorized to be shared and to accelerate the interoperability across databases within public administration both at the central and local levels. These efforts remain limited in practice, as they are implemented through pilots in relatively few agencies and for a restricted set of databases.

Priority #3: Moving away from “growth at any cost” to “building a green and sustainable economy” [past performance: -37 percent; total quality of implementation determinants: 10/30]

Vision [leadership = 3; coordination = 1]: The vision for sustainable development was developed as early as the late 1990s and has been progressively mainstreamed into three SEDS cycles since 2001. Concurrently, it has been supported by a full range of sectoral strategies that were developed over the past 15 years. A national green growth strategy was even approved in 2012 with the aim of promoting further sustainable development through the efficient use of natural resources while reducing greenhouse gas emissions. This strategy was reinforced by Viet Nam’s Nationally Determined Contribution commitments, first in 2015 and updated in 2021. Despite the attention given to this priority over the past 25 years, the vision proposed by the government remains unclear and incomplete, which explains why new strategies are being adopted or are under preparation (for example, a new Green Growth Strategy is being prepared). Coordination (both horizontal and vertical) on policy design and implementation has faced challenges due to the spread of responsibilities across ministries and between the central and subnational governments. Several areas (such as water resources, air quality, and greenhouse gas emission reduction) are managed by multiple agencies at both the central and local levels,

while in other areas (such as forestry, fisheries, solid waste, and wastewater), the gap between policy formulation at the national level and policy implementation at the local level is large.

Capacity [resources = 2; planning = 1]: The budget allocation toward the green growth agenda is difficult to measure because it is not integrated in the existing budget classification. The 2021 Climate Public Expenditure and Investment Review (CPEIR) conducted by the United Nations Development Programme (UNDP) in six ministries and 29 provinces revealed that only about US\$1.7 billion was directed to climate related investments in 2020, of which only less than 10 percent was spent on mitigation activities.⁷⁵ The vision and sectoral strategies have been translated into multiple plans of actions that are not always well aligned due to the limited degree of coordination and integration across sectors (horizontal integration) and between central and local levels (vertical integration). There has been an uneven level of ambitions in targets, which can be relatively modest (for example, Nationally Determined Contributions) or excessive (wastewater treatment). The new Law on Environmental Protection (2020) provides higher environmental standards as well as budget allocations, in addition to setting the legal basis for the carbon pricing instrument implementation (including emissions trading schemes and carbon crediting under the Paris Agreement), but it has not yet been translated into concrete plans and actions.

Motivation [accountability = 1; transparency = 2]: There is limited accountability due to the dilution of responsibilities across ministries and agencies, and a large gap between central policies and local implementation. The accountability of provinces in the same region for environmental protection is loosely defined and enforced, especially for transboundary water and air pollution. The respective roles of the public and private sectors are not clearly defined, for example, in wastewater or solid waste management, leading to a misalignment of incentives, suboptimal investments, and unsustainable business models. The weakness of the reporting system prevents a clear understanding of the source of the problem (for example, the air pollution in Hanoi) and leads to reduced accountability. Rules and regulations are not always enforced properly, and violations of the environmental protection law are met with limited sanctions as, for example, when houses are built in protected areas or when trash is left in the streets. The government's communication on climate change and environmental degradation is partial and sometimes ambiguous as there are few official and publicly available reports on indicators such as air quality, wastewater treatment, biodiversity, and greenhouse gas emission. Space for public consultation and environmental activism remains limited.

Priority #4: Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions [past performance: -7 percent; total quality of implementation determinants: 16/30]

Vision [leadership = 3, coordination = 2]: The development of infrastructure was a government priority in the past two SEDS cycles (2001–2010 and 2011–2020) and remains a strong focus in the current SEDS (2021–2030). This vision has been well reflected in sectoral strategies,

⁷⁵ Total national expenditure on climate-related investments would be estimated at about 1.2 percent of GDP in 2020.

notably in the transport and energy sectors. However, despite strong leadership on the efficient allocation of public investment, as regularly emphasized by the country's top leaders, there is no clear vision and strategy on public investment management, including for prioritization, pipeline development, and effective monitoring and evaluation. Therefore, ambitious high-level goals established in sectoral strategies have not been fully achieved, notably in developing strong national backbone transport systems. The approval of the first PPP Law in 2020, following a series of unsuccessful pilot policies and regulations formulated since 2010, suggests a strong vision and desire for increased private participation. There are major weaknesses in coordination because (i) national, sectoral, regional, and provincial strategies (and their accompanied plans) are not always well aligned; and (ii) responsible agencies for preparing, funding, and implementing some strategic projects are not always well coordinated, their accountabilities are not well defined or are subject to bargaining, which creates uncertainty and delays the process.

Capacity [resources = 3; planning = 3]: The technical capacity within public administration to design and implement projects is relatively good, even if there is variability at the subnational level and across ministries. The capacity to evaluate and negotiate PPP projects remains limited, however, except in the energy sector. Public debt constraints have been relaxed in recent years due to improved revenue mobilization and tightened public investment planning, but, without complementary tax policy reforms to improve revenue mobilization, capital spending will remain limited due to the lack of fiscal space. Public investment planning was substantially improved with the introduction of the Law on Public Investment (2014, revised in 2019), which aims to reduce fragmentation in resource allocation. However, there are still gaps and misalignments between this law and several other regulations, including the State Budget Law, the Law on Public Procurement, and the Law on Construction. The current framework does not adequately address the lack of flexibility in the reallocation of resources or the need for a rolling medium-term investment plan. Furthermore, the execution of plans is often very slow because of redundant, overlapping administrative steps and limited delegation of authority, even for simple decision or approval processes.

Motivation [accountability = 2; transparency = 3]: Accountability is relatively weak due to the dilution of responsibilities along the public investment cycle, including the selection, design, funding, execution, monitoring, and evaluation of public investment projects. For example, a subnational government could be in charge of executing a project that is funded by taxpayers in another province. Because the fiscal transfers from the Ministry of Finance (MOF)/ Ministry of Planning and Investment (MPI) to ministries or provinces are not performance based, there are few incentives to improve the results over time. The use of online/electronic and central procurement remains limited, which negatively impacts transparency. The motivation to explore private sector solutions has been negatively affected by the dual role of the government, which is frequently both the regulator and a main operator (through an SOE) in several key priority sectors. There is limited availability of detailed data on the execution of public investment projects at both the central and local levels, and there is little information on evaluation and audits on the use of public funds.

Priority #5: Balancing banking sector stability with expansion of financial inclusion and deepening capital markets [past performance: -9 percent; total quality of implementation determinants: 17/30]

Vision [leadership = 4, coordination = 3]: There is a long tradition of cascading strategies from the Prime Minister to the Minister of Finance, the SBV Governor, and the heads of other agencies. This approach has led to the adoption of several sectoral financial strategies, including for the development of capital markets (2010), the banking sector (2018), and financial inclusion (2020). These strategies have benefited from consultations with the private sector. While overall coordination has been relatively good, under the leadership of the SBV for the banking sector and the MOF for capital markets, cooperation among agencies in areas where banks and non-bank financial institutions interact, such as in the corporate bond market, could be improved. Such interaction will be needed for facilitating the fast development of highly integrated financial markets in a digital world.

Capacity [resources = 3; planning = 4]: The level of both financial and basic technical resources is considerate adequate, except for new financial technologies and instruments that are not always well understood by regulators. The use of benchmarking with peer countries has been an effective planning instrument to set objectives, especially for the development of the local capital market. However, given Viet Nam's specific circumstances and institutional arrangements, implementation at the country level requires significant calibration, for which existing skills are limited.

Motivation [accountability = 2; transparency = 1]: The decision-making process is centralized and rule-based, leaving little space for decentralized and individual initiatives. While targets are generally well defined, with time-bound specific indicators, they have not always encouraged the spirit of the reform and created perverse incentives. The absence of independent performance review of government agencies, at least openly shared, reduces accountability. The limited independence of the central bank from political power and the state's dual role in the financial sector (through the public banks) have contributed to sending mixed signals to operators, thus inhibiting innovation, and creating an uneven playing field among operators. Data sharing and communication on financial and monetary information are extremely limited and, despite some progress, are far from international best practices.

Priority #6: Shifting from piecemeal poverty reduction efforts to a nationwide social protection system [past performance: +3 percent; total quality of implementation determinants: 21/30]

Vision [leadership = 4; coordination = 3]: The priority of inclusive growth through the reduction of extreme poverty has been a key pillar of Viet Nam's national development strategy over the past 25 years. This focus has translated into strong leadership and upgrading of the Committee for Ethnic Affairs to ministry level in 2003. The traditional drivers of poverty reduction (jobs and basic education) have been generally well integrated into sectoral and provincial strategies. While structural economic, social, and demographic conditions in Viet Nam have been changing

fast, there is today, in the country, no comprehensive social protection strategy with a clear, long-term vision. Beyond the objective of reducing extreme poverty in ethnic minority groups, the responsibilities in the areas of employment, gender, and social security are diffused across multiple ministries and agencies, from MOLISA (for labor and gender) to the Ministry of Finance (for the social security system and pensions).

Capacity [resources = 4; planning = 3]: Over past decade, a generous allocation—over US\$25 billion in budgetary resources—has been transferred to the National Targeted Programs (NTPs). The level and quality of human resources is generally adequate but uneven at the local level. In contrast, social protection actions have been largely unfunded even if the reform of the social security system is becoming urgent due to unsustainable financial projections. Planning has been good in the implementation of NTPs thanks to the use of well-defined investment priorities that are then translated into projects at the local level. The absence of a comprehensive social protection strategy, however, has prevented the elaboration of plans and roadmaps that will lead to concrete and coordinated actions and results.

Motivation [accountability = 4; transparency = 4]: The government's focus has been primarily on public investment projects, not public transfer programs, on the assumption that the main driver of poverty has been the lack of access to basic infrastructure. Within this framework, accountability on public investment has been enhanced in the implementation of NTPs through the use of a performance indicator that links the budget allocation of NTPs to provinces and villages to the achievement of a minimum set of results. The participation of local authorities and beneficiaries in the decision process has also been effective, even though the strength of this mechanism has diminished over time. Communication has generally been effective, with the publication of high-frequency data and the regular use of surveys asking open-ended questions on key challenges, thereby reinforcing transparency. On social protection, there has been limited space for groups to voice their concerns, thus reducing the accountability of government officials. Data and information on vulnerable groups, except for the extreme poor and some specific groups (for example, retired military), are imperfectly covered by official statistics due to the absence of social databases and monitoring.

2.3. Toward the identification of institutional reforms for efficient implementation

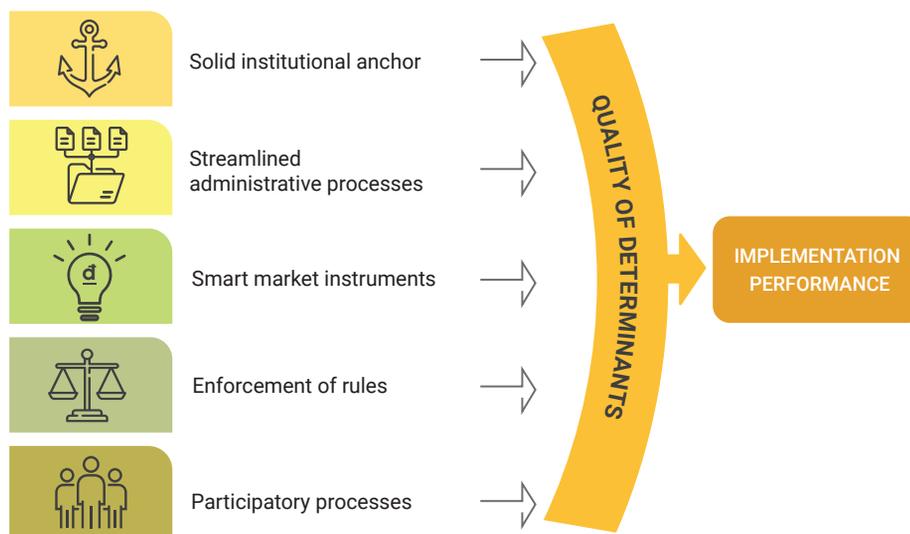
Common themes derived from the deep dive analysis presented above suggest that the government will need to adopt a series of institutional reforms if it wants to systematically upgrade its vision, capacity, and motivation across all the country's development priorities. While the authorities can learn from the menu of good and bad practices that have been described in the preceding section, it has to be recognized that improving the quality of the determinants of implementation is not automatic and often requires changes that will need to go deeper into the way the government is organized and operates. The challenge is to understand why the government has been able to develop good-quality determinants in some priorities but not in others. The assumption is that there are a number of common factors that have influenced the government's behavior and that these factors are embedded in the organization and functioning of existing institutions.

Building on the results of the methodology proposed in this report, especially from the commonalities that have emerged across the deep dive analysis, it becomes possible to identify five institutional reforms that have systematically affected the quality of the determinants of implementation in Viet Nam (figure 2.3). By adopting these five reforms, the government will create conditions that will help raise its implementation performance.

These five institutional reforms provide a concrete solution to what has been described in the recent SEDS as the necessity to modernize institutions. Yet, the government does not provide a clear definition of what modern institutions should look like except that *“it is critical to continue improving institutional quality by making them increasingly advanced, integrated, modern, stable, specific and transparent.”*⁷⁶ This vagueness is rooted in the literature on institutions that has emphasized the above concepts. This report suggests that modern institutions should help the country optimize its implementation performance, and this can be achieved through five specific reforms.

The analysis presented below documents how each of these institutional reforms can influence the determinants of implementation in Viet Nam and thus lead to improvement in the implementation performance across all the priorities. The current status of each proposed reform is evaluated for each priority, paving the way to recommendations. Accordingly, a number of solutions based on best (local and international) practices are proposed. These should be interpreted as directions for stimulating the debate and, hopefully, lead to decisions. The analysis concludes by illustrating that the proposed platform of institutional reforms for efficient implementation of priorities was already applied with success to the management of the Covid-19 crisis in 2020. The illustration suggests that the reforms can be replicated to systematically improve the implementation performance of other development priorities.

Figure 2.3. A platform of institutional reforms for efficient implementation



⁷⁶ Ministry of Investment and Planning, Viet Nam Socio-Economic Development Strategy: 2021–2030, February 2021.

2.3.1. Solid institutional anchor to materialize reform visions

Link with determinants

A solid institutional anchor is required to secure strong leadership and coordination—two components of the vision. Without such an anchor, policy messages from top leaders are easily diluted and unlikely to be translated into concrete plans and actions. Interagency coordination is difficult without a strong institutional home for reforms in any sector, as there is no single marching order. This diminishes the likelihood of ensuring a whole-of-government framework that is capable of not only allocating the responsibilities across institutions, but of also defining their functions, relationships, and accountabilities, both vertically and horizontally. Therefore, the absence of an institutional anchor raises the risk of low accountability, as functions and responsibilities are likely fragmented among agencies while being not clearly defined for individual ones, which in turn reduces motivation. This issue is becoming acute, as development priorities have been evolving while institutional arrangements to implement them have not been adaptive, especially to align well with cross-cutting and complex challenges such as climate change adaptation and mitigation, environmental protection, skill development, and digital transformation.

Current status of six priorities

Priority #1:

Readjusting to deglobalization by focusing on higher value addition of exports and increased trade in services.

The Government has been able to anchor this priority in the Ministry of Industry and Trade (MOIT), which was strengthened over time (see box 2.4). A National Steering Committee for International Economic Integration was established as a complementary institutional arrangement for implementing this priority.

Priority #2:

Accelerating digitalization of the economy.

The institutional arrangement for digital transformation in Viet Nam is overly complex. The Government strengthened its National Steering Committee on digital government and toward a digital economy in late 2019, with the Prime Minister chairing the committee. This is mirrored in each province, where the chairperson of the provincial People's Committee heads the corresponding committee. However, at the operational level, major tasks on the digital transformation agenda are dispersed across at least seven ministries (figure 2.4). As for the broader innovation agenda, which should provide the foundation for digital transformation, there is no clear anchor institution because while the Ministry of Planning and Investment (MPI) is responsible for innovative startups, the Ministry of Science and Technology (MOST) is responsible for science and technology policies, and universities, think tanks, and enterprises are responsible for R&D. Skill development is split between the Ministry of Education and Training (MOET) (responsible for basic and higher education) and the Ministry of Labor, Invalids and Social Affairs (MOLISA) (responsible for technical and vocational training).

Priority #3:

Moving away from “growth at any cost” to “building a green and sustainable economy.”

The responsibility for this priority is diffused among several ministries and between central and subnational authorities. While the MPI is charged with drafting an overall green growth strategy, the Ministry of Natural Resources and Environment (MONRE) is charged with managing air quality, land, solid waste, and environmental pollution. At the same time, four other ministries are responsible for wastewater management, with the Ministry of Construction (MOC) responsible for wastewater treatment regulations in urban areas, the Ministry of Agriculture and Rural Development (MARD) in rural areas, the Ministry of Health (MOH) in hospitals, and the MOIT in industrial parks. In addition, the management of water resources in river basins is under MONRE’s responsibility, and irrigation and bulk water transfer are under MARD’s responsibility. This is not to mention the disconnect between policies formulated by all the above-mentioned central ministries and the implementation role of cities and provinces in almost all green growth-related mandates at the local level.

Priority #4:

Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions.

At the central level, the limited cooperation between the MPI and the Ministry of Finance (MOF) is a source of institutional concern. While the MOF is responsible for revenue mobilization and allocation of recurrent expenditures (accounting for about 70 percent of the budget), the MPI is responsible for the allocation of capital expenditures. Because of these divided roles, budgets for operation and maintenance (recurrent) do not always align well with investments in infrastructure. An important additional challenge lies in the decentralization framework, as 70 percent of public investment projects are implemented by provinces using their own sources of revenue or fiscal transfers from the central government within a complex nested budget system. This decentralization framework has strengths but can undermine implementation as it is fragmented among a large number (63) of provinces with small populations (except two major cities—Hanoi and Ho Chi Minh City), and without a regional institutional mechanism for the provinces to collaborate between them. The large number of provinces prevents strong monitoring by central agencies of the implementation of priorities at the local level. This fragmentation also prevents the emergence of economies of scale, as many provinces are economically very small.^a

Priority #5:

Balancing banking sector stability with expansion of financial inclusion and deepening capital markets.

The main institutional role is played by the State Bank of Viet Nam, which acts as the main regulator for the banking sector. It ranks as a ministry in the government’s organization providing it sufficient legitimacy and visibility even though its independence in conducting monetary policies is limited. The Ministry of Finance, in contrast, is mainly responsible for the regulation and development of capital markets and non-bank financial institutions, including insurance companies and public pension funds. The State Securities Commission, under the Ministry of Finance, focuses on public securities. While the division of labors (and functions/responsibilities) between the two agencies is clear, the key coordination challenge remains in areas where banks and non-bank financial institutions interact (e.g., corporate bonds, digital financial services).

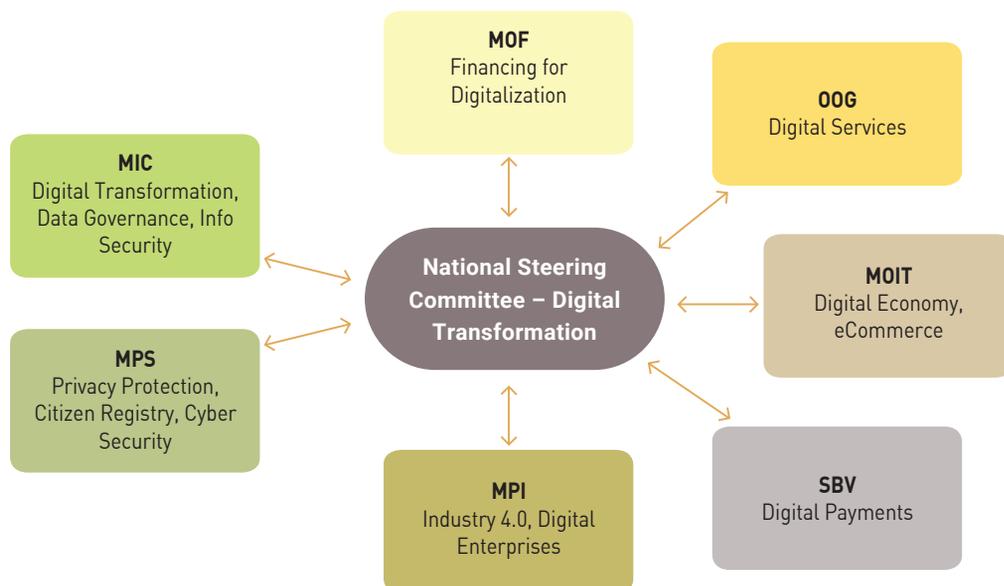
Priority #6:

Shifting from piecemeal poverty reduction efforts to a nationwide social protection system.

The institutional responsibility to implement the National Targeted Programs (NTPs) is divided between MARD, MOLISA, and the Committee for Ethnic Affairs (CEMA). Each is in a charge of a different geographic area. If the CEMA was created a few decades ago, its institutional upgrading as a member of the government’s cabinet with the rank of ministry in 2003 was a determinant that helps strengthen its role in the implementation of cross-cutting NTPs.^b Institutional arrangements for social assistance in Viet Nam involve a multiplicity of agencies. While the mandate for social assistance rests with MOLISA, a number of line ministries including the MOET, MOH, MARD, and MOIT are engaged in social assistance policy and delivery. The current system is also highly decentralized as implementation rests entirely with provincial authorities, with little effective oversight or monitoring by the center. Provinces can also introduce new programs or expand existing programs with respect to benefit levels or eligibility, using their own resources. As Viet Nam is shifting its gears toward a more comprehensive, integrated, and efficient social protection system, the anchor role of MOLISA will become critical, as will the joint management of the Viet Nam Social Security Fund (which is responsible for implementing pension, health insurance and unemployment programs under the supervision of MOF, MOLISA, and MOH).

Note: a. Compared to many other countries, Viet Nam has a large number of provinces and municipalities, each with a relatively small population. There are on average 1.5 million inhabitants in each province and 8,500 inhabitants per municipality. These ratios are much smaller than in the average Organization of Economic Co-operation and Development (OECD) country (3 million inhabitants per region and 37,800 inhabitants per municipality) and in other more populous countries, such as China and India, as well as Malaysia and Mexico. b. Decree No. 51/2003/ND-CP of May 16, 2003.

Figure 2.4. Institutional Assignments of Digital Transformation



Note: The figure does not include other line ministries or provinces that are also responsible for implementing the digital transformation agenda. MIC =e; MOF = Ministry of Finance; MOIT = Ministry of Industry and Trade; MPI = Ministry of Planning and Investment; MPS = Ministry of Public Security; OOG =e; SBV = State Bank of Viet Nam.

Possible solutions

The current government organizational structure has only changed marginally since the adoption of the new Constitution in 1992.⁷⁷ Accordingly, the main functions and responsibilities of key ministries have been relatively stable over time. This stability has benefits, but it has also delayed the adaptation of the institutional framework, while the size of the economy has grown thirtyfold during this period. Most importantly, new development priorities have progressively emerged over time, notably with the digital transformation of the economy and the need to incorporate green growth as part of the country's growth model. These two last priorities have become even more important in the post-pandemic agenda, as emphasized in Part 1 of this report.

Arguably, the Government has improved its implementation performance when it has adapted its institutions to priorities. The strengthening of the MOIT was key in the successful implementation of trade liberalization reforms in the mid-1990s. Similarly, the upgrading of the Committee for Ethnic Affairs (CEA) to the rank of ministry in the government's cabinet led to better results in the reduction of extreme poverty in ethnic minority groups, even though there is still room for improvement. It is therefore not surprising to see that Viet Nam has outperformed lower middle-income countries and many upper middle-income countries in the trade and poverty priorities.

The main recommendation would therefore be to better align the existing institutional framework with the six development priorities. While institutional reforms need to be carefully evaluated, three directions can be derived from the historical evidence in Viet Nam and from the international experience.

- **First**, anchoring the implementation of each priority on high-level and strong institutional arrangements appears imperative—often with direct reporting to the Prime Minister. The creation of ad-hoc steering committees can be a complementary arrangement but should not substitute for a strong institutional anchor, because it does not appear to provide enough legitimacy and may not send a clear message to individual ministries that may continue to act independently.
- **Second**, the consolidation of key and related functions and responsibilities in one institutional anchor has been effective, as evidenced by the experience with the Ministry of Industry and Trade (MOIT) (box 2.4). This option has been chosen by several countries such as the Netherlands, which has merged the Ministries of Economy and Climate Change for the priority of climate change (see box 2.5). Other countries have consolidated their digital transformation agenda around one strong institution (for example, the Government Digital Service in the UK, GovTech in Singapore, and the Ministry of Digital Economy and Society of Thailand). Such consolidation does not necessarily mean that all functions and implementation responsibilities should be concentrated in one ministry or one agency, but rather that it is important to set up efficient institutional mechanisms that will ensure that decisions are coordinated and integrated, as illustrated in box 2.4, for the implementation of a comprehensive social protection strategy.

⁷⁷ Total national expenditure on climate-related investments would be estimated at about 1.2 percent of GDP in 2020.

- **Third**, the decentralization framework needs to be adjusted, as the current fragmentation in the high number of provinces has proved to be ineffective for the implementation of increasingly complex priorities that require regional coordination and economies of scale. This shortcoming is especially evident in the Mekong Delta region, where 12 provinces and one municipality share an area of only about 40,000 square kilometers. Meanwhile, many of the Mekong Delta's development challenges such as climate change and water resources are transboundary. Most of the existing fiscal decentralization rules (established within the country's nested budget system) have been the same since 1996, and a reduction in the number of provinces and the introduction of regional bodies (for example, a regional coordination council) could be an option, as was done by France and Japan in their recent history.⁷⁸

Box 2.3. More coordination, better development outcomes

Across the globe, countries are struggling to implement technically sound policies or are persisting in implementing inefficient and regressive policies. *The 2017 World Development Report (WDR)* on governance and the law argues that "successful reforms are not just about 'best practice' but require credible commitment and must support coordination and promote cooperation." This argument resonates well with the SCD Update framework on unbundling implementation performance. While commitment is about leaders creating an environment conducive to change, and cooperation is about inducing voluntary compliance, coordination is about changing expectations across institutions and individuals. With coordination, it is critical that actors' incentives are aligned, and that their actions are complemented with what others will expectedly do. And in the presence of strategic complementarities, coordinated actions will lead to better outcomes for all, be they in solving market failures in investment decisions and expectations of market participants, or in promoting innovation, adoption of technology, or finance.

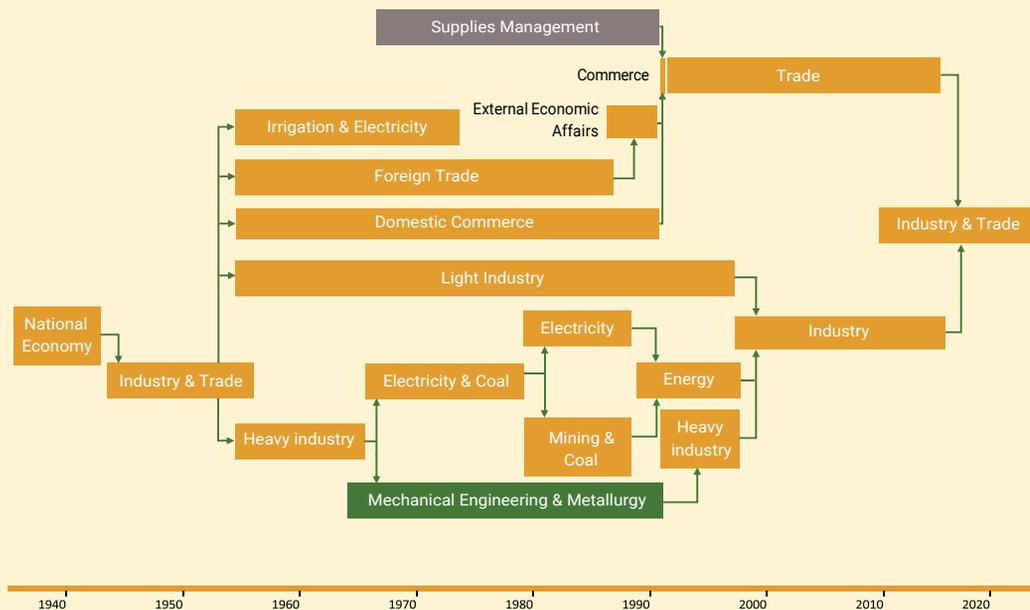
Another global report in 2018 on "*Improving Public Sector Performance through Innovation and Inter-Agency Coordination*" also highlights the critical importance of intergovernmental coordination in achieving development outcomes. As the responsibilities of government have grown in volume and complexity, policy and program coordination has become ever more challenging, and the stakes have never been higher. Enhancing coordination will depend not only on the adopted formal institutional mechanisms, but also on their interplay with the broader institutional environment and with other processes that influence coordination. Based on the case studies documented in the report, interagency coordination works best when there is strong leadership—as it enhances coordination—and there is an established link between the cross-institutional objectives and the resources allocated to them. In contrast, when there are overlapping functions and blurred accountability, interagency coordination tends to fail and, hence, development outcomes are at risk of not being achieved.

Source: World Bank 2017; World Bank 2018d.

⁷⁸ For a description of these two experiences, see OECD (2020).

Box 2.4. Viet Nam – Ministry of Industry and Trade

The organization of the Ministry of Industry and Trade has evolved continuously in the past 35 years to keep pace with the country's transition to a market economy and with aligning the institutional framework on the development priority to integrate global markets and liberalize trade.



Box 2.5. The Netherlands – Aligning institutions with the climate priority

In 2017, the Dutch Ministry of Economic Affairs took on several of the environmental policy portfolios from the Ministry of Infrastructure and the Environment and was renamed the Ministry of Economic Affairs and Climate Policy.

The ministry promotes the Netherlands as a country of enterprise, with a strong international competitive position and an eye for sustainability. It is committed to creating an excellent entrepreneurial business climate by creating the right conditions and giving entrepreneurs room to innovate and grow, paying attention to nature and the living environment, and encouraging cooperation between research institutes and businesses. That is how they plan to enhance the country's leading positions in agriculture, industry, services, and energy, and to invest in a powerful, sustainable country.

Source: <https://www.government.nl/ministries/ministry-of-economic-affairs-and-climate-policy>.

Box 2.6. International experience of integrating social delivery systems across several institutions

Globally, there is a growing emphasis on moving toward harmonized or integrated delivery systems that serve multiple programs. There are substantial efficiency, transparency, and client-orientation benefits of moving toward harmonized/integrated systems, though the challenges can also be considerable.

However, integration does not necessarily mean a single institution or system; it is often a matter of degree and reflects the ability of institutions to coexist and of their components to exchange information and interact efficiently. The most basic option to create a single centralized system is to manually merge program databases, but this has limited capacity for analysis and none for coordinated implementation. A more robust method is to develop a new application and database, with a common data model and data collection mechanism. This form of system integration can take the form of a program-centered system gradually expanding to serve other programs or a new centralized system being developed with the stated purpose of serving multiple programs. Indonesia, Pakistan, and the Philippines have all followed this approach.

Information systems that serve multiple programs provide the basis for integrating delivery systems. Though these multi-program information systems evolve from different starting points and follow different trajectories, successful systems are characterized by continuous investment in systems and information security, such as in Brazil, Chile, and the Philippines.

Another tool for integration is through common citizen interfaces at the local level (ideally, but not necessarily, supported by integrated information systems). These include mobile teams, social workers, local offices, social service centers, one-stop shops or citizen service centers, and online service portals, all serving multiple programs. For example, Brazil and the Philippines use mobile teams for outreach, intake, and registration. Chile takes a more comprehensive approach, involving trained social workers who help extremely poor families achieve minimum conditions for a better quality of life.

Integration requires interinstitutional coordination (vertical and horizontal), which can take many forms depending on the specific country context. Along with interinstitutional coordination, however, the above tools are also needed to put integration into practice either via the front-end systems for citizen interface or the back-end tools of information systems.

The experience of these countries provides the following learning for Viet Nam. Integration needs to be done selectively. Not all benefits and services serve the same client group or lend themselves to bundling, and not all business processes can or should be integrated. In particular, it is advisable to go step by step, starting slowly with a few key programs and processes and then scaling up. It is crucial to invest in quality. Bad quality in one system or program will spread to the integrated system. Integration requires strategic vision, planning, human and financial resources, institutional coordination within and across sectors and institutions, and political will.

Source: World Bank 2018c.

2.3.2. Streamlined administrative processes and procedures to improve government effectiveness

Link with determinants

Streamlined administrative processes and procedures are imperative for the good functioning of public administration and influence the determinants of capacity and motivation. They are also a key element for effective coordination among government agencies and relationships between the government and private stakeholders. There are multiple and different channels through which administrative steps influence government’s effectiveness, but one would be the acceleration of decision and approval processes that enable administrative units to respond more effectively and efficiently to emerging challenges and spend more time on creative tasks. Effectiveness and efficiency are also enhanced when those processes are not excessively centralized, as civil servants are empowered and made accountable, hence providing them with incentives to act promptly and take risks with new initiatives. Complex procedures in the business environment can hinder healthy relationships between the authorities and the private sector, and thereby negatively influence the decisions of private investors, especially those who do not have the financial resources to process them. Not only do streamlined procedures reduce transaction costs and delays, but they also diminish the opportunities for bargaining and corruption, contributing to improved transparency.

Current status of six priorities

<p>Priority #1: <i>Readjusting to deglobalization by focusing on higher value addition of exports and increased trade in services.</i></p>	<p>Steps and procedures are generally complex and time-consuming, as reflected in the annual PCI surveys. The government has, however, developed three simplified channels that have proved to be useful: (i) special regimes for strategic investors, including those established in export and industrial parks; (ii) delegation of decision processes to provinces (notably for foreign investment); and (iii) a single window for customs procedures.</p>
<p>Priority #2: <i>Accelerating digitalization of the economy.</i></p>	<p>Since the establishment of the national public service portal in 2019, over 2,700 administrative procedures have been made available online, thereby significantly reducing processing time and costs.^a In Ho Chi Minh City, the electronic disclosure of land zoning plans has been accessed by citizens over 8 million times in three years (on both smartphone applications and the website). Concurrently, the time to start a business in the Ho Chi Minh City was reduced from 22 days to 17 thanks to the consolidation of procedures that are now available online. The recent launch of the first national citizen ID system, following an expedited issuance of 50 million IDs in six months, will provide a connection/link to the social insurance system to facilitate pension, health, and other social services.</p>

Priority #3:

Moving away from “growth at any cost” to “building a green and sustainable economy.”

There are multiple, overlapping administrative requirements, with long delays and potential inconsistencies, in the areas of environment and natural resources management. As an illustration, on waste management, an operator will need to deal directly with six ministries at the central level, and with local authorities, including within the same ministry or department, as is the case for the Ministry of Natural Resources and Environment (which includes the Viet Nam Administration of Seas and Islands and the Viet Nam Environment Administration) and the provincial Department of Natural Resources and Environment (which includes an Environmental Protection Agency and the Seas and Islands Agency and other specialized agencies). Notwithstanding improvements achieved in recent years, administrative procedures for undertaking land-related transactions remain excessive and time consuming.

Priority #4:

Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions.

Infrastructure projects face long delays due to complex and centralized approval procedures along the investment cycle. For example, the resources available to implementing agencies or provinces are generally delayed because they require the sequential authorization of the National Assembly, the Prime Minister, MPI, MOF, and Provincial Peoples’ Council and Committees. Another example is the lengthy procedure to prepare an Official Development Assistance (ODA) Project, which requires multiple clearances by local and central agencies, including five times by the Prime Minister and three times by the State President, from the proposal stage to effectiveness (i.e., ready for implementation). This process, which is largely sequential, can take up to two years, sometimes even longer, which can potentially make the design of the project obsolete and create substantial cost overruns.

Priority #5:

Balancing banking sector stability with expansion of financial inclusion and deepening capital markets.

Decision and approval processes have been relatively straightforward due to the central roles played by the SBV and MOF on most monetary- and financial-related procedures and approvals. Procedures applied to foreign investors in the banking sector and in capital markets (i.e., portfolio investors), however, remain complex. This is partially due to the deliberate limitation (barriers) on foreign participation in the domestic financial markets.

Priority #6:

Shifting from piecemeal poverty reduction efforts to a nationwide social protection system.

The division of responsibilities among MARD, MOLISA, and CEMA by geographic areas has contributed to clarifying the approval processes. The decision and approval processes for NTPs are relatively straightforward at the central level but more complex vertically with the provinces and villages due to the lack of clarity in the assignment of responsibilities, lack of a well-established social assistance/protection system, and limited information available to beneficiaries. This multiplicity of implementing agencies implies that existing social protection programs have separate budgeting and delivery mechanisms. For instance, social transfers under Decree 136 (cash transfers to vulnerable groups) and Decision 60 (electricity cash transfer) are delivered through commune social officers, with overall oversight by MOLISA. However, most of the education benefits are not offered as social assistance transfers to families, but indirectly,

as in-kind support through schools, although cash transfers and lunch subsidies are sometimes paid directly to the individual beneficiaries or their families. This fragmentation creates considerable inefficiency from the perspective of both the implementers and beneficiaries.

Note: a. The government estimated annual savings of US\$347 million thanks to the national service portal (<https://en.vietnamplus.vn/services-on-national-public-service-portal-now-number-2700/194060.vnp>).

Possible solutions

The heavy administrative burden found in almost all ministries and agencies at all levels of government is due partly to the heritage of French colonialism and the centrally planned system. It has been further amplified by (i) the proliferation of special regimes (notably in tax administration); (ii) the lack of delegation, as many routine decisions require the approval of the Prime Minister, and/or the National Assembly; (iii) the vagueness of the law and regulations that leave room for interpretation and indecisiveness on the part of risk-averse civil servants; and (iv) the lack of IT tools and technologies that enable electronic processing and information collection and sharing among government agencies. To address this problem, the government in 2016 launched a nation- and province-wide effort to rationalize procedures, which has led to some progress, as approximately 1,000 business licenses and two-thirds of specialized inspections of goods were eliminated by the end of 2020, according to the authorities.⁷⁹

To encourage this rationalization process, the authorities have used benchmarking as a tool to monitor and compare progress over time. For example, the Provincial Competitive Index (PCI) and the Public Administration Performance Index (PAPI) have been used by the government to create a sense of competition across provinces. Yet, all these initiatives have led to only modest gains, since PCIs and the PAPIs have stagnated in many provinces in the last few years, even though there are significant variations across services and procedures.⁸⁰ Since 2019, the greater attention to the digitalization of administrative procedures has contributed to reducing the transaction costs associated to many existing procedures.

All these efforts of rationalization, benchmarking, and digitalization need to be pursued and even intensified, but it is possible that they might not be sufficient. Economic theory and empirical evidence have demonstrated that there is a need to do more than cutting or putting procedures online to reduce the administrative burden. Indeed, such efforts may be resisted by bureaucrats or vested interests that may lose power when processes are streamlined. For example, Malesky (2007) has shown that the streamlining of business registration procedures for foreign investors in Viet Nam was initially resisted by civil servants in provinces that were losing opportunities for corruption. It was also resisted by some local businesses, as the reduction of barriers to entry would bring them more competition.⁸¹ Those political economy challenges are

⁷⁹ <https://english.thesaigontimes.vn/78739/gov%E2%80%99t-launches-programme-on-cutting-business-conditions.html>.

⁸⁰ For PCI (<https://pcivietnam.vn/en>) and PAPI (<https://papi.org.vn/eng/>).

⁸¹ Malesky 2007.

not unique to Viet Nam, and they have generally been addressed by anchoring administrative reforms on a strong political will at the highest level of government. This was done with great success by Korea in 1997, when the establishment of the Regulatory Reform Committee under the authority of the president provided more legitimacy and visibility to the process, as well as better coordination (see box 2.7).

Another option to further incentivize administrative reforms has been to provide civil servants or administrative units with appropriate financial awards or key performance indicators (KPIs). As described in box 2.8, Serbia used financial awards to reduce court backlogs. Other countries (for example, Brazil, Tanzania) have used performance indicators to allocate transfers from the central to subnational governments, notably in the health sector. In mid-2020, amidst the Covid-19 crisis, Viet Nam's Prime Minister threatened to reallocate the budget from provinces that were not implementing their investment plans fast enough to the best performers. This warning contributed to the subsequent increase in the execution of investment expenditures in all provinces (up by 20 percent between 2019 and 2020).

Box 2.7. Republic of Korea – Administrative reforms required strong engagement from top leaders to reduce resistance and improve coordination

The Government of Korea in 1997 enacted the Basic Act on Administrative Regulations (BAAR), which provided a sound legal basis for regulatory reform. Based on the BAAR, the government in April 1998 set up the Regulatory Reform Committee (RRC) as a central body for regulatory reform under the authority of the President of Korea. The RRC comprised 20 members of which the majority of 13 nongovernment members consisted of university professors, certified public accountants, lawyers, economic researchers, businesspersons, and nongovernmental organization representatives of consumers and the environment. The seven government members comprised the Prime Minister as cochair and six ministers.

The RRC has played a key role in the reform process, meeting biweekly and sometimes weekly if there were heavy workloads. The RRC has exercised substantial power in reviewing ministry reform plans and reducing regulations. Decisions made by the RRC have been decisive because the President has endorsed them. The Prime Minister and ministers directly participated in the decision-making process and undertook responsibility for implementation.

The stock of regulations was audited and drastically reduced via the Comprehensive Regulatory Improvement Plan in 1998. The RRC set the goal for ministries of cutting existing regulations by half. The RRC took initiatives on reforming complicated and long-standing regulations, which were usually concerned with multiple parties and composed of packaged regulations. For this, the RRC selected the regulatory reforms that it wanted to prioritize on a yearly basis, setting targets and allocating responsibilities among implementing agencies.

Source: Choi 2001.

Box 2.8. Serbia – Reducing court backlogs by using financial rewards

Confronted with large delays and backlogs across the judicial system, Serbia's Supreme Court of Cassation, the country's highest court, decided to introduce a rewards system to encourage individual courts across the country to improve their performance. The program, which began in 2016, gave prizes to the courts that made the largest improvements in backlog reduction and cases resolved per judge.

Awards would be decided based on data from case management systems, and to make the process fully transparent, the scores and results were available online. Prize money was sufficiently attractive to motivate behavioral change, but not so lucrative as to generate perverse incentives.

As a result, the court backlogs in Serbia declined by more than 20 percent, indicating the program may be having a positive impact.

The Serbia case shows the importance of identifying broader country incentives and aligning them with a tailor-made justice intervention to solve a persistent problem. While being responsive to citizens' demands for faster justice, it centered on offering judges some positive competition and recognition for improving the efficiency of their work with increased management authority. Allowing presiding judges to organize their courts, assign workloads, and implement mechanisms to reduce case backlogs validated their knowledge and capacities and placed them in the forefront of the reform. Transparency, public communication, and outreach were also important complements that helped ensure buy-in, generate peer pressure, and improve public perception, as well as recognition of those courts that improved their performance. These performance incentives were key to the success of the reform.

Source: World Bank 2018d.

2.3.3. Use market-based instruments to incentivize/motivate public and private stakeholders

Link with determinants

There are three first-order principles for a well-functioning market economy: (i) homogeneous information should be available to all participants; (ii) there should be fair competition to allow entry and exit in the market; and (iii) there should be pricing mechanisms to achieve equilibrium between supply and demand. The application of these principles can largely influence the quality of implementation, especially through their impact on planning, accountability, and transparency. For example, good and timely information is a central element for the optimal allocation of resources and for monitoring whether these resources have been used for what they were intended. Competition encourages innovation and incentivizes operators and government agents to improve their performance over time. Finally, in a market economy, prices are the main signal used by operators to adjust their behavior. In reality, the challenge for the government is to find the right balance between its interventions to correct possible "market failures" that prevent the application of these three principles and "government failures" that may arise from its interventions.⁸²

⁸² For a fascinating discussion on this challenge, see Acemoglu and Verdier (2000, 194–211).

Current status of six priorities

Priority #1:
Readjusting to deglobalization by focusing on higher value addition of exports and increased trade in services.

The successful implementation of trade liberalization policies was based on open access to information on external markets, reduced barriers to entry to facilitate external competition, and reduced tariffs to change relative prices between tradable and non-tradable goods. The use of multilateral and regional trade partnerships has been a powerful channel to introduce these three principles.

Priority #2:
Accelerating digitalization of the economy.

The competition on the mobile broadband market, with at the least three major operators, has led to the rapid development of the IT sector, including good connective infrastructure and cheap access. In contrast, the limited competition in the fixed broadband market has slowed its expansion. The (mis)use of import tariff incentives for mobile phone producers (only available for exporters) has led to high prices on the local market.

Priority #3:
Moving away from “growth at any cost” to “building a green and sustainable economy.”

The prices of many non-renewable resources and services (water, energy, waste, etc.) have been set below their supply costs to encourage access to the majority of the population. While such an approach was justified in the past, it has to be adapted now that most households have access to these services in Viet Nam. The main objective has now become to generate more responsible and sustainable behaviors, and to increase participation of the private sector, which can be achieved through higher prices/tariffs (e.g., for electricity, water use, wastewater, and solid waste).

Priority #4:
Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions.

The weak delivery of infrastructure can be explained by asymmetric levels of information on the execution of projects across the government. The formal and informal barriers to entry in sectors dominated by SOEs have reduced competition, while non-alignment of risk sharing mechanisms has discouraged private investors to participate in infrastructure development.

Priority #5:
Balancing banking sector stability with expansion of financial inclusion and deepening capital markets.

The SBV has been unevenly using the principles of sharing information, promoting competition, and prices to manage the credit market. While information is collected, it has been shared imperfectly and, sometimes, very late, such as, for example, the level of accumulated foreign reserves. Prices (notably interest rates), are used as an instrument to influence the financial market, but direct interventions on the amount and allocation of credit, and even on interest rates, are frequent and not always transparent, resulting in a weak price-signaling effect of the monetary policies. The resolution process of problematic banks is unclear, potentially creating a moral hazard and market distortion. High barriers to entry for foreign participants are impeding not only competition, but also innovation and efficiency. In addition, a high degree of cross-ownership between banks and with enterprises, as well as complex shareholding structures, raise risks of conflicts of interest and connected-party lending.

Priority #6:

Shifting from piecemeal poverty reduction efforts to a nationwide social protection system.

The implementation of National Targeted Programs (NTPs) has been enhanced by the use of a performance indicator that links the budget allocation of NTPs to provinces and villages to the achievement of a minimum set of results. Furthermore, open data has been one of the key factors motivating public administration and other stakeholders in the area of reducing extreme poverty through NTPs. Regarding other social protection programs, data access and reliability are questionable, as there are differences between budgeted expenditure by the MOF and data on actual spending and number of beneficiaries by MOLISA. There is very limited detailed disaggregation within the published budgeted spending available. Current benefit payments of various social protection programs are mainly handled by a single service provider (Viet Nam Post [VNPOST]) without open competition for participation by other potential payment service providers, which might help improve service quality and affordability. Similarly, private providers of elderly care services do not receive equal treatment as extended to private operators in the education and training, health, and environmental sectors.^a

Note: a. For more detailed discussion on this challenge, see World Bank 2020i., and World Bank 2021i.

Possible solutions

When Viet Nam has applied the three basic principles of a market economy discussed above, its vision, capacity, and motivation to implement the country's development priorities have improved significantly. This has been verified by the successful trade liberalization that was based on these three principles. The weak implementation of the environmental/climate change priority is to a large extent explained by the limited access to information and the misalignment of prices to the country's priorities, with the notable exception of solar energy (box 2.9). More broadly, two of the major historical successes of the Vietnamese economy have been obtained through the smart use of pricing mechanisms. First, the government in the late 1980s created a domestic market and liberalized prices to incentivize farmers to increase their agricultural production, transforming Viet Nam from a food-insecure country into one of the world's major exporters of rice. Second, the achievement of almost universal primary education and primary healthcare were to a large extent the result of subsidizing those activities, incentivizing families to bring their children to schools and health centers.

These examples illustrate that Vietnamese policymakers know how to apply these market-based mechanisms. The question is why those market instruments are not used more widely in all priorities. The response is certainly embedded in political economy factors, as the introduction of such instruments modify the prevailing equilibrium, creating winners and losers. For example, the introduction of more competition in the fixed broadband markets will be beneficial to customers but not necessarily to the operators that dominate this market. Similarly, the introduction of a higher tax on real property will help finance urban infrastructure for all citizens, but will penalize homeowners, while taxing interest income would reduce distortion to saving and investment decisions but will hurt the banking business and individual savers.

Successful countries are those that have been able to reduce the potential resistance from losers, while optimizing the gains for winners by:

- Combining various pricing instruments, as was done by Sweden and Germany when they decided to introduce a carbon taxes together with the allocation of financial assistance to the poorest customers (box 2.10).
- Creating coalitions of winners by taking advantage of events that modify the existing equilibrium, as done by Viet Nam when the Covid-19 pandemic created the conditions for launching the country's mobile payment system in March 2021, since the system has become a necessity to transfer money to affected people.
- Designing information campaigns to explain complementarities to justify, for example, increases in prices to improve the quality and the sustainability of services. In 2017, Viet Nam was able to launch an effective communication plan when raising the electricity tariff by 6 percent, and could consider replicating this success for wastewater, solid waste, and many other essential public services.

Box 2.9. Viet Nam – Leveraging market-based instruments for developing (solar) renewable energy

Viet Nam is making a concerted effort to reverse its reliance on coal-based energy and to embark on a low-carbon pathway for the energy sector. As part of this effort, the government has incentivized private investments in solar renewable energy through a feed-in-tariff (FIT) policy. One obstacle was that each developer had to individually negotiate the terms of the agreement with the public operator (Viet Nam Electricity [EVN]) under the ongoing pricing regime (FIT). The adoption of common commercial standards based on prevailing market conditions in August 2020 removed this barrier, increasing transparency and reducing delays in decision making. As a result, private investments in solar power projects have accelerated since August 2020, making Viet Nam one of the fastest-growing markets in the world (more solar power capacity was added than in all of the Association of Southeast Asian Nation [ASEAN] countries combined during 2020).

While still in the early stages of expansion, the solar industry requires close attention and continued policy reforms to support the fast-evolving market dynamics. This would include improving the overall enabling environment to attract local and international investors. It will be necessary to streamline the procedures for solar developers and improve the risk allocation structures in commercial agreements. As the sector grows and has the objective of scaling to 36 gigawatts of renewable energy capacity by 2030, the government also aims to phase out the current FIT regime (which has been considered overgenerous) and transition to a competitive selection of independent power producers to improve transparency and reduce the cost of generation.

Box 2.10. Germany/Sweden – Aligning prices right for carbon use

Carbon pricing is generally an effective tool for meeting domestic emission mitigation commitments. Because these taxes increase the prices of fossil fuels, electricity, and general consumer products, they promote switching to lower-carbon fuels in power generation, conserving on energy use, and shifting to cleaner vehicles, among other things. For greener growth, it will be important to align prices with the social cost of carbon emissions, air pollution, and other negative externalities. Carbon taxes help internalize the societal costs of greenhouse gas emissions while leveling the playing field between polluters and nonpolluters. Carbon taxes also provide a clear incentive for redirecting energy investment toward low-carbon technologies like renewable power plants. Another important argument for carbon taxes is that they could raise a significant amount of revenue, typically 1 to 2 percent of gross domestic product. Firms with low-carbon technologies benefit from past and current mitigation investments, while high emitters are incentivized to efficiently reduce emissions to avoid carbon payments.

While few will disagree with the effectiveness of using pricing environmental policies to change behavior, raising prices or taxes can be politically and socially challenging in the short term. There have sometimes been strong negative reactions by consumers. For that reason, such policies should be introduced gradually, with smart information campaigns explaining the long-term benefits. The government can also consider reducing other taxes and thus alleviate the overall fiscal burden on firms and households.

The use of targeted subsidies for the most vulnerable groups, partly cross-subsidized by the revenues of environmental taxes paid by more affluent groups, is also an option that has been implemented by Germany and Sweden to reduce energy prices for certain households.

2.3.4. Enforce rules and regulations to enhance motivation, trust, and fairness

Link with determinants

While incentives are a powerful instrument to change behaviors, enforcing regulations is a key tool for motivation, and thus can yield a better implementation performance. Competition and market pricing are more effective when complemented by smart regulations, as sometimes prices alone do not have the desired effect. Regulations can be soft by focusing on sharing information as a channel to modify behavior and encourage negotiations. Labels with information on the energy efficiency of appliances, cars, buildings, and organic food are common in OECD countries, and they help shape consumer behavior for more responsible consumption. This, in turn, generates demand for factories to comply with socially and environmentally responsible production regulations. There can be harder targets or ceilings on, for example, the quality of water or gasoline or goods that can be purchased with public money. They can also control or prohibit the use of products that are detrimental to the environment or people (through, for example, permits for the use of pesticides and chemicals). They can be used to control the behavior of government agents, for example, to avoid conflicts of interests. Ultimately, it is important to find the right balance between carrots and sticks and, when sticks are used, to strengthen monitoring and enforcement capacities.

Current status of six priorities

Priority #1:

Readjusting to deglobalization by focusing on higher value addition of exports and increased trade in services.

There is little publicly available information on the compliance by exporters and FDI companies with environmental, labor, and social regulations. Customs inspections still rely on ex-ante controls even if a shift toward post-controls has been initiated in recent years, while the results of controls and sanctions are not systematically reported.

Priority #2:

Accelerating digitalization of the economy

If Viet Nam provides a relatively safe space in terms of security, customers appear to receive relatively little protection against the potential abuse of dominant players. Regulations are lagging behind the rapid development of this sector, and the promulgation of privacy protection regulations are forthcoming. There is also a need for a new competition policy and stronger protective measures for both sellers and consumers in e-commerce platforms. Newly issued policies, such as those in relation to data sharing within and outside the government, should be monitored, enforced, and updated to keep pace with the fast-evolving digital technologies. This will not only help strengthen data-driven decision making in the government but will also encourage data champions (i.e., people who spearhead the data culture within an organization) and agencies to open their data for new data-driven business services, which are strongly associated with the digital economy.

Priority #3:

Moving away from “growth at any cost” to “building a green and sustainable economy.”

While many laws and regulations on the environment and the management of natural resources have been adopted by Viet Nam over the past 15 years, enforcement has been extremely weak. An illustration is the management of hazardous waste, which is governed by law but which is not applied in practice. Also, most coastal cities have zoning regulations to protect areas prone to climate disasters, but compliance with the zoning regulations has been uneven. Another example of uneven compliance involves the management of land resources. Even though the Land Law requires local authorities to publicly disclose land use and zoning plans to minimize the uncertainty of the land market, only a few provinces make this information public.^a Enforcement of regulations on sand mining has also been a nationwide problem.^b

Priority #4:

Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions.

Enforcement has been uneven in the management of public investment despite a comprehensive legal and regulatory environment. Four areas face major compliance challenges. First, the alignment between the Medium-Term Investment Plan and the Medium-Term Expenditure Framework (MTEF) is very weak, while the MTEF lacks realism, with highly indicative outer year allocations.^c Second, a recent MPI report on the implementation of public procurement revealed that two-thirds of the nationwide bids in 2019 were single-sourced, despite the competitive bidding requirements of the Procurement Law.^d Third, corruption remains problematic (as reported by both Worldwide Governance Indicators and PAPIs), even if some progress was realized thanks to the national

	<p>anticorruption campaign.^e Fourth, information disclosure by SOEs still falls short of international good practices in terms of the timeliness and standards of disclosure.</p>
<p>Priority #5: <i>Balancing banking sector stability with expansion of financial inclusion and deepening capital markets.</i></p>	<p>While the financial sector typically has a strong regulatory compliance, enforcement measures are usually not severe enough to encourage market participants to voluntarily establish sufficiently robust mechanisms to mitigate risks of misconduct or wrongdoing. Breach of requirements is often not met with clear enforcement actions, either due to limited enforcement power (SBV, State Securities Commission) or policy trade-offs. For example, the Basel II principles on bank capitalization have not yet been fully enforced, partly due to a potentially costly recapitalization process (including for state-owned commercial banks). In capital markets, only about 10 percent of the boards of listed companies in Viet Nam meet the independence requirement set by the State Securities Commission.</p>
<p>Priority #6: <i>Shifting from piecemeal poverty reduction efforts to a nationwide social protection system.</i></p>	<p>In the MARD-led NTP-Sustainable Poverty Reduction Program, there is a culture of tracking down the NTP investment projects and their impacts on ethnic minorities, including through periodic surveys. This provides a sense of whether they have been implemented according to existing rules and regulations. In contrast, the enforcement of the social security system, while mandatory, has been extremely weak even for employees of registered businesses. Labor and health inspections of the workplace have been uneven depending on sector, size, and locations.</p>

Note: a. World Bank 2014. b. <http://baochinhphu.vn/Xa-hoi/Siet-quan-ly-khai-thac-cat-soi-va-bao-ve-long-bo-bai-song/430523.vgp>. c. World Bank 2018b. d. <http://www.mpi.gov.vn/Pages/tinbai.aspx?idTin=46829&idcm=131>. e. In 2019, in the sub-indicator of control of corruption, Viet Nam scored 34.13 compared to 48.33 for the group of upper-income economies and 57.81 for the East Asia region.

Possible solutions

The government has been especially good at making citizens follow the rules during times of emergency, especially when referring to a common enemy or the national welfare. This has been the case, for example, during the Covid-19 pandemic, when citizens have adhered to mobility restrictions and tracing/testing/quarantine measures. However, enforcement has not been systematic in non-crisis times, as described in table 2.5. Weak enforcement can be rooted in inadequate or incomplete rules and regulations (for example, for the digital sector), and in the lack of monitoring and reporting, and of sanctions when the rules are not properly followed.

Proper enforcement should therefore rely on an uncorrupted monitoring and inspection system, accompanied by strong and independent regulators, and an effective justice system to enforce property rights and consumer protection against potential abuses. The new competition law,

which became effective on July 1, 2019, has been an important step but has been weakly enforced.⁸³ According to a 2021 World Bank/International Finance Corporation report,⁸⁴ the application of merger controls to SOEs has reportedly been uneven, the competition authority may not have even been notified of some major mergers between SOEs, and enforcement of the competition law is undertaken by the same ministry to which most of the SOEs are mapped. Setting priorities for enforcement targets, advocacy, and outreach to the private sector, and the transparent and well-publicized resolution of cases is important for effective enforcement. The 2018 Competition Law requires that decisions of the National Competition Committee (NCC) be publicly announced, which can foster even-handedness and provide firms with a greater understanding of what is viewed as anticompetitive behavior. The NCC's independence is critical to limit political interference and gain broad acceptance of its decisions. Thus, the NCC's establishment under the line ministry with responsibility for many SOEs raises concerns about whether it is capable of making unbiased decisions with respect to SOEs. Moreover, members of the NCC are both appointed and removed by the Prime Minister at the request of the Minister of Industry and Trade, so that political pressure could potentially affect the decisions of the NCC.

Concurrently, a well-functioning inspection system should be the anchor of a good enforcement framework.⁸⁵ The OECD has developed a series of guiding principles that could be used as a starting point by the Vietnamese authorities to evaluate the effectiveness of their existing system (box 2.11). Because a major challenge for the authorities will be to develop and apply an inspection system that delivers the best possible outcomes by achieving the highest levels of compliance, while keeping regulatory costs and administrative burdens as low as possible, a promising resource for efficient enforcement is to use new IT technologies and data platforms, as illustrated in box 2.12.

⁸³ The law also has several shortcomings, including: (a) The notification requirement for mergers is still partially based on the market share of the combined firms, which creates regulatory unpredictability, because the definition of relevant markets can vary depending on technical assumptions. (b) Participation in the new leniency program designed to streamline enforcement against cartels is likely to be limited, because cartel members may still be subject to penalties under the penal code. (c) The law allows agencies to provide exemptions for hard-core cartel agreements that should be exempted rarely, if ever. (d) The prohibited acts of dominant firms are defined so broadly that actions benefiting consumers could be penalized.

⁸⁴ World Bank and International Finance Corporation 2021.

⁸⁵ For a discussion on the justice system in Viet Nam see, for example, OECD (2020).

Box 2.11. OECD – 10 principles of good enforcement

1. Evidence based enforcement: (i) Allocate resources and efforts proportionally to potential outcomes; (ii) do not inspect and actively enforce “everything that is regulated”; and (iii) evaluate the risk level posed by different types of regulations and regulated areas.
2. Selectivity: (i) Whenever possible, use “alternatives to enforcement”; (ii) state-driven inspections and enforcement should only be used when these alternatives are demonstrably absent or insufficient; and (iii) in any case, stakeholders need to be involved—compliance and outcomes cannot be obtained purely “by force.”
3. Risk focus and proportionality: (i) Frequency of inspections should be proportionate to risk level; (ii) severity of sanctions and burden of enforcement should be proportionate to actual hazard/damage.
4. Responsive Regulation: (i) Enforcement modulated based on behavior of regulated entities; and (ii) “honest mistakes” and one-off violations treated differently from systematic, criminal misconduct.
5. Long-term vision, clear objectives, and stable institutional mechanisms: (i) Official policy, clear objectives for continued improvements in enforcement—long-term perspective; (ii) institutional setup gathering all relevant ministries, institutions, and stakeholders; and (iii) strong policy leadership.
6. Coordination and consolidation of inspection functions: (i) Less duplication and overlaps—reduced costs and burden; (ii) greater coherence, better information flow—more effectiveness; and (iii) core list of inspection/enforcement functions to match rational analysis of types of risks.
7. Transparent governance: (i) Professionalism should be the cornerstone of regulatory enforcement institutions; and (ii) performance management policies.
8. Professionalism and training: (i) Training, management, and incentives need to be aligned with the objectives and principles of “better enforcement”; and (ii) inspectors’ training needs to incorporate risk management, compliance promotion, and a whole set of “competencies” related specifically to enforcement.
9. Information integration: (i) Interconnect databases and systems used by different inspectorates; and (ii) data-sharing and shared planning mean less duplication, more efficiency.
10. Clear and fair process: (i) Framework legislation/regulations to ensure that inspections/enforcement process are clear and consistent; and (ii) rights and obligations of all parties and stakeholders to be clarified and abuses prevented.

Source: OECD 2014.

Box 2.12. United States – using new technologies to upgrade inspections

Using machine learning to fight fraud:

The U.S. Securities and Exchange Commission (SEC) uses machine learning to identify patterns in the text of SEC filings. These patterns can be compared to past examination outcomes to find risks in investment manager filings. SEC staff say that these techniques are considered five times more effective than random selections at finding language that merits a referral to enforcement. For investment advisors, the SEC uses machine-learning algorithms to predict the presence of idiosyncratic risks for each advisor.

The crowd helps Boston augment food safety

Historically, the city of Boston's food safety inspection process relied on random selections of restaurants for further scrutiny. The city thought there was a better way to do targeting. Its data portal hosts public data on restaurant food safety inspections as well as many other aspects of city life. To better target restaurants in need of regulatory attention, the city partnered with Yelp and the Harvard Business School to sponsor an open competition to develop an algorithm that could predict health code violations. More than 700 contestants participated using restaurant inspection data and years of Yelp reviews. While participants analyzed the reviews, looking for common words and phrases, Harvard economists evaluated the submissions against the city's actual inspection reports. The winning algorithm could make inspectors 30 to 50 percent more productive in finding violations.

Source: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/public-sector/us-fed-future-of-regulation.pdf>.

2.3.5. Participation to secure greater accountability and transparency

Link with determinants

If a country's political, economic, and social system were a human body, information would be the nervous system. Just as the nervous system tells the brain whether the body is hungry or thirsty and in need of attention, transparent flows of information are a necessary but not sufficient condition for an efficient participatory process. Once the information is collected and shared, it should be analyzed by the stakeholders so they can provide feedback to policymakers (or the brain). Such a mechanism helps ensure that the voice of various stakeholders can be heard, leading to a better allocation of resources and improved accountability over time. The development of participatory processes is generally the outcome of the demands of society and of active policies adopted by the government.

Current status of six priorities

Priority #1:

Readjusting to deglobalization by focusing on higher value addition of exports and increased trade in services.

Participatory mechanisms have been extensively used through open data and consultations with key stakeholders, including business associations. Regional and multilateral agreements have been efficiently used to upgrade and broaden the dialogue with diverse stakeholders, encouraging further reforms. There has been relatively little interaction between domestic and foreign-owned exporters and local suppliers.

Priority #2:

Accelerating digitalization of the economy.

The National Public Service Portal, created in December 2019, has provided access to over 2,700 administrative procedures online, including the possibility for users to provide feedback. The government data platform, launched in August 2020, has also paved the way for more data interoperability within government agencies, and for more open data in the coming years. However, there has been limited consultation between the public and private sectors in the areas of digital skills and innovative capacity, as support programs remain limited and fragmented. Customers and users of social media or e-commerce platforms have limited options to complain about interference or abuse by operators.

Priority #3:

Moving away from “growth at any cost” to “building a green and sustainable economy.”

There are several gaps in the government’s actions, as the information base for assessing the environmental costs and causes is highly deficient. At the more operational level, specific information systems are missing to support sector planning and policymaking, and those that exist are rarely shared with a broad range of stakeholders. Data on key parameters for greening growth are not shared, such as the quality of water and air pollution in major urban centers.^a These existing systems for data collection, data management, data visualization, and data sharing are neither transparent nor cost-effective. While environmental activism is not prohibited, it is not really encouraged as a way to raise public awareness and influence behavioral changes by all stakeholders, i.e., the people, the private sector, and the authorities. The optimal and perhaps most straightforward way for Viet Nam to communicate the urgency of the environmental and climate challenges would be to reconsider using gross domestic product as its metric of economic performance or to broaden it to include natural capital. Traditional indicators, by failing to account for environmental damage and degradation, provide an excessively rosy picture of the economy.

PRIORITY #4:

Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions.

Efforts have been made to improve transparency and participatory mechanisms in fiscal policy management. For example, the first “budget for citizens” was published in 2019, and the fiscal transparency portal was open in November 2020. Yet fiscal data in general, and for public investment, in particular, are highly aggregated and without detailed breakdowns and, when shared, are shared with significant delays. At the local level, there are consultation processes with citizens that enable them to influence the selection of projects. The supervising roles of the National Assembly (at the central level) and Peoples’ Councils (at the local level) have been strengthened in recent years.

Priority #5:
Balancing banking sector stability with expansion of financial inclusion and deepening capital markets.

While consultation mechanisms with the operators in the financial system are used for the design of strategies and roadmaps, there is little room for participation in the management or evaluation of policies by stakeholders. Data sharing is limited, and audits are not broadly disclosed.

Priority #6:
Shifting from piecemeal poverty reduction efforts to a nationwide social protection system.

In the MARD-led NTP-Sustainable Poverty Reduction Program, investments in NTPs are mostly aligned with community needs, but community engagement in proposing and supervising projects has not been as high as expected in 2018. While 42 percent of poor households participated in village meetings to identify priority needs, only 26 percent participated in meetings to propose specific investment projects, and even fewer were engaged in discussions of implementation details. The limited voice of the poor in meetings further compounds the weakness in community engagement. Data at the national level are shared and available, but granular commune- or project-level spending data are not readily available, making implementation of nonrandomized impact evaluation designs more challenging. For social protection systems, the lack of an integrated monitoring information system (MIS), and of administrative and survey data, prevents government from making timely and informed decisions, and citizens from providing oversight on performance of service delivery.

Note: a. The parameters should include measurements related to pollution, asset use, and emissions of carbon dioxide or other greenhouse gases. Data on stocks and flows of natural assets, their economic value, and the potential impact of climate change on these assets are also important.

Possible solutions

The government has applied participatory mechanisms unevenly or selectively across priorities, most notably in the use of data to monitor and share progress with stakeholders over time. Building on the methodology proposed in this report, our recommendation would therefore be to monitor the implementation performance over time. This could be done by comparing the realizations in selected outcome indicators with targets. Sharing these results with stakeholders will improve accountability and help create a sense of common ownership that will strengthen the reform process. Such a process could be integrated into the monitoring of the SEDS, which is done in a participative way by the government on an annual basis, complementing the description of adopted resolutions, plans, laws, decrees, and regulations.

The next recommendation focuses on data, which have not yet been effectively used to address many of the priorities, perhaps with the exception of trade and poverty. The government could adopt a three-step approach.

The first step should be to ensure the quality of the data. The shortcomings of data production in Viet Nam are to some extent captured in the Statistical Capacity Index measured by the World Bank Group (see box 2.13). There are well-known deficiencies in national accounts and

in other information collected by the government. This is illustrated in box 2.14 for the priority on the environment, where the concept of gross domestic product could be extended to natural resources. As stated by former World Bank Chief Economist and Nobel Laureate Joseph Stiglitz: *“Getting the measure right—or at least a lot better—is crucially important, especially in our metrics- and performance-oriented society. If we measure the wrong thing, we will do the wrong thing. If our measures tell us everything is fine when it really isn’t, we will be complacent.”*⁸⁶

The second step would be to consider accelerating the Open Data Initiative, which is to make data freely available online, in machine-readable format, and covered by a legal license that allows anyone to use and reuse it for any purpose, including commercial purposes.⁸⁷ Governments, including the Government of Viet Nam, are collecting and storing large amounts of data, which, if opened to the public as Open Data, would bring significant economic and social benefits.⁸⁸ Evidence has shown that the benefits of Open Data include: (i) direct and indirect benefits to the economy, (ii) improved efficiency and effectiveness of public services, (iii) government transparency and accountability, and (iv) better information sharing and decision making within governments.⁸⁹

The third step would be to take advantage of the e-government initiative that provides further opportunities to collect, standardize, and share more information and data. The digital framework would need to satisfy three conditions, as analyzed in *World Development Report 2021: Data for Better Lives*.⁹⁰ First, it should ensure that adequate connective infrastructure, such as cloud and exchange platforms, is in place for seamless data traffic, as developed by leading digital nations such as Australia, Estonia, Korea, and Singapore. Second, trust in the protection of privacy, consumer protection, and other factors, is an imperative. Third, the value of data and data sharing are recognized and maximized through the removal of existing sector-specific regulatory barriers to data sharing, such as the current restricted access to geospatial data, and environmental or clinical data, which, if shared more publicly, could foster the start of many new business models and solutions.

The good news is that this three step-approach has already been adopted by Viet Nam during the Covid-19 pandemic. To manage the crisis, the authorities have used this combination of data collection, open data, and digital tools (box 2.15). It can be now replicated to all other priorities.

⁸⁶ Stiglitz 2019.

⁸⁷ <http://opendatatoolkit.worldbank.org/docs/world-bank-open-data-support.pdf>.

⁸⁸ Most readers of this report use open data platforms to get information on the weather, the fastest route to avoid traffic, low-cost airfares, or property prices.

⁸⁹ <http://opendatatoolkit.worldbank.org/docs/world-bank-open-data-support.pdf>.

⁹⁰ World Bank 2021b.

Box 2.13. Shortcomings in statistical capacity in Viet Nam

The World Bank Group provides individual country and aggregate country group scores for the overall Statistical Capacity Indicator (SCI) average. The SCI includes three categories (Methodology, Source Data, and Periodicity), and 25 individual indicators.

As reflected in figure B2.13.1, Viet Nam's performance improved significantly between 2010 and 2018, and declined in 2019 and 2020. As of 2020, Viet Nam scored approximately at the same level as the East Asia and Pacific region (excluding high-income economies) and lower than Thailand. The country was performing better than the region in terms of methodologies used for producing main statistics, about average in terms of periodicity, and lower with regard to sources.

While Viet Nam performs fairly well compared to its peers, as measured by the SCI, the country still suffers from two major shortcomings in its statistical practices. The first shortcoming lies in the quality of the data collected, as illustrated by the following three examples:

1. The national account. The GDP growth rates are published before the end of the period and then almost not revised over time. The practice in OECD countries is a lag of at least one month (like in the United States for the quarterly GDP data), with subsequent adjustments. Furthermore, a relatively large share of GDP quarterly growth rates is not explained—for example, almost one-third of the GDP growth in the second quarter of 2021 is due to statistical factors.
2. Balance of payments (BOP): The estimated current account gap is subject to considerable uncertainty owing to measurement issues associated with investment income. Viet Nam's current account balances have fluctuated widely, with downward revisions seen in the range of 0.3 to 3.1 percent of (revised) GDP between 2015–18. The revisions reflect a recalculation of FDI investment income using income tax data (in line with 2019 IMF Technical Assistance) and the 2015 FDI survey, and a commensurate reduction in errors and omissions. Although the IMF Technical Assistance helped reduce measurement errors in investment income, recording of profits of FDI enterprises remains challenging. In 2018–19, the number of new FDI enterprises increased significantly, owing in part to trade diversion. However, these may not be fully captured in the balance of payments, and errors and omissions remain large, leaving room for further downward revision of the current account in 2019.
3. The Viet Nam Household Living Standard Survey (VHLSS)—the main socioeconomic survey—has only 9,000 observations for the expenditure module, so the sample is not representative at the provincial level, which is the main spending administrative unit in Viet Nam. In Indonesia, the sample is representative at the district level, thus enabling proper monitoring and analysis of household expenditure.

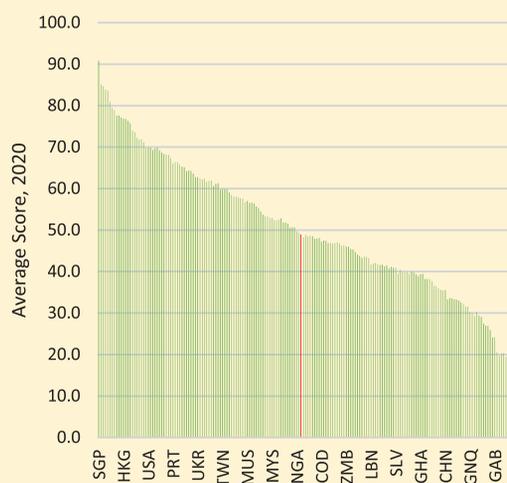
The second shortcoming is about access to data. In 2020, Viet Nam was ranked 91st out of 187 countries (figure B2.13.2). This ranking reflected a mixed performance in terms of coverage and openness. The current Law on Statistics (2015) has reduced the openness on micro data sharing, which is a backward step from the previous legislation approved in 2003. This has resulted in the discontinuation of the micro data portal hosted by the General Statistics Office (GSO). There are several other examples where the data are collected by the authorities but not shared with the public. While the government collected detailed information on the allocation and execution of public expenditures—both at the ministerial and provincial level—the data are shared unevenly or with significant lags. The financial data, despite some progress over time, remains highly limited compared to international practices. As concluded by the IMF in its most recent Article IV review, enhancing access “as well as expanding coverage of real estate markets statistics, corporate bond issuances and other credit exposures would help monitor vulnerabilities and proactively manage financial sector risks. Strengthening inter-agency coordination and data sharing is critical to address data coverage and reporting gaps.”

Figure B2.13.1. Statistical Capacity Index



Source: World Bank 2021; <https://databank.worldbank.org/source/Statistical-capacity-indicators#>.

Figure B2.13.2. Open Data Score



Source: Open Data Watch; <https://odin.opendatawatch.com/>.

Note: CHN = China; COD = Democratic Republic of the Congo; GAB = Gabon; GHA = Ghana; GNQ = Equatorial Guinea; HKG = Hong Kong SAR, China; LBN = Lebanon; MUS = Mauritius; MYS = Malaysia; NGA = Nigeria; PRT = Portugal; SGP = Singapore; SLV = El Salvador; TWN = Taiwan, China; UKR = Ukraine; USA = United States of America; ZMB = Zimbabwe.

Box 2.14. Data systems, such as the System of Economic and Environmental Accounts (SEEA), will help make better decisions regarding the use of natural assets

The SEEA is an extension of the System of National Accounts (SNA), which incorporates natural capital accounting, providing a broader picture of wealth and development progress than standard measures such as GDP. It is readily possible to extend the SNA to an SEEA that includes Natural Capital Accounts (NCA) for fisheries, forest, land, and water, as recently done in several countries.

For example, Australia uses its water accounts to inform suitable policy measures to tackle drought. Costa Rica has energy accounts that provide evidence for choosing efficiency strategies that have the largest impact on people, the economy, and the environment. Botswana reports macroeconomic indicators including on mineral revenues and public finance, which has supported Botswana's efforts to invest its mineral revenues into physical and human capital assets.

Box 2.15. Viet Nam – Open data and smart communication during Covid-19

Vietnamese authorities controlled the Covid-19 outbreak remarkably well. To do so, the authorities took two unusual steps that contributed to the rapid implementation of mobility restrictions and to efficient tracking, tracing, and testing. First, they opened access to data to all citizen by sharing the information collected by the Ministry of Health on not only the number of infections, but also the date, location, and places where the contaminated person went over the previous days. Citizens have access to this information through both conventional and social media sites and through several private and public websites. This step toward transparency helped send the right signals to the population, which accepted the measures and modified their behavior accordingly.

Second, the government launched a comprehensive communication campaign. In line with tradition, the state framed the virus as a common foreign enemy and called on the unity of the population to defeat it, echoing the enduring history of a nation always threatened by foreign invaders. Yet, the authorities have also been highly innovative, using nontraditional methods to incentivize people, such as a song that has been viewed more than 32 million times on YouTube. The authorities continuously updated the citizens by sending over 6 billion mobile phone messages and launching the mobile application "NCOVI." The e-health declaration forms via the government digital platform were made available early in the process.

By being transparent and innovative in communicating with the public, the government was able to gain and maintain trust in its ability to cope with the crisis. It has created a greater sense of accountability and solidarity, which was reinforced by the good results achieved by the measures.

2.3.6. The five institutional reforms should be viewed as a platform

These five institutional reforms should be viewed as a platform for efficient implementation. If each of these reforms contributes to the improvement of the determinants, it is their combination that will really make the difference in terms of implementation performance. The best illustration is the recent experience during the Covid-19 crisis, when the government was able to control the pandemic by applying the above platform:

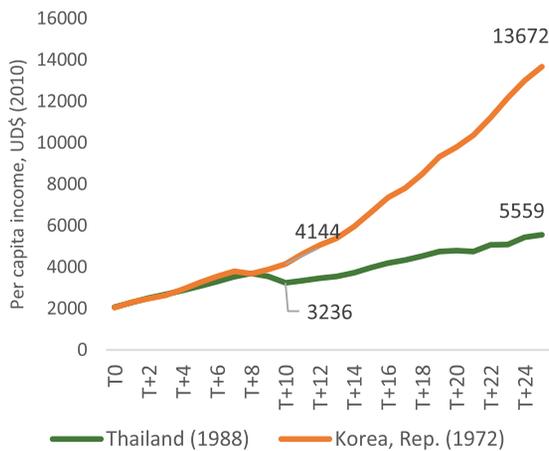
- The institutional anchor was constituted by the special task force led by the Deputy Prime Minister with the participation of key ministries, creating a sense of hierarchy and leadership. The task force is empowered with decision-making authorities, thereby enhancing its effectiveness.
- The administrative processes and procedures were streamlined thanks to the clear allocation of responsibilities on the tracing/testing/costing and reporting mechanisms among key stakeholders, including with provincial governments, reducing delays. Special fast-track procedures have been applied to speed up procurement of medical equipment and supplies.
- A market-based approach, by creating a sense of competition to achieve the best outcome (a zero-infection goal), through data and information collection and sharing mechanisms.
- Effective enforcement was achieved by the combination of the idea of a national common emergency, close surveillance of rules (for example, quarantine), and application of heavy sanctions against trespassers.
- Participatory processes were enhanced by the innovative use of IT tools and platforms to involve citizens, reinforcing visibility and ownership, which in turn contributed to higher accountability by decision makers.

CONCLUSION

CAN VIET NAM AVOID THE MIDDLE-INCOME INSTITUTIONAL TRAP?

Like most countries around the world, Viet Nam will have to find ways to build better in the aftermath of the Covid-19 pandemic and meet its ambition to become a high-income economy by 2045. This road is a difficult and perilous one as only a few countries have been able to graduate from middle- to high-income status over the past 50 years. Korea is certainly one of the most successful examples, as it increased its income per capita sixfold in the 25 years after it reached the level of income per capita of Viet Nam today. In contrast, Thailand managed to multiply its income per capita by only 2.7 within the same time frame (figure 3.1).

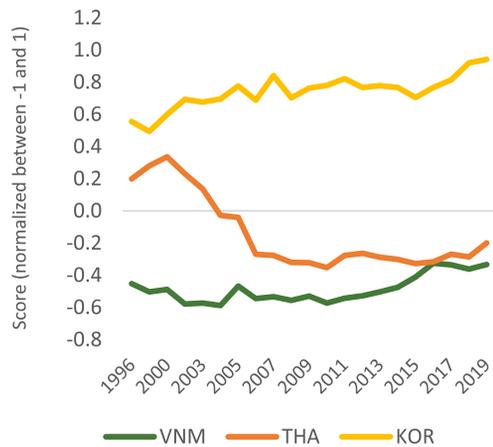
Figure 3.1. Korea escaped the middle-income trap much better than Thailand



Source: WDI and WGI.

Note: T0 is defined as the time when both Thailand and Korea reached Viet Nam's income per capita in 2019.

Figure 3.2. Trends in the quality of institutions



Note: The overall quality of institutions is measured as the non-weighted average of the score for the six sub-indicators defined by the World Bank Group methodology, voice and accountability, political stability, government effectiveness, regulatory quality, rule of the law, and control of corruption. KOR = Republic of Korea; THA = Thailand; VNM = Viet Nam.

Perched at a crossroad, the steps Viet Nam takes today will determine whether it can, in two decades, become as successful as Korea or get mired in the middle-income-trap.

Part 1 of this SCD Update identified six development priorities that should help the country not only navigate the waters of the post-pandemic era, but also achieve greater efficiency in the use of its capital—which is imperative for a strong transition from middle- to high-income status. These priorities, reshaped by the pandemic, should lead to better integration into global markets, and to more digitally transformative, greener, resilient, and inclusive growth.

Because these priorities will only make a difference if they are properly implemented,

Part 2 proposed a platform of five institutional reforms that aim at helping the government develop better vision, capacity, and motivation, which are the key determinants for efficient implementation.

Viet Nam has already been able to step up its game on various occasions in its recent history, and to apply one or several reforms included in this platform.

However, the use of this platform has been uneven. It has been generally great when the country had to deal with an emergency or crisis. Excellent examples are the bold decision to move from a centrally planned economy to a socialist-oriented market economy in 1986, when the country was on the verge of economic collapse. The government was also bold in reforming its institutions—by strengthening the Ministry of Trade and Industry—when it accelerated trade liberalization in the mid-1990s or to use market-based instruments to incentivize farmers in the 1980s. The recent example of the policy response to the Covid-19 crisis is also a good illustration.

In the absence of an emergency or pressure, the Vietnamese government has taken a gradual approach that may eventually lead to the adoption of one or several institutional reforms discussed above.

The country has a well-known and long tradition of considering pilot projects and, if successful, adopting them on a larger scale. For example, there have been several experiments at the local level to rationalize administrative processes, notably by simplifying the working relationships between the governments and other branches of authorities, and between the provincial and central government in recent years, before considering applying them nationwide. By adopting a cautious and gradual reform trajectory with policy pilots and experiments, Viet Nam may have avoided the reform traps feared by scholars of economic transition by providing time to learn by doing and to build new coalitions for further reform. Advocates of the importance of pilot projects highlight that experimentation reduces the uncertainties of policy reforms, while insulating the rest of the economy from any negative externalities caused during the effort. However, gradual institutional reforms are often not comprehensive, not systematic, and most importantly, not timely. Gradualism is also a long process that may not lead to concrete results and, so, result in lost opportunities and discourage reformers over time.

The risk of the middle-income institutional trap

As the result of the stop-and-go process between bold and gradual institutional reforms, the quality of institutions in Viet Nam has only marginally improved over the past 25 years.

The data from the Worldwide Governance Indicators (WGI), which collects annual information on six dimensions of governance, reveal that it has even slightly deteriorated since 2015 (see figure 3.3 and Box 3.1 for a discussion on definition).⁹¹

The limited improvement in institutional quality and adaptability is a source of concern not only because it means that the platform for efficient implementation has not been widely applied, but also because the institutions are not ready for the new phase of its economic development. As illustrated in figure 3.3, there are today relatively few non-oil-producing upper middle-income countries and no high-income countries that report a lower governance score than Viet Nam. When a country makes progress on the ladder of economic development, it is more likely to require better institutions to manage the societal issues that emerge with more extensive and sophisticated markets and respond to the needs of a more demanding society.⁹²

Box 3.1 Measuring institutional quality

Assessing the quality of institutions and tracking the progress of institutional reforms in a country as well as across countries over time have always been a challenge. This is due to the political-economy complexities of institutions, which are difficult to quantify and measure in a manner that is both systematic and comparable across countries. Various initiatives have tried to address this challenge, but to date there has been no single index that can be used without controversy to unbundle these complexities.

To benchmark the overall quality of Viet Nam's institutions with that of Korea and Thailand, the Worldwide Governance Indicators (WGIs) have been used because they cover six basic functions of what efficient institutions should perform. They also provide an exhaustive dataset for a comparison across countries and over time. As illustrated in figure 3.2, WGIs show that the overall quality of institutions in Viet Nam (i) is today at the same level as Thailand but far behind Korea, and (ii) improved from the late 1990s to early 2010s but failed to progress since 2015. Yet, it is important to look at whether these results are corroborated by other available indicators, as the WGIs are not exempt from analytical and empirical shortcomings. In addition, WGIs are more a compilation of several different methodologies than a rigorous approach by themselves.

For the reasons highlighted above, three out of the six WGI sub-indicators are tested in comparison with the World Justice Project (WJP) and the Varieties of Democracy (V-Dem) databases, which are two well-known but partial governance international databases.^a These three sub-indicators are most directly linked to the recommendations put forth by the SCD Update and as presented below:

⁹¹ A more detailed analysis of the governance sub-indicators defined by the World Bank reveals that Viet Nam's institutions are mainly failing today in voice and accountability and to a lesser extent in government's effectiveness and regulatory quality, while performing relatively well in terms of rule of the law and political stability. With regard to the control of corruption, Viet Nam is behind Korea but at par with Thailand.

⁹² See, for example, Alonso and Ocampo (2020).

- The WGI's Voice and Accountability sub-indicator can be compared to the Open Government factor of the WJP Rule of Law Index, which assesses the extent to which government data and laws are publicized, the right to access information, and the level of civic participation.
- The WGI's Rule of the Law sub-indicator can be compared to the Regulatory Enforcement factor of the WJP Rule of Law Index, which measures how effectively government regulations are enforced and whether administrative procedures are conducted in due process without improper influence. Similarly, the V-Dem Rule of Law indicator assesses to what extent laws are transparently, predictably, impartially, and equally enforced, and to what extent government officials comply with the law.
- The WGI's Control of Corruption sub-indicator can be compared to both the WPJ Absence of Corruption factor and the V-Dem Corruption in Public Sector factor, which assess the extent to which public officials in a country use public office for private gain. In addition to the global-level data sources on the corruption dimension, there are two country-level surveys that can also speak to the issue. Both the annual Public Administration Performance Index (PAPI) and Provincial Competitive Index (PCI) surveys ask firms and citizens, respectively, in Viet Nam about their perceptions of corruption issues.

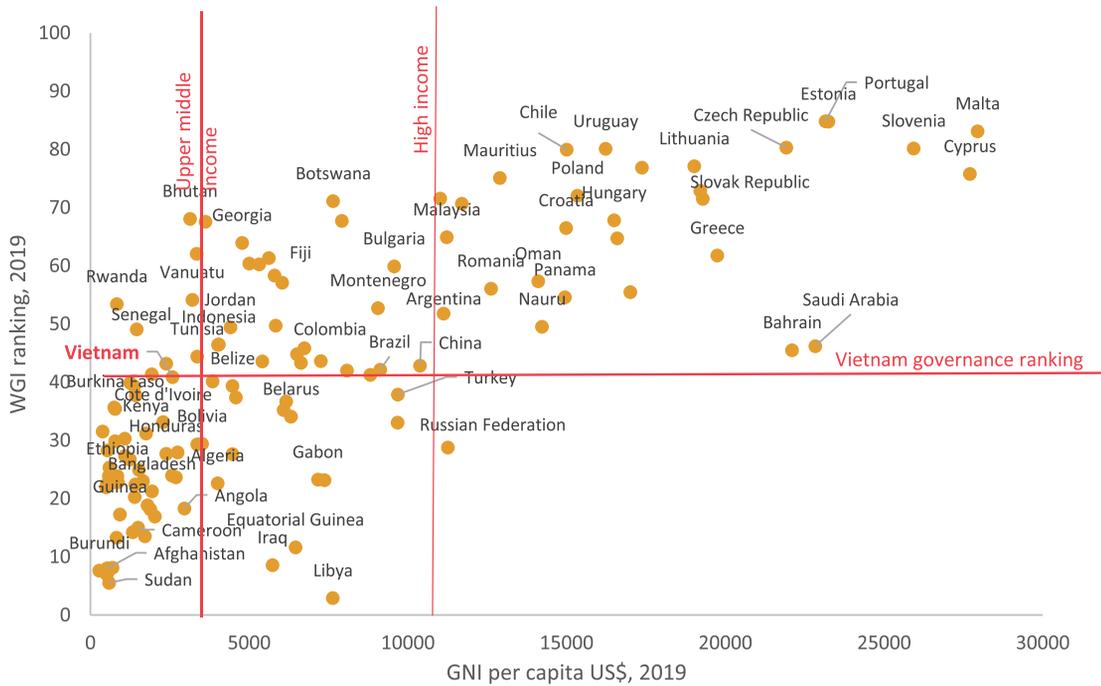
Overall, these comparisons confirm the substance and robustness of the results obtained by using the WGIs. There are no significant differences in the trends over time, as Viet Nam failed to report progress in all three sub-dimensions in recent years. Moreover, Viet Nam ranks systematically below Korea, while it is approximately at the same level of Thailand today. In addition, comparison is also made with two country-level datasets, PAPI and PCI. While the PAPI shows an upward trend and PCI a downward trend on the corruption perceptions of citizens and firms, these two country-level surveys indicate that corruption is perceived as quite a serious problem, with one in two citizens or firms saying that informal payments are needed to get things done with state authorities. These results mirror the above-mentioned global-level factors.

Detailed information on the trends and comparisons of these sub-indicators are presented in Annex C.

Note: a. The WJP Rule of Law Index is a quantitative assessment that has been carried out since 2012. It aims to provide a detailed and comprehensive picture of the extent to which countries adhere to the rule of law in practice. The V-Dem, which dates back to the late 18th century, collects data to measure principles of democracy that are electoral, liberal, participatory, deliberative, and egalitarian in over 200 countries. Of the 227 indexes and indicators in the V-Dem, the indicators on rule of law and public sector corruption are most relevant to investigate. Further information on the WJP Rule of Law Index can be found at <https://worldjusticeproject.org/our-work/research-and-data/wjp-rule-law-index-2020>, and on V-Dem at <https://www.v-dem.net>.

Viet Nam is at risk of falling into a “middle-income institutional trap” if it does not accelerate the pace of reforms. This can be further corroborated by the comparison done earlier between Korea and Thailand. Their divergent growth trajectories can be explained to a large extent by the quality of their institutions over the past 25 years (figure 3.3). If Korea improved its institutions markedly, Thailand recorded a sharp deterioration.

Figure 3.3. Climbing the ladder of economic development requires good institutions



Source: World Bank.

The Korea experience suggests that it could be an opportune time for Viet Nam to act more boldly in its institutional reforms. As the Korean economy matured during the 1980s, existing institutions in place since the 1960s and 1970s began to show signs of weakness in handling the surging social and economic changes in the country. The Korean government recognized and responded to this emerging issue by adopting bold reforms that are similar to the ones emphasized by the proposed platform for Viet Nam. As an illustration, the Korean authorities (i) replaced the five-year economic plans with innovative agendas to improve planning and provide more flexibility in decision processes, (ii) merged the Economic Planning Board with the Ministry of Finance and Economy to solidify the institutional anchor, and (iii) established the Regulatory Reform Committee to promote streamlined procedures and the use of market-based instruments.

Signs of an accelerating pace of institutional reforms have emerged in Viet Nam in recent years. The Ministry of Home Affairs is currently preparing the next master plan of administrative reforms that might go beyond the traditional gradual approach used so far. The objective is to streamline the central government by trimming ministries, with a specific focus on the performance of several particular ministries whose responsibilities overlap with each other in their fields, such as the transport and construction sectors, finance and planning and investment, and work regarding ethnicity and religions.⁹³ Further consideration might

⁹³ <https://vietnamnews.vn/politics-laws/591523/plan-to-restructure-govt-rolls-out-in-2020-minister.html>.

also be given to adjustments needed to strengthen institutional arrangements for addressing complex and cross-cutting agendas relating to climate change, skill development, and digital transformation.

Policymaking is often characterized as the art of managing trade-offs. In Viet Nam, one traditional policy objective has been to find the balance between institutional stability and adaptability. In view of the important changes in the global context and the requested shift in the country's growth model toward more efficiency, it might become more imperative to focus on adaptability in the next phase of economic development. Such adaptability would help the country address not only the new challenges derived from the Covid-19 crisis, but also to implement its development priorities faster and better.



Photo credit: Peach-blossom song @ Van Tien Hung, Senior Energy Specialist, World Bank in Vietnam

ANNEX A

MAIN DEVELOPMENT PRIORITIES IN VIET NAM

Over the past few years, the World Bank Group has prepared three general diagnostics of the Viet Nam economy with the objective of supporting the government in the preparation of the national development strategy for 2021–2030. These diagnostics include the SCD in 2016, the Viet Nam 2035 report in 2016, and the Country Economic Memorandum (entitled Vibrant Viet Nam) in 2020. All these reports were prepared in close collaboration with the authorities and were based on series of background notes.

These diagnostics have identified a series of development priorities that should help support Viet Nam in its effort to become a high-income country. Unsurprisingly, these diagnostics have converged on the same development priorities, even if some differences can be found at the margin. For example, the last report (Vibrant Viet Nam) has more emphasis on the need to address the environmental and climate challenges than the SCD in 2016. In contrast, the SCD focuses more on agriculture than the two other reports.

To illustrate the convergence around the main development priorities in Viet Nam, the recommendations derived from these three reports are summarized in table AA.1. The recent multinational diagnostic by the OECD (2020) was added to the exercise. To facilitate such comparison, the analytical framework used in the most recent report—the wealth accounting approach—was retained even it was not used in other reports.

Table AA.1. Compilation of recommendations from four reports

VN 2035 ^a	SCD 2016 ^b	VV 2020 ^c	OECD 2020 ^d
Productive capital – efficient firms			
1. Strengthen the business environment	1. Strengthen the business environment	1. Strengthen the business environment	1. Strengthen the business environment
2. Promote value added in agriculture	2. Promote value added in agriculture	2. Promote access to finance	2. Promote access to finance
3. Enhance integration into global economy		3. Enhance integration into global economy	3. Enhance integration into global economy
4. Encourage innovation		4. Encourage innovation	4. Encourage innovation in agriculture

Physical capital – efficient infrastructure			
1. Enhance urban development	1. Enhance urban development	1. Improve the efficacy of public investment	1. Promote private sector participation in infrastructure services
2. Upgrade connective infrastructure	2. Upgrade connective infrastructure	2. Upgrade connective infrastructure	
3. Promote private sector participation in infrastructure services	3. Improve efficacy of public investment	3. Promote private sector participation in infrastructure services	
	4. Promote private sector participation in infrastructure services		
Human capital – efficient labor			
1. Reduce poverty through ethnic minorities inclusion	1. Reduce poverty through ethnic minorities inclusion	1. Reduce poverty through ethnic minorities inclusion	1. Improve health quality and pension coverage
2. Improve health quality and pension coverage	2. Improve health quality and pension coverage	2. Upgrade skills	2. Upgrade skills
3. Upgrade skills	3. Upgrade skills		
4. Promote gender equity	4. Promote gender equity		
Natural capital – efficient natural resources			1. Adapt and mitigate climate change
1. Manage nonrenewable resources	1. Adapt to climate change	1. Manage nonrenewable resources	2. Reduce greenhouse gas emissions
2. Adapt to climate change	2. Reduce greenhouse gas emissions	2. Adapt and mitigate climate change	
3. Reduce greenhouse gas emissions		3. Reduce greenhouse gas emissions	

Sources: a. Ministry of Planning and Investment and the World Bank 2016. b. World Bank 2016. c. World Bank 2020b. d. OECD 2020.

ANNEX B

MEASURING THE IMPLEMENTATION PERFORMANCE FOR THE SIX PRIORITIES

Figure AB.1. Priority #1: Readjusting to deglobalization by focusing on higher value addition of exports and increased trade in services

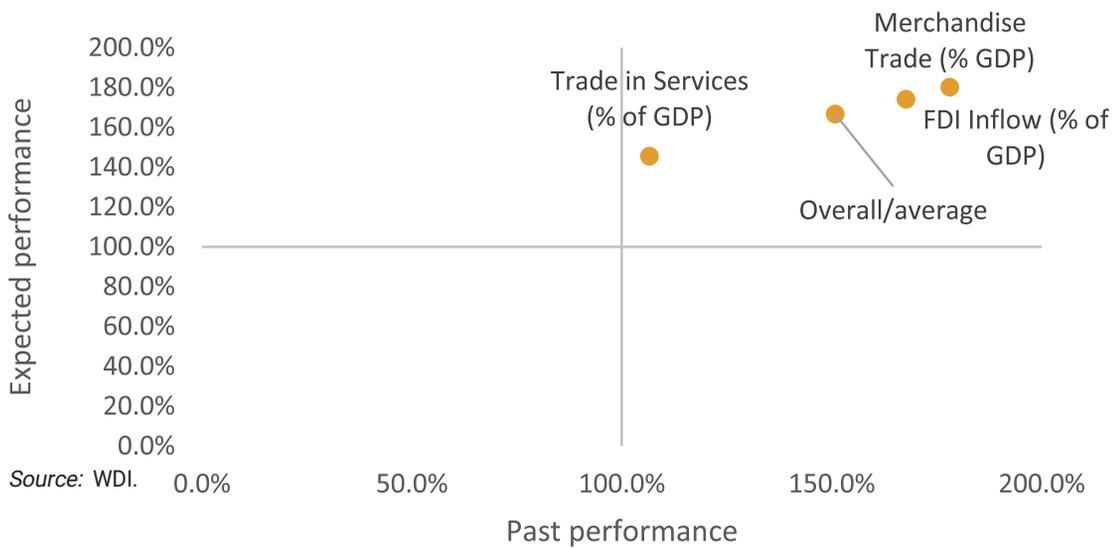
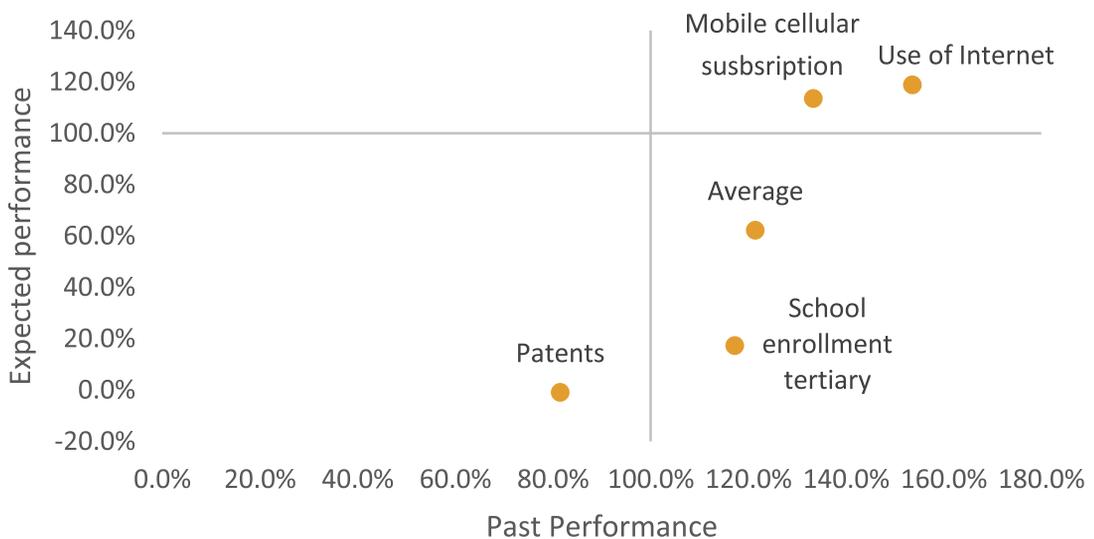


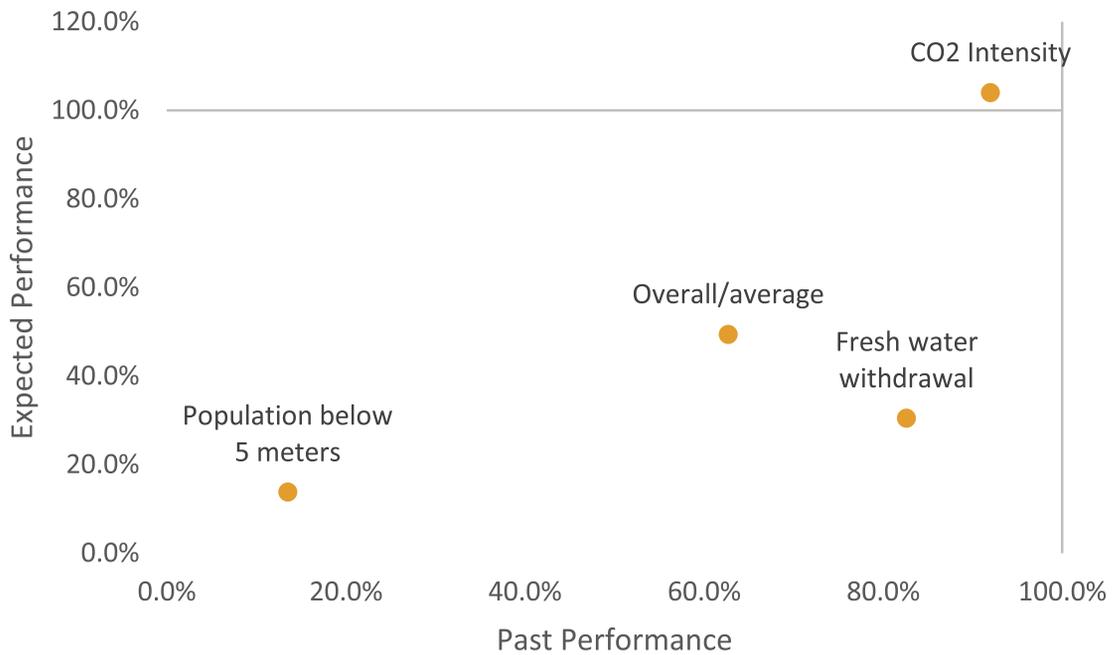
Figure AB.2. Priority # 2: Accelerating digitalization of the economy



Source: WDI.

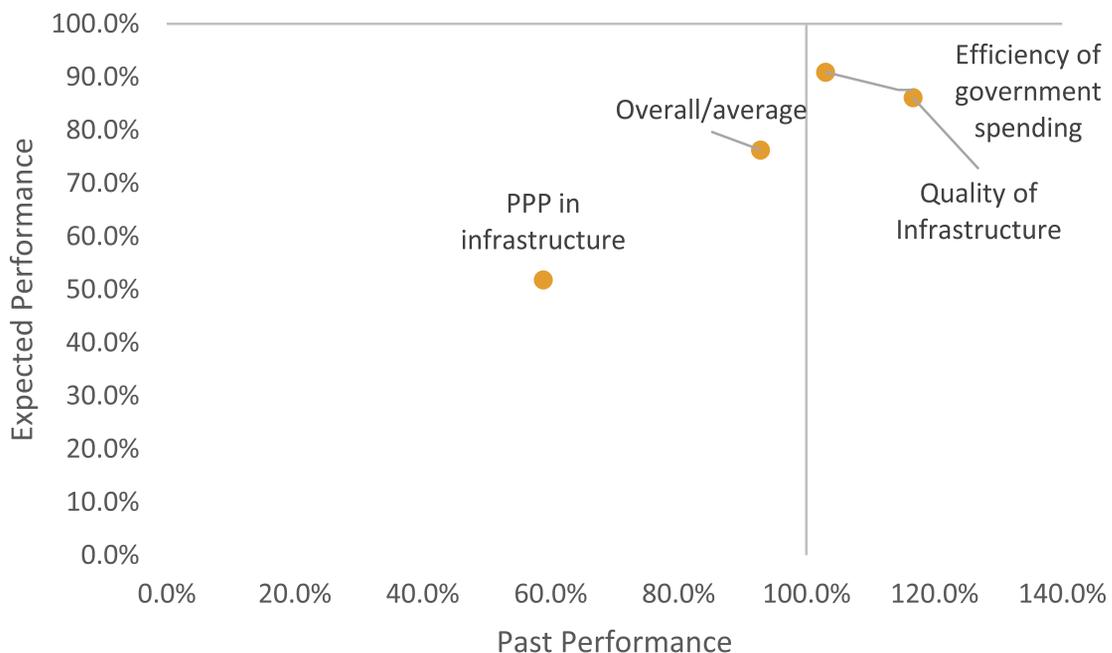
Note: Mobile cellular subscription and Use of internet are per 100.

Figure AB.3. Priority #3: Moving away from “growth at any cost” to “building a green and sustainable economy”



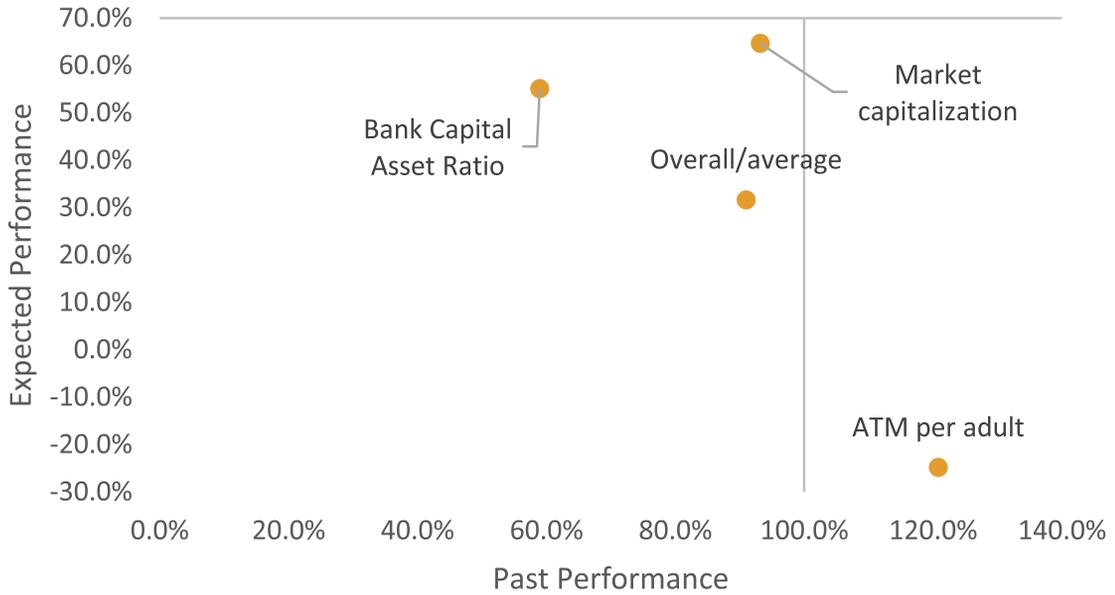
Source: WDI.

Figure AB.4. Priority #4: Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions



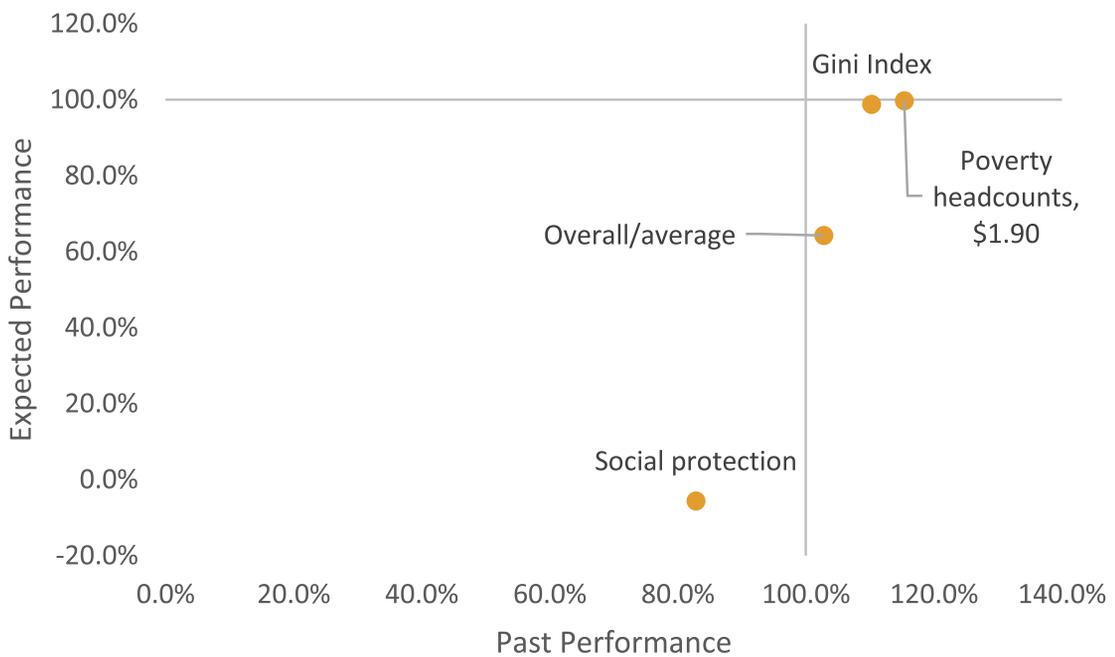
Note: PPP = public private partnerships; WEF = World Economic Forum.

Figure AB.5. Priority 5: Balancing banking sector stability with expansion in financial inclusion and deepening capital markets



Source: WDI.

Figure AB.6. Priority 6: Shifting from piecemeal poverty reduction efforts to a nationwide social safety net

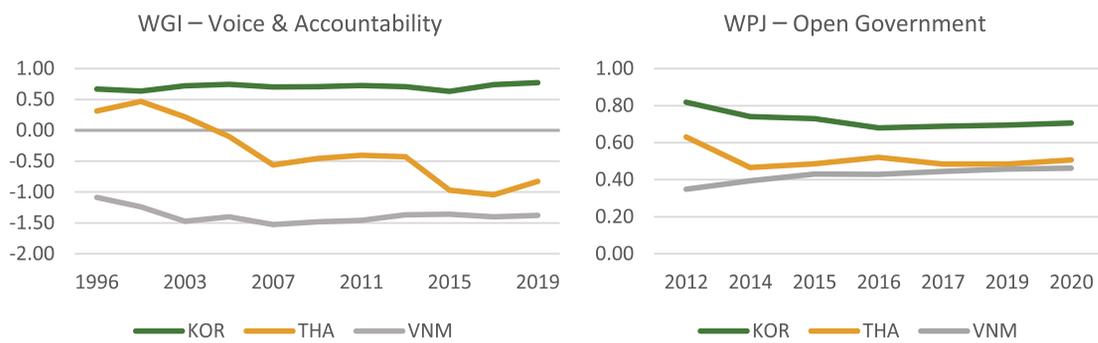


Source: WDI.

ANNEX C

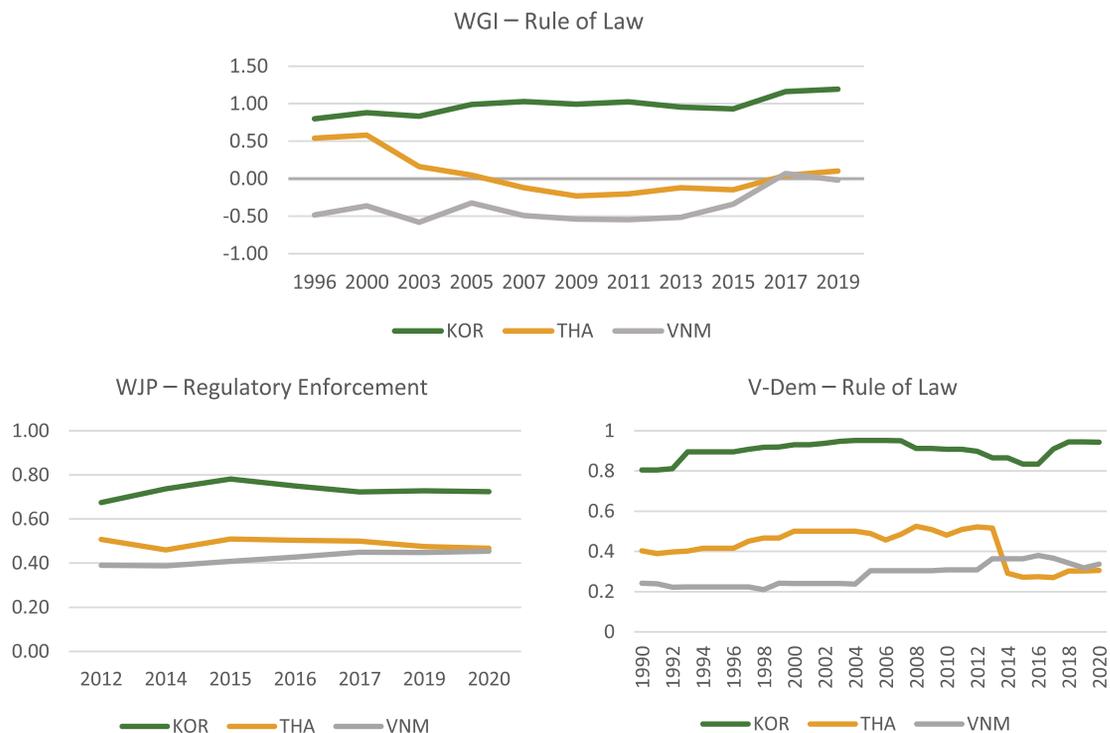
COMPARISON OF WGI DIMENSIONS AND OTHER DATASETS

Figure AC.1. Voice and Accountability Dimension



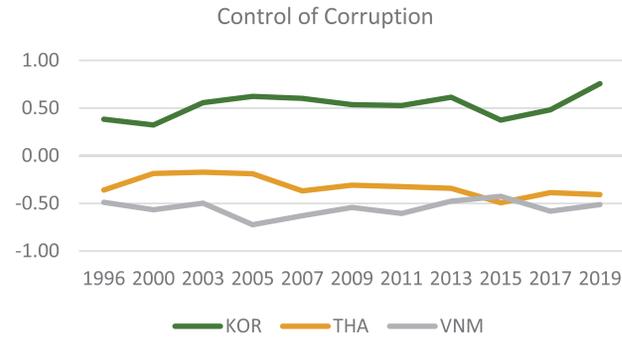
Source: WGI (Worldwide Governance Indicators) and WPJ (World Justice Project).

Figure AC.2. Rule of Law Dimension

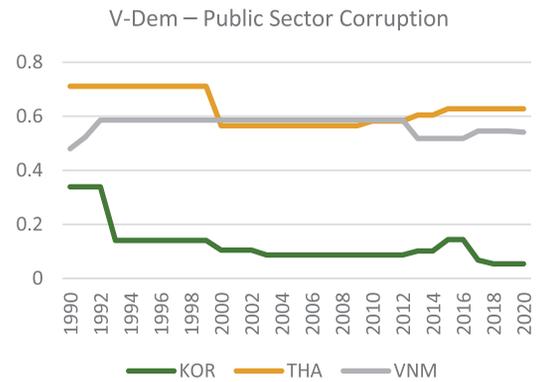
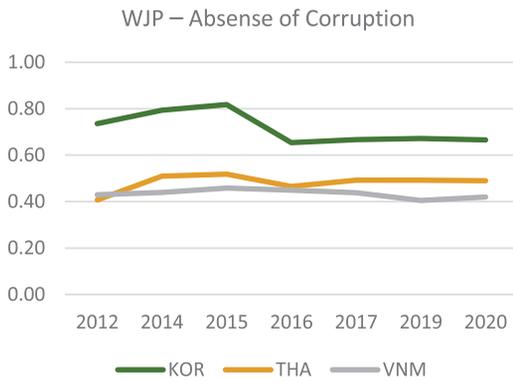


Source: WGI (Worldwide Governance Indicators); WJP (World Justice Project); and V-Dem (Varieties of Democracy Institute).

Figure AC.3. Control of Corruption Dimension

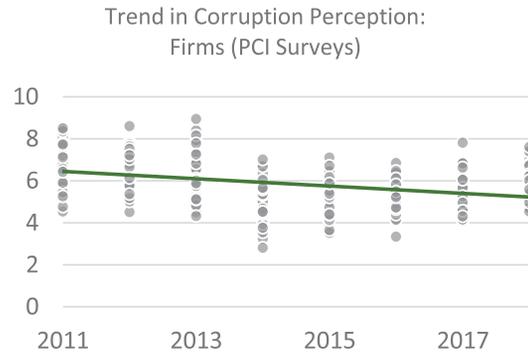
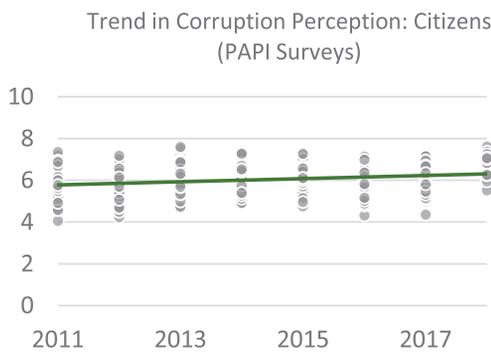


Source: WGLs.



Source: WJP and V-Dem.

Note: For the right-hand panel, low score means less corruption.



Source: PAPI (Public Administration Performance Index) and CPI (Corruption Perceptions Index).

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