

SECTOR ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT¹

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Since the launch of the economic reforms under Doi Moi in the late 1980s, Viet Nam has achieved impressive prosperity growth over the last two decades. The Government is however now reeling under the strain of an increasingly complex market economy that is becoming more integrated with the global economy. Significant enhancement of public sector capacity is required to meet the demands of an emerging, dynamic market economy. At the macroeconomic level, the Government needs to enhance its capacity to effectively implement monetary and fiscal policies, to upgrade supervision of the financial system, and to improve strategic development planning. At the sector level, enhanced public sector capacity for planning and investment project preparation and analysis, and increased efficiency of the state-owned enterprise (SOE) sector, is needed to improve public investment efficiency.

2. **Civil service sector.** Over the last two decades, Viet Nam's public sector has undergone some major changes. The government increasingly recognizes the pivotal role that the private sector has played in developing the economy and creating jobs. The government now emphasizes the need for the public sector to reduce its traditional extensive and intrusive hands-on interventions and to move to the formulation and implementation of policies to indirectly influence private behavior. An overriding goal of the government's Public Administration Reform (PAR) Master Program 2001–2010² is to reorient the role of the state from "rowing" to "steering," as Viet Nam moves to a socialist-oriented market economy. The much needed reforms and moves toward a market-driven economy need well-structured, positioned, and mandated public and private institutions. In the public sector, institutions at all levels need to play key roles and functions, from formulating to implementing policies. A quick review of the shortfalls and poor performance of various programs and projects under the government's Socio-Economic Development Plan (SEDP) 2006–2010 shows that one of the main challenges is the lack of institutions, or existing institutions' ineffectiveness in terms of capacity, capabilities, skill sets, and positioning vis-a-vis other institutions.

3. **State-owned enterprises.** The state-owned enterprise (SOE) sector in Viet Nam has historically been an important component of the economy. In 1991, Viet Nam had 12,300 SOEs with an average capitalization of D34,000 billion. Following a Government decree to reregister or close SOEs based on commercial viability, their number dropped to 6,300 through liquidations and mergers, though average capitalization increased to D53,000 billion. Most liquidated and merged SOEs were small, locally managed enterprises with fewer than 100 employees. According to the General Statistical Office of the Government, the share of the state-owned (enterprise) sector in the gross domestic product has shown a modest decline but remains near 40%, while the share of the sector in industrial output has declined more, from above 40% in 2000 to less than 30% in 2007.

4. **Issues and challenges.** Transparency, governance, and corruption continue to be problems in Viet Nam. The recent Provincial Competitiveness Index (PCI) Report 2010³ findings

¹ This summary is based on ADB. 2011. Southeast Asia Sector Assessment and Roadmap. Viet Nam: Public Sector Management. Ha Noi. Available on request.

² Decision No 136/QĐ-TTg issued by Prime Minister on September 17th 2001, on approval of the PAR Master Programme (MP) 2001-2010.

³ On a 1–5 scale (in which 1 is impossible to access and 5 is very easy to access), accessibility of planning documents averaged 2.31 points, falling from 2.44 in 2009 and hitting the lowest level in over 5 years. More than

show declines in nearly every transparency indicator compared with 2009. The PCI 2010 showed that 70% of companies that regularly ship goods feel they must pay bribes to expedite customs procedures. To make the bureaucracy more adaptive, innovative with high integrity, the key concept of the reform is to transform the civil service system toward an outcome-based and service-oriented “management” system from the “input-based” and “process-oriented” system. Faced with growing competition from the private sector, and with the need to respond effectively to global integration, the Government of Viet Nam faces the challenge of attracting, retaining, and motivating high performing people into the civil service.

5. The current salary levels of civil servants are low and not competitive in the labor market, and, hence, create difficulties in attracting and retaining talented and qualified staff, particularly in highly technical areas such as finance, information technology, and accounting. While remuneration is critical, ensuring motivation of civil servants is also crucial. The civil service in Viet Nam until now is a career-based system. The main problem with lifelong employment is that it renders the human resource management system inflexible, and civil servants could become complacent. The other issue is that the civil servants' grades do not necessarily reflect competence because civil servants take examinations for promotions based on years of service. Also, being a career-based system, these examinations are generic to the grade rather than specific to the competence needed for a job position.

6. Currently, there are also no systematic personnel planning within an overall organization development plan. Job analyses and descriptions are limited to defining the functions and tasks for general grades such as experts and principal experts. Currently, self-assessments by the civil servants and non-anonymous peer reviews by colleagues are the core elements in the performance evaluation process. There is also an evaluation by the immediate supervisor, who typically rarely feels compelled to contradict the outcomes of the self-assessment and the peer review. More importantly, a very large percentage of civil servants receive the top rating regardless of their performance level due to a quota system. Due to the weaknesses of recognition and reward system there is almost no incentives for civil servants to make extra effort to perform better.

7. Current training and development of officials is largely ineffective. This is because current training methods are overly focused on general theoretical and legal information in large lecture halls. Training courses are largely designed to meet the general requirements of experts, principal experts and senior experts grades, hence the training content are not related to the practicalities of the work environment and tend to resemble academic degrees.

8. To date, efforts at SOE reform in Viet Nam have largely focused equitization and divestment of small and medium sized SOEs. While this has resulted in a marked reduction in the number of SOEs, remaining SOEs—many of them large in size, complex in operation, and weak in performance—continue to account for some 40% of assets in the enterprise sector.⁴ Reform and restructuring of large SOEs will be crucial to reducing the dominance of inefficient state production, promoting private sector development, and supporting economic growth. Such reforms, however, will be inherently complex in both design and implementation involving a disparate range of stakeholders and interests. SOEs that have yet to be restructured and

75% of Foreign Investment Enterprise (FIEs) say that a relationship is important to get access to provincial information. There is also wide perception of a huge gap between policies and legal regulations and the implementation in practice. Findings of a public survey³ conducted in Ho Chi Minh City on the provision of eight public services in 2008, show that satisfactory perception on the granting of land and house registration as percentage fell sharply from 59.3% in 2006 to 39.2% in 2008. Similarly, the satisfactory perception on public transportation fell by almost half from 79% in 2006 to 49.5% in 2008.

⁴ Pham Duc Trung. 2011. *State Owned Enterprise Reform in Viet Nam*. Hanoi.

reformed notably include the largest and most complex ones (i.e. general corporations and their subsidiaries). Among the constraints are difficulties in valuation, general corporations' cumbersome size, financial constraints, weak corporate governance, and weak framework for resolving nonperforming debts and assets.

2. Government's Sector Strategy

9. The government has identified institutional reform, including transforming civil service among the three strategic breakthroughs for socioeconomic development for the next decade. Efforts have been made to develop the legal foundation for civil service reform marked by the issuance of the first ever law on civil servants, which became effective in January 2010. The law emphasizes the meritocracy as a principle of human resource management. Civil servants, including commune officers, are now recruited and promoted through competitive examinations. According to the sub-law regulation issued in March 2010, the content of the examinations are required to be aligned more specifically to the jobs, with increasing weight given to the competencies required for doing jobs. Likewise, competitive grade promotion examinations are being introduced. Another major historical milestone is separating civil servants to core government employees, and therefore allowing for different regimes for employees of service delivery units. Reducing the rigidity in salary structures for some sectors, such as in health and education, makes sense especially since service delivery units are increasingly self-financing. However, the challenge is translating the civil service reform policies embedded in the law, particularly the principle of meritocracy, into implementation. The very recent PAR Master Program 2011-2020 issued under the Government Resolution of 8 November 2011 highlights the need to restructure administrative procedures, reorganize government organizations, and improve the quality of civil servants and public service employees.

10. The Government's current Socio-Economic Development Plan calls for diversifying ownership to improve the efficiency and competitiveness of SOEs and for narrowing/eliminating the role of line ministries and other state entities in SOE governance and management. The Government clearly recognizes the necessity as well as complexity of these reforms and has undertaken a step-by-step approach in partnership with ADB through implementation of a multi-tranche financing facility (MFF) in support of SOE reform (SOE Reform and Corporate Governance Facilitation Program (the Program)).⁵ The MFF supports the corporate, operational, and financial restructuring of selected individual SOEs on a pilot basis—with a view to supporting the development of generalizable approach to reform and restructuring of large SOEs.

3. ADB Sector Experience and Assistance Program

11. Public sector management is a key engagement area for ADB in Viet Nam, emphasizing policy reform, skills transfer and capacity building in all projects. ADB assistance promotes the introduction and adoption of systems integral to a market-based financial system and economy and will contribute to a more competitive and resilient financial sector. Complementing the work of development partners in individual sectors and agencies, ADB's ability to work across planning agencies including the Ministry of Finance, Ministry of Home Affairs, Ministry of Planning and Investment and State Bank of Viet Nam, among others, supports the promotion of greater harmonization of planning procedures. Aside from capacity building technical assistance

⁵ ADB. 2009. Report and Recommendation of the President to the Board of Directors: *Proposed Multitranche Financing Facility to the Socialist Republic of Viet Nam for the State-Owned-Enterprise Reform and Corporate Governance Facilitation Program*. Manila.

programs, ADB will also continue to strengthen policy dialogue on macroeconomic and sectoral issues in coordination with other development partners.

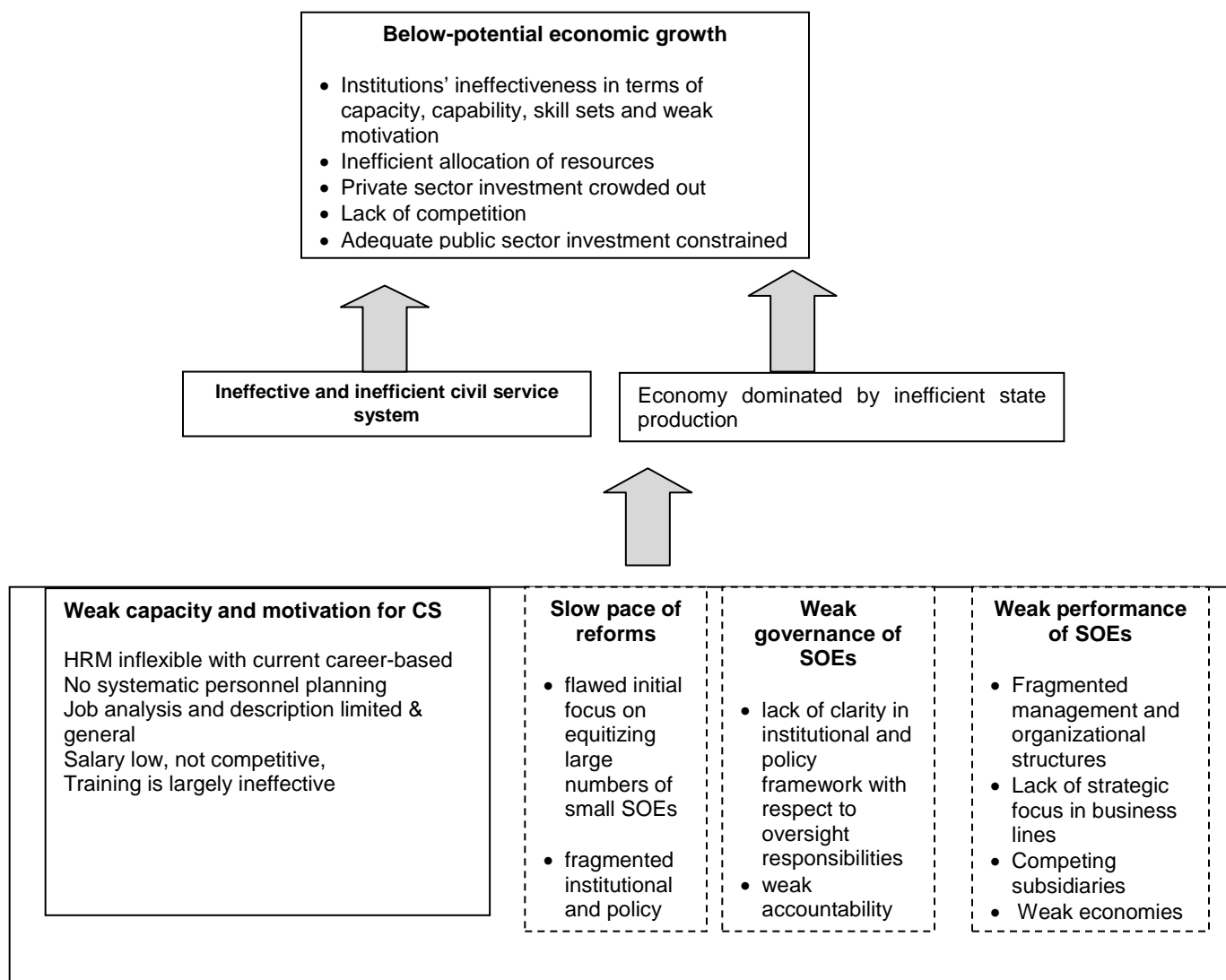
12. **Civil service reform.** ADB helped the government to formulate the law on civil servants, which was approved as a first time by the National Assembly in November 2008. The Law marks an important milestone towards civil service reform, developed an integrated HRM policy framework to facilitate the introduction of results-based management, and a merit-based system. ADB's assistance was provided through provision of policy advices, familiarization with experiences of other countries, facilitation of stakeholders' consultations, including with development partners. To facilitate the policy making process, ADB also collaborated with USAID/VNCI in conducting the Regulatory Impact Assessment (RIA) tool to analyze the impact of the policies to be proposed in the proposed law. The analysis provided useful and timely analysis to deputies of the National Assembly for reviewing and approving the law. ADB also responds to public sector capacity building needs through the Public Policy Training Program (JFPPT) in Viet Nam funded by the Government of Japan. Through this financial support, the Public Policy Training Program 2007–2011 was implemented in Cambodia, Lao People's Democratic Republic, and Viet Nam to build capacity in public sector institutions to manage economic transition. In Viet Nam, the PPTP Phase I helped train 1,100 mid-career and senior civil servants.

13. To ensure the effective implementation of the law, ADB experiences show the following needed actions: (i) developing and institutionalizing the Strategy for Civil Service Reform with Action Plan for implementation of the law; (ii) building the principle of merit into all human resource management systems and processes by recruiting, promoting, managing performance, and monitoring its implementation; (iii) buying-in from the public civil servants through awareness raising, advocacy, and policies for reform; (iv) taking comprehensive actions to address salary issues, not just to raise the minimum across levels but also to link payment with job requirements; (v) developing capacity for change management, particularly for human resource management managers; and (vi) setting up a high level of institutional arrangement to effectively steer and manage the reform. ADB will continue to target the implementation of the Law on Civil Servants over the period of the new country partnership strategy. The support will be primarily through technical assistance and intervention is to help institutionalize the reform policies through more systematic efforts to improve organizational and individual performance. Assistance will also be provided to promote the Information and communication technology.

14. ADB will continue to support public sector capacity building through a number of ongoing technical assistance programs aimed at: (i) enhancing the efficiency of externally financed public investments, and (ii) improving the monitoring and evaluation systems with more accurate and timely performance monitoring and reporting support for the SEDP 2011-2015. ADB will also support market-based approaches to allow the public sector play critical enabling role in market system development (Inclusive growth, including Market for Poor approach) for sustainable growth and poverty reduction and the implementation of public–private partnerships.

15. **State-owned enterprises.** Among the planned areas of support from ADB on SOEs are corporate and organizational restructuring of selected SOEs, debt restructuring of selected SOEs, and strengthening policy and institutional framework for the SOE sector. Pipelined projects on SOEs are PFR2 (\$320 million) and PFR3 (\$180 million). Ongoing projects on the subsector include PFR1 corporate and organizational restructuring component (\$10 million ADF), and PFR1 debt restructuring component (\$120 million OCR).

PROBLEM TREE



Sector Results Framework (Public Sector Management, 2012–20115)

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB contribution	Indicators with Targets and Baselines	Outputs with ADB contribution	Indicators with Incremental Targets (Baselines Zero)	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
Improved and reformed public institutions, with fully functioning civil service, and improved efficiency and accountability of restructured SOEs.	<p>Merit-based human resource management information system introduced</p> <p>Return on assets of selected SOEs increased by 15% (ROA averaged at 10% in 2010)</p> <p>Restructuring of three additional large SOEs (one commenced in 2011)</p> <p>Disbursement ratio of ODA and less concessional funds increases to on par with international averages (from 20% in 2011)</p> <p>Performance against 80%–90% of Socioeconomic Development Program outcomes has improved by 2015 (outcome achievement rate)</p>	<p>Efficient and transparent civil service and public resources management systems established and well-managed, and restructured large SOEs with strong financial position.</p> <p>Strengthened public financial management systems with appropriate budget and accountability structures, and transparent processes.</p>	<p>Standardized job title system introduced in 2013, and be used for integrated merit-based HRM management in 2015</p> <p>Clear corporate governance standards and accountability mechanisms established in restructured SOEs and documented</p> <p>Restructured SOEs have rationalized strategic focus and organizational structures and appropriate management information systems in place</p> <p>Debt/equity ratio improved by 15%</p> <p>Results-based Monitoring and Evaluation system used by MPI and three government ministries for the Socioeconomic Development Program, 2011–2015 by June 2013</p>	<p>Planned key activity areas:</p> <ul style="list-style-type: none"> Experiment functional analysis with job descriptions and qualification standards in at least three selected agencies, subsequently develop a standardized approach Integrated HR Management Information System Corporate and financial restructuring of selected SOEs Operational restructuring corporate governance development of selected SOEs Strengthening policy and overall plan for restructuring of the SOE sector <p>Pipeline projects with estimated amounts</p> <ul style="list-style-type: none"> Supplementary TA (\$ 200,000) to support 3 restructured government agencies and develop standards Public Policy Training Program Project: Phase II 2012–2014 PFR2 (\$320 million) and PFR3 (\$180 million) <p>Ongoing projects with approved amounts</p> <ul style="list-style-type: none"> TA to support civil service reform through development of the law on civil servants (\$1 million) PFR1 corporate and organizational restructuring component (\$10 million ADF) PFR1 debt restructuring component (\$120 million OCR) CDTA \$1.2 million for monitoring and evaluation of PFR 1. 	<p>Planned key activity areas</p> <ul style="list-style-type: none"> Functional job descriptions in at least three selected agencies, and a standardized approach for all agencies HR Management Information System that is integrated across agencies SOEs restructured, including debt restructuring for relevant SOEs Institutional framework of SOEs strengthened <p>Pipeline projects</p> <ul style="list-style-type: none"> Functional job descriptions in three government agencies Staff trained in public policy PPTA of \$800,000 in 2012 to help prepare PFR2 PFR 2 in 2013 to restructure additional SOEs <p>Ongoing projects</p> <ul style="list-style-type: none"> Law on civil servants passed SOE restructured, including debt restructuring for selected SOEs.

CDTA = capacity development technical assistance, MFF = multitranché financing facility; ODA = Overseas Development Assistance, PFR1 = Periodic Financing Request, Phase 1; PFR2 = Periodic Financing Request, Phase 2; PFR 3 = Periodic Financing Request, Phase 3; SOE = state-owned enterprise .

Source: Asian Development Bank.