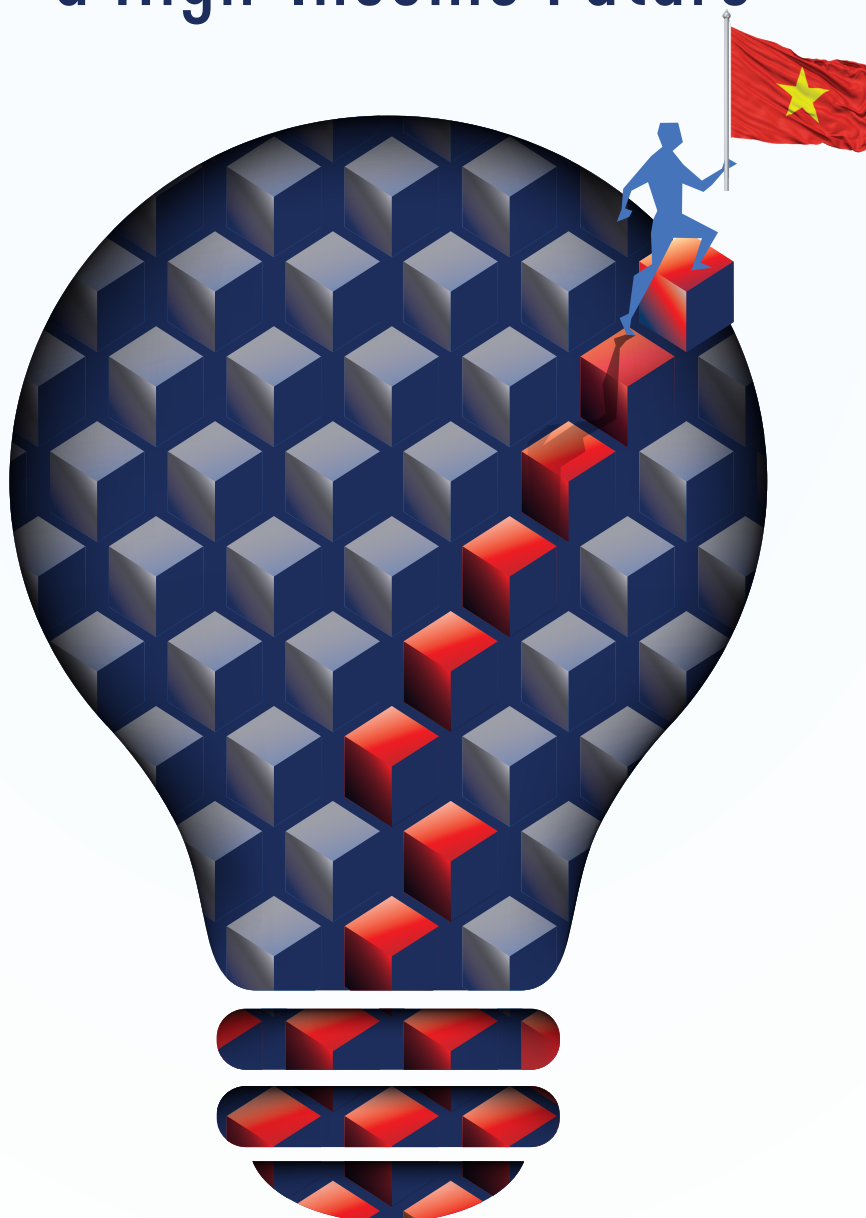


VIET NAM 2045

BREAKING THROUGH

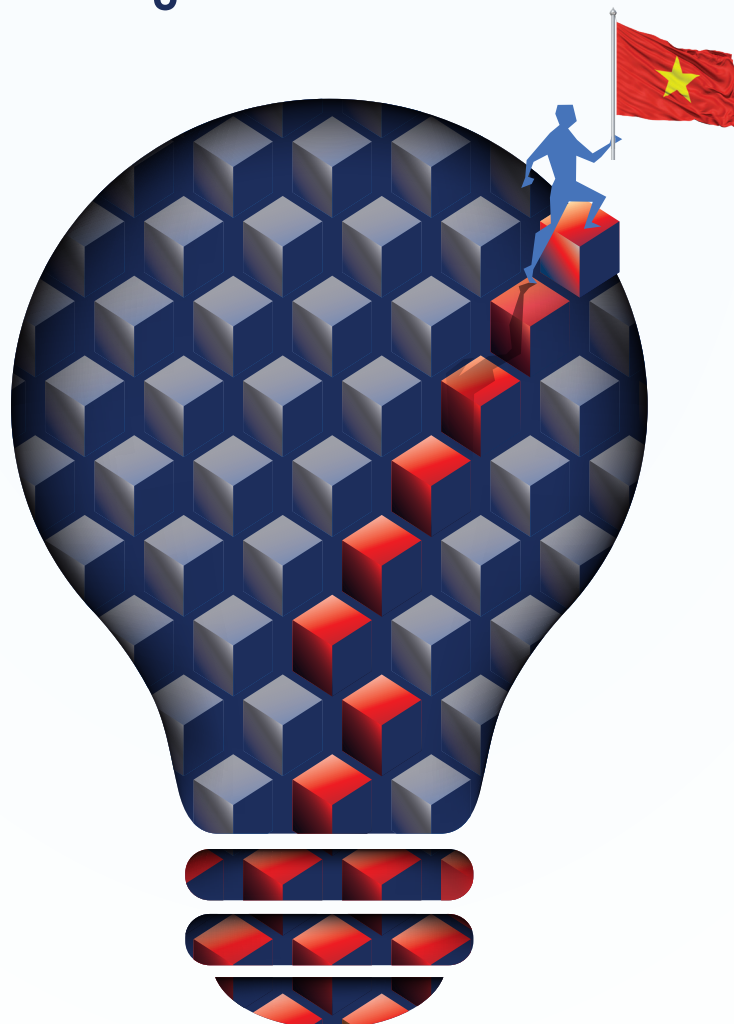
Institutions for a High-Income Future





VIET NAM 2045 **BREAKING THROUGH**

Institutions for
a High-Income Future





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ABBREVIATIONS

CIT	Corporate Income Tax
CPI	Consumer Price Index
CPV	Communist Party of Viet Nam
CSCA	Committee for Social and Cultural Affairs
DT4PAG	Disruptive Technologies for Public Asset Governance
EC	European Commission
EFT	Ecological Fiscal Transfers
eGP	electronic Government Procurement
EMDEs	Emerging Market and Developing Economies
ESG	Environmental, Social, and Governance
EU	European Union
FCPA	Foreign Corruption Practices Act (USA)
FDI	Foreign Direct Investment
FIDIC	International Federation of Consulting Engineers
FS	Feasibility Study
GDP	Gross Domestic Product
GI	Government Inspectorate
GIA	Gender Impact Assessment
GNI	Gross National Income
GRDP	Gross Regional Domestic Product
GRI	Government-sponsored Research Institutes (Korea)
GSO	General Statistics Office
GVCs	Global value chains
HCMC	Ho Chi Minh City
HIC	High-Income Country
ICT	Information and Communication Technology
IDI	INTOSAI Development Initiative
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
ISO	International Organization for Standardization
ISSAI	International Standards of Supreme Audit Institutions
IUU	Illegal, Unreported, and Unregulated (fishing)
IPD	Investment Policy Decision
LFDC	Land Fund Development Center
LFS	Labor Force Survey
LIC	Low-Income Country
LMIC	Lower Middle-Income Country
MAPS	Methodology for Assessing Procurement Systems

MTIP	Medium-Term Investment Plan
O&M	Operations and Maintenance
ODA	Overseas Development Assistance
ODIN	Open Data Inventory
OECD	Organization for Economic Cooperation and Development
OSS	One-Stop Shop
PAPI	Public Administration Performance Index
PCI	Provincial Competitiveness Index
PES	Payments for Ecological Services
PFM	Public Financial Management
PFS	Pre-Feasibility Study
PIA	Policy Impact Assessment
PIM	Public Investment Management
PIT	Personal Income Tax
PMU	Project Management Unit
PPMU	Provincial Project Management Unit
PSDU	Public Service Delivery Unit
RIA	Regulatory Impact Assessment
SAI	Supreme Audit Institution
SAV	State Audit of Viet Nam
SBV	State Bank of Viet Nam
SCD	Systematic Country Diagnostic
SECO	State Secretariat for Economic Affairs (Switzerland)
SNG	Subnational government
SOE	State-owned enterprise
TABMIS	Treasury and Budget Management Information System
UK	United Kingdom
UMIC	Upper Middle-Income Country
UNCAC	United Nations Convention Against Corruption
UNDP	United Nations Development Programme
UNODC	United Nations Office on Drugs and Crime
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
VCCI	Viet Nam Chamber of Commerce and Industry
VFF	Viet Nam Fatherland Front
VND	Viet Nam Dong
VNEPS	Viet Nam National Electronic Procurement System

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Executive Summary

Viet Nam is in the midst of major institutional changes, a one-in-a-generation reorganization of the central government and realignment of subnational government systems. These changes are implemented alongside steady efforts to refine and strengthen the institutional framework which characterizes most of Viet Nam's recent history. While the country has traditionally relied on gradual, step-by-step reforms to drive progress—an approach that has contributed to its success—major institutional changes, like those that began in August 2024, are less frequent. These changes help address some of the country's most pressing challenges, with a focus on improving efficiency of public administration at the central and local levels and enhancing government accountability.

At the same time, the spirit of institutional reform could be harnessed to go much further. As the country has set the ambition of reaching high-income status by 2045, deeper reforms to accelerate and sustain growth are still needed. For instance, removing procedural bottlenecks to public investment is a first step, but rethinking responsibilities among central and local authorities would go deeper. Efforts to clamp down on corruption need to be complemented by efforts to strengthen the systems of prevention and external oversight. Right-sizing the public administration and improving incentives, including compensation, are needed, but strengthening motivation of civil servants will be more challenging. Perennial programs to cut red tape and administrative procedures help, but deeper reforms to the regulatory system and processes still lay in the future.

Viet Nam 2045—Breaking Through examines the institutional foundations of Viet Nam's successes and the institutional breakthroughs needed to take the country to high-income status.

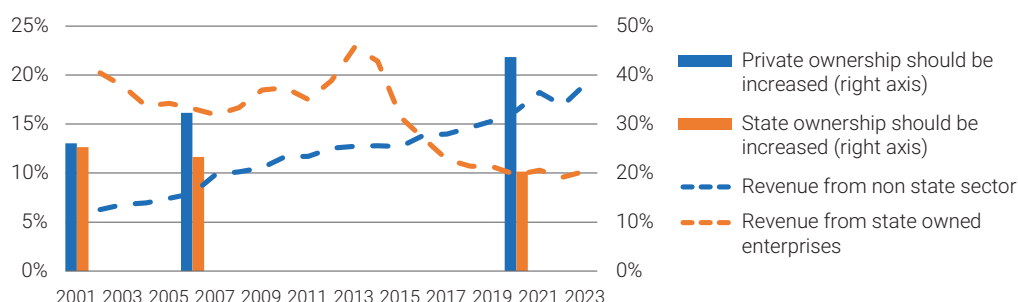
The challenge of institutional reform

Viet Nam has achieved much in the decades since Doi Moi—greatly reduced poverty, economic growth that many countries envy, and improved human development outcomes.¹ As the country is on the cusp of reaching upper middle-income (UMIC) status, the leadership has set the goal of becoming a high-income country (HIC) by 2045 – a milestone marking the 100th anniversary of Viet Nam's independence. While this is 20 years away, only a handful of countries have succeeded in making this transition so quickly, and many languish for many decades in the “middle-income trap.”

¹ Doi Moi means “renovation” and is the term used to mark economic reforms that began in 1986.

Viet Nam’s economic and social achievements have also included step-by-step improvements to its institutions—the rules, both formal and informal, that govern economic behavior. The decades since Doi Moi have seen a gradual expansion of access to information, citizen engagement, property rights, decentralization, institutions for public sector management as well as private sector development, and mechanisms for accountability, among others. The economy has moved to rely more on market institutions, but some legacies have persisted, including a strong state presence in many sectors. Viet Nam’s consensus-focused political institutions put a premium on stability, but limitations in the system of accountability and checks and balances show the need for new thinking. While Viet Nam’s institutions delivered investment in basic infrastructure and improvements in human capital, there are also signs of institutional paralysis with diminished effectiveness in delivering the foundations for future growth.

Summary Figure 1. The increasing importance (and acceptance) of the private sector



Sources: World Bank staff calculations based on GSO data (for revenue) and World Values Survey data (for assessments of private and state ownership).

Many of Viet Nam’s most pressing problems are institutional in nature. Despite waves of reform, firms in Viet Nam continue to complain about the burden of ex ante administrative procedures. Public investment processes are more organized than in the past but are slow and rigid and do not adjust well to changing circumstances. Decentralization has allowed provinces more control over their spending but has also led to wasteful competition between provinces, underproviding some infrastructure and overproviding other infrastructure. Laudable efforts to improve the lawmaking process have brought some positive results but the process can still be slow and is not fully implemented. Efforts to reduce corruption, long known to be a problem, have taken hold and shifted perceptions but have also left many decision makers reluctant to make decisions.

Viet Nam’s high ambitions combined with evident institutional challenges call for a new Doi Moi, an institutional “Big Push” that lays the foundations for a role of the state focused on setting the rules and providing public goods that will allow firms to grow. The momentum for such a Big Push is already there—maintaining that momentum and deepening the reforms are essential for reaching the high rate of growth needed to achieve Viet Nam’s ambitions.

This study is one of three that the World Bank is preparing for the *Viet Nam 2045* series, and it builds upon many detailed technical studies. It employs a framework of institutions based on their functions: market-creating, market-stabilizing, market regulating, market-complementing, and market legitimizing. In addition, the institutions of state capability and accountability are needed to support all of the others. Rather than examining sectoral institutions, of which there are many, the focus of this study is on the institutions for creating and enabling other institutional reforms. These are the institutions that support Viet Nam's continuing shift in the role of the state, providing what only the state can provide: public goods (market complementing) and the legal and regulatory environment that will allow Vietnamese firms to thrive (market regulating). To deliver these efficiently, Viet Nam needs motivated and accountable civil servants and an efficient system of central-local powers and responsibilities, the institutions of state capability and accountability.

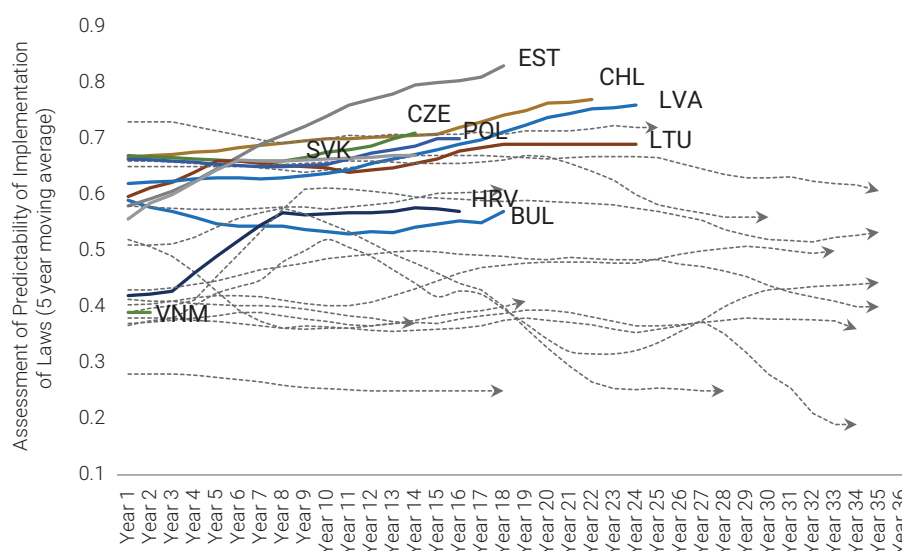
The focus on these areas is driven by several observations, both internal and external. Internally, Viet Nam needs to adapt its institutions to the increasingly prominent role of private enterprise in its economy. Over the past 20 years, the share of the country's fixed assets held by state-owned enterprises (SOEs) fell from 51 percent to 14 percent, giving way to a tripling of the Vietnamese non-state sector's contribution of fixed assets from 20 percent to 61 percent.² Private- and foreign-invested firms have grown and contributed substantially to the country's capital stock helping to generate the growth the country witnessed in those two decades. They also took on a larger share of the responsibility for financing the activities of the government. Budget revenue from SOEs was three times that of non-state enterprises in 2005, and only half that of the non-state enterprises in 2023. The Vietnamese people seem to accept these changes, with the share of the population favoring an increase in private ownership growing relative to government ownership.

To support continued growth, the state needs to become better at setting the rules—the legal and regulatory environment—and providing public goods rather than driving economic decisions. Viet Nam's systems could use improvement in both regards. Public investment is mired in complexity of both process and responsibilities, with long preparation times and cumbersome procedures for dealing with project adjustments. Much of the regulatory system is focused on ex ante administrative procedures—the national database on administrative procedures includes over 5,000 procedures for business licensing, putting a drag on firm growth.

Externally, Viet Nam has the benefit of learning from the experience of other countries, especially those that avoided languishing as middle-income countries for decades without reaching the high-income threshold—the “middle-income trap.” While every country is different, and the institutional factors that hinder growth can be very different from one country to the next, an examination of how institutions evolved to support rapid growth can be instructive. One fairly consistent finding is that countries that have passed through UMIC status quickly in the years since the income-based categories were created in 1987 tended to be those that improved the implementation of laws. (Summary Figure 2.)

² Non-state enterprises are mostly private companies of various forms of legal organization and may include companies with a minority state share.

Summary Figure 2. Countries that advanced to high-income status faster improved implementation of laws

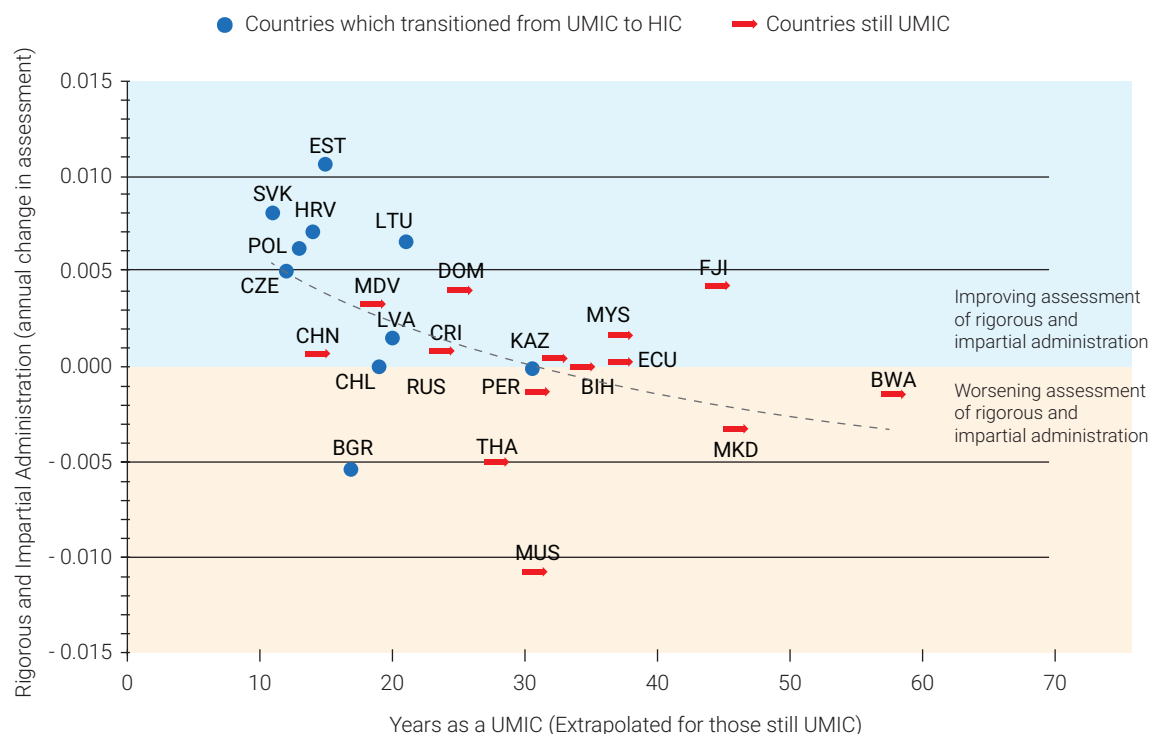


Sources: World Bank staff calculations based on Democracy and Electoral Assistance, 2023; World Bank, 2024e.

Notes: Solid line are countries which achieved high-income status in around 20 years. Dotted lines are those which either are still UMICs or took 30+ years to reach HIC status. Viet Nam's position is shown for illustration.

This finding from other middle-income countries resonates with Viet Nam. After the ambitious agenda laid out in *Viet Nam 2035* (published in 2016), relatively few recommendations were reflected in policy documents. At the time of a review in 2023, only one in four recommendations had been reflected in policy documents. This was true across all of the “transformation areas” in the document, ranging from 35 percent of the recommendations related to “building modern institutions for an effective state” to 5 percent for “managing urbanization for greater economic efficiency.” Moreover, translating vision to policy is only the first step of implementation of any reform. Building the supporting administrative apparatus and capabilities also takes time and concerted attention. Six years after the Law on Access to Information was passed, for example, fewer than 13 percent of provinces publicize information on the focal point for information provision, a key requirement for effective implementation.

Summary Figure 3. Countries that advanced to high-income status faster built more impartial public administrations



Sources: World Bank staff calculations based on for Democracy and Electoral Assistance, 2023; World Bank, 2024e.

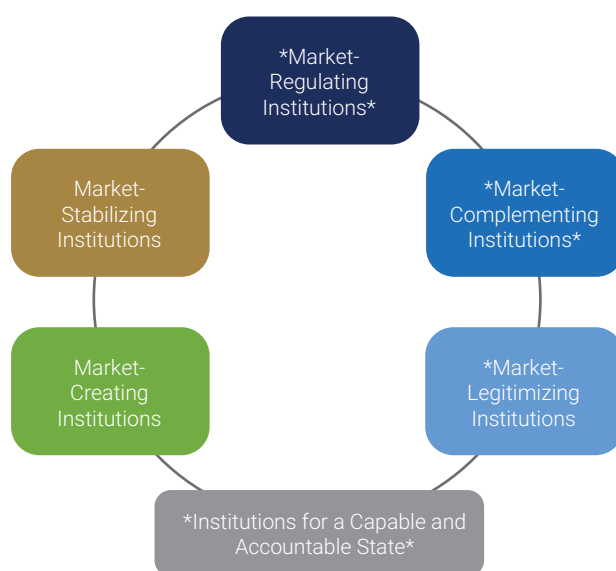
Another finding from countries that escaped the middle-income trap is that many succeeded in building more rigorous and impartial public administrations. (Summary Figure 3.) This finding resonates with Viet Nam's challenges. Viet Nam's decision-making is consensus-based, and many decisions are subject to "dual subordination," i.e., requiring approval from both central level bodies and local leadership. While these features of Viet Nam's system help avoid (some) hasty mistakes, they also inhibit needed progress. And while there have been improvements over the years, official decisions are easy to circumvent. More than a third of Vietnamese citizens believe in the need to pay bribes for state employment (PAPI, 2024) and some 30 percent of firms experience bribe requests (World Bank Enterprise Surveys, 2023). Improving the rigor and impartiality of public administration is essential for Viet Nam to escape the middle-income trap.

How institutions can reduce transactions costs for firms

Viet Nam 2045—Breaking Through employs a conceptual framework based on the importance of the function of institutions rather than the form. (Summary Figure 4.) Market-creating institutions, such as property rights and contract enforcement, have been developed over the decades, and while challenges persist, for example in the management of land, the institutions do not seem to be binding constraints at present. Similarly, market-stabilizing institutions, such as monetary and fiscal institutions, have largely

delivered stability. Strengthening such institutions, building independence and capacity, will continue to be important—countries at all levels of development can face macroeconomic instability. Market-legitimizing institutions, such as a robust social protection system to ensure that segments of the population are not left behind in the increasing reliance on markets, are in place, although sustainability will need to be strengthened. Market-complementing institutions help provide what the private sector generally will not: public goods, such as infrastructure for government services such as transportation, education, and health. Market-regulating institutions address policy goals such as controlling externalities. Finally, the study examines the institutions that support the state’s capability to deliver on its duties: an efficient central and local government system and a motivated and accountable civil service.

Summary Figure 4. The market-supporting institutions framework



These institutions are complementary and mutually reinforcing. Property rights are market-creating, but they also make market-stabilizing institutions, such as monetary policy, work better. The institutions for local governance and public investment are deeply intertwined. Market regulating institutions, including the lawmaking process, impact all of the others. And the institutions for a capable and accountable state provide the foundation for all of the others.

All areas of institutional reform need to advance to provide a stronger foundation for medium-term actions for Viet Nam’s strides toward high-income status. The report takes deeper dives into selected areas: market-complementing and market-regulating institutions, which provide public goods and efficient regulation, and a capable and accountable state, which enables progress in all reform areas.

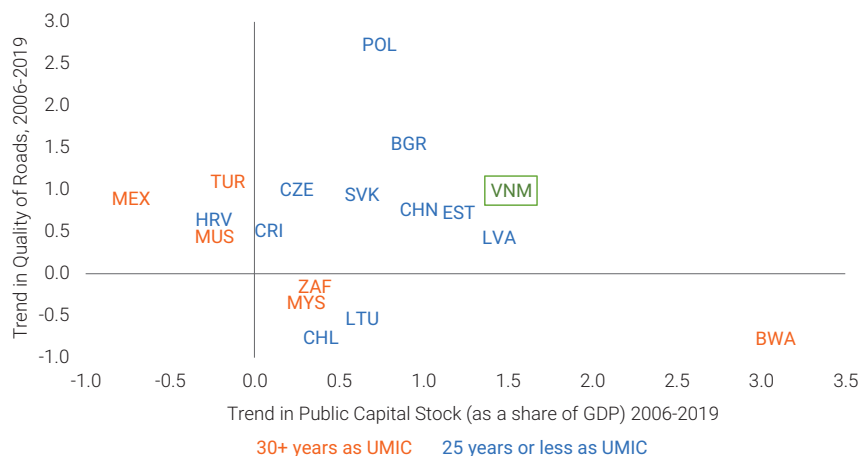
Improving the efficiency of public investment

Viet Nam's public investment management system has delivered impressive results but currently is mired in a complex web of approvals, overlapping responsibilities, and legal disconnects. The legal framework for public investment is guided by eight different laws. The laws assign multiple central and provincial roles and powers, covering, in some cases, the Prime Minister, National Assembly, ministries, and provincial People's Committees; and when multiple provinces are involved, it is even more fragmented and confused.

The recent revisions of the Public Investment Law brought some important improvements, institutionalizing multi-jurisdiction projects to submit a single project investment proposal and appointment of a single agency to act as project owner in some cases. Certain powers and responsibilities are now delegated in some cases, reducing the need to go to the National Assembly or to the Prime Minister. The recent merger of the Ministry of Finance and the Ministry of Planning and Investment may help align investment planning and budgeting processes further. These changes address some of the most obvious and immediate needs in the public investment management system.

More could be done to improve systems and capacity for project appraisal, public procurement, and public asset management. Numerous laws and decrees are not always consistent and provide parallel preparation and approval tracks for different types of project or different funding streams. While capital budget allocation follows the Public Investment Law, recurrent budget allocation follows the State Budget Law. The investment planning process needs to be aligned with the fiscal framework, with the newly merged Ministry of Finance and Ministry of Planning and Investment playing a strong gatekeeping function.

Summary Figure 5. Moving quickly to high-income status requires both quantity and quality public investment



Sources: World Economic Forum Global Competitiveness Yearbook, various years; IMF Investment and Capital Stock Dataset.
Notes: Countries are grouped by the time as UMIC before becoming HIC. For countries that are still UMIC, the projected (extrapolated) number of years was used. Those in the 30+ years group are those projected to take more than 30 years as UMIC before becoming HIC. Viet Nam is in neither group but is shown for comparison. For both axes, the trend is the simple slope coefficient of a regression against time.

Addressing these challenges will be essential for Viet Nam to reach its high-income aspirations in 20 years. Countries that passed through UMIC status quickly managed to increase both their spending on public investment and the quality of their public investment. Viet Nam has also been improving on both dimensions over the past ten years but will need to maintain this progress to support firm growth and reach HIC status.

Strengthening the legal and regulatory framework

Firms need a predictable and easy-to-comply-with legal and regulatory environment to grow. The legal and regulatory system is relatively stable in Viet Nam. At the same time, administrative procedures continue to proliferate, and laws and regulations are inconsistently applied, reflecting both the quality of regulations and implementation arrangements. The reaction of firms to a shifting regulatory environment is to avoid complying with the regulations. Rationalizing the legal and regulatory framework can not only help to unleash business activity, it can also lead to more effective regulations. Among the institutional changes that have facilitated growth in countries which avoided the middle-income trap is an improvement in regulatory enforcement through strengthened capacity and improved avenues for challenging administrative decisions. Ability to challenge decisions contributes to a feedback cycle whereby weaknesses in the quality of regulations are identified and can be corrected.

While the Government of Viet Nam's efforts to streamline administrative procedures have helped to reduce transactions costs and uncertainty for firms, new procedures arise following each major effort. (Summary Figure 6.) The process of creating laws and regulations—the institutions for creating institutions—forms the bedrock of the environment in which Vietnamese firms operate.

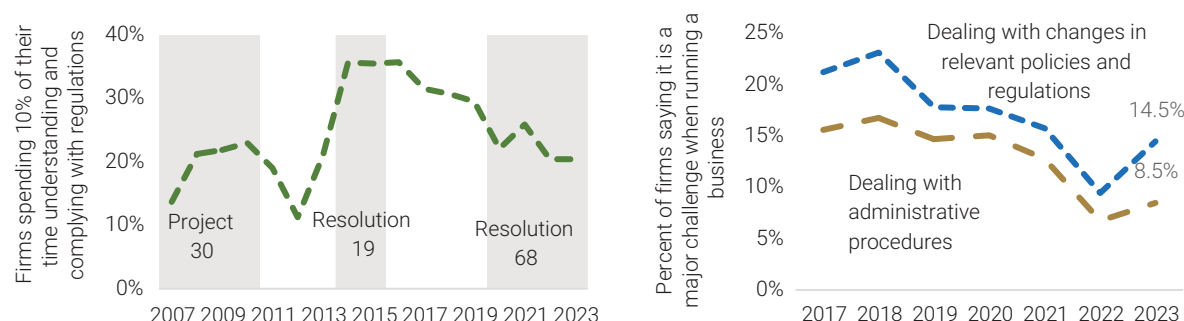
The introduction and periodic revisions of the Law on the Promulgation of Legal Normative Documents (the “Law on Laws”) have brought greater order to the process and improved upstream analysis and deliberation. The requirement to conduct regulatory impact assessments (now called policy impact assessments) helped bring some ex ante consideration to whether regulations were needed, cost effective, and would not unduly burden firms and citizens compared to alternatives.

While the requirements under the law are laudable, the implementation of the analytical mandates, especially economic analysis and gender analysis, has suffered from lack of capacity and guidelines. There is a need to shift the approach to regulation to one of prohibiting truly negative behavior, well-founded on evidence, rather than the extant practice of ex ante controls and administrative procedures, as well as delegating more authority for lawmaking to the Government. The culture of “prohibiting that which is not understood” is not conducive to innovation and growth.

The lawmaking process needs capacities, but also efforts to improve professionalization and independence. The practice of ministries developing their own law drafts does not aid in the harmonization of legislation. In addition, the National Assembly, the representative of the people and an organization with important roles for lawmaking and for oversight, has very little independence as nearly all Deputies are Party members, and many are part-time Deputies whose other jobs are

in public administration. Moving to a system of full-time Deputies and reserving more seats for independent candidates could bring professionalism and critical eyes to the work of the National Assembly. The current changes, arguably, go in the other direction, reducing support for research and professionalization.³

Summary Figure 6. The importance of regulatory enforcement



Source: World Bank staff calculations based on PCI, various years. See Malesky, Thach, Trong, Ngoc, & Nguyen, 2022.

Optimizing central and local organization and incentivizing provincial competition and cooperation

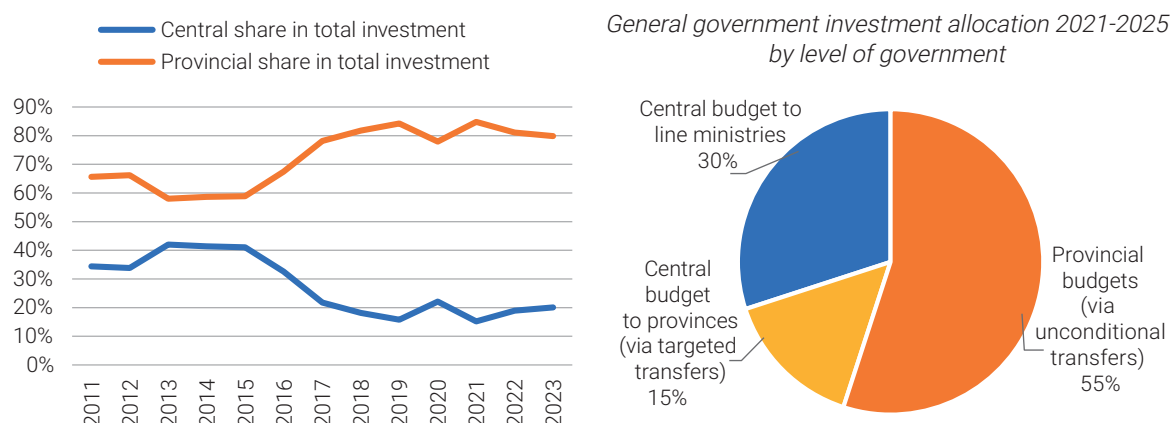
Viet Nam's system of local governance has for decades been one of a nested hierarchy of provinces, districts, and communes, with large cities having the status of provinces and somewhat greater autonomy. The large number of provinces means that many are small by international standards, but it also means that as a group they are politically powerful. Their representation in the Central Committee of the Communist Party of Viet Nam (CPV) grew when the number of provinces was expanded from 40 in 1986 to the 63 of recent decades. (More on this below.) Local governments collectively work to increase their budget envelopes, especially for investment, but individually find themselves in competition. While the competition has brought some important results, without institutions supporting cooperation, it has also generated some inefficiencies.

The balancing transfer system favors poorer provinces, focusing primarily on equalization, but starves rapidly growing provinces of needed resources. In addition, Viet Nam's provinces compete with each other for investment and prestige, and there is little incentive for interprovincial cooperation. The result is overinvestment in big province-specific infrastructure projects, such as airports and seaports, industrial parks, economic zones, and tourism areas, even where there is insufficient demand to sustain them. Moreover, the large size of the transfers leaves the central government starved of resources for backbone infrastructure, while conditional transfers are dispersed and are not results-oriented.

³ Bui, 2025.

Viet Nam has largely delegated spending responsibility for public investment and for provision of public services to the provinces. As a unitary state, however, the basic structure and policies are set nationally, not locally. Although spending authority has been significantly decentralized to the provinces, provinces have little power to raise their own revenues or adjust the mix of services to local needs.

Summary Figure 7. Provinces control an increasing share of public investment



Sources: Ministry of Finance (mof.gov.vn) and World Bank staff estimates.

The current wave of institutional reform includes a reduction in the number of provinces and removal of one layer of government, the district. While focused on streamlining administration, the reforms also have the effect of jurisdictional integration and alignment of incentives within the larger merged provinces. This reform presents the opportunity to optimize division of powers and incentives for cooperation: to improve incentives in the mechanisms for interprovincial investments, to enhance revenue autonomy, to adjust intergovernmental transfers to ensure that rapidly-growing provinces have the resources they need to meet that demand, and to reduce the procedural formalism and ambiguity that contributes to delays in carrying out public investment projects.

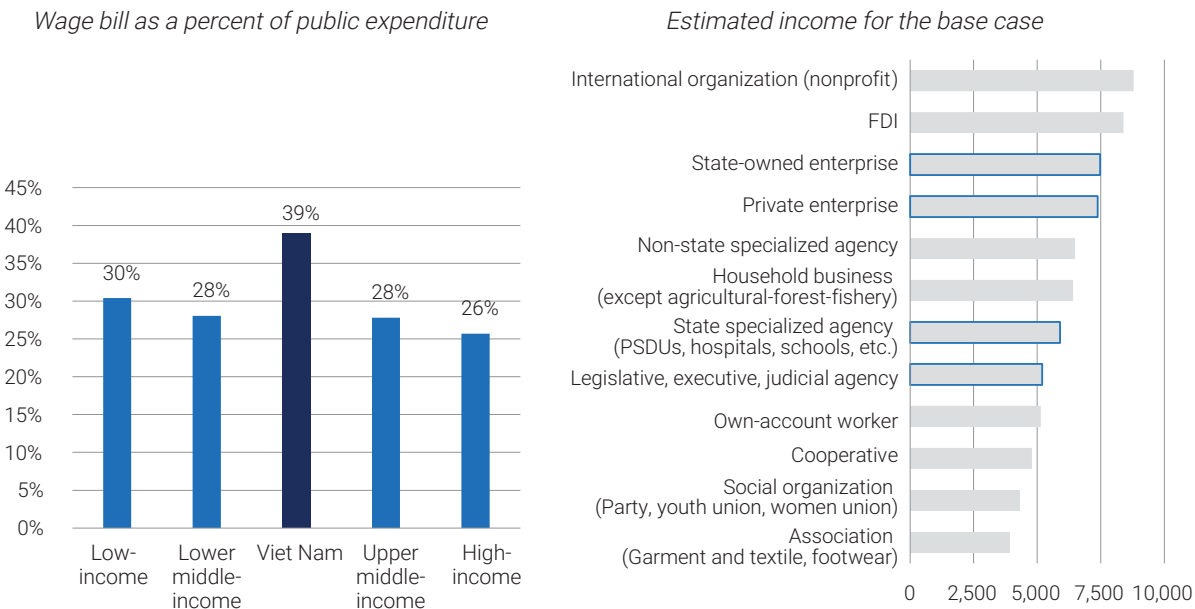
Motivating civil servants and building accountability

Among the most prominent of the current institutional reforms is the stated intent to reduce the number of state employees.⁴ This emphasis is well-founded. Viet Nam's public sector is large, in terms of employment, compared to most high-income countries, and Viet Nam's wage bill is also relatively large as a share of public expenditure. The size of the public sector workforce is determined, in part, by the scope of state activities—in Viet Nam, the shift in the role of the state suggests the need to gradually move toward a smaller but more highly motivated civil service.

⁴ Vietnamese laws and the public administration system have different provisions for cadres, civil servants, and public servants. In this report we generally do not focus on distinctions but rather consider the common issues for all state employees.

Motivation stems from many sources, but among them is remuneration. For many years, remuneration of public servants generally kept pace with overall economic growth, keeping the public sector competitive with the private sector, until the wage freezes associated with COVID-19. The result is that there is a significant gap between the pay of those working in the public administration and those in the private sector, after accounting for both individual and job characteristics. (Summary Figure 8.) The increases in salaries in recent years helped to partially bridge the gap. In addition, there is a significant gender pay gap, although this is larger in the private sector than in the public sector. As noted in the *World Development Report 2024—The Middle-Income Trap*, “Not investing in the talents of women and minorities, keeping them out of the most rewarding activities, and adopting unfair compensation practices are surely the most self-defeating attributes of middle-income economies, where skills are already scarce.”

Summary Figure 8. Viet Nam’s public sector is large compared to many others and remuneration falls short of the private sector



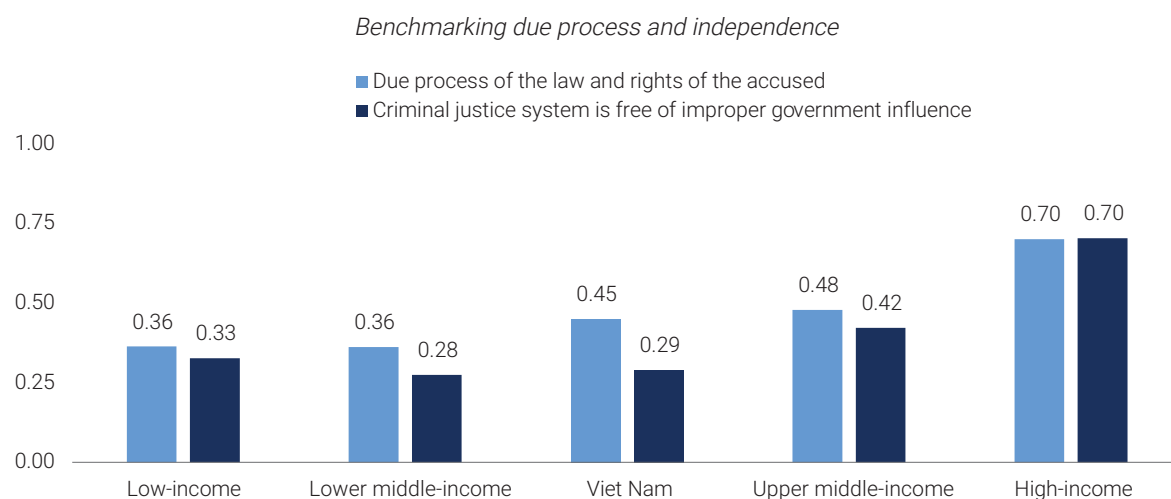
Sources: World Bank staff based on the Worldwide Bureaucracy Indicators and Viet Nam Labor Force Survey 2022.

Improving accountability in the civil service, if done efficiently and fairly, would also improve motivation and support state capability. Corruption had been normalized for many years and was not seriously tackled at high levels until recently. The anticorruption campaign has primarily focused on deterrence through investigations and punishment, important elements of all successful anticorruption campaigns. But in an environment of ambiguous laws and little confidence in the institutions of due process, it has led many officials to be cautious about taking responsibility for decisions. It is notable that Korea, one country that transited UMIC status very quickly, saw major institutional changes aimed at putting checks on the executive at exactly the time of its most rapid growth of GNI per capita, the basis for HIC

status.⁵ Assessments of Viet Nam’s institutional constraints and systems of independent due process put the country short of both UMICs and HICs. (Summary Figure 9.)

Gradually reducing the number of civil servants and improving compensation, including allowing greater flexibility for areas and skills where pay gaps are large, will help build a more highly motivated civil service. Rightsizing the civil service should be done carefully and in the least disruptive way possible, typically through early retirement or attrition, as is planned for Viet Nam. In addition, strengthening the institutions for due process, as well as renewing attention to the preventive side of anticorruption and external oversight, can help control corruption with less risk of bureaucratic paralysis. This includes strengthening the procedures and capacities related to income and asset declarations, as well as socializing more deeply the implementation of the Law on Access to Information, accelerating ongoing efforts to build institutions for open data and data sharing, and supporting a vigorous media and civil society.

Summary Figure 9. The importance of independent constraints on the executive and due process



Source: World Bank staff calculations based on the World Justice Project.

Running themes of institutional reform in Viet Nam

There are several themes that reappear throughout this study. First, institutions can complement each other or work at cross-purposes. Viet Nam’s experience shows that making progress in one area often calls for further progress in another. The current wave of institutional changes will surely bring about some need for adjustments.

⁵ See also World Bank (2025a) for discussion of Korea’s transition to HIC status and the role of institutions.

Second, legal and regulatory processes are fundamental for all institutions, and the process is nearly as important as the product. Bringing in diverse viewpoints helps avoid missteps; engaging with those to be regulated helps build buy-in and, ultimately, compliance. As the “institution for creating institutions”, the lawmaking process needs continued attention.

For institutional reforms to work there needs to be more attention paid to capacity and socialization of ideas. New capacities are needed, and these need to be financed and fostered, steps often omitted from legislative reforms. And when reforms are truly “breakthroughs” in concept—such as the presumption of open access to information or the changed role of the state or the need for true independence of oversight—the ideas need to be thoroughly socialized to lead to real behavioral change. Absent concerted efforts at capacity and socialization of ideas, the result will be a significant gap between the provisions of legislation and actual implementation.

Multiple lines of responsibility can dilute accountability and create confusion. This feature of Viet Nam’s decision-making system ensures, by design, that there are few major changes without thorough piloting. It is a risk-averse approach but is not well-suited for periods of institutional reevaluation and renewal.

Independent accountability and due process are important complements. Viet Nam’s hierarchical bureaucratic culture relies on internal accountability mechanisms, missing opportunities for independent external accountability. The system allowed corruption and inefficiency to flourish to the point where the “blazing furnace” crackdown became unavoidable. Building external mechanisms for accountability—greater reliance on transparency, independent governmental and nongovernmental oversight—would help address inefficiencies and corruption without leading to paralysis.

Independent decision-making builds a sense of ownership. Some of Viet Nam’s needed institutional changes are also cultural, including greater acceptability of independent decision-making and oversight. Independent reviews of projects can make public investment management more efficient, for example, and the need for greater independence of decision-making extends to provincial governments which can benefit from greater autonomy for innovation.

Competition is good but sometimes cooperation is better. Viet Nam needs to build the institutions for cooperation, particularly cooperation between provinces. Such institutions need to be facilitated and encouraged, but allowed to arise organically, rather than designed from above.

Institutions have very real effects on service delivery and on people’s lives. The institutions for public investment management supports basic infrastructure that is needed for education, healthcare, and transportation, and the legal and regulatory system determines the framework for service delivery and regulation against harmful activities. The motivation of civil servants and public servants has a direct impact on citizens in their experiences with public services.

The step-by-step approach works. Viet Nam’s incremental approach to reform leaves space to revisit approaches and change course if necessary, and the country has a long history of such a step-by-step approach to reform. Recognizing this fact is not an endorsement of complacency and avoiding

necessary changes. Rather, it is a reminder that some of the benefits of a step-by-step approach should not be discarded.

Viet Nam's future trajectory could resemble that of countries that avoided the middle-income trap and passed through to high-income status in short order, building accountable states, quality public investments, and arms-length regulatory systems. But there are also risks that it could resemble other countries whose progress was undermined by increasingly powerful interest groups, those bent on capturing state policy for their own benefit. And uncertainties of the future—from pandemics to trade wars—will increase the value of a nimble and efficient set of institutions.

“Step-by-Step” works but sometimes an “Institutional Big Push” is needed

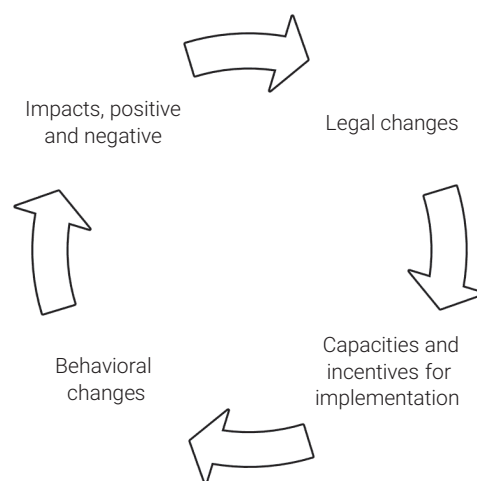
The wave of organizational reform underway in Viet Nam has no precedent in recent decades. Many of the changes are needed to rationalize public administration, strengthen motivation of civil servants, and remove bottlenecks for progress. Institutions have come to be known as the “bottleneck of bottlenecks.” Fixing institutions will be the “breakthrough of breakthroughs.”

The momentum for institutional reform is strong and this is an opportunity that should not be wasted; an opportunity to prepare the ground for a much larger and more complex economy, to build mechanisms of independent and external oversight, to foster resilience to challenges that lie ahead; a once-in-a-generation chance to refine the role of the state and prepare for prosperity for the Vietnamese people.

Summary Annex.

Priority institutional reforms

Institutional change is about more than passing laws. In order to meaningfully change behavior, legal changes need to be accompanied by active development of capacities and incentives for implementation, and by feedback loops to learn from implementation. In many ways, Viet Nam's step-by-step approach to policymaking reflects these qualities. Some efforts at institutional and policy reform, however, are implemented slowly if at all. The challenge of implementation was seen in the years following *Viet Nam 2035* report and was also a theme of the WBG's *Systematic Country Diagnostic*. The learning cycle of institutional reform needs upgrading.



In addition to the broad lessons outlined earlier, *Viet Nam 2045—Breaking Through* sought to provide concrete and actionable recommendations for a medium-term agenda. Some are technical in nature and are only the tip of the iceberg. This annex highlights some of the needed changes, grouped around the focus areas of the deep dive analyses.

Policy area 1: Market-Complementing Institutions: **Public Investment**

Address the built-in inefficiencies that have hindered the public investment system. A number of changes are already accomplished with the recent revisions of the Public Investment Law. These include the institutionalization of special mechanisms by the National Assembly that had previously been used on an ad hoc basis to solve specific problems. Joint projects undertaken by several provinces, or several districts or communes within the province, have been streamlined to address obstacles to the initiation and execution of projects which serve the needs of multiple provinces. Other improvements, such as the increase of thresholds for approvals and some delegation, are welcome.

Several other issues remain. As Viet Nam sharpens its institutions to align with market-orientation, sharpening the concept of public investment (which is currently expansive) would also help. In addition, the ability to improve the quality of estimates of the capital expenditure baseline on a rolling basis is still not envisioned, nor are the issues of independent review and harmonization of capital and recurrent budget plans in a single medium-term planning framework. Capacities and procedures need to be built along with legal changes, for example preparing projects better before the decision to include them in the MTIP, and strengthening mechanisms for rejecting low-quality projects. Similarly, delays could be reduced by bringing planning for land resettlement earlier in the project cycle and further expanding delegation.

Policy and/or Legal Changes	Capacity/Organizational Changes	Shifting Behavior/Norms
• Consolidate the legal basis for the core PIM system, give mandate for high-level coordination to a single agency. • Adopt detailed methodological guidelines for preliminary screening, ex-ante evaluation and ex post review of projects. • Make explicit allowance for the rejection of a project by appraisal committee based on negative pre-feasibility/feasibility study findings. • Harmonize the Public Investment Law and the State Budget Law to ensure efficient annual budgeting of both capital and recurrent expenditure within a rolling medium-term framework.	• Reinforce the portfolio monitoring and management functions and equip the responsible bodies with the tools and authority to collect accurate and timely portfolio data. • Ensure integration of the National Electronic Procurement System (VNEPS) with the Treasury and Budget Management Information System (TABMIS). • Implement a comprehensive capacity building strategy to build a more professional procurement function within government. • Ensure adequate resourcing of human and financial cost estimation of land compensation.	• Ensure adequate resourcing of human and financial cost estimation of land compensation (LFDCs) and harmonize the national compensation methodology with international practice. • Ensure that cost norms are at market prices to derive reasonable cost estimates of projects.

Policy area 2: Market-Regulating Institutions: **Lawmaking and Regulatory System**

Speed up the lawmaking process while building capacity for better analysis. The seismic changes to the lawmaking process of the past decades have brought many positive results. Upstream consultations and analysis have helped, but in many cases the Policy Impact Analyses are pro forma and do not reflect serious analysis of alternatives or their impacts. Greater effort should be placed on building capacity at the lawmaking agencies (i.e., the ministries or agencies in charge of drafting the laws) to undertake real analysis, especially of the economic and gender impacts of the laws. While the deliberative approach to lawmaking has many advantages, the management of the workload of the National Assembly by planning the legislative calendar well in advance makes it difficult to address urgent issues quickly.

The efforts to control administrative procedures have been commendable and have brought some improvements to the business environment in which Vietnamese firms operate, and these efforts should continue. A more fundamental change reflecting an evolved role of the state in Viet Nam would be to also shift away from regulating inputs (e.g., minimum size of premises) and instead focus regulations only on cases where there is a compelling social objective such as controlling pollution or fraudulent behavior. Special attention to the new regulatory needs of renewables is also underway and this, indeed, is a priority for Viet Nam's green growth ambitions.

Policy and/or Legal Changes	Capacity/Organizational Changes	Shifting Behavior/Norms
• Revise the Investment Law to clarify and reduce the number of business activities subject to ex ante approvals (the so-called business conditions in Viet Nam), and to specify the quality control process for ex ante approvals with a risk-based approach. • Review and revise all decrees on investment conditions for business activities subject to investment conditions specified in the Investment Law with a risk-based methodology. • Revise Decree 63 on administrative procedures to require data and service integration and a roadmap for 100% online administrative services.	• Develop a Regulatory/Policy Impact Assessment expert team in Ministry of Justice and Office of the Government to support impact assessment capacity in ministries, and to provide independent assessments to government leaders. • Establish a task team at the center of the government to review existing business regulations for reducing unnecessary barriers to investment and innovation and to introduce smarter regulation based on the latest technologies. • Support greater capacity in the National Assembly for both the lawmaking and oversight functions.	• Make the regulatory/policy impact assessment (RIA/PIA) methodology a compulsory course for civil servants and a pre-condition for promotion. • Regularly estimate and publish compliance costs by sectors/industries to enhance transparency and accountability.

Policy area 3: Institutions for State Capability and Accountability: **Rationalize Government Structure & Strengthen Motivation of Civil Servants**

Strengthen motivation of civil servants and public servants. Remuneration for public employees is lower than private sector counterparts, even after controlling for job and personal characteristics. The gap widened during the wage freezes associated with COVID-19, and has narrowed since recent wage increases, but the gap remains. The need for flexibility is evident for rapidly growing provinces and regions, and introducing greater flexibility for provinces would help address this. Viet Nam could more quickly reach its goals for gender equity by providing guidance on antidiscrimination policies. Efforts are also underway to shrink the size of the public sector workforce, and this would help pay for salary increases. Finally, Viet Nam's steps forward in regulating conflicts of interest are notable but could use some nuance for special cases such as for researchers and academics.

More can be done to strengthen due process, independence and professionalism of oversight institutions, and the preventive side of anticorruption. The current anticorruption drive needs to be complemented with attention to prevention. The Law on Access to Information was a major step forward, but more effort needs to be placed on capacity and socializing the obligations of the state under the law. Viet Nam needs to build greater confidence in truly independent approaches to due process for those accused of wrongdoing and make it clear to media and civil society that professional, critical, speech is allowed and encouraged in a healthy governance system.

Policy and/or Legal Changes	Capacity/Organizational Changes	Shifting Behavior/Norms
Conduct functional reviews of ministries and agencies slated for mergers (particularly in the areas of integrative / multi-purpose infrastructure development such as transport, construction, and dikes; and public finance and investment management).	- Accelerate the identification of job descriptions, competencies, and requirements through the civil service. - Conduct a competency needs assessment for staff at the organizational and department level, forecasting the needs for staff in the medium term. - Address implementation weaknesses in the system of income and assets declarations.	- Identify good practices with the system of codes of conduct and prevention of conflicts of interest. - Provide space and clarity for civil society and media. - Socialize sustainability reporting.

Policy area 4: Institutions for State Capability and Accountability: **Rationalize Public Administration and Intergovernmental Fiscal Arrangements**

A first set of measures aim to strengthen the leading and facilitating role of the central government, while developing coordination around resources and provide mechanisms—both vertically and horizontally across levels of governments—for nationally and regionally integrated infrastructure services including for green and climate actions. Potential measures include reconsidering revenue assignments and sharing arrangements of several key taxes. Operationalizing public investment program modality for critical priorities such as the three national security agendas—water, energy, and food security. At the same time, enhancing coordination and financing mechanisms for interprovincial and interregional collaboration, such as fiscal incentives (e.g., matching grants) for regional infrastructure development and joint province-province (public-public) partnerships. Spending assignments within each region could also be better tailored to its economic strengths and weaknesses, while ensuring that people in all regions have access to good-quality basic services.

A second set of measures would strengthen subnational government autonomy and accountability by applying an asymmetric system of spending assignments for urban/metro and rural jurisdictions and adjusting the capital transfers formula to consider the more complicated infrastructure needs of the metro regions and major secondary cities. Viet Nam could also expand revenue autonomy and borrowing headrooms for subnational governments while adopting modern and transparent systems of subnational fiscal rules and risk management.

A third set of measures focus on the balance among the development objectives of equity, efficiency, and sustainability by reforming the budget allocation formula with consideration of using separate transfer mechanisms (conditional, matching and/or performance-based grants) to address the different development objectives. The transfer or budget allocation rules and formula could also be adjusted to respond to the greater needs of the urban centers, reward stronger local performance and efficiency (including on green and climate actions) and account for increasing pressure on the environment. More equitable arrangements for sharing of critical tax revenues across provinces could also be considered.

Policy and/or Legal Changes	Capacity/Organizational Changes	Shifting Behavior/Norms
Amend the State Budget Law to remove impediments and strengthen incentives for vertical and horizontal investment coordination between central and local budgets.	Adjust the tax sharing formula (particularly for VAT, CIT, and PIT) and budget allocation formula to align with the actual spatial footprint of economic activities and migration flows.	Incentivize green and climate actions across levels of government, such as through ecological fiscal transfers (EFT) and payments for ecological services (PES) (as being very effectively implemented in China and India and many other countries).

Policy and/or Legal Changes	Capacity/Organizational Changes	Shifting Behavior/Norms
• Institutionalize “public investment program” modality as stipulated in the Public Investment Law and prioritize the 2026-2030 targeted transfers budget to promote critical agendas such as development of dynamic zones, national water security, and blue economy / coastal resilience. • Amend the State Budget Law to reconsider revenue assignment, including for own-sourced revenue (such as land-related revenue, natural resource tax, new property tax, surtaxes on PIT and CIT), and risk-based borrowing thresholds for subnational governments (SNGs). • Longer-term: Consider amending the Constitution and State Budget Law to remove the nested budget system while maintaining the unitary framework.	• Institutionalize a co-financing mechanism—based on national and subnational fiscal capacity assessments and a well-defined formula—that integrates external and domestic financing into a holistic framework. • Enable SNGs particularly metropolitan cities to adjust intra-city finance structure to align with the emerging metropolitan administrative structure.	

PART I

VIET NAM'S INSTITUTIONAL STRETCH GOAL

Institutions, the rules that govern behavior among people and organizations, are foundational for Viet Nam's aspirations to reach high-income status by 2045. Few countries passed through the upper middle-income phase of development so quickly, and those that have achieved such growth did so while improving their institutions, notably the institutions that reduce transactions costs for firms and people.

Viet Nam's successes in economic growth, poverty reduction, and social outcomes came as institutions were being improved in many ways. In the years since Doi Moi, the country established the basics of property rights, rationalized the lawmaking process, streamlined administrative procedures, reshaped the relationships between levels of government, and significantly improved transparency.

Viet Nam is currently in the midst of another major set of institutional reforms focusing primarily on a reorganization of its public administration at both central and local levels. The effort to upgrade Viet Nam's institutions comes at a time when the role of the state is evolving, shifting from one of directing economic activity to one of laying the ground rules while letting market forces shape economic decisions.

While Viet Nam's institutions may not have the forms that exist in other countries, it is the functions of institutions, rather than specific forms, that are important. This study adopts a framework based on the functions of institutions in the quest to support an evolving role of the state: market-creating, market-stabilizing, market-regulating, market-complementing, and market-legitimizing institutions, as well as the institutions for a capable and accountable state.

Part I of this study will first survey the landscape of institutions in Viet Nam according to this framework. Some institutions may be essential for growth in the long term, but do not seem to be binding constraints to Viet Nam's growth. Others are more foundational and will be the subject of deeper dives in Parts II and III of this report: those for a growth-supporting state (market-complementing and market-regulating) and those for the state's capability to deliver with efficiency and accountability. This emphasis is also consistent with the experience of countries that escaped the middle-income trap—many of which did so by improving the predictability of the implementation of laws, by boosting quality and quantity of public investment, and by improving the quality and motivation of their public administration.

Viet Nam has embarked on bold and critical institutional reforms. These reforms, initiated in earnest in August 2024, span across state organizations, at both central and local levels, and the country's legal framework. The air of transformation is reminiscent the "Doi Moi" reforms that began in the late 1980s and expanded over the decades. Just as "Doi Moi" aimed to overhaul the economic landscape by shifting from a centrally planned system to a market-oriented economy, eradicating extreme poverty, and fostering economic growth through open trade and private sector development, the current reforms are equally ambitious. The primary focus now is on reducing the size of the bureaucracy and enhancing efficiency and productivity, which are crucial for driving robust socioeconomic development and steering Viet Nam towards becoming a high-income economy by 2045.

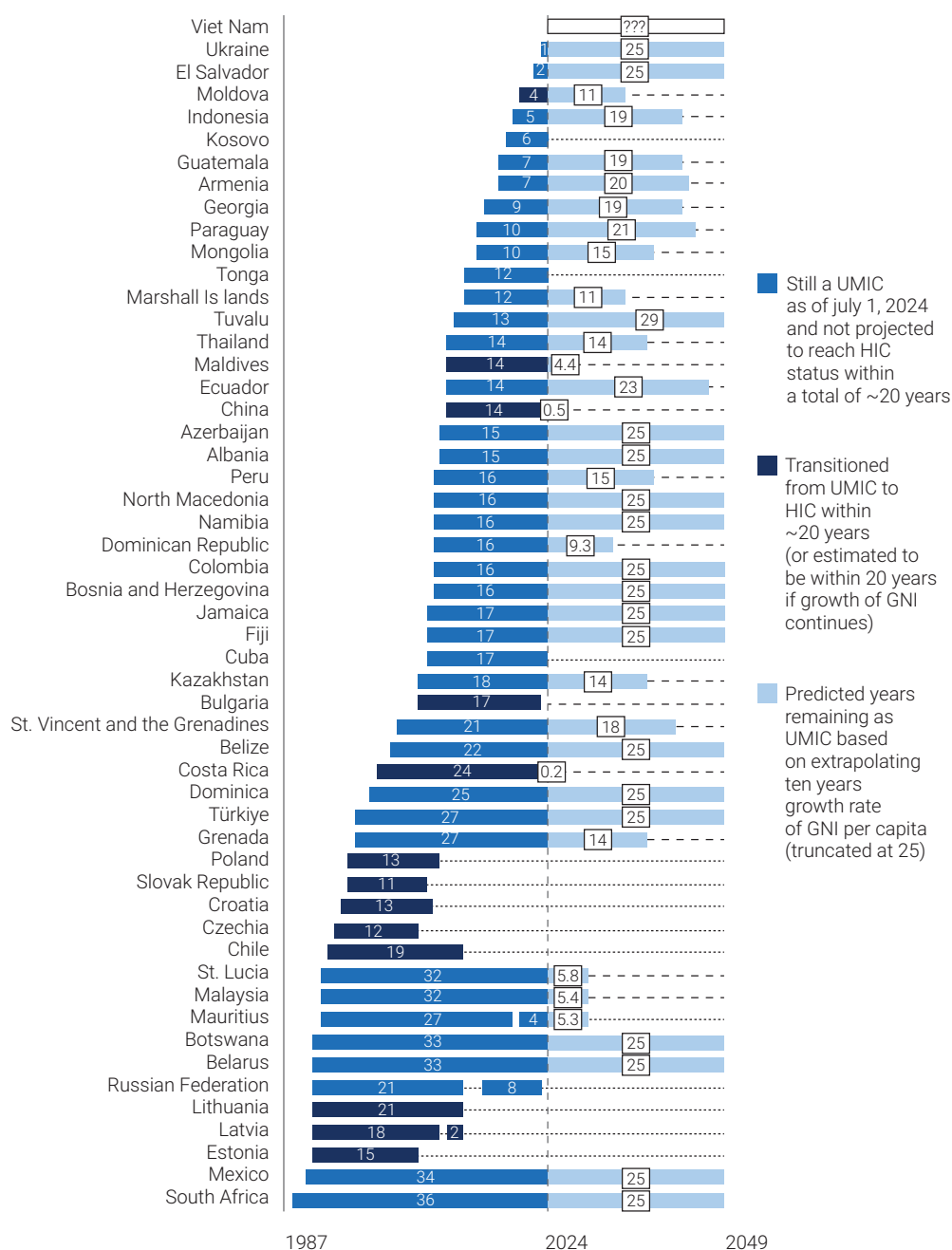
The emphasis on institutions is well-placed—Institutions will make or break Viet Nam's ambitions to become a high-income country by 2045. The level of ambition is admirable—few countries pass from lower middle-income to upper middle-income to high-income status in the 20 years that Viet Nam has aimed for. Many spend 30 or more years growing too slowly to cross the threshold. If Viet Nam is to avoid that fate, it will need to maintain a high rate of economic growth; not growth at any cost, but growth while also addressing environmental challenges and climate change, and while making progress on social and governance aspirations, as well. Reaching high-income status by 2045 is truly a "stretch goal." (Figure 1)

The stretch goal comes on the heels of considerable progress in the decades since Doi Moi. Viet Nam's economy is five times larger, in real terms, than it was 30 years ago. The sustained high rate of growth, averaging 5 to 6 percent over three decades, is an achievement that very few countries can match. And by any measure, rates of poverty are now a fraction of what they were in decades past. (Figure 2).

Viet Nam's growth has been accompanied by an impressive increase in the availability of services. Life expectancy increased from 69 to 74 years, and the adult literacy rate grew from an already high 90 percent in 1999 to 96 percent in 2022. Births are 25 percent more likely to be attended by skilled health staff than in 1997, the maternal mortality rate fell from 88 per 100,000 live births in 2000 to 46 in 2020, and the infant mortality rate has halved. These achievements reflect many factors, but among them are the institutional reforms that enabled the private sector and incomes to grow, on the one hand, and the institutions that supported the public sector to better provide services, on the other.

Figure 1. Becoming a high-income country in only 20 years is the exception, not the rule

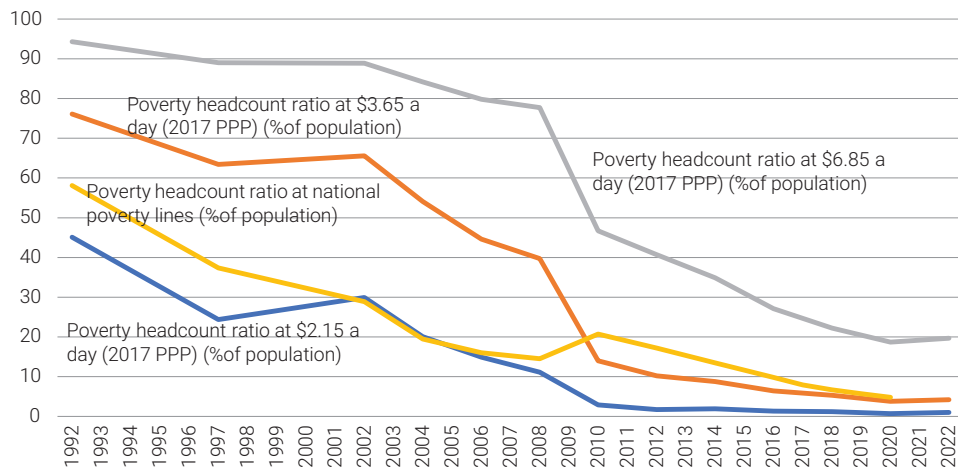
Years as an upper middle-income country before becoming a high-income country



Source: Author's calculations based on World Bank, 2024e.

Notes: Includes countries which have passed completely from LMIC to UMIC to HIC since 1987 when the classifications began, as well as those which became UMICs during this period and remain so. The chart excludes high-income oil exporters. Dips to LMIC after becoming UMIC are combined with the UMIC periods. For those countries that are still UMICs, the average growth rate of GNI per capita (Atlas method) was calculated for the 10-year period through 2019, pre-COVID-19. This was extrapolated to find the predicted number of years until crossing the HIC threshold; this was truncated at 25 years, as for some countries it could be a very large number, or convergence is not predicted based on extrapolated growth rates.

Figure 2. Poverty rates, by any measure, have fallen



Source: World Bank, 2024e. World Development Indicators.

Viet Nam’s progress has coincided with a gradual but unmistakable shift in the role of the state.

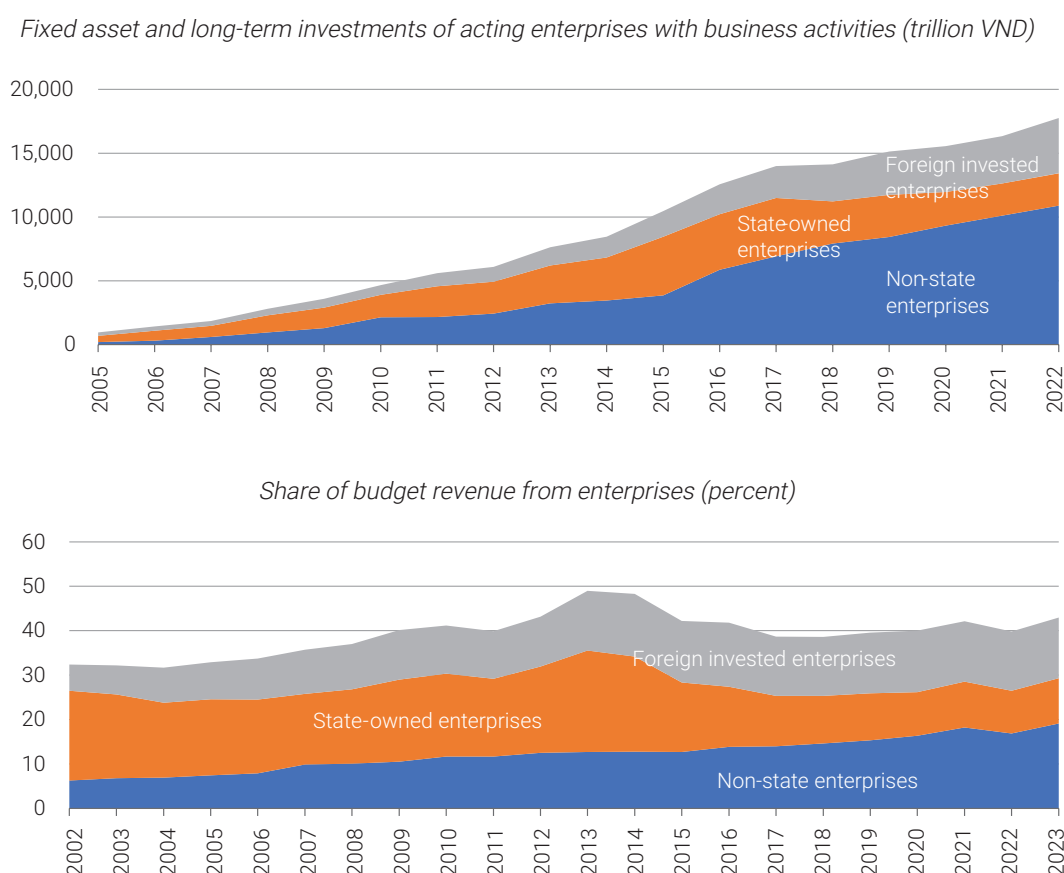
Viet Nam’s Constitution declares that “the Vietnamese economy is a socialist-oriented market economy with multi-forms of ownership and multi-sectors of economic structure; the state economic sector plays the leading role.” What does it mean to be a socialist-oriented market economy at this point in Viet Nam’s history, and what will it mean in the future? It has been decades since Viet Nam moved on from the planned economy in which the state was the owner, producer, and residual claimant for economic activities—profits are no longer decried as antithetical to social goals but have come to be seen for their contribution to growth, employment, poverty reduction, and social progress. There has been a long-standing move toward encouraging the private sector, and by nearly every indicator, the dominance of SOEs in the economy has shrunk. They are still an important part of the economy, but the trend is strongly in the direction of fostering a vibrant private sector and competitive economy. The state increasingly acts as the regulator of private activities, leaving market forces and competition to discipline inefficiencies, reserving state interventions to those situations where private incentives are insufficient on their own, for example sanctioning fraud, environmental degradation, violations of labor rights, and others. The set of institutions which reduce transactions costs faced by firms needs to be supplemented by the set of institutions enabling the social, regulatory, and organizational functions of the state.

Viet Nam’s economic and social achievements have also included step-by-step improvements to its institutions—the rules, both formal and informal—that govern economic behavior.

The decades since Doi Moi have seen a gradual expansion of access to information, citizen engagement, property rights, decentralization, institutions for public sector management, and mechanisms for accountability, among others. The economy has moved to rely more on market institutions, even if some legacies have persisted, including, for example, imperfect markets for land. Viet Nam’s political institutions are also unique, providing remarkable stability even while systems of accountability and checks and balances are evolving. While Viet Nam’s institutions equipped the country to deliver basic infrastructure

and human capital, there are also signs of institutional paralysis with diminished effectiveness in delivering the foundations for future growth. If Viet Nam has made such progress in the past, not only in economic and social spheres, but institutional, as well, one may ask: Why focus on institutions for achieving Viet Nam's stretch goal?

Figure 3. The growing importance of the private sector in Viet Nam's economy



Source: World Bank staff calculations based on GSO data.

The reforms that began in 2024 include major reorganizations and continued deepening of regulatory institutions. Identifying institutions as the core challenge hindering Viet Nam's economic progress—the “bottle-neck of bottle-necks”—the current reform efforts are focused on enhancing the quality of institutions to ensure robust, sustainable and inclusive growth over the next two decades. This strategic direction has been a central theme in discussions among Viet Nam's leaders over the past decade. During this period, numerous resolutions have been passed with consensus being built around the need to streamline state operations and administrative procedures, leverage innovation and technology for increased productivity, and invest more in national infrastructure and human capital. Resolution No. 18-NQ/TW, issued in 2017, in particular, focuses on renewing and streamlining the organizational

structure of the State apparatus to be lean and effective, while enhancing decentralization between central and local governments. The resolution aligns organizational reform with administrative reform, modernization of the administration and civil service to reduce bureaucracy, enhance accountability, improve operational efficiency and quality of public services for people and businesses. (Box 1 provides further details.)

Box 1. Viet Nam's new era of reform

The reorganization efforts launched in 2024 include restructuring government ministries and agencies, committees of the National Assembly and provincial administrations to ensure a more efficient and effective governance system. With a strong emphasis on the speed of implementation, organizational changes across the state apparatus have been undertaken in just six months, from September 2024 to February 2025. Plans have been put in place for a sizable reduction in the public workforce – expected to be as much as 5 percent in 2025.

The Government has implemented a plan to streamline the state apparatus, reducing the number of ministries from 22 to 17. The Ministry of Planning and Investment has been merged with the Ministry of Finance, the Ministry of Transport with the Ministry of Construction, the Ministry of Information and Communications with the Ministry of Science and Technology, and the Ministry of Natural Resources and Environment with the Ministry of Agriculture and Rural Development. Additionally, the Ministry of Labor, War Invalids and Social Affairs has been dissolved, with its functions reassigned to the Ministry of Home Affairs, the Ministry of Education and Training, Ministry of Health and the Committee for Ethnic Minorities, and relevant agencies. Agencies such as the Committee for Management of State Capital at Enterprises and the National Financial Supervisory Committee have been dissolved, with their functions transferred to the Ministry of Finance, the State Bank, and relevant agencies. Mergers of government agencies are accompanied by streamlining functional units under each ministry by as much as 40 percent. These changes allow for consolidation of functions across government ministries, increased accountability and opportunities to reduce administrative procedures.

The National Assembly is also being streamlined. The number of committees has been reduced from 10 to 6 through mergers, combining the Economic Committee with the Finance and Budget Committee, the Social Committee with the Committee for Culture and Education, and the Judicial Committee with the Legal Committee. The Committee on Foreign Relations has been dissolved, with its tasks transferred to the Ministry of Foreign Affairs and related agencies. The Institute for Legislative Studies and Parliamentary Television has also ceased operations, with their functions assumed by other agencies.

There are also major changes to local governance arrangements. Provinces are being merged—of 63 provinces and cities, 52 will be merged with others by August 30, 2025—and the district level is being eliminated altogether. Provincial authorities have undertaken the merger or dissolution of departments and branches with overlapping or outdated functions to improve management efficiency. Enhancing decentralization between levels of government has been promoted, enabling localities to be more proactive in management and administration while reducing the burden on higher levels. The mergers are also seen as facilitating infrastructure projects. A large number of communes within each province are also being merged to improve operational efficiency at the grassroot level, and some 70-75 percent of commune-level administrative units are slated for elimination.

1. Why institutions?

Viet Nam's progress is remarkable, yet very real challenges persist. Firms in Viet Nam continue to complain about ex ante administrative procedures. Public investment processes are less chaotic than in the past but are slow and rigid and do not respond well to adjustments. Decentralization has allowed provinces more control over their spending but has also led to wasteful competition between provinces, underproviding some infrastructure and overproviding other infrastructure. Laudable efforts to improve the lawmaking process have brought some positive results but the process can still be slow and some innovations are not fully implemented. Efforts to reduce corruption, long known to be a problem, have taken hold and shifted perceptions but have also left many decision makers reluctant to make decisions.

Many of Viet Nam's current challenges are institutional in nature. Consider public investment: The Government of Viet Nam has estimated that to achieve high-income status by 2045, the country needs public investment of 7.3 percent of GDP annually. Yet, the institutions for public investment are slower than needed and, until recently, have been getting slower. Although budget revenue collection exceeded plans in 2024, disbursement of public investment was only 77.5 percent of plan. While such a disbursement rate is not unusual for lower middle-income countries (LMICS), it is well short of the UMIC average of 95 percent and the HIC average of 96 percent. (Recent amendments to the Public Investment Law address some of the most crucial procedural and administrative bottlenecks, but some more fundamental challenges remain.) Being able to disburse is one issue—disbursing on the right things is another. The existing institutions of central and local government have generated a system that incentivizes excess capacity in seaports and airports, mostly loss-making, while underinvesting in connective infrastructure. The current plans to consolidate some ministries and agencies, and to merge provinces, will have important ramifications for Viet Nam's infrastructure for growth. How can the institutions governing public investment better align incentives to improve implementation of public policy?

The institutions governing the public sector workforce also demand scrutiny. In 2023, the rate of civil servant and public employee resignations was higher than in the past affecting many areas of socio-economic development management, including public investment. The recently announced plans to cut some 20 percent of the public workforce signals the government's commitment to efficiency, but questions of motivation of that workforce remain. How can the reduction in the workforce be done in the least disruptive way, and how can the institutions for the civil service and public service continue to attract and retain talent?

The challenges are also felt by the private sector. Despite repeated efforts at administrative procedures simplification, more than 25 percent of firms still report spending at least 10 percent of their time understanding and dealing with regulations. Why do efforts to control administrative procedures so quickly need to be repeated?

Many past reforms are only weakly implemented. Six years after the Law on Access to Information took effect, fewer than 13 percent of provinces publicize information on the focal point for information provision, and only 16 percent have set up an access to information section. Other institutional advances have similarly met implementation challenges. Seventeen years after the first introduction of requirements for upstream analysis of the impacts of laws, and ten years after specific assessments for gender, economic, and social impacts, pro forma adherence to the legal requirement is high, but the depth of the analysis is often weak. Viet Nam’s path-breaking requirement to conduct gender impact assessments when introducing new or amended legislation remains ineffectively implemented, despite concerted efforts to do so. The institutions that generate these paradoxes need scrutiny.

The challenge of implementation was a key finding of a detailed review of the recommendations from *Viet Nam 2035: Toward Prosperity, Creativity, Equity, and Democracy*. Published in 2016 to mark 30 years of Doi Moi, *Viet Nam 2035* examined the changes needed for Viet Nam to become “a modern and industrialized nation moving toward becoming a prosperous, creative, equitable, and democratic society” by 2035. (World Bank and Ministry of Planning and Investment of Viet Nam, 2016). While the document was rich in laying out its vision, some 75 percent of its recommendations were not reflected in policy documents at the time of a review in 2023. (Thang, 2023). The COVID-19 pandemic certainly contributed to the delays, but other factors contributed, as well.

Table 1. Implementation of recommendations from *Viet Nam 2035*

#	Transformation	Number of recommendations	Number included in policy documents	Rate (%)
1	Enabling economic modernization and private sector development	30	10	33.3
2	Moving toward an innovation-led economy	30	9	30.0
3	Managing urbanization for greater economic efficiency	19	1	5.3
4	Achieving sustainable climate resilient growth	35	5	14.3
5	Promoting and social inclusion	26	5	19.2
6	Building modern Institution for an effective state	42	15	35.7
	Total	182	45	24.7

Source: Thang, 2023.

Consensus-style decision-making takes time, especially for major changes, and this also explains the slower-than-expected implementation. Most of the reforms adopted following the publication of *Viet Nam 2035* were technical in nature, with the most challenging changes left on the table for debate. The review of implementation also highlighted other factors contributing to slow implementation including the low quality of legislation, the legislative process in which related ministries are responsible for their own legislation, and the lack of effective mechanisms to protect officials willing to take action (Thang, 2023).

The challenge of implementation is well recognized by the authorities. The 2021 Party Congress recognized that uneven implementation had meant that not all the development objectives set in 2010 had been met by 2020. Consequently, implementation was made the top priority of the 2021-30 Socio-Economic Development Strategy,⁶ which also underscored the importance of improving institutions to facilitate and reduce costs for businesses.⁷

Viet Nam's leadership has launched an energetic institutional reform program. While the implementation of policies advocated in *Viet Nam 2035* was slow, it has recently accelerated at breakneck speed. *Viet Nam 2035* advocated emphasis on reducing organizational fragmentation and strengthening merit-orientation in the civil service, for example, as well as continued emphasis on market principles and reducing administrative procedures.⁸ In the past year, as outlined in Box 1, Viet Nam's leadership has set about consolidating ministries and announced plans to reduce the size of the public sector significantly. Institutions are central to the current reorganization, and the momentum for change has been credibly established. But which institutions are the most fundamental?

⁶ "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." (SEDS 2021-2030). The challenge of implementation was a key theme of Viet Nam's Systematic Country Diagnostic (SCD) update (World Bank, 2021c) and of a review of *Viet Nam 2035* (Thang, 2023). The SCD, titled "How will Viet Nam Blossom? Reforming institutions for effective implementation," looked at a number of priorities for the country and provided assessments of six determinants. Vision was relatively stronger than capacity or motivation, and the assessments for coordination and accountability were lowest, on average.

⁷ The Socio-Economic Development Strategy 2021-2030 highlights that socialist-oriented market economy institutions should "become complete, synchronous, modern and integrated, focusing on the market for factors of production, especially the markets for land use rights, science and technology." It further calls for the renovation of national governance and the building of "the apparatus of a streamlined, effective and efficient socialist state of law; push up the decentralization and delegation of authority to ensure unified management, build on the initiative, creativeness and responsibility of all levels and line agencies." Government of Viet Nam, 2020.

⁸ "In 2035, the government will be less horizontally and vertically fragmented, with a clear separation between public and private interests and between the commercial and regulatory functions of the state. Economic regulations will be based on market principles, and the government will enforce clearly defined property rights. Greater separation between the executive, legislative, and judicial branches will enable each to perform the assigned roles without interference. Nonstate organizations, including social, religious, and professional organizations, will participate actively in public life, monitoring the performance of government and partnering with government agencies to implement activities and programs for the public good." (World Bank and Ministry of Planning and Investment of Viet Nam, 2016, 70-77.)

2. Which institutions?

Institutions can be formal or informal, supportive of growth and social ambitions or detrimental to them. Thought of as the rules that govern behavior by and between people, firms, the state, and public and private organizations, institutions provide the framework on which decisions are made, and upon which society progresses or regresses. Although it would be easy if there were a simple recipe describing which institutions to introduce in which order to achieve progress, such a recipe simply doesn't exist. Indeed, it cannot exist as institutions are "path dependent," meaning that although the current state of institutions and context are important for mapping the way forward, the path that was taken to get there is also important.

Box 2. Which institutions matter for growth?

Researchers in the social sciences long ago concluded that institutions—the rules, both formal and informal, that guide human behavior—help determine the degree and trajectory of social and economic progress. Douglass North (e.g., North, 1991) helped show the importance of institutions in history and the role of transactions costs in economic growth, ideas for which he won the Nobel Prize in Economics in 1993.

Studies of the determinants of growth also point to institutions. Dani Rodrik (2000) focused on participatory political systems as "the most effective ones for processing and aggregating local knowledge. Democracy is a meta-institution for building good institutions. A range of evidence indicates that participatory democracies enable higher-quality growth."

Xavier Sala-i-Martin (1997) examined factors that were empirically consistently related to growth. In addition to factors for which countries have little control, such as geography, he identified the importance of institutions such as the rule of law, political rights, and civil liberties, and policies such as limiting market distortions (especially those related to exchange rates), trade openness, and investment in both equipment and people.

Daron Acemoglu, Suresh Naidu, Pascual Restrepo, and James A. Robinson (2019) declare that "democracy does cause growth", using a definition of democracy that covers a range of institutions including "free and competitive elections, checks on executive power, and an inclusive political process that permits various groups in society to be represented politically," and, to a lesser extent, expansion of civil rights.⁹ Daron Acemoglu, Simon Johnson, and James A. Robinson won the Nobel Prize for Economics in 2024 for their research on how inclusive economic and political institutions contribute to growth.

⁹ Other researchers have argued, to the contrary, that these factors are not important for growth. See Acemoglu, Naidu, Restrepo, & Robinson (2019) for some examples, as well as their responses.

Mancur Olson (1982) drew on his earlier work on the logic of collective action to explain that countries grow when competitive market forces drive production and begin to drag when interest groups form to shift behavior and policy toward selective benefits and away from competition.

Institutions have played important roles in several of the World Bank's World Development Reports. *WDR 2017—Governance and the Law* examined the functions of governance that contribute to growth, notably the ability to show commitment and enhance collective action both of which support investment and efficiency, necessary elements of growth. In *WDR 2024—the Middle-Income Trap* the authors argue that “countries with weaker institutions—and especially those with lower levels of economic and political freedom—are susceptible to slowdowns at even lower levels of income.” The reason is that these institutions provide incentive and ability to innovate.

In short, the literature points to some factors which cannot be changed, such as geography, some things which are relatively easy to change, such as exchange rate or tariff policies, and some things which can be changed but need time, capacity, and behavioral adjustments to have effect, such as the institutions of the rule of law and participatory decision-making. Institutional reform takes time and determination but pays off in terms of growth.

Box 3. Functions and forms in Viet Nam's institutional system

Institutional structures from one place transplanted to a different place may not function properly. As emphasized in *World Development Report 2017—Governance and the Law* and other places, the *form* of institutions is not as important as the *function* of the institutions. There are several aspects of institutions in Viet Nam where the form is very different from what we see in many high-income countries, yet the function may be similar. The important question is whether or not the current institutional arrangements are achieving the objectives of reducing transactions costs and facilitating growth in the most efficient manner.

In some cases, the forms by which countries address some purposes are similar from country to country (family law, business disputes), while in others they vary considerably (anticorruption, decentralization, civil service). In Viet Nam, some of the forms are atypical, especially the relatively stronger role played by the Party, official mass organizations, and the Viet Nam Fatherland Front, and the relatively smaller role (and space) for independent media and civil society.

Function / Purpose	Typical Forms	Vietnamese Forms
Accountability of the executive	- Direct and indirect elections - Reporting to the legislature - Watchdog organizations, independent media	- Indirect elections (Party Congress) with role for the Viet Nam Fatherland Front - Reporting to the National Assembly, televised Q&A sessions and confidence voting by National Assembly deputies - Mass organizations - Limited role for independent civil society and media
Appeals of local government decisions	- Use of independent courts	- Appeal to national level bodies, such as writing to the National Assembly; dedicated appeal sessions with local and central leaders
Business to business dispute resolution	- Use of independent courts, arbitration	- Use of arbitration, specialized courts (economic court, labor court). Includes the use of “people’s assessors”.
Bring business concerns to the attention of lawmakers	- Business associations, chambers of commerce - Lobbying	- Viet Nam Chamber of Commerce and Industry; Viet Nam Business Forum, etc.
Investigating and sanctioning corruption	- Civil service commissions - Independent national and subnational anticorruption bodies, ombudsman, inspectors general - Police, prosecution, and judiciary	- Government inspectorate, local inspectorates - Party inspectorate - Police, prosecution, and judiciary
Auditing of the executive	- Supreme audit institutions	- National Assembly supreme supervision - State Audit of Viet Nam
Selection and vetting of civil servants	- Civil service commissions, national and local	- Ministry of Home Affairs, Departments of Home Affairs

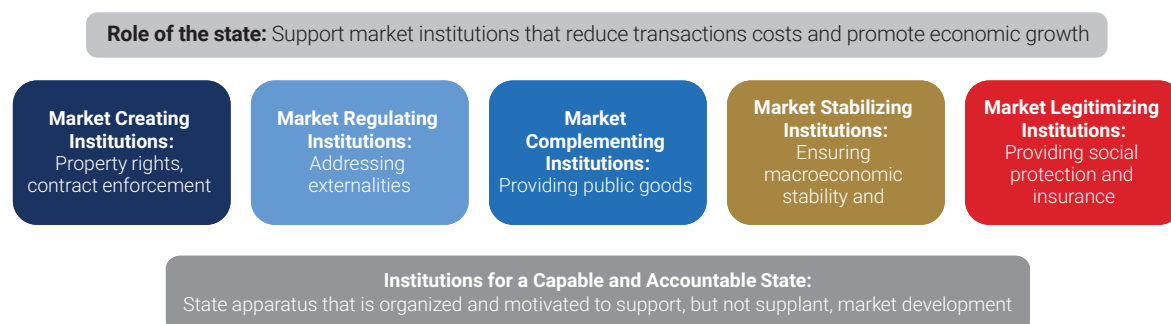
This study selectively focuses on the institutions that are needed for Viet Nam to achieve its ambitions. As the scope of what constitutes “institutions” is broad, volumes could be written on this topic for Viet Nam. To keep this study focused on the institutions that have the greatest impact on Viet Nam’s aspirations to become a high-income country, we will be selective in examining the institutions that support growth, and in identifying topics demanding deeper analysis.

Institutional reforms which reduce transactions costs for firms and people, directly or indirectly, support growth. The economics profession has recognized the importance of institutions for economic growth, and various aspects of policies and institutions are highlighted by researchers. (See Box 2.)

For this study we will focus on a subset of institutions that enable individual firms and citizens to transact with each other more efficiently; that is, those that help them to reduce “transactions costs.”¹⁰ These costs can come in different forms: the costs of uncertainty they bear when they are not sure that they will be paid or the quality of products will be as expected, the costs of transportation and damages to goods in transit, the costs of hiring private security to protect their property, the costs of dealing with red tape, and many others.

In identifying priority areas for institutional reform, it is important to focus on the functions of institutions, rather than the forms. Some international indicators focus on the form of an institutions (“does a country’s government organize itself in a particular way?”) rather than the function (“are firms affected in a particular way?”) In Viet Nam, the form of certain institutions can be very different from other countries, even if the function is similar. (Box 3.) In particular, the single-party political structure and consensus decision-making both generate accountability in ways that in other countries would be generated by electoral sanctioning and external oversight. Viet Nam has some of both—the implications will be discussed at various places in the report.

Figure 4. Organizing framework for institutions



Source: Authors, adapted from: Rodrik & Subramanian, 2003; Fukuyama, 2013; North, 1987.

Box 4. Indicators of the quality of institutions

Whereas economic statistics are generally widely available and constructed with methodologies dating back to the 1950s, measuring and assessing the quality of institutions is much more recent, and different types of indicators are used for this report. Cross-national tools for analyzing and benchmarking institutions are helpful, but they come with some caveats.

- *Surveys of firms and citizens* provide information on both their perceptions (e.g., how good are the courts) and their experiences (e.g., whether they had to pay a bribe when interacting with the state). Naturally,

¹⁰ See Wallis & North, 1986, for a summary.

their accuracy depends on the size of samples and other factors, but they are nevertheless helpful for bringing an analytical lens to complement qualitative analysis. This study draws on cross-national surveys including the World Bank Enterprise Surveys, the World Economic Forum's Executive Opinion Survey, the Global Investment Competitiveness Survey, and the World Values Survey. In addition, Vietnamese surveys such as the PCI and PAPI provide large samples surveys covering all provinces of Viet Nam and a long time series, and the Viet Nam Labor Force Survey is used for the analysis of compensation.

- *Expert assessments* of the quality of institutions are provided by many organizations and are often the only measures available. The largest ones generally include criteria for making the assessments and procedures for peer review to ensure consistency. They can be considered rough benchmarks, representing the views of experts in those fields. This study uses benchmarks from the World Justice Project, the Institute for Democracy and Electoral Assistance, and Polity V. In some cases, the assessments are provided by those with personal experiences, as is the case with the World Bank's Logistics Performance Index.
- *Rules benchmarking* involves systematic cataloging of rules and practices along various dimensions. Indicators of this sort used in this study include the World Bank Supreme Audit Institutions Independence Index, the Regional Authority Index, the World Bank's Benchmarking Infrastructure Development, the International Trademark and Patent Index, and two Central Bank Independence indices.
- *Observational data* still requires assessments by experts, but is based on things that can be observed, such as websites, numbers of firms with certifications, and others. This study uses data from the T-Index, Open Data Inventory, and the International Organization for Standardization. In addition, two Viet Nam-specific sources are used in this study, the tracking of access to information systems by the Center for Education Promotion and Employment and the Viet Nam Fatherland Front, and an analysis of Policy Impact Assessments undertaken for this study.

The approach taken in this report is to utilize a wide range of indicators to supplement qualitative assessments. While indicators for individual countries may be subject to margins of error, they may nevertheless be useful for revealing patterns across groups of countries, such as those in certain income classifications. And by bringing in a range of indicators of various types and from varied sources, the approach provides a more complete picture of the state of institutions in Viet Nam, illuminating changes over time and benchmarking against other countries.

The breadth of the set of institutions important for Viet Nam to advance is potentially boundless—a focus on the institutions that are binding constraints for growth is needed.

In some cases, deeper looks are necessary to produce actionable recommendations. We will focus, to the extent possible, on whether or not there are indications that a particular area is generating excessive transactions costs for firms, directly or indirectly. To aid in the presentation, we will use a conceptual framework that emphasizes the functional role of various types of institutions, in particular their role for supporting market-led development. (Figure 4) Market-creating institutions include the preconditions for markets to work, things like property rights and a law-based system for enforcing them. Are firms sufficiently comfortable with property rights to risk long-term investment? Market-stabilizing institutions, such as those that ensure macroeconomic stability, similarly provide the required foundation for forward progress. Do these institutions deliver sufficient stability for firms to focus on growth? Market-

regulating institutions are about the state's use of power to address market imperfections, such as externalities, by regulating the behavior of firms. Does the legal framework provide sufficient predictability for firms? Market-complementing institutions similarly address market imperfections through the provision of public goods, those that the market under-provides. Do the institutions for providing public investment operate efficiently? Market-legitimizing institutions are those that help ensure that market-based system has broad support of the population, the social insurance systems that limit down-side. Have these institutions ensured sufficient buy-in from the citizenry for the market-oriented model? Underpinning all of these are the institutions for a capable and accountable state. Are the institutions for state organization and motivation up to the task of avoiding the middle-income trap? We will explore these questions in the remainder of this section.

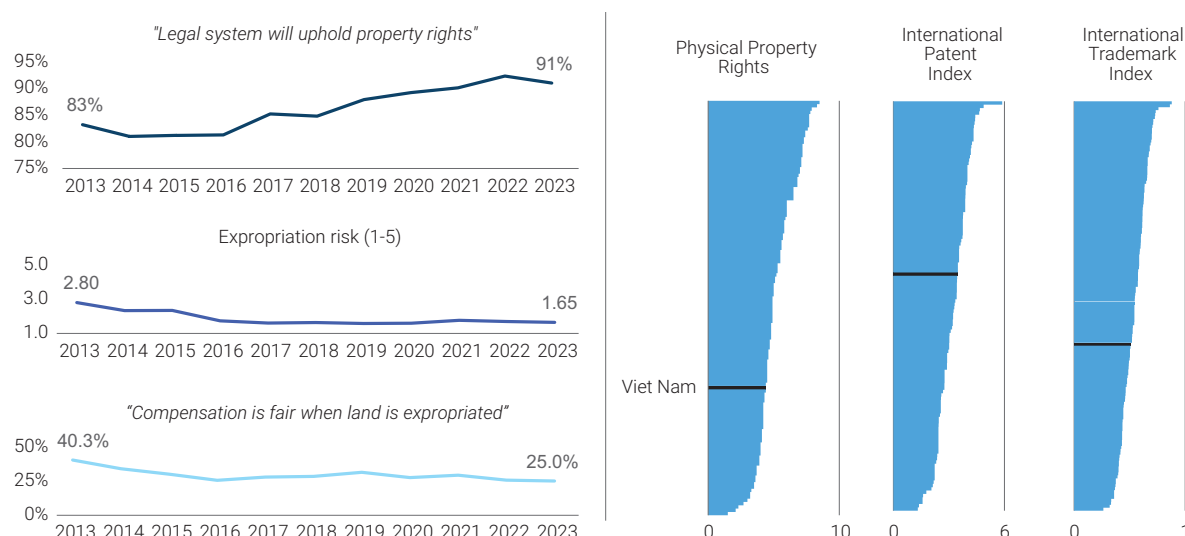
Market-creating institutions

Property rights are institutions that create markets in the first place and are seen as essential for long-run growth. Property rights provide firms with the confidence they need to invest. In Viet Nam, assessments of the protection of property rights vary. In assessments of the protection of physical property rights, international assessments by firms put Viet Nam in the bottom 40 percent of countries and in need of improvement. (Figure 5) Viet Nam rates somewhat better for assessments of intellectual property rights, including trademark and patent protections. The Provincial Competitiveness Index (PCI) survey of firms shows high and increasing confidence that the legal system will uphold property rights, and a declining risk of expropriation. Although there are clearly areas where property rights could be strengthened—confidence in the fairness of compensation when land is expropriated remains weak, despite improvements—the positive trajectory and general confidence expressed by Vietnamese firms in property rights are notable.

The rule of law is similarly seen as fundamental for long-run growth. There are many dimensions to the concept of rule of law, but an essential one is the availability of professional and impartial system for resolving disputes according to the law. Viet Nam has been modernizing its court system for some years, the 2024 Law on the Organization of Courts being the latest set of step-by-step changes to Viet Nam's three-tiered court system. Although basic roles are unchanged, such as the Supreme People's Court issuing guidelines and overseeing consistency in the application of laws, the new law introduces specialized courts, calls for a stronger role for information technology in court operations, and reaffirms other aspirations in terms of professionalism and accountability.¹¹ Whether the dispute resolution is the binding constraint on growth depends on how well the existing institutions are able to provide law-based solutions to disputes as they arise, reducing transactions costs for firms.

¹¹ ANT Lawyers, 2024; Vietnam Law & Legal Forum, 2025.

Figure 5. Property rights assessments over time and in international perspective

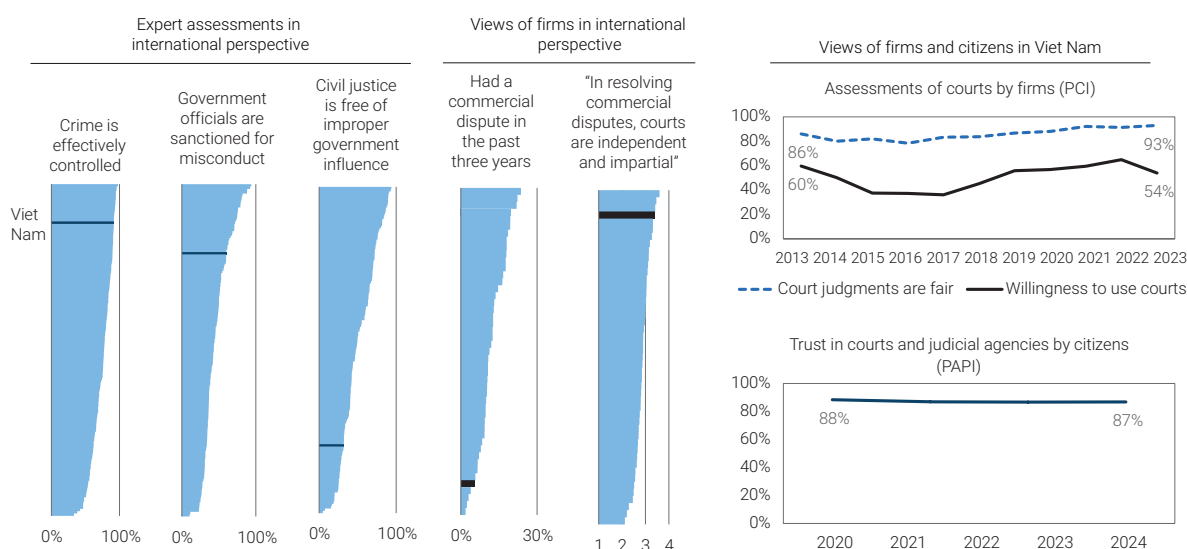


Sources: PCI, various years (Malesky, Pham, & Phan, 2024); International Property Rights Index; World Economic Forum Executive Opinion Survey; International Trademark and Patent Index 2021 (Kazakou & Park, 2021).

Assessments of the Vietnamese court system vary but are mostly positive about commercial dispute resolution. International experts tend to rate Viet Nam relatively well for control of crime, and even for accountability in the face of misconduct, but less well in assessments of independence from government in civil justice. Firms, however, tend to place little primacy on the courts for their business activities. According to the World Bank Enterprise Surveys, firms in Viet Nam were relatively unlikely to have business disputes, and those that did availed themselves of the courts and other official channels (arbitration, mediation) about as much as in most countries. More importantly, enterprises expressed relatively positive assessments of courts as being independent and impartial in resolving commercial disputes. This is in line with assessments provided by both firms and citizens in the PCI and PAPI, respectively.¹² In terms of the priority to reduce transactions costs for firms, courts do not seem to be the binding constraint for firms in their business activities. In the World Bank's Enterprise Surveys in 2023, only 1 percent of firms identified the courts as a major or very severe constraint to their operations. Looking forward, however, the limited independence of the courts could pose risks. The experience of other countries that have shifted towards a more dominant private sector is that increasingly close ties between business interests and political power require stronger independent checks, including through the courts.

¹² PAPI and PCI are well-known annual surveys of citizens and firms, respectively. CECODES, RTA & UNDP, 2025; Malesky, Pham, & Phan, 2024.

Figure 6. Varied assessments of the courts in Viet Nam



Source: World Justice Project, World Bank Enterprise Surveys, PCI, PAPI.

Market-stabilizing institutions

Continued macroeconomic stability will be essential for Viet Nam to achieve its growth ambitions.

Through its monetary and fiscal policies, founded on appropriate institutions and instruments, governments can smooth out business cycles and reduce market volatility that generates uncertainty for businesses. They regulate financial markets, which comprise a wide range of players including commercial banks, investment funds, security firms and individual investors, enforce the rule of law, and serve as a lender of last resort to prevent crises and stabilize prices. They also provide fiscal support to the economy as needed. For instance, during economic downturns, governments deploy countercyclical measures - such as fiscal stimulus and monetary easing - to boost aggregate demand and support recovery, while tightening policies during periods of overheating to curb inflation. Such proactive interventions, as demonstrated during the 2008–2009 global financial crisis and the COVID-19 pandemic, underscore the essential role of state institutions in fostering a resilient and balanced economy.

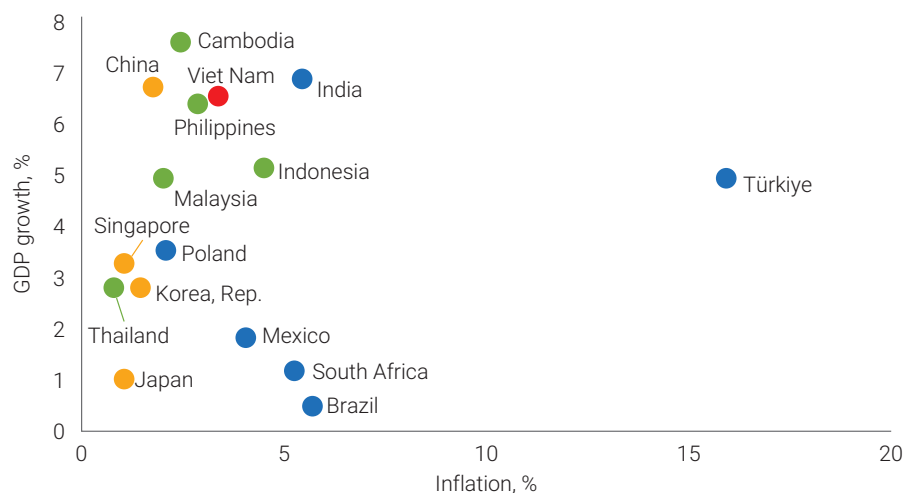
Viet Nam has made good progress in establishing and maintaining macroeconomic stability over the years.

As Viet Nam transitioned from a centrally planned economy towards a market economy from the late 1980s to 2000s, the country experienced episodes of macroeconomic instability with high inflation and interest rates, unstable exchange rates, and rising public debt (especially during the mid-2010s). Regional and global crises impacted Viet Nam's macroeconomic stability, and the impact increased over time as the country progressively integrated in the world economy. Macroeconomic stability has become a core priority of Viet Nam following the global financial crisis of 2008–2009. Since 2013, Viet Nam's macroeconomic stability performance fares well with structural and aspirational peer economies, including in the aftermath of the COVID-19 pandemic.

As Viet Nam aspires to become a high-income country by 2045, its evolving development context will pose new challenges to macroeconomic stability. The size of the Vietnamese economy has doubled in size in the past ten years, during which time¹³ total asset of the banking sector increased fourfold, equity market capitalization increased from 31 percent of GDP to nearly 70 percent of GDP, outstanding government bond balances increased from 7 percent to nearly 18 percent of GDP, and budget expenditure increased by 1.6 times.

Viet Nam's much larger economy, with much larger financial markets, will pose increasing demands on both monetary and fiscal institutions. Large infrastructure investment needs will require diversification of financing sources, especially from international financial markets. Diversification of the institutional investor base for domestic bonds and equities markets also requires greater participation of foreign investors. At the same time, a higher level of financial market openness (including for capital account) increases Viet Nam's exposure to international financial market volatility, and uncertainties in global trade pose risks to domestic economic performance. These challenges require efficient and flexible fiscal policies and institutions to smooth out business cycles and respond to shocks. Viet Nam's monetary and fiscal institutions deserve attention.

Figure 7. Viet Nam achieved relatively high growth with low inflation, 2013-2024



Source: World Development Indicators (WDI).

Notes: Average 2013-2024, except the COVID period of 2020-22. Blue: structural peers, Green: regional peers, Yellow: aspirational peers

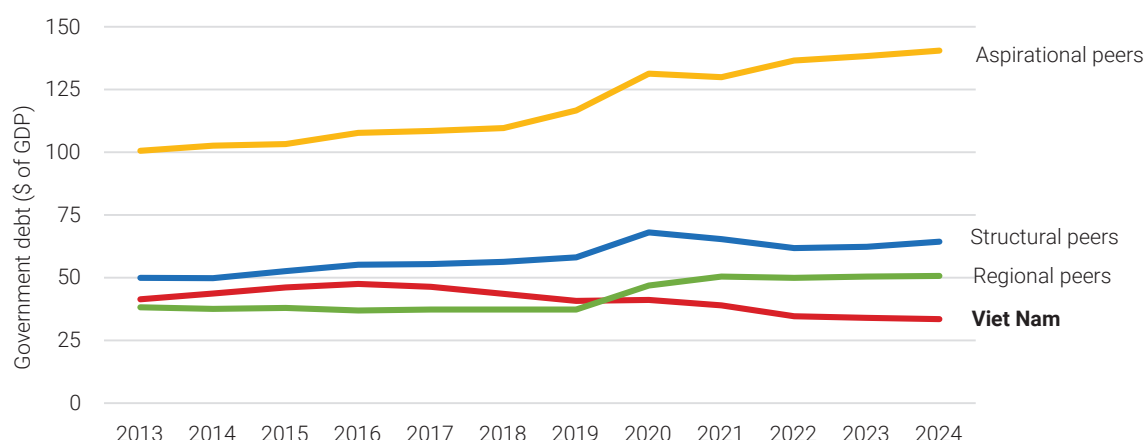
¹³ The period referenced in 2013-2024.

Monetary policy is conducted by the State Bank of Viet Nam (SBV) via a large number of instruments.

The SBV is a ministerial-level government agency, acting as the country's Central Bank, with multiple objectives including promoting economic growth while controlling inflation and ensuring the stability of the currency. The SBV's monetary policy toolkit includes reserve requirements, policy interest rates, open market operations, credit growth quotas on individual banks, central reference rates and bands on foreign exchange and administrative tools (such as caps on term deposit and lending rates). In practice, SBV makes use of these instruments interchangeably to achieve its multiple objectives, with a heavy focus on managing market liquidity through changing the money supply and imposing administrative measures on interest rates. The use of the policy interest rate has been limited, unlike other central banks.

Monetary transmission channels to inflation have empirically been weak given the lack of coordination across instruments. Since 2016, the SBV has transitioned from a de facto goal of currency stabilization to a more comprehensive monetary policy framework. The limited coordination between the various tools, however, makes the policymaking process more complex and reduces its efficiency. The SBV has also primarily used open market operations (OMOs) and credit targets rather than policy rates, which have been unchanged since June 2023. As a result, the transmission channels on inflation have generally been found to be weak.¹⁴ Modernizing the monetary policy framework with greater use of the policy rate could improve policy effectiveness.

Figure 8. Viet Nam's debt levels have been modest and declining as a share of GDP



Source: International Monetary Fund.

Notes: "Regional peer" economies include Cambodia, Philippines, Indonesia, Malaysia, and Thailand. "Structural peer" economies include India, Türkiye, Mexico, Poland, Brazil, South Africa. "Aspirational peer" economies include China, South Korea, Japan, and Singapore.

¹⁴ International Monetary Fund, Asia and Pacific Dept, 2024.

While Viet Nam has a broad range of monetary policy options at its disposal, institutional underpinnings determine how effective they can be. The previous paragraphs focus on the choice of policy instruments already available. Institutions, on the other hand, focus on the arrangement of powers and rules of conduct, and their contribution to growth is through their effect on transactions costs for firms. Consistent with a theme throughout this study, Viet Nam's systems is marked by a lack of independence, an institutional feature that has been associated with greater stability. Studies examining the independence of central banks according to de jure rules consistently place Viet Nam among the countries with the least independence in the world.¹⁵ Although there are also high-income countries with relatively low levels of independence, they also tend to have more mature market institutions. Indeed, studies of other countries highlight how institutions can complement each other.¹⁶ Cross-cutting institutions like property rights and confidence in contract enforcement reduce uncertainty and transactions costs for the financial sector, allowing greater access to finance while managing risk.

The fiscal policy framework in Viet Nam has been marked by rigidity in revenue collection and expenditure disbursement. Fiscal deficits in Viet Nam have been moderate since 2016, including during the COVID-19 pandemic, due to a reduction of both revenue and expenditure as a share of GDP, while public debt levels have declined. This effective fiscal discipline has partly been the result of a rigid fiscal policy framework, given the lengthy approval process and limited room for changes to the planned budget. As a result, planned collection rates for revenues don't necessarily correspond to needs, leading to frequent overcollection (114.5% on average over 2006-2024) and the recourse to unplanned resources such as land sales. As discussed elsewhere in this report, public investment management issues also led to chronic underdisbursement rates of around 80 percent for capital expenditure, constraining support to growth.

An important role for market-stabilizing institutions is to enable policy to work countercyclically; expansionary during slack time and contractionary during times of overheating. Cyclical measures the correlation between a country's primary balance and real GDP, both with cyclical adjustments to account for business cycles. Fiscal policy in Viet Nam since 2014, however, has mostly been procyclical, with an increase in (cyclically adjusted) primary balance in periods of slack.¹⁷ On average, the fiscal stance was mildly countercyclical, less than regional and aspirational peers, suggesting space for fiscal policy adjustments to further support growth.

While current monetary and fiscal institutions have demonstrated the ability to maintain macroeconomic stability in Viet Nam, they may need some reorientation to adapt to the evolving challenges: A greater level of independence for the central bank would allow for increased focus on price stabilization. This might be accompanied by greater flexibility in managing FX and capital account openness. In addition, some change in policy tools could grant the monetary authorities additional flexibility. For example, the extant emphasis on managing market liquidity (i.e., quantity control) could

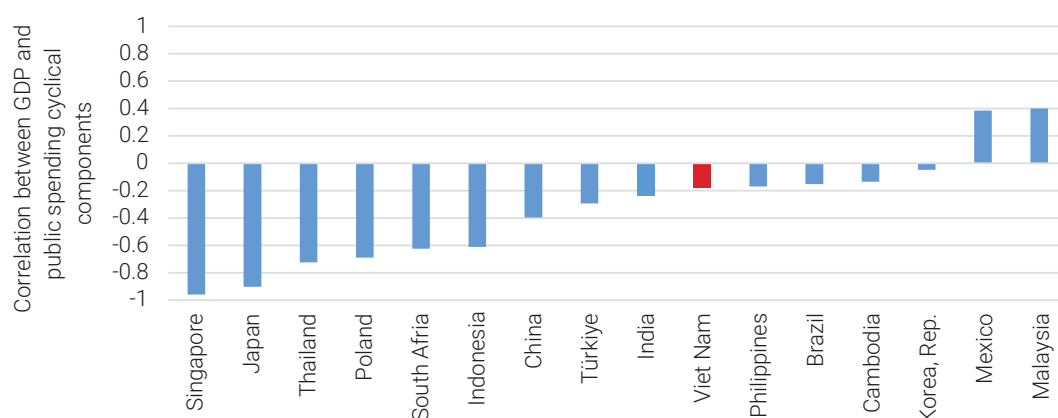
¹⁵ Two examples, and their recent updates, include Romelli, 2022; Romelli, 2024; Garriga, 2016; Garriga, 2025.

¹⁶ See, for example, Fernandez & Tamayo, 2017; Ehigiamusoe & Samsurijan, 2021.

¹⁷ Notable exceptions are the pandemic year of 2020 and during the recovery of 2023.

be supplemented by more use of policy rates and improvements to make transmission mechanisms more effective. In addition, greater data transparency and predictability of monetary policy directions would help stabilize markets, as would more depth in fiscal and public debt risk management tools to monitor and mitigate risks associated with government contingent liabilities and the debt portfolio.

Figure 9. Viet Nam has a mildly countercyclical fiscal policy, on average



Source: World Bank staff estimates.

Viet Nam's macroeconomic policy toolkit is firmly in place and outcomes have been solid compared to many other countries, yet they will always demand attention. Macroeconomic instability can derail progress in countries at any level of development. Given uncertainties facing all countries, uncertainties about international trade and global financial architecture wrought by the US-led trade war, Viet Nam will need to manage volatility while continuing to pursue its vision for the long term, developing the institutions for macroeconomic stability and complementary institutions, as well.

Market-regulating institutions

The institutions for regulating firms, for example setting requirements and procedures for certain types of operations, are important both for whether they achieve their objectives, and for whether they do so in a way that does not burden firms. Regulation, if done inefficiently, can increase, rather than reduce, transactions costs for firms. The importance of market-regulating institutions, such as those for consistent application of laws that reduce transactions costs for firms, can be seen from the experience of other countries that have successfully navigated middle-income status. Most countries take much longer than the 20 years Viet Nam targets to move through upper middle-income status. Importantly though, while random shocks can contribute, the speed of the move to high-income status is not simply random—institutions for reducing transactions costs help determine how expeditiously and confidently firms can do business, how rapidly the economy can grow, and, consequently, how fast a country reaches high-income status. Among the features of institutions

associated with such growth is the predictability of the implementation of laws, predictability that reduces transactions costs for firms. Countries that worked to improve the predictability of the implementation of laws and regulations—by improving processes, strengthening capacities, aligning responsibilities, and focusing on the quality of laws—passed through the upper middle-income stage more quickly than those that did not. China, one country which advanced through UMIC status very quickly, managed to strengthen its capability for regulatory enforcement during the approach to HIC status.¹⁸ In this case, regulatory enforcement included not only capacity for enforcement, per se, but also improved avenues for challenging administrative decisions.¹⁹ Such ability to challenge decisions contributes to a feedback cycle whereby weaknesses in the quality of regulations are identified and can be corrected. As noted earlier, many factors contribute to growth, but the institutional changes that accompany growth are notable.

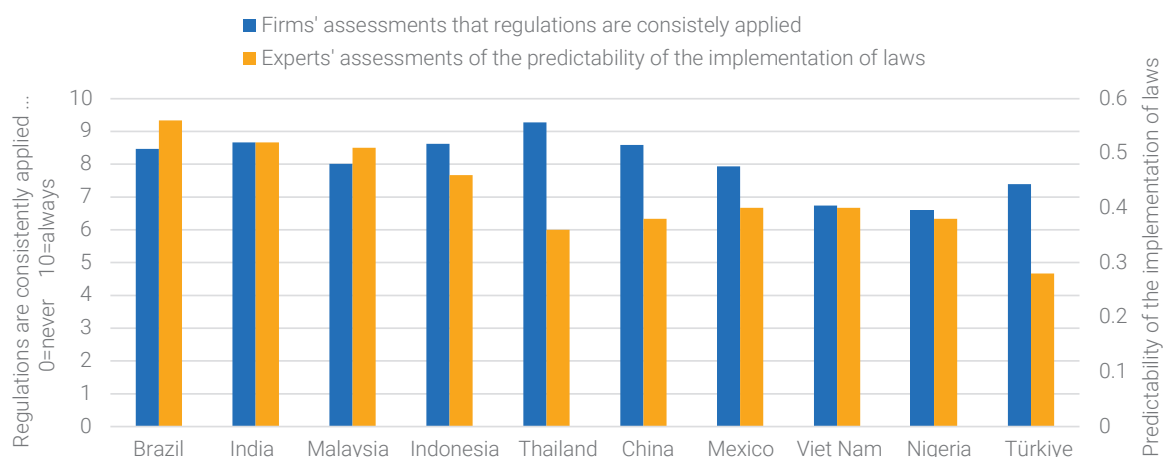
The earliest reforms associated with Doi Moi exhibited the main features of Viet Nam’s devolving role of the state: allowing farmers to make decisions individually and to reap the benefits, freeing them to make decisions on inputs and letting markets play a larger role in determining prices. The state’s role shifted away from regulation of how firms and farmers made decisions toward regulating bad behavior and providing the foundations for market-based transactions. Reducing transactions costs for economic actors means reducing administrative and compliance burdens and reducing uncertainty.

Making this shift in the role of the state is not a trivial matter, and Viet Nam has been working at it, step-by-step, for decades. While the progress is unmistakable (and will be discussed later in this section) the challenge of simultaneously upgrading the quality of the regulations and building capacity to administer them is formidable. For any given approach to regulating economic decisions, the impact on firms depends both on the quality of the regulation and on the consistency with which it is applied. According to investors, Viet Nam applies regulations less consistently than do a number of benchmark countries. (Figure 10.)

¹⁸ China is likely to become a HIC this year or next. As of July 1, 2024, China’s GNI per capita (Atlas method) was \$13,400 and the HIC threshold was \$14,004. During the period of UMIC status, assessments of China’s regulatory enforcement, based on the World Justice Project’s data, increased significantly.

¹⁹ Han, 2017.

Figure 10. Laws and regulations are applied less consistently in Viet Nam than in comparators



Sources: Global Investment Competitiveness Survey of Investors, 2019; Institute for Democracy and Electoral Assistance, 2024.

Note: Countries are sorted based on the rescaled average of the two measures.

Improving the regulatory environment and regulatory processes have cascading effects for the economy. Through various international and regional fora, Viet Nam has committed a wide range of regulatory reforms that are essential for a level playing field for international trade, but also reforms to regulatory practices, such as improved stakeholder engagement and harmonizing national standards. Viet Nam is a signatory country to 49 Bilateral Investment Treaties and 20 Treaties with Investment Provisions, and regulatory reform has been a central element of many of them.^{20,21} Indeed, such integration can have multiplied effects. Among the benefits of jurisdictional integration is to weaken the power of interest groups to hinder competition. As noted in the introduction, many of the countries which proceeded through middle-income status relatively quickly did so by improving the implementation of laws and regulations, and many of those same countries benefitted from major trade or political pacts that effectively weakened the power of interest groups.²²

²⁰ OECD, 2022. Bilateral and multilateral frameworks include the United States - Vietnam Bilateral Trade Agreement (2001), the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Renewed APEC Agenda for Structural Reforms (RAASR) 2016–2020, and the EVFTA agreement with the European Union (2020).

²¹ The Joint Leaders' Statement on the United States-Vietnam Comprehensive Strategic Partnership pledges that the two countries will coordinate "in the Mekong and Red River Deltas; multi-sector adaptation to climate change; pollution reduction, and voluntary technical assistance for modernized transmission infrastructure, renewable energy integration, climate market development, energy storage solutions, and the improvement of regulatory framework to enable a speedy and just energy transition." Joint Leaders' Statement: Elevating United States-Vietnam Relations to a Comprehensive Strategic Partnership, 2023.

²² Olson, 1982.

Market-complementing institutions

The state provides numerous public goods that help firms and citizens interact with each other and transport their products. As Viet Nam's economy has nearly quintupled over the past 30 years, its public infrastructure has expanded apace, with more and better roads, ports, and public transportation. Public investment is particularly important for Viet Nam's high-income and green growth aspirations.²³ The right type of public investment boosts productivity, business investment and growth, improving transport connectivity and providing the education facilities necessary to produce a highly-skilled workforce. The Government of Viet Nam estimates that to achieve high-income status by 2045, public investment of 7.3 percent of GDP per annum will be required, and additional public investment spending will also be necessary for climate change mitigation and adaptation.²⁴ Although more public investments are needed, public investment has in recent years faced persistent problems with implementation. As interregional infrastructure connectivity is essential for Viet Nam to move up the value chain, improving institutions in this area will be important for Viet Nam to reach its high-income aspirations.²⁵

Countries that achieved high-income status without getting caught in the “middle-income trap” paid attention to both quantity and quality of public investment. They managed to boost public investment as a share of GDP, while also getting better marks from firms for the quality of their infrastructure. Many countries that did one or the other, but not both, found themselves stuck as upper middle-income countries for 30 years or more. (Figure 11.) Viet Nam has so far managed to improve on both dimensions, finding itself grouped with the fast movers in Figure 11, but continuing to do so for the next 20 years will be challenging.²⁶ Increasing public capital stock as a share of GDP means public investment would need to grow faster than GDP, which already needs to grow rapidly. Simultaneously improving the quality of infrastructure means also paying careful attention to the selection of projects and to the operations and maintenance of public assets.

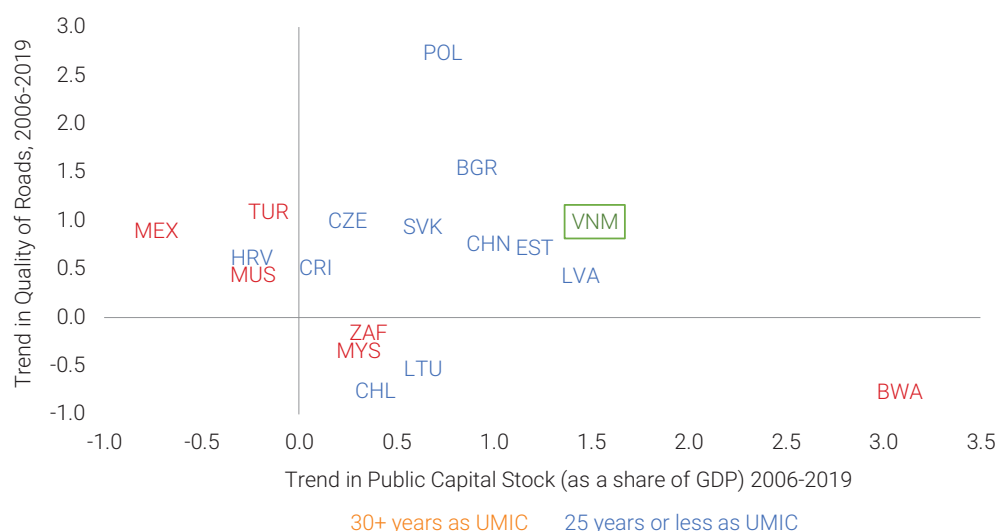
²³ “Public investment” in this report refers to “general government” investment. This excludes investment undertaken by SOEs unless that investment is undertaken on behalf of government with budget funding. Public investment includes investment by government in assets such as roads, railways, education and health facilities (to the extent that these are financed from the budget and not from charges on users).

²⁴ Nguyen, Groom, Kim, Le, & Vu, 2024.

²⁵ Pham, Hollweg, Mtonya, Winkler, & Nguyen, 2019.

²⁶ The prominent number of former socialist countries in Europe in Figure 11 and other figures is notable. See World Bank (2025a) for a discussion of the role of states in the advance from MIC to HIC status in that region.

Figure 11. Moving quickly to high-income status requires both quantity and quality public investment



Sources: World Economic Forum Global Competitiveness Yearbook, various years; IMF Investment and Capital Stock Dataset.
Notes: Countries are grouped by the time as UMIC before becoming HIC. For countries that are still UMIC, the projected number of years was used. Those in the 30+ years group are those projected to take more than 30 years as UMIC before becoming HIC. For both axes, the trend is the simple slope coefficient of a regression against time.

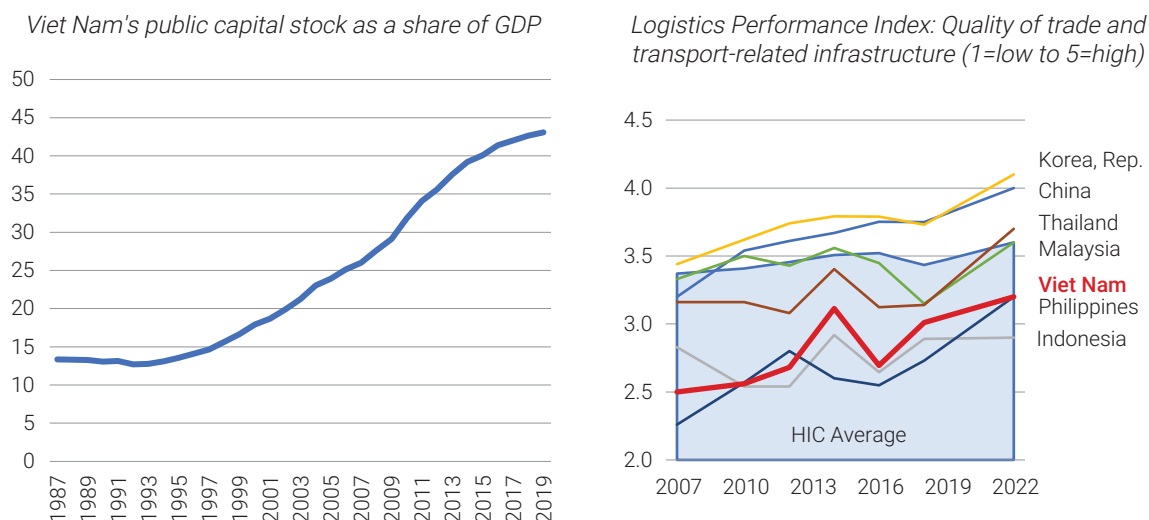
Viet Nam's progress in providing the infrastructure for growth has been impressive. The World Bank's Logistics Performance Index, based on a survey of logistics professionals around the world, shows progress in developing trade-related infrastructure in Viet Nam, infrastructure that is important for integrating into global value chains (GVCs). (Figure 12.) Viet Nam's score, similar to that of the UMIC average in 2007, is now well above the average for UMICs, albeit still shy of HICs and some regional comparators. While there is much room for improvement, as will be discussed in this section, the progress that has been achieved suggests that the institutional arrangements for most of the past 20 years have brought results. Although the amount of public investment has been substantial, the efficiency of processes and the decisions about types and locations of public infrastructure warrants examination. As highlighted in *Viet Nam 2045 - Trading Up in a Changing World*, infrastructure needs, both for transport and energy, have been outstripping overall GDP growth, and are expected to continue to grow.²⁷ The importance of progress in providing infrastructure for Viet Nam's firms is clear.

Public investment provides the infrastructure for growth, but it can be costly and counterproductive if not done efficiently. Private sector competitiveness and integration into GVCs demand public infrastructure to minimize supply chain disruptions and reduce transactions costs. And Viet Nam,

²⁷ This applies, as well, to the energy sector. Demand for electricity has led to headline summer-time blackouts, to the frustration of the population and firms which depend on reliable energy supplies. Reports that leading technology firms were asked to reduce electricity demand were met with concern—whether that is the case or not, the perception of unreliable power supply does not help attract investment or give firms the confidence they need to make long-term investments (Dun, 2024).

like all countries, needs to work with limited resources, balance competing demands for funding, optimizing investment and asset management plans.

Figure 12. Viet Nam's infrastructure has improved considerably



Sources: IMF ICSD; World Bank Logistics Performance Index, 2023.

While the progress is laudable, the institutions of public investment management nevertheless contribute to the chronic underexecution of the investment budget—only 77 percent of the public investment allocations were effectively implemented during the 2017-22 period. Recent analysis shows that delays in implementing major projects leads to significant cost overruns: a sample of large-scale transport projects experienced an average delay of five years and ultimately cost double the original projected cost at the design and budget allocation stage.²⁸ The impact on public investment is substantial, with 18 to 31 percent of total capital expenditures carried over from year to year, significantly larger than in many peer countries, and well above international good practices which suggest the level should remain below five percent.²⁹ Understanding the reasons for these delays requires a deeper look.

Continued progress in providing the public infrastructure needed for rapid growth calls for improvements in efficiency of decision-making, preparation, and financing, as discussed in the following sections. In fact, the financing of public investments is notoriously subject to inefficiencies, with actual disbursements coming late in the budget cycle. The institutions for better public investment management need improvement, in terms of both technical processes and capacities. Section 4 will examine in more detail the legal framework, the processes for project

²⁸ Nguyen, Groom, Kim, Le, & Vu, 2024.

²⁹ Nguyen, Groom, Kim, Le, & Vu, 2024.

selection and approval, alignment with budgets, and capacity. It will also examine the assignment of responsibilities across provinces, districts, and communes and how this generates incentives that are not always helpful.

Market-legitimizing institutions

While market-led growth has been shown to bring great benefits for citizens, reliance on markets also brings risks. Market-legitimizing institutions are those for ensuring that the benefits of that growth do not leave large numbers of the population behind. Through redistribution, targeted programs, and social insurance, states can help ensure broad buy-in for a market-led system.

Viet Nam's institutions have clearly delivered for a large share of the population. As shown in Figure 2, poverty rates have fallen dramatically since the beginning of the Doi Moi reform period. The relatively high and sustained growth rates played a major role, of course. In addition, Viet Nam has established the basic features of a social insurance system. Health insurance covers 93 percent of the population and the social insurance system covers 39 percent of the working age population. The Law on Social Insurance was amended in 2024 to further expand coverage and benefits.³⁰ Viet Nam's institutions of grassroots engagement has also contributed, with more than 10,000 commune-level steering committees, and health insurance coverage included among the goals of the local socio-economic development targets for nearly all provinces and cities.³¹

The social security system is not without challenges, especially to sustainability. The lack of independence of institutions contributes to these challenges, and Viet Nam Social Security's (VSS's) investments are concentrated in government bonds with, at present, yields below the rate of inflation. The low yields and longer average maturity of government bonds may be attractive for financing the government in the short run, but at a significant cost in the form of future fiscal liabilities. In addition, limited transparency weakens confidence in the system, confidence which would bolster voluntary participation.³² The recent efforts to downsize public employment largely through early retirement will place additional strain on the system.

³⁰ Vu, 2024.

³¹ Viet Nam Social Security, 2024.

³² Nguyen K. G., 2023.

Figure 13. Vietnamese people are more accepting of private ownership, individual effort, and competition—and they still see a role for the government



Source: Authors, based on World Values Survey waves 4, 5, and 7. (Inglehart, et al., 2020).

Notes: 10-point scale. For presentational purposes, responses have been grouped 1-3 (left-most set of bars for each chart), 4-7 (middle set of bars), and 8-10 (right-most set of bars).

The market-based system and shifting role of the state have increasing support from the population.

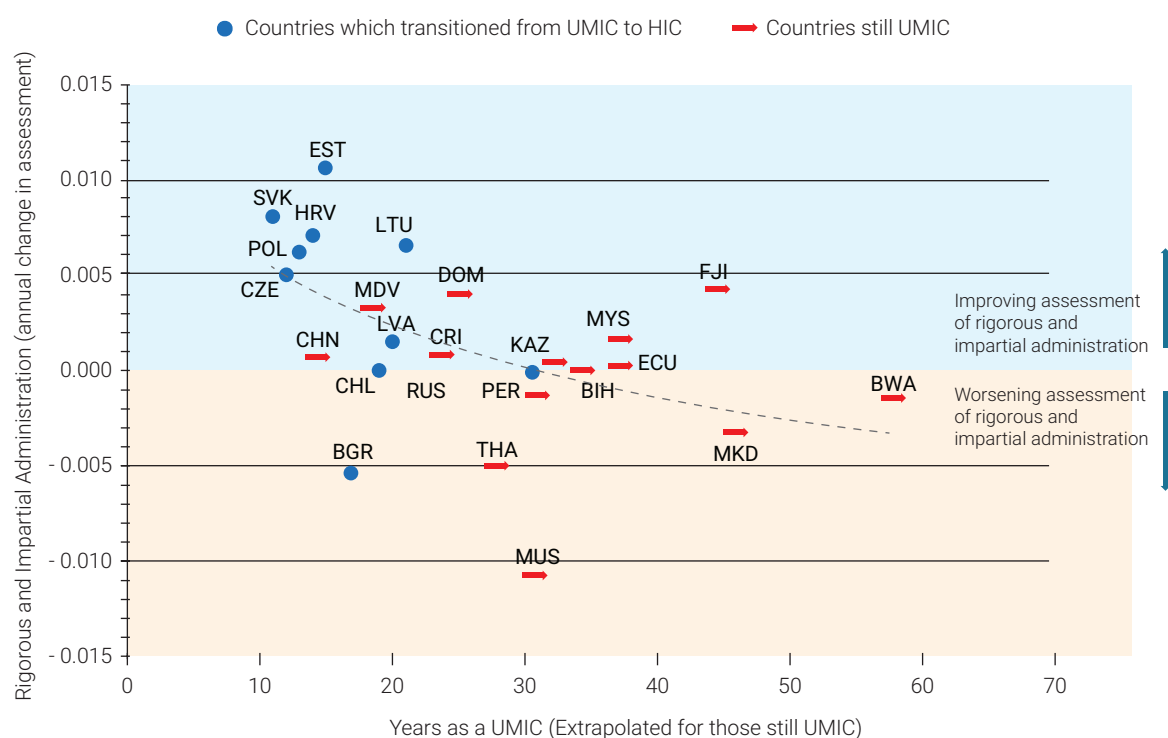
The World Values Survey, the largest and most well-known global survey of its kind, has been conducted in Viet Nam three times: in 2001, 2006, and in 2020. The survey responses suggest that the Vietnamese public are more supportive of competition and private ownership than in the past and are more accepting of income differences if it reflects differences in individual effort. (Figure 13.) But they do not absolve government of responsibility. Indeed, they were no less likely in 2020 to say that government should take responsibility to ensure everyone is provided for than they were in 2001—they have even become slightly more demanding of government, in this respect, over time.

Institutions for a capable and accountable state

Underlying all of the market-oriented functions of institutions described above is that of a capable and accountable state. Capable states are effective at implementing policy, providing public goods, and establishing an efficient regulatory environment that allows firms to grow while also achieving society's goals.

An even playing field and fair competition are essential for sustained growth, and an impartial public administration is needed to support that balance. Without impartiality, state policies are more easily and directly captured by connected firms and interest groups, weakening competition and undermining growth. On average, countries that passed through UMIC status quickly tended to improve the impartiality of their public administrations. (Figure 14.) In Viet Nam, assessments of the degree of competition in the economy are relatively favorable,³³ and this can be maintained if public administration maintains its impartiality.

Figure 14. Countries that passed to high-income status quickly also improved the impartiality of their public administration



Sources: Author's calculations based on Institute for Democracy and Electoral Assistance, 2023; World Bank, 2024e.

Notes: Includes countries which have passed completely from LMIC to UMIC to HIC since 1987 when the classifications began, as well as those which became UMICs during this period. The chart excludes high-income oil exporters, countries which are presently UMICs and have been so for fewer than 14 years, and those for which assessments of rigorous and impartial administration were unavailable. For countries still UMIC, the "Years as a UMIC" are extrapolated based on average growth rate of GNI per capita (Atlas), solving for the number of years until convergence with the HIC threshold. The growth rates were based on the 10 years through 2019, pre COVID-19. The chart only includes countries that have been UMICs for at least 14 years. The vertical axis is the change in assessment between the year a country became a HIC and the year it became a UMIC divided by the number of years. For countries that are still UMICs, it is the change between 2022 and the year it became a UMIC divided by the number of years.

³³ For example, the World Bank's B-READY study, based on surveys of enterprises, shows that 8.0 percent of firms reported fewer than five competitors in their main product's main market, compared to 26.8 percent of firms for East Asia and Pacific, and 27.2 percent of firms overall.

Constraints on the executive are also typically associated with progress, since unfettered executive rule does not face checks on decision-making. In Viet Nam, checks on the executive come from within the political system. Party structures—including the Central Party Committee, the Party Congress, Party units at all levels of government—play important decision-making and oversight roles vis-à-vis executive bodies such as the Government and People’s Committees at all levels. Elected bodies such as the National Assembly and the local People’s Councils also have oversight roles, and official government bodies, such as inspectorates, and audit institutions, also exist. A hallmark of Viet Nam’s system is the reliance on internal constraints on the executive, rather than external constraints provided by electoral sanctioning, civil society, and the media.

Some countries that escaped the middle-income trap markedly strengthened their systems of constraints on the executive. Although there are many factors contributing to the “take-off” that some countries experience during their high-growth phase, examining how institutions were changing can be instructive. Narratives of Korea’s experience, for example, often point to the role of the state in facilitating consolidation of economic production, competition, and economies of scale; all undoubtedly important. During the period of escaping the middle-income trap—moving from the middle of the upper middle-income range to the high-income threshold—Korea also underwent extensive political and administrative reforms that placed greater constraints on the executive.³⁴

In summary, many institutional factors are important for growth, but some are more binding for Viet Nam at present. Market-creating institutions such as property rights and dispute resolution, while clearly important for the long term, have largely been established—the market has been created. Viet Nam will need to continue to strengthen property rights institutions, notably over land, and develop stronger capacity for independent dispute resolutions to a future with a larger private sector. At the same time, these institutions do not appear to be binding constraints for firm growth in Viet Nam. Similarly, market-stabilizing institutions show fairly good outcomes as do market-legitimizing institutions. While they don’t seem to be generating transactions costs for firms nor significantly hindering growth, all of these institutions need continuous attention—the same is true for many countries. Market-complementing institutions and market-regulating institutions, in contrast, exert direct impacts on firms and their growth. In addition, the experience of other countries shows that predictability of the implementation of laws and state capability are both associated with escape from the middle-income trap, as is the strengthening of the regulatory function of the state.

³³ Korea’s period of transition from an income level at the bottom of UMIC status to the HIC status ran from about 1977 to 1990, with half of that expanse traversed in only a few years in the late 1980s, years when the country also underwent significant reforms to strengthen checks and balances. The Polity V assessments showed two sharp increases in “constraints on the executive” in 1981 and 1988.

3. An outline for deeper study

Improving institutions is not as simple as changing the legal framework. Any deliberate institutional reform—that is, one generated by public policy—ultimately needs some implementation or enforcement apparatus, capacities, and acceptance of the state’s authority before it can lead to behavioral change. For real institutional change to occur, legal changes need to translate into behavioral change, a complex process involving the building of capacity and efforts to reshape social norms.³⁵ (Figure 15.) While Viet Nam’s step-by-step approach to economic reform enables rebalancing and adjustments along the way, an examination of contemporary challenges facing the country suggests the need to focus more attention on building the institutional foundations for market-led growth.

The institutions that support growth include market-complementing institutions, such as those for the efficient provision of public goods, and market regulating institutions, such as those that ensure a predictable legal and regulatory environment. Viet Nam’s public investment system has delivered an infrastructure much better than decades ago, but the system has been in the headlines in recent years for delays and low disbursements. How can the institutions for public investment management be improved to address the problems? Similarly, great strides have been made to bring coherence and responsiveness to the system for promulgating laws and regulations, but capacities and processes have not kept pace with each other. How can Viet Nam continue to improve these processes to reduce transactions costs for firms? Part II of the report examines these challenges.

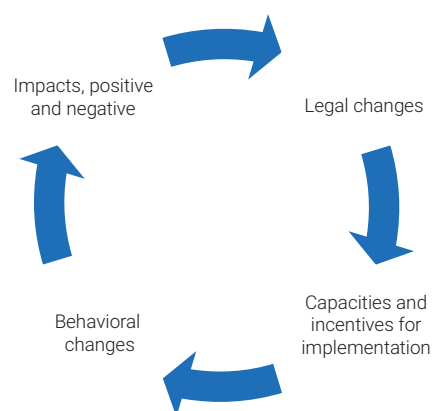
The institutions for making government work better include those related to its workforce and to its geographical administrative organization. In Part III, we will look at the changing roles and responsibilities—and successes and shortcomings—embodied in Viet Nam’s system of central, provincial, and local governments. How can Viet Nam get the benefits of interjurisdictional competition and putting government closer to the people while also maintaining fiscal discipline and strengthening coordination? Second, we will examine the institutions for motivating people—civil servants, public employees, and cadres. How is Viet Nam’s system for attracting and retaining talent and for motivating employees evolving as the role of the state evolves? As accountability is essential for motivation, we will then examine Viet Nam’s accountability system. Corruption, a malady that afflicts all countries to some degree, had become common, entrenched, and seemingly intractable prior to the launch of a high-profile anticorruption campaign which was welcomed by the citizenry. The strong punitive focus of the strategy, however, has combined with risk-aversion by officials to slow decision-making regarding public investment. How can Viet Nam build the tools of due process that would reduce such risk aversion? How can other mechanisms for reducing the prevalence of corruption, such as transparency and independent oversight, complement the current anticorruption drive?

³⁵ A forthcoming study by the World Bank also emphasizes institutional capacity. Kim, Kumar, Ramalho, & Russell, 2025.

The focus on markets is not only about economic growth; it is also about laying the foundation for service delivery in Viet Nam. Growth provides opportunities for higher standards of living but also broadens the tax base enabling more and better-quality health and education, administrative services, roads, and transport infrastructure. Market complementing institutions, such as those of public investment, provide the capital foundation for services, the schools and health facilities that will support a healthy and educated Viet Nam.

Certain themes are apparent throughout the report. Viet Nam's instinctive step-by-step approach to reforms is surprisingly consistent with the historical experience of other countries, with positive results. But gradual reform does not mean no reform, and the report points to many essential institutional reforms that will facilitate Viet Nam's integration into global value chains, its green growth agenda, and its aspirations to become a high-income country by 2045. The study will summarize these running themes in Part IV of the report and conclude by suggesting priorities for the Institutional Big Push that is already underway.

Figure 15. The continuous loop of institutional change to support markets and social goals



PART II

MARKET-COMPLEMENTING AND MARKET-REGULATING INSTITUTIONS FOR A GROWTH-SUPPORTING STATE

Viet Nam, like any state, intervenes and regulates firms and markets in myriad ways.

These interventions are typically designed with some social purpose in mind, but whether they achieve that purpose efficiently and fairly, without unduly hindering private actors, is an important question—and one that determines whether the institutional environment is supportive or dilatory for Viet Nam’s growth.

The evolving role of the state, shifting from direct control over economic resources to arms-length regulation and facilitation of private production, demands a realignment of institutions.

While public investments are needed for economies of all orientations, an approach to public investment that enables a dynamic private sector to flourish incorporates a greater degree of contestability in decision-making than one where such decisions are internalized. Arguably, it is this contestability that helps make private sector-led growth more dynamic and resilient in the first place. In addition, the institutions for arms-length regulation of the private sector demand contestability in the form of evaluation of competing alternatives and opportunities to change course. And for both public investment management and the system of regulatory development, such institutional change must be accompanied by capacity development in order to translate into real behavioral change.

Part II will provide a deeper look at market-complementing and market-regulating institutions through which the state supports growth through effective public investment and through efficient regulation. For each of these functions of government, we will take stock of the challenges being posed by Viet Nam’s current institutional arrangements, the consequent impacts, and the reforms needed to strengthen these institutions.

Institutions are interlinked and there is some inevitable overlap between sections. This is especially true for the institutions related to decentralization and public investment. But as each also has other aspects not related to the other, they need to be presented individually, albeit cross-referencing as appropriate. We will start with the institutions for public investment management.

4. Public investments to support growth³⁶

Viet Nam's stock of public assets is much smaller than is typical for countries reaching high-income status. Infrastructure reduces time and transport costs for firms, opening up markets and expanding possibilities for growth. Trade-related infrastructure has significantly improved, and public investments in general have laid the foundation for state-provided services of many types, from health and education to transportation and others.

Viet Nam's public investment management system has made important steps forward by rationalizing processes that in years past led to a proliferation of public investments, raising macroeconomic concerns. In wresting control over the process, including ensuring multiple layers of approvals, the process has been significantly slowed. The legal framework governing public investment is complex, with multiple governing laws. Given the multiplicity of laws and multiple parties involved—multiple ministries, provincial governments, and others—correcting known weaknesses is a cumbersome process. As most public investment is implemented at the subnational level, incentives for provincial cooperation need to be strengthened. Better aligning public investment management with budget planning is also in order.

In addition, Viet Nam's system of public investment management could do a better job of considering alternatives and strengthening appraisal and review of projects. In upgrading its institutions for high-income status, Viet Nam can provide better guidance and build capacity for adjustments during project implementation, and to address the incentive to underestimate the costs of projects in order to get them into the public investment plan. Viet Nam also needs to pay more attention to the management of public assets, reducing fragmentation of information and aversion to data sharing.

The recent revisions to the Public Investment Law have addressed several key weaknesses in the current system. Further changes to the Public Investment Law and the State Budget Law are also needed, however, in order to address some of the discord between the budget process and the investment cycle. And the need to improve capacity remains.

³⁶ This section draws on the World Bank's recent studies *Overcoming Hurdles for Good Public Investment Management in Viet Nam: Technical Note* (Nguyen, Groom, Kim, Le, & Vu, 2024) and *Viet Nam: Reforming Public Investment Legal and Institutional Frameworks for a High-Performing Economy* (World Bank, 2025c).

As highlighted in Part I of this report, countries that achieved high-income status without getting caught in the “middle-income trap” paid attention to both the quantity and quality of public investment. Improving the quality of infrastructure means paying careful attention to the selection of projects and to the operations and maintenance of public assets—all essential for quality services delivery. This important category of market-complementing institutions is also important for addressing climate change. (Box 5.) This section will take a deeper look at the institutional framework for public investment.

Box 5. Global attention to the importance of public investment for addressing climate change

The World Bank’s Global Economic Prospects 2024 points out that a significant acceleration in investment is needed for emerging market and developing economies (EMDEs) to achieve development goals and tackle climate change. Investment growth has seen a sustained slowdown since the global financial crisis and is expected to remain weak in the coming years. The study finds that, despite its importance, public investment in EMDEs has slowed in the past decade. In EMDEs with healthy fiscal space and a record of efficient government spending, scaling up public investment by one percent of GDP can increase output by up to 1.6 percent over five years. The study finds that public investment crowds in private investment and boosts productivity, promoting long-run economic growth. To maximize the impact of public investment, EMDEs should undertake wide-ranging policy reforms to improve public investment efficiency—by, among other things, strengthening governance and fiscal administration—and create additional fiscal space through revenue and expenditure measures.

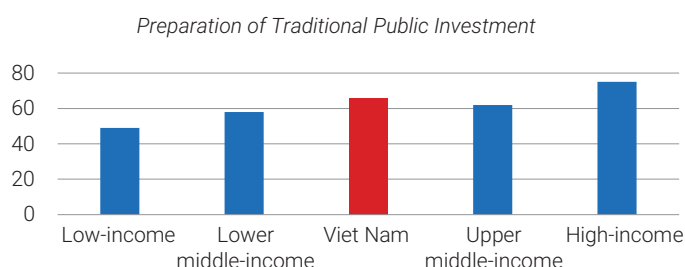
Source: World Bank. Global Economic Prospects, June 2024.

Procedural steps in Viet Nam’s system for preparation of public investment contribute to significant delays

Viet Nam’s system of public investment management rates relatively well compared to UMICs in terms of the de jure rules for the preparation of public infrastructure projects, although it falls short of the high-income countries to which it aspires. Figure 16 benchmarks Viet Nam against countries at other income levels with respect to formal legal provisions pertaining to public investment. While such simple benchmarking shows that many features of sound public investment management are present in law, the de facto position is less favorable. The process of project selection and prioritization lacks sound economic analysis and comparison of alternatives. Public investment processes are also cumbersome, typically requiring a multiplicity of approvals at various levels of government. In addition to slowing down approval processes, these overlapping responsibilities create opportunities for corruption—or, in an environment of a crackdown on corruption, excessive risk aversion on the part of public officials.

Compounding delays created by unnecessarily burdensome approval processes are additional delays associated with land clearance. Road construction projects face particularly severe delays due to land acquisition and resettlement of those displaced by the projects. Identifying an institutional solution to the problem requires looking beyond the goal of speeding up processes and instead identifying and addressing the reasons why people are reluctant to leave their land. This draws attention to the fact that the current approach to land acquisition, which applies to public and private sectors alike, provides compensation which is typically below market land prices to those who are displaced, and that many of the people displaced have skills only in farming and who are often left with little source of livelihood once they lose their land.³⁷ In addition, the built-in incentives to underestimate the costs of land clearance and resettlement, which will be covered later in this section, increase the likelihood of delays.

Figure 16. De jure rules for preparation of public investments rate well, but fall short of HICs



Source: World Bank (2020). Benchmarking Infrastructure Development

Note: Scale from 0-100. Based on an assessment of preparatory activities taking place prior to launching procurement of a traditional public investment contract, including an overall assessment of the public investment management system in the country.

Project preparation delays and underspending of public investment budgets have become chronic.

In 2024, disbursement of public investment was only 77 percent of plan—similar to the average for LMICs, but well short of the averages for UMICs (94 percent) and HICs (96 percent).³⁸ A World Bank case study of projects in Da Nang shows that the delays there largely stem from adjustments made during the project life-cycle and are especially long for larger projects.³⁹ The average preparation time for an adjusted project was 16 months, compared to 8 months for a non-adjusted project, reflecting the cumbersome adjustment process. When projects are weighted by size, the delays are even more striking. The weighted average preparation time for an adjusted project is then 37 months, compared to 13.5 months for a non-adjusted project. This indicates that preparation time for high value projects is much greater than for low value projects. Unpacking some of the institutional contributors to this problem is in order.

³⁷ The Land Law was revised in early 2024 to move closer to market mechanisms, but many provisions are not yet in place.

³⁸ World Bank's BOOST Open Budget Portal.

³⁹ Nguyen, Groom, Kim, Le, & Vu, 2024.

The legal framework for public investment management is not harmonized

Revisions to the legal framework related to public investment in past years have brought some improvements, for example providing greater fiscal discipline over capital spending, but have given rise to other problems. A mapping of laws governing public investment management shows there is not a single integrated legal framework for public investment management, but a fragmented system with different laws governing different stages of the public investment management system. (Table 2). Although it is not unusual to have multiple laws governing different functions of public investment management, the multiplicity of laws, and associated decrees and circulars, in Viet Nam it is a source of confusion, overlaps, and inconsistencies which cause problems for officials implementing public investment management.

Confusion is amplified by cases of contradiction within the legal framework. Although Viet Nam's legal system lays out the criteria for determining which law applies in the event of a conflict—more recently adopted laws take precedent over older laws, for example—this can be difficult to reconcile in practice. The proper functioning of the system is dependent on adequate alignment and consistency of application across laws that sometimes operate in parallel to each other, depending on the public investment management function concerned.

The legal basis for the public investment management system includes the Public Investment Law and the State Budget Law, with the latter focused on financing. This dichotomy has its origins in Viet Nam's dual budgeting system, where budgeting processes for recurrent and capital expenditure are carried out separately. While dual budgeting is not uncommon internationally, in few countries is it so firmly embedded in the high-level legal framework through a dedicated law on public investment.

Table 2. Legal framework for public investment management

	Strategic guidance and preliminary screening	Ex-ante evaluation & independent review	Selection & budgeting	Implementation and adjustment	Operations	Ex post review
Public Investment Law	✓	✓	✓	✓		✓
State Budget Law			✓		✓	
Planning Law	✓					
Environmental Protection Law		✓				
Construction Law		✓		✓		
Land Law		✓		✓		
Law on Management and Use of Public Assets					✓	
Public Procurement Law				✓		

Source: World Bank staff. Overcoming Hurdles for Good Public Investment Management in Viet Nam. (Nguyen, Groom, Kim, Le, & Vu, 2024).

Considerable efforts have been made to keep the system of laws harmonized, but the challenge is formidable. The original Public Investment Law was issued in 2014, prior to the revisions of the State Budget Law in 2015, and it did not reflect important reforms concerning medium-term expenditure planning that were built into the State Budget Law. Although the 2019 revisions to the Public Investment Law offered an opportunity to harmonize the budget process pertaining to public investment with the State Budget Law, this did not happen. As proposed by the Ministry of Planning and Investment, the draft of the revised law would have addressed the discrepancy, but the National Assembly did not accept this change as it was perceived to be adding, rather than subtracting, to the proliferation of plans. The two plans still co-exist and follow two different budgeting processes.

Even when certain laws governing public investment are harmonized, implementation responsibility can still be fragmented. For example, although the Construction Law and the Public Investment Law were prepared at the same time and are reasonably well harmonized, the authority over public investment management for projects with construction components is split in the laws between the Ministry of Construction and the Ministry of Planning and Investment. For these projects, the Construction Law governs such projects at key decision points such as the preliminary screening stage and ex ante evaluation.

The multiplicity of laws governing public investment also means a multiplicity of governing authorities. Since some projects are governed by the Public Investment Law and others (the largest ones) are governed by the Construction Law, there are parallel quality-at-entry processes for the two types of projects. The definition of what constitutes a construction project means that most “classic” public investment projects of significance will, in practice, be governed by the Construction Law, rather than the Public Investment Law. To complicate matters further, ODA projects are subject to certain different procedures.

Although a principle of sound institutional design is that incentives and accountabilities should be clear, the fragmented institutional structure for public investment in Viet Nam does not always follow this principle. The complexity of the legal framework and multiplicity of governing authorities can create confusion, but also make it unclear who is responsible when things go wrong, and who is to be commended when things go right. In the context of a punitive anticorruption program, this is a recipe for bureaucratic paralysis.

Finally, Viet Nam’s heavy focus on compliance with detailed procedural rules governing expenditure leaves insufficient focus on the results obtained from that expenditure. While it is important that public expenditure is governed by an effective legal framework, in Viet Nam the procedural rules imposed on government officials by laws and regulations are particularly burdensome. At the same time, too little attention is paid, when planning and executing expenditure, to ensuring efficiency and effectiveness. This contrasts markedly with the international trend towards more “results-oriented” government.

The public investment management system should pay more attention to the analysis of alternatives, and project proposals need better review

In the face of a multitude of competing claims on resources for public investments, project proposals need to be carefully screened at an early stage to focus limited resources on strategic priorities and the best projects for a given set of objectives. The Public Investment Law requires that investment policy proposals are in line with strategic plans (such as the Socio-Economic Development Strategy, Masterplan and Socio-Economic Development Plan) prepared under the Planning Law, and in this respect the Law is consistent with international good practice for preliminary screening. Project selection practice is, however, in need of improvement.

One major problem affecting project selection is that Viet Nam's planning for public investment does not adequately consider alternatives to achieve the same objective. The World Bank's analysis of public investment management efficiency found consistent weaknesses across projects in ratings with respect to the analysis of alternative options to the project. The weakness of the public investment management system in not considering alternatives at early planning stages is concerning. At this "pre-feasibility" stage in the project cycle, it is good practice to consider a range of alternative project solutions and demonstrate the advantage of the preferred solution (or solutions) that would then be examined in more depth in the feasibility study. Improving the analysis of alternatives at the preliminary screening phase of public investment should be a priority for the next round of public investment management reforms. As we will see in the next section, the existence of alternatives still requires a contestable environment for review in order to be effective. Although the Law requires that proposals be "in line with strategic plans," this is interpreted to mean that it is specifically named in the plans. In practice, the naming of a project in the planning documents is generally considered to be both a necessary and a sufficient condition for a project to pass preliminary screening, meaning that new information and further analysis at this stage is unlikely to overturn a prior decision to include a project in a plan.

The hierarchy of decision-making in Viet Nam, whereby plans, and consequently the lists of projects within them, are approved at a high level, makes it difficult for lower levels to subsequently screen out projects that do not pass more detailed review. High-level approval of strategies and plans is indeed appropriate, but projects given such preliminary high-level approval should always be subject to further technical investigation and approval. In reality in Viet Nam, project proposals are often inadequately developed at the point they are given high-level approval and then proceed to feasibility study. This high-level approval is then the most critical juncture since it is almost impossible to reverse project approval decisions after this point.

Stronger reviews of project proposals upstream would reduce the need to make adjustments downstream, the cause of most delays. The challenge of harmonizing the legal framework—and the value of complementary institutions—is evident in the manner in which project proposals are appraised. While the Public Investment Law and the Construction Law provide a foundation for upstream evaluation of projects, other elements of the legal and budgeting framework reduce incentives for rigorous ex ante

evaluation. Specifically, the decision to proceed with a project depends on inclusion in a fixed-term, 5-year funding envelope known as the medium-term investment plan (MTIP). Once a project has been included in the MTIP there are no mechanisms to dislodge it, and it is then virtually certain that the project will proceed to implementation at some point. Given the rigidity of this framework, the incentives for performing a rigorous ex-ante evaluation based on a robust feasibility study are weak. Although changes to project costs or the implementation period are possible during preparation of a feasibility study, projects are almost never rejected based on negative feasibility study findings. Such an outcome is not envisioned in the legal framework. But the absence of such rejections is evidence that robust analysis is not taking place.

In addition to the weak incentives for robust analysis once a project has been included in the MTIP, the framework does not ensure independence of analysis. The independent review function could emphasize more the importance of arms-length reviewers, i.e., those who do not have a stake in the ultimate decision of whether to go forward with a project. Currently, the review consists of collecting opinions from relevant technical and financial bodies but does not result in a consolidated recommendation to decision-makers. When projects are evaluated, a preliminary analysis of risk, including climate change risk, and a preliminary assessment of operational sustainability are not carried out.⁴⁰ While appraisal committees, which are required in the case of large projects, may be formed, to perform their role well they would need strong and independent technical input, something which is currently not mandated by the legislation.

The result is long periods of implementation, and the risk of the wrong projects going forward. The lack of truly independent review at appraisal allows unrealistic projects to receive positive appraisals and leads to problems later during execution, requiring major adjustments. For example, the need to meet funding threshold rules prior to inclusion in the MTIP provides incentive to underestimate certain cost components related to land acquisition and resettlement costs. A truly independent and professional review by an objective entity with sufficient authority and incentives for accuracy would largely prevent this. The lack of a genuinely independent review process is a system-wide problem, which is compounded by a lack of a clear designation of responsibilities.

Clearer rules on project appraisal would support faster progress. The absence of detailed regulations covering the documentation requirements of the appraisal decision undermines the adoption of good practices and obscures the audit trail. While the basic appraisal process is set out in higher-level legal instruments, there is no detailed guidance on technical methods for appraisal or on the content of the documentation resulting from and informed by the application of such methods. Although there is a clear legal requirement for project appraisal, the practical application of this requirement is subject to interpretation, leading to variations and inconsistencies in the information provided to decision makers. Different interpretations of the documentary requirements and a lack of clear rules concerning record-keeping also make it difficult to verify and audit decisions at a later stage.

Aligning public investments with budgets could be improved

In a well-designed PIM system, the fact that a proposed project has successfully passed the pre-feasibility and feasibility decision points does not automatically mean that it will be included in the budget. Inclusion in the budget is a separate and subsequent decision—before a project is included in the budget, the government must decide whether it is of sufficiently high priority to be funded from the limited resources that are available for new investment projects.

In Viet Nam, the assumption is that once a project has been included in the MTIP, it should be funded appropriately in the annual budgets. The MTIP is a 5-year fixed program, with a list of projects to be implemented over the five years concerned. The value of projects that may be included in the MTIP is limited by an expenditure envelope covering the sum of the total project costs of all projects included in the MTIP. The decision on the inclusion of projects in the MTIP is, however, not informed by good estimates of the fiscal space for new investment projects.

A fundamental source of these difficulties is Viet Nam's system of dual budgeting, whereby capital and recurrent expenditure are budgeted separately and without sufficient coordination. Because the fiscal space available for capital expenditure can only be determined by looking at the overall budget position, decisions on what to include in the investment budget should be taken in the context of a (medium-term) perspective on the total budget position. Such a perspective could only be provided by the new rolling 3-year Medium-Term Expenditure Framework (MTEF) mandated by the State Budget Law. It should therefore be in the MTEF that the budget fiscal space available for capital expenditure is determined. The incompatibility of the 5-year fixed basis of the MTIP with the 3-year rolling basis of the MTEF makes it impossible to ensure that the MTIP envelope is consistent with the MTEF.

The MTIP process builds in delays. Because project preparation up to the Investment Policy Decision (IPD) stage is often quite superficial, projects are often included in the MTIP even though they have not been planned in sufficient detail to be executed in a timely manner. This means that they then take far too long to get started – they may not even start at all during the MTIP. Moreover, projects which were included in one MTIP will normally be rolled over to the next MTIP even if they have not yet started. Such projects crowd out other projects within the limited space provided by the overall MTIP envelope, thereby contributing to the problem of under-execution of the investment program.

Viet Nam's dual budgeting system also results in the underfunding of operational and maintenance expenditure. Expenditure on the maintenance of existing assets is too low, which shortens asset lifespans and raises costs. The recurrent expenditure budget in some cases fails to allocate the necessary funds to operate new assets, which sometimes results in assets such as new hospitals sometimes remaining unused.

Viet Nam's public procurement system could be more fully integrated into the budget process. The recent Methodology for Assessing Procurement Systems (MAPS) assessment found that procurement planning is reactive and not well integrated into the PFM system. This results in late or inadequate budget

allocation which in turn causes procurement and contract implementation delays as well as difficulties for budget use monitoring and evaluation. To address this issue, the 2023 Public Procurement Law calls for the National Electronic Procurement System (VNEPS) to be integrated with the Treasury and Budget Management Information System (TABMIS), although this integration remains to be completed.

Coordination and contestability during appraisal need to be strengthened

One of the risks of a fragmented system is that inattention to coordination can lead to difficulties down the road. In Viet Nam, consultation during project appraisal and review of appraisal often does not involve all the relevant stakeholders. Province departments with knowledge that is highly relevant to the appraisal decision may, for example, be left out of the appraisal process or have their involvement tightly circumscribed. In a case study of a World Bank project in Da Nang, the Provincial Department of Natural Resources and the Environment was not invited to comment on the proposal, even though it would have had insights into issues around land acquisition costs and resettlement that later became problematic.⁴¹ Similarly, the role of the Provincial Department of Finance was limited to assessing the availability of funds for the project as costed and didn't extend to assessing the realism of the cost estimates for funding needs, although a more substantive involvement of the Department of Finance could have revealed gaps in counterpart funding earlier. These coordination issues are compounded in the case of projects requiring central government approvals.

Improvements have been made to align public investment with local needs. The majority of spending on public investment is carried out by provinces using untargeted grants from the central government. As discussed in section 6, this form of decentralized decision-making allows for local projects to better align with local needs. Only projects that are classified as Group A (and some Group B) are designated as projects of national importance, requiring central government approval.⁴² The criteria for determining the group of the project are outlined in the Public Investment Law, covering factors such as the size, sector, potential environmental impact, and others. For projects that are classified as B or C, the Provincial Peoples' Councils have the authority to make decisions on investments in their jurisdictions. (See Box 6 for a preview of decentralization-related issues which will be explored in more depth in section 6.)

Reforms to organizational arrangements for project management at the province level have brought transitional problems. Changes brought in under the Construction Law⁴³ sought to improve the quality of project management and improve efficiency, replacing ad hoc and transitory Project Management Units (PMUs) in ministries and departments with professional specialized bodies dedicated to implementing multiple larger infrastructure projects. At the province level, typically, this has led to the

⁴¹ Nguyen, Groom, Kim, Le, & Vu, 2024.

⁴² The Public Investment Law outlines criteria for nationally important projects and those designated Group-A, Group-B, and Group-C. The group types are based primarily on the size of the project, but on features of the project, as well.

⁴³ Construction Law No. 50/2014/QH13 dated June 18, 2014 and the revised Construction Law No. 62/2020/QH14 dated June 17, 2020, Decree No. 59/2015/ND-CP dated June 18/ 2015 and Decree No. 15/2021/ND-CP dated March 3, 2021 of the Government.

creation of specialized provincial PMUs (PPMUs) under the People's Committee (in their capacity as project owners). In the case study carried out by the World Bank in Da Nang, one of the better managed provinces/cities, this resulted in a shift of implementation responsibility from the organization that proposed and appraised the project (the Provincial Department of Agricultural and Rural Development), to the new professional PPMU. Lacking experience specific to the sector, the new PPMUs can often get off to a slow start, resulting in delays in implementing the projects.

While the newly created specialist PPMUs are able to focus exclusively on project implementation, they need to also build routines for coordination. Addressing sector-specific issues appropriately requires interfacing with the provincial technical departments and the central ministries relevant to their projects. Often, however, this is not done even when guidelines call for it. The result is inconsistencies with master planning and missed opportunities for sector-specific technical support and for leveraging resources from different spheres of interest – agriculture and development – including from the private sector. These coordination issues are systemic and are unlikely to be resolved without deliberate action.

Guidance for the adjustment process is missing

Adjustments are inevitable for large public investment projects, as new information comes to light during implementation. Having in place a sound system for making those adjustments allows them to be done consistently, without uncertainty on the part of decision-makers about the appropriate procedures, uncertainty that can contribute to paralysis. In Viet Nam, flexible guidance on project adjustment procedures and responsibilities is missing. The requirements for adjusting projects are set out in the legal framework but guidance on how to apply these requirements to specific cases is missing, and there is a tendency to interpret the law rigidly. This applies both to adjustment during implementation and adjustment between initial project approval and the decision to proceed. In the absence of guidance on procedures and responsibilities, officials have the incentive to avoid risks and escalate approval of adjustments to the highest level of authority, worsening delays. In a case study carried out by the World Bank, the absence of clear procedural guidance on adjustment contributed to a delay of two years in central ministry approval of an updated feasibility study (the basis for an investment decision) to reflect the 10-year gap since the original project documentation was produced.⁴⁴

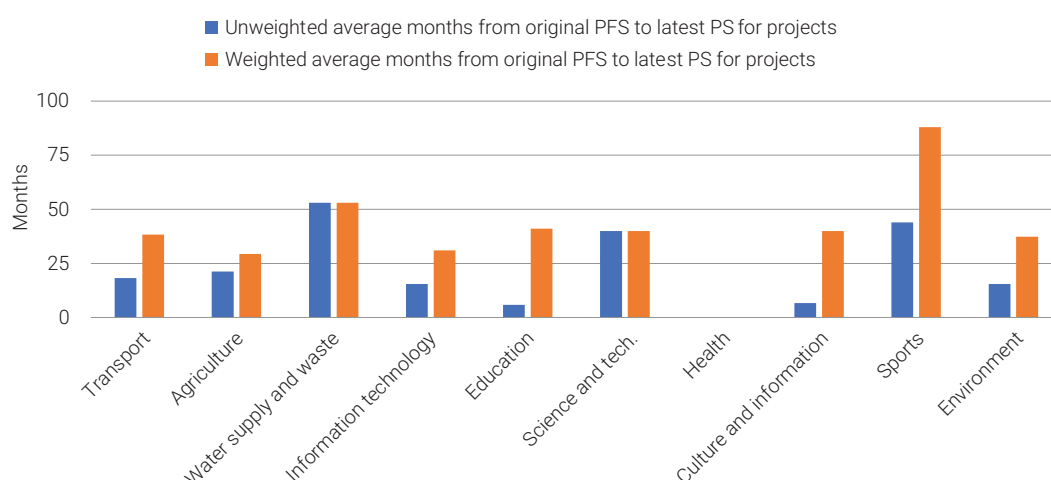
Contract management systems cause further delays. The MAPS assessment found that contract amendments in public investment projects are not made in a timely manner, although they are frequently required. This causes delays to contract implementation and disbursements, as well as resulting in contractual disputes. The main reasons are that processing such contract amendments requires multiple levels of reviews, appraisals and approvals. To address this problem, guidance and procedures for streamlining contract amendment processing should be developed and socialized.⁴⁵

⁴⁴ Nguyen, Groom, Kim, Le, & Vu, 2024.

⁴⁵ For example, best practices such as the International Federation of Consulting Engineers (FIDIC) conditions of contract could be drawn upon.

The adjustment process could use more robust monitoring and evaluation. Although the legal framework is well-established, project monitoring is not carried out in a systematic manner. The monitoring that does happen is primarily oriented toward satisfying the requirements of financial reporting (e.g., providing disbursement figures) and problem-solving during implementation. More systematically tracking performance indicators and results frameworks would facilitate more timely adjustments.

Figure 17. Time overruns affect a majority of projects partly due to cumbersome adjustment processes



Source: World Bank. Better Investment Outcomes in Viet Nam through Increased Public Investment Management Efficiency. (Nguyen, Groom, Kim, Le, & Vu, 2024).

Capacity development and transparency need to keep pace with legal reforms

While some of the legal complexity and misalignment has been addressed with recent changes to the Public Investment Law and other legal changes, expanded capacity will also be needed to bring about real institutional change. Independent and professional reviews require capacity, as do accurate technical estimates of land acquisition and resettlement costs. Land clearance is often cited as a reason for delay since budget allocations upstream were insufficient to compensate current users of the land leading to disputes that need to be resolved. The built-in incentive to underestimate costs for land acquisition and resettlement is counterproductive since inaccurate estimates have to be revised and projects are delayed by the lengthy adjustment process.⁴⁶ Shifting to a more accurate market-based land valuation, however, is no simple matter with the nascent level

⁴⁶ For ODA projects, estimates of the cost of land clearance and resettlement may be deliberately kept low to keep within allocations for counterpart funding (land compensation must usually be funded from domestic budgetary resources). More generally, underestimation often stems from the regulated land compensation system in Viet Nam, which does not reflect market realities. Recent legal changes may bring estimates more in line with market realities, but these changes are not in force yet.

of professional capacity for valuation and the paucity of accurate valuation information. The lack of professional capacity and absence of a database of land prices handicap reliable estimation.

Rigid cost norms hinder the use of appropriate professional capacities. In a case-study of public investment projects, both ODA- and government-financed, the World Bank found that expenditure on survey work and market-based cost estimation for land acquisition and resettlement was governed by rigid and outdated expenditure norms⁴⁷ that do not reflect market realities, making it impossible to contract qualified consultants. Provinces, which must follow those norms, avoid using appropriately qualified experts for the preparation of feasibility studies. The consultants employed do not, in many cases, have the necessary professional skills to cover all the necessary aspects of land acquisition and compensation, resulting in underestimation of the scale of impact and costs. Often provinces have substituted professional consultants with Land Fund Development Centers (LFDCs).⁴⁸ The LFDCs lack adequate staff numbers, accredited valuation expertise and data, with negative effects on the accuracy of the estimated land values included in the budgets of approved projects. The shortage of appropriately qualified and experienced experts in land compensation and resettlement cost estimation is also a serious constraint.

Capacity development for those involved in public procurement also needs to be scaled up. The MAPS assessment found significant gaps in the breadth and availability of training on public procurement and on addressing training needs in a more comprehensive manner. The Government recently reached the same conclusion, finding that while the 2023 Public Procurement Law introduced many reforms and advantages, its implementation results have been limited, causing delays and inefficiencies, partly due to limited capacity of procurement cadres. Rigid cost norms also pose major challenges to effective procurement. As a general rule, contract awards must not exceed the approved cost estimate which is established based on cost norms. In many cases, because such cost norms are not up to date, cost estimates for procurement activities are underestimated causing rebidding and delays as all bids exceed the cost estimate. In addition, while the 2023 Public Procurement Law does provide legal framework for green, sustainable and innovative procurement, the lack of cost norms for such novel types of procurement activities can be expected to hinder their implementation. To address these challenges, the Government needs to review current and future procurement needs and to implement a more comprehensive capacity building strategy to build a more professional procurement function within government. This should be done by mapping procurement positions to qualifications and competencies, i.e., by creating a national competency framework for procurement.

Transparency in the public investment planning process brings multiple benefits but needs improvement. Ensuring access to key documents helps to bring contestability to the processes, helping to weed out projects that are not feasible or are not the best solution to the problem. This helps improve the stock of public infrastructure and align it with the economy's needs. A second benefit of

⁴⁷ The norms are set by the Ministry of Construction.

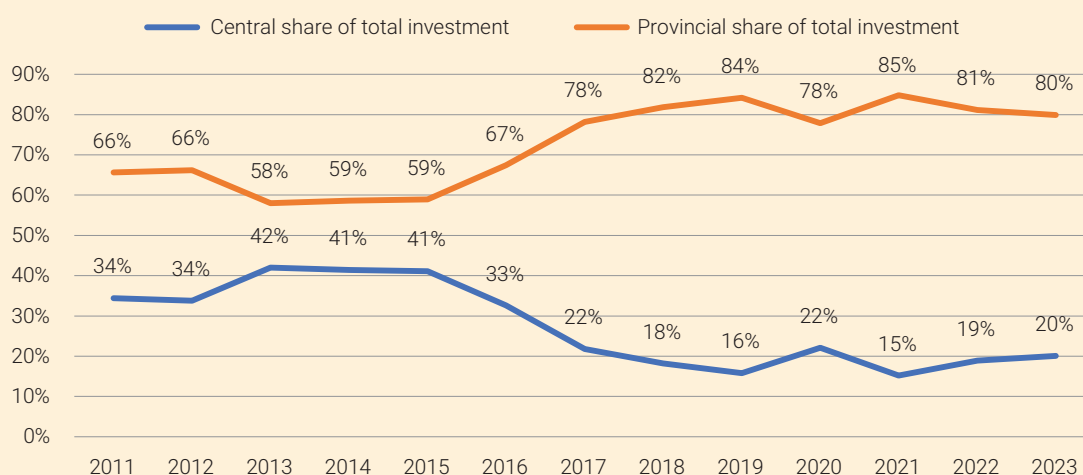
⁴⁸ Land Fund Development Centers are established at local levels to manage land funds.

transparency is that it reduces uncertainty for firms which need to plan their own activities based on their understanding of where public investments will be in the future. Reducing such uncertainty—and the transactions costs of doing business—is the essence of institutional reform needed for Viet Nam to reach high-income status. Studies in Viet Nam have shown that availability and transparency of documents related to government master plans are correlated with private investment.⁴⁹ Firms in Viet Nam generally report that planning documents are moderately accessible and this has shown improvement in recent years. (Figure 19.)

Box 6. Decentralization of public investment and allocative efficiency

The very high level of fiscal decentralization in Viet Nam, to be discussed in more depth in section 6, contributes to the problem of fragmentation of infrastructure. In Viet Nam, provinces undertake approximately 80 percent of government investment expenditure. This percentage has increased greatly over the past decade and is among the highest in the world. In a 2022 survey of 93 countries, the average ratio of subnational government investment to total public investment was 39.5 percent. Within this, the average for unitary countries was 34.5 percent, and for federal countries 59 percent. Out of the sample of 93 countries, only four had levels of 80 percent or more.⁵⁰

Figure 18. Increasing level of provincial spending in total public investments



Sources: Ministry of Finance (mof.gov.vn) and World Bank staff estimates

The degree of fiscal decentralization leaves the national government with too few resources to undertake nationally important projects, and institutional barriers inhibit efficient collaboration on joint projects between provinces, and between provinces and the national government. This problem has been partially addressed in the 2024 revisions to the Public Investment Law, but institutional barriers

⁴⁹ Malesky, McCulloch, & Nguyen, 2015.

⁵⁰ OECD/UCLG, 2022 Synthesis Report World Observatory on Subnational Government Finance and Investment.

remain in that the State Budget Law, Article 9.9, essentially bans provinces from undertaking expenditure outside their provincial borders. This creates an unnecessary barrier to investment by a province in a joint infrastructure project in which it will benefit from work undertaken in an adjoining province. This is a problem that should be addressed in future revisions to the State Budget Law.

The needs of the most rapidly growing urban centers should be considered in any reform of the system of intergovernmental finances. Despite the high overall level of fiscal decentralization in Viet Nam, rapidly growing areas such as greater Ho Chi Minh City have too few resources to meet the large infrastructure requirements generated by economic and population growth. This points to a need to address other problematic aspects of the existing intergovernmental finance system (such as the fact that the population numbers used in revenue-sharing formulas are well below the actual population numbers of the fastest-growing urban centers).

The institutions for public asset management need greater attention

Improving the institutions for the management of public assets could bring large benefits.

This fact is not lost on policymakers or the general public who see neglected assets and worry about waste. The topic has arisen in National Assembly debates, with deputies reporting on such concerns from citizens.⁵¹ The potential impact of better public asset management in Viet Nam could be large. Globally, one study by the IMF found that better management of government assets could earn 3 percent of GDP in extra revenues each year.⁵² As Viet Nam progresses toward its goal of reaching high-income country status by 2045, such efficiency improvements would be welcome, but institutional changes are needed to get there.

The legal framework for public asset management has been upgraded periodically. The Law on Public Asset Management was passed in 2017 and has been supplemented by numerous decrees and circulars. The Law defines public assets as public property of authorities and organizations, enterprises and state-funded projects; financial assets, such as the state budget and foreign exchange reserves; infrastructure assets, such as roads and industrial parks; and natural assets, such as land, water, minerals, and radio frequencies.⁵³ The 2017 Law replaced the 2008 Law on Management and Use of State Property, reflecting the shifting role of the state as steward of public properties and creating uniform legal grounds for management and use of these assets.⁵⁴ Management and use of the assets includes the sale and lease of assets.

⁵¹ VIETNAM.VN, 2023.

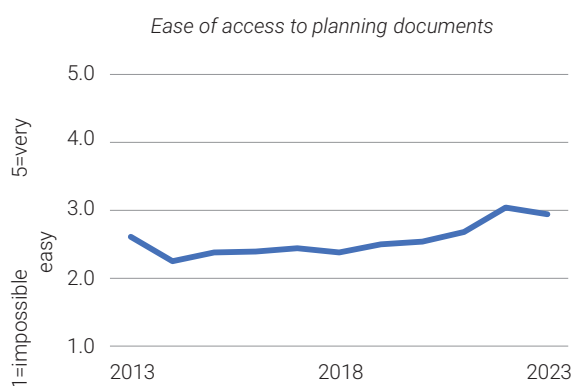
⁵² Harris & Senhadji, 2019.

⁵³ Article 4.

⁵⁴ Vietnam Law & Legal Forum, 2016.

Despite legal clarification of roles and responsibilities, ambiguities remain. The 2017 Law provided for certain public assets to be the responsibility of local People’s Committees, with central level agencies managed by the Government, with the Ministry of Finance as an advisory agency. The ministries and agencies of government directly manage public assets in their sectors. The legal framework maintains that state agencies are not allowed to use assets for business, leasing, joint-venture, or cooperation purposes; while social organizations, socio-professional organizations, and organizations established under the Law are allowed to use assets for these purposes in some circumstances.⁵⁵ The dynamic nature of organizations, and even assets, sometimes creates ambiguous situations over ownership and control, for example in the case of merger or consolidation of responsible agencies. In addition, as illustrated in the case of the legal framework for public investment management, the proliferation of implementing decrees by agencies can create confusion when they do not all align with each other.⁵⁶ The role of public asset management also brings responsibilities, including financial responsibilities, for maintenance. The broad diversity of types of assets covered by the law has presented challenges in establishing broadly applicable guidelines and circulars, further complicating the landscape.

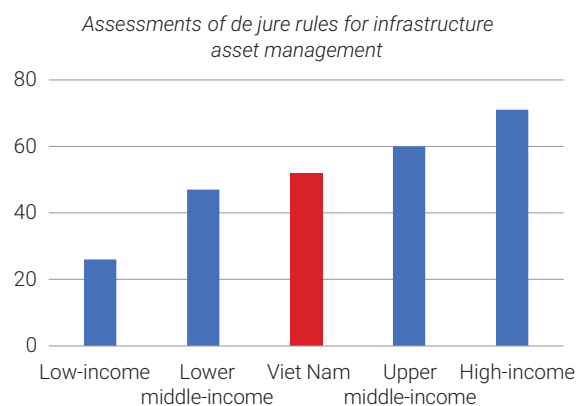
Figure 19. Planning documents are easier to access, but only slightly



Source: PCI, various years. Malesky, Thach, Trong, Ngoc, & Nguyen, 2022.

Notes: Planning documents include provincial budgets, provincial socio-economic development plans and programs, new infrastructure projects, public investment plans, land use allocation plans and maps, plannings for the development of local industries, sectors, and material areas. Respondents assessed ease of access: 1=impossible, 2=possible but difficult, 3=possible, 4=easy, 5=very easy. The chart depicts the median province average.

Figure 20. Infrastructure asset management systems fall short of HICs



Source: World Bank (2020). Benchmarking Infrastructure Development

Notes: Assessments based on features of the management of infrastructure assets once the construction is finished and assets are handed over to a public sector for operation and maintenance.

⁵⁵ Hoai & Ngoc, 2023.

⁵⁶ Hoai & Huyen, 2022.

The de jure system of public asset management falls short of the UMIC average, in part due to fragmented information and the lack of routine sharing. (Figure 20.) While databases of certain assets are maintained by responsible agencies, in many cases there does not exist a simple inventory of assets. This is not surprising given the number of provinces and lower levels of government, but the lack of consistent databases leaves the system open to neglect, waste, and abuse. Even for advanced provinces, inventories of public assets are not systematically compiled and shared, either within or outside of government.

Good public asset management relies on good data collection and management, both missing at the province level. No single entity is mandated to perform portfolio management at the province level. Designating responsibility for this task would be an important step forward. As noted throughout this study, however, clarifying the legal framework does not bring about real change without attention also to capacity. In this case, ICT tools can help, but only with due attention to people and processes. (Box 7).

Box 7. The importance of people, process, and technology for the institutions of public asset governance

Viet Nam's cities and provinces are striving to leverage digital government transformation to improve public asset governance for infrastructure, property, and land, as well as broader service delivery. This demands a balance of strategic vision and pragmatic entry points for innovative approaches. However, digital transformation and innovation are not just about technology: their success and uptake hinge on addressing a set of complex behavioral, cultural, and institutional issues. To be effective, digital transformation strategies need to also address the people and process bottlenecks and ensure adequate focus on institutional capacity development and change management.

The critical "people" dimension means improving the awareness, motivation, and skills of city and provincial officials toward tangible government digitalization. In Viet Nam's context of city and provincial governance, this translates to increasing the knowledge of practical technology applications that move beyond business as usual (paper-based, fragmented, with limited impacts), gaining a minimal level of foundational and functional digital skills, and then harnessing the ability to work more effectively with global and domestic resources and providers from the private sector and academia. Fundamental to this process of change is building a culture of applying digital technology and data toward better public asset outcomes (services, resilience, efficient and equitable public resource prioritization) across government.

Ho Chi Minh City, Da Nang, and Hue are working together with the World Bank to introduce disruptive technologies for better public asset governance. Use cases cover a broad range of public assets and processes: public housing, road assets, provincial construction plans, construction plans, building permits, flood risks, construction sector architecture, and others.

Strengthening the people dimension of public asset governance, the program launched the Digital Governance Academy with Fulbright University in Ho Chi Minh City, providing both executive and managerial level courses, with follow up at the province level.

Source: Disruptive Technologies for Public Asset Governance (DT4PAG), support by the World Bank and Switzerland SECO. See also World Bank, forthcoming 2025, "Demonstrating the Value of Disruptive Technologies for Public Asset Governance: Viet Nam's Flood Exposure and Decision-Support Platform (FEDS)."

5. Legal and regulatory processes that support growth

Only the state can make laws, and Viet Nam's institutions for drafting and passing legislation and regulations needs careful attention. The legal system generates regulations that address externalities but may also produce transactions costs for firms, slowing growth. As the institution for creating and shaping institutions, the lawmaking system is especially important for Viet Nam's shifting role of the state. Improvements to the lawmaking process can have cascading effects.

Laws and regulations in Viet Nam are inconsistently applied, pointing to weaknesses in both the quality of regulations and in implementation arrangements. Administrative procedures have been the center of multiple government-led efforts at streamlining, and these changes have successfully reduced transactions costs, including the cost of uncertainty, for firms, but these need to be renewed frequently.

Past reforms, notably the Law on the Promulgation of Legal Normative Documents ("Law on Laws") have been instrumental in improving the lawmaking system, bringing greater order to the process, and improving the approach to upstream analysis and deliberation. The Law, and its amendments, have shifted the roles of the lawmaking agencies, the Government, and the National Assembly, improving ownership over the laws and reducing institutional conflicts of interest. Very recent reforms (2025) have further streamlined some processes, including delegating more authority to the Government, and speeding the gestation period for laws, although they remain long. In addition, there is a need to build greater capacity within lawmaking agencies for conducting Policy Impact Analyses, especially for the analysis of economic impacts and gender impacts.

Viet Nam's growth relies on the growth and innovation of firms and industries. As the state's role shifts from one of directing the economy to one of setting the rules and letting individuals and firms make their own decisions within those bounds, the manner in which the state sets those rules becomes paramount. The rules themselves often focus on limiting negative effects of individual behavior, such as controlling pollution or other externalities, or encouraging activities with positive spillovers, such as technological innovation. Indeed, a key function of government is regulation of economic activity—regulation can address externalities, but if done poorly can also be a hindrance to development, increasing transactions costs for firms without bringing societal benefits in an efficient way. As Viet Nam strives to achieve “green growth,” the need to regulate efficiently has become even more acute.

There are two elements to this regulatory shift that are important for reducing transactions costs and, therefore, for Viet Nam's institutional development and its high-income status aspirations. One is the current stock of regulations and how those regulations affect firms. A second is the process of legal and regulatory development that produces the regulations in the first place. Viet Nam has paid attention to both of these in the past decades.

The government has long recognized the importance of easing the regulatory burden on firms

Viet Nam has made efforts to reduce the number of administrative procedures firms must follow and to speed up processes on the part of the government. The burden of administrative procedures was recognized even in the early 1990s, although concerted efforts to address the problem began in earnest in 2007 with the introduction of Project 30, an effort championed by the Prime Minister and so named because it was the Prime Minister's Decision #30. The number also provided a memorable set of targets: to reduce administrative procedures by 30 percent and to reduce compliance costs for firms by 30 percent.

Project 30 was a mammoth effort on the part of Viet Nam's government. Led by a task force reporting directly to the Prime Minister, Project 30 led to the creation of Viet Nam's first national database on administrative procedures, made public online in 2009. This greatly improved the transparency and accessibility of administrative procedures and was welcomed by the business community. In addition, it provided the inventory of administrative procedures which then had to be justified, one by one; those failing to meet certain criteria of justifiability, necessity, and reasonability, were then set for cancellation or simplification. Each of the 63 provinces and 21 ministries that existed at that time set up its own task force for this purpose, and the Prime Minister's Task Force was established as the main entity overseeing regulatory reform in Viet Nam. By 2010, the government had issued 25 resolutions to request ministries to simplify 4,723 administrative procedures.⁵⁷ This led to a reduction of \$1.4 billion per year in compliance costs.⁵⁸

⁵⁷ Thanh & Nguyen, 2016.

⁵⁸ OECD, 2010.

Project 30 was notable both for the high-level political backing and for the active involvement of the business community, which brought information about the costs they incur due to specific administrative procedures. By our yardstick of reducing transactions costs for firms, this was a notable institutional reform addressing a very specific need. The government cataloged and quantified the trillions of VND saved by reforms in tax and customs invoicing, construction permits, social insurance processes, and others.⁵⁹

A second comprehensive reform effort was launched in 2014 with Resolution 19, later renamed Resolution 02 to signify its importance. Building on the ambition of earlier programs and internalizing the frame of reference of the World Bank Group's Doing Business project, Resolution 19 set specific tasks and targets related to business registration, paying taxes, getting electricity, establishing property rights and investor protection, import and export procedures, insolvency, and business transparency.⁶⁰ The establishment of specific tasks and assignment of responsible ministries distinguishes Resolution 19 from earlier efforts. By the end of 2014, roughly half of the targeted measures had been implemented, but only 1/6th had been "implemented with outcomes."⁶¹ The built-in ability to assess results facilitates learning and adaptation, important hallmarks of institutional progress. As reform efforts and monitoring were strengthened over time, Resolution 19 brought about significant improvements in streamlining regulations and reducing costs for businesses.

More recently, Resolution 68 set targets to simplify or reduce business regulations and cut compliance costs by 20 percent between 2020 and 2025.⁶² While there is not enough information at the moment to judge if the target will be met, Resolution 68 did simplify or remove over 3,000 business regulations and more is planned. The approach, whereby ministries propose regulations for simplification, gives ministries ownership over their own simplification programs, but risks a focus that is too heavily oriented to easy reforms rather than focusing on the most onerous regulations. In addition, the green growth agenda calls for specific emphasis on strategic industries, such as electronics and renewable energy, but these were not specifically addressed in Resolution 68.⁶³

Viet Nam has also strived to make compliance easier through the creation and improvement of One Stop Shops. Nearly 12,000 One Stop Shops (OSSs) for administrative services have been set up: 867 OSS units at ministries and ministry-level agencies, and 11,089 in localities.⁶⁴ Nearly all centrally-run cities and provinces nationwide have established provincial-level public administrative service centers. Providing services such as notary services, social insurance, welfare, civil status registration, land administration, business licensing, construction permits and licenses, tax collection and many others, the OSS model has been credited with not only streamlining and shortening processes, but with reducing rent-seeking and changing the attitudes of public servants toward the public.⁶⁵

⁵⁹ Vietnam Investment Review, 2011.

⁶⁰ Thanh & Nguyen, 2016.

⁶¹ Thanh & Nguyen, 2016.

⁶² World Bank, 2024a.

⁶³ World Bank, 2024a.

⁶⁴ Vietnam Plus, 2024.

⁶⁵ Blunt, Davidsen, Agarwal, Pfeil, & Schott, 2017.

Viet Nam is ready for an update to its regulatory system to support its market aspirations

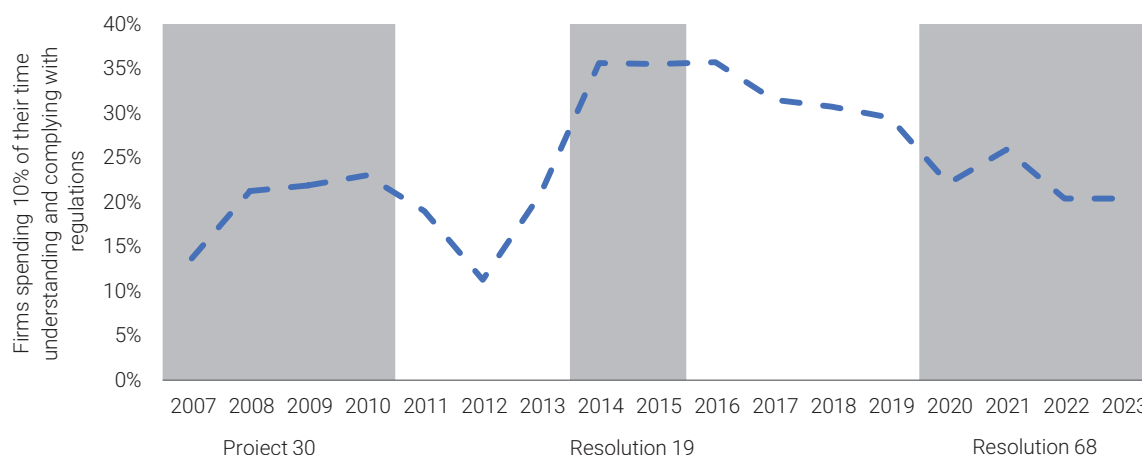
The successive bursts of energy to reduce the administrative burden on firms have shown some results, but following each episode, it was felt that more administrative simplification was still needed. Although the time spent understanding and complying with regulations has declined over the past ten years, it remains at a level close to what it was in the late 2000s. (Figure 21.) The flow of new regulations, in both quantity and quality, is at the root of Viet Nam's institutional challenges in its efforts to reduce transactions costs for firms.

Viet Nam's history with administrative simplification shows determination, but also the need to adapt its institutions to suit a hands-off role for the state. The overall focus of the program, with emphasis on administrative procedures rather than regulating behavior, reflects a role of the state as the grantor of permission, rather than as regulator of truly bad behavior. This, too, has been changing. When the Investment Law was revised in 2014—among the tasks outlined in Resolution 19—it abolished requirements for investment certificates for domestic investment projects regardless of the scale or area of business and narrowed the scope of foreign-invested projects requiring certificates.⁶⁶ More fundamentally, by specifying areas and sectors where business activity is prohibited, the amendments reduced uncertainty—and transactions costs—for firms as they no longer risked getting into legal problems for operating in areas that are not specifically permitted. This marked a significant shift in the role of the state.

The focus on administrative procedures during that era is also telling. The emphasis on reducing red tape and easing processes is evident especially early on in Viet Nam's regulatory reform history. Indeed, even the Provincial Competitiveness Index, which is being drawn upon throughout this study, focuses many more questions on administrative procedures than on other forms of regulation. The abundance of administrative procedures may well justify this emphasis, but it is nevertheless indicative of a system that favors setting of controls ex ante, making economic decisions directly, rather than using a risk-focused compliance system, reserving the state power for setting rules in which firms make the decisions. Attention to regulation beyond administrative procedures will become increasingly important.

⁶⁶ Thanh & Nguyen, 2016.

Figure 21. The burden of compliance responds to government efforts, but the burden remains high



Source: PCI, various years. See Malesky, Thach, Trong, Ngoc, & Nguyen, 2022.

Notes: The chart shows the percentage of firms in the median province that said they (managers) spent more than 10 percent of their time understanding and complying with regulations.

The regulatory and lawmaking processes have undergone seismic changes

The regulatory process, and lawmaking generally, sets out how political and administrative systems establish how the power of the state can best be used for society's betterment. Whether a policy is “good” or not is obviously important for whether or not it achieves its objectives, but the process of arriving at that policy is equally important, for two reasons: A better process leads to better policies, and a better process increases cooperative behavior. But what constitutes a good lawmaking process? Three aspects of the policymaking process that are important for generating implementable policies are consistency, participation, and contestability.

Viet Nam's lawmaking process is relatively consistent compared to other countries. The Constitution is revised infrequently, and the basic processes of generating laws, rules, and regulations are stable and defined in law. The Law on Promulgation of Legal Normative Documents 2008, and its amendments in 2015, 2020, and 2025 outline the lawmaking process and regulate the hierarchy of legal documents. This law has helped clarify who can and cannot make laws of various forms and in various areas.⁶⁷ For consistency of process, Viet Nam receives high marks.

Participation in policymaking processes has a direct impact on whether or not policies meet their objectives. Participation ensures that feedback on potential impacts of policies—impacts which are better known to those who are impacted by the policies—does not escape the attention of policymakers.

⁶⁷ World Bank and others, 2009.

In addition, participation contributes to process legitimacy, which impacts willingness to comply with or implement the policies. Evidence from a randomized experiment in Viet Nam shows that firms that were offered the chance to comment on a labor safety regulation prior to finalization were found to subsequently be more likely to comply with that regulation.⁶⁸ Moreover, while participation is usually characterized as important for achieving buy-in from those affected by policies, it is also the case that such feedback can help improve the qualities of the policies. Although certain aspects of Viet Nam's policymaking processes are participatory, there is considerable room for improvement.

Contestability in policymaking is closely related to participation and is a natural consequence of open processes. When contestability is limited, the risks of policy capture by interest groups are higher. The influence of interest groups leads to favoritism that weakens competitiveness and undermines government efficiency and growth.⁶⁹ For lawmaking, information and professional analysis supports contestability. The following sections will explore these issues more deeply.

Viet Nam's reforms show deepening understanding of the needs of policymaking

Running in parallel to the efforts to reduce administrative burdens was a series of reforms aimed at improving the lawmaking (and policymaking) process, thereby addressing both the stock of regulations and the flow of new ones. While some changes were evident already in 1996 when a new Law on the Promulgation of Legal Normative Documents was passed, progress accelerated with major revisions in 2008 and 2015, and further amendments in 2020 and 2025. For those interested in the development of institutions in Viet Nam, the progressive strengthening of the "Law on Laws", as it is often called, represented a seismic shift. The basic hierarchy of policymaking—Party setting strategic direction, Government developing and implementing policy, and the National Assembly providing oversight and representing the people—was unchanged, but there were some important changes in how, by whom, and on what basis laws are made.

The Law on Laws helped bring some clarity by delineating who can make laws of what type. Prior to this, a proliferation of ordinances and decrees were emanating from ministries and provinces, without a clear set of rules about which bodies were permitted to make which sorts of regulations.⁷⁰ This generated confusion on the part of both government officials and firms—by our criteria that institutions should reduce transactions costs for firms, clarifying which bodies can make which sort of regulations, and the legal hierarchy among them, this was an important institutional reform.⁷¹ The

⁶⁸ Malesky & Taussig, 2019.

⁶⁹ Olson, 1982.

⁷⁰ The challenge has its roots in socialist law which placed primacy on Party doctrine, leaving ambiguities in laws and regulations by design. Gillespie, 2023.

⁷¹ The Law on the Promulgation of Legal Normative Documents covered a range of normative documents, including laws, ordinances, decisions, and circulars. These provide the legal basis for state activity, regulation, and others. As this includes regulations that affect firms, but not only regulations, we will sometimes use the terms interchangeably.

2025 amendments further streamlined this power, removing the ability of communes to promulgate legal documents.

The Law on Laws also showed evolution in the understanding of the role of the state. Whereas policymaking had long been one of top-down decisions, the successive changes to the Law on Laws exhibit increasing emphasis on transparency, public consultations, and assessment of the costs of regulation before the regulation is put into legal force. The 2008 Law on Laws introduced for the first time the concept of the Regulatory Impact Assessment (RIA). The RIA mandated assessments of costs for implementation and consideration of alternative regulatory approaches. The early experience of the implementation of this Law showed the importance of developing capacity and knowledge along with legal changes. With few resources and little understanding of how to conduct a proper RIA, the quality of many early RIA reports was low.⁷² Moreover, the process was not established in a way where the RIA would have real impact.

The lawmaking process placed greater emphasis on upstream analysis

In the 2008 Law on Laws, the RIA process was linear, but not sequential. All processes start by drafting the law. RIAs would be done in parallel, taking stock of the existing situation of relevant documents and identifying shortcomings. As the RIA and law drafting took place at the same time, the draft laws were not being shaped by the RIA; arguably the RIA would be shaped by the draft law. With limited capacity, the robustness of the assessments of the impact was weak.

A second set of challenges surrounded the independence of the RIA. Prior to the 2015 revisions, the drafting of the legislation and the analysis of impacts were done by the same agency; others could not participate. This lack of contestability limited the usefulness of the RIA and reduced quality as other agencies were unable to provide input.

With the 2015 revisions, the RIA was segmented such that there is first a focus on the objective, analysis or forecast of impacts, and then drafting. Before drafting begins, there is a proposal to develop a specific law: the issues to be addressed, how the law will address the issues, and the main measures or solutions. The impact of the proposed laws also has to be examined in five areas: economic, social, gender, administrative procedures, and legal framework. Once that analysis is done it goes to the Ministry of Justice for appraisal—primarily on narrow legal grounds—and is then submitted to the Government which holds thematic meetings on the lawmaking proposal to be followed by a resolution on the proposal. An important feature of this process is that the Government now owns the proposal, rather than leaving this responsibility to the drafting ministry. The 2020 amendment calls for the report to be signed by the leaders of both the lawmaking agency and the Government.

⁷² World Bank and others, 2009.

The National Assembly's role was also strengthened by the Law on Laws. Once the proposal has been submitted to the National Assembly, it is again appraised by the relevant committees which then submit it to the Standing Committee. In addition to ensuring early buy-in and input from the National Assembly, this process reduces uncertainty about procedures on the part of the drafting agency.

The path that a draft law takes in the National Assembly increasingly brings in more robust scrutiny. In the past, proposals would be read and revised at the same meeting and, not surprisingly, the proposals would be very similar to the versions submitted. In the event two sessions were needed, the agency would collect comments during the interim between the two sessions and revise the law; after that it would go to the Ministry of Justice for (re)appraisal, and then back to the National Assembly.

The 2015 Law on Laws, amended and supplemented in 2020, replaced the RIA with a Policy Impact Assessment (PIA) as a mandatory step in the process of formulating laws. The PIA was expected to improve upon the shortcomings of the RIA as it existed to that point, including improving the quality of the upstream analysis.

In 2015 there was a foundational change to responsibilities: After the first reading, the responsible National Assembly committee took the lead in collecting comments and revising the proposal. If unsatisfied with the quality of the proposal, the National Assembly could call for a new PIA. This increased the level of oversight of the National Assembly over the PIA and lawmaking processes, while also necessitating greater engagement between the National Assembly, the Government, and the Ministry of Justice. Following a discussion chaired by the Standing Committee, they would get a report on the revised draft and the appraisal agency reports and then revise and resubmit. This means that at this stage, the appraising agency (which is the National Assembly committee) is the same as the one doing the revisions.

The changing role of the National Assembly is designed to help insulate the process from special interests. A more active role for the National Assembly, as the representative of the people, was intended to remove the perception that laws were being made to benefit small groups of people or particular agencies or ministries. A stronger role for the National Assembly, however, also brings a less prominent role for the Government. From the beginning, the Ministry of Justice faced challenges in appraising all of the laws that came before it. The 2015 revisions to the Law on Laws led to a diminished role for the Government vis-à-vis the National Assembly and led to concerns that this would adversely affect implementation. Since the 2020 revisions, the Government is required to comment during the National Assembly appraisal if they agree or disagree, explain why, and suggest changes if they disagree.

Viet Nam has built an organizational structure to integrate gender analysis into lawmaking. A law drafting body is required to submit a lawmaking proposal package, which includes a Gender Impact Assessment (GIA), to the Ministry of Justice and then the Government Office which submits it to a relevant specialized committee of the National Assembly for review. The National Assembly's Committee for Social and Cultural Affairs (CSCA), which plays a "gatekeeper" role, is tasked with examining proposed and draft laws to ensure that gender issues are addressed in legislative

documents. The CSCA establishes a team in charge of gender and family affairs, led by a Vice-Chair, to review proposal packages from a gender lens. The Department for Social and Cultural Affairs, which supports the CSCA, has a group of civil servants assigned with promoting gender equality in legislation. A group of gender experts are also mobilized to support the CSCA on a voluntary basis. Socio-political organizations, especially women's unions and other NGOs advocating for gender equality, play important roles in providing social feedback on the GIA and gender mainstreaming reports.⁷³

The process brings more engagement and earlier engagement with stakeholders. Both the proposal and the RIA stages are more participatory than in the past. Whereas in the past, only the Viet Nam Chamber of Commerce and Industry (VCCI) was specifically named as a stakeholder to be consulted with, now this process is opened up to trade unions and social organizations and others.

The institutional reforms are commendable, but there is a need to sharpen incentives, build capacity and continue learning

The initial experience with the RIA was one of very light-touch assessments of impacts. Without substance, the RIAs were seen as a legal requirement, but more of a hindrance than a help. Following the improvements in the 2015 Law on Laws, the approach became more systematic, and the quality of analysis of rationale and impacts improved in the PIAs. Whether the assessment process has become a help and not a hindrance, whether it has reached its potential for efficiently improving the quality of regulations—and reducing transactions costs for firms—requires a deeper look. A detailed analysis of the PIAs for seven recent laws was undertaken for this purpose; the details are in the Annex at the end of this section.

The analysis of economic impact is perhaps the most technical area in the PIA process. The economic impact analysis in most of the PIA Reports is fairly weak. Most of the PIA Reports identify the affected subjects (usually including three groups: State, businesses/organizations, and people) and some positive and negative impacts for each subject. The analysis of positive and negative economic impacts is mostly qualitative, and reports do not quantify the costs and benefits of policy solutions in monetary terms, even when it is possible to do so. (Box 8 in the Annex provides some examples.)

The lack of quantitative analysis of the economic impacts diminishes the usefulness of the PIA. In some cases, neither the impacted parties nor the economic impacts are examined sufficiently. For example, the PIA Report of the Law on Credit Institutions 2024 does not point out the impacted parties, and the analysis is vague. The PIA Report of the Law on Bidding 2023 did not analyze the costs and benefits for affected subjects, and the analysis is qualitative and has repeated content from other sections (such as the proposal of optional solutions). In addition, among the five Reports that did not

⁷³ The National Strategy for Gender Equality for the 2011-2020 included an indicator that gender is mainstreamed in all legislative documents.

quantify the benefits and costs for the affected subjects, there was only one that stated the reason for not applying quantitative methods, namely the PIA Report of the Law on Consumer Protection 2023.⁷⁴ The four remaining PIA reports do not state the reason for not quantifying impacts.⁷⁵

There are positive examples of economic analysis in the PIA Reports. Among the seven PIA Reports examined for this study, the PIA Report of the Law on Electronic Transactions 2023 rates well in quantifying the cost-benefit impacts of the policy. This PIA Report estimated the benefits, which are the costs saved by reducing copying, authentication, and travel activities during the implementation of administrative procedures; estimated the costs of building and operating database systems, etc. The PIA Report could have been strengthened further by identifying more clearly the impact on each affected subject rather than the aggregate economic impact. In addition, some of the costs, such as the costs of construction, management, and operation of some platform systems, existed before the time of the policy proposal. The PIA Report of the Law on Medical Examination and Treatment 2023 quantifies certain benefits and costs for each impacted group. While some technical issues related to the calculation of the costs could be raised, the efforts to quantify the costs is a major step forward compared to the time before the advent of the RIA and PIA.

Social impact analysis identifies those directly affected by the policy and other stakeholders from the social perspective. Viet Nam's PIA Reports generally analyze social impacts well, identifying the affected subjects and impacts, but there are often potential impacts which were not examined, such as the health impacts of the Law on Environmental Protection 2020. PIA Reports do well in examining both positive and negative impacts on each subject directly affected by the policies. The PIA Report of the Law on Consumer Protection 2023, for example, identifies negative impacts on the State related to property (spending costs and resources in developing and implementing monitoring mechanisms) and positive impacts for consumers related to health (minimizing the risk of damage to health and life caused by defective goods).

Some PIA Reports are weak or vague in their social analysis. Many do not analyze specific positive and negative impacts on affected subjects. The social impact section of the PIA Report of the Law on Bidding 2023, could have been much improved if it addressed, for example, the impacts of incentives in bidder selection as these relate to many social issues and are increasingly used to solve social problems such as employment, environment, property, and health.⁷⁶

Gender analysis in the PIA process needs to be improved. The PIA Report of the Law on Bidding 2023 is the only one of the seven examined here that shows that the policy has gender impacts. The section on

⁷⁴ The PIA report states: "Due to limitations in statistics, especially the handling of violations in localities as well as the inability to analyze the implementation of tasks according to the Law on Consumer Protection and other specialized regulations of ministries and branches, the impact of policies protecting consumer rights on business activities of enterprises or assessing the risk of losing business opportunities of enterprises, etc., will be evaluated qualitatively."

⁷⁵ Reports of the Law on Environmental Protection 2020, the Law on Credit Institutions 2024, the Law on Bidding 2023, and the Project on Law on Employment (amended).

⁷⁶ The social analysis consisted of the following: "Because the above policies have many impacts on the economy, life, and employment of individuals; contribute to creating jobs; contribute to the development of gender equality; sustainable growth, combating climate change, etc., therefore, if these policies are implemented, there will be many positive impacts on society, people, and enterprises."

issue identification mentions the gender aspect in bidding incentives for enterprises that employ female employees. The gender impact assessment section re-mentions this content, but in a very general way: "Policies on priority and incentives for goods and services produced and provided by vulnerable groups will have positive impacts on creating jobs for women, making an important contribution to implement gender equality policies in Viet Nam." While the PIA Report identifies the affected gender (female), it does not analyze the impact on opportunities, conditions, capacity to exercise, and the enjoyment of rights and benefits. While considerable efforts have been made to integrate gender analysis into lawmaking, as described earlier, capacity building and socialization are needed to ensure real institutional change.

Building capacity within lawmaking agencies for policy impact assessment needs to be an important element of the institutional reform agenda. Undertaking analysis of economic impacts, social impacts, gender impacts, administrative procedure impacts, and impacts on the legal system would help increase the quality of the PIA—helping to sharpen the legal framework's ability to achieve economic and social objectives with minimal costs. Capacity needs to be supported with clear guidance on issues such as policy issue identification, identification of policy objectives, proposed solutions, and the methods for conducting economic impact analysis, social impact assessments, gender impact assessments, and the process of public consultations.

Viet Nam's efforts to improve lawmaking have shown results but need to be deepened

Viet Nam's experience upgrading its institutions for regulating the economy shows many hallmarks of sound institutional development. The overarching framework is changed infrequently, and many of the reforms of the past two decades have been oriented toward reducing the proliferation of regulations and administrative procedures, delineating which bodies and levels of government have which authorities. This has the effect of reducing uncertainty for firms about which rules apply.

The process of generating policies and regulations is more contestable than ever before. Consultations among government agencies are more common, and are required for legal normative documents, and public consultations are mandated, as well. Online databases provide easy access to laws, decrees, and other legal documents, as well as administrative procedures. Those generating new laws or regulations need to make the case that the proposed approach is necessary and cost-effective, and even the quality of the analysis can be (and has been) contested.

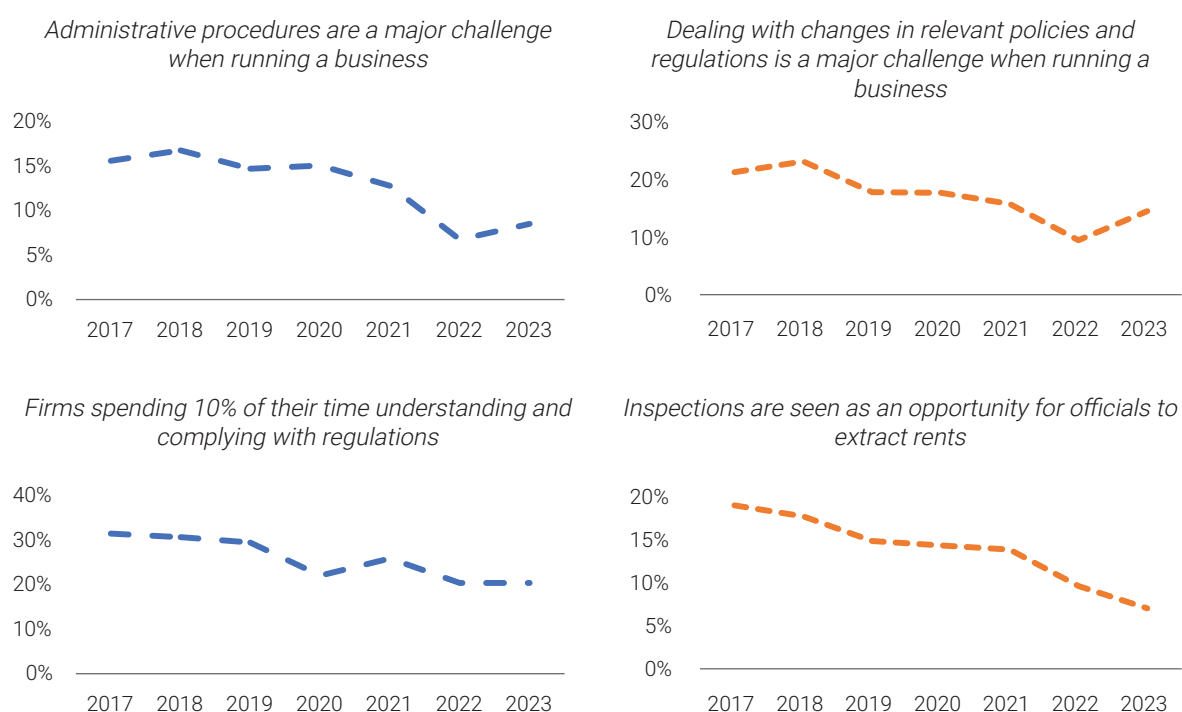
The experience with the Law on Laws also provides lessons for how institutions work in Viet Nam (or anywhere). Just as the efforts to streamline administrative procedures helped assign responsibility for certain actions—the first step in building accountability—the efforts to change the process of lawmaking strengthened accountability for the laws themselves.

The experience in Viet Nam has been one of experimentation. From the successive revisions of the Law on Laws, incrementally adding detail, professionalism, contestability, and accountability, to the

OSS model, begun as a pilot and now rolled out nationwide, Viet Nam has experimented and made incremental improvements. The breakthroughs may have been gradual, but they were breakthroughs, nevertheless. This is consistent with the approach to real institutional reform espoused by many academics who study institutions.⁷⁷

These changes have brought results. In addition to the trillions of VNDs saved by streamlining administrative procedures, firms report spending less time understanding and complying with regulations and report administrative procedures to be less of a hindrance than in the past. Increasing clarity and reduced burden brings benefits in other ways, too: fewer firms see inspections as being abused by officials to extract rents. (Figure 22.)

Figure 22. The regulatory burden is improving, but it is still substantial



Source: PCI, various years. See Malesky, Thach, Trong, Ngoc, & Nguyen, 2022.

Notes: Percentage of firms in the median province.

⁷⁷ A few examples: Douglass North emphasized “gradual institutional change through continuous marginal adjustments. The emphasis on this type of change is deliberate. It is the dominant way by which societies and economies have evolved.” (North, 1990). Matt Andrews emphasized the value of “purposive muddling” (Andrews, 2013), and the Problem Driven Iterative Adaptation (PDIA) approach similarly emphasizes iterative changes, as the name suggests (Andrews, Pritchett, & Woolcock, 2017). The Working with the Grain Approach emphasizes processes rather than endpoints. (Levy, 2014). See also (Murrell, 1991) for a prescient analysis of the transition challenges facing former socialist countries and the value of an evolutionary approach.



These changes are steps toward a foundational shift in the role of the state, institutional reforms that reduce transactions costs for firms. Yet, business regulation continues to lean heavily toward control of decisions that would better be left to individual firms. Regulations that focus on controlling inputs, such as the minimum size of a firm's premises, leave firms focusing on compliance with someone else's idea of what is best, rather than on their own analysis and innovation. Regulation that is limited to the essential qualities of products that would not be readily ascertained by consumers, such as safety, is more in line with the role of the state as rule-setter rather than director.

Annex 1.

Assessing Policy Impact Assessments

A close examination of a sample of recent laws shows both the strengths and weaknesses of the current approach to policy impact analysis. To understand better how this fundamental set of institutional reforms is working in practice, we analyzed a sample of seven recent laws selected for the diversity of issues being covered: environmental protection, health sector regulation, government procurement, financial sector, and others. An additional law project related to labor issues was also selected, although this law is not yet passed. The selection of these laws is based on several criteria such as prioritizing laws related to private investment, private sector development, healthcare, human life, environment, green development, and to ensure a diverse set of governing bodies. Many are important for public service delivery and for the green growth and GVC agendas. As these are major laws covering many policies (some Reports contain more than ten policies), the evaluation focused on a single policy issue in each of the laws. The laws and the policy issues are presented in Table 3.

Each Policy Impact Assessment Report was evaluated based on eight criteria suggested by Vietnamese guidelines and international good practices. The criteria for evaluating the PIA Reports drew upon the Manual on Evaluation of Policy Impact Assessment Reports compiled by the Department of General Affairs on Legislative Development, Ministry of Justice,⁷⁸ and international experience.⁷⁹ The following criteria, each with its own sub-criteria, were used to assess the PIA Reports:

1. Policy issue identification
2. Policy objective identification
3. Identification of the proposed policy solutions
4. Economic impact analysis
5. Social impact analysis
6. Gender impact analysis
7. The necessity, legitimacy, reasonableness, and appropriateness of compliance costs of administrative procedures

⁷⁸ See <https://hdnv.moj.gov.vn/Pages/chi-tiet-tai-lieu.aspx?itemid=1924>. The Manual was developed based on the Law on Laws 2015, amended and supplemented in 2020, and its guiding decrees including Decree 34/2016/ND-CP and Decree 154/2020/ND-CP. Recently, on May 25, 2024, the Government issued Decree 59/2024/ND-CP amending Decree 34/2016/ND-CP and Decree 154/2020/ND-CP (effective from June 1, 2024). The Decree has several amendments related to the PIA. However, the evaluation within the scope of this Study still complies with the Manual of the Ministry of Justice mentioned above because the evaluated PIA Reports were all developed before the issuance of Decree 59/2024/ND-CP.

⁷⁹ These include guidelines produced by the OECD, the European Union, and the United Kingdom.

All of the PIA Reports in the sample have separate sections on issue identification—problems to be addressed, why the problems are important, who is most affected, the underlying causes—helping to frame the rest of the analysis. In general, they point out most issues and identify the causes of the issues. The PIA Report of the Law on Environmental Protection 2020, for example, notes that there have been cases where an investment project has a negligible environmental impact but still is required to conduct many environmental procedures. The PIA Report for the Law on Electronic Transactions 2023 noted the barriers to data sharing between state agencies, and the PIA Report for the Project on Law on Employment (amended) identifies ineffective implementation of unemployment insurance in certain circumstances. The PIA Report of the Law on Medical Examination and Treatment 2023 notes that medical examination and treatment facilities, especially the state-owned ones, pay little attention to enhancing service quality.

Table 3. Laws and policy issues studied

Name of the Law having the PIA Report to be evaluated	The selected policy in the PIA Report to be evaluated
Law on Environmental Protection 2020	Policy issue 1: Criteria for screening investment projects (note: related to investment projects that are required to conduct environmental impact assessment)
Law on Medical Examination and Treatment 2023	Policy issue 8: Assessing the quality of medical examination and treatment facilities
Law on Electronic Transactions 2023	Policy issue 7: Regulations on electronic transactions between organizations, individuals, and state agencies and between state agencies
Law on Bidding 2023	Policy issue 2: Promoting domestic production, procurement of innovative products, green procurement for the goal of sustainable development, creating jobs for disadvantaged labor groups (note: related to incentives in bidding)
Law on Consumer Protection 2023	Policy issue 1: Improving regulations on defective goods and recall of defective goods to improve responsibility and efficiency of enforcement of relevant regulations
Law on Credit Institutions 2024	Policy issue 6: Completing regulations to create a basis to promote the process of restructuring credit institutions and handling weak credit institutions
Law on Employment (amendment)	Policy issue 2: Completing unemployment insurance policy as a labor market management tool

The issue identification section often focuses on imperfections in the existing legal framework rather than the real economic or social problems to be addressed. While confusing legal frameworks may indeed need correcting, the identification of the higher purpose of the law is also needed. The most common limitation of PIA Reports is the insufficient attention to impacted subjects and the consequences of the issues for these subjects. Specifically, the PIA Report of the Law on Medical Examination and Treatment 2023 does not identify the impacted groups or the consequences of the issues on these subjects. An exception is the PIA Report on the Law on Environmental Protection 2020 which provides the justification for the law simply but clearly: “Many major pollution and environmental degradation incidents occurred on a large scale, and outbreaks of locations with environmental incidents due to the discharge and burial of waste caused environmental pollution with disastrous consequences on economic, social, and environmental aspects in both the immediate and long term, negative impacts on the production, life, and health of people and the public safety, causing frustration and insecurity among the people. Current regulations also prevent businesses and management agencies from being proactive in the investment project reviewing and granting process.”

The law’s policy objectives should make explicit how the objectives relate to the issues already identified. The PIA Reports generally point out their objectives related to amending and supplementing legal regulations to be consistent with implementation practices, and some get more specific: the PIA Report of the Law on Medical Examination and Treatment 2023 says it is aimed at “improving the quality of providing medical examination and treatment services in medical examination and treatment establishments.” The PIA Report of the Law on Consumer Protection 2023 declares it is aimed at “enhancing the role of business organizations and individuals in carrying out the recall of defective goods.” The PIA Report of the Law on Electronic Transactions 2023 correctly and fully identifies the objectives and ensures compatibility with the main and direct causes stated in the section on Issue identification, which are: (i) “Improving the legal basis for electronic transactions between organizations, individuals and state agencies” (corresponding to the cause that the regulations have not kept up with the practice or there are certain barriers, and there are no framework regulations on implementing administrative procedures via electronic transactions); and (ii) “Establishing the legal basis, basic principles, and requirements at the law level for connecting and sharing data of state agencies.”

A key part of the PIA process is to examine multiple possible solutions, including the status quo. In general, the PIA Reports perform quite well in identifying solutions to issues, but there were some limitations. Many Reports only presented one or two optional solutions to solve the problems, and one (the Law on Bidding 2023) also neglected to consider maintaining the status quo even though the PIA Report template required this at the time. Most proposed optional solutions are coherent, and the distinction between the optional solutions is transparent. For example, the PIA Report of the Law on Medical Examination and Treatment 2023 proposed three optional solutions as follows:

- Applying mandatory quality assessment after being granted an operating license according to the set of quality standards issued by the Ministry of Health.
- Applying mandatory quality assessment after being granted an operating license according to the set of quality standards issued by the Ministry of Health, and the quality assessment score is the basis for determining the price of medical examination and treatment services.

- Maintaining the status quo, which means that medical examination and treatment establishments are only encouraged to apply internationally issued sets of quality assessment standards and are not required to apply quality assessment according to the set of quality standards issued by the Ministry of Health.

The analysis of economic impact is perhaps the most technical area in the PIA process. In general, the economic impact analysis in the PIA Reports is fairly weak. Most of the PIA Reports identify the affected subjects (usually including three groups: State, businesses/organizations, and people) and some positive and negative impacts for each subject. The analysis of positive and negative economic impacts is mostly qualitative, and reports do not quantify the costs and benefits of policy solutions in monetary terms, even when it is possible to do so. Box 8 provides some examples.

The lack of quantitative analysis of the economic impacts diminishes the usefulness of the PIA. In some cases, neither the impacted parties nor the economic impacts are examined sufficiently. The PIA Report of the Law on Credit Institutions 2024 does not point out the impacted parties, and the analysis is vague. The PIA Report of the Law on Bidding 2023 has not analyzed the costs and benefits for affected subjects, and the analysis is qualitative and has repeated content from other sections (such as the Proposal of optional solutions). In addition, among the five Reports that did not quantify the benefits and costs for the affected subjects, there was only one that stated the reason for not applying the quantitative method, namely the PIA Report of the Law on Consumer Protection 2023: “Due to limitations in statistics, especially the handling of violations in localities as well as the inability to analyze the implementation of tasks according to the Law on Consumer Protection and other specialized regulations of ministries and branches, the impact of policies protecting consumer rights on business activities of enterprises or assessing the risk of losing business opportunities of enterprises, etc., will be evaluated qualitatively.” The four remaining PIA Reports of the Law on Environmental Protection 2020, the Law on Credit Institutions 2024, the Law on Bidding 2023, and the Project on Law on Employment (amended) do not state the reason for not quantifying impacts.

There are positive examples of economic analysis in the PIA Reports. Among seven PIA Reports examined for this study, the PIA Report of the Law on Electronic Transactions 2023 performs quite well in quantifying the cost-benefit impacts of the policy. This PIA Report has estimated the benefits, which are the costs saved by reducing copying, authentication, and travel activities during the implementation of administrative procedures; estimated the costs of building and operating database systems, etc. The PIA Report could have been strengthened further by identifying more clearly the impact on each affected subject rather than the aggregate economic impact. In addition, some of the costs, such as the costs of construction, management, and operation of some platform systems, existed before the time of the policy proposal. The PIA Report of the Law on Medical Examination and Treatment 2023 quantifies certain benefits and costs for each impacted group. While some technical issues related to the calculation of the costs could be raised, the effort to quantify the costs is a major step forward compared to the time before the advent of the RIA and PIA.

Box 8. Improving analysis of economic impacts

Several of the Policy Impact Assessment Reports mention economic impacts of proposed solutions but make no attempt to quantify those costs. There are often approaches that could be used for this purpose.

- The PIA Report of the Law on Environmental Protection 2020: In Solution 1A, with the affected subject the State, the PIA Report states that there will arise a cost for the State to appraise projects that do not have much impact on the environment. However, this cost has not been quantified. The cost could be quantified based on multiplying the number of working days of civil servants by the average salary/workday (calculated according to the salary scale and payroll) and by the number of Environmental Impact Assessment Reports for projects that do not have much environmental impact that the State must appraise within a year (a certain percentage can be assumed based on statistical data). Similarly, the PIA Report mentions the cost for investors having projects with a low level of environmental risk but having to use resources to conduct complicated environmental procedures, although this cost was not quantified. The cost can be quantified based on the cost of preparing and appraising an Environmental Impact Assessment Report (according to information from Solution 1B of the PIA Report, this cost is about VND 300 million, equivalent to about USD 12,000) multiplied by the number of projects that do not have much impact on the environment (the percentage is assumed to be similar to the impact analysis on the State). Similarly, a proper analysis would need to defend the assessment that projects do not have much impact on the environment. (Presumably, those with clearly little impact on the environment would require little in terms of analysis of the impacts.)
- The PIA Report of the Project on Law on Employment (amended): In Solution 2, the PIA Report stated that the State will have additional revenue for the Unemployment Insurance Fund by expanding the subjects paying unemployment insurance, which was not quantified. The benefit can be quantified based on the number of employees with one-month-to-less-than-three-month employment contracts increased in one year (which can be assumed according to the data provided in the PIA Report, which is an increase of 14,000 employees from 2018 to 2022, corresponding to an average increase of 3,500 employees per year) multiplied by a total of 1% of the average monthly salary payable by employees subject to this insurance (assuming the calculation is according to the regional minimum wage) and 1% of the monthly salary fund that the employer must pay for these employees (also assuming the amount according to the regional minimum wage).
- The PIA Report of the Law on Consumer Protection 2023: The PIA Report pointed out some costs and benefits to impacted groups (e.g., the costs of state agencies for monitoring and supervising the recall process of defective goods; benefits to related parties due to reduced complaints and lawsuits if the recall of defective goods is conducted effectively). However, these costs and benefits have not been specifically quantified. In fact, there are several methods to quantify the cost the state agencies carry to monitor and supervise the process of recalling defective goods, for example, by multiplying the working day number of civil servants to monitor and supervise a given product by the average salary/workday (calculated according to the scale, payroll) and by the average number of recall programs in a year. Similarly, the benefits to stakeholders thanks to reduced complaints and lawsuits if the recall of defective goods is well implemented can be estimated assuming a reduction in a certain percentage of complaints (statistical data on the number of complaints about the recall of defective goods/year is required) will result in an amount

of money saved corresponding to the number of working hours/days of people, civil servants, and businesses to conduct and resolve complaints.

These examples are simplified for the purposes of illustration. The process of carrying out the exercise will become easier and the quality better the more the practice is built into the routine of the agencies preparing the PIAs.

Social impact analysis identifies those directly affected by the policy and other stakeholders from the social perspective. The PIA Reports generally analyze social impacts well, identifying the affected subjects and impacts. The PIA Report of the Project on Law on Employment (amended), for example, identifies three impact aspects: property, employment, and poverty reduction, while the PIA Report of the Law on Consumer Protection 2023 identifies impacts related to property, health, and other issues. In each case, however, there are other potential impacts which were not examined.

- The PIA Report of the Law on Environmental Protection 2020 identifies impacts on the environment, property, and employment; however, the health impacts were not addressed.
- The PIA Report of the Law on Electronic Transactions 2023 identifies several impacts relating to preventing corruption and increasing public trust; however, it seems likely to have impacts, as well, on property and environmental protection.
- The PIA Report of the Law on Credit Institutions 2024 identifies impacts related to the safety of the credit institutions system and strengthening public trust; however, ancillary impacts on property and employment could also be relevant.

The PIA Reports do a good job of examining both positive and negative impacts on each subject directly affected by the policies. The PIA Report of the Law on Consumer Protection 2023, for example, identifies negative impacts on the State related to property (spending costs and resources in developing and implementing monitoring mechanisms) and positive impacts for consumers related to health (minimizing the risk of damage to health and life caused by defective goods). Similarly, the PIA Report of the Project on Law on Employment (amended) identifies the positive impacts on the State related to poverty reduction (reducing unemployment, stabilizing the employment market).

Some PIA Reports are weak or vague in their social analysis. The PIA Reports of the Law on Bidding 2023, the Law on Electronic Transactions 2023, and the Law on Credit Institutions 2024 do not analyze specific positive and negative impacts on affected subjects. The social impact section the PIA Report of the Law on Bidding 2023, for example, consists entirely of: "Because the above policies have many impacts on the economy, life, and employment of individuals; contribute to creating jobs; contribute to the development of gender equality; sustainable growth, combating climate change, etc., therefore, if these policies are implemented, there will be many positive impacts on society, people, and enterprises." The analysis could have been much improved if it addressed, for example, the impacts of incentives in bidder selection as these relate to many social issues and are increasingly used to solve social problems such as employment, environment, property, and health.

In short, the PIA Reports often contain relatively clear, detailed, and logical arguments, but without convincing evidence, and with few references and supporting data. It should also be noted that some PIA Reports, such as those for the Law on Consumer Protection 2023 and the Law on Environmental Protection 2020, combine the contents of economic and social impact together.

The Law on Laws requires that the PIA specify the “gender-related impact (if any),” and many of the PIA Reports take the easy route and say that there are no gender impacts. Of the seven PIA Reports examined, six focused on policies that were declared to have no gender impact. Among these, four had sections on gender impacts explaining why the policy did not have gender impacts (PIA Reports of the Law on Environmental Protection 2020, the Law on Electronic Transactions 2023, Law on Medical Examination and Treatment 2023, the Project on Law on Employment (amended)), while the other two did not have such an explanation (PIA Reports of the Law on Consumer Protection 2023 and the Law on Credit Institutions 2024).

Gender analysis in the PIA process needs to be improved. The PIA Report of the Law on Bidding 2023 is the only one of the seven examined here that shows that the policy has gender impacts. The section on issue identification mentions the gender aspect in bidding incentives for enterprises that employ female employees. The gender impact assessment section re-mentions this content, but in a very general way: “Policies on priority and incentives for goods and services produced and provided by vulnerable groups will have positive impacts on creating jobs for women, making an important contribution to implement gender equality policies in Viet Nam.” While the PIA Report identifies the affected gender (female), it does not analyze the impact on opportunities, conditions, capacity to exercise, and the enjoyment of rights and benefits.

The policy impact analysis represents an opportunity to control the proliferation of new administrative procedures. By requiring that the PIA Report examine the necessity, legitimacy, reasonableness, and compliance costs of administrative procedures to be generated by the Law or related legislation, the drafters have to consider these costs up front.

Of the seven evaluated PIA Reports, five PIA Reports opine that the policies had no impact on administrative procedures and most of these conclusions seem reasonable. In one case, the PIA Report of the Law on Medical Examination and Treatment 2023, the arguments for the lack of impact of administrative procedures are inconsistent. It states that “[T]he promulgation of the policy will contribute to reducing administrative procedures related to transferring to another medical examination and treatment facility,” although one of the policy solutions is to maintain the status quo and logically could not lead to changes in administrative procedures. The PIA Report of the Law on Credit Institutions 2024 does not have a section on the impact of administrative procedures. The only case where the policy has an impact on administrative procedures is the PIA Report of the Project on Law on Employment (amended). The PIA Report uses the correct form for impact assessment in the lawmaking proposal as regulated⁸⁰ and most of the evaluation contents by the four aspects of

⁸⁰ Appendix I, Circular 03/2022/TT-BTP.

the necessity, the legitimacy, the reasonableness, and compliance costs are reasonable and logical. While some aspects of the analysis may be challenged, this is nevertheless the closest to a good faith examination of administrative procedures in the sample.

The evaluation of the solutions in the PIA Reports are relatively good. Five of the seven PIA Reports provide the reasons for choosing a solution:

- The PIA Report of the Law on Medical Examination and Treatment 2023 concludes: "Solution 1 has an advantage over Solution 2 and Solution 3. Accordingly, although the State will have to make an initial investment of about VND 170 billion, this cost will be recovered through calculating depreciation in the medical examination and treatment service prices."
- The PIA Report of the Law on Credit Institutions 2024 concludes: "Through analysis and assessment of the policy impacts, positive and negative aspects of the selected solutions, the Drafting Agency proposes to choose solution 6C to fix the inadequacies and limitations of current legal regulations, creating a legal basis for officials, agencies, individuals and organizations to have the motivation and be comfortable to participate in the process of restructuring credit institutions; creating a legal basis to deploy new measures, increasing efficiency in handling weak credit institutions, thereby ensuring the safety of the credit institution system, stabilizing order and society."

Most reports have not comprehensively assessed all aspects of the impacts, and the content explaining the reasons for choosing a solution is overly general. For example, the PIA Report of the Law on Environmental Protection 2020 only concludes that it "does not choose option 1A, because option 1B will help solve the problem and bring more benefits than costs" without elaborating. Another example is the PIA Report of the Law on Medical Examination and Treatment 2023 which shows preliminary comparisons of economic costs and benefits to propose the most optimal solution (as cited above), although the explanation is inconsistent because the selected solution (Solution 1) and another solution (Solution 2) have no difference in terms of costs and benefits as analyzed in the PIA Report.

The limitation stems from the fact that most of the analyses of the five assessment aspects in the PIA Reports, especially the economic analyses, are not sharp and comprehensive. Although the PIA Reports of the Law on Medical Examination and Treatment 2023 and the Law on Electronic Transactions 2023 are the two that have good analyses in terms of costs and benefits (quantified in monetary value), neither compares costs and benefits in the section on recommendations for the selected solution. It should also be noted that the PIA Report of the Law on Bidding 2023 does not have a section on recommendations on the selected solution because it only proposes one solution, and the PIA Report of the Project on Law on Employment (amended) does not state the reason for choosing the solution.

The analysis of the Policy Impact Assessments shows that there are still opportunities to improve the quality of PIA analysis and report, as well as online public consultations in Viet Nam. It is notable that none of the PIAs examined were uniformly strong or weak. For each of the PIA Reports,

we assigned a subjective score from 1 to 5 for how well the Report addressed each of six dimensions of issue identification, policy objective, identification of proposed solutions, economic analysis, social impact analysis, and recommendations on selected solutions. (We did not include the evaluations of gender impact analysis or administrative procedures as there were fewer PIA Reports with such analysis.) The results, depicted in Figure 23, show room for improvement in all dimensions, especially for the analysis of economic impacts of the proposed laws.

Building capacity within lawmaking agencies for policy impact assessment needs to be an important element of the institutional reform agenda. Undertaking analysis of economic impacts, social impacts, gender impacts, administrative procedure impacts, and impacts on the legal system would help increase the quality of the PIA—helping to sharpen the legal framework’s ability to achieve economic and social objectives with minimal costs.

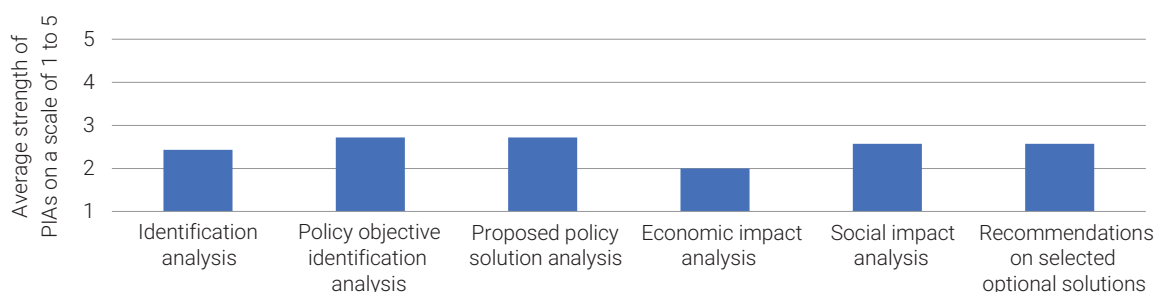
- *Policy issue identification:* Guidance on how to identify the problems/issues (referring to social situations instead of just inconsistency of legal frameworks), the subjects affected by the issues; how to analyze the consequences of the issues on these subjects; how to structure the section on issue identification (clearly identifying problems/issues, consequences and impacted subjects, and causes); and how to cite reference sources and search for relevant data.
- *Identification of policy objectives:* Guidance on how to determine policy objectives that are comprehensive and commensurate with the main, direct causes mentioned in the section of Issue identification. The manuals may also guide establishing policy objectives according to criteria following good international experience.
- *Proposed solutions:* Guidance on the number of solutions that should be assessed. The template of the PIA Report according to Decree 59/2024/ND-CP no longer requires a solution to maintain the status quo; therefore, the PIA Reports should identify at least two solutions to ensure that the solution comparison in the next step is feasible, guiding how to give titles to solutions that are concise, understandable, and distinct from other solutions.⁸¹
- *Economic impact analysis:* Guidance on quantifying economic impacts in monetary amounts and on stating reasons for not applying quantitative methods.⁸² The quantification of costs and benefits could be guided by providing some typical cases, for example, the costs of state agencies when handling certain tasks (calculated based on salary/day multiplied by the number of working days of civil servants), compliance costs of businesses (guiding on how to obtain data from statistical sources of state agencies on the number of businesses involved, costs performing work at market prices or on a per-day basis in the private sector), guiding on making assumptions if necessary when quantifying costs and benefits (for example, taking a certain percentage). The manuals should also provide instructions on how to increase the accuracy of calculations (for example, having reliable data sources, fully citing sources, clearly analyzing each factor that develops the formula, etc.).

⁸¹ Decree 59/2024/ND-CP has supplemented the requirement to clearly state the policy solution titles in the PIA Report template.

⁸² Decree 59/2024/ND-CP clearly states the priority for quantitative methods and still requires clarification of reasons if quantitative methods cannot be applied.

- *Social impact assessment*: With legal changes earlier this year,⁸³ there is no longer a requirement to separate the economic and social assessments, so they can be combined into the “Economic-social impacts” section, although they should indicate each cost/negative impact and benefit/positive impact in each aspect for each subject. The economic and social assessment sections need to contain reliable data sources (which are fully cited information sources) and convincing evidence (including relevant data).
- *Gender impact assessment*: The manual should clarify the requirements for the gender impact assessment section. For example, it must indicate the affected gender and analyze the impact on opportunities, conditions, and capacity to exercise and enjoy rights and benefits. Gender assessment is not trivial, and civil servants do not have much experience with this. It may be necessary to have typical examples for a better understanding of analyzing and presenting gender impacts, as well as ensuring that it is based upon convincing evidence and logical arguments.⁸⁴

Figure 23. Strength of policy impact assessments



Source: Authors.

Note: Based on subjective assessments of seven PIA Reports ranging from 1 to 5.

- *Impact assessment of administrative procedures*: Because there are forms for the impact assessment of administrative procedures and specific instructions,⁸⁵ the impact assessment of the administrative procedure is already convenient and straightforward. The manual only needs to indicate the form to be applied in each case (in the proposal stage and the drafting stage) along with notes when filling out the form to ensure the appropriateness of the analysis in terms of necessity, legality, reasonableness, and compliance costs. The manual could also address the case where new administrative procedures are not issued but existing ones are amended. Under good international practices, the application of wholly online administrative

⁸³ Decree 59/2024/ND-CP.

⁸⁴ Decree 59/2024/ND-CP removes the regulations of Decree 34/2016/ND-CP and Decree 154/2020/ND-CP that gender impact assessment is based on “the analysis and forecast of economic and social impacts.” Therefore, the current gender impact assessment is separate from economic and social impact analysis, and only focuses on analyzing “opportunities, conditions, capacity to exercise and enjoy rights and benefits for each gender.” This further confirms the need to equip civil servants with additional guidance in gender impact assessment under Decree 59/2024/ND-CP.

⁸⁵ This is regulated in Circular 03/2022/TT-BTP.

procedures would be encouraged, in line with Viet Nam's direction in performing and handling administrative procedures.

- *Recommendations regarding the selected solution:* Guidance on comparing solutions from all assessment aspects, providing a sample comparison table, thereby ensuring the reason for choosing the solution is convincing.⁸⁶
- *Online public consultations.* In addition to improving the quality of PIA Reports, improving the effectiveness of online public consultations during the lawmaking proposal and law-drafting stages is also worth special attention. To do this, emphasis could be placed on several things during both lawmaking proposal and law-drafting stages: Ensure the posting of all documents as prescribed on the Government Portal, clearly stating the consultation duration (start time and end time for consultation), supplementing the Comment section (if currently unavailable), and displaying full comments. According to good international practices, there should be a summary of consultation contents and specific consultation questions when posting the lawmaking proposal so that consultation activities are not spread out but focus on issues that really need consultation. Explanations and acceptance reports should be posted on both the Government Portal and the e-portals of ministries (in the same post of the draft law documents or a new post with a link between the two posts so that organizations and individuals can follow).

⁸⁶ It should be noted that Decree 59/2024/ND-CP currently no longer requires determining the authority to promulgate policies in the section on recommendations on the selected solutions.

PART III

INSTITUTIONS FOR STATE CAPABILITY AND ACCOUNTABILITY

For the state to support markets through the provision of public goods and efficient regulation, the state needs its own set of institutions for operating efficiently. While Part II discussed some key outputs of the state, public investment and efficient regulation, Part III will look at the state itself, a complex collection of people, organizations, jurisdictions, and responsibilities. What are the institutions that will enable the state in Viet Nam to play its evolving role efficiently, and in a way that supports Viet Nam's social and economic objectives, rather than work against them?

Part III of this report will examine two aspects of the institutions for state capability.

First, we will look at the institutions for organizing people. How does the system motivate and organize government employees to deliver on Viet Nam's social and economic agenda, and how might this system be improved? We will also look at the system of oversight and accountability, the institutions by which proper behavior is assured and rewarded and improper behavior sanctioned. How can the system of oversight and accountability make better use of a variety of institutions to generate accountability with efficiency. Second, we will examine one particular aspect of organization, that of geography. What are the challenges of Viet Nam's system of central, provincial, and lower levels of government, and how might the system work better to deliver the benefits of decentralization, while retaining nationally determined policy directions and discipline?

6. Local governance to enhance economies of scale and efficiency

Subnational governments are responsible for a much larger share of spending than most countries, including high-income countries. As a group, provincial governments are powerful and receive considerable authority over spending, with some flexibility over selection of investments and other spending categories, within bounds.

While there is considerable autonomy with regard to spending, this is not the case when it comes to revenues. Provinces have very little space for revenue autonomy and there is little flexibility to address local needs. Provinces are also restricted in their borrowing options, although this is currently being eased. Viet Nam's unitary system includes little autonomy over administrative matters, and legal provisions are highly procedural and sometimes ambiguous about the need for ministerial level approvals.

Viet Nam's relatively small provinces compete with each other for investment and prestige, but there is little incentive for interprovincial cooperation. All provincial governments include big infrastructure projects in their development plans, such as airports and seaports, resulting in thinly-spread investment resources, and engage in a "race-to-bottom" type of competition investing in industrial parks, economic zones, and tourism areas, even where there is insufficient demand to sustain them.

There is little incentive or institutional underpinning for regional investments other than nationally financed projects. Even there, ambiguity in provisions for providing targeted transfers for interlinkage infrastructure exist in law but without regulations operationalizing the concept effectively to address nationally important agendas such as transboundary water security and climate change adaptation.

The balancing transfer system is skewed towards equity objectives, hence relatively favoring poorer provinces. The system is transparent, rules-based, and relatively stable. At the same time, it provides little incentive for strategic prioritization within provinces and leaves high-growth provinces and cities with particular difficulty in meeting their investment needs. As Viet Nam strives to boost growth to reach its ambitious goals, the provinces and cities with fast socio-economic agglomeration most in need of resources find themselves strapped for cash.

Many of the elements in Viet Nam's system of intergovernmental fiscal relations are intrinsically linked. A package of reforms that considers these links, and addresses the top policy questions, might include the following: First, align the fiscal decentralization architecture with the spatial development strategy more clearly and promote new

approaches to balancing equity and efficiency objectives. Second, equip central government with adequate budget for more integrated infrastructure services, while strengthening subnational government autonomy and accountability, including through own-source revenue assignment. Third, reform revenue sharing arrangements to make them fairer and more predictable for subnational governments and adjust the equalization transfers system to better balance the needs of both growth engine subnational governments and those facing difficulties. Fourth, strengthen policy and investment coordination across provinces to realize economies of scale and optimize cooperation in the absence of state-institutions at the regional level. Finally, introduce new intergovernmental fiscal mechanisms to incentivize sustainable development across levels of government.

Organizing the state apparatus for a country as large as Viet Nam is not a simple task. With 100 million people in temperate, tropical, and mountainous regions, with varied sources of livelihoods and problems, maintaining a unified sense of state is as important as it is challenging. The Vietnamese state comprises a hierarchical system of provinces/cities, each with subdivisions of districts/wards, and each of those with subdivisions called communes. The nested system has changed over the years, often with efficiency in mind, but the overriding principal is that there is a single set of Vietnamese institutions that apply no matter where you live.

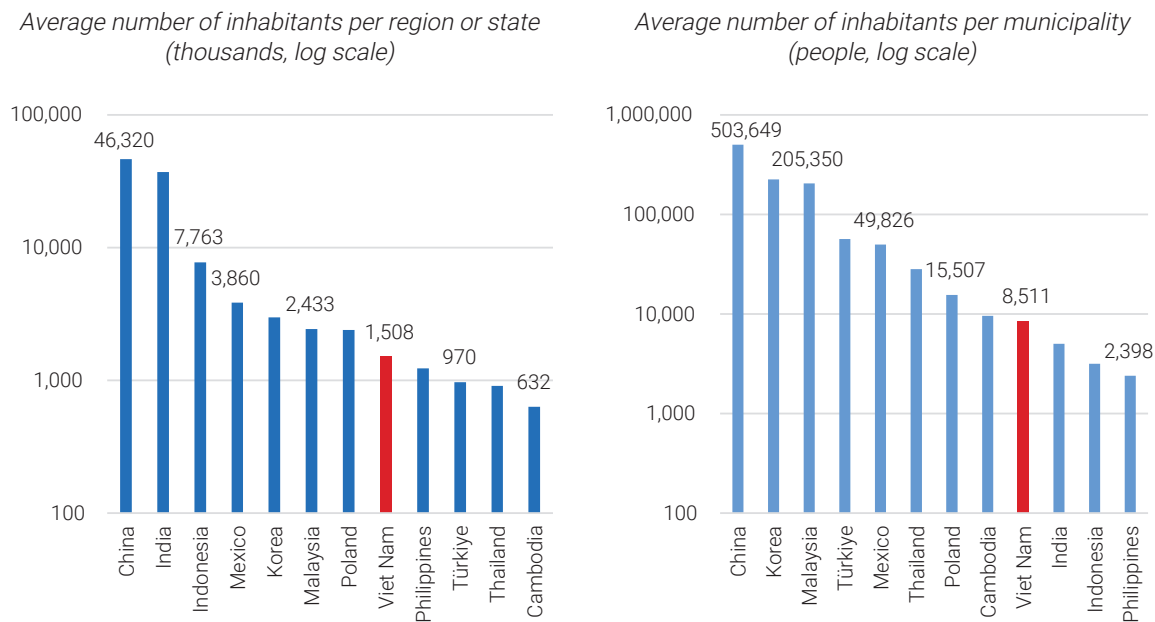
The challenges with any centralized or decentralized system are to align certain rules and policies with local preferences, while ensuring certain others are uniform across the country and simultaneously establishing mechanisms to address spillovers. The larger an organization (or country) is, the higher the coordination costs are within the system. Managing a large organization is often made easier by allowing autonomy of some subunits, and this is also true for states which need some measure of autonomy of subnational governments. Indeed, Viet Nam's experience in the past three decades has been one of expanding autonomy for provinces and lower levels of government in some dimensions, while also maintaining central level control over some functions. As will be discussed, subnational governments carry out the lion's share of investment, providing the public goods to help firms reduce transactions costs. Given the importance of Viet Nam's subnational governments for implementation of the country's policies, the need to strengthen institutions for cooperation and efficiency is clearer than ever.

Until recently, the number of provinces has grown as has their collective political power. From forty provinces in 1986, Viet Nam at the start of 2025 had 63 provinces (including six centrally-managed province-cities) that differ significantly in size, economic structure, and level of development. The large number translates to a smaller average size of provinces, however, and the smaller provinces are less able to take advantage of economies of scale and efficiently solve problems, making the value of interprovincial cooperation even higher.⁸⁷ An important consequence of the increase in the number of

⁸⁷ Xu 2011.

provinces is the shift in political power in their favor. The Central Committee of the Communist Party of Viet Nam (CPV) has been enlarged in size over time, from 124 members in 1986 to 200 members currently, with provinces increasing their representation and collective power vis-à-vis the central government. Local governments collectively work to increase their budget envelopes, especially for investment, but individually find themselves in competition. While the competition had brought some important results, without institutions supporting cooperation, it has also generated some inefficiencies. The current wave of reforms (see Box 1) includes measures announced in March 2025 regarding consolidation of provinces, consistent with the idea that the existing framework had too many provinces to be practical. However, much more needs to be reformed in order to promote jurisdictional arrangements to enhance economies of scale and address negative externalities, as discussed further below.

Figure 24. The relative size of provinces and municipalities



Source: Based on OECD, 2020, converted to log scale.

Viet Nam’s approach to decentralization evolved to give provinces more spending responsibility

Over the past three decades, Viet Nam embarked on an extensive decentralization program. Fiscal decentralization started in 1989 and accelerated with the promulgation of the first State Budget Law in 1996. The second State Budget Law of 2002 established the key principles for spending assignments, revenue arrangements, and intergovernmental fiscal transfers. Importantly, it allowed sharing of certain tax revenues between provincial and central governments, and it established the principle of keeping the sharing rate stable for intervals of three to five years (the “stabilization period”). It also

granted provincial authorities considerable autonomy to determine fiscal relationships with districts and communes within their jurisdiction.⁸⁸ The most recent State Budget Law was passed in 2015 and became effective from the 2017 fiscal year. With the same set of rules and norms applied across the country, subnational governments (SNGs) have at their discretion an increasing share of total expenditures, from 26 percent in 1992 to close to 60 in 2022.⁸⁹ The subnational share of spending is even higher in key sectors such as education (90 percent), health (80 percent), and transport (65 percent). This decentralization framework has channeled between 78-84 percent (2017-2023) of public investment through subnational governments, almost double the average in other unitary countries (34 percent) and larger than federal systems (59 percent).

Provinces have greater responsibility, but little revenue or administrative autonomy

The decentralization of spending has not been matched with a corresponding increase in subnational revenues. Decentralized revenue as a share of total local revenue has declined over time as there is very little revenue autonomy at the subnational level, and transfers have constituted a growing share of local financing; three fourths of Viet Nam's provinces are dependent on "balancing transfers" from the central government. (See Box 9.) Provinces can borrow but they have to repay both principal and interest from their own future budget. In aggregate, subnational debt accounts for only 0.7 percent of GDP in 2020, having decreased from 1.7 percent in 2016, and significantly lower than the world average of 14 percent. Improving the institutions surrounding the revenue and transfer system is essential to make the system work more efficiently.

There are two types of revenues assigned to the provincial level, those that accrue fully to the provinces and those that are shared between the central and provincial governments. Taxes that are assigned 100 percent to the subnational level include land and housing taxes, natural resource taxes excluding those on petroleum activities, license tax, tax on transfer of land use rights, fees on land use, land rent, revenues from the leasing and sale of dwellings publicly owned, registration fees and most other fees and charges. Shared taxes include all VAT receipts with the exception of VAT on imported goods; corporate income tax with the exception of receipts from enterprises under the whole-unit accounting system; personal income tax; special consumption tax on domestic goods and services; and gasoline and oil fees. For shared taxes, sharing rates are uniform for all shared taxes for each province, but they differ by province and are calculated as part of the budget process at the start of each stability period. The revenue sharing is determined by formula which estimates the gap between expenditure needs (estimated on the basis of norms) and revenue capacity.

⁸⁸ The local government has three levels: provincial level (provinces and cities under the central government); district level (cities under provinces, urban districts, towns, and rural districts); and commune level (wards, town districts, and communes).

⁸⁹ Source: Ministry of Finance data and staff calculations.

Box 9. The intergovernmental transfers formula

Viet Nam's budget system uses a set of explicit budgetary norms to quantify the expenditure needs of the different levels of government. The norms are associated with the respective assignments of functional responsibilities and are used, among other things, by the central government to implement equalization transfers to the relatively poorer provincial governments and to adjust the tax revenue sharing rates of all provincial governments, especially the relatively richer ones. The budgetary norms are client-based (per capita, etc.) and defined top-down in financial terms, and are "notional" meaning they are only for budget formulation purposes and therefore they are not compulsory for the execution of subnational government budgets. In fact, provincial governments can devise different (from the central government) norms – in nature and amounts—for their own local governments. Separate norms are specified for recurrent and capital expenditure needs. In addition, norms are fixed for a number of years in what is known as the "stability period," which was three years and lately has been increased to five years.

One of the main uses of budgetary norms is to determine the expenditure needs estimates that enter the calculation of the balancing or equalization transfers from the central governments to the provinces. Expected revenues for the provincial government are determined by the provincial branch of the tax administration on the basis of the actual revenue collections of the previous years, considering any tax policy changes applicable in that year and the expected economic growth during the year. The minimum expenditure needs of the provincial government are derived on the basis of the prevailing system of expenditure norms and are supposed to cover all current and capital expenditures. The norms are adjusted for different regions depending on geography and remoteness. Funds for capital investment are factored into the equalization transfer by grossing up the expenditure needs factor in the calculation of the equalization grant. The coefficient for the gross up is determined by the National Assembly in the consolidated budget as the overall capital expenditure needs. These funds (notionally for capital investment) are unconditional, as are the rest of the equalization grants, and the provincial governments can use them for any purpose besides capital infrastructure.

Budget norms are used to estimate the expenditure needs of each province at the beginning of the stability period and remain fixed for the stability period. This approach has been driven by the objectives of predictability and of keeping the right budgetary incentives of subnational levels. The expenditure norms are financial amounts per client (demographical structure, school aged population, poverty counts, etc.) for multiple expenditure categories. The norms apply cost and/or priority coefficients for four geographical characteristics (urban areas and plain areas; plain areas of ethnic minority peoples, remote areas; highlands and islands). These geographical multiplier coefficients are intended to capture cost and price differences for public service delivery across the different regions of the country.

The allocation norms are important in the formulation of budgets and, especially, in the establishment of intergovernmental transfers. They allow the central governments to control expenditure policies of subnational governments, often with the aim of promoting national priorities. The capital expenditure norms for the provincial governments use a single formula approach which has the advantages of being objective, transparent, and simple. The allocation norms and the intergovernmental transfer system have huge implications for the efficiency and effectiveness of public spending and service delivery at the subnational level.

The system of recurrent and capital expenditure norms ensures that the budget expenditure norms are affordable within the existing expenditure budget envelopes. In addition, budget norms are flexible and responsive to policy priorities, and most sources of information cannot be easily manipulated by recipients or others being affected by the norms. In most cases the norms are demand driven and client-based, although some of the criteria used at the provincial level include physical capacity criteria. On the negative side, many of the norms are not sufficiently simple and transparent, and the computations are not easy to reproduce rendering them opaque to subnational authorities.

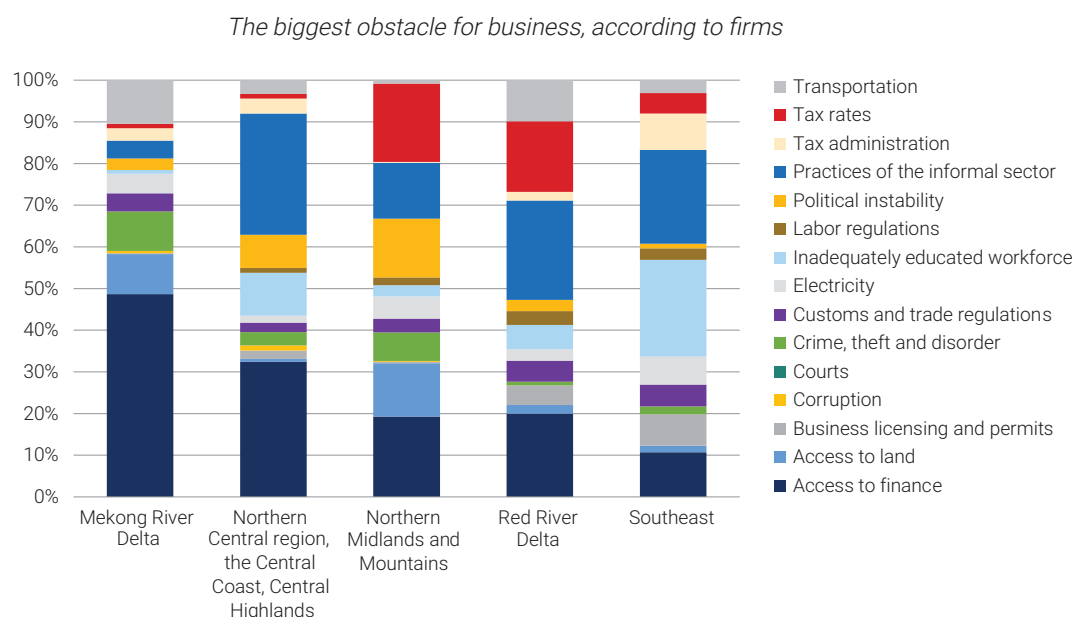
Viet Nam's system of equalization transfers (the "balancing transfer") helps reduce significant disparities across provinces. The balancing transfers from the central government to the provinces in Viet Nam are designed to increase the financing viability of poor provinces. These are unconditional grants, determined using a formula, and which remain fixed in nominal terms for the stability period, as stipulated by the State Budget Law. (See Box 9 for further details on the transfers formula.)

The system of transfers to subnational governments is transparent and rule-based. In the recent Public Expenditure and Financial Accountability (PEFA) assessment, Viet Nam receives scores of A and B for the system of allocating transfers and the timeliness of information on transfers, respectively.⁹⁰ Both recurrent and capital budget transfers were determined to be transparent and rule-based, with only ad hoc targeted transfers in cases of emergencies, such as natural disasters, outbreaks of disease and other urgent unexpected tasks. The B rating for timeliness reflects that only after the National Assembly decides the overall state budget do the provinces have information on the transfers. In 2019, the year under review, this was not decided until mid-November, leaving provinces only four weeks to complete their budget planning.

Although the existing systems are transparent and simple, they need to adapt to keep pace with the changes in the economy. With increasing urbanization, the system needs to adapt to defining expenditure needs to consider the differences between urban and rural areas—both in terms of the differences in service needs, especially in large metropolitan areas, and the diverse unit costs for delivery of infrastructure in different localities. The system also uses "registered population" as the key criterion for allocation, which does not reflect reality on the ground—actual population numbers could significantly differ due to domestic migration. Similarly, allocating capital on the basis of the urban classification system and assigning disproportional weight to urban infrastructure is creating perverse incentives for cities and towns: they are incentivized to invest excessively and inefficiently in infrastructure and to rapidly convert rural land to urban uses, trying to move up the urban class ladder. The system also promotes discretionary granting of "special treatments" to scattered urban areas, rather than focusing on those in the "metropolitan areas" and "economy dynamic regions" agglomerated naturally. Finally, the present system needs upgrading to incentivize subnational governments for climate change mitigation and adaptation and give them an explicit mandate on climate change actions.

⁹⁰ Government of Viet Nam, 2024. Viet Nam Public Expenditure and Financial Accountability (PEFA). June 2024. The PEFA is carried out by the government, with support and review by the PEFA Secretariat, housed in the World Bank.

Figure 25. Wide disparity in firms' biggest problems



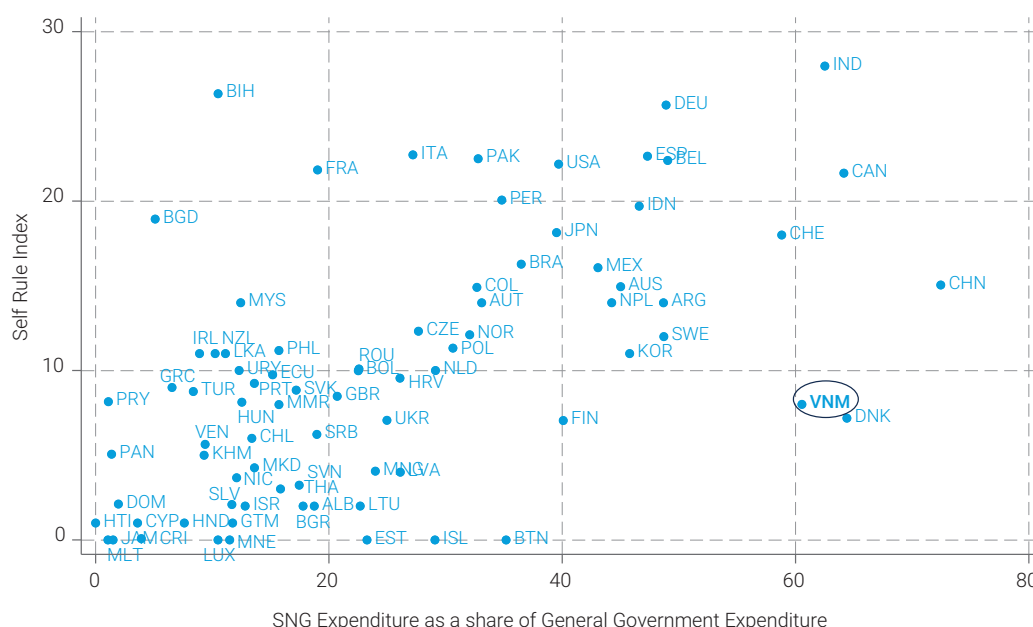
Source: World Bank Enterprise Surveys, 2023

Note: Regional designations were determined by the survey team.

The system does not reward prioritization. The budgetary process is controlled with centralized spending norms, often defined in physical terms based on infrastructure levels controlled by subnational governments (e.g., funding for education based on the population of school age children, rather than the number of children enrolled in school). This approach does not provide subnational governments with incentives to prioritize strategic objectives or achieve operational efficiency. On the contrary, they often induce inefficiency by rewarding subnational governments with resources for unneeded physical capacity. In reality, subnational governments have very different expenditure needs because of the differences in the characteristics of their actual population (including migrants). Firms also have varying assessments of the main problems they face. For example, the World Bank Enterprise Surveys, carried out in 2023, showed that firms in the Mekong Delta were more likely to complain of access to finance, while firms in the southeast of the country were more likely to complain about an inadequately trained workforce. (Figure 25.)

Although considerable spending responsibility has been delegated to provinces, they do not have the characteristics of self-rule to match. Although Viet Nam is among the most highly decentralized countries in the world when it comes to expenditure decentralization, it is less decentralized in terms of policy autonomy (over economic policy, cultural-educational policy, welfare policy, police, own institutional setup), independence in setting taxes (rates, base, types), borrowing authority, and independence of local legislatures and executives. (Figure 26.) In this sense, decentralization of spending is among the highest in the world, while subnational autonomy is more typical, near the country median.

Figure 26. Fiscal decentralization is high while subnational autonomy is smaller



Sources: Measures of fiscal decentralization are drawn from the OECD-UCLG World Observatory on Subnational Government Finance and Investment (OECD-UCLG, 2024). Measures of subnational government power and authority are drawn from the Regional Authority Index. (Hooghe, et al., 2021).

Note: The Self-rule index represents the authority exercised by a regional government over those who live in the region. It sums a series of variables covering autonomy (as opposed to deconcentrated), policy autonomy (over economic policy, cultural-educational policy, welfare policy, police, own institutional setup), independence in setting taxes (rates, base, types), borrowing authority, and independence of legislatures and executives.

Devolution led to a spirit of competition among provinces, with good and bad effects

Competition between provinces has become a hallmark of Viet Nam's system. The competition comes in many forms, including the competition to present the province in a positive light to attract investors, drawing on what own-source revenue they can, especially from the auctioning of land-use rights. The competition extends also to competition to provide better governance. The annual release of the Provincial Competitiveness Index (PCI), based on a large-scale survey of firms, has been popular for nearly 20 years, and an annual citizen-based survey, the Provincial Governance and Public Administration Performance Index (PAPI), has been running for 15 years.⁹¹ Provincial governments pay attention to these measures and seek to improve their rankings.

In the absence of coordination mechanisms among provinces, and between ministries and provinces, the competition has also led to a proliferation of investments and spatial development actions. In 25

⁹¹ For PCI, see <https://pcivietnam.vn/en/about-us.html>. For PAPI, see <https://papi.org.vn/eng/gioi-thieu/>

years, Viet Nam has seen the establishment of four Key Economic Regions, 19 Coastal Economic Zones, 26 Border Economic Zones, 369 industrial parks, 49 key tourism areas and 859 urban centers. Many of these facilities are under-utilized. For instance, the occupancy rate of industrial parks is only 36 percent nationwide, varying from 95 percent in Long An province to as low as 25 percent in Dac Nong province. This represents more than just an inefficiency—the building of an industrial park has a large opportunity cost for limited budgets, but it also involves land acquisition and resettlement for many people.

As resources are increasingly transferred to the subnational levels, the central government is left with insufficient resources for nationally important/integrated infrastructure investments. For instance, 75 percent of the country's transport investment has been assigned to SNGs to extend the network of rural roads, at the expense of investments in the national backbone road network. As a result, the expressway density in Viet Nam is among the lowest in the region, and the road transport costs are high compared to others in the region.⁹² At the same time, there is ambiguity in the assignment of responsibilities for the provision of interprovincial and interregional infrastructure services between central government and SNGs, e.g., investment in highway or wastewater treatment systems involving externalities. There are no mechanisms nor incentives for interprovincial partnership beyond their administrative boundaries, leading to a “race-to-bottom” type of competition between provinces, contributing to the overcapacity of industrial parks.

This devolution of spending decisions to provincial authorities has also led to weak coordination across regions and with central government as well as a proliferation of duplicate investments—executed by both the central government and provinces (some of which were very small in size prior to the current reorganization).⁹³ Ineffective coordination between SNGs and national governments can be seen in duplicate investments in seaports, airports, and hydro-power generation. Viet Nam has 47 seaports of all sizes across provinces, but 95 percent of cargo goes through three ports invested and operated by the Ministry of Transport.⁹⁴ While there are 22 airports nationwide, only eight are considered international and the remainder can only accept smaller, narrow body aircrafts.⁹⁵ Most airports are loss-making and unable to even cover operations and maintenance (O&M) costs. In just three Central Highlands provinces (Dak Nong, Gia Lai and Kon Tum), 256 small and medium-scale hydropower plants were approved and are being operated without fully consulting the affected stakeholders.

⁹² While road transport remains the most important mode in terms of volumes, accounting for over 90 percent of passengers and 70 percent of freight volumes during 2010-20, it remains the most costly form of domestic freight transport.

⁹³ OECD, Multi-dimensional Review of Viet Nam (2019): Based on the system of 63 provinces which was the case at the time of the report, the average size of provinces in Viet Nam is relatively small compared to those in other countries. There are on average 1.5 million inhabitants for each province and 8,500 inhabitants per municipality. These ratios are much smaller than the OECD average (three million inhabitants per region and 37,800 inhabitants per municipality) and in other more populous countries, such as China and India, but also Malaysia and Mexico.

⁹⁴ Haiphong city in the north and Ho Chi Minh City and Ba Ria-Vung Tau province in the south. The remaining 44 ports account for only 5 percent of cargo volume, reflecting uneconomic investments by provinces. Despite the gamut of seaports nationwide – including two special, 12 Grade I and 20 Grade II seaports – there are few facilities capable of receiving large ships.

⁹⁵ According to International Civil Aviation Organization classification. There is a concentration of airports in the central coastal region, home to 14 provinces, with an average distance of around 100km between nine of the 22 airports. Only six airports have experienced passenger growth, while the remainder have hit just 40 percent of projected volumes.

The lack of coordination mechanisms undermines the green growth agenda. In the absence of institutions for coordination, transboundary development challenges—such as climate change mitigation and adaptation, water resource management, and water and air pollution control—are not effectively addressed. Negative externalities may arise, in some cases, when industrial plants in upstream provinces pollute waterways and downstream provinces are left with the consequences. However, subnational governments are least prepared as they lack policies and processes to assess and mitigate climate change’s physical and transition risks on large investments and assets.

Industrial agglomeration is an organic process, and often not concentrated in economic and industrial zones, as expected by government.⁹⁶ Coordination between stakeholders from multiple provinces and sectors has not fostered regional integration nor enabled the region’s economy to shift to more sophisticated industrial activities and global value chains. Connections to the international corridors—including the TransAsia Highway and Railway Networks; the Greater Mekong Subregion (GMS) Economic Corridors; China’s “Belt and Road” policy—should be reviewed carefully for implications on connective infrastructure.

Viet Nam has pursued several approaches to regional investment coordination, but legal constraints and the lack of effective financing arrangements have made them ineffective. As introduced in section 4, the State Budget Law (2015) and Public Investment Law (2019) did not include institutional mechanisms for vertical and horizontal coordination. On vertical coordination, the laws generally assign projects of national or interprovincial scope to ministries. However, the nature of interprovincial investments and respective responsibilities are not clearly defined. The Public Investment Law (2024) addressed some of the challenges by allowing greater delegation, e.g., from the Prime Minister to People’s Committees, to be project owner when two or more provinces are involved. (Some details are still to be specified in subsidiary legislation.) The State Budget Law also provides a general description of responsibilities in infrastructure services without adequate consideration of resources and incentive mechanisms to ensure these services are provided. The result has been underinvestment in infrastructure networks, particularly those with interprovincial characteristics. On horizontal coordination, the State Budget Law is not conducive to coordinating across spatial or sectoral jurisdictions. For example, the State Budget Law (Article 9) explicitly bans the transfer of investment funds from one province to another, even in cases where the benefits of cross-provincial projects are evident. Although the intention of the legal framework is to maintain fiscal discipline, such a strict rule creates a financing gap for regional projects.

With provincial governments holding the lion's share of public investment resources, the central government leverages co-financing from richer provinces to undertake infrastructure projects that are regional.⁹⁷ The recent approval by the National Assembly of Ho Chi Minh City's Ring Roads No.3 and 4 demonstrates the importance of such vertical coordination—albeit still on an ad-hoc basis—for nationally important projects.⁹⁸ However, such ad-hoc decision-making raises concerns over

⁹⁶ Pham, Hollweg, Mtonya, Winkler, & Nguyen, 2019.

⁹⁷ In this context, when regional projects need to be financed and undertaken by provinces, the case is to be made to the National Assembly, which in turn needs to issue a resolution to make a special case to adjust MTIPs.

⁹⁸ Ring Road No.3 (76km) connects four SNGs (Ho Chi Minh City and Dong Nai, Binh Duong and Long An in the Southeast region) and Ring Road No.4 (113km) connects three SNGs (Hanoi city, Hung Yen and Bac Ninh in the Red River Delta region).

the potential inconsistency related to co-financing ratios between central and local governments. Additionally, other intergovernmental PIM mechanisms—such as revenue mobilization, on-lending of domestic financial resources from central government to SNGs, joint procurement/contract management, and operations and maintenance responsibilities—are unclear.

Regional differences in economic performance suggest a different approach to spatial and fiscal development

Viet Nam is witnessing divergent economic performance across provinces. The forces of urbanization and agglomeration of economic activity played critical roles in unleashing rapid industrialization and productivity gains, which fueled Viet Nam's overall economic success in past decades. But they also led to increased spatial disparities between fast growing coastal areas and the interior with poverty rates being concentrated in lagging regions. Economic activity is increasingly concentrated in the two growth pole regions: Red River Delta, led by Hanoi, and South-East Region, led by Ho Chi Minh City. This concentration is driving the growth patterns of population mobility and urbanization. Income differences are increasing, today per capita GRDP in Ho Chi Minh City is almost 7.5 times that of the poorest province of Hà Giang, and per capita income in Binh Duong province is almost 4.5 times that of Điện Biên province.

Urbanization holds promise for Viet Nam, but it needs to be managed well. Growing rapidly, from 20 percent in 1986 to more than 36 percent today, Viet Nam's urban population is projected to double over the next two decades. Urban areas account for a significant share of gross domestic product and jobs and have higher labor productivity, economic growth rates, and incomes compared with national averages. However, Viet Nam is failing to harvest the full benefits of urbanization due to the inefficiency in its urban system—at both macro and micro levels. At the macro level, development is taking place with limited spatial transformation, as the result of the three main spatial policies—restrictive labor mobility, land management and planning, and redistributive subsidies and intergovernmental fiscal transfers. Many provinces have entered the race of urban build-up with the aim to boost economic (and real estate) activities. Urban areas, of various scales according to the national urban classification system, have been formally “established” in a top-down fashion, not necessarily reflecting market-driven movements of economic activities and labor movements. At the micro level, negative congestion forces erode agglomeration benefits because of the pressures on infrastructure, basic services, land, housing, and the environment. Empirical evidence from Brazil, China, Colombia, India, and Indonesia suggests that agglomeration economies in developing countries are strong, but the evidence from Viet Nam suggests fewer benefits.⁹⁹

The current balancing transfers system is equity-based, using “registered population” as the key criterion for allocation. This means that all people are equal in terms of budget spending, suggesting

⁹⁹ World Bank, 2020.

that poor but populous provinces have access to the same level of per capita resources regardless of their contribution to the country's output.¹⁰⁰ This balancing transfer system, however, does not reflect reality since actual population numbers are very different from official numbers due to domestic migration. For instance, domestic migrants account for nearly 30 percent of the actual population in Ho Chi Minh City but are not factored in the budget allocation formula.¹⁰¹

The same spending tasks are “assigned” across urban and rural jurisdictions as the basis to define development needs and respective budget allocation, not considering their differentiated needs. In addition, subnational borrowing thresholds and modalities are constrained by central administrative measures which do not necessarily reflect provinces' debt sustainability, or repayment capacity. As a result, ten provincial cities and provinces have sought for and granted “specialized fiscal mechanisms” by the National Assembly to borrow more.

The symmetric spending assignments across urban and rural jurisdictions, and the associated transfer system, have undermined densification and amplified emerging urban challenges, such as urban sprawl and pollution, as discussed above. Leading urban areas lack the resources required to meet the infrastructure needs associated with their growing populations due to limited revenue autonomy. Decentralization, while substantial, is uneven when there is autonomy on spending but not as much on revenue and financing sides. There is little space for subnational revenue autonomy as all tax types, bases and rates are set uniformly by the central government, and the legal framework does not allow provinces to use land-related fiscal tools, including land value capture and property tax, effectively. The current system disincentivizes growth dynamism of SNGs and accelerates resource exploitation. The revenue sharing formulas for major taxes (e.g., VAT, excise, PIT, CIT which together account for 80 percent of all revenues¹⁰²) are currently perceived by the wealthier provinces to be unfair, therefore disincentivizing growth dynamism of SNGs.

Despite the very large need for public infrastructure, many subnational governments in Viet Nam have been significantly constrained to borrowing well below their needs and capacity. The current rules for subnational borrowing are conservative, yet excessively strict and ad hoc. There is no question of the need for fiscal discipline and responsibility at the subnational level, yet these goals can be achieved under more flexible and transparent rules-based subnational fiscal rules and risk, and debt management systems.

¹⁰⁰ For selected types of recurrent spending, the population-based allocation norms for mountainous areas are 1.5 to 1.8 times higher than the norms for plain areas.

¹⁰¹ HCMC Spatial Development Masterplan to 2030, vision 2045.

¹⁰² That means VAT and excise taxes of products are currently credited to the provinces where they are produced, however they are consumed in other provinces. PIT is currently accrued to jurisdictions where workers work rather than where they live while public services are mostly provided in their place of residence. CIT is also paid to the location of the corporate headquarters even though their economic activities take place across the country.

Viet Nam's experience shows the importance of autonomy, capacity, and oversight

Although there has been an increasing delegation of responsibilities, this is not the same as devolution of true authority. Although decentralization over spending is high, there remains a low level of autonomy when it comes to the ability to raise local revenues and to set some local policies. The limited autonomy can contribute to implementation problems discussed throughout this report. According to the Provincial Competitiveness Index survey of firms, half of the respondents report that the provincial policies are good, but implementation is lacking. International experience in high-income countries shows that the separation between policy design and policy implementation is a key factor driving poor performance in policy implementation.¹⁰³

The multiplicity of bodies with roles and responsibilities over planning can bring a lack of coherence and, in some cases, contradiction. Directions and policies are set by agencies of the Party, by the National Assembly, and the Government, as well as subnational governments. As noted in VCCI and Fulbright (2023), this can lead to confusion. Coupled with the anticorruption campaign and related risk aversion on the part of decision makers, the multiplicity of roles contributes to bureaucratic paralysis. Given the relatively small size of provinces, and the even smaller size of districts, some of the overlapping authorities can be streamlined. The piloting of the removal of elected People's Councils at the district level, for example, was found to have significantly improved public service delivery in key areas such as transportation, healthcare, and communications.¹⁰⁴

The increased devolution and transfer of budget to SNGs have not been accompanied by measures to improve performance nor simplification of the procedures, reporting and accountability system. The relationship between spending and results should be strengthened whether the funds are spent at the central, provincial, or lower level. Performance-based approaches combined with decentralization can help focus on results to maximize the impact of public spending. At the same time, there needs to be stronger budget and investment management information systems to manage the fiscal decentralization framework and monitor and report on results at the subnational level.

Although oversight is needed in a decentralized system (or any system), more does not necessarily mean better. It is helpful to consider separately arms-length oversight responsibilities and implementation responsibilities. Requiring multiple ex ante approvals can be both cumbersome and counterproductive. Such requirements may actually weaken accountability since one can always say that others also approved of the decision. In Viet Nam, the decentralization in the form of delegation, combined with a system of multiple ex ante approvals needed for some decision, was shown to be cumbersome and ineffective.

¹⁰³ Fernández-I-Marín, Knill, Steinbacher, & Steinebach, 2023.

¹⁰⁴ Malesky, Nguyen, & Tran, 2014.

The present reorganization of public institutions in Viet Nam has focused primarily on merging and rationalizing the system of central-level ministries and agencies. This will go a long way toward reducing some of the bureaucratic overlap and legal-administrative mismatches that have plagued public investment. At the same time, institutional change at the central level will necessarily beget changes at subnational levels. These are positive changes and provide the opportunity to consider deeper territorial and administrative changes to address some of the challenges discussed in this section, those of inefficient competition, underfunding of interprovince infrastructure, and overbuilding of infrastructure at odds with market demand.

A package of reforms is needed to optimize state capability across levels of government

Going forward, it will be important to consider a package of interconnected reforms of Viet Nam's system of intergovernmental fiscal relations.

A set of measures is needed to develop coordination around resources and provide mechanisms for nationally- and regionally-integrated infrastructure services including for green and climate actions. Potential measures include coordination and financing mechanisms for interprovincial and interregional collaboration, such as fiscal incentives (e.g., matching grants) for regional infrastructure development and joint province-province (public-public) partnerships. Spending assignments within each region could also be better tailored to its economic strengths and weaknesses, while ensuring that people in all regions have access to good-quality basic services. In addition, more clarity is needed in the role of the State in respective spending tasks and fiscal incentives between central and local governments in regional development, risk management (in responses to sizable disaster and pandemic threats), and promotion of innovation and investment in green/climate-resilient infrastructure.

A second set of measures would strengthen subnational government autonomy and accountability. Potential measures include applying an asymmetric system of spending assignments for urban/metro and rural jurisdictions. The government is moving in the right direction, shifting the revenue sharing arrangement from one in which the sharing ratios are differentiated by province to one focused on tax type, which increases the degree of resource predictability to SNGs. However, more equitable sharing arrangements, particularly for corporate income tax and value-added tax, should be pursued to further promote local economic and revenue performance across the provinces.¹⁰⁵ The capital transfers formula could also be adjusted to consider the more complicated infrastructure needs of the metro regions and major secondary cities in order to take advantage of agglomeration economies and address excessive congestion forces. Viet Nam could also apply feasible options for greater revenue

¹⁰⁵ The fairness of the arrangement can be seen through the principles of shared revenues being split based on where the tax is incurred (the so-called "derivation basis"), rather than where the revenue is collected. Furthermore, the sharing of certain taxes should not be made on a pure derivation basis but adjusted using proxies for economic activity. For corporate income tax, the proxies could be by payroll (labor), assets (capital), and sales (output) of the company branches. For value-added tax, the allocation of each SNG's share could be based on criteria such as provincial GDP or level of consumption per capita.

autonomy for subnational governments (property tax; surtaxes on VAT, CIT, excise, PIT; unlocking the value of public assets). More generally, adopting modern and transparent systems of fiscal rules and subnational fiscal risk management would open up new options for the country. As Viet Nam strives for high-income status, it could also expand the options for subnational financing, with newer financing mechanisms to promote access by subnational governments to efficient capital markets and innovative financing instruments such as carbon credits, special tax bond, PPPs, and project-based revenues (e.g., toll roads).

A third set of measures could consider the balance among the development objectives of equity, efficiency, and sustainability. Potential measures include reforming the budget allocation formula with consideration of using separate transfer mechanisms (conditional, matching and/or performance-based grants) to address the different development objectives, having several windows for different policy objectives of equalization and efficiency. In doing so, international good practices such as differentiated transfers approaches (place-based, people-based, project-based) could be introduced, as well as improved estimation of cost drivers and the development of an infrastructure gap index. The transfer rules (or transfer allocation formula) could also be adjusted to respond to the greater needs of the metro centers and large secondary cities, reward stronger local performance (including on green and climate actions) and efficiency and account for increasing pressure on the environment. More equitable revenue-sharing arrangements for critical taxes—VAT, excise, CIT, PIT and natural resource taxes—could also be introduced to promote local socioeconomic and revenue collection performance. Finally, reforms could aim to promote performance-oriented public investment programs and budget allocation mechanisms, accompanied by strengthened incentives for both wealthier and poorer provinces.

7. Motivated and accountable civil servants

For the state to be able to carry out its role, it needs motivated people. The degree to which the civil service is merit-oriented is a key determinant of its performance. Viet Nam's public sector is large, in terms of employment, compared to most high-income countries, and Viet Nam's wage bill is also relatively large as a share of public expenditure. The size of the public sector workforce is determined, in part, by the scope of state activities—in Viet Nam, the shift in the role of the state suggests the need to gradually move toward a smaller but more highly motivated civil service. Indeed, this is exactly the direction of the present wave of institutional reforms.

Remuneration of public servants generally kept pace with overall economic growth, keeping the public sector competitive with the private sector, until the wage freezes associated with COVID-19. The recent large increases in public sector wages have narrowed the gap but has not completely closed it. There is a significant gap between the pay of those working in the public sector and the private sector, even after accounting for job type, level of education, and many other job- and individual-related factors. There is also a significant gender pay gap, although this is smaller in the public sector than in the private sector.

Viet Nam has made important strides in building institutions for rewarding performance and sanctioning rule-breaking, but more needs to be done. Identifying and managing conflict of interest, now in the law, needs refinement and socialization to prohibit harmful conflicts of interest while not stymying innovation. In addition, efforts to control corruption need to be broadened to pay more attention to prevention of corruption. Viet Nam's internally-focused system of official oversight makes it less vigorous in exposing corruption. The present anticorruption campaign, primarily focused on deterrence through investigations and punishment, needs to be complemented by institutions that give confidence in due process for those accused of wrongdoing and give a more empowered role to civil society and the media.

All functions of government are ultimately carried out by people. All of the core functions of governments, from providing services such as health and education, to providing public goods and infrastructure, to regulating to reduce the damage caused by externalities, need skilled, professional, and motivated people to carry out those tasks. As Viet Nam's economy becomes more complex, both the private and public sectors will raise their expectations for their professionals. For Viet Nam to build the efficient and motivated civil service that can support growth and bring it to high-income status, it will

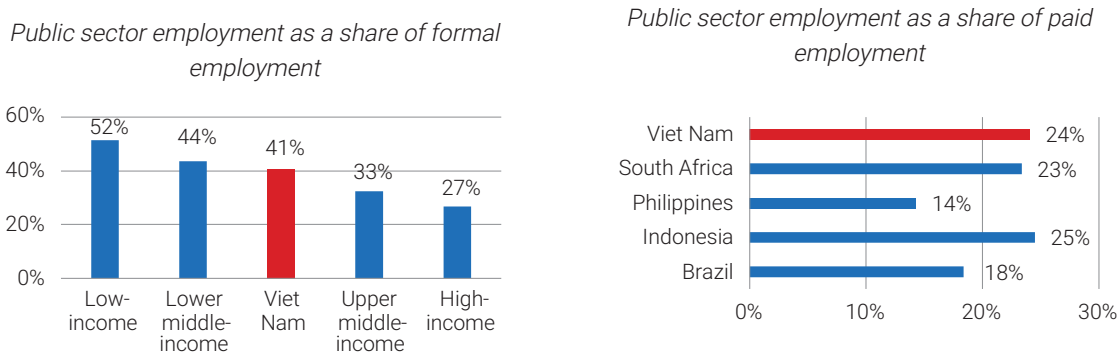
need to attract talent and incentivize people to perform, delivering high-quality public sector services efficiently and without corruption.

The extent to which the civil service is merit-oriented is a key determinant of its performance. In cross-country studies, those with more merit-oriented civil services had better outcomes, a finding that is echoed in country-specific studies.¹⁰⁶ In Viet Nam, the importance of motivating civil servants and of continuing to draw in new talented professionals is widely acknowledged. Administrative reform, including building an administration of “democracy, professionalism, modernity, streamlining, effectiveness, efficiency, with the capacity to create development, integrity, and serve the people” was identified as one of three “strategic breakthroughs.”¹⁰⁷ The size and remuneration of the civil service also play prominent roles in the current wave of institutional reforms. (Box 1.) This section will examine how the institutions of public administration, especially compensation and accountability, contribute to performance.

Viet Nam’s public sector is larger than most peers

Viet Nam’s public sector is large compared to many countries, and the large numbers translate into a large wage bill. Viet Nam’s public sector employment is relatively large, both in absolute terms and relative to the wage bill.¹⁰⁸ (Figure 27). Efforts to control public spending ultimately can be thought of in terms of a simple identity. The wage bill for the state depends on the scope of services and functions provided by the state, the cost per employee (salaries), and the efficiency with which they work. As an identity, it can also be conceptualized in another way, such that the scope of activities carried out by the state within a budget constraint depends on salaries and efficiency.

Figure 27. The public sector is large and expensive compared to high-income countries

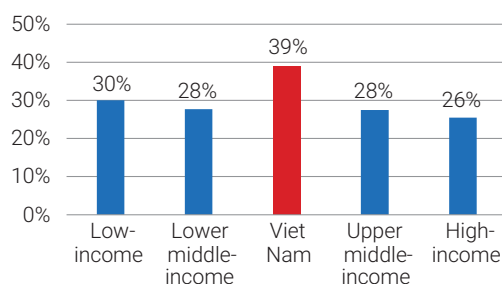


¹⁰⁶ For international evidence, see Evans & Rauch, 2000; Individual country studies include Brazil (World Bank, 2021a), the Kyrgyz Republic; Romania, and the Slovak Republic (World Bank, 2003), and the USA (Aneja & Xu, 2024).

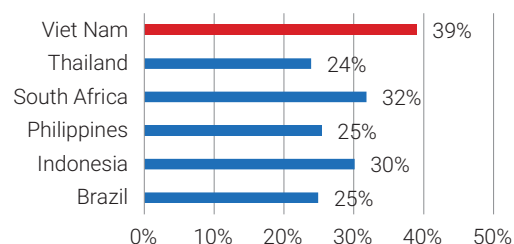
¹⁰⁷ Ministry of Home Affairs. <https://moha.gov.vn/tin-tuc--su-kien/tin-hoat-dong-cua-bo-noi-vu/phien-hop-thu-tam-cua-ban-chi-dao-cai-cach-hanh-ch-d610-t56203.html>

¹⁰⁸ Comparisons of the size of the public sector and its cost are approximate as the definition of the public sector varies from country to country.

Wage bill as a percent of public expenditure



Wage bill as a percent of public expenditure



Source: World Bank. Worldwide Bureaucracy Indicators. Latest year available.

For Viet Nam to develop the institutions to become a high-income country, it needs a state that focuses on reducing transactions costs for firms when ensuring attainment of its social objectives. With limited resources, there are tradeoffs between salaries of civil servants and public employees, the number of employees, and the scope of services. Adjusting salaries to remain competitive with the private sector would need to be compensated for with fewer employees, and this can only be done by reducing the scope of public sector activities or by increasing the efficiency of civil servants. Viet Nam has been making strides to do all of these.

Viet Nam's current set of institutional changes includes the goal of reducing the size of public sector employment. Planning to reduce employment by up to 20 percent is significant. While some degree of right-sizing is in order, there is a need to do so carefully, both for the human impact on those who lose employment, and for the impact on the public sector organizations that may lose talented staff.¹⁰⁹ Compensation or early retirement may help address the first challenge, but not necessarily the second. In the case of redundancies in low population areas, the impact could be even more substantial as there are not necessarily other markets for job losers to tap into.

Motivating civil servants to carry out their duties efficiently and without corruption ultimately drives public sector performance. Motivation can come from various dimensions of the relationship between a civil servant and the state, including remuneration, potential for career progression, and the sense of fairness that comes when performance drives compensation and careers.¹¹⁰ In 2023, the rate of civil servant and public employee resignations was higher than in the past, and the review of *Viet Nam 2035* noted that this has affected many areas of socio-economic development management, including public investment.¹¹¹

¹⁰⁹ Rama, 1999.

¹¹⁰ Tran & Truong, 2021.

¹¹¹ Thang, 2023. See also Nguyen K. G., April 2024.

Remuneration of civil servants has fallen behind that of the private sector

An important part of civil servants' motivation is the monetary remuneration that they receive.

Viet Nam's system of public sector pay applies to civil servants, public employees, and cadres at all levels, as well as to those working for the Viet Nam Fatherland Front (VFF), mass organizations, and Party organs. It is typically updated annually, although wages were frozen for several years due to fiscal concerns and the impact of COVID-19. The system includes many allowances and gradations which are implemented through coefficients applied to a base salary which is, itself, the same as the official minimum wage. The system is similar to those used in many countries for public sector employees.

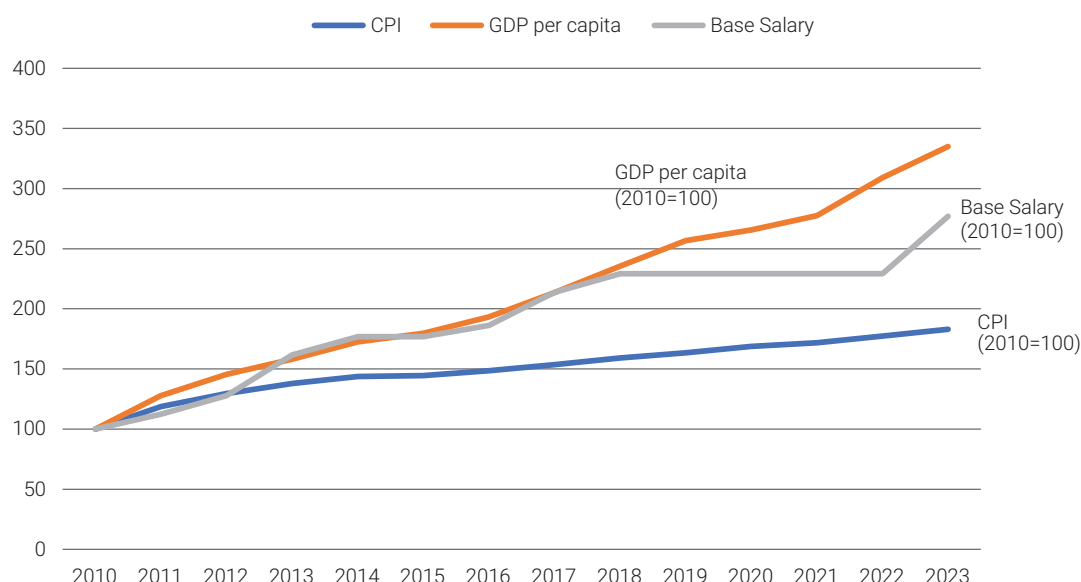
The salaries of civil servants, cadres, and public officials tracked GDP closely until about five years ago.

The annual increases in the base salary generally matched growth in GDP per capita, outstripping inflation, until just before COVID-19. Making public sector employment competitive with the private sector requires that salaries grow at rates similar to the overall economy, not just the rate of inflation, and this is what Viet Nam's approach was until 2019-2020 when wages were frozen. In the years since, public sector salaries lagged behind GDP growth, and for some years did not even keep pace with inflation (Figure 28). For each of the last two years, salaries have received substantial boosts, including a 30 percent increase in July 2024.

The labor markets in which the public sector competes may be segmented by industry, location, and other factors.

To understand better how public sector salaries compare with the private sector, one needs to account for many factors. The Viet Nam Labor Force Survey (LFS), conducted each year by the General Statistics Office (GSO), provides data that is useful for understanding how well public sector salaries compare with those of the private sector. Covering all provinces and cities, the 2022 round of the survey was implemented in a sample of 1,637 sites each month throughout the year, for a total sample size of more than 800,000 people. The data facilitate a detailed examination of the factors that influence compensation in both public and private sectors. (Annex 2 provides the details of the analysis.)

Figure 28. Salaries of civil servants and cadres and public officials stopped tracking GDP per capita growth



Sources: Authors' calculations based on Viet Nam's publications of base salaries and World Development Indicators for inflation and GDP per capita.

Notes: Although macroeconomic statistics are reported on a calendar year basis, Viet Nam's salaries adjust in July of each year.

While the size of the public sector is large, the remuneration for government officials is generally low. Although those working for SOEs reported salaries comparable to those working for private enterprises, those working for "state specialized agencies", which include health and education facilities, and "legislative, executive, and judicial" reported significantly less monthly income than private sector counterparts, after accounting for observable characteristics such as education, age, place of residence, and others (Figure 29). These findings stand in contrast to findings from similar studies in other countries where it is more likely that there is a public sector pay premium, rather than a pay gap.¹¹² Even in Viet Nam, a study 15 years ago finds a public sector pay premium.¹¹³ The change in this situation reflects the higher rate of growth of pay in the private sector, but it has implications for the competitiveness of the public sector, as well as the motivation of staff.

The substantial gap between public sector and private sector salaries varies by region, and by the type of public sector position. Relative to private enterprises, the gap is largest for the legal, executive, and judicial category where private enterprises pay about 42 percent more, and up to 80 percent more in some regions. There is also a substantial gap for state specialized agencies, with private enterprises paying 26 percent more for the country as a whole, and from 14 to 40 percent more depending on the province. SOE salaries seem to be much more in line with those of private enterprises, with virtually no

¹¹² World Bank, 2025b forthcoming.

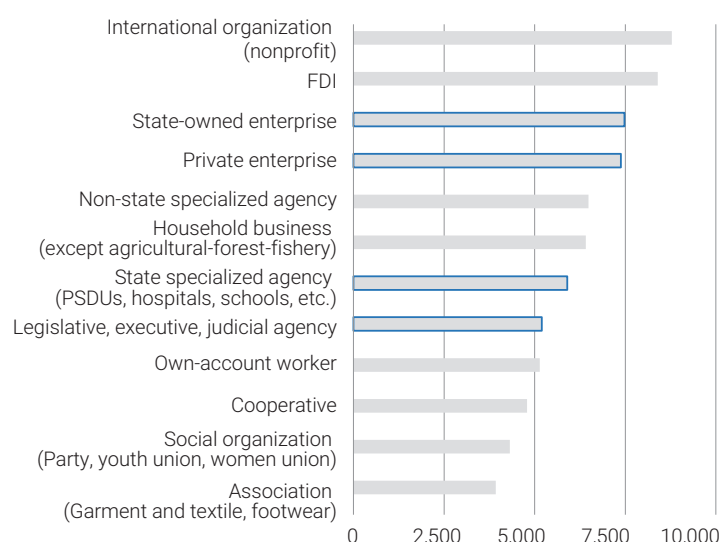
¹¹³ World Bank and others, 2009.

gap, and even a negative gap in some provinces. (I.e., after controlling for other factors, SOEs pay slightly more than private enterprises in some places, and slightly less in others.) The wage gaps are generally lower in the northern provinces and the central highlands, and highest in the areas near the northern and southern growth poles.

Last year's 30 percent pay boost for civil servants and public employees for the country as a whole will help bring salaries more in line with market conditions. As a substantial deviation between public sector and private sector salaries can reduce the attractiveness of public sector jobs, and even contribute to unethical behavior, this correction is very close to the pay gap found in the wage analysis. Nevertheless, the large regional variation suggests a closer look.

Figure 29. State workers generally earn less than private sector counterparts

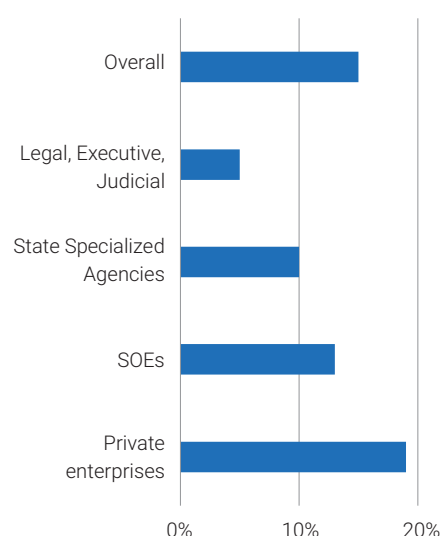
Estimated income for the base case



Source: Authors, based on the Viet Nam Labor Force Survey 2022.
Notes: Restricted to those who are full-time "employees." Other characteristics include age, gender, marital status, education/certification, type of position, region, and urban/rural. The chart depicts the predicted log income, converted to income in thousands of VND for the base case.

Figure 30. Men earn more than women, especially in the private sector

Gender pay gap



Source: Authors, based on the Viet Nam Labor Force Survey 2022.
Notes: Restricted to those who are full-time "employees." The chart depicts the gender pay gap after accounting for other characteristics.

The variation in the size of the pay gap suggests the value of allowing some flexibility in salaries. SOEs, which have flexibility in setting their own salaries, have negligible pay gaps, while core public sector positions in the executive, legislative, and judicial fields, with the least flexibility, have the largest gaps. In PSDUs, such as health and educational institutions, there are also substantial gaps, although they are smaller. Similarly, the geographical variation in salaries also suggests the need for flexibility. While there are some differing allowances at the province level to account for different

costs of living, the salary policy is aimed at equity regardless of geographical location. This is understandable for the purpose of establishing a unified civil service. The data suggest that in some cases, however, there may be a need to go even further than the allowances. Greater province level autonomy, along the lines of the greater decentralization currently being discussed for 10 provinces and centrally-run cities, but extended to include autonomy over compensation could help address imbalances.

The gender pay gap is smaller in the public sector than in the private sector. After controlling for many other factors which may explain differences in compensation—such as education, age, marital status, and the other characteristics mentioned earlier—male workers in Viet Nam were paid about 15 percent more than female workers in 2022. Examining the gender pay gap by employer type, however, is revealing. (Figure 30). The gap is only 5 percent for legislative, executive, and judicial workers, and 10 percent for those in state specialized agencies. Among those working for SOEs, the gender pay gap is 13 percent, and in the private sector it is 19 percent.¹¹⁴ The finding of a difference in public and private sectors is consistent with other countries, and the gaps are somewhat smaller than average. A forthcoming study from the World Bank finds that, globally, the gender pay gap is 12 percent in the public sector and 26 percent in the private sector.¹¹⁵

Legislation guaranteeing equal treatment and affording family-friendly benefits such as paid maternity and paternity leave are relatively strong for both private and public sectors in Viet Nam.

Confidence in enforceability of those provisions, however, may be stronger in the public sector than the private sector. Indeed, according to the World Bank's *Women, Business, and the Law* study, Viet Nam receives a perfect score for eight key features of legislation regarding nondiscrimination and pay equity, but very poor scores for a supportive framework such as guidelines on nondiscrimination based on gender in recruitment or flexible work, existence of a specialized body that receives complaints about gender discrimination in employment, and the lack of enforcement mechanisms to address gender pay gaps.¹¹⁶ The public sector, with relatively transparent pay scales, may do a better job at ensuring gender equity than the private sector, even though differences remain.

Working to close gender gaps is important for countries escaping the middle-income trap. As emphasized in *World Development Report 2024 - The Middle-Income Trap*, countries need to create ever-larger reservoirs of talent. "Not investing in the talents of women and minorities, keeping them out of the most rewarding activities, and adopting unfair compensation practices are surely the most self-defeating attributes of middle-income economies, where skills are already scarce."¹¹⁷

¹¹⁴ The estimates vary to some degree depending on the specification, but the overall pattern across employer types is not very sensitive to changes in specification.

¹¹⁵ World Bank, 2025b forthcoming.

¹¹⁶ World Bank, 2024d.

¹¹⁷ World Bank, 2024f, p. 14.

Viet Nam has embarked on a set of institutional reforms for a leaner and more effective public service

The adjustment of the base salary is an important policy change, but more fundamental restructuring of the approach to remuneration is a core institutional reform. Following strategic guidance from higher levels, the CPV Central Committee resolved to enhance motivation and work efficiency, linking compensation more closely with performance and bringing in more attention to ethics. The new salary structure is to be position-based, with salaries accounting for roughly 70 percent of the total salary budget, with allowances making up the other 30 percent. In addition, there will be another 10 percent (relative to the base salary) for bonuses.¹¹⁸ The bonuses can be used to reward work achievement, with the heads of units responsible for developing the regulations to implement the bonus regime. In addition to the effect it may have on individual incentives, it also introduces group incentives since the bonus fund itself is to be funded by the profits of service providers and, in the case of provinces and centrally run cities, by revenues collected in excess of projections. In both cases, there are exceptions and limits, but they nevertheless provide incentive to cut costs in the case of service providers and to boost revenue collection in the case of subnational governments.

Viet Nam's institutions could encourage innovation by allowing clearer and greater individual rewards. In many countries, universities are centers of innovation, working closely with private companies in many science and technology fields. In Viet Nam, as well, universities hold potential for playing this role. At present, however, incentives are weak since university professors are considered civil servants and subject to rules on conflicts of interest and outside activities.¹¹⁹ Although there are benefits to having a uniform set of rules for all civil servants—notably transparency, control of special interests, and management of conflicts of interest—prohibiting university lecturers and professors from establishing or managing businesses limits their incentives for research and technology transfer. In the face of these restrictions, Vietnamese lecturers and researchers often make money by transferring knowledge to firms unofficially. Intellectual property created with state funding can be given to universities or research institutions, but most do not have clear rules about how commercial rights can be shared between institutions and researchers. With the right incentive structure encouraging researchers and institutions to work together, Viet Nam could do better to expand research and innovation capacity at scale, benefitting more firms than can be achieved when so much of the information about technologies is kept private.¹²⁰

¹¹⁸ Government Decree No 73/2024/ND-CP “Providing for the base salary and bonus regime for cadres, civil servants, public employees and personnel of the armed forces.” June 30, 2024.

¹¹⁹ It is not unusual for professors to be considered civil servants, but the ability to reap some benefits from intellectual property is specific to universities and research institutions. In Germany, professors are civil servants with rights and duties of civil servants. <https://uni-tuebingen.de/forschung/service/der-schritt-zur-professur/professur-im-beamtenverhaeltnis-in-deutschland/>. For some years they were allowed to hold the benefits of the intellectual property exclusively, but this changed with the end of “professor’s privilege”, which gave stronger ownership of intellectual property to the institutions. This has been associated with a decline in innovation at the universities relative to private companies (Martínez & Sterzi, 2021).

¹²⁰ In Korea, Government-sponsored Research Institutes (GRIs), which played a very important role in technology creation and transfer, are independent non-government organizations with the government’s financial support, operating under special laws.

Corruption risks undermining Viet Nam's social and economic aspirations

Corruption can result in all manner of waste: projects that cost more than they should, are produced with poorer quality, or are built in the wrong places. The costs of corruption are not measured in VND figures but in the impact that they have on a country's development and on people's lives. For example, in Viet Nam, corruption is associated with environmental damage including excess pollution when pollution regulation is ignored due to corruption, and land-related corruption leading to deforestation, among others. Corruption itself undermines integration into global value chains and weakens growth and the green transition.

The global recognition of the harmful effects of corruption has led to an international consensus that more action needs to be taken to control corruption. The United Nations Convention against Corruption (UNCAC) has been ratified by 191 countries, including Viet Nam, which signed the UNCAC in 2003 and ratified it in 2009. The Convention obligates signatory countries to enact legislation criminalizing bribery and other behaviors. Many countries go a step further and criminalize the payment of bribes to foreign officials. Initially a policy exclusive to the USA through the Foreign Corrupt Practices Act (FCPA), criminalization of foreign bribery became more widespread with the OECD Convention Against Bribery which mandates members of the OECD to criminalize foreign bribery. Although enforcement varies, many countries now routinely prosecute firms for bribery in other countries.¹²¹ The Siemens settlement in 2008 was the first to break the \$1 billion threshold for fines and disgorgement for bribes in multiple countries, including Viet Nam.¹²² More recent cases have exceeded \$3 billion in fines, penalties, and disgorgement for overseas bribery. What this means for Viet Nam is that foreign firms have to be more selective in choosing where to operate as they face potentially serious risks—an important transaction cost that Viet Nam's institutions can address. The use of agents or intermediaries is no longer an excuse, and firms may also face liability over their business partners throughout supply chains. Continued strong action to control corruption brings domestic benefits, but it also helps a country integrate into GVCs.

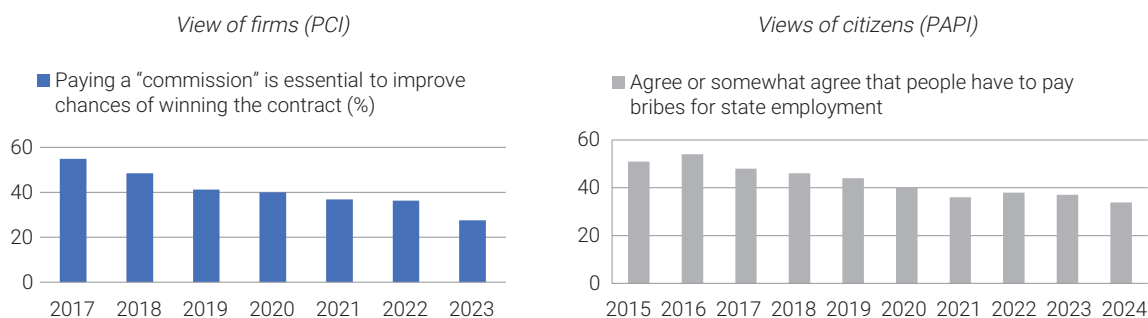
Viet Nam's high-profile anticorruption campaign, referred to as the Blazing Furnace, came after many years of lax enforcement. For many years, corruption was seen as an existential threat to the Party's survival, and the costs of corruption were frequently cited. Yet, many forms of corruption were all but tolerated. In a joint study between the Government Inspectorate, the World Bank, UNDP, and the UK, those who made informal payments for services often did so as a matter of habit or to preempt difficulties.¹²³ (See Box 10.)

¹²¹ Dell, 2024.

¹²² US Securities and Exchange Commission vs. Siemens Aktiengesellschaft. <https://www.sec.gov/files/litigation/complaints/2008/comp20829.pdf>. "Disgorgement" refers to the return of profits or benefits obtained through illegal activities.

¹²³ World Bank and Government Inspectorate of Viet Nam, 2012.

Figure 31. Unofficial payments have declined but remain common



Sources: PCI various year <https://pcivietnam.vn/> (Malesky, Pham, & Phan, 2024; Malesky, Thach, Trong, Ngoc, & Nguyen, 2023); PAPI <https://papi.org.vn/eng/> (CECODES, RTA & UNDP, 2025).

The anticorruption campaign has brought punitive sanctions against many officials at all levels of government. The sanctions range from arrests, prosecution, and incarceration to forced resignation and retirement for some high-level officials. In the latter cases, the specific charges are often not entirely clear, as sometimes officials are held to account for turning a blind eye to wrongdoings, even if they were not directly implicated. Whatever the penalty, there can be no doubt that engaging in corruption in Viet Nam is much riskier for officials now than in the past.

The strong punitive approach to anticorruption has contributed to declining perceptions of corruption, but the levels remain high, and the declines predate the current anticorruption campaign. Surveys of both firms and citizens show gradual improvement in the frequency of unofficial payments, although the frequency of unofficial payments remains too high. (Figure 31). The anticorruption campaign may have had some effect on the perceptions of corruption and on the reality for some forms of corruption, but it is worth examining anticorruption in the context of the broader system of accountability.

Viet Nam's system of official accountability institutions diffuses responsibility

The responsibility for performing oversight on government bodies and government officials' behavior is assigned to specific organizations, and indeed, Viet Nam's system is typical in this respect. Official government investigations and inspections bodies such as the Government Inspectorate (GI), State Audit of Viet Nam (SAV), and People's Procuracy have important mandates, as does the police. The National Assembly is mandated to provide overall supervision of anticorruption works. As with most institutions in Viet Nam, these roles cascade to their local counterparts at provincial and lower levels. In

practice, the system is complex, with multiple bodies having responsibilities, making it difficult to track who is accountable. As the saying goes, when everyone is accountable, no one is.

Viet Nam's Law on Anticorruption highlights both preventive and punitive aspects of controlling corruption. The 2018 amendments broke new ground by regulating for the first time the concept of conflict of interest and mandating organization-specific codes of conduct. Conflict of interest is a relatively new concept¹²⁴ and will take time to socialize, and many codes of conduct are pro forma. International experience suggests that codes of conduct are more likely to have real effect when staff were involved in their development.

In recent years the emphasis has been on sanctioning those who are found to have engaged in wrongdoings. Indeed, punishing corrupt behavior is an important part of successful anticorruption campaigns. It is striking, however, that many of the most high-profile sanctions in the past few years have arisen not from investigations by bodies such as GI and SAV, but rather through investigations by Party committees and organizations, leading to resignations and dismissals of high-level officials; and, in some cases, to criminal sanctions as cases were referred to the police.

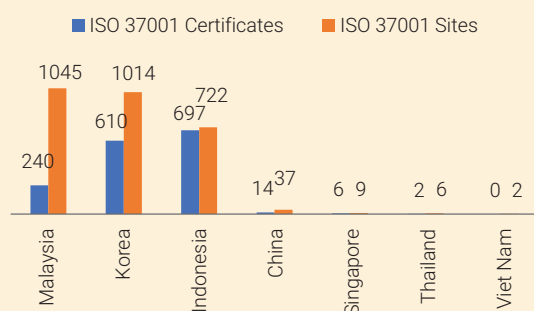
Box 10. Addressing the behavioral aspects of governance, both for firms and for state bodies

Corruption, and the perception of corruption, are driven by a multitude of factors, not only the tendency for bad behavior by officials. In fact, Viet Nam fights an uphill battle in controlling corruption in the sense that many citizens and firms in Viet Nam actively participate. In a survey of citizens in 2012, most of those who had paid bribes for most services did so without being requested, citing that “many people did the same” or other explanations.* More recently, 43 percent of firms that participated in the PCI survey in 2023 said that informal payments usually or always deliver expected results, a decline from 58 percent the year before.

In addition, controlling corruption also requires upsetting the behavioral status quo in which corruption is considered the norm. For this second approach, Viet Nam's need to attract FDI presents an opportunity. With increasing risks of being caught up in foreign bribery investigations, investors are paying ever greater attention to corruption risks and are taking measures to strengthen their systems to control those risks. Such compliance efforts extend beyond anticorruption, and into environmental social protection issues, as well. And this is not only for the private sector—the global trend is for governments to produce aggregate Environmental, Social, and Governance (ESG) reports to give confidence to the international community that climate change, environment and social issues are being quantitatively measured, reported, and monitored by the government. Although Viet Nam has relatively high levels of corruption by most measures, very few firms in Viet Nam approach compliance in a serious way—none have the ISO 37001 Certification for Anti-Bribery Management Systems.◇ (Figure 32).

¹²⁴ World Bank and Government Inspectorate of Viet Nam, 2016.

Figure 32. Firms in Viet Nam pay relatively little attention to their internal capabilities for antibribery



Source: International Organization for Standardization (ISO), 2022

Nudging behavior in a positive direction extends beyond corruption to other aspects of governance. The absence of a comprehensive sustainability reporting framework likely hampers the attainment of Viet Nam's sustainable development goals. A mandatory sustainability reporting framework would provide a comprehensive mechanism for entities to use in: (i) identifying their wider sustainability risks and opportunities; (ii) setting their sustainability strategy and targets; and (iii) monitoring their progress against those targets. Such sustainability reporting would also provide stakeholders with information relevant to holding reporting entities accountable for their progress in meeting Viet Nam's laudable sustainability goals. To meet this global trend, sustainability reporting frameworks and standards have been introduced recently by global and regional organizations. The most recent efforts are the sustainability disclosure standards issued by the International Sustainability Standards Board in 2023 for private sector entities, and the ongoing development of climate-related disclosure standards by the International Public Sector Accounting Standards Board for public sector entities. Δ

The introduction of international sustainability disclosure standards for Viet Nam could take a phased and differentiated approach. Private sector entities' general-purpose reports address a narrow audience (i.e., external resource providers). Consideration should be given to specifying different sustainability disclosure frameworks for private sector entities' investor-focused sustainability reports and public sector delivery units' society-focused sustainability reports. In both the public sector and the private sector, a tiered and phased implementation process would balance ambition with market readiness, allowing time for requisite capacity building.

Source: * World Bank and Government Inspectorate of Viet Nam, 2012; Malesky, Pham, & Phan, 2024; Malesky, Thach, Trong, Ngoc, & Nguyen, 2022; ◇ International Organization for Standardization (ISO), 2023; Δ IFRS Foundation, 2024.

The Law on Anticorruption 2018 assigns roles to a long list of government bodies. Oversight of the Law on Anticorruption is assigned to National Assembly and its Standing Committee, the Ethnic Council and Committees of the National Assembly, the National Assembly's Committee on Judicial Affairs, the National Assembly deputies, People's Councils, Standing Bodies of People's Councils, Boards of People's Councils, groups of People's Council deputies, and People's Council deputies. Reporting falls to the Government, which reports to the National Assembly, and People's Committees, which report to their respective People's Councils. The Supreme People's Court, Supreme People's Procuracy and State Audit Office of Viet Nam also coordinate with the Government in preparing reports on anticorruption, while

local level reporting comes from provincial- or district-level People's Courts and People's Procuracy, coordinating with the same-level People's Committees. Codes of conduct are issued by Ministers, heads of ministerial-level agencies, heads of government-attached agencies, Chairperson of the Office of the President, and Chairperson of the National Assembly Office, the Chief Justice of the Supreme People's Court, Procurator General of the Supreme People's Procuracy, and Auditor General of the State Audit Office of Viet Nam, the Minister of Home Affairs, and central bodies of political organizations or socio-political organizations.

Certain bodies are given special roles. The Government Inspectorate, Ministry of Public Security and Supreme People's Procuracy must have specialized units in charge of corruption combat. In addition, GI is responsible for managing the system of asset and income declarations, and for the detection of corruption through inspection, although assignments depend on the level and competency of the person being investigated, with roles also for ministerial and provincial inspectorates, as well as the National Assembly and courts regarding the declarations of officials in their areas.

Viet Nam's system of checks and balances is primarily internal. On one level, this system works. There are checks and balances within the Party structures, and their internal character helps avoid negative repercussions of public scandals. But there is opacity about the way that some decisions are made, and the lack of independence for official investigatory bodies makes the system seem ad hoc and opportunistic rather than professional and neutral. Strengthening professionalism and independence for the bodies entrusted with carrying out those functions could still leave space for political (as opposed to criminal) sanctions, as exist in every country. There would also be a need to strengthen confidence in due process and professional rule of law institutions such as the judiciary.

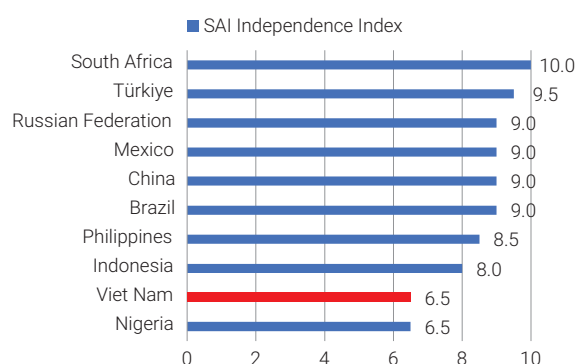
The limited independence of oversight institutions can lead them to be less assertive in pursuing cases. Both GI and SAV are constitutional bodies reporting to the National Assembly and have a degree of independence in terms of their official mandates, but they do not have operational independence. For example, their staffing decisions are not independent—key people are appointed by the Party, and staffing plans and financial plans are approved by the Ministry of Home Affairs and the Ministry of Finance, respectively. In addition, operational independence is limited by the need for prior approvals necessary for inspection activities. When GI, for example, conducts an inspection in a province, they first need the support of the head of the province, a powerful person who may even sit on the Party Central Committee and who will be subject to his or her own political constraints. It is hard for GI to go very deeply into investigations in such circumstances. Rather than conducting risk-based planning of inspections, they tend to be routine, according to a scheduled list.

Independence and authority of oversight bodies is reflected in the number of cases that they bring. While anticorruption investigation is not SAV's primary role, and they do routinely make recommendations in their primary capacity of audit, the Law on Anticorruption gives SAV the mandate to audit for corruption detection and prevention, identifying corruption during audits and transferring findings to investigative agencies, while coordinating with the Government Inspectorate to avoid duplication of efforts. SAV has developed an audit process for cases where there are indications of corruption. In 2023, the SAV provided 299 audit reports for investigation and supervision, recommending financial improvements totaling VND

30,245 billion. Corruption-related findings are far fewer: Since 2011, the SAV has referred 40 cases with criminal indicators to the police (i.e., 3-4 per year, on average) and supplied approximately 2,000 audit reports and documents to various authorities. At present, however, their potential to contribute to the prevention of corruption is not being met. Compared to many other large countries, Viet Nam's supreme audit institution (SAV), is assessed as less independent. While receiving high marks for audit mandate and scope, Viet Nam receives marginal scores for financial autonomy, operational autonomy, staffing, access to records and information, and for transparency in the appointment of the head. (Figure 33.) Coordination between the SAV and other agencies, including civil society organizations, can be complex.

The current anticorruption campaign shows the value of strong “political will.” The Blazing Furnace anticorruption campaign was championed by the CPV's General Secretary, and his successor, the present General Secretary, is continuing vigorous enforcement. News reports about the various arrests, prosecutions, and other disciplinary measures (resignations, loss of position) make clear the strong leadership role of CPV bodies and the Ministry of Public Security in these actions. (The latter would be involved in criminal matters in any case.) Even a decade ago, the importance of leadership was evident in the anticorruption diagnostic carried out by the World Bank, GI, the UK and UNDP: While Vietnamese officials generally expressed high levels of trust in the effectiveness of corruption detection of relevant government bodies, the highest level of trust was for the CPV's Inspection Unit.¹²⁵

Figure 33. State Audit of Viet Nam is less independent than many comparators



Sources: Supreme Audit Institutions Independence Index: 2021 Global Synthesis Report. World Bank, 2021d.

Independent due process institutions would help bring accountability without system paralysis

The deterrent approach to anticorruption (including enforcing criminal sanctions) has been a hallmark of Viet Nam's approach of recent years. Indeed, deterrence is an important element of successful anticorruption programs the world over. Undertaking such an approach in isolation, however, without simultaneously strengthening complementary institutions can lead to unintended

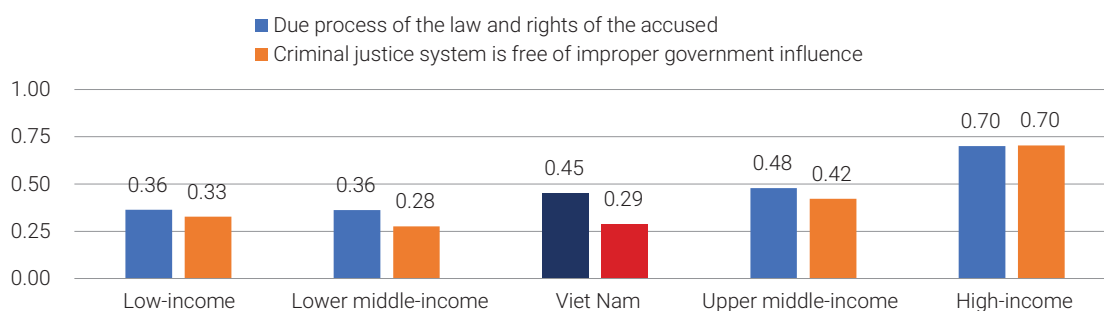
¹²⁵ World Bank and Government Inspectorate of Viet Nam, 2012.

consequences including hesitation to take some decisions.¹²⁶ When remuneration is low, the rules are unclear, and penalties for making mistakes are large, an official has little incentive to risk prison time for taking what they understand to be the correct decision. As discussed in section 4, this contributes to slow decision-making in areas such as public investment management.

Controlling corruption efficiently in Viet Nam requires more focus on prevention and on the preconditions for the extant punitive approach. A wide range of nonpunitive measures can be undertaken to reduce vulnerabilities to corruption, including administrative simplification (see section 5 for a discussion of progress in this area), introduction of tools like electronic government procurement (eGP), and others. Similarly, improving the institutions for external oversight, through media and civil society empowered by rights to speech and access to information, is a needed complement for Viet Nam’s punitive approach.

A strongly punitive approach can be implemented without generating angst for decision makers if the institutions have certain features. This is only possible if officials are confident in fair due process for those accused of wrongdoings, if the criminal and administrative sanctions systems are seen as fair, and if the rules of decision-making are clear enough to be consistently interpreted by both officials and investigators. Absent these institutional features, officials can be understood for being risk averse and unwilling to make decisions. According to international experts, Viet Nam falls far short of high-income countries when it comes to these fundamental institutions underpinning a sense of fairness for those accused of wrongdoing. (Figure 34).

Figure 34. High-income countries offer much stronger protection for those accused of crimes



Source: World Justice Project, 2023.

The system for prevention of corruption needs more attention

Capacity and transparency are needed to make income and assets declarations more effective. According to the Law on Anticorruption, GI is responsible for much of the system of income and

¹²⁶ Tatarski, 2022.

assets declarations. The Law, which was revised in 2018, calls for the establishment of a National Assets and Income Database. Current plans set a goal of 100 percent transformation of asset and income control by using digital technology and digital data by 2025. Achieving this goal is not a trivial matter, and efforts are underway to build technical infrastructure, hardware, and application software to update, integrate data, and connect databases. In addition to the technical requirements, the systems for operationalization, and routinization, need to be created, as does the process of switching from paper-based to digital systems.¹²⁷ All of this requires an investment in capacity.

Verification of income and asset declarations is not systematic. Income and asset declarations are only effective if there are strong incentives against false declarations. In many countries, the public nature of income and asset declarations raises the chance that falsehoods will be noticed, opening space for accountability. In Viet Nam and other countries where declarations are kept confidential, a system of verification is needed. Systems of verification, however, are not trivial to establish as they require cooperation between state agencies in sharing of data (e.g., tax, land registration, company databases), and, as will be discussed later in this section, the mandate to cooperate is not clear. Again, we find that placing responsibility on the heads of agencies to make decisions regarding inaccuracies at the agency, and the lack of clarity about handling of the head of the agency's declarations, raise questions about how well this fundamental system of prevention can work in practice.¹²⁸

Attention to the prevention side of anticorruption is needed for better procurement outcomes. Bid rigging, collusion, fraud, and restrictive bidding requirements in public procurement are among major concerns of the Government. Since the launch of the anticorruption campaign, many government officials, including high-ranking ones, have been disciplined or prosecuted for procurement-related offences. Some of the institutional foundations for preventing corruption are already present in the 2022 Procurement Law, but they need to be followed up with changes to processes and system. Viet Nam needs to strengthen the examination, inspection, and supervision functions, the procedures for effectively handling procurement petitions and complaints, and to incorporate anticorruption measures in procurement documents. To take advantage of all prevention tools they would need to fully enforce the mandatory application of e-GP system for all public procurement activities and implement and enforce community supervision requirements as already provided in the 2022 Public Procurement Law. Finally, accountability would be strengthened by a more robust debarment procedure for firms and individuals who have been found to engage in prohibited activities.¹²⁹

¹²⁷ Decision 390/QĐ-TTg dated March 28, 2022.

¹²⁸ UNODC, 2019.

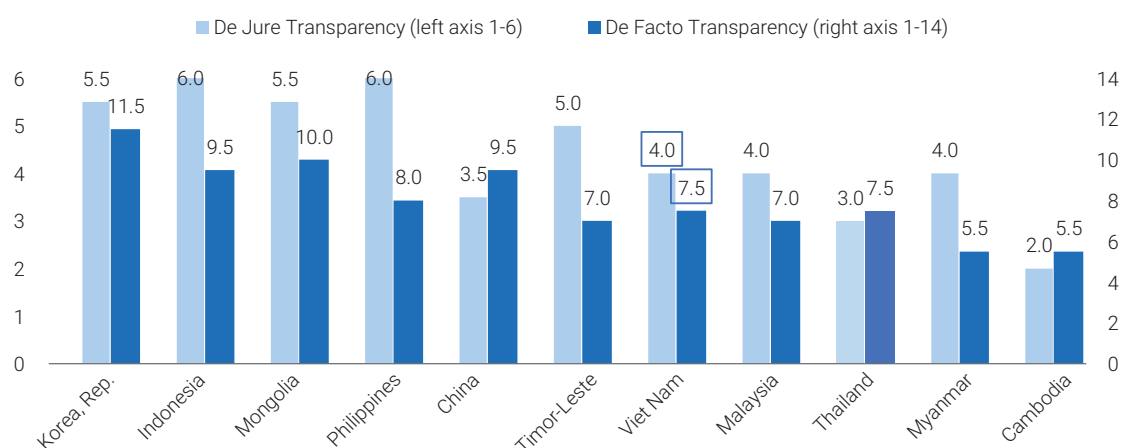
¹²⁹ MAPS assessment report.

Accountability would be strengthened through more open access to information

Transparency and open access to information serve many functions. Transparency of rules, regulations, and incentives reduces uncertainty for investors, giving them confidence to make decisions that will lock their rights and their commitments into place for a long period of time. Transparency also facilitates oversight of the government and government officials, making it more difficult to hide misdeeds. There is, therefore, an aspect of transparency that directly reduces transactions costs for firms, and another that ensures accountability for public officials, helping to ensure that they deliver a fair business environment which further reduces transactions costs for firms.

A major milestone was reached in 2016 with the passage of the Law on Access to Information. The passage of this law came as the culmination of many years of discussion and legislation related to the provision of information, and indeed it is not the only legislation governing access to information in Viet Nam. Legal provisions calling for the publication of different forms of information existed long before the Law on Access to Information, in particular the set of legal documents related to “grassroots democracy.”¹³⁰ A Decree on Grassroots Democracy was passed in 1998, and this was upgraded to an ordinance in 2007, and then a Law on the Implementation of Grassroots Democracy in 2022. In a study in 2009, prior to the passage of the Law on Access to Information, it was found that there were more than 30 laws, rules, and regulations governing access to information.¹³¹ The consolidation of legislation in an overriding document, with higher legal status than ordinances or decrees, was a major step forward.

Figure 35. Viet Nam’s efforts at transparency lag some comparator countries



Source: Mungiu-Pippidi, 2022. Data updated 2024.

¹³⁰ See Nguyen H. H., 2016.

¹³¹ World Bank and others, 2009.

Many of the legal provisions in the Law on Access to Information are laudable and have been assessed by international research organizations even better than those in some middle-income comparator countries. For example, the Global Right to Information Rating notes several strengths of Viet Nam's Law on Access to Information, including its fairly broad scope and comprehensive promotional provisions.¹³² The delineation of information that is defined to be public facilitates monitoring of implementation, but a fairly broad regime of exceptions limits the Law's effectiveness as an oversight mechanism. On net, Viet Nam's Law on Access to Information is assessed by this organization to be somewhat better than the laws of Thailand and the Philippines—and Malaysia does not have such a law—but somewhat weaker than the law in Indonesia, and considerably weaker than the laws in Brazil, South Africa, or (world leader) Mexico.

Although de jure transparency, that which is codified in law, has improved in Viet Nam, actual transparency is weaker than many countries. An innovative approach to measuring transparency not only by what is in law, but also by what is available on public websites, shows Viet Nam to be one of the countries in East Asia with the largest gap between the two.¹³³ (Figure 35.) This finding echoes a detailed examination of the provision of land-related information not only online, but also physically available at the province, district, and commune levels. That study found that actual provision of land-related information fell short of that required in the law in many places, and that there is very little correlation between the provision of information online and the provision of information available at local centers for those unable to make use of digital tools.¹³⁴ Importantly, the latter study also explored the reasons for not providing information even though the legal foundation was there. These include refusals by officials (especially at the province level), as well as simple unavailability of the local official, and difficulty finding records. These studies show the importance of ensuring the follow-through on legal requirements: developing capacity to implement the law, incentives to comply with the provisions, and ensuring monitoring.

Detailed assessments of the implementation of Viet Nam's Law on Access to Information show the need to focus on implementation. Following the passage of the Law on Access to Information, several organizations set out to evaluate the implementation of the provisions of the law to constructively advance transparency. Working together with the Viet Nam Fatherland Front (VFF), as well as officials in several provinces and nationally, they found considerable gaps in the creation of access to information infrastructure and in socializing the understanding of law. (Box 11.)

Viet Nam's approach to managing data assets has shown some successes, but important gaps remain. Benchmarks suggest that the country is already more open than the average of upper middle-income countries, but the country is still well below the high-income country standard and that of regional comparators. Managing data assets will become increasingly important as Viet Nam moves up global value chains and endeavors to produce higher value, more complex, products. At present, the system is segmented and not well regulated. Data standards are not widely used, and data sharing within government is often a problem.

¹³² Centre for Law and Democracy, 2024.

¹³³ Mungiu-Pippidi, 2022.

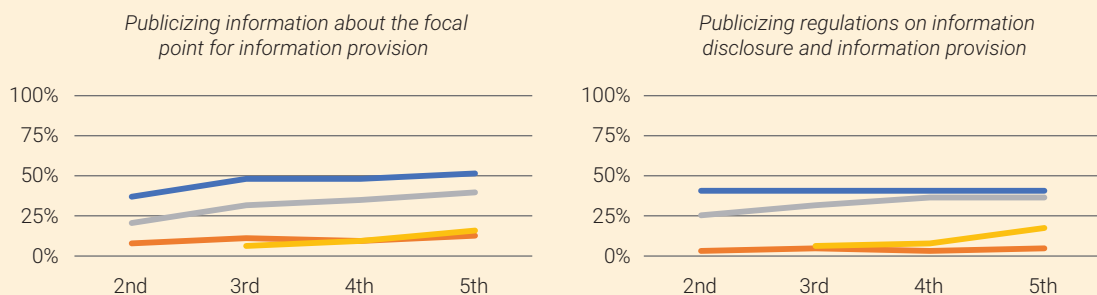
¹³⁴ World Bank, 2014.

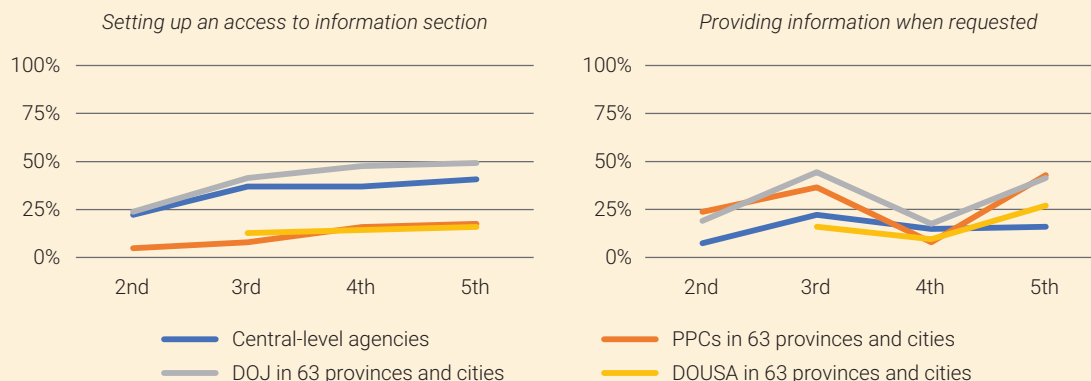
Box 11. Implementation of the Law on Access to Information requires capacity and socialization

Following the passage of the Law on Access to Information, several organizations studied the implementation of the provisions of the law to constructively advance transparency. (Center for Education Promotion and Empowerment of Women (CEPEW) and others, 2023) To ensure the best impact, they worked together with the Viet Nam Fatherland Front (VFF), as well as officials in several provinces and nationally. The assessments sought to identify how widely the necessary systems and capacities for access to information had been created following the passage of the law, how well the responsibilities of state bodies under the law had been socialized and understood, and how responsive agencies were to access to information requests. (Figure 36.)

While the trend is favorable for several measures related to the creation of the access to information infrastructure, the levels remain very low. Fewer than 13 percent of provinces publicized information on the focal point for information provision, and only 16 percent had set up an access to information section. Although central level agencies fared somewhat better in terms of setting up the access to information infrastructure, they did worse in terms of responding to requests for information. Only 16 percent responded when asked to provide basic information, such as the regulations on information provision and annual reports. (The requests focused on information that would not be considered state secrets or have conditions associated with its release.) Province-level departments of justice (DOJ's) exhibited the greatest understanding of the requirements of the law and were consistently courteous and professional but sometimes did not provide the requested information because they did not see themselves as the creator of the information and therefore were unable to disclose it.

Figure 36. Access to information is improving but remains far below the needs under the law



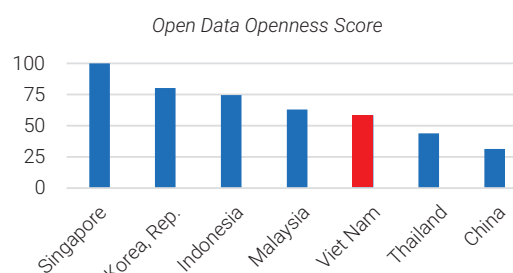


Source: Several organizations participated in one or more of the reviews, including the Center for Education Promotion and Empowerment of Women (CEPEW), the Forest Land Alliance (FORLAND), the Minerals Alliance (LMKS), the Clean Water Alliance (LMNS), the Network of Social Organizations in the Northern Mountainous Region (NORTHNET), the Institute for Policy Studies and Media Development (IPS), CARE International in Vietnam, Oxfam in Vietnam. Charts are constructed by the authors from data in Center for Education Promotion and Empowerment of Women (CEPEW) and others, 2023; and Center for Education Promotion and Empowerment of Women (CEPEW) and others, 2022.

In recent years, the government has made efforts to create a better legal framework for data and information flows. In addition to the Access to Information Law which took effect in 2018 and aimed at making information available to citizens, the Government issued a Decree on Data Sharing in 2020. The Decree, for the first time, defined data, open data, and data sharing, among others, and requires government agencies to share data with each other to support digital transformation. The Government named the year 2023 as the year of data and, in February 2024, issued a national data strategy with the objective of making data an important lever of the country's economic growth, especially in the digital economy and digital service sectors.

Despite the policy of more open data flows, however, there are existing barriers that inhibit public data flows between government agencies and in society. The barriers include the lack of data standards which is one of the preconditions for data to be interoperable. Limited digital data infrastructure such as storage and computing capacity is another barrier. The lack of a data governance framework which clearly defines who are the data owners, custodians, and users as well as a data subscription model also prevents data from flowing. Above all, there are still various sector-specific regulations that continue to hinder data sharing. One notable regulation is the government decision No 1660 in

Figure 37. Data openness has improved but still lags high-income countries and important regional comparators



Source: Open Data Watch, 2023.

2020 on the list of state secrets in the natural resources and environment sector. The decision classifies spatial, topographical data and maps of beyond 400 square kilometers in one urban setting, which is about one-fifth the size of Ho Chi Minh City, as state secrets.¹³⁵ Thus, even among departments of Ho Chi Minh City, spatial base maps cannot be shared and used widely for its various digital government transformation efforts. Addressing the existing barriers to data flows in Viet Nam, including issuing more forward-looking regulations and annulling irrelevant regulations on classified documents, will be critical for Viet Nam to grasp the potential of the digital economy.

Opening up more to external scrutiny would strengthen accountability

Viet Nam's system of accountability relies heavily on internal mechanisms, without sufficiently empowering truly independent external oversight. In addition to oversight of government by government, healthy systems of oversight take advantage of truly independent outside observers, such as elected legislatures, civil society organizations, and the media. Legislatures provide an important check on the performance of the executive (see Box 12.) And in many countries, independent civil society and media organizations have helped uncover wrongdoings, throwing light on systemic institutional weaknesses leading to real reforms.¹³⁵

Viet Nam's dispute resolution system is fairly well trusted for business disputes, but people feel less confident about the ability to fairly resolve disputes with state bodies. The PAPI survey of citizens shows that citizens generally have a high degree of trust in the courts for solving civil disputes (88 percent in the median province), and the World Bank Enterprise Survey similarly shows that only one percent of firms identified courts as a major or very severe constraint for their business activities. At the same time, a consistent finding from the PAPI survey is that citizens are not typically satisfied with the results when they complain to their local government—fewer than half are satisfied. And in some cases, citizens appeal directly to the National Assembly, as they don't trust local authorities to be independent.

Media and civil society can be vigorous allies for integrity if given space. The media in Viet Nam have protections under the law and have shown themselves to be professional and effective in investigative reporting in areas that are sanctioned. As no media outlet can be truly independent in Viet Nam, however, limits on what can be freely reported without repercussions for journalists or editors can limit how far they will go with both investigations and reporting. Similarly, space for civil society to organize and operate freely in Viet Nam needs to be guaranteed if they are to be allies for controlling corruption. To the extent that regulations are needed for quality or to control misinformation, these could be addressed through other means such as professionalization, training, and the use of civil proceedings.

¹³⁵ Tran, H., et al, 2022.

¹³⁶ The role of civil society and free speech, and the role of states in laying the foundations for that role, are emphasized in the UNCAC in Article 13 (UNODC, 2024).

Box 12. The National Assembly's dual roles

In addition to deliberating and passing laws, discussed in section 5, Viet Nam's National Assembly has an important oversight function. The televised question-and-answer sessions help raise important issues and, in theory, convey to the executive the concerns of the citizenry. In practice, though, the ability to carry out this role independently is severely constrained by the same factors described earlier. International observers debate whether this is generating effective oversight or simply conveying consensus.¹³⁷ Without more open rules for candidature for the National Assembly, and more assurances of the ability to speak openly without reprisals, the oversight function has limited real impact.

Transparency is essential for the National Assembly to play its oversight role effectively. As with other oversight institutions, conducting oversight in the public's eye helps ensure that important topics are not swept under the rug or given insufficient attention. Even if hearings are available to the public in real time, an accessible archive helps ensure the benefits of real oversight and allows voters to help track implementation. The National Assembly's e-portal includes transcripts of many question-and-answer sessions going back to 2003, but there are gaps, especially since the 8th session of the 14th National Assembly (October – November 2019).

The capacity of the National Assembly to carry out its functions has long been discussed. There are presently 499 Deputies, of which 12 have been dismissed or relieved of duties (as of June 24, 2024). Only 193, however, are full-time Deputies, compared to 306 that are part-time. Given the import of the duties before them, working on a part-time basis—the sessions only last around 26 days—leaves little time for in-depth scrutiny of the issues before it. The approach to managing the workload of the National Assembly, even with a large number of part-time deputies, is to assign parts of the work to select committees—not unlike legislatures in many countries.¹³⁸ According to the 2014 Law on Organization of the National Assembly (amended in 2020), the National Assembly is organized into the Ethnic Council and nine specialized Committees, each focusing on a particular aspect of governance, such as lawmaking, budget oversight, foreign affairs, defense, education, health, etc. Each committee is comprised of a group of deputies appointed or elected to serve on the committee for the entire term of the National Assembly. Once elected, deputies can sign up for the committees they are interested in, typically choosing up to three. Based on registration, the National Assembly Standing Committee will then arrange deputies into committees. While not unusual, the dominance of part-time deputies and limited number of support staff—the Office of the National Assembly has about 1,000 staff carrying out a heavy load of administrative, professional, and support functions—may limit the depth with which deputies can examine technical topics.

The part-time status of deputies may lead to conflicts of interest with regard to their oversight duties. Many are employed simultaneously in the administrative units that they oversee, putting them in a position of conflict with their superiors. These issues have been known and discussed for decades and seem unlikely to change, but it is a limiting factor that bears repeating. Rather than an independent oversight body providing a check on the executive, the National Assembly functions more like a specialized body that is part of the whole; a part of the team rather than an independent oversight body.¹³⁹

¹³⁷ Schuler, 2021.

¹³⁸ According to the 2014 Law on Organization of the National Assembly (amended in 2020), the National Assembly is organized into the Ethnic Council and nine specialized Committees, each focusing on a particular aspect of governance, such as lawmaking, budget oversight, foreign affairs, defense, education, health, etc. Each committee is comprised of a group of deputies appointed or elected to serve on the committee for the entire term of the National Assembly.

¹³⁹ In the present session, 485 Deputies are Party members and 14 are independent.

Capacity challenges notwithstanding, the National Assembly makes considerable effort to equip and train deputies, both of the National Assembly and for local People's Councils. The Training Center for Elected Representatives conducts research, provides advice, and supports the Commission on Delegation Affairs to assist the National Assembly's Standing Committee in sharing experience and delivering training for elected representatives. The Center uses various forms of training, and emphasizes opinion sharing, interaction, and feedback between reporters and attending representatives. For each training topic, at least two-thirds of the time is dedicated to representatives, allowing them to express their viewpoints through exchanges, group discussions, and role-playing in specific situations.

The low level of female leadership in public administration has important implications for the type of oversight of the National Assembly and provincial People's Councils. A UNDP-funded study on the role and contributions of people-elected female deputies found that female deputies spend more time on law-making and oversight activities while male deputies allocate more time on making decision on national issues of strategic importance.¹⁴⁰

The National Assembly could play a stronger oversight role with more assertive and independent questioning. Often the question-and-answer sessions are composed of very general questions, asking about what solutions for certain problems are, for example, leading to very general answers. There are occasionally some specific/critical questions, however, they are often not fully answered. A recent example pertinent to the present section was a question about measures to ensure the independence and objectivity of SAV. The question helped put a spotlight on a recognized issues but did not forcefully compel reforms.

¹⁴⁰ University of Social Sciences and Humanities (Viet Nam National University) and United Nations Development Programme, 2021.

Annex 2.

Understanding public and private sector wage differences

Approaches for estimating pay gaps are well established. By regressing the log of wages earned in the previous month on variables capturing characteristics of workers and jobs that may affect their wages, one can compare how much workers earn after accounting for those differences, as well as the impact that those characteristics have on earnings.¹⁴¹ To understand better how the wages of civil servants and public employees compare with those in the private sector, we considered worker characteristics (age, gender, education, marital status), location (province or region, urban or rural areas), occupation level (e.g., manager), and the type of employer. In order to compare the salaries of state bodies with those with whom they compete, we focused on three types of employers: “private enterprise,” “state specialized agency (PSDUs, hospitals, schools, etc.),” and “legislative, executive, judicial agency.” We also wanted to focus on those who are employees and so we excluded those who work on their own account or for family-owned businesses, as these would tend to face greater uncertainty in terms of compensation. Table 4 outlines variables that influence compensation.

Table 4. Factors that may influence wages

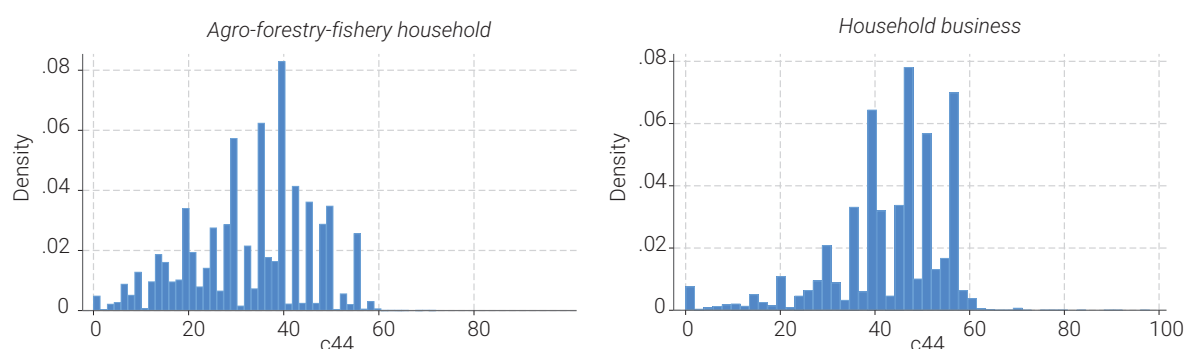
Employer type	Worker characteristics
- Agro-forest-fishery household - Household business (except agricultural-for-est-fishery) - Own-account worker - Cooperative - State-owned enterprise - Private enterprise - FDI - State specialized agency (PSDUs, hospitals, schools, etc.) - Non-state specialized agency - Legislative, executive, judicial agency - Social organization (Party, youth union, women union) - International organization (nonprofit) - Association (Garment and textile, footwear)	- Age - Marital status (dummies) - Gender (dummy) - Level of education (dummies for degrees/certificates)
	Location
	- Province/City (dummies) - Region (dummies; not used if province dummies are used): Red River delta excluding Hanoi, Hanoi, Northern, Central, Central highlands, Southeast excluding Ho Chi Minh city, Ho Chi Minh city, Mekong River delta - Urban / Rural (dummy)

¹⁴¹ See, for example, Mincer, 1974; and Abdallah, Coady, & Jirasavetakul, 2023.

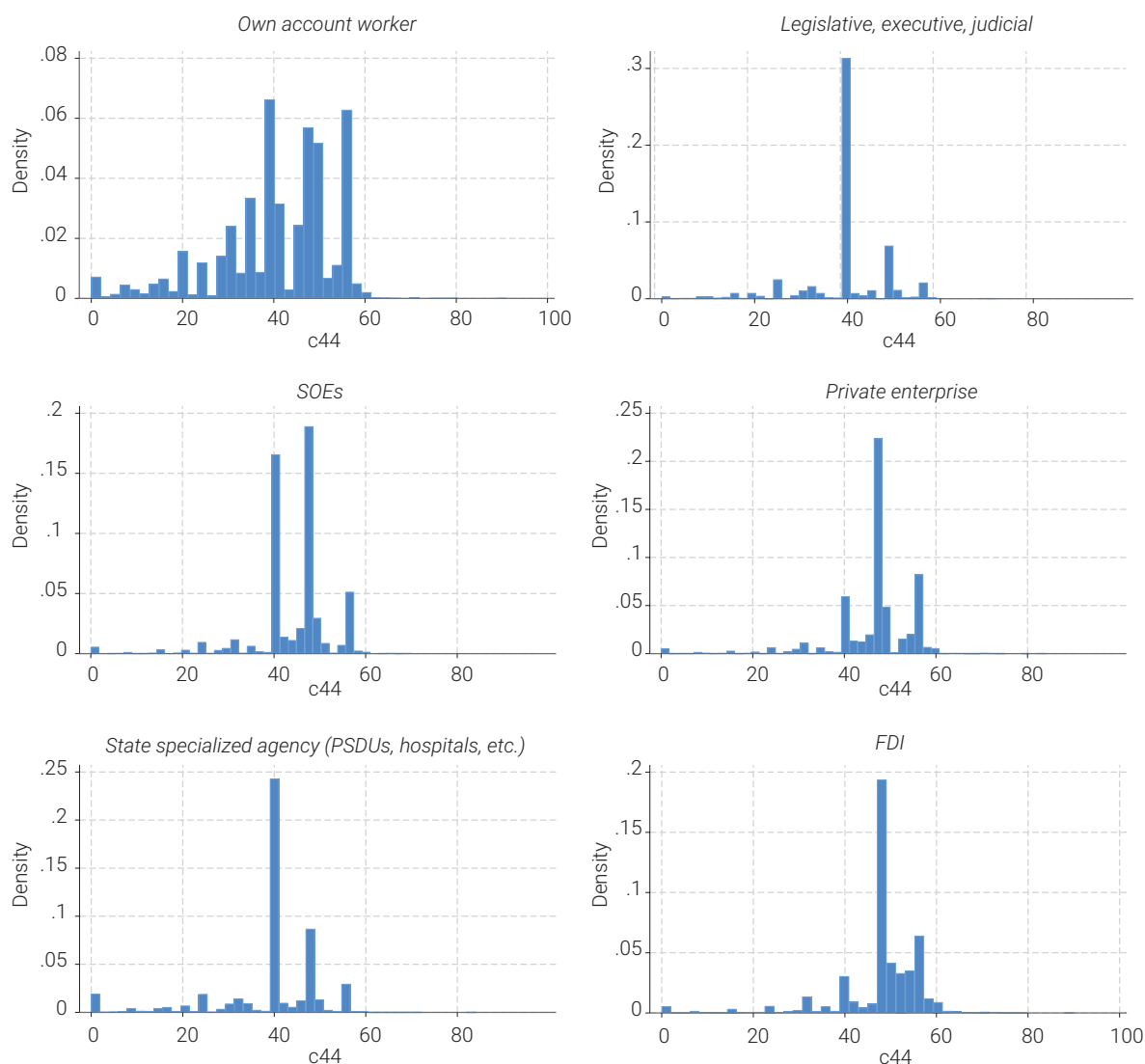
Job type	Occupation (dummies)
- Primary job - Formal sector (“employee” as opposed to own account worker, family worker, employer, or member of cooperative) - Full-time (those who worked more than 35 hours in the previous week.)	- Managers - Professionals - Technicians and associate professionals - Clerks - Salesperson - Skilled agricultural workers - Craft and related trade workers - Plant and machine operators - Elementary occupations

Formal employers have more consistent hours, and private employees say they work more hours per week. Table 5 shows histograms for the number of hours worked in the previous week for most of the employer types. Those that are household businesses or own account workers had much less consistency in the number of hours worked than other employer types. More pertinent for the question of public sector salaries is the fact that hours worked for public sector bodies tagged as “legislative, executive, judicial”, and “state specialized agencies (PSDUs, etc.)” were clustered more strongly around 40 hours per week, while the mode for those working for “private enterprises” and “FDI” was 50 hours. Those working for SOEs also had a mode of 50 hours, but the average was less than for private enterprises and FDI. For the analysis of wages, we opted not to calculate an hourly wage, as this would introduce another layer of noise to the study, but rather to focus on those who worked at least 35 hours in the week before the survey.¹⁴²

Table 5. Histograms of hours worked, by employer type



¹⁴² The survey question was about hours in the past seven days which can be highly variable due to illness or other factors. In addition, there is a mismatch with the time-frame for the salary which is monthly. Finally, it is the monthly salary that is the primary unit of interest, as that is what a formal sector employee would bring home.



Source: Authors based on the 2022 Labor Force Survey.

Notes: Employer types with relatively fewer observations are not shown. These are cooperative, international organization, association, and non-state specialized agencies.

Understanding how various characteristics affect compensation can help illuminate how competitive public sector employment is. To sharpen the analysis, we focus on employers that are most like each other: private enterprises and SOEs are both in direct competition for labor, while state specialized agencies, which include health and education facilities, and legislative, executive, and judicial categories capture core public service. By including interactions, we can gain a more nuanced understanding of how factors such as location, gender, and occupational level influence the pay gaps between public and private sectors.

There is a substantial gap between public sector and private sector salaries, and it varies by region and type of public sector position. Relative to private enterprises, the gap is largest for the legal,

executive, and judicial category where private enterprises pay about 42 percent more, and up to 80 percent more in some regions. There is also a substantial gap for state specialized agencies, with private enterprises paying 26 percent more for the country as a whole, and from 14 to 40 percent more depending on the province. SOE salaries seem to be much more in line with those of private enterprises, with virtually no gap, and even a negative gap in some provinces. (I.e., after controlling for other factors, SOEs pay slightly more than private enterprises in some places, and slightly less in others.) The wage gaps are generally lower in the northern provinces and the central highlands, and highest in the areas near the northern and southern growth poles.

Table 6. Wage gap between private enterprises and state employees

Region	Percentage wage gap, private enterprises over types of state employers		
	State specialized agencies	Legal, executive, judicial	State-owned enterprises
Hanoi	28%	42%	-6%
Red River Delta, excluding Hanoi	32%	62%	2%
Central coastal provinces	21%	39%	-2%
Central Highlands	18%	35%	2%
Ho Chi Minh City	28%	84%	3%
Southeast, excluding Ho Chi Minh City	40%	65%	-5%
Mekong River Delta	28%	56%	6%
Northern	14%	31%	0%
Viet Nam	26%	42%	0%

Source: World Bank staff, based on Viet Nam Labor Force Survey 2022.

Notes: Based on regressions of $\ln(\text{wage})$ on characteristics including age, gender, marital status, education/certification, type of position, region, and urban/rural, with interaction terms for type of employer and region. Restricted to those who are “employees.”

The variation by type of public sector employer suggests the value of allowing some flexibility in salaries. SOEs, which have flexibility in setting their own salaries, have negligible pay gaps, while core public sector positions in the executive, legislative, and judicial fields, with the least flexibility, have the largest gaps. In PSDUs, such as health and educational institutions, there are also substantial gaps, although they are smaller.

The geographical variation in salaries also suggests the need for flexibility. While there are some differing allowances at the province level to account for different costs of living, the salary policy is aimed at equity regardless of geographical location. This is understandable for the purpose of establishing a unified civil service. The data suggest that in some cases, however, there may be a need to go even further than the allowances. Greater province level autonomy, along the lines of the greater decentralization currently being discussed for 10 provinces and centrally-run cities, but extended to include autonomy over compensation could help address imbalances. (See section 6.)

The gender pay gap is smaller in the public sector than in the private sector. After controlling for many other factors which may explain differences in compensation—such as education, age, marital status, and the other characteristics mentioned earlier—male workers in Viet Nam were paid about 15 percent more than female workers in 2022. Examining the gender pay gap by employer type, however, is revealing. The gap is only 5 percent for legislative, executive, and judicial workers, and 10 percent for those in state specialized agencies. Among those working for SOEs, the gender pay gap is 13 percent, and in the private sector it is 19 percent.¹⁴³ It is worth noting, in this regard, that the legislation guaranteeing equal treatment and affording family-friendly benefits such as paid maternity and paternity leave are relatively strong for both private and public sectors in Viet Nam. Confidence in enforceability of those provisions, however, may be stronger in the public sector than the private sector. Indeed, according to the World Bank’s *Women, Business, and the Law* study, Viet Nam receives a perfect score for eight key features of legislation regarding nondiscrimination and pay equity, but very poor scores for a supportive framework such as guidelines on nondiscrimination based on gender in recruitment or flexible work, existence of a specialized body that receives complaints about gender discrimination in employment, and the lack of enforcement mechanisms to address gender pay gaps.¹⁴⁴ The public sector, with relatively transparent pay scales, may do a better job at ensuring gender equity than the private sector, even though differences remain.

¹⁴³ The estimates vary to some degree depending on the specification, but the overall pattern across employer types is not very sensitive to changes in specification.

¹⁴⁴ World Bank, 2024d.

PART IV

INSTITUTIONS FOR A HIGH-INCOME VIET NAM

Viet Nam's goal of reaching high-income status by 2045 provided the impetus for reflection on the country's institutional development and how this relates to its prospects for growth and social progress. The concept of institutions can be expansive—this study drew upon the concept of institutions as the rules guiding behavior and focused on the institutions that reduce transactions costs for firms, either directly or indirectly. Even with this focus, volumes could be written on specific sectoral institutions. The framework for the present study centered on the institutions that support markets and growth: market-creating institutions, such as property rights and contract enforcement; market-stabilizing institutions, ensuring the macroeconomic stability that limits uncertainty for firms; market-legitimizing institutions, such as social protection systems, to ensure support for the new system endures; market-complementing institutions such as those that provide public goods; and market-regulating institutions necessary to address externalities. Underpinning all of these are the institutions for a capable and accountable state, one that incentivizes staff and organizes its public administration to work efficiently and with integrity. Markets, and market-supporting institutions, are not ends in themselves, but serve a higher purpose. They support the growth and frameworks that enable the state to do a better job at serving people, delivering essential services like health and education and transportation, while maintaining an equitable and fair society.

Viet Nam's growth in decades past has proceeded hand-in-hand with, and been boosted by, institutional changes over those years. Viet Nam has strengthened property rights, improved transparency, granted greater levels of autonomy to subnational governments and service delivery units, and brought greater coherence to its lawmaking process. All of this happened while the country was simultaneously becoming more integrated with international markets and global value chains. These changes contributed to the growth that helped deliver a remarkable reduction in poverty.

Viet Nam is in the midst of once-in-a-generation institutional reforms. The consolidation of ministries and agencies and stated plans for reducing the size of the civil service represent major changes for a country which takes a conservative approach to reform. Coming on the heels of a major anticorruption program, the institutional reforms show a commitment to addressing the bottlenecks that could hold the country back.

This effort is welcome since sustaining the growth necessary to reach high-income status will require a further boost of institutional improvements—an “institutional big push.” The studies being produced as part of the *Viet Nam 2045* series will no doubt bring many policy recommendations. The present study, similarly, includes recommendations for making public investment management more efficient, for streamlining regulatory processes, for improving interprovincial cooperation, and for improving transparency and controlling corruption without system paralysis. It also, however, affords the opportunity to look one level above short-term reform suggestions to understand how institutional change works in Viet Nam.

8. Understanding institutional change in Viet Nam

There are several themes that reappear throughout this study of institutions:

Institutions can complement each other or work at cross-purposes. Viet Nam's experience shows that making progress in one area often calls for further progress in another. We see, for example, that the need to address legal weaknesses related to public investment requires legislative changes to multiple laws, a process which cannot be done quickly. Similarly, weaknesses in the quality of laws and in perceptions of due process have left many officials risk averse, contributing to the slow progress in public investment implementation. Institutional challenges to multiprovince cooperation have further hindered public investment. Market-stabilizing institutions such as those that regulate the macroeconomy have an easier job when market-creating institutions such as property rights and contract enforcement are strong. Institutional change is a continuous and iterative process.

Legal and regulatory processes are fundamental for institutions. Institutional reforms include changes to legislation, as legislation sets out roles, responsibilities, and implementation arrangements. Beyond the text of legislation, however, the process of preparing legislation drives the quality of the laws and regulations—and these processes have also gone through major changes. Successive step-by-step improvements have brought predictability and contestability to the legislative framework, as well as greater “ownership” over legislation. At the same time, capacities to undertake policy impact analysis need to keep pace with the changes. As the “institution for creating institutions”, the lawmaking process needs continued attention.

For institutional reforms to work there needs to be more attention paid to capacity and socialization of ideas. Reforming institutions so that they are implemented may require legislative changes, but the story doesn't end there. New capacities are needed, and these need to be financed and fostered, steps often omitted from legislative reforms. And when reforms are truly “breakthroughs” in concept—such as the presumption of open access to information or the changed role of the state or the need for true independence of oversight—the ideas need to be thoroughly socialized in order to lead to real behavioral change. Absent concerted efforts at capacity and socialization of ideas, the result will be, as we see in many of the areas discussed in this report, a significant gap between the provisions of legislation and actual implementation.

Multiple lines of responsibility can dilute accountability and create confusion. Viet Nam's system of dual subordination sometimes helps avoid costly mistakes, generating consensus and buy-in from stakeholders before going in new directions. Yet, the multiple lines of authority can also dilute accountability. The present wave of consolidation of ministries and agencies should help address some of these problems as the multiplicity of responsible bodies is reduced. But going further and streamlining

and reducing the need for multiple approvals would also give a stronger sense of ownership and accountability, exactly what Viet Nam needs.

Independent accountability and due process are important complements. Viet Nam's hierarchical bureaucratic culture relies on internal accountability mechanisms, missing opportunities for independent external accountability. The system allowed corruption and inefficiency to flourish to the point where the crackdown became inevitable. Building external mechanisms for accountability—greater reliance on transparency, independent governmental and nongovernmental oversight—would help address inefficiencies and corruption without leading to paralysis.

Independent decision-making builds a sense of ownership. The cultural changes need to also include greater acceptability of independent decision-making and oversight. Independent reviews of projects can make public investment management more efficient, for example. The need for greater independence of decision-making extends to provincial governments which can benefit from greater autonomy for innovation.

Competition is good but sometimes cooperation is better. The study also demonstrates the need for building institutions for cooperation, particularly cooperation between provinces. Such institutions need to be facilitated and encouraged, but allowed to arise organically, rather than designed from above. Changes to the lawmaking process show a strong understanding of the links between roles and the sense of ownership, as the roles of the Government and the National Assembly have shifted. While the processes may be slower, the attention paid to quality of institutional development is higher.

The term “institutions” may sound abstract, but institutions have very real effects on service delivery and on peoples' lives. The institutions for public investment management supports basic infrastructure that is needed for education, healthcare, and transportation, and the legal and regulatory system determines the framework for service delivery and regulation against harmful activities. For example, the laws examined in this study cover medical examination and treatment, environmental protection, consumer protection, and others. And the motivation of civil servants and public servants is felt by citizens in their everyday experiences with public services. While the focus of the study is on higher-level institutional frameworks, rather than specific sectoral institutions, the ultimate purpose is efficient and fair services and regulation.

Step-by-step works. Viet Nam's incremental reforms allow opportunities to revisit approaches and change course if necessary. Viet Nam has a long history of such a step-by-step approach to reform, and this approach has contributed to its successes. This is not a call to rest content and avoid necessary changes, but rather a recognition of the value of designing and undertaking changes with implementation and evaluation in mind.

9. Priorities for institutional progress for a high-income Viet Nam

The complementarity of institutions means that no area can be ignored. Part I examined a broad range of institutions, all of which showed progress in past decades and all of which can still be improved. Indeed, institutional reform is a continuous process for countries at all levels of development. Market-creating institutions such as property rights and contract enforcement are fairly well developed. Yet, concerns persist about land management, and arms-length dispute resolution will surely become more important as Viet Nam approaches high-income status. Market-legitimizing institutions have so far provided a social protection system that ensures that the population benefits from the shift toward a stronger role of markets. At the same time, the sustainability and independence of the system will require greater attention. Similarly, Viet Nam's market-stabilizing institutions have done a remarkable job of delivering macroeconomic stability. But since countries at all levels of development can succumb to instability, this is hardly an area that can be ignored – even more so in today's increasingly complex world. Viet Nam has many tools available, but independence of the central bank could be strengthened. And reinforcing the complementarity of institutions, other types of institutions—property rights, contract enforcement, public investment management—are also needed to support macroeconomic stability.

Parts II and III provided deeper dives for a subset of institutions. To provide more concrete medium term recommendations, this study examined in more detail market-complementing institutions, the systems by which the state helps firms do their job by providing public goods, and market-regulating institutions, examining how Viet Nam can improve the quality of laws and regulation and reduce regulatory burden on firms. Deeper dives were also provided for the systems of making government work better, with motivated public servants, an efficient geographical administration, and one with accountability. These institutions provide the foundation for a redefined role of the state, one which regulates rather than directs, and provides services efficiently and fairly. Together, these institutions are resilient and self-correcting and can help Viet Nam near its aspirations to become a high-income country in a short period of time. While not exhaustive, the study does suggest some priority institutional reforms for each of the areas studied:

- **Address the built-in inefficiencies that have hindered the public investment system.** A number of changes are already accomplished with the recent revisions of the Public Investment Law. These include the institutionalization of special mechanisms by the National Assembly that has already been used on an ad hoc basis to solve specific problems. Joint projects undertaken by several provinces, or several districts or communes within the province, have been streamlined to address obstacles to the initiation and execution of projects which serve the needs of multiple provinces. Other improvements, such as the increase of thresholds for approvals and some delegation, are welcome.

Several other issues remain. The scope of “public investment” is still too broad, including various types of financial transactions rather than fixed assets. As Viet Nam sharpens its institutions to align with market-orientation, sharpening the concept of public investment would also help. In addition, the ability to improve the quality of estimates of the capital expenditure baseline on a rolling basis is still not envisioned, nor are the issues of independent review and harmonization of capital and recurrent budget plans in a single medium-term planning framework. Capacities and procedures need to be built along with legal changes, for example preparing projects better before the decision to include them in the MTIP, and strengthening mechanisms for rejecting low-quality projects. Similarly, delays could be reduced by bringing planning for land resettlement earlier in the project cycle and further expanding delegation.

- ***Speed up the lawmaking process while building capacity for better analysis.*** The seismic changes to the lawmaking process of the past decades have brought many positive results, but some of the processes could be improved. The upstream consultations and analysis have helped, but in many cases the Policy Impact Analyses are pro forma and do not reflect serious analysis of alternatives or their impacts. Greater effort should be placed on building capacity at the lawmaking agencies (i.e., the ministries or agencies in charge of drafting the laws) to undertake real analysis, especially of the economic and gender impacts of the laws. While the deliberative approach to lawmaking has many advantages, the management of the workload of the National Assembly by planning the legislative calendar well in advance makes it difficult to address urgent issues quickly.

The efforts to control administrative procedures have been commendable and have brought some improvements to the business environment in which Vietnamese firms operate, and these efforts should continue. A more fundamental change reflecting an evolved role of the state in Viet Nam would be to also shift away from regulating inputs (e.g., minimum size of premises) and instead focus regulations only on cases where there is a compelling social objective such as controlling pollution or fraudulent behavior. Special attention to the new regulatory needs of renewables is also underway and this, indeed, is a priority for Viet Nam’s green growth ambitions.

- ***Strengthen motivation of civil servants and public servants.*** Remuneration for public employees is lower than private sector counterparts, even after controlling for job and personal characteristics. The gap widened during the wage freezes associated with COVID-19, and has narrowed since recent wage increases, but the gap remains. The need for flexibility is evident for rapidly growing provinces and regions, and introducing greater flexibility for provinces would help address this. Viet Nam could more quickly reach its goals for gender equity by providing guidance on antidiscrimination policies. Efforts are also underway to shrink the size of the public sector workforce, and this would help pay for salary increases. Finally, Viet Nam’s steps forward in regulating conflicts of interest are notable but could use some nuance for special cases such as for researchers and academics.
- ***Strengthen due process, independence and professionalism of oversight institutions, and the preventive side of anticorruption.*** The current anticorruption drive needs to be complemented

with attention to prevention. The Law on Access to Information was a major step forward, but more effort needs to be placed on capacity and socializing the obligations of the state under the law. Viet Nam needs to build greater confidence in truly independent approaches to due process for those accused of wrongdoing and send the message to media and civil society that professional, critical, speech is allowed and encouraged in a healthy governance system.

- ***Provide greater revenue autonomy for provinces and support interprovincial cooperation.***

Provinces, especially rapidly growing ones, need to have more ability to raise own-source revenue. This is already happening to some degree for large cities following Resolution 98, but the problem is a more general one: rapidly growing places have greater needs for resources, but with constraints on own-source revenue and borrowing, and with an antigrowth transfer system, they are systematically underresourced. The institutions for cooperation between provinces also need to be strengthened.

10. The future of institutions in Viet Nam

Viet Nam's remarkable achievements since Doi Moi were powered by a recognition of the power of markets, of how private firms and individuals making their own decisions can contribute to the country's progress. The gradual but unmistakable growth in the importance of the private sector for Viet Nam will continue to feature in its journey to high-income status. This study has reflected on the changes of the past and priorities for the present, but what will the future look like?

The experiences of countries that escaped the middle-income trap tell part of the story. They managed to make their legal and regulatory systems more predictable and their public administrations more robust and impartial. They managed to improve both the quality and quantity of public investments, and they managed to build accountability systems that provide meaningful checks on the executive branch of government. They managed to bring corruption under control.

Yet, many countries don't manage this process smoothly and languish for many years in middle-income status. For some, the relative stability of upper middle-income status provides the breeding ground for interest groups that ultimately undermine competition, skewing the institutional framework in their favor.¹⁴⁵ As the private sector grows in economic power, it may also grow in political power. Although clear and open communication between the business community and policymakers is essential, close ties can also facilitate state capture.¹⁴⁶ Viet Nam has seen a form of this, termed the "commercialization of the state," in which narrow interests with connections limit competition, promoting an uneven and impartial approach to market reforms.¹⁴⁷ More importantly, the risks of capture will grow stronger in the coming decades. Robust institutional frameworks for competition policy, conflict of interest management, and transparency in the links between business and politics can help mitigate this risk, as can the habit of focusing on "privilege-resistant policies."¹⁴⁸

Governments around the world have been confronted with shock after shock in the past five years. The world recovered from the disruptions associated with the COVID-19 pandemic but is now facing a disruptive trade war, the impact of which will extend far beyond trade. Shocks associated with climate change and technological change will pose further challenges to governments. The experience of countries that have avoided the "middle-income trap" are instructive for the common truths they demonstrate, yet the lesson of recent years is that governments need to be prepared for an uncertain future. A recent World Bank study called *The Future of Government* invited governments to reimagine their social contract with their citizens highlighting four key questions that governments can ask themselves:¹⁴⁹ What is the role of government? How can government deliver? How can

¹⁴⁵ Olson, 1982.

¹⁴⁶ Hellman, Jones, & Kaufmann, 2000; World Bank, 2000.

¹⁴⁷ World Bank and Ministry of Planning and Investment of Viet Nam, 2016. In addition, most firms in Viet Nam already perceive a bias in favor large firms, both state-owned and private. Malesky, Pham, & Phan, 2024.

¹⁴⁸ World Bank, 2000; World Bank and Government Inspectorate of Viet Nam, 2016. World Bank, 2021b.

¹⁴⁹ World Bank, 2022.



government be more productive? How can government build trust? Continuously reflecting on these questions will help guide the iterative process of institutional reform.

The step-by-step approach to reform in Viet Nam is not inconsistent with the idea of an Institutional Big Push. The incremental approach of past decades has brought notable successes and life improvements for most of the Vietnamese population. It has also provided a measure of consistency for the business environment in which firms operate, consistent with good practice for institutions. Yet, the world is changing, and the institutions that helped bring Viet Nam from low-income to the cusp of upper middle-income status will not sustain it to the next level. Viet Nam needs to continue to push into uncomfortable territory, continuing to devolve powers and shift the state's role to that of rule-setter for the economy, rather than player.

Viet Nam achieved remarkable developments in the past 20 years. It can surely do so again, and even more, in the next 20, supported by strong institutional reforms—the breakthrough of breakthroughs.

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