THE POWER OF PUBLIC INVESTMENT MANAGEMENT
Transforming Resources into Assets for Growth

COUNTRY CASE STUDY
Vietnam: PIM in a New Market Economy

Quang Hong Doan, Tuan Minh Le, and Duong Anh Nguyen

2014
THE AUTHORS

Quang Hong Doan
Senior Economist, World Bank

Tuan Minh Le
Senior Economist, World Bank

Duong Anh Nguyen
Institute for Economic Management, Hanoi, Vietnam

This case study is one of a number of country cases in the Public Investment Management Series. The country case studies accompany the volume, “The Power of Public Investment Management: Transforming Resources into Assets for Growth”, World Bank (2014), and apply a common methodology to assess PIM systems globally.
Over the last two decades, Vietnam has made notable progress in reforming management of public investment. The legal framework on public investment management (PIM) has been continuously improved, covering the entire project management cycle. Diversified modalities of public capital spending are specified, alongside decentralization of various sub-categories of public investment projects to line ministries and local governments. PIM reforms were largely driven by the growing concern about inefficiency of public investment whose incremental contribution to overall economic growth appears to decline despite rapid expansion.

Management of public investment projects still faces several major challenges, however. The objectives in development strategies and plans are excessively broad and vague, which undermines quality of preliminary screening. Both prescreening and formal appraisal seem less than fully independent, as the responsible agencies are subordinate to authorities who are ultimately the project owners vested with the final selection power. Decentralization of PIM produced unintended consequences due to inadequate capacity of appraising agencies at line ministries and local governments. A divergence between de jure legal framework and de facto application of the laws and legislation in PIM is evident, contributing to selection of wasteful projects, project delays, and incompleteness. Statutory monitoring and evaluation (M&E) of projects receive little attention from responsible agencies. Project adjustment is ad hoc and processed in an untimely manner. The regulations compelling independent review of appraisals and ex post evaluation of projects remain absent. These issues are further complicated by the weak enforcement of the regulations.

The analysis of this study suggests some priorities for PIM reforms. First, the legal framework has to be further strengthened to alleviate the existing fragmentation, duplication, and lack of uniformity of the laws and legislation. Second, decentralization of PIM should be accompanied by measures to increase responsibility and accountability of local governments and line ministries, and to improve their capacity and coordination, particularly in appraisal and monitoring. In addition, it is critical to establish the framework and institutional arrangement for independent review of project appraisals. Third, the approach to M&E should be results-based, which requires a mechanism to effectively "tie in" project output/progress with responsibility of agencies in charge of PIM and to enhance participation of the community organizations. Fourth, Vietnam needs to improve statistical system to allow for adequate analysis of public investment and, related to it, adopt realistic and feasible indicators of PIM efficiency to facilitate M&E and ex post project evaluation.
Since the start of Doi Moi in 1986—the transition from a command to market economy—Vietnam has steadily scaled up public investment while creating a financial environment conducive to foreign and private domestic investment. The relatively high level and enhanced quality of investment, public and private, has contributed to impressive sustained growth and development for the nation’s economy.

As Vietnam set the goal of becoming an industrial economy by 2020, restructuring the management of public investment to improve efficiency was one of the core areas of reforms for the period 2011–20. The country has made commendable progress in establishing a sound public financial management system, equitizing state-owned enterprises (SOEs), and enhancing the legal framework for public investment management (PIM). Strengthening the legal framework is the cornerstone of the reform process in restructuring PIM, and several critical documents are in the works, including the Law on Public Investment and Procurement, the Spatial Planning Law, and the Decree for Medium-term Investment Planning.

The recent consensus on radical PIM reform appears to have benefited from the global economic crisis and the Government’s policy reaction toward massive stimulus that sped up public investment even more. Both have contributed to exposing a number of deficiencies in Vietnam’s PIM system, ranging from the gap between the legal framework, regulations, and practice on the ground, to misallocation of resources and loopholes in the appraisal, budgeting, implementation, and evaluation of public investments. The Government’s Socioeconomic Development Plans (SEDP 2011–15) noted that “many sectors and sub-national governments overinvested beyond their affordability, resulting in investment plans being fragmented each year, leading to scattering, stagnant, and delayed investment projects, causing wastefulness, losses, and poor investment efficiency” (SEDP, pp. 89–90).

Despite the issuance of numerous development documents—including the socioeconomic development plans, and sector and regional master plans and public investment programming—prioritization remains an elusive goal. The composition of public investment remains unbalanced in favor of physical infrastructure. The Program Document of the World Bank’s First Public Investment Reform Policy Development Loan (World Bank 2009a) indicates that such weaknesses take a toll on economic efficiency in a country where in 2008 total investment accounted for 41.5 percent of the gross domestic product (GDP) and consolidated public sector investment for 12.6 percent.

The weaknesses of the public investment cycle are partly the result of inherited institutional constraints. During the command and control period, investments by Government, but also those by SOEs, were managed by the Ministry of Planning and Investment (MPI). Earlier in the transition to a market economy, MPI compiled proposals from line ministries, provincial governments and SOEs and arbitrated among competing demands. This “ask and give” mechanism resulted in economic inefficiency and fiduciary vulnerability. Gradually the separation between Government and SOE investments became clearer, and responsibilities for public investment projects were delegated to lower levels of government. The Law on the State Budget,
which became effective in 2004, pushed decentralization further and led to the adoption of progressive budget allocation norms, transferring more resources for public investments to poorer provinces. However, delegation of responsibilities to lower levels of government has not been accompanied by a broader framework to ensure the coherence of public investment plans and the quality of individual projects. Important gaps remain in areas such as environmental screening and environmental management, project preparation and appraisal, procurement, public financial management, the regulatory framework for private participation in infrastructure, and monitoring and evaluation (M&E). The use of parallel systems by donors, for instance in relation to procurement, can result in considerable delay in project implementation (World Bank 2009a).

This chapter presents a systematic approach to diagnose PIM issues in Vietnam, following Rajaram et al. (2010). The remainder of the chapter is organized as follows. The second section discusses recent trends in public investment. The next section delves into the institutional mapping of PIM, followed by a section drawing on existing legal documents and other reference materials to gauge the gaps between the PIM system in Vietnam and the must-have features in Rajaram et al. (2010). The chapter concludes with a summary of policy implications of PIM reform.

Recent Trends in Public Investment

Over the decade 2001–10 Vietnam experienced a steady scale-up trend for investment, including an increase in public investment. This can be largely attributed to the desire for narrowing the development gap with neighboring countries. At the same time, the level of public investment also benefited from a vision that considers the state sector the leading sector in the economy. It is also noteworthy that the structure of investment substantially changed since the beginning of Doi Moi, and the share of domestic private sector and FDI (foreign direct investment) continued to rise sharply over time. The combination of raising and maintaining sustainably high levels of investment and gradual improvement of investment quality contributed significantly to the impressive growth of the economy. Total investment in terms of GDP rose from 31 percent before the East Asian crisis (1995–96) to approximately 47 percent in 2007, and then leveled to around 42 percent during 2008-10.

Table X.1 provides a snapshot of the trends in investment in general and public investment in particular during 2001–10. Total investment at current prices went up from over VND 404 trillion in 2006 to over VND 830 trillion in 2010. The period 2006–10 saw substantial annual growth in total investment by approximately 19 percent. In 1994 prices, total investment rose from about VND 243 trillion in 2006 to slightly over VND 400 trillion in 2010, reflecting an average annual growth rate of over 13 percent. Overall, total investment in the years 2006–10 was more than twice as large as that in the period 2001–05.

While the level of public investment increased steadily, its share in total investment went down over the decade, except for 2009 when the Government introduced a comprehensive
stimulus package to deal with the global financial crisis (World Bank 2009b). The growth of both foreign and domestic private investment substantially outpaced the growth of public investment: it was as high as 62 percent of total investment in 2008 and 58 percent during the five-year period 2006–10, leaving the share of public investment falling from 47 percent in 2006 to 38 percent in 2008 before recovering to 44 percent in 2010. In real terms, public investment over the second half of the 2000s doubled its 2001–05 level. An exception is the modest increase in public investment in 2010 compared to the level of 2009. This is a result of two main factors: the already substantial growth of investment in 2009 as part of the Government’s stimulus package and the Government’s plan to mitigate the potentially overblown, investment-driven macroeconomic risk and to restrict budget deficits.

Table X.1 Trends in Capital Investments (2001–10)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>2001–05</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2006–10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (at current prices)</td>
<td>VND, trillions</td>
<td>1,243.9</td>
<td>404.7</td>
<td>532.1</td>
<td>616.7</td>
<td>708.8</td>
<td>830.3</td>
<td>3,092.6</td>
</tr>
<tr>
<td>Total (real, base year 1994)</td>
<td>VND, trillions</td>
<td>748.7</td>
<td>243.3</td>
<td>309.1</td>
<td>333.2</td>
<td>371.3</td>
<td>400.2</td>
<td>1,657.1</td>
</tr>
<tr>
<td>Relative to GDP</td>
<td>%</td>
<td>39.0</td>
<td>41.5</td>
<td>46.5</td>
<td>41.5</td>
<td>42.7</td>
<td>41.9</td>
<td>42.7</td>
</tr>
<tr>
<td>Growth rate (at current prices)</td>
<td>%</td>
<td>17.8</td>
<td>17.9</td>
<td>31.5</td>
<td>15.9</td>
<td>14.9</td>
<td>17.1</td>
<td>19.3</td>
</tr>
<tr>
<td>Growth rate (real, base year 1994)</td>
<td>%</td>
<td>13.2</td>
<td>13.7</td>
<td>27.0</td>
<td>7.8</td>
<td>11.4</td>
<td>7.8</td>
<td>13.3</td>
</tr>
<tr>
<td>I. Public investment capital</td>
<td>VND, trillions</td>
<td>664.2</td>
<td>191.6</td>
<td>217.3</td>
<td>235.2</td>
<td>331.7</td>
<td>365.8</td>
<td>1,341.6</td>
</tr>
<tr>
<td>Share</td>
<td>%</td>
<td>53.4</td>
<td>47.3</td>
<td>40.8</td>
<td>38.1</td>
<td>46.8</td>
<td>44.1</td>
<td>43.4</td>
</tr>
<tr>
<td>1. State budget capital</td>
<td>VND, trillions</td>
<td>285.3</td>
<td>88.3</td>
<td>104.3</td>
<td>119.5</td>
<td>181.4</td>
<td>171.0</td>
<td>664.5</td>
</tr>
<tr>
<td>Share</td>
<td>%</td>
<td>22.9</td>
<td>21.8</td>
<td>19.6</td>
<td>19.4</td>
<td>25.6</td>
<td>20.6</td>
<td>21.5</td>
</tr>
<tr>
<td>2. Government bond capital</td>
<td>VND, trillions</td>
<td>19.5</td>
<td>10.3</td>
<td>16.7</td>
<td>26.9</td>
<td>52.9</td>
<td>62.4</td>
<td>169.2</td>
</tr>
<tr>
<td>Share</td>
<td>%</td>
<td>1.6</td>
<td>2.6</td>
<td>3.1</td>
<td>4.4</td>
<td>7.5</td>
<td>7.5</td>
<td>5.5</td>
</tr>
<tr>
<td>3. State credit capital</td>
<td>VND, trillions</td>
<td>174.2</td>
<td>34.9</td>
<td>35.1</td>
<td>35.0</td>
<td>40.0</td>
<td>52.0</td>
<td>197.0</td>
</tr>
<tr>
<td>Share</td>
<td>%</td>
<td>14.0</td>
<td>8.6</td>
<td>6.6</td>
<td>5.7</td>
<td>5.6</td>
<td>6.3</td>
<td>6.4</td>
</tr>
<tr>
<td>4. Investment of SOEs</td>
<td>VND, trillions</td>
<td>185.2</td>
<td>58.1</td>
<td>61.2</td>
<td>53.8</td>
<td>57.4</td>
<td>80.4</td>
<td>310.9</td>
</tr>
<tr>
<td>Share</td>
<td>%</td>
<td>14.9</td>
<td>14.4</td>
<td>11.5</td>
<td>8.7</td>
<td>8.1</td>
<td>9.7</td>
<td>10.1</td>
</tr>
<tr>
<td>II. Non-state capital</td>
<td>VND, trillions</td>
<td>579.7</td>
<td>213.0</td>
<td>314.9</td>
<td>381.5</td>
<td>377.1</td>
<td>464.5</td>
<td>1,791.1</td>
</tr>
<tr>
<td>Share</td>
<td>%</td>
<td>46.6</td>
<td>52.6</td>
<td>59.2</td>
<td>61.9</td>
<td>53.2</td>
<td>55.9</td>
<td>57.9</td>
</tr>
</tbody>
</table>
### Investment of Household and Private Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>VND, Trillions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>403.7</td>
</tr>
<tr>
<td>2015</td>
<td>154.0</td>
</tr>
<tr>
<td>2016</td>
<td>204.7</td>
</tr>
<tr>
<td>2017</td>
<td>217.0</td>
</tr>
<tr>
<td>2018</td>
<td>240.1</td>
</tr>
<tr>
<td>2019</td>
<td>299.5</td>
</tr>
<tr>
<td>2020</td>
<td>1,155.4</td>
</tr>
</tbody>
</table>

| Share % | 32.5 | 38.1 | 38.5 | 35.2 | 33.9 | 36.1 | 36.1 |

#### Note:

The modalities in public investment were recently diversified with the introduction of public-private partnerships (PPP). A number of legislative documents were promulgated to govern various forms of PPP, including BOT (build-operate-transfer), BTO (build-operate-transfer), and BT (build-transfer) contracts. Decree 78 for BOT, BTO, and BT projects has been replaced by Decree 108, part of which was further amended by the Decree 24 in 2011. The Government is still working on a revised regulatory framework for PPP to include a transparent mechanism for financing the viability gaps and the introduction of competitive selection of investors. Regulations for unsolicited projects has also been under consideration.

Public investment comprises three other traditional modalities: investment from state budget, state credit, and investment of SOEs. State credits refer to loans from Vietnam Development Bank (VDB) at subsidized interest rates for eligible development projects. The credits will be counted as part of the state budget, and VDB funds can include on-lending Official Development Assistance (ODA) funds. The investment with VDB aims to support projects that fall into the Government's prioritized development areas.

Financing for public investment projects comes from the following sources:

- The state budget, with revenue mostly from collection of taxes and fees and the contributions of SOEs. The investment plan targets investments in projects or programs with low cost-recovery but potentially large social impacts and maintenance of public works.
- Investment from SOEs can be financed from their own capital, retained profits, or bank credits.
- ODA loans and grants that are counted as part of the state budget.
- Bonds, either domestic or sovereign. The issuance of the bonds aims to raise capital for important public projects, especially for social infrastructure.
Voluntary contributions, which include in-kind contributions from communities to support local public works.

Figure X.1 depicts the modalities and sources of financing for public investment.

Table X.2 summarizes the relative importance of the four most important sources of financing for public investment: state budget capital (including ODA), government bonds, state credits, and SOE investments. The state budget remains the single largest source of public investment financing, accounting for nearly one-half during 2006–10, compared to the already high figure of 44 percent during 2001–05. The stimulus package pumped additional state budget capital into public investment, leading to the rise of its share to 55 percent in 2009. Restructuring measures (including the retreat of stimulus measures and fiscal tightening measures) in 2010 brought down the share to 47 percent, still higher than the 2001–05 average. Despite numerous reform measures including equitization, the legacy SOE sector remains the key player in public investment undertaking, second only to state budget capital. The share of SOEs in public investment fell from almost 28 to 22 percent over that decade after rising to more than 30 percent in 2006. Whereas the share of state credit in public investment went down from 18 to 14 percent in 2006–10, the trend was reversed for government bond capital, with its share jumping from 5 to approximately 17 percent during the same period. Thus, it seemed that the Government of Vietnam relied more on government bonds—an off-budget item—for public investment.
Table X.2 Composition of Public Investment Capital, 2001–10

% of total public investment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State budget capital</td>
<td>43.0</td>
<td>46.1</td>
<td>48.0</td>
<td>50.8</td>
<td>54.7</td>
<td>46.7</td>
<td>49.5</td>
</tr>
<tr>
<td>Investment of SOEs</td>
<td>27.9</td>
<td>30.3</td>
<td>28.2</td>
<td>22.9</td>
<td>17.3</td>
<td>22.0</td>
<td>23.2</td>
</tr>
<tr>
<td>State credit capital</td>
<td>26.2</td>
<td>18.2</td>
<td>16.2</td>
<td>14.9</td>
<td>12.1</td>
<td>14.2</td>
<td>14.7</td>
</tr>
<tr>
<td>Government bond capital</td>
<td>2.9</td>
<td>5.4</td>
<td>7.7</td>
<td>11.4</td>
<td>15.9</td>
<td>17.1</td>
<td>12.6</td>
</tr>
</tbody>
</table>


Table X.3 further looks at sectoral allocation of investment expenditures from the state budget and government bonds. In 2010 state budget resources were divided almost equally between economic and social projects. From 2007 allocated investment expenditures in social projects went up gradually, while those in economic areas exhibited a clear downward trend. Economic sectors—agriculture, forestry, fishery, irrigation, and transportation—received an increasing amount of allocated capital in 2006–09 as the Government strived to address the weaknesses of these sectors in the post-WTO-accession period. The increase in allocated capital for these sectors slowed in 2010 when the country cut down on public investment in an effort to curb inflation. In social areas, meanwhile, large shares of capital were dedicated to education and training, administrative services, health, and water provision/waste water treatment. Notably, the allocated amount for education and training rose continuously, even in 2008, as Vietnam increased its effort to improve human resources to help address the “bottlenecks”1 to long-term sustainable growth. On another note, since 2007, allocation of investment capital has been made on the basis of transparent criteria and norms stipulated in Decision 210/2006/QD-TTg of the Prime Minister (CIEM 2008). Stipulation and implementation of such a decision rested largely on the State Budget Law in 2002, which, as will be discussed later, introduced a stable and predictable budget.

In summary, public investment generally exhibited an upward trend in the years of 2006–10, though it tended to rise more slowly than total investment of the economy. This is perhaps indicative of the stimulating effect of public investment on the rest of the economy. As a result, the share of public investment in total investment fell almost continuously, except in 2009 when the Government increased investment to cope with the negative impacts of the global financial crisis and economic recession. However, such a decrease in relative share of public investment might be attributed to other factors, including the soaring foreign investment inflows which took advantage of increasing economic opportunities after Vietnam’s accession to the World Trade Organization (WTO) in 2007.
### Table X.3 Structure of State Budget Capital by Sector, 2006–10

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (VND, billions)</td>
<td>Share (%)</td>
<td>Value (VND, billions)</td>
<td>Share (%)</td>
<td>Value (VND, billions)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>98,600.0</td>
<td>100.0</td>
<td>121,000.0</td>
<td>100.0</td>
<td>146,400.0</td>
</tr>
<tr>
<td><strong>I Economic areas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Industry</td>
<td>4,450.6</td>
<td>4.5</td>
<td>13,399.8</td>
<td>11.1</td>
<td>13,619.0</td>
</tr>
<tr>
<td>2 Agriculture, forestry, fishery and irrigation</td>
<td>21,158.9</td>
<td>21.5</td>
<td>24,782.2</td>
<td>20.5</td>
<td>29,536.3</td>
</tr>
<tr>
<td>3 Transportation</td>
<td>27,182.8</td>
<td>27.6</td>
<td>32,704.2</td>
<td>27.0</td>
<td>39,134.2</td>
</tr>
<tr>
<td>4 Information and telecommunication</td>
<td>1,204.5</td>
<td>1.2</td>
<td>1,388.8</td>
<td>1.1</td>
<td>1,577.1</td>
</tr>
<tr>
<td>5 Trade, warehousing, tourism</td>
<td>784.2</td>
<td>0.8</td>
<td>908.2</td>
<td>0.8</td>
<td>1,317.3</td>
</tr>
<tr>
<td><strong>II Social areas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Water provision, waste water treatment</td>
<td>3,668.5</td>
<td>3.7</td>
<td>4,183.3</td>
<td>3.5</td>
<td>4,648.7</td>
</tr>
<tr>
<td>7 Science and technology</td>
<td>2,626.4</td>
<td>2.7</td>
<td>3,018.4</td>
<td>2.5</td>
<td>3,439.5</td>
</tr>
<tr>
<td>8 Natural resources and environment</td>
<td>1,652.3</td>
<td>1.7</td>
<td>2,007.2</td>
<td>1.7</td>
<td>2,213.9</td>
</tr>
<tr>
<td>9 Education and training</td>
<td>14,017.4</td>
<td>14.2</td>
<td>15,338.5</td>
<td>12.7</td>
<td>20,687.5</td>
</tr>
<tr>
<td>10 Health</td>
<td>4,509.0</td>
<td>4.7</td>
<td>5,249.5</td>
<td>4.3</td>
<td>9,376.9</td>
</tr>
<tr>
<td>11 Social services</td>
<td>2,826.1</td>
<td>2.9</td>
<td>3,231.5</td>
<td>2.7</td>
<td>3,697.0</td>
</tr>
<tr>
<td>12 Culture</td>
<td>2,215.1</td>
<td>2.2</td>
<td>2,472.2</td>
<td>2.0</td>
<td>3,033.2</td>
</tr>
<tr>
<td>13 Sports</td>
<td>820.9</td>
<td>0.8</td>
<td>897.8</td>
<td>0.7</td>
<td>1,159.7</td>
</tr>
<tr>
<td>14 Administrative services</td>
<td>7,902.7</td>
<td>8.0</td>
<td>7,470.0</td>
<td>6.2</td>
<td>8,127.8</td>
</tr>
<tr>
<td><strong>III Others</strong></td>
<td>3,498.7</td>
<td>3.5</td>
<td>3,948.4</td>
<td>3.3</td>
<td>4,831.9</td>
</tr>
</tbody>
</table>

Source: SEDP 2011-15, Appendix Table 13.

### Institutional Aspects of Public Investment

#### Stakeholders

The multiple modalities of public investment spending coupled with the increasing trend for fiscal decentralization is indicative of the complex structure of stakeholders for the PIM. The National Assembly and People’s Councils at all levels oversee investment at both central and provincial levels. The PIM system involves central agencies (Ministry of Planning and Investment /Ministry of Finance and Office of the Prime Minister), line ministries, and local governments. The SOEs, partners in PPPs, and development banks also play a role in channeling public funds to
investment and implementation. The relative role of these institutions is dependent on various project categories.

In Vietnam public investment projects are typically classified into four distinct groups on the basis of importance and scale of investment: projects of national importance and categories A, B, and C. The classification of projects and corresponding allocation of responsibilities in project appraisal, implementation, and supervision reflects the deepening fiscal decentralization under way.

The National Assembly approves investment guidelines and pre-feasibility studies of investment projects of national importance. Feasibility studies of these projects are approved by the Prime Minister, and a State Appraisal Council, chaired by MPI Minister, is established for appraising each Nationally Important Project. Investment decisions for projects of Category A are made by the Provincial People’s Committee or the Minister of the relevant line ministry, with appraisal from the Provincial Department for Planning and Investment or a specialized agency of the line ministry. Projects in Categories B and C, depending on the delegated institutional sponsorship, are approved by line ministries; ministry-equivalent Government agencies; the financial management agency of the Central Party; central agencies of political, socio-political organizations; or Provincial People’s Committees. Chairmen of People’s Committees at district or commune level may decide on investment projects with capital under relevant thresholds.

MPI and the Ministry of Finance (MOF) are the two key central agencies in PIM. MPI participates in the appraisal of Nationally Important Projects to submit to the Prime Minister for consideration, monitors investment projects under the State plans, cooperates with the MOF to check and supervise the implementation of public-administered investment plan, and cooperates with other ministries and localities to guide and check the implementation of regulation on public procurement. The MOF is formally in charge of conducting studies on policies, revenue mobilization, and financial monitoring of public investment; mobilizing and managing investment capital; preparing associated legal documents; cooperating with the MPI in allocating public investment capital; and providing Government guarantees for enterprises to borrow funds from overseas. It is worth noting that coordination among government agencies, especially between MPI and MOF, remains an Achilles heel in the PIM system. MOF has a limited de facto role in public investment programming, as that responsibility belongs to MPI, but on the other hand, it plays a major role in resource allocation. Any gap in communication between these two key institutions would lead to a mismatch between project planning and budgeting. In addition, costs of maintenance of assets created by public investment projects are classified as recurrent expenditures and therefore belong in MOF territory. Weak coordination between MPI and MOF often leads to a mismatch between resources allocated for investment projects and for maintenance of their assets, resulting in inefficient usage of investment work.

The State Bank of Vietnam (SBV) oversees public management in monetary and credit issues in investment and construction, monitors credit institutions in providing guarantees, and provides guarantees to foreign loans for investment and construction. Other ministries and
ministry-equivalent agencies undertake some public management duties in aspects of investment and construction related to their fields.

The Ministry of Construction (MOC) plays a key role in guidance and management of projects involving construction. Its key responsibilities include public management of construction; preparing policies and mechanisms of construction management; preparing urban and rural construction plans; and promulgating construction standards, codes, best practice in construction designs, regulations on quality control, among others.

Finally, the Peoples’ Committees of provinces and cities directly under the Central Government undertake public management over all entities and individuals implementing investment projects in their locality. As a result of continued efforts to decentralize investment management, local governments have become more important in driving the public investment process.

Legal Framework for Public Investment

In Vietnam PIM is governed by various laws and legislation, with fragmentation and unavoidable overlapping and inconsistencies. The major laws—the State Budget Law, the Investment Law, Construction Law, and the Law on Public Procurement—are supported by a number of decrees and regulations. The State Budget Law, promulgated in 2002, establishes a framework for public investment from the state budget and decentralization of authority to prepare and approve budget plans for public investment projects. The Investment Law, enacted in 2005, on the other hand, stipulates the organizations and authorities to be involved, and the foundation for managing, monitoring and evaluating, and inspecting public investment projects.

Currently public investment is under regulation of two different sets of legal documents; projects that do not involve construction are regulated by a series of decrees, and those involving civil works follow the Construction Law and related decrees. The Construction Law (2003) sets out the key principles for managing construction and contents related to preparing, approving, and adjusting master plans of construction. In addition, this law includes contents related to public construction management, such as preparation, appraisal, approval, adjustment, and cost management of construction projects, among others. In 2009 the Construction Law was amended with further details on the implementation and adjustment of construction activities and institutional arrangements for monitoring and evaluation (M&E). A number of under-law regulations were also stipulated to guide the implementation of the Construction Law.

Vietnam has undertaken even further decentralization of PIM. The process was the cornerstone of the 2001–10 Master Program on Administrative Reform. Decree 52/1999/ND-CP (July 1999)—amended by Decree 12/2000/ND-CP (May 2000)—stipulates the decentralization of authority to approve public investment projects in different categories. Subsequently, Decree 07/2003/ND-CP (January 2003) made some changes to the authority to approve investment projects using State Budget capital, which conforms to the Investment Law (2005).
Other important legislation governing specific stages of the PIM include the following:

- Decree 12/2009/ND-CP (February 2009), and its amendments in Decree 83/2009/ND-CP (October 2009) and in Decree 64/2012/ND-CP (September 2012), on management of public investment in construction work, regulates the preparation and appraisal aspects of projects involving civil works.

- Decree 99/2007/ND-CP (2007) regulates cost budgeting for all public construction projects. In 2010, this Decree was replaced by Decree 48/2010/ND-CP, which applies to all public construction projects funded by at least 30 percent State capital.

- In their areas of authority, line ministries issue different guidelines for implementation of public investment projects.

- The regulations of public procurement were first stipulated in 1999 with Decree 88/1999/ND-CP, and the Law on Public Procurement in 2005. After various amendments of guiding regulations, currently Decree 68/2012/ND-CP is in place to guide implementation of the Law on Public Procurement and selection of contractors in accordance with the Construction Law.

- In terms of monitoring and evaluation: the MPI promulgated Circular 03/2003/TT-BKH, dated 19 May 2003. After the promulgation of Investment Law in 2005, the Government promulgated Decree 113/2009/ND-CP on monitoring and evaluating investment projects. The MPI also promulgated the Circular 13/2010/TT-BKH in 2010 on the report form for investment M&E, and Circular 22/2010/TT-BKH in 2010 on the cost norms for M&E. In addition, Vietnam has a separate legal framework for monitoring and evaluating ODA projects, the most recent document of which was Decision 1248/2007/QD-BKH of the MPI.

- In 2007 the State Audit promulgated Decision 05/2007/QD-KTNN specifying the auditing routines for investment projects using state capital, state credit, or those being implemented by SOEs. This regulation was replaced by the Decision 03/2012/QD-KTNN in 2012.

- Vietnam also strived to improve the legal framework for PPP. Decree 77/CP of the Government in 1999 regulated the BOT and was consecutively replaced by Decree 78/2007/ND-CP, and Decree 108/2009/ND-CP and Decree 24/2011/ND-CP for governing different forms of PPP, including BOT, BTO, and BT. Prime Minister Nguyen Tan Dung issued Decision 71/2010 in September 2010 that governs the piloting of PPP projects.

Several of these laws were issued in the context of the implementation of the Public Investment Reform (PIR) Development Policy Lending of the World Bank in 2009–10. The program aimed to support a series of policy measures to strengthen the effectiveness of public investment in Vietnam. The policy actions covered a number of areas, including SOE reform, improving strategic planning in public investment, and the institutionalization of M&E. The promulgation of the Law on Amendments of Laws related to Construction Activities in Investment by the National Assembly in 2009 was a significant effort to synchronize existing legal documents
that govern the management of public investment and was also implemented under the PIR program. However, those PIM governing laws and by-law documents were proposed by different institutions, often with sectoral perspectives, and hence resulted in either inconsistencies or a lack of overall vision.

Despite several reform measures undertaken in the context of the Public Investment Reform operations, Vietnam still lacks a systemic approach to PIM. The proposed Law on Public Investment, which was expected to remove the inconsistencies among existing legal documents, has not reached the National Assembly for review and issuance. Acknowledging the need for stronger discipline on public investment management, Prime Minister Nguyen Tan Dung issued Directive 1792/CT-TTg in October 2011 on strengthening management of investment financed by government budget and government bonds. There is currently a renewed interest in the Law on Public Investment, and it is on the law formulation agenda of the National Assembly in 2013.

The Performance of the PIM System

This section investigates how the PIM in Vietnam is performing over different stages of project cycle.

Investment Guidance and Preliminary Screening:

An important criterion for the consideration of proposals for public projects in Vietnam is the consistency of the proposal with strategic visions set out by socioeconomic development strategies and plans at national, provincial, and sectoral level. The drafting of these strategies and plans incorporates consultation with all the stakeholders who help identify development priorities and gain wide support and consensus. In addition, various National Target Programs (NTPs) have been prepared in a range of areas, from hunger eradication and poverty reduction to culture and education, in order to guide the annual budgeting. These strategic documents specify priorities for investment programs and include most important projects.

During 1996–2005, Vietnam prepared two five-year Public Investment Programs (PIP). The PIPs are developed on the basis of the Socioeconomic Development Plans (SEDPs), with MPI playing the coordinating role. A new PIP for 2006–10 was also drafted but without official promulgation. Accordingly, capital for public investment projects must be allocated each year, instead of over a medium-term framework. As the number of public investment projects tends to hike drastically, this resulted in a smaller capital scale for these projects on average each year, not to mention the insecurity of allotted capital in subsequent years. In recent years, there has been renewed interest in the medium-term approach for allocation of public investment capital, but its progress has been rather slow.

A remarkable feature of the years 2006–10 is that Vietnam implemented a number of master plans for sectoral and regional developments. Examples of these master plans include Decision 55/2007/QD-TTg on Key and Priority Sectors in 2007–10 with vision to 2020; Decision 2888/QD-BCT, dated 8 June 2009, on Master Plan for Development for Manufacturing
synchronous devices till 2015 with vision to 2025, among many others. All of these master plans rely, albeit to different extents, on the role of State players (including the Government and the SOEs) for implementation.

However, the development plans and strategies are often vague in these sectoral and regional plans; their development objectives as well as their policy measures are too broad, prioritization is not clearly defined, and development targets seem to compromise the wide ranging needs of different stakeholders. A lack of clear priorities often results in coordination failure between these master plans. Moreover, the parallel and uncoordinated preparation of a large number of master plans also hinders appropriate financial planning, including budget planning. In turn, this undermines the effectiveness of public investment, even at the guidance stage.

The PIP process also has major weaknesses. First, the programs are often consolidated from plans from individual provinces and sectors, hence they do not address sufficiently cross-sectoral and interprovincial issues. Second, they do not relate closely to resource envelopes and omit presentation of estimated maintenance and operating costs after project completion. Third, they lack consistency in prioritization across different strategic documents; in particular, PIP programs’ lists of prioritized projects often clash with investment priorities as established in sectoral master plans and provincial Socioeconomic Development Plans.

The requirement of preliminary screening, discussed in next section, has been made quite clear in the legal framework. The broad objectives as set out in strategic documents could easily be accommodated by various investment proposals. On the one hand, there is legitimate concern that the sectoral development plans were just prepared in expectation of new project proposals and thereby provide a de facto advanced “pass” in prescreening. On the other hand, the MPI (2009b) still reports the existence of some projects without direct relevance to approved master plans (19 projects, equivalent to around 0.2 percent of projects approved in 2009).

The absence of well-developed guidelines and standardization of investment proposals is arguably another important weakness of the PIM in Vietnam. By regulation, investment proposals are required to include alternative approaches to realize the intended objectives. However, the presentation of alternative approaches in reality can be deliberately prepared in such a way that favors one alternative significantly more than others. The investment proposal in 2010 to build high-speed railway is a great example. The proposal heavily favored the high-speed railway and paid insufficient attention to other alternatives that were more cost-effective to improve North-South rail transportation.

**Formal Project Appraisal**

The next section reviews the key legal documents concerning the appraisal of public construction projects. They are fairly transparent and set out clearly the contents of appraisals, the agencies responsible for appraising projects, and the timing of appraisals. However the
lingering hurdle is the absence of a set of uniform criteria and methodologies for quantitative appraisal.

There is no longer a permanent National Investment Appraisal Council for important projects. For specific large projects, the Prime Minister will decide to set up a temporary appraisal council on an ad-hoc basis (Nguyen 2009). In addition, the organization of appraisal may expose some potential conflicts of interest. For instance, Article 10 of Decree 12/2009/ND-CP makes the provision that the People’s Committees at district and commune levels must execute projects appraisals within their authority to make investment decisions, and that the agencies responsible for these appraisals are those in charge of budget issues, which are directly under the authority of decision makers for investment projects, that is, the People’s Committees. As such, appraising agencies—even those that have sufficient technical capacity, which is often not the case—would feel reluctant to challenge their superior authorities by generating any unfavorable results; obviously the quality of appraisal results can be undermined.

The decentralization of the appraisal function to lower government levels may present another impediment to effective appraisal. Given the large number of public projects, it is practically impossible for Central Government agencies to effectively appraise all public projects. Local governments are in a better position to carry out appraisal for local development projects, especially small and relatively less important ones. However, to be effective, such decentralization must be accompanied by sufficient improvement in capacity of local staff. Notwithstanding an array of efforts to improve appraisals of public investment projects, the capacity and number of locally trained staff remains inadequate, particularly for adopting good appraisal practices. Meanwhile, the coordination of Government agencies to ensure that locally appraised and approved projects can match national interest has been less than effective, leading to the proliferation of similar infrastructure projects (roads, sea ports, airports, etc.) in various neighboring parts of the country.

The above impediment is further complicated by the fact that guidance regulations for PIM management have also lagged behind the pace of decentralization has caused further difficulties for project implementation. A guidebook of compulsory technical practices and procedures in project appraisal has yet to be developed and enforced. Le et al. (2007) provide evidence of the commonly confused interpretation of project management units about the roles of different levels of governments in preparing and appraising projects. This is a consequence of ambiguous assignment of concerned duties to the government agencies in some cases, while separation of responsibilities is almost impossible in others. Moreover, Vietnam has yet to have a mechanism to enforce effective screening of public investment projects on a detailed cost-benefit analysis (World Bank 2008). This requires a broader view, not only of economic aspects but also of social and environmental aspects, that can hardly be quantified in a commonly agreed analysis, not to mention the legally restricted amount of time to produce appraisal reports.

Different processes are used for project appraisal, depending on whether the projects are wholly funded by domestic sources or by ODA. The appraisal of ODA projects is subject to donors’
procedures, which in reality can differ substantially from Vietnam’s regulations. As an example, various donors have different interpretations of key appraisal concepts/definitions. Donors contribute to the information gateway www.dad.mpi.gov.vn for tracking and evaluating ODA projects, yet the website information is not updated in a timely and uniform manner. Thus, the role of this information gateway in coordinating among donors and Vietnamese recipients in joint performance evaluations remains limited (Nguyen 2009).

Independent Review of Appraisals

Independent reviews of appraisals are also still lacking. As discussed, appraisals of public investment projects are made by agencies directly under those making investment decisions, and therefore may lose some quality due to the lack of independence. Independent review of appraisals may fill this gap. However, this is not always done in practice. As stipulated in current regulations (for example, Decree 12/2009/ND-CP), the relevant authority can make investment decisions after receiving the appraisal report, and there is no regulation compelling independent reviews of such reports. Meanwhile, the appraisal of some big projects may encounter critical review only by the media and some experts, albeit not on a frequent basis.

Project Selection and Budgeting

In 2001–05, the allocation of public investment capital across sectors and provinces had to comply with certain principles described in the Public Investment Program. In 2006 the Prime Minister promulgated Decision 210/2006/QD-TTg (amended in Decision 219/2006/QD-TTg in 2006) detailing the principles, criteria, and norms for allocating equalization investment transfer for provinces for the period 2006–10. The general principles of capital allocation are largely comparable to those of the Public Investment Program. First, these projects must be included in and consistent with objectives of sectoral or local master plans for development. Accordingly, ministries and provinces must prepare their own lists of public investment projects, with assigned priority to these projects. Second, recurrent expenditures are allocated to project operation and maintenance of assets. This should be made consistent with the schedule and activities of project operation and asset maintenance. Third, the efficiency of using public investment capital must be ensured, with priority given to projects with favorable cost-benefit analyses. Besides, the capital allocation must comply with other laws and regulations under the State Budget Law, such as authority to prepare budgeting, delegated authority to allocate capital, and so on.

However, Decision 210/2006/QD-TTg introduced fundamental changes in the way the amount of transfers is determined. The quantitative criteria for allocating investment transfers to provinces are also stipulated with transparency. These include the size of population and proportions of local ethnic minorities; the poverty rate; domestic tax revenues (excluding those from land) and proportion of those revenues transferred to the Central Budget; geographical areas; number of districts and their characteristics (mountainous districts, high land, islands, and borders); and the status of more advanced cities. Such clarification contributes significantly to enhancing both transparency and predictability of budget capital allocation. That is, with National
Budget allocation norms for both recurrent and capital expenditures, local provinces can have fairly accurate estimates of the flow of resources from the Central Government.

Vietnam also makes concerted efforts to ensure sufficient resources to finance public investment projects. Thanks to improved appraising and approving processes, capital budgeting for those projects is given due consideration right from the start, though the proposed amount of capital might often be different from the allocated one. This was largely a result of a policymaking process that assigns greater priority to increasing public investment to attain high economic growth. In mid–2008, however, the Government decided to reduce public investment to control inflation, and investment capital was then only disbursed for projects of high priorities. Given the persistent risk of macroeconomic instability, this policy measure may be applied again at the expense of slower economic growth with smaller investment.

Some critical challenges remain, though, in the selection stage of project management cycle. First, the practice of sequencing submission of projects hinders efficiency in selecting good projects: it may be the case that one project is submitted first and gets approved, while a "better" one is submitted later and may have to wait years before approval. Ideally, all the projects necessary for Vietnam’s development should be submitted at the same time to allow for the selection of a set of "best" projects, given resource constraints and development priorities. Second, the selection of projects fails to present a realization of the guidelines intended to avoid fragmentation of State Budget investment capital. According to MPI (2009b), in 2009, the number of projects approved for public investment was 11,420 (38.5 percent of all projects in implementation), which was higher than that of projects with expected completion in the same period (9,679 projects). That is, Vietnam seems to have made only a little progress in concentrating capital for key projects and in avoiding fragmentation of State Budget investment capital.

**Project Implementation**

Despite recent improvement, particularly in the legal framework for project implementation, typical problems such as project delays and incompleteness remain. Efficiency is also undermined by limited barriers to entry and inconsistency in legal frameworks. For example, foreign companies established before the passage of the Enterprise Law of 2005 cannot invest in sectors outside of their FDI license unless they re-register. These companies also face restrictions on bidding for public investment contracts. Lack of registration under the Enterprise Law crowds out private investment and undermines the quality of public investment. In addition, while many SOEs have been equitized, the exercise of ownership rights on behalf of the state remains with the ministries with which they had been affiliated. Participation of these SOEs in the design and implementation of infrastructure projects owned by their ministries raises a conflict of interest question.

Despite its large number of PIM regulatory documents, Vietnam had very few detailed and complete regulations guiding the implementation of public investment projects until recently. Decree 12/2009/ND-CP (2009) represents the first attempt to guide the implementation of
public construction projects. Specifically, the decree makes provisions for the steps in designing public construction works, getting construction licenses, managing the construction process, and managing public construction projects in general. However, project implementation still encounters the problems of site clearance and compensation for land use. Actually, despite measures to increase the budget for site clearance compensation, it remains well below the market value of the land. Apparently site clearance should be enforced to ensure project progress, yet enforcement in Vietnam generally focuses on closing such a monetary gap. Consequently, site clearance often cannot be finished in time, leading to slow progress of projects.

Enforcement is also an issue for procurement. Vietnam has significantly improved the legal framework over public procurement activities with a view to improving the cost-effectiveness of public projects. The country has promulgated various legal documents, the highest of which is the Law on Public Procurement of 2005. Despite the comprehensiveness of the procurement regulatory framework, enforcement of competitive bidding has been a critical issue in a large number of cases, particularly in implementation of large projects. In 2009, for example, violations of competitive tendering rules were found in 18 projects (or 0.06 percent of all projects in implementation). Low quality of construction work was evident in 25 projects (or 0.08 percent), while violations in contracting were noted in 19 projects (or 0.06 percent).

A more prevalent problem in recent years is the attempt to get permission for direct contracting, or single-source selection. Specifically, while components of large projects often require competitive tendering, the agencies representing the State as investors often find ways to slow down project progress and ask for permission to pick the contractors they prefer. To allow projects to progress by schedule, the authorities are then “forced” to permit such direct contracting. As such, some large projects, thanks to their importance, seem to be exempt from the current regulations on public procurement.

Site clearance and procurement are arguably the two decisive factors behind the severe delay of project implementation in Vietnam. In practice, a large number of public projects are completed much behind the planned schedule, or even remain unfinished. In 2009, 5,021 projects (or 16.9% of projects in implementation in that period) failed to progress as per planned schedule (MPI 2009b). Among the other reasons for this delay, contractors may have had insufficient technical capability to complete the projects on time. For instance, the few eligible domestic contractors were involved in a number of big construction projects throughout the country and therefore often had insufficient capacity to complete those projects on time. In this regard, the problem of direct contracting could be even more serious. Another factor is that in order to get the project approved, the project timetable was often prepared in such a way that was unrealistically short or assumed that the project lifespan will be extended anyway. Finally, slow project progress may have resulted from inadequacy of allocated investment capital. This may be a result of the tendency to lowball the capital in a project bid in an attempt to get the project approved, or may have stemmed from increases in construction material prices that made initial allocated budget inadequate, while timely adjustment of a capital plan was impossible.
Another aspect of PIM during project implementation is monitoring and evaluation (M&E). The previous section discussed the legal framework for M&E. These tasks were also incorporated into the implementation of PIP in 2001–05, to identify changes needed and to adapt PIP after every two years—a sufficiently long period for significant contextual changes. For some projects, M&E have been results-based, rather than input-based. For instance, Program 135 on poverty reduction in the 135 poorest communes requires both annual and periodical monitoring and evaluating reports, with a comprehensive system of indicators, to assess the impacts of each sub-project and of the program as a whole (Tran, Nguyen, and Hoang 2010). However, M&E of public investment projects still fail to attract sufficient attention from responsible agencies. The implementation of independent evaluation and the usage of its findings for PIM in particular lag very much behind other aspects of PIM in Vietnam.

**Project Adjustment**

The legal framework for project adjustment is transparent and very clearly stated. In particular, Decree 12/2009/ND-CP makes detailed provisions for adjustments to public construction projects, including specifying the cases where such adjustments are permitted. For example, when prices of construction materials increase, a proposal to change the capital of a particular project may be considered and approved. Whether the adjustment is permitted in this case also depends on the availability of capital from the State budget or other sources. Nonetheless, the time required for considering and approving project adjustment is not stipulated in Decree 12, which presents a risk to the effective implementation of the project itself. More importantly, consideration of the proposed project adjustment incorporates no cost-benefit analysis of the project in the new context. That is, even if the project becomes unfeasible or unbenevolent in socioeconomic terms, there is no mechanism to detect this and then to effectively deal with it.

A report by the MPI (2009b) shows that 7,302 projects had to be restructured in 2009, accounting for 24.6 percent of all projects in implementation. Specifically, 6.3 percent of projects had to amend contents, 8.9 percent had to adjust scheduled progress, and 9.2 percent had to adjust total investment capital, among other adjustments and delays. Despite the lack of numbers of projects requesting adjustment, these figures indicate that change in total investment capital is still the most frequent type of project adjustment. Adhering to an approved project schedule is another challenge, as reflected by the figure on percentage of projects progressing behind schedule (that is, 16.9 percent in 2009).

**Facility Operations**

Vietnam has regulations to ensure proper maintenance of asset registers. For ODA projects, the MOF promulgated Circular 108/2007/TT-BTC in 2007 on managing and using assets during project implementation and after project completion, with contents related to keeping an asset register, recording depreciation, and maintenance of assets. Other projects using State Budget capital have to comply with the State Budget Law and Circular 116/2005/TT-BTC of the MOF on managing assets and dealing with assets after project completion. However, the quality of
services delivered by the assets fails to be monitored on a frequent basis, notwithstanding the division of the responsibilities of concerned agencies. As a result, the market value of the asset is often smaller than its book value. A notable example is the case of Project Management Unit 18 in 2007, where a number of cars were put up for auction but were generally underpriced.

Project Evaluation

Since there is no formal guidance for evaluation of completed public investment projects, the process either does not exist or is implemented on an ad hoc basis. Exceptions are ODA-funded projects, which have more concrete guidelines and procedures for evaluation.

Program 135 on poverty reduction in Vietnam’s poorest communes is a notable example. After the first phase, 1998–2005, the program was evaluated to see what had been achieved and what would still be needed for further improvement. It is interesting to note that the project had an incentive problem—after the first phase, many communes were no longer poor by the Vietnamese standard but still wished to retain their poverty status so they could stay in the program and receive further support. Other issues related to preparing, implementing, and monitoring and evaluating of projects under Program 135 were also identified before implementation of its second phase. Therefore, the Government had a chance to solve the problems in the next phase with relevant solutions to deal with these issues (Tran, Nguyen, and Hoang 2010).

Summary and Policy Implications

Over the last two decades, Vietnam made notable progress in reforming its PIM. The legal framework governing PIM has continuously improved across the entire project management cycle. Diversified modalities of public capital spending were specified and grouped into distinct classes to facilitate the ongoing decentralization and effective management. Problematic areas, such as project adjustment and tendering, received more attention. The pressure for reform came partly from the growing concern about inefficiency of public investment whose incremental contribution to overall economic growth appears to have declined despite rapid expansion. At the same time, there has been a great demand for enhanced PIM by both citizens and the business community. Donors, particularly the World Bank, have been providing critical support for comprehensive PIM reforms.

Management of public investment projects still face several major challenges, however. The objectives in development strategies and plans are excessively broad and vague, which makes preliminary screening easier but seriously compromises its quality. Both prescreening and formal appraisal seem less than fully independent, as the agencies responsible for these tasks are subordinate to authorities who are ultimately the project owners vested with the final selection power. The unintended consequences of PIM decentralization include the undermining of the central role of the MOF and the MPI and the low capacity of appraising agencies at line ministries and local governments.
The divergence between the de jure legal framework and de facto application of laws and legislation in PIM is evident, and is evident in selection of wasteful projects, project delays and incompletion. Project monitoring and evaluation, though stipulated by law, receive little attention from responsible agencies. Project adjustment is ad hoc and not processed in a timely manner. The regulations compelling independent review of appraisals and ex post evaluation of projects remain absent. Enforcement of regulations remains a particular weakness and can severely undermine efforts for policy and legal reform.

This study’s analysis suggests several priorities for PIM reform. First, the legal framework must be further strengthened to alleviate the existing fragmentation, duplication, and lack of uniformity of the laws and legislation. Most importantly, the Law on Public Investment being drafted needs to be promulgated soon. In addition, the State Budget Law must be updated to focus on improving regulation of accounting, auditing, financial supervision, reporting, and disclosure of financial budget information, while maintaining better consistency with socioeconomic development strategies and plans. Eventually, overlap and inconsistency between existing laws and regulations, in particular, discrepancies between the two main laws on construction and investment, should be deciphered and eliminated.

Second, with deepening decentralization of PIM, Vietnam should increase responsibility and accountability of local governments and line ministries, and support capacity, particularly in appraisal and monitoring, at these levels. Strengthening coordination of central and local government agencies in appraising, implementing, and monitoring public investment projects is also critical. In addition, it is critically important to establish the framework and institutional arrangement for independent review of project appraisals as part of strengthening the oversight capabilities in PIM. Promulgation of the decision to approve the charter establishing the Association of Independent Evaluators is the first step in that direction.

Third, M&E deserves further attention. The lessons from successful programs, such as Program 135, indicate the approach to M&E should be results-based rather than input-based. To accomplish this, however, Vietnam needs a mechanism to effectively “tie in” project output/progress with the responsibilities of agencies in charge of PIM in order to provide them with more incentives to monitor and evaluate projects. Moreover, Vietnam should enhance the voice of community organizations in monitoring and evaluating projects. This is stipulated in current regulations, but is not done in practice.

Fourth, Vietnam needs to improve its statistical system to allow for adequate analysis of public investment, and related to that issue, it needs to adopt realistic and feasible indicators of PIM efficiency to facilitate M&E and ex post project evaluation.

The World Bank and donor community actively support the country in reform of its PIM system. The Vietnam Public Investment Reform Development Policy Lending is the World Bank’s first stand-alone lending operation focusing exclusively on PIM reforms. The program aims to assist the Government in strengthening the selection, preparation, implementation, and
supervision of all public investment projects, regardless of their source of funding. In particular, the program supports a series of policy measures that are expected to strengthen the public investment cycle in Vietnam. Yet the reform of public investment is a long-term process, and further assistance and collaboration are needed for the implementation of the ambitious reform program of Vietnam.
Notes

1. The three well-acknowledged bottlenecks to growth in Vietnam include inadequate human resources, institutions, and infrastructure systems.
2. The newly issued Resolution 49 requires an approval from the National Assembly even for feasibility studies of projects that the National Assembly considers extremely important.
5. In many cases, this is usually the single largest component of project costs.
6. As an example, in the first half of 2009, the MPI received only 97 reports on monitoring and evaluating projects from 56 out of 63 provinces and cities; 21 out of 30 ministries and ministry-equivalent agencies; 5 out of 8 Government agencies; and 15 out of 19 business groups and general corporations (MPI 2009a). By March 2010, only 65 reports on monitoring and evaluating projects in 2009 as a whole from 40 out of 63 provinces and cities, 10 out of 30 ministries and ministry-equivalent agencies, 2 out of 8 Government agencies, and 13 out of 19 business groups and general corporations (MPI 2009b). The proportion of those making reports (of all organizations/agencies having to make reports) thus was 54.2 percent in 2010, which was significantly smaller than those in 2006, 2007, and 2008 (of 68.7 percent, 60.3 percent, and 85 percent, respectively). The quality of M&E reports was generally limited, with lack of required data and/or inconsistency.

References


Annex X.1 Classification of Investment Projects in Vietnam

As defined in the Resolution 66/2006/QH11 of the National Assembly (June 2006), projects and works of national importance are those that meet at least one of the following criteria: (1) an investment scale of VND 20 trillion or more for those with at least 30 percent of State capital; (2) those with potentially large or serious impacts on the environment, including nuclear power plants; those using land from transformed upstream or special-purpose forestry land (over 200 hectares), and so on; (3) those requiring resettlement of at least 20,000 people in mountainous areas or at least 50,000 in others; (4) those in areas of national importance in terms of national defense, security, or with national relics of special historical and cultural importance; and (5) those requiring special policies and mechanisms requiring approval of the National Assembly.

Category-A investment projects are categorized as follows: (1) those in areas of national security and defense, with national security, sociopolitical importance, establishment and construction of infrastructure for new industrial zones (regardless of capital scale); (2) those producing dangerous chemicals or explosives (regardless of capital scale); (3) those with capital scale of over VND 600 billion in electricity, oil and gas, chemicals, fertilizer, machine-building (including both purchasing and building new ships or assembly cars), cement, metallurgy, exploitation and processing of minerals, transportation projects (bridges, seaports, airports, railway, national roads); (4) those with capital scale of over VND 400 billion in irrigation, transportation, water supply and drainage, technical infrastructure, electricity infrastructure, electronics, informatics, chemistry, medical instruments, other mechanical industries, production of materials, posts and telecommunications, domestic BOTs, or construction of residential areas, schools, and roads in urban areas with approved detailed plans; (5) those in technical infrastructure of new urban areas; light industries, ceramics, porcelain, glass, printing; national parks and natural conservation zones; purchase of construction equipment; agriculture-forestry-fishery, processing agricultural and forestry projects (over VND 300 billion); and (6) those in health, culture, education, radio, television, civil construction, warehousing, tourism, sports, scientific research, and others (over VND 200 billion).

Category-B investment projects are similar categories to those in the subgroups numbers 3–6 above, but with capital scales in subgroup 3 of VND 30–600 billion, in 4 of VND 20–400 billion, in 5 of VND 15–300 billion, and in 6 of VND 7–200 billion.

Category-C investment projects are similar to Category-B, but with capital scales of less than VND 30 billion in subgroup 3, less than VND 20 billion in subgroup 4, less than VND 15 billion in subgroup 5, and less than VND 7 billion in subgroup 6.