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Basic Social Services in Viet Nam

An Analysis of State and ODA Expenditures

Ha Noi, December 1999

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Foreword

The United Nations' 20/20 Initiative was borne out of the 1995 World Summit for Social Development. The initiative set 20 per cent as the target for the proportion of state and ODA spending that should be used for basic social services. Viet Nam is a signatory to the initiative and at the 1995 summit, the Government made it clear that its position on economic growth was closely linked with social progress and justice. This commitment was reconfirmed by the government at the international conference on 20/20 initiative organised in October 1998 in Ha Noi.

In fact, emphasising basic social services as an important means of promoting national development is not new in Viet Nam's social development policies. From the founding of the Democratic Republic of Viet Nam (now the Socialist Republic of Viet Nam) in 1945, through out the years of wars and reconstruction of the country afterwards, the Government of Viet Nam has placed a high priority on social development and has heavily emphasised the development of basic education and basic health care.

By investing in basic social services early on, Viet Nam created a strong foundation for continued and sustainable development clearly evidenced today in the impressive reduction in poverty and in the progress in health and education. The poverty rate was nearly halved from 1993 to 1998, literacy rates are higher, infant and maternal mortality rates are lower, and life expectancy is longer than in many better-off countries. This success is all the more admirable in view of the long post-war period of international embargo until late 1993 during which Viet Nam had limited access to official development assistance (ODA).

However, Viet Nam is still a poor country with 12.5 million people (15.7 per cent) living in poverty and 1.5 million people facing regular hunger (1998–MOLISA) or 28 million people (37.4 per cent) lacking the minimum income necessary to lead a decent life (GSO–VLSS 97/98). According to the global 1999 UNDP Human Development Report, Viet Nam now ranks 51st out of 92 developing countries on the Human Poverty index and 110th out of 174 countries on the Human Development Index. Today, around 70 per cent of the rural population still lacks access to clean water, only one household in five has access to hygienic sanitation facilities and up to 40 per cent of children under five-years-old are still malnourished. The economic downturn, with GDP growth rate slowing to 5.8 per cent in 1998 and about 5 per cent in 1999, together with the serious impacts of floods in seven central provinces in early November 1999, may interrupt progress towards achieving targets in poverty alleviation and in the provision of basic social services. The question is how to protect government and donor spending on basic social services as the pre-requisite for sustainable economic development and poverty elimination.

This Basic Social Services Study was conducted in partnership with the Government of Viet Nam, United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF) and United Nations Population Fund (UNFPA). By using both international and national definitions of basic social services. The study identifies the current pattern of state and ODA spending for basic social services as well as recent trends. It also suggests directions and recommendations for policy dialogue between Government and donor agencies. Especially, it addresses the issues of how to continue the trend of increasing spending of state and ODA for basic social services; how to ensure the efficiency of spending and how to widen the access of needy people to better quality basic social services that meet their changing needs.

We sincerely hope that this report will contribute to the ongoing discussion on basic social services in Viet Nam and facilitate the dialogue and collaboration between the Government, local communities and the donor community in making appropriate investment into human capital through providing better quality basic social services for all in Viet Nam.

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Executive Summary

Basic social services as a means of promoting national development is not new in Viet Nam. From the founding of the Democratic Republic of Viet Nam (now the Socialist Republic of Viet Nam) in 1945, the government of Viet Nam has placed a high priority on social development. President Ho Chi Minh considered hunger and illiteracy enemies that threatened the nation's survival and development. Throughout the years of war, the state heavily emphasised access to basic education and basic health care in social and development policies.

After victory in the war of national resistance in 1954, mass education and illiteracy eradication campaigns were undertaken on a national scale. Viet Nam has also been a leader in the field of population and family planning, promoting the benefits of family planning and providing services since 1961. By investing in basic services early on, Viet Nam created a strong foundation for continued development clearly evidenced today in health and education indicators. Literacy rates are higher, infant and maternal mortality rates are lower and life expectancy longer than in many better-off countries. This success is all the more admirable in view of the long post-war period of international embargo until late 1993 during which Viet Nam had limited access to official development assistance (ODA).

The United Nations' 20/20 Initiative was born out of the 1995 World Summit for Social Development. The initiative set 20 per cent as the target for the proportion of state spending and ODA spending that should be used for basic social services. Viet Nam is a signatory to the initiative and at the 1995 summit, the government made it clear that its position on economic growth was closely linked with social progress and justice. Priority focus of state spending on basic social services is one mechanism for achieving this goal. This Basic Social Services (BSS) Study identifies both the current pattern of state expenditures for basic social services and recent trends. It also examines spending by multilateral and bilateral organisations providing ODA to Viet Nam.

The 20/20 Initiative has also focused debate on defining which social services are "basic." Dialogue at the country level has shown clearly that each country faces a unique environment and has unique needs. These differences need to be taken into account when conducting a study of this nature. For the purposes of this study, a two-tiered approach is taken. The first tier of social services defined as basic, conforms to the definition accepted at Copenhagen in 1995 (the "UN definition"). Analysis of expenditures on these services is designed to allow comparison of Viet Nam's performance with that of other countries in the region and with other countries at a similar stage of development. The second tier is a group of services that policymakers in Viet Nam believe to be basic within the context of national history and current development needs. The first and second tiers together define the "national definition."

The main finding from analysis of state and ODA expenditure information is that neither reaches the 20 Per cent mark set by the 20/20 Initiative. Using the UN definition, the percentage of state resources spent on basic social services increased from 6.1 per cent in 1990 to 8.5 per cent in 1997. Using the national definition, the proportion rose from 12.7 to 17.1 per cent during this period. Projected figures for 1998 are the same. The proportion of ODA resources used for basic social services (evaluated by the UN definition standard only) was more variable. Between 1990 and 1993, it rose from 5.2 to 18.6 per cent. Thereafter, the proportion declined, reaching 10.0 per cent in 1997. It is projected to remain essentially the same in 1998 (see footnote 53, page 45).

Macroeconomic Context

Viet Nam's economy averaged 8 per cent growth per year between 1990 and 1997. During this period real GDP expanded by 75 per cent. per capita GDP also rose from less than Viet Nam Dong (VND) 1 million in 1990 to more than VND 4.1 million in 1997; in real terms, a 57 per cent increase. State spending also increased significantly through the 1990's (except from 1990 to 1991 when Viet Nam was recovering from

economic difficulties that prevailed during the late 1980's). Although real state spending declined by almost 20 per cent in 1991, it grew by nearly 50 per cent from 1991 to 1992 and by more than one-third from 1992 to 1993. In the past three years, state spending increased by an average of almost 5 per cent per year. From 1990 to 1997, real state spending per capita increased by 68 per cent (VND 888,000 in 1997 at 1997 prices). In 1998, the GDP growth rate slowed to 5.8 per cent and about 5% in 1999. The impact of lower economic growth rates are an important consideration in assessing prospects for continued progress in Viet Nam towards 20/20 Initiative goals.

Education

Viet Nam's leaders have long recognised the importance of education to national development and it continues to be a high priority in state spending. Population literacy stands at nearly 90 per cent and gender differences are small compared to many countries. Primary school enrolment is nearly universal, drop-out rates have declined to less than 10 per 100 students at all levels, and the percentage of students repeating grades is below 5 per cent at all levels. However, major regional differences in educational indicators do exist. For example, literacy rates in mountain provinces are as low as 50 per cent; and although national primary school enrolment rates are nearly 100 per cent, they are significantly lower in mountain, central, and Mekong Delta regions. In these areas, gender disparities in enrolment rates and literacy are also greater.

Large real growth rates during the 1990's are evidence of Viet Nam's commitment to education. Education spending in 1997 was 29 per cent higher than in 1996. In 1997, education accounted for 15 per cent of state spending. Compared to other sectors, actual expenditures come closer to budgeted expenditures. The effect has been an earlier than anticipated achievement of the government's target of 15 per cent of total state spending going to education. An increased proportion of education sector resources was allocated to basic education services during the 1990's reaching 35 per cent in 1997.

Primary school spending is the most equitable among the education levels in the state system. In fact primary school spending is slightly pro-poor in Viet Nam. At successively higher education levels state spending increasingly favours the better-off population segments. In the case of tertiary education the richest 20 per cent of the population captures more than one-half of state spending for that level. State spending per primary school student per year increased by 137 per cent in real terms between 1991 and 1997.

Health

As in education, Viet Nam's commitment to providing access to basic health services is long-standing. A major initiative was launched in the early 1950's to construct a network of community health stations intended to provide basic primary and preventive health services to Viet Nam's large rural population. By 1997, nearly 99 per cent (9,806 out of 9,929) of all communes in the country had a community health station. In addition, there are 926 inter-communal polyclinics in rural communities, the second tier in Viet Nam's five-tiered public health system. District health centres and hospitals are the third tier and in this BSS study, services provided at these facilities are considered as basic. The top two tiers consist of provincial hospitals and specialised hospitals.

Between 1990 and 1997, state spending increased from VND 490 billion to VND 3.8 trillion, more than a two-fold real increase. Health sector spending as a proportion of total state spending has remained relatively constant. In 1990, 5.9 per cent of state spending was for health and in 1997, it was 5.6 per cent. The lower proportion of state spending going to the health sector reflects the greater role private expenditure plays in health care, especially since implementation of *doi moi* policies in 1986. It is estimated that more than three-fourths of all spending for health care is private, and much of that is for services purchased in the private market.

As in education, resources for basic health services are the most equitably distributed. However, spending for hospital in-patient services heavily favours the better off. This is true at the district hospital as well

as the province and speciality-hospital levels. The richest 20 per cent of the population captures 56 per cent of state spending at the tertiary hospital level, compared to only 2 per cent for the poorest 20 per cent of the population.

Family Planning

Formal recognition of family planning as an important element of national development began in 1961 when the Birth Control Board was established. In 1989, the National Committee for Population and Family Planning (NCPFP) became a ministerial-level governmental organisation and thereafter, resources allocated to population and family planning activities and services increased significantly. Total state spending for population and family planning increased from VND 16 billion in 1990 to VND 339 billion in 1997. In real terms, this is more than a five-fold increase. As a percentage of total state spending, population and family planning increased from 0.2 per cent in 1990 to 0.5 per cent in 1997. All spending in this sector is considered basic according to the UN definition of basic social services.

Rural Water and Sanitation

The water supply and sanitation sector in Viet Nam is organisationally complex. Three ministries share major responsibility for the water and sanitation sector: Agriculture and Rural Development (MARD), Construction (MOC), and Health (MOH). The MARD is responsible for rural water supply. The MOC is responsible for urban water supply, including towns with populations from 4,000 to 30,000. The Department of Preventive Medicine in the Ministry of Health (MOH) is chiefly responsible for sanitation services. A National Steering Committee for Water Supply and Sanitation, currently chaired by MOSTE, is responsible for co-ordinating activities of these ministries. Similar steering committees are established in about one-half of Viet Nam's provinces. The Rural Water Supply and Sanitation Programme (RWSSP) became a national programme in 1997, reflecting the government's commitment to this programme and recognition of the programme's complexity.

The large increase in state spending for rural water and sanitation since 1990 mirrors the increasing policy priority placed on this sector. Nominal spending has increased from nearly VND 40 million in 1990 to more than VND 26 billion in 1997. In real terms, this is a 160-fold increase. By 2000, the state plans to increase spending for rural water and sanitation to VND 48 billion. Even at this higher spending level, rural water and sanitation will account for only 0.5 per cent of total state spending, far below estimates of resources needed to achieve the state's ambitious targets for this sector.

Social Protection

Social services, other than education and health, are mostly the responsibility of the Ministry of Labour, Invalids, and Social Affairs (MOLISA). This sector is characterised by a heavy emphasis on services and income transfers to the poor and other groups whose welfare is of high national priority. The difference between the national and UN definitions of basic social services is largely a difference in interpretation of services provided in this sector. In the UN definition, only services to victims of natural disasters, other emergency food relief, and food subsidies to the poor are considered to be basic. In addition to these services, the national definition includes services to war-contributors, services to the poor and other disadvantaged groups. A two-tiered approach to this BSS analysis was used for this sector to reflect these definitional differences.

Expenditures for social safety net services and programmes in Viet Nam have increased from VND 1 trillion in 1990 to more than VND 9.3 trillion in 1997. In real terms, this is more than a two-fold increase. A further increase is reflected in the 1998 budget of VND 10.3 trillion. In contrast to education and health, in which 25 per cent of sector expenditures are for capital purposes, less than 2 per cent of social security and

safety-net sector expenditures are for capital purposes. This reflects the fact that most services in this sector provide cash and in-kind benefits to disadvantaged persons, rather than services at fixed facilities. Overall, spending for social security and safety net services increased from 12 per cent of total state spending in 1990 to almost 14 per cent in 1997, nearly equal to the 15 per cent share of state spending for education. Little information was available to assess equity and efficiency of spending in this sector. However, it was noted that in most programmes, low proportions of target populations were receiving state benefits or services. For example, only 24 per cent of orphans and 15 per cent the disabled are receiving benefits or services.

Province Case Studies

In addition to national trends, this study examined spending from local budgets in two provinces, Thai Binh in the north and Long An in the south. In both provinces, the proportion of state expenditures met using local budget resources declined from 1991 to 1992, but have increased since then, taking a sharp turn upwards in 1997. Differences in financial support from the central government budget were noted. In Thai Binh, 70 per cent of spending was from central budget support. In Long An, that proportion was 55 per cent. Differences were also found in the proportion of the local budget spent for social services. In Thai Binh (which receives a higher central government budget subsidy) nearly one half of its local budget is used for social services, compared to 36 per cent in Long An and 37 per cent at the aggregate national level. However, each province uses nearly the same proportion of their local resources for social services (18 and 19 per cent, respectively). Thai Binh achieves this by spending a higher proportion of its resources on health and education in general, whereas Long An achieves this by compensating for lower overall health and education expenditures by allocating a higher proportion of its social sector funds to basic health and basic education.

Both provinces spend a higher proportion of their local budget resources for education and health, compared to the national average. At the national level, health and education combined account for 21 per cent of state expenditures. In Thai Binh and Long An, these two sectors account for 46 and 33 per cent of expenditures using local resources. However, both provinces spent less than 2 per cent of their local resources on social protection services, compared to 14 per cent at the national level. In Long An, there are few individuals eligible for benefits under national programmes for war-affected preferential groups. In Thai Binh, thousands of families are reported to be benefiting from these programmes. Provinces spend little of their resources providing benefits to other categories of persons needing social protection services.

As in social protection, the rural water and sanitation sector did not receive a substantial allocation of resources at the province level. Furthermore, local programme administrators reported that in 1997 and 1998 few if any central resources were received for this sector. They reported that UNICEF and individual contributions financed most spending on rural water and sanitation programmes and services.

Recommendations

Viet Nam is either very close to the 20/20 Initiative target of spending 20 per cent of state budget resources on basic social services, or they are almost halfway to the mark, depending on which standard of evaluation is used. According to the UN definition of basic social services, the lower assessment applies. ODA spending is also at about the halfway point to the 20 per cent target. Progress in state spending appears to have been interrupted from 1997 to 1998, with no growth towards the target. Policymakers in Viet Nam attribute this to the slower economic growth rates that are currently prevailing. Policymakers express concern that should growth rates fall further, allocations to basic social services could actually face disproportionate cuts in the short-term, resulting in a slide backwards from current BSS performance. Clearly, social sector policymakers perceive that in a difficult public sector budget environment, protecting state spending in other sectors will be more important to national leaders.

Policy dialogue on this and other issues emerged from this BSS study as a key need in ongoing efforts to promote the 20/20 Initiative goals. Many of these issues were raised and discussed during key informant interviews conducted as part of the BSS Study. Key national issues are summarised below.

- **Under-funded central programme mandates** – Financing plans for centrally devised national programmes often call for local budget contributions that local leaders sometimes consider unrealistic.
- **Investments in infrastructure vs. social services** – Some policymakers in Viet Nam express the opinion that increased allocations to basic social services should not occur, particularly in remote regions, until infrastructure development is sufficient to support efficient use of social services investments.
- **Policies about central budget subsidies to local budgets** – A gap between official policy and implementation is noted by policymakers (as evidenced in the BSS study's Province Case Studies) in determining central budget subsidies for local budgets. Three general levels of support are intended (for poor, average, and well-off provinces), though subsidy levels in fact vary within categories.
- **Achieving consensus on key definitions** – It was noted that differences in definitions of poverty and of "basic" social services impede planning.

Programmatic issues for policy dialogue were also identified. Key issues include: (1) identification of strategies to more effectively reach remote and mountainous communities with basic social services; (2) identification of strategies to encourage vulnerable persons and households to take advantage of state programmes and services intended for their benefit; and (3) re-examination of strategies to reach safe water supply programme targets within the constraints of state budget allocations.

While policy dialogue is needed on these and other key issues related to policies affecting basic social services spending and implementation, there are a number of concrete tasks that can be initiated immediately. These include:

- **Development of a monitoring system for BSS** – Key issued to be addressed here are, what indicators should be used, what agency or agencies should be responsible for maintaining the monitoring system, how can co-operation across sectors be ensured and how often should reporting occur?
- **Improving information sharing** – Feedback from the Ministry of Finance to line ministries about expenditures would improve the ability of line ministries to plan effectively. Likewise, improved information to line ministries about actual spending by local authorities would greater improve the ability of central ministries to plan. Mechanisms to improve communication among these entities should be developed.
- **Development of co-ordination mechanisms** – Policies in one sector often impact on other sectors, yet at present there are few forums for inter-sectoral co-ordination. A similar situation exists at the programme level.
- **Local capacity building** – It was noted that programme efficiency is much affected by local programme management skills. Local capacity should be considered alongside proposals for increased spending for social services in general and basic social services in particular. Meanwhile consideration should be given to development of initiatives to up-grade local capacity to manage and implement social services.

List of Abbreviations

BSS	Basic Social Services
CCPFP	Commune Committee for Population and Family Planning
CHS	Community Health Station
DH	District Hospital
DHO	District Health Office
GDP	Gross Domestic Product
GOV	Government of Viet Nam
HEPR	Hunger Eradication and Poverty Reduction
ICPC	Intercommunal Polyclinics
IEC	Information, Education, and Communication
IFI	International Financial Institution
IMF	International Monetary Fund
IP	In-patient
MARD	Ministry of Agriculture and Rural Development
MCH/FP	Maternal and Child Health and Family Planning
MOC	Ministry of Construction
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health
MOLISA	Ministry of Labour, Invalids, and Social Affairs
MOSTE	Ministry of Science, Technology, and Environment
MPI	Ministry of Planning and Investment
NCPFP	National Committee for Population and Family Planning
NGO	Non Governmental Organisation
ODA	Official Development Assistance
PHC	Primary Heath Care
PMB	Preventive Medicine Brigades
RWSSP	Rural Water Supply and Sanitation programme
SOE	State-Owned Enterprises
UN	United Nations
VLSS(I&II)	Viet Nam Living Standards Survey (92-93 & 97/98)
VND	Viet Nam Dong
VSIA	Viet Nam Social Insurance Agency

I. Background

Right after the founding of the Democratic Republic of Vietnam (now the Socialist Republic of Vietnam) in 1945, the Communist Party and Government of Vietnam (GOV) put social development as a key priority in the policy agenda. President Ho Chi Minh considered hunger and illiteracy as enemies that threatened the nation's survival and development. Therefore, the concept of emphasising basic social services as an important means of promoting national development is not new in Viet Nam's development strategy. Even through the long years of wars, access to basic education and basic health care was strongly emphasised in social and development policies of the state. After victory in the war of national resistance in 1954, mass education and illiteracy eradication campaigns were undertaken on a large scale. In Viet Nam, population and family planning services were provided early, since 1961. The mid-1970's marked both the reunification of the country and reinvigoration of the government's commitment to development. By investing in basic services early on, Viet Nam has a strong foundation for continued development, clearly evidenced today in health and education indicators. Literacy rates are higher, infant and maternal mortality rates significantly lower, and life expectancy longer than in many better-off countries. This success is all the more admirable in view of the long post-war period of international embargo until late 1993 during which Viet Nam had limited access to official development assistance (ODA).

At the World Summit for Social Development in Copenhagen, 1995, the Government of Viet Nam stated that "economic growth must be closely connected with social progress and social justice from the outset, and throughout the implementation of development plans. We cannot afford to wait until a high level of economic development has been reached to begin bringing about social progress and social justice…". Priority focus of state spending on basic social services is one mechanism for achieving this goal.[1] Therefore, for Vietnam, the contribution of the World Summit for Social Development was not in introducing the concept of basic social services as a critical element of development policy. Rather, the contribution was in specifying benchmarks for assessing the adequacy of public sector financial allocations to these services and the current trends in public expenditures. Two central purposes of this analysis are to identify both the current patterns of state expenditures for basic social services and recent trends in state spending. As partnerships in development increase between the GOV and donor organisations, examination of trends and patterns in donor performance against the 20 per cent benchmark is equally important. This study also assesses ODA spending patterns.

The 20/20 Initiative is still subject to debate on defining which social services are "basic." Clearly, each country faces a unique environment and has unique needs. These differences need to be taken into account when conducting a study of this nature. For the purposes of this study, a two-tiered approach is taken. The first tier of social services defined as basic conforms to the definition accepted at Copenhagen in 1995 (hereafter referred to as the "United Nations [UN] definition"). Analysis of expenditures on these services is designed to allow comparison of Viet Nam's performance with that of other countries in the region and with other countries at a similar stage of development. The second tier of basic social services is those that Viet Nam believes to be basic within the context of its national history and development needs. The "national definition" of basic social services refers to the services contained in the UN definition and the additional services specific to Viet Nam's context. Table 1-1 shows the services included in each of these definitional tiers. Analysis of expenditures on these services is intended to promote informed national policy dialogue about state expenditure priorities and options for budget restructuring.

To accurately assess a country's performance with respect to the 20 per cent target, a tally of state spending at the central administrative level should be augmented with information about state spending at sub-national administrative levels. In Viet Nam, this is particularly important. Substantial revenue raising authority is vested in provincial, district, and local administrative units, and some of that revenue is retained for local use

[1] In Viet Nam, the concept of "public" expenditures is understood to include both spending by the state and spending by members of the public, including individuals and non-state organisations. For the purposes of clarity, in this report, the terms "state expenditure" will be used to refer to spending by government institutions (both central and local government), and "non-state expenditure" will be used to refer to spending by private individuals and organisations.

TABLE 1-1: Definitions of Basic Social Services in Viet Nam

Tier 1–United Nations Definition

Education

Pre-primary school
Primary school
Adult Literacy

Health

All services at
- Commune health centres
- Polyclinics
- District health centres and hospitals

Primary health care (up to the district level)
Preventive health care
- Childhood immunisations
- Post-natal care
- Health education

Public health programmes
- Maternal and child health
- Malaria
- Tuberculosis
- Leprosy
- Essential drugs and materials
- Sanitation

National Programme for Nutrition

Population and Family Planning

Social Services
- Disaster relief

Water and Sanitation
- Rural water and sanitation projects (including small towns up to population 30,000)
- Peri-urban water and sanitation projects

Tier 2–National Definition

It includes all items described in the UN definition and in addition the following points under the ***Social Services***:
- Welfare for the poor
- Cash transfers to war contributors (war retirees, invalids, and veterans, families of martyrs, hero-mothers)
- Services for orphans and street children
- Services for the disabled (cash support and residential)
- Employment training centres
- Rehabilitation of drug addicts and prostitutes

according to a mix of centrally and locally defined priorities. Information about the use of these resources for recurrent budget items is sufficient for analysis required to assess progress toward 20/20 Initiative objectives. Information about the use of capital resources at sub-national administrative levels is less precise in terms of spending for basic and other (non-basic) social service programmes.

The Ministry of Finance (MOF) reports that its annual expenditure information captures 95 to 98 per cent of total state spending, including both spending by central- and local-level state organisations.[2] The remaining 2 to 5 per cent of state spending use resources generated locally from specific taxes and fees. Information about that 2 to 5 per cent of state spending would necessarily have to be obtained directly from local government organisations. Collecting such information from all of Viet Nam's provinces was not within the scope of this study. However, information was collected from two provinces, Long An in the south and Thai Binh in the north. Information from these case studies (see Chapter XI) sheds light on local government spending priorities and patterns.

It is important to note that the Government of Viet Nam advocates the policy of socialisation in provision of social services in order to mobilise all resources for social development. Therefore, in Viet Nam, as in many countries, non-state (private) spending for social services is substantial. In practice, when the State spends VND1 for social services, the people contribute on average VND2-3. People's contribution is an important component of the state's financing strategy for better social services for people while the country is still poor and the state budget is limited. Understanding the extent and use of private spending is an important dimension for social policy formulation. However, this study focuses on state expenditures and ODA only. Other sources of information about private spending are available and should be considered during policy dialogue about state spending priorities and policies.

The main finding from analysis of state and donor organisation expenditure information is that neither reaches the 20 per cent mark set by the 20/20 Initiative. Using the UN definition, the percentage of state resources spent on basic social services increased from 6.1 per cent in 1990 to 8.5 per cent in 1997. Using the national definition the proportion rose from 12.7 to 17.2 per cent during this period. The proportion of donor resources used for basic social services (evaluated by the UN definition standard only) was more variable; between 1990 and 1993, it rose from 5.2 to 18.6 per cent. Thereafter, the proportion declined, reaching 10 per cent in 1997. These findings will be analysed in greater depth in the remainder of this report.

The present report consists of 12 chapters. After chapter 1 describing the background, chapter II describes macroeconomic trends and conditions, including an overview of total central government expenditure trends. Chapter III provides an overview of state budget planning, allocation, and spending authority (at central and sub-national levels). These sections provide the context for understanding the sector-specific analyses that follow. Chapters IV through VIII provide in-depth analysis of expenditures for education, health, population and family planning, rural water and sanitation, and social services, respectively. Each chapter includes a section on efficiency and equity in that spending. Chapter IX is a detailed analysis of donor expenditures, and Chapter X presents major findings from the province case studies conducted as part of this study.[3] Chapter XI reviews the main findings from this analysis of state spending, explores opportunities to further increase the proportion of state spending on basic social services, and draws some preliminary conclusions. Insights from key informant interviews with senior policymakers in central government agencies are drawn upon for the concluding Chapter XII, and a summary of principal recommendations is included.[4]

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[2] Statement by MOF officials at the BSS Study Advisory Committee Meeting, September 23, 1998, Ha Noi.

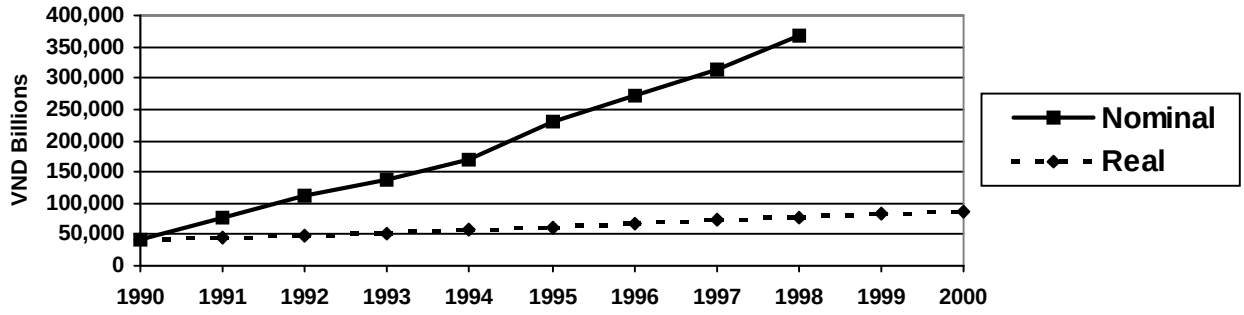
[3] For full report on the BSS study of province case studies, see "Basic Social Services–Results of the Case Study in Thai Binh and Long An Provinces" (Ha Noi: The Central Institute for Economic Management, 1999)

[4] For full report on the BSS Study key informant interviews, see: "Basic Social Services – Interviews on Central Government Officials" (Ha Noi: The Central Institute for Economic Management, 1999)..

II. Macroeconomic Context

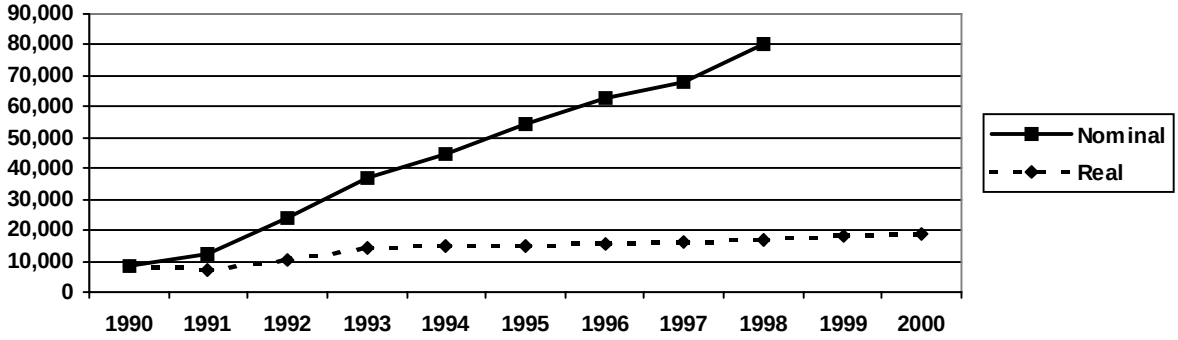
Viet Nam's economy experienced high rates of growth in the 1990's, averaging 8 per cent per year between 1990 and 1997 (Figure 2-1). During this period, real gross domestic product (GDP) expanded by 75 per cent and will have more than doubled by the year 2000.[5] Per capita GDP also rose considerably from less than Viet Nam Dong (VND) 1 million in 1990 to more than VND 4.1 million in 1997. In real terms, this is a 57 per cent increase.

Figure 2-1: Trend in GDP Growth



State spending also increased significantly through the 1990's (Figure 2-2), except from 1990 to 1991 when Viet Nam was recovering from economic difficulties that prevailed during the late 1980's. In 1991, real state spending declined by almost 20 per cent from 1990 spending. However, state spending grew by nearly 50 per cent from 1991 to 1992 and by more than one-third from 1992 to 1993. In the past three years, state spending increased by an average of almost 5 per cent per year. From 1990 to 1997, real state spending per capita increased by 68 per cent (VND 888,000 in 1997 at 1997 prices).

Figure 2-2: Trend in Total State Expenditures



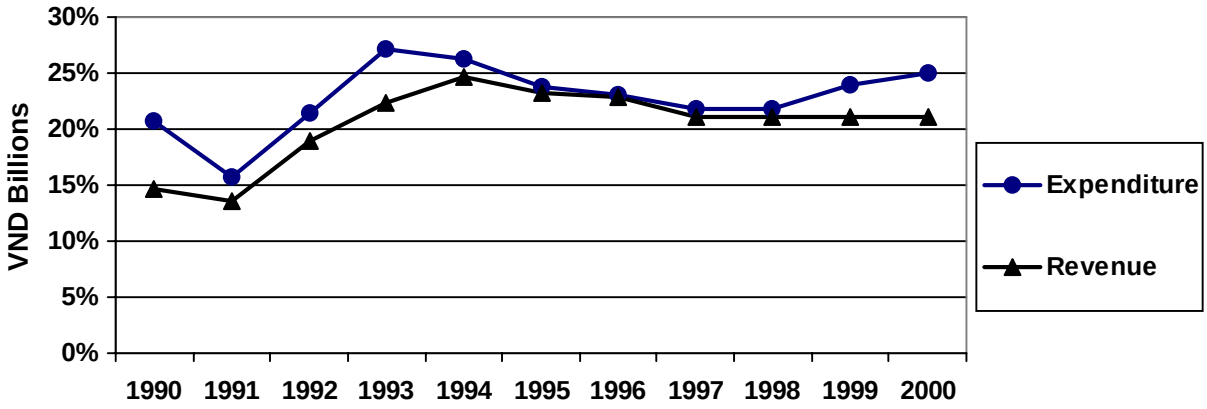
State spending as a percentage of GDP was nearly 21 per cent in 1990 (Figure 2-3). In 1991, real state spending declined by 20 per cent, constituting only 16 per cent of GDP. State spending rose again to 22 and 27 per cent of GDP in 1992 and 1993, respectively, and has declined since then to 23 per cent in 1997. In 1996, the GOV projected that state spending would to between 24 and 25 per cent of GDP from 1996 to 2000.[6] During this period, recurrent spending would comprise 58 per cent of total spending, 28 per cent of capital spending, and almost 15 per cent of debt repayment. However, it is unclear how these projections will be affected by the

[5] The finding that real GDP will have more than doubled by 2000 is based on the assumption that real GDP growth is sustained at 6 per cent per year between 1998 and 2000. Government analysts in Vietnam are assessing this assumption's validity in light of the low and negative growth rates being experienced by Viet Nam's regional neighbours and its own declining growth rates (5.8 per cent in 1998 and about 5.0 per cent in 1999)

[6] Document on 8th National Conference of the Vietnamese Communist Party (National Political Publishing House, 1996).

downward direction of projected GDP growth through the year 2000. If planned state spending levels remain unchanged, the share of GDP consumed by state spending would rise as GDP growth slows.

Figure 2-3: State Spending and Revenue Collection as a Percentage of GDP



State revenue collection as a percentage of GDP increased from less than 15 per cent in 1990 to almost 25 per cent in 1994.[7] Since then, the proportion of GDP collected as state revenue has declined; in 1997, it stood at 21 per cent. The Communist Party's 8th National Conference (1996) set a target of collecting 20 to 21 per cent of GDP for state revenue. Government budget deficits have been decreasing (Table 2-1). In 1990, the deficit was nearly 30 per cent of state expenditures; by 1997 it was only 3 per cent. As a percentage of GDP, the deficit consumed 6 per cent in 1990 and less than one per cent in 1997.

Table 2-1: State Budget Deficits (VND, current prices)

Year	Expenditures	Revenues	Deficit		
			Amount	As a % of State Expenditures	As a % of GDP
1990	8,718	6,153	(2,565)	29.4	6.1
1991	12,082	10,353	(1,729)	14.3	2.3
1992	23,710	21,023	(2,687)	11.3	2.4
1993	37,010	30,500	(6,510)	17.6	4.8
1994	44,655	42,125	(2,530)	5.7	1.5
1995	54,589	53,370	(1,219)	2.2	0.5
1996	62,889	62,387	(502)	0.8	0.2
1997	68,110	66,310	(1,800)	2.6	0.6

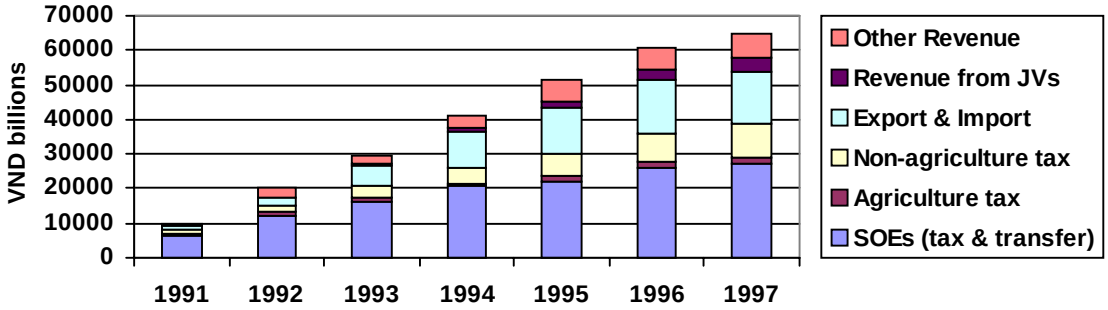
State-owned enterprises (SOE's) are the largest source of state revenue in Viet Nam (Figure 2-4). The proportion of revenue from SOE's, however, has declined from 60 per cent in 1990 to 41 per cent in 1997 as more SOE's are equitized and as the economy diversifies. Agricultural taxes have also decreased from 7 per cent of total revenue too less than 3 per cent. Revenue from exports and imports has more than doubled from 10 per cent to 22 per cent, and revenue from joint ventures has increased from 0 to 6 per cent. Grant assistance has remained stable during the period at about 2.5 per cent of total revenue.

The national workforce has grown 18 per cent from 1990 to 1996, from 30 to 36 million people (Figure 2-5).[8] The structure of this workforce however, has not changed significantly. The private agricultural sector,

[7] Revenue reported here does not include ODA grants. Expenditure information reported earlier also excludes ODA resources.

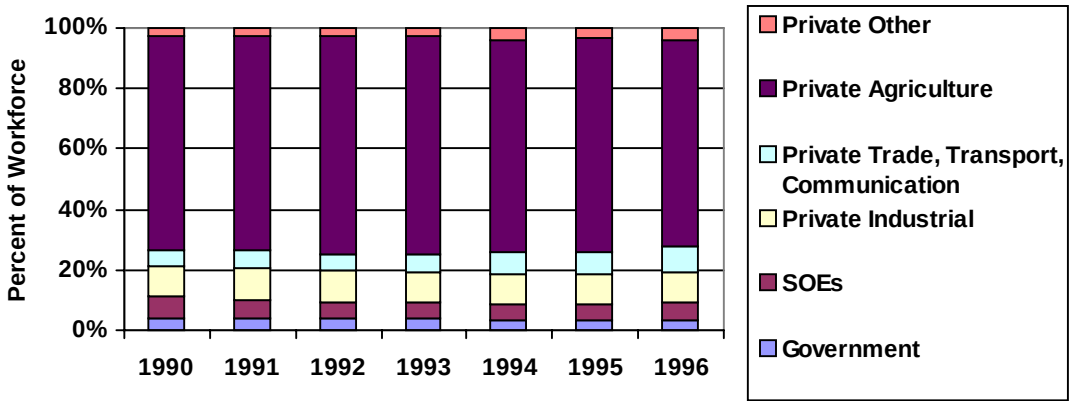
[8] At the time of this report's preparation, no information was available on workforce composition for 1997.

Figure 2-4: Sources of Tax Revenue



although declining slightly from 71 per cent of the workforce in 1990 to 68 per cent in 1996, remains the primary source of employment in Viet Nam. In 1996, this sector employed 24.4 million workers. The size of the state sector workforce, including government civil servants and SOE employees, declined only slightly from 3.4 million workers in 1990 to 3.2 million in 1996. Most of the decline was in the SOE sector. The total number of government employees has remained virtually constant, fluctuating between 1.2 and 1.3 million workers. During the period, the number of SOE employees declined from 2.2 to 1.9 million workers, although the number declined to 1.7 million in 1995. As a percentage of the total workforce, the government workforce has decreased from 4.1 to 3.6 per cent, and SOE employees have declined from 7.2 to 5.4 per cent of the workforce.

Figure 2-5: Workforce Distribution by Employment Sector



III. Overview of State Budget[9]

The public administrative structure in Viet Nam is decentralised and consists of central, provincial, district, and commune levels. Central-level ministries set policy and issue guidelines for provincial authorities. Generally, provincial administrative structures parallel the structure of central ministries. In social services, separate departments in each province oversee education, health, population and family planning, and rural water and sanitation activities. The Provincial People's Committee oversees these administrative departments. Within the policies and guidelines set centrally, provincial authorities have a degree of autonomy in administering services. Provincial authorities oversee activities at the district level and, in turn, district authorities oversee activities at the commune level. Tax departments in each province act under the direction of the central General Department of Taxation. Services provided in the provinces are financed through a complex process of determining provincial expenditure needs and reconciling these with tax revenues generated within the provinces. Provinces that do not generate sufficient tax revenue to meet approved spending plans receive a transfer from the central government.

The Budget Process

The MOF issues a budget circular annually in June which provides guidelines of norms and formulas that provinces and line ministries must follow in preparing their expenditure estimates for the next year. Provinces consolidate budget estimates from communes and districts and submit them to the MOF for consideration. In two parallel processes, the tax department forecasts revenues and the Ministry of Planning and Investment (MPI) plans investment (capital) resources to be provided to each province. The MOF reconciles province and line ministry expenditure forecasts with revenue projections, making a final determination of the amount to be allocated to the provinces and ministries. The National Assembly has final approval authority for the state budget. Given their allocation from the centre, provinces set allocations for districts within guidelines provided by the centre. Districts in turn determine allocations to communes within these guidelines.

There are three classifications of government revenues in Viet Nam: central, assigned, and shared (Table 3-1). Central revenues include a special consumption tax, revenue from SOE's, and revenue from major minerals such as oil. These revenues, collected by central tax department authorities, are deposited in the central treasury. Tax departments in each province collect assigned and shared revenues. Provinces retain assigned revenues entirely to finance approved expenditure plans (budgets). Major types of assigned revenues include the agricultural tax, land and housing taxes, license and registration fees and taxes, and personal income taxes. Shared-revenue sources include export and import taxes, profit taxes, and turnover taxes. Shared revenue is shared between provincial governments where the revenue was raised, and the central government. The MOF determines the amount retained by each province. That amount is expressed as a percentage of the total amount expected to be raised, which is determined by the amount needed by each province to meet requirements of its approved expenditure plan after accounting for expected assigned revenue. This proportion is recomputed for each province each year.

If the actual total amount of shared revenue raised exceeds the projected amount, each province still transfers the agreed upon percentage of this larger amount to the central treasury. The province retains its agreed upon percentage of this larger amount, which in effect is a surplus above the amount required to meet approved expenditures. Provinces have some discretion in deciding how to use this excess revenue. In some provinces, projected total shared revenue is not sufficient to close the gap between assigned-revenue projections and the approved province expenditure plan. In those provinces, the percentage of shared revenues retained by

[9] Sources: Intergovernmental Fiscal Relations (Working Paper No. 4), Viet Nam Public Expenditures Review: Volume II (UNDP VIE/94/025, 1996); and Economic and Financial Situation (Revised), National Rural Water Supply and Sanitation Strategy Study, Mid Term Report, Volume 5 (Carl Bro International a/s in association with Crone & Koch, VKI, 1998), Annex 3 (Budget Process).

Table 3-1: Revenue Sources in Viet Nam[10]

Central Revenues	Assigned Revenues	Shared Revenues
• Special consumption tax • Profits and depreciation from central SOE's • Revenue from major minerals	• Agricultural tax • Land and housing tax • Slaughter tax • License fees and taxes • Registration fees • Depreciation, tax on capital use and profits from commercial enterprises • Personal income tax • Taxes on lotteries • Transportation fees • Revenue from forestry	• Export and import taxes (in provinces bordering other countries) • Profits taxes • Turnover taxes

the province is set at 100 per cent and the central government transfers additional funds to close the gap. The central government also transfers additional funds to provinces that do not meet expected revenue targets.

In summary, revenue and expenditure projections are determined jointly by central and provincial authorities. The state budget represents all central-level spending and through province budgets, a consolidation of approved spending by provinces, districts, and communes. A significant proportion of national tax revenue is collected at the province level and most of these funds remain at the province level to finance services as approved by the National Assembly in the state budget. The MOF prepares an expenditure report at the end of each year to account for actual expenditure approvals given from the budgeted amount. These are the financial figures reported in this document. Some provinces raise additional resources through excess assigned and shared revenue collections and through centrally approved, province-specific taxes and fees. These additional revenues (and expenditures), are not included in central expenditure reports and are therefore not included in this analysis; as discussed earlier, the MOF estimates that additional revenues account for only between 2 and 5 per cent of total expenditures by central and local state authorities. Province case studies to be completed as part of Viet Nam's BSS Study are designed to shed light on the extent and use of these additional resources.

Expenditure Reporting

During a fiscal year, line ministries and provinces must obtain permission from the MOF for all expenditures. Approved requests from line ministries and province expenditures are recorded in the MOF record keeping system, and these approvals are reported as expenditures. At the end of the fiscal year, provinces are required to report to the MOF on all revenues and expenditures, including expenditures from the budget approved by the MOF and from retained excess revenue and province-specific taxes and fees.

Determination of budgets for recurrent expenditures is very precise. In producing budget requests, provinces and line ministries must follow detailed guidelines (from the budget circular) that describe population and cost norms and allocations across spending categories, such as salaries and supplies. The MOF reviews in detail these budget requests, and approved budgets stipulate both a total approved amount and approved amounts by type of expenditure. Allocation of capital resources is primarily the responsibility of the MPI and the allocation process is different. Financing for major capital projects that cross provincial lines (such as inter-provincial road

[10] Intergovernmental Fiscal Relations (Working Paper No. 4), Public Expenditures Review: Volume II (UNDP VIE/94/025, 1996) adapted from Table 4.2.

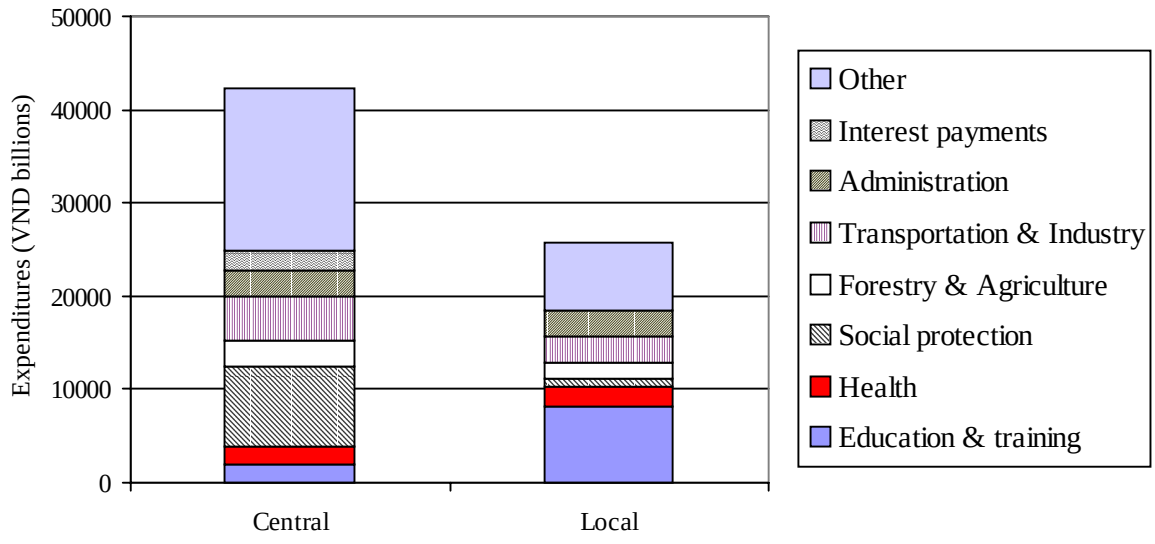
construction and major irrigation projects) are the responsibility of central ministries. Resources for other capital projects are provided to provinces. The MPI, in consultation with the MOF, sets aggregate capital expenditure budgets for each province by sector. Within these parameters, provinces determine how these resources are used according to locally determined priorities and needs. At the end of the year, provinces must also report expenditures for capital projects. However, the MOF expenditure report provides a breakdown of this information only to the aggregate level by sector. Provinces may spend excess-shared revenue generated on capital projects. Information on this additional capital spending is not included in the MOF expenditure report and was not available to the BSS Study team.

In summary, information in this report pertains to current expenditures by line ministries and provinces from the centrally approved budgets. Detailed breakdowns of recurrent expenditures for the social sectors were obtained from line ministries. Information about the small amount of additional resources that may have been raised and used beyond the centrally approved budget are not included in this report. Aggregate capital expenditures by sector were provided to the BSS Study team. Detailed capital expenditures for basic and non-basic social services were based on information from line ministries.

Spending from the State Budget, 1997

Total state spending in 1997 was VND 68,110 billion. Sixty-two per cent of this total was spent from the central budget and 38 per cent from local budgets. In the social sectors local spending emphasised education and health more so than central spending (32 and 8 per cent of total local spending respectively vs. 15 and 6 per cent of central spending respectively). Central spending emphasised social protection more so than local spending (20 per cent of central spending vs. 3 per cent of local spending, Figure 3-1).

Figure 3-1: State Expenditures from Central and Local Budgets by Sector, 1997



IV. Education Sector

Background and Description of the Sector

Historically, education has been highly valued among Vietnamese people, and the country's leaders have long recognised its importance to national development. However, until the post-colonial period, few public schools existed and few Vietnamese had access to them. Even before achieving independence, Ho Chi Minh launched a literacy campaign in 1945. After independence, the government undertook a major initiative to expand the public education system. As conflict again intensified and the country was partitioned in 1954, two educational systems evolved, one in the north and one in the south. Efforts to unify these two systems began in earnest after national reunification in 1975 and convergence of the two was completed in the late 1980s.[11] Education continues to be a high priority for government policymakers. n fact, during a period of economic difficulty and state budget retrenchment in the early 1990s, education was one of few sectors protected.

Despite its history, Viet Nam's public education system has out-performed systems of many other countries, even those at higher stages of development. Population literacy stands at nearly 90 per cent and gender differences are comparatively small. Primary school enrolment is almost universal, drop-out rates have declined to less than 10 per 100 students at all levels, and the percentage of students repeating grades is below 5 per cent at all levels. However, major regional differences in educational indicators do exist. For example, literacy rates in mountain provinces are as low as 50 per cent; and although national primary school enrolment rates are nearly 100 per cent, they are significantly lower in mountain, central, and Mekong Delta regions. In these areas, gender disparities in enrolment rates and literacy are greater.

Institutionally, the education sector is becoming more diverse. Government policy encourages the establishment of private sector educational institutions. Within the public educational system, there are six levels:

- Pre-school education consists of nursery schools and kindergarten. Attendance is optional at this level.
- Primary school is compulsory and consists of five years of education.
- Four years of lower secondary school follows primary school.
- Three years of upper secondary school follows lower secondary school. There are three general levels of vocational and technical education.
- Vocational training programmes, generally short, are open to students who complete primary or lower secondary education and who are not likely to proceed further in the formal education system. Secondary vocational education programmes last three to four years and are also open to students who leave primary and lower secondary school. Professional secondary education lasts two to four years and students completing upper secondary school may attend these programmes.
- Tertiary educational institutions in Viet Nam include colleges and universities.

The Ministry of Education and Training (MOET) is the primary government institution responsible for education.[12] The World Bank reports that more than 24 other ministries and government agencies also operate educational institutions and programmes.[13] These institutions and programmes are generally related to the mandate of the administering agency and are generally vocational or technical in nature.

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[11] For greater detail on the history and structure of Viet Nam's educational sector, refer to "Viet Nam Education Financing Sector Study" (The World Bank, 1996).

[12] A recent structural change was made and responsibility for vocational training has been shifted from MOET to the Ministry of Labour, Invalids, and Social Affairs.

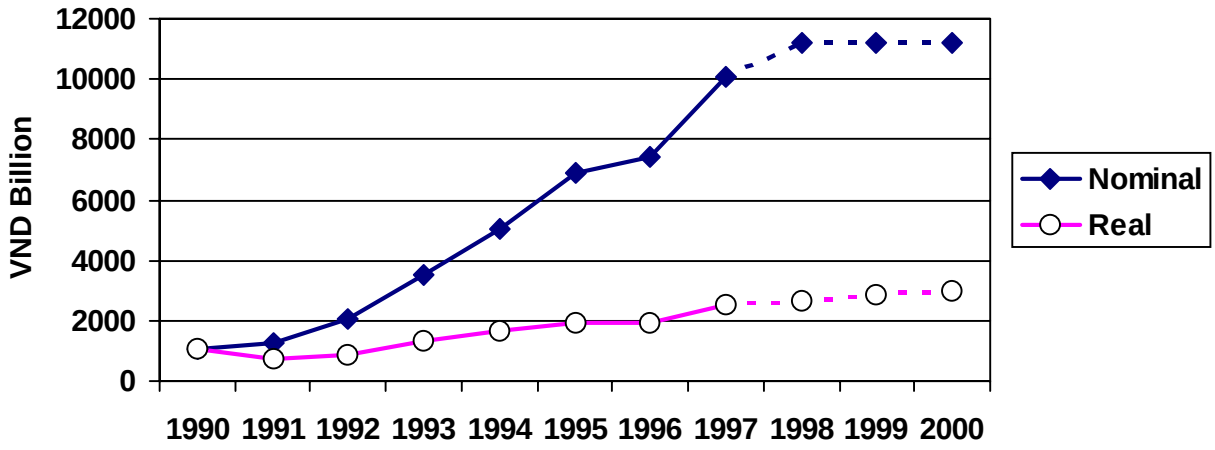
[13] For greater detail on the history and structure of Viet Nam's educational sector, refer to "Viet Nam Education Financing Sector Study" (The World Bank, 1996).

Education Expenditures

Total education sector expenditures from the state budget reported here encompass central level spending by MOET and other government ministries and agencies, as well as local spending by Government authorities using centrally approved resources. For example, district education authorities pay pre-primary and primary school teachers' salaries by using allocations from provincial resources. These provincial resources are derived from retained revenue collected on behalf of the state. Eighty-one per cent of state education spending came from local budgets; 19 per cent was from the central budget.

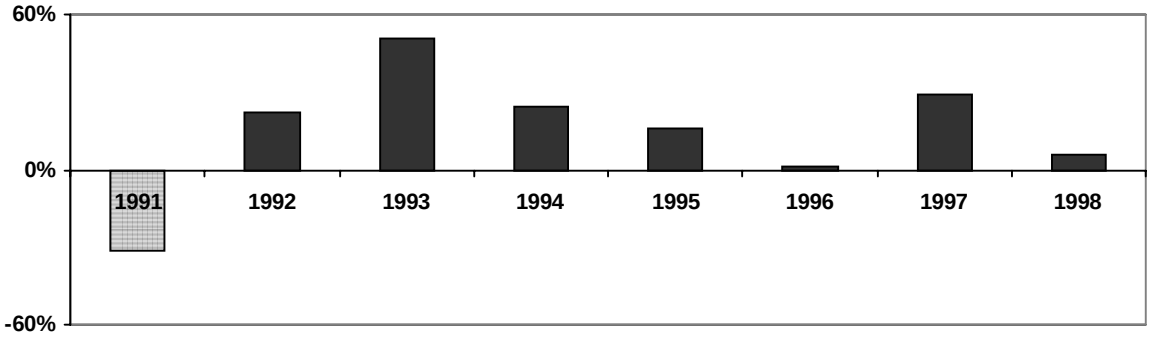
Figure 4-1 shows the growth in state education spending between 1991 and 1997, budgeted spending for 1998, and planned spending for 1999 and 2000. Planned spending is based on the assumption that real spending will continue to increase at 6 per cent per year, in concert with GDP growth rate projections currently used in government circles. Total education sector spending increased from VND 1,055 billion in 1990 to VND 10,081 billion in 1997. In real terms, this is an increase of almost 140 per cent.

Figure 4-1: Nominal and Real Education Sector Expenditures



State spending on education has increased in real terms each year, except from 1990 to 1991 (Figure 4-2). Spending in 1991 was 31 per cent lower than in 1990. Annual growth rates in education spending were high for the next three years, reaching 50 per cent in 1993. Education spending in 1997 was 29 per cent higher than in 1996. These large real growth rates are evidence of Viet Nam's commitment to education. Further evidence of this commitment can be seen by looking at education as a percentage of total state spending (Figure 4-3).

Figure 4-2: Growth in Real Spending for Education



In 1990, state spending on education constituted 12 per cent of total state spending. By 1997, education accounted for 15 per cent of state spending. Figure 4-3 also shows that in almost every year, actual state

spending on education has been higher, as a proportion of total state spending, than planned.[14] The reason for this gap has not yet been explored, but may be explained by spending in the education sector at closer to budgeted amounts as compared to other sectors. Regardless of the reason, the effect has been an earlier than anticipated achievement of the government's target of 15 per cent of total State spending going to education. During the same period, state education spending as a percentage of GDP more than doubled from 1.6 per cent in 1990 to 3.4 per cent in 1997.

Figure 4-3: State Education Spending as a Percentage of Total State Spending and as a Percentage of GDP

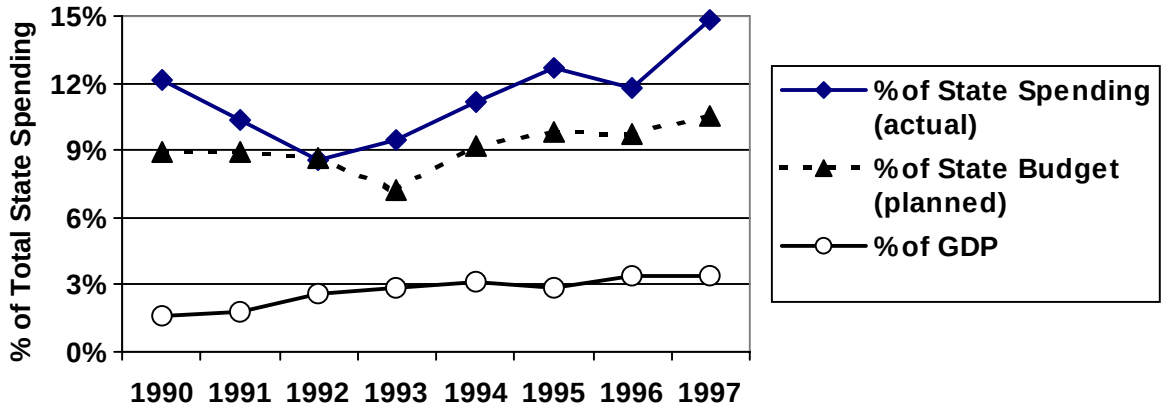
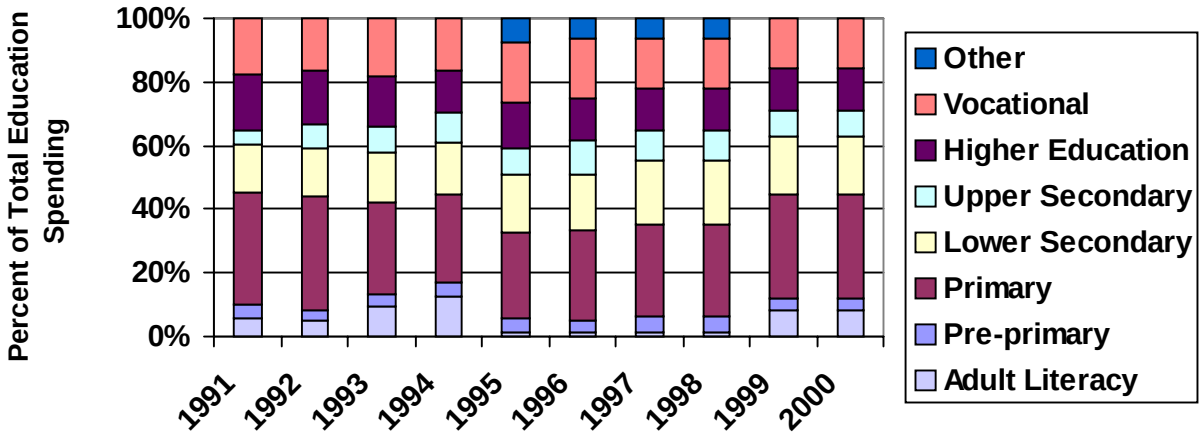


Figure 4-4 shows how education sector spending is allocated across education levels and programmes. Spending for adult literacy services accounted for 5 per cent of sector spending in 1991, which increased to nearly 13 per cent by 1994. However, reported expenditures on adult literacy from 1991 to 1994 appear to have included spending for "other" programmes and services, evident from the fact that reported spending on adult literacy dropped to 1.3 per cent in 1995, remaining nearly constant at that level. Financial allocation to adult literacy mirrors high-policy attention to achieving universal literacy by the year 2000.

Figure 4-4: Distribution of Education Sector Expenditures, by Level and Programme



The proportion of education sector resources spent at the pre-primary level (including nursery schools and kindergartens) has remained relatively stable, changing only slightly from 4.8 per cent in 1991 to 5.4 per cent in 1997. Spending for this level declined in 1992 (to 3.3%), recovering thereafter. In proportional terms, spending on primary school education has declined during the period examined. In 1990, 35 per cent of education sector resources were spent on this level. This high proportion was maintained in 1992, when emphasis on adult literacy

[14] Overview on Budget and Grant for Social Objectives by 20/20 Compact on Education and Training. MOET, September 1998.

and pre-primary school levels was reduced. Since 1992 the proportion of state education spending devoted to primary school levels has declined; in 1997, it was 29 per cent. Information from MOET indicates a planned increase in emphasis on primary school education; it is projected that this level will consume almost 33 per cent of state education spending in both 1999 and 2000. The proportion of education sector resources spent on basic education declined from a high of 45 per cent in 1990 to a low of 33 per cent in 1995. Since then, this proportion has been increasing, standing at 35 per cent in 1997. As the policy priority increasingly favours primary education, this proportion can be expected to increase further.

Among the non-basic education levels, lower secondary education has accounted for an increasing proportion of sector expenditures, from 15 per cent in 1990 to nearly 20 per cent in 1997. Upper-secondary education spending has increased from almost 5 per cent of the total to nearly 10 per cent, while higher education spending has declined from 17 per cent of total education spending to 13 per cent. The proportion of resources devoted to vocational education has not changed significantly—16 per cent of total sector spending in 1997.

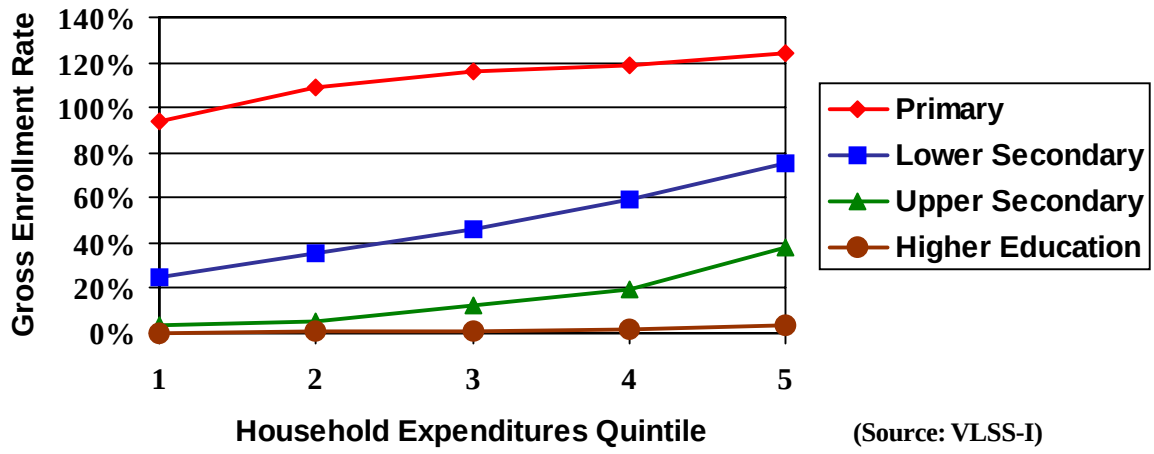
Equity in Education Expenditures

The measure of equity used here is the proportion of state spending on education captured by each quintile of households in Viet Nam, the first quintile being the poorest 20 per cent of households and the fifth quintile being the wealthiest 20 per cent. Three component pieces of information are required to complete this analysis:

- Enrolment rates for each level of education and for each household expenditure quintile.
- Number of children in each quintile of household.
- Per capita state spending for each level of education and for each population quintile.

The first two components are used to compute the number of children from each quintile enrolled in each level of schooling. These figures are then multiplied by the estimated per capita spending for the respective level of education and population quintile. Nationally, representative survey data are required to estimate the first two components, and at the time of this report's preparation, the latest available data were from the 1993 Viet Nam Living Standards Survey (VLSS-I).[15] Figure 4-5 shows gross enrolment rates for four levels of education and for each household quintile. At the primary school level, enrolment is universal or nearly universal in all quintiles. Only in the poorest quintile is enrolment less than 100 per cent (93%). Beyond the primary school level, enrolment drops considerably for all household quintiles. For all levels beyond primary school, disparities across quintiles are also sharper.

Figure 4-5: Gross Enrolment Rates by Household Expenditure Quintile and Level of Education

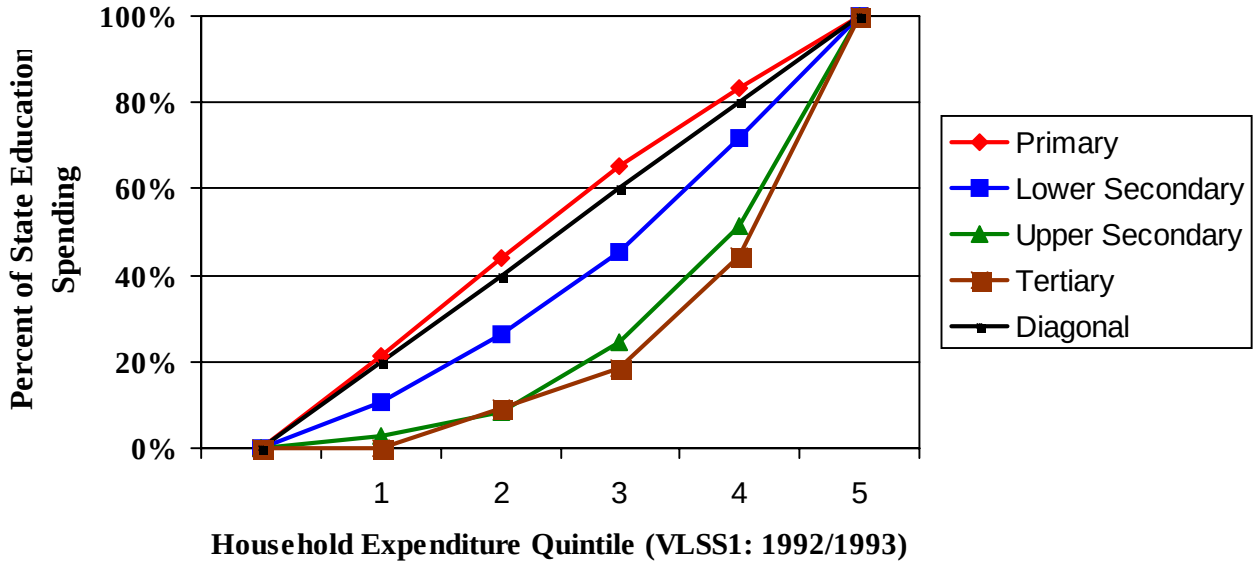


(Source: VLSS-I)

[15] Data VLSS-II, fielded in 1998, were not available during the time of this study. Given the fast pace of social and economic development between 1993 and 1998, this analysis should be replicated using the new data to assess the degree to which equity patterns have changed in the education sector.

The age distribution of children in poorer households is lower than in richer households, resulting in a slightly higher concentration of primary-school-age children in the poorer quintiles and a slightly higher concentration of higher education age children in the richer quintiles. These relatively small differences are overwhelmed however, by the differences in enrolment rates across quintiles. Information on state spending per student is not available by income quintile; for this analysis, it was assumed that spending at each level of education was the same for each quintile. Figure 4-6 shows the distribution of state spending for each education level across the five quintiles, from poorest to richest.

Figure 4-6: Distribution of State Education Spending across Household Expenditure Quintiles



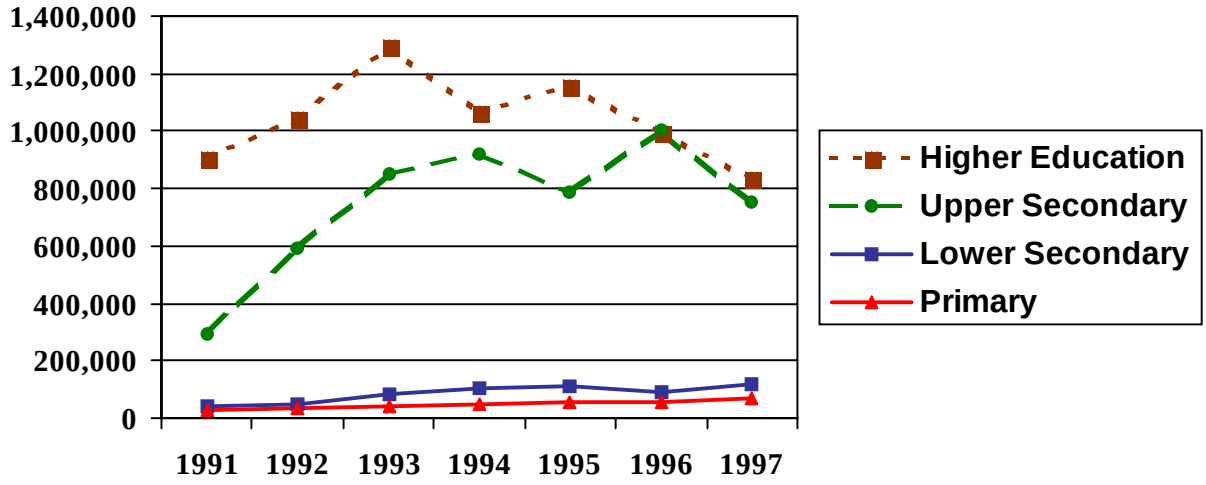
The diagonal line of Figure 4-6 represents the hypothetical situation whereby there is complete equity in spending for education, that is, a 20-per cent population segment (quintile) captures 20 per cent of state spending. Below the diagonal, the proportion of state spending captured by higher income quintiles is greater and is a less equitable situation. Primary school spending is the most equitable among the education levels shown and in fact primary school spending is slightly pro-poor in Viet Nam, as illustrated by the curve that is slightly above the diagonal. At successively higher education levels, state spending increasingly favours the better-off population segments. In the case of tertiary education the richest 20 per cent of the population (fifth quintile) capture more than one-half of state spending for that level.

Efficiency in Education Spending

There are numerous possible indicators of efficiency in education expenditures. Indicators discussed here include cost per student per year of education, cost per graduate, student: teacher ratios, and composition of recurrent spending. Indicators for both basic and non-basic education levels are presented here because efficiency gains in any sector represent savings that can be allocated to basic education services.

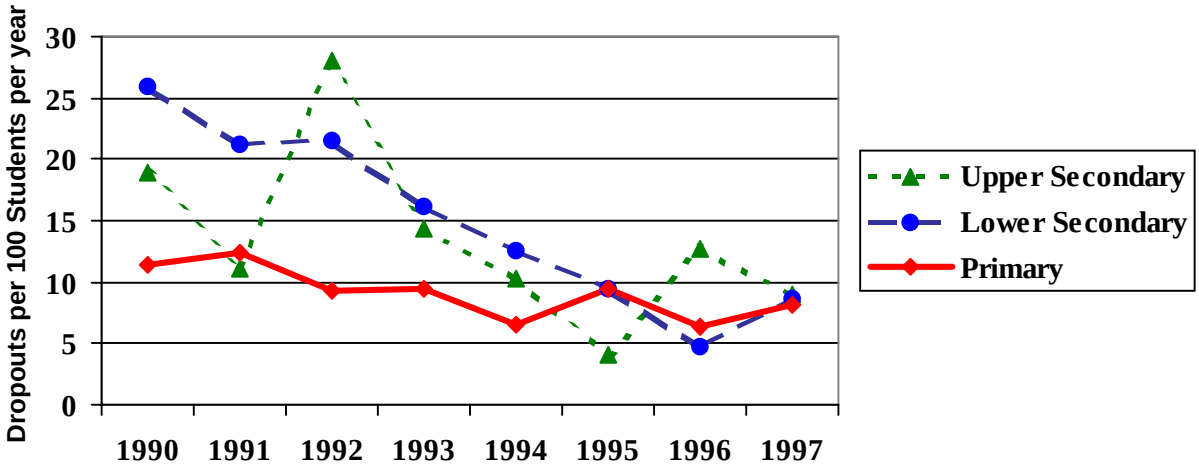
Figure 4-7 shows trends in state spending per student per year between 1991 and 1997 (shown in real 1990 VND). Two points are relevant to discussing internal allocation efficiency. First, spending per primary school student has increased by 137 per cent in real terms. Spending per lower secondary school student has also increased by almost threefold. Second, spending per upper-secondary and higher education student increased during the first several years of the period before declining. These trends suggests that state education policy has increasing priority to primary school education, corroborating information provided earlier in this chapter that increasing proportions of education sector resources have been allocated to basic education services during the 1990's.

Figure 4-7: State Spending per Student per Year by Education Level, 1991–1997
(1990 VND)



State cost per graduate is another useful measure of internal efficiency in education sector spending. These costs are affected by the proportion of students who drop out of school each year and the proportion of students who repeat a grade. The higher each of these proportions are, the greater the costs of producing a graduate. Figure 4-8 shows trends in dropout rates.

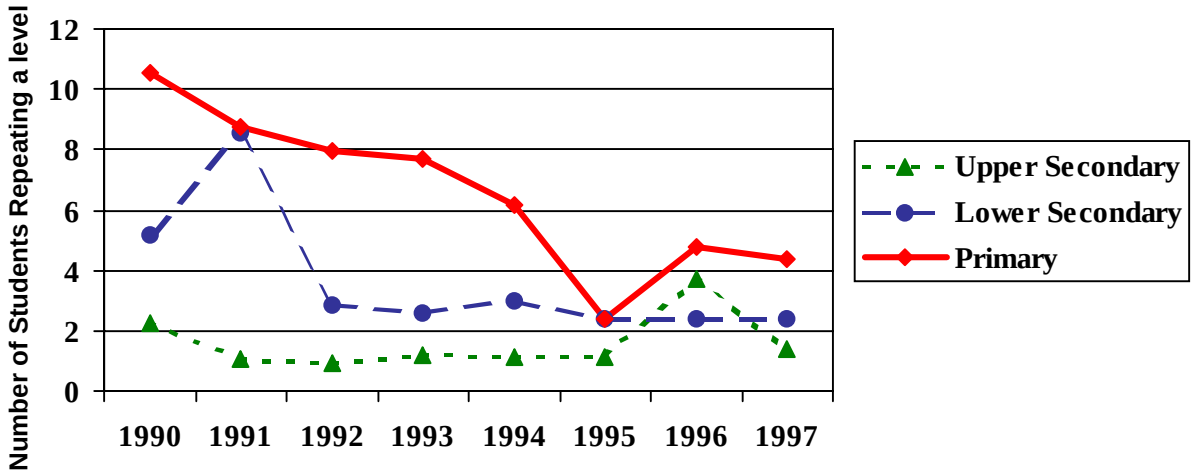
Figure 4-8: Trends in Dropout Rates per 100 Students by Level of Education



Improvements in dropout rates are evident at all education levels. Among primary school students the rate declined by almost one-third falling from nearly 12 in 1990 to about 8 in 1997. Improvements among secondary school students were even sharper, starting at above the rate for primary school students and falling to nearly the same level as primary school students by 1997. These changes should reduce the cost of producing graduates at all levels in Viet Nam's education system. Similar improvements are evident in the rates of students who repeat a grade level each year (Figure 4-9).

Improvements in repetition rates have been largest among primary school students. In 1990 more than 10 per cent of all students enrolled in primary school were repeating their grade. By 1997 this rate dropped to 4 per cent or less than one-half the 1990 level. Repetition rates among secondary school students were lower at the beginning of the period compared to primary school, and while these have also improved, changes have not been as large. Dropout and grade repetition rates are components of another efficiency measure in education—student-years per graduate. As dropout and repetition rates improve, the number of student-years required to produce a graduate should decline, resulting in lower costs of producing those graduates.

Figure 4-9: Trends in Repetition Rates per 100 Students by Level of Education



The World Bank's Viet Nam Education Sector Review calculated that, on average, 6.8 student-years were required to produce one primary school graduate in 1994.[16] This is 1.8 years longer than the 5-year curriculum. Equivalent estimates for lower secondary school is 5.1 student-years (for a 4-year curriculum) and 3.5 years for upper secondary school (for a 3-year curriculum). The downward trends in dropout and grade repetition rates shown in Figures 4-8 and 4-9 suggest that this efficiency indicator, the number of student-years per graduate, probably improved since 1990. However, improvements in dropout and repetition rates stalled around 1995. Since these are major factors in determining the efficiency indicator, it seems likely that improvement in student-years required to produce a graduate has also stalled. Education sector policymakers recognise the importance of regaining the momentum towards reducing dropouts and grade repetition. They cite curriculum overhauls as one initiative designed to improve student ability to stay in school and complete each school year successfully.[17]

In 1990 student : teacher ratios varied dramatically between different educational levels in Viet Nam. Ratios were highest for pre-primary and primary school levels and remained largely the same through 1997. Ratios for secondary school rose from under 20 in 1990 to almost 30 by 1997. The unusually low ratio observed in higher education was probably related in part to the higher number of small, specialised schools run by individual government sectors, designed to produce graduates for that sector.[18] Changes were greatest in higher education rising from 7 in 1990 to 30 in 1997, perhaps commensurate with consolidation of a number of these specialised institutions into multi-disciplinary institutions. By 1997, the differences among education levels had narrowed, perhaps contributing to the narrowed gap in unit costs among the sectors (Figure 4-10).

The amount of money available for non-salary items, such as instructional materials and school facility maintenance have an important bearing on the quality of education. Data for this indicator were collected for 1995 to 1997 (Figure 4-11).

The highest proportion of recurrent spending allocated to teachers' salaries is observed at the primary school level. In 1997 it stood at 84 per cent, an increase from 75 per cent in 1995. According to The World Bank, "this is a lower percentage than in many countries," and should provide adequately resources for non-salary inputs. Generally, there appears to be an increasing trend in the proportion of recurrent spending allocated to salaries at all other levels as well, with increases being steepest at the upper secondary level. Such increases

[16] The World Bank, "Viet Nam Education Sector Study: A Sector Report" (Report No.15925-N, October 1996), Table 4.5.

[17] Comments of education sector participants at the BSS Study National Workshop held in Hanoi, Vietnam, August 23-24, 1999.

[18] Ibid., p. 82.

Figure 4-10: Student : Teacher ratios

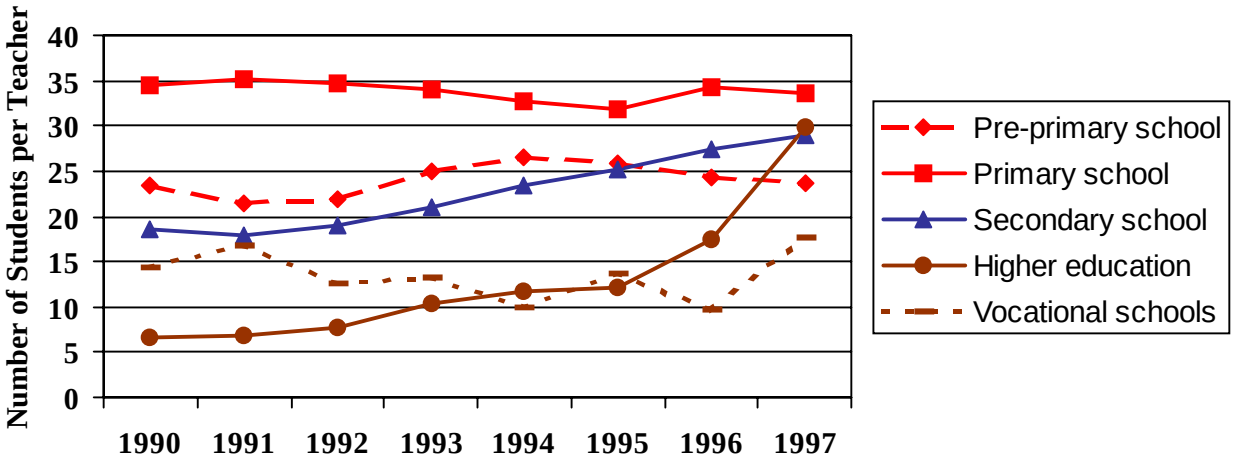
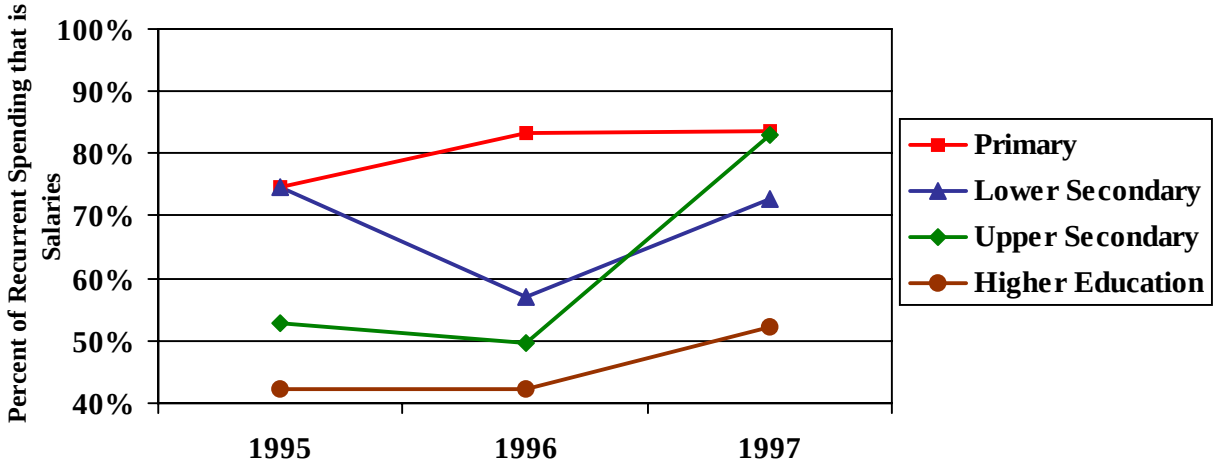


Figure 4-11: Proportion of State Recurrent Education Sector Expenditures, Which Are for Teachers' Salaries



may be a positive development, as teachers' salaries in Viet Nam are considered to be low relative to salaries in other countries (as a percentage of average income in Viet Nam). On the other hand, these increases erode ability to invest appropriately in other important educational inputs.

Hard data on the composition of non-salary educational inputs were not available. National experts however, report that nation-wide, 3 to 4 per cent of recurrent education spending is for textbooks and teaching aids. In Hanoi and Ho Chi Minh City this proportion is reported to be 7 per cent. These figures compare to a 10 per cent target set in the most recent government budget circular.[19] Confirmation of this information would be useful in policy dialogue about state education sector spending priorities.

[19] Comments by government participants at the BSS Study National Workshop, Hanoi, Vietnam, September 23-24, 1999.

V. Health Sector[20]

Background and Description of the Sector

As in education, Viet Nam's commitment to providing access to basic health services is long-standing. A major initiative was launched in the early 1950's to construct a network of community health stations intended to provide basic primary and preventive health services to Viet Nam's large rural population. This movement took strong hold in the north, but because of the partition of the country, the south lagged behind. Efforts to extend this network to southern communities were undertaken immediately after reunification in 1975. By 1997 nearly 99 per cent (9,806 out of 9,929) of all communes in the country had a community health station. An additional 926 rural communities had inter-communal polyclinics, the second tier in Viet Nam's five-tiered public health system. The five tiers of the health system consist of the following:

- *Community Health Stations (CHSs).* These facilities are the first point of access to health services in Viet Nam. CHSs provide basic preventive and curative health services. Many preventive and public health programmes organised at higher levels in the system use CHSs as the focal point for their operations. Much of the financing needs for this level of service is met by user fees and other locally raised resources, although in recent years the central level has provided increasing assistance, especially to poor communities, through special programmes.
- *Intercommunal Polyclinics (ICPCs).* These facilities, the first referral point for CHSs, were intended to provide backup services to between three and six CHSs. However, their numbers have been declining in recent years. Many now serve up to 10 CHSs. ICPCs effectiveness with respect to their original intended purpose has been questioned, and policy options are being weighed to determine their fate. District health authorities manage ICPCs.
- *District Health Services.* District health offices (DHOs), district hospitals (DHs), and preventive medicine brigades (PMBs) make up this level of service. DHOs serve public health surveillance and programme management functions, being intermediary between province and central levels, and the communal level. By the end of 1997 there were 564 DHs, one in each district in the country, providing both basic and specialised health services. District health centres also provide outpatient services, often on the same premises as DHs. PMBs manage and implement public and preventive health programmes and services such as childhood immunisations (Expanded Programme for Immunisations), childhood diarrhoeal disease programmes, malaria control, and others. District health services are financed through allocations from Provincial Health Bureaus to the district MOF branch, using resources from the state budget.
- *Provincial Health Services.* Provincial Health Bureaus oversee health service operations at district and community levels. Provinces also operate preventive medicine stations, local production of medical supplies, training schools for lower-level health workers (assistant physicians, nurses, midwives, and secondary physicians), and provincial hospitals. By the end of 1997 there were 293 general and speciality provincial hospitals, mostly serving residents of the towns and cities where they are located.
- *Central Health Services.* The MOH and its services and facilities make up the top level of Viet Nam's health system. The MOH provides policy and technical direction to the entire system. It also operates medical and pharmacist training schools, production facilities for drugs and medical equipment, and specialised hospitals and institutes that provide mostly tertiary health care services. Finally, the MOH operates the Institute for Hygiene and Epidemiology and the Institute for Nutrition. Other state agencies also operate health services for specific populations, such as the Ministry of Defence.

In addition to these functional service delivery levels, the MOH operates a number of vertical preventive and public health programmes. Preventive programmes include childhood immunisations, postnatal care, family

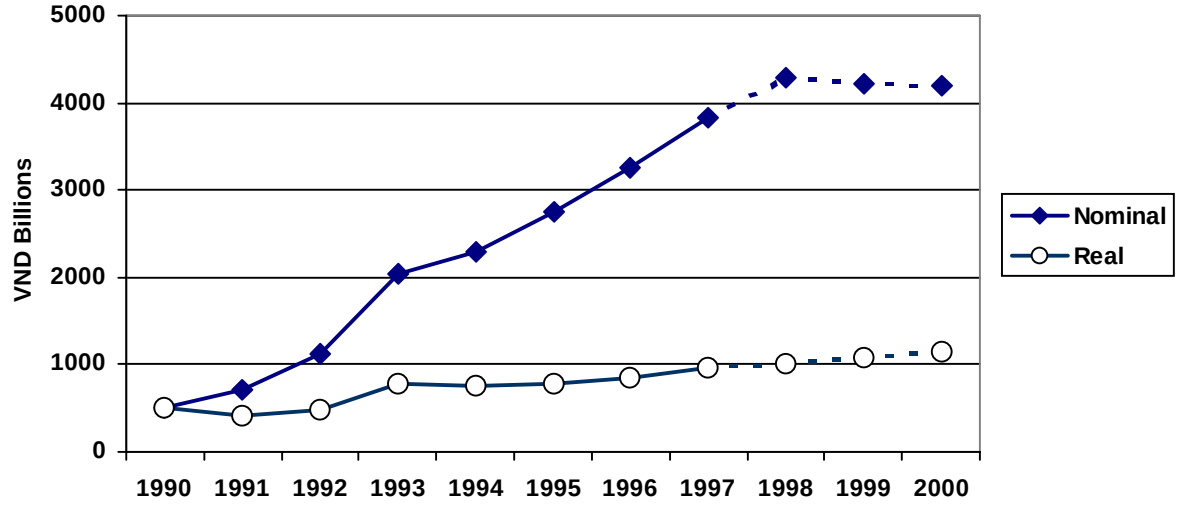
[20] For a more detailed description of the health sector, refer to "Situation Analysis of Women and Children in Viet Nam" (Ha Noi: UNICEF, 1994).

planning[21] and HIV prevention. Public health programmes include malaria control, tuberculosis control, leprosy, maternal and child health and provision of essential drugs and materials.

Health Expenditures

The general trend in state spending for health has been upward. Between 1990 and 1997, state spending increased from VND 490 billion to VND 3.8 trillion. In real terms, this is more than a two-fold increase (Figure 5-1). This period increase reflects the high priority the government places on health.

Figure 5-1: Nominal and Real Health Sector Expenditures



Only in 1991 was there a real decrease in health sector spending. In that year real spending for health declined by 21 per cent (Figure 5-2), followed by increases in real state spending for health of 21 per cent and 58 per cent in 1992 and 1993 respectively. Growth in health sector spending was flat in 1994 and 1995, and resumed upward in 1996 and 1997. Planned health sector spending for 1998 is VND 4.3 trillion, a 6 per cent real increase over 1997.

In contrast to education sector spending, which first decreased from 12 to 9 per cent and then increased to 15 per cent of state spending, health sector spending has remained relatively constant (Figure 5-3). In 1990, 5.9 per cent of state spending was for health. In 1992 it was at its lowest point of 4.7 per cent. By 1997 it had returned to 5.6 per cent. In all years, health spending as a percentage of total state spending has been only one-half that of education spending. The same is true of state health spending as a proportion of GDP, fluctuating around its current position of 1.3 per cent of GDP. This compares with education, which began at 1.6 per cent of GDP in 1990 and rose to 3.4 per cent in 1997. The lower proportion of state spending going to the health sector reflects the greater degree to which a private health services market developed in Viet Nam, since implementation of its *doi moi* policies in 1986. It is estimated that more than three-fourths of all spending for health care is private,[22] and most of that is for services purchased in the private market. The source of state health spending is nearly evenly split between central and local budgets.

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[21] Family planning services are delivered primarily through the MOH network of service delivery facilities, although the National Committee for Population and Family Planning is the principal institution responsible for national population and family planning policy and planning.

[22] Anil Deolalikar, "Major Preliminary Findings from the Viet Nam Health Sector Review," presentation notes, p. 21.

Figure 5-2: Growth in Real Spending for Health

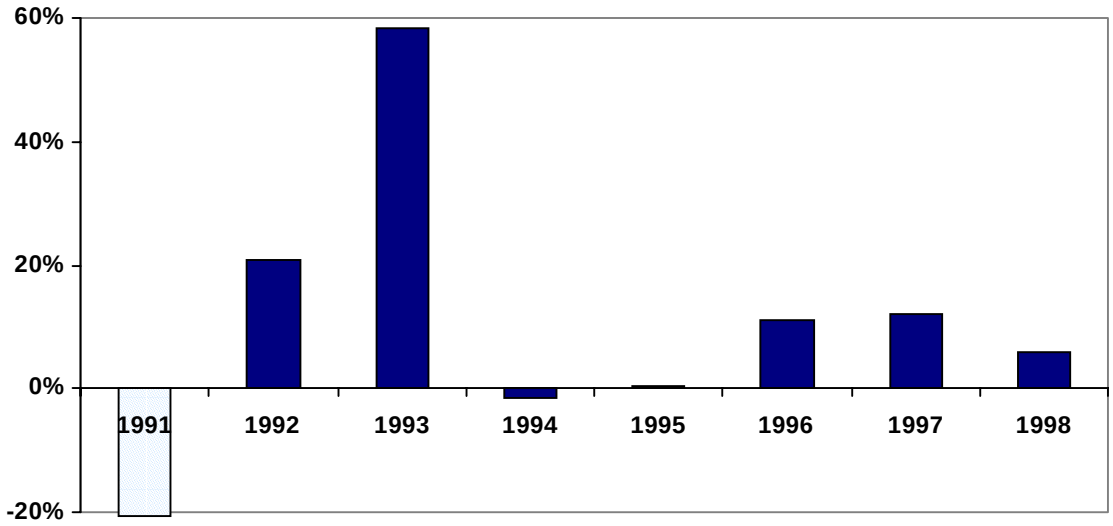


Figure 5-3: State Health Spending as a Per cent of Total State Spending and as a Percentage of GDP

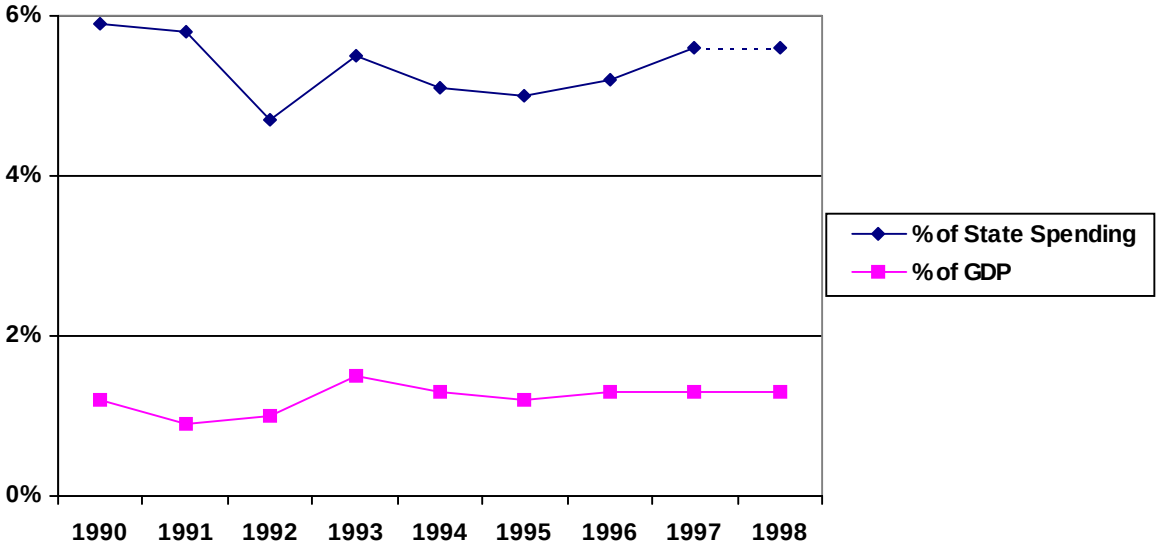
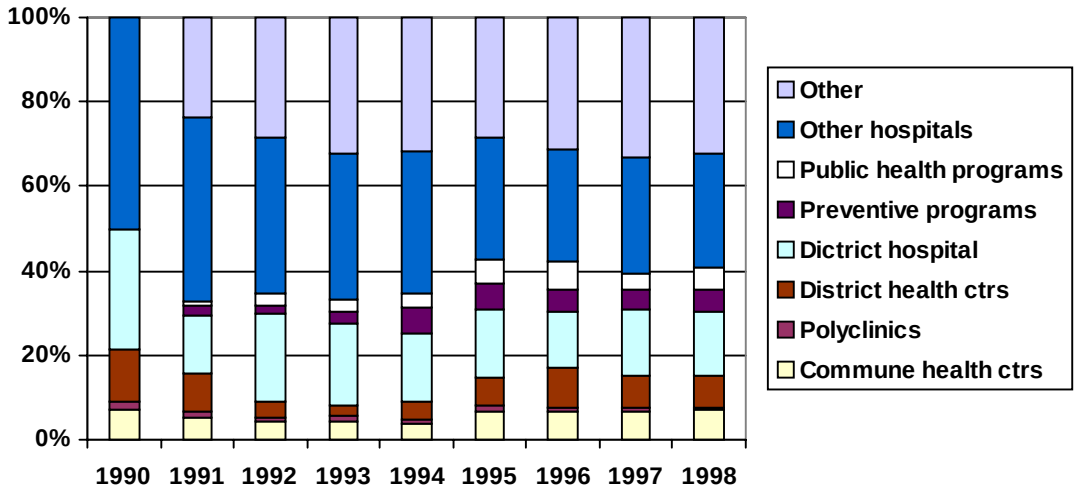


Figure 5-4 shows the distribution of state health sector spending across the five levels of care and programmes. Some noteworthy changes occurred from 1991 to 1997.[23] Basic health services include those at all facilities up to and including district hospitals, as well as the vertical preventive and public health programmes. The proportion of health sector spending allocated to these basic services and programmes increased from 32 per cent in 1991 to nearly 40 per cent in 1997.

Between 1991 and 1994, the proportion of health sector resources spent for CHSs declined from 5.3 to 3.6 per cent. By 1997, the proportion had increased to 6.8 per cent. The decline in the early 1990's may be accounted for by the effects of restructuring of state and community-financing systems, which left CHSs with insufficient resources to adequately serve community-level health care needs. Recognition of this in the mid-1990's led to greater national attention to the problems of CHSs and allocation of additional resources to them,

[23] Information on aggregate health sector spending was available for 1990, but a detailed breakdown of this total was not reliable. Therefore, this description of allocations within the health sector is limited to 1991 to 1997 and 98 projection.

Figure 5-4: Distribution of Health Sector Expenditures by Level and Programme



especially in poor communities. ICPCs have historically received a small proportion of health sector financial resources. In 1990, only 1.4 per cent of state health sector spending occurred at this level and by 1997, it had declined to 0.8 per cent. Further declines in proportional allocations to ICPCs are expected in the next several years.

Among basic health service components, the highest proportion of resources are allocated to district-level health services. In each year from 1991 to 1997, between 20 and 23 per cent of state health sector resources were spent on district health centres and hospitals, a proportion that has changed little over time. Meanwhile, allocations to vertical preventive and public health programmes have increased from 3.2 per cent in 1991 to 8.6 per cent in 1997. The 1998 state budget calls for this to increase further to 10.7 per cent.

Although the proportion of state health sector spending allocated to higher levels (other than basic) in the system declined between 1991 and 1997, 60 per cent is still spent on these non-basic services. Hospitals above the district level (including provincial general and specialised hospitals, and tertiary hospitals operated by the MOH) consumed nearly 44 per cent of state health sector resources in 1991. Commensurate with increased financing allocations to basic health services and programmes, this percentage declined to 27.5 per cent by 1997. A slightly further decline (less than one per cent) is projected in the 1998 budget. It should be noted that a large portion of state spending in the health sector placed in the "other" category is not well defined. In 1991 this portion was 23.5 per cent of health sector spending; in 1997 it had risen to 33 per cent.

Equity in Health Expenditures

Equity in state health spending, as in education, examines the benefit-incidence of captured state health service resources by each of the five household income (as measured by their expenditures) quintiles. Components of this measure are (1) utilisation rates by each quintile for out-patient primary care, district hospital in-patient care, and tertiary hospital care (including province and speciality hospitals) and (2) cost per encounter for each service level.

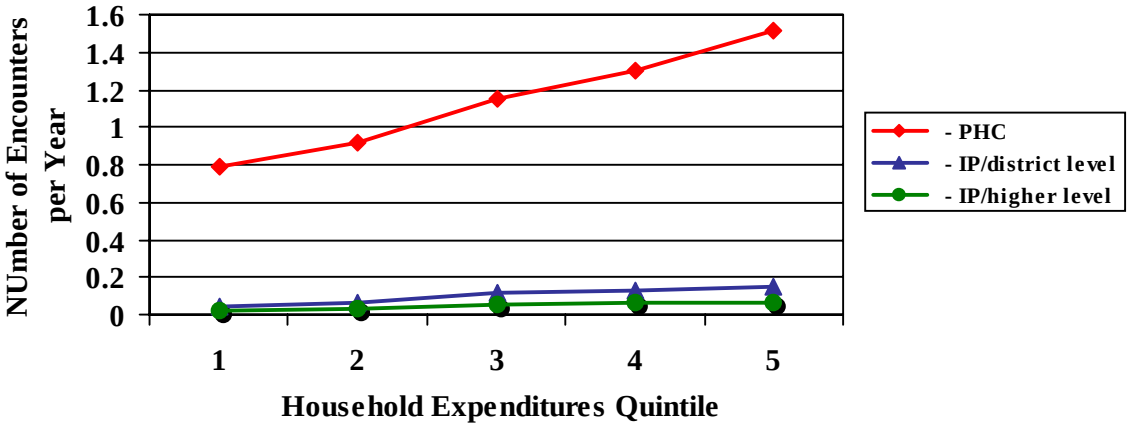
Recent information about the use of health services at state health facilities shows that there were between 1.4 and 1.6 contacts per person in Viet Nam in 1998.[24] During the late 1980's, use of state health facilities declined, dropping from more than two contacts per person in 1987 to one in 1990. It remained at that low level until 1993, when government statistics show that it began to increase again. These trends occurred

[24] Anil Deolalikar, "Major Preliminary Findings from the Viet Nam Health Sector Review," p. 7; citing 1.4 contacts per capita from Viet Nam Living Standards Survey (1998) data, and citing government sources for the 1.6 figure.

alongside an increasing trend in the use of private health services, which by 1998 were estimated at an average of 1.8 contacts per person. It is not clear whether the increasing trend in the state health services sector is attributable to investments in quality improvements or some other factors. Allocation of recurrent state health resources will be examined later in this paper as an indicator of quality of services.

Differences in utilisation rates among different sub-populations are important for analysing equity in the use of state health sector resources. Figure 5-5 shows how the use of state health services varies among the five income quintiles.[25] As expected, the use of outpatient, primary health care services is higher than inpatient services as measured by contacts per year. There is almost a two-fold difference in utilisation rates between the highest and the lowest income groups in Viet Nam. The magnitude of difference between the lowest and highest income quintiles is also large for inpatient services, especially at the tertiary level, which includes province and speciality hospitals.

Figure 5-5: Health Care Utilisation Rates, by Level of Care and Income Quintile



Information on costs per encounter for the different levels of care in Viet Nam's state health sector is limited. Government sources however, report that aggregate spending for inpatient care (all levels combined) among the poor is about one-half as much as spending for the rich.[26] Figure 5-6 shows the estimated distribution of state health care resources across the five income quintiles for 1998. The diagonal line shows the hypothetical outcome whereby each quintile captures a share of state health spending equal to its proportion of the total population (20 %). Resources for outpatient primary care are the most equitably distributed, reflecting the lower differentials in both utilisation rates and costs per contact among the five income quintiles. Still, the poorest 20 per cent of the population capture only 15 per cent of state resources spent for outpatient primary care. Resources for inpatient services are considerably less equitably distributed, with resources for tertiary hospital care being less equitably distributed than district hospital care resources. The graph shows that the richest 20 per cent of the population capture more than 50 per cent of tertiary care resources, and only slightly less than 50 of district hospital care resources. The poorest quintile captures only 2 per cent of tertiary care and 5 per cent of district hospital care resources.

Efficiency in Health Spending

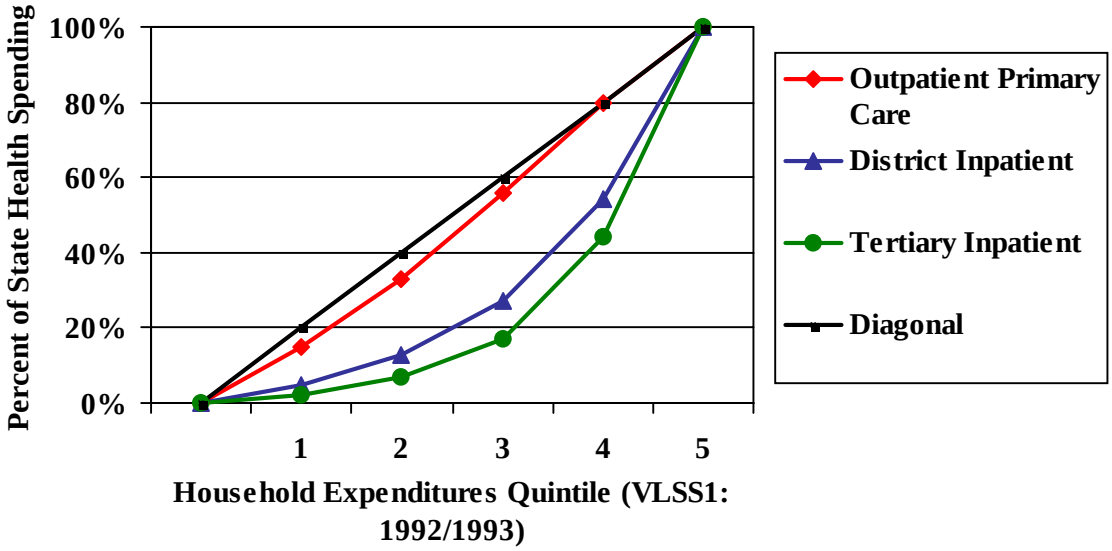
The following indicators will be examined here to assess efficiency in state health spending:

- Nurses-to-doctor ratios.

[25] As in the equity analysis of state education expenditures, income quintiles are represented by household expenditures, as measured in the VLSS-I.

[26] Dr. Le Van Chinh, MOH Planning Dept, 3/2/99; personal communication, citing unpublished study results.

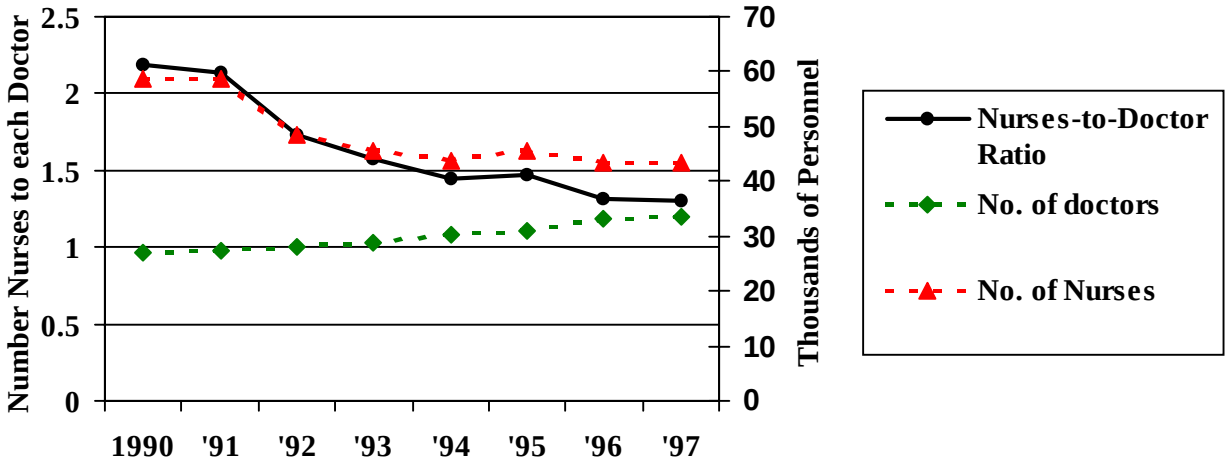
Figure 5-6: Distribution of State Health Spending across Household Expenditure Quintiles



- Internal allocation of recurrent expenditures for salary and non-salary inputs.
- Health status outcomes compared to other Asian countries.

The number of nurses relative to the number of doctors employed in the health care system is a measure of how well human resources are used. An under-supply of nurses relative to doctors often means that doctors are called on to perform health care tasks that could be appropriately performed by trained nurses. Since doctors are more costly to train and support, such an imbalance represents a departure from an optimally efficient use of resources. Figure 5-7 shows the trends in this ratio for Viet Nam (solid line, left axis).

Figure 5-7: Trends in Nurse :Doctor Ratio and Numbers of Doctors and Nurses



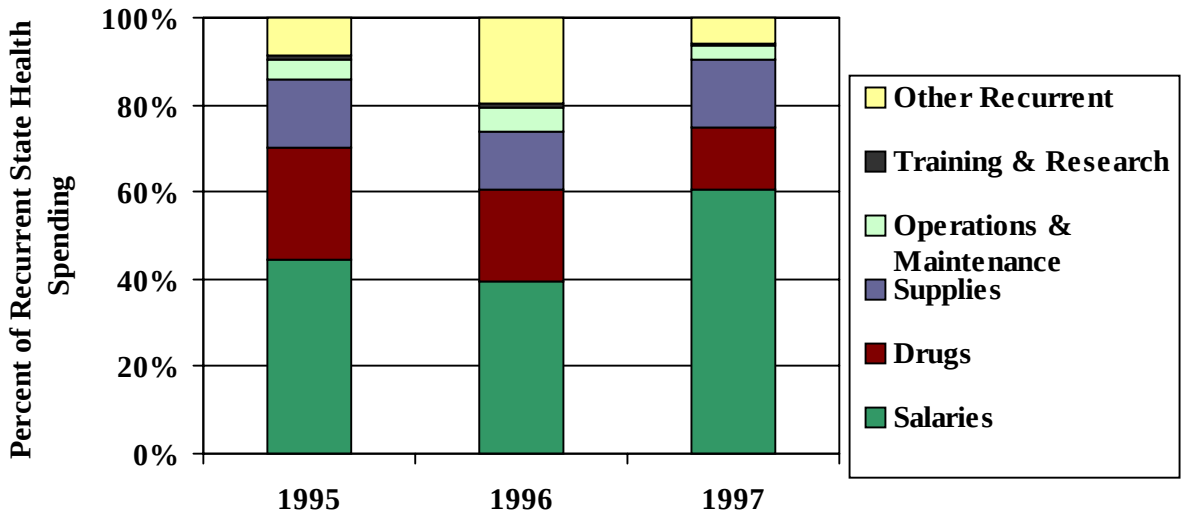
In 1990, there were just 2.3 nurses for every doctor in Viet Nam, a low ratio compared to other countries in the region. This ratio has been declining since then, dropping to 1.3 by 1997.[27] The immediate reason for this trend is evident. While the number of doctors in Viet Nam has increased steadily during this period from 26,800 to 33,500, the number of nurses has actually declined from 58,700 to 48,400. Some of this apparent over-emphasis on doctors may be definitional. The category of doctors includes both those trained in the full, six-year

[27] In comparison, the Nurse:Doctor ratio was 4.0 in Thailand (1990), 3.2 in Sri Lanka (1996), and 1.5 in India (late 1980s). (Source: UNICEF/UNDP.)

medical school curriculum, and assistant doctors who receive a more basic, three-year training course. Policymakers also point out that nursing is perceived to be a low-status occupation in Viet Nam and retention rates for trained nurses are low.[28] More important, however, is to understand the policy context of these changes. The declining trend of the late 1980's and early 1990's in utilisation rates for state health services was attributed in part to consumers' concerns about the quality of care available at state health care facilities, perhaps compounded by emerging growth in private health services and growing incomes. The state health sector is said to have responded by providing greater emphasis to staffing commune health stations with trained assistant doctors.[29] Policymakers now perceive a shortage of nurses and corrective policy changes are planned. Those changes include reduced emphasis on training for assistant doctors and commensurate increased emphasis on advanced nurses training, and improved status for nurses to make the profession more attractive to prospective nurses.

A second indicator of efficiency in health expenditures is how recurrent state resources for health services are distributed across various uses, shown for 1995, 1996, and 1997 in Figure 5-8. In each year examined, salaries consumed the largest share of resources. In 1997, salaries accounted for fully 60 per cent of recurrent spending and almost all of this is reported to be for salaries of medical personnel.

Figure 5-8: Allocation of Recurrent Health Expenditures across uses



Drugs accounted for the second largest proportion of recurrent resource use, accounting for 26 per cent in 1995. However, the proportion spent on drugs declined each year thereafter and by 1997, drugs accounted for only 14 per cent of recurrent spending. Government policy makers attribute the decline in the proportion of recurrent state funds spent on drugs to a recent policy change that added coverage for drugs as a health insurance benefit. As insurance funds assumed an increasing responsibility to pay for drugs, state funds used for this purpose declined.

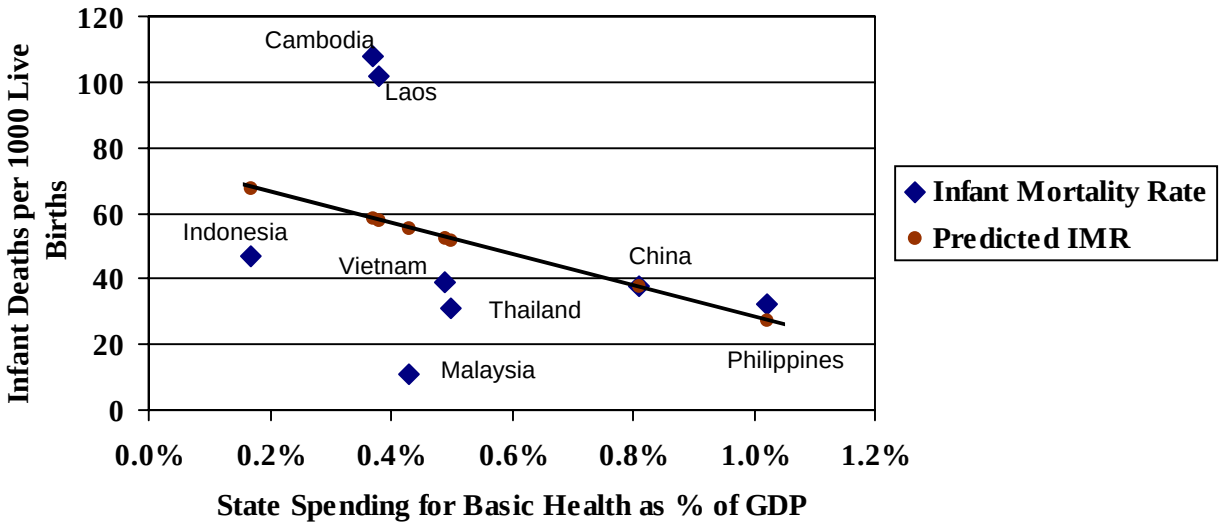
Medical supplies accounted for another 16 per cent of spending in 1997. In summary, a substantial proportion of recurrent health care resources is spent on non-salary inputs to health care delivery. This apparent balance may however, mask differences among the levels of care in the health care system, but no data were available at the disaggregated level. Key informant interviews among local health officials and providers at DHOs and CHSs present a picture of scarcity in drugs and other clinical supplies. These findings indicate a need to examine more closely the mix of inputs to health services delivery at individual levels of care in the system.

[28] Comments by government participants at BSS Study National Workshop, Ha Noi, Viet Nam, August 23-24, 1999.

[29] Pamela Wright; "Viet Nam Health Sector Review–Human Resources" (unpublished, 1998).

Many factors, only some of which are health services inputs, contribute to health status outcomes. Among health services inputs, both state and private health services contribute to outcomes. Nevertheless, it is instructive to compare outcomes in Viet Nam with those of its regional neighbours to examine accomplishments relative to basic state health services inputs. Figure 5-9 shows infant mortality rates in Viet Nam and other countries in the region, relative to the percentage of GDP spent by the state for basic health services. The points on the graph represent the actual infant mortality rate and the actual proportion of GDP spent by the state for basic health services.[30] The diagonal line shows the relationship between state spending for basic health services and infant mortality for the region as a whole. The vertical distance between each country point and the diagonal line shows the departure from this overall regional relationship. Points below the line indicate that the country is doing better than the regional average.

Figure 5-9: Infant Mortality Rates and State Spending for Basic Health Services



As noted earlier, state expenditures for health in Viet Nam are 1.3 per cent of GDP and 38 per cent of these expenditures are for basic health services (excluding family planning, which are analysed separately). In 1997 the infant mortality rate in Viet Nam was 39 per 1,000 live births, well below the rate of 52 per 1,000 that would be expected if Viet Nam were performing at the regional average. The proportion of GDP spent by the state on basic health services in Malaysia and Thailand are about the same as in Viet Nam; however, their actual infant mortality rates are even lower than Viet Nam's, relative to their predicted rates given the regional average. Both countries have considerably higher GDP per capita than Viet Nam, and their better performance no doubt reflects the higher amount per capita of state spending on basic health services, as well as higher private spending, among other factors. Nonetheless, this comparison suggests that over time, there is room for continued improvement of the efficiency of the state resources spending for basic health services in Viet Nam.

[30] Percentage of GDP spent by the state for basic health services was chosen as the input comparative in order to control for differences among countries in the proportion of GDP spent by the state.

VI. Population and Family Planning

Formal recognition of family planning as an important element of national development began in 1961 when the Birth Control Board was established. The board's mandate was to formulate policy and implement programme services through the MOH. In 1984, the National Committee for Population and Birth Control (later renamed the National Committee for Population and Family Planning, NCPFP) was established. Until 1989, the Executive Unit of the NCPFP operated from within the MOH. The NCPFP formulated population policy and the MOH clinic network continued to provide family planning services. In 1989, the NCPFP became an independent policymaking organisation. From that point on, all GOV funds for population and family planning programmes and services were allocated to the NCPFP, and resources allocated to these activities increased significantly.[31]

Nationally, both the NCPFP and the MOH are pivotal in population and family planning programmes and services. The NCPFP provides overall guidance to the national programme as the principal policymaking, planning, co-ordinating and monitoring body. The NCPFP also shapes the national programme within the budget approved by the National Assembly. Administrative structures that parallel the NCPFP's structure exists in each of Viet Nam's provinces, cities and districts. Each of these sub-national population and family planning units is financed from the central NCPFP budget. Commune Committees for Population and Family Planning (CCPFPs) operate at the grassroots level in all of the country's communes. They perform IEC activities and manage activities of the family planning motivators who also distribute contraceptive supplies. Commune-level population and family planning activities are financed mostly from local resources, and these resources are not captured in a review of central-level state expenditures.

The MOH, through its network of service delivery facilities, provides about 90 per cent of all family planning services nation-wide.[32] Family planning service delivery is co-ordinated and monitored in the MOH division for Maternal and Child Health and Family Planning (MCH/FP). At the facility level, services are provided at all general medical outpatient facilities as well as at specialised MCH/FP clinic facilities. Early recognition of the importance of family planning, together with the combined commitment of NCPFP and MOH resources, resulted in impressive achievements in this sector. More than two-thirds of all married women of reproductive age currently use some family planning method. The total fertility rate was 2.6 in 1997 and continues to decline.

NCPFP and MOH family planning expenditures were aggregated for this analysis. Since the NCPFP's mandate is entirely related to population and family planning, its entire budget was included as basic social services spending. A portion of MOH expenditures devoted to family planning services was added to this NCPFP amount to obtain a total spent for population and family planning. The portion of MOH spending used for family planning was determined using the ratio of family planning services to total services provided by the MOH, plus a portion of MOH overhead expenses.[33]

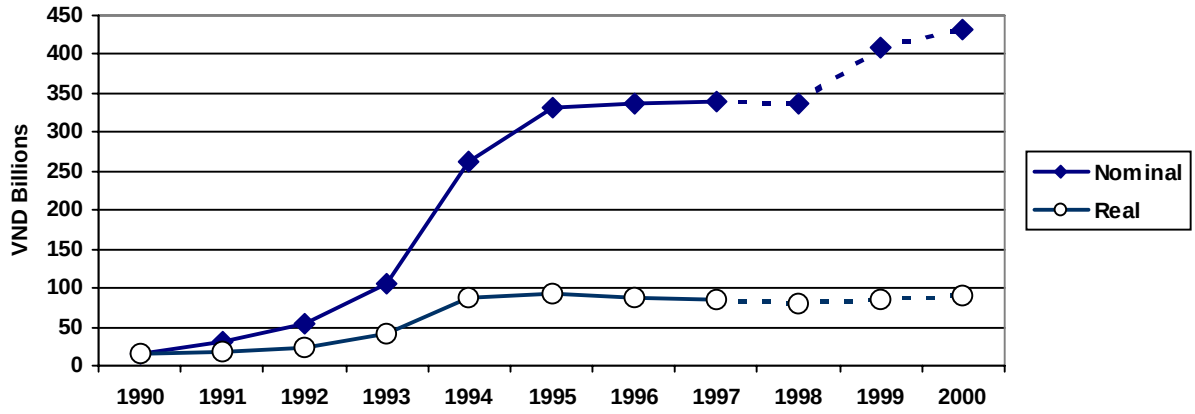
State spending for population and family planning increased dramatically between 1990 and 1997 (Figure 6-1), which coincided with the establishment of the NCPFP as a ministerial-level governmental organisation in 1989 and subsequent development of a national network of local affiliates, programmes, and services. Total

[31] For a more detailed account of the history of Viet Nam's national family planning programme, refer to "Population and Family Planning Programme in Viet Nam," (NCPFP, 1996). Note that the start and end years for the four programme phases may be described on the basis of either social landmarks or GOV policy decisions. The reference cited above uses social landmarks, whereas this report uses breakpoints based on policy decisions, as suggested by Professor Mai Ky, Minister-Chairman, NCPFP (personal communication July 17, 1997).

[32] Major Findings of the 1994 Demographic and Health Survey (General Statistics Office, 1994).

[33] Estimated MOH expenditures for family planning backed out of the analysis of health sector expenditures reported in Chapter IV.

Figure 6-1: Nominal and Real Population and Family Planning Expenditures



state spending for population and family planning increased from VND 16 billion in 1990 to VND 339 billion in 1997.[34] In real terms, this is more than a fivefold increase.

Figure 6-2 shows annual growth rates in population and family planning spending in percentages. The highest period of growth occurred between 1991 and 1994; thereafter, spending growth remained nearly flat. No large growth rates are expected in the near future for this social service sector. As a per cent of total state spending, population and family planning increased from 0.2 per cent in 1990 to 0.5 per cent in 1997. All spending in this sector is considered basic according to the UN definition of basic social services.

Figure 6-2: Growth in Real Spending for Population and Family Planning

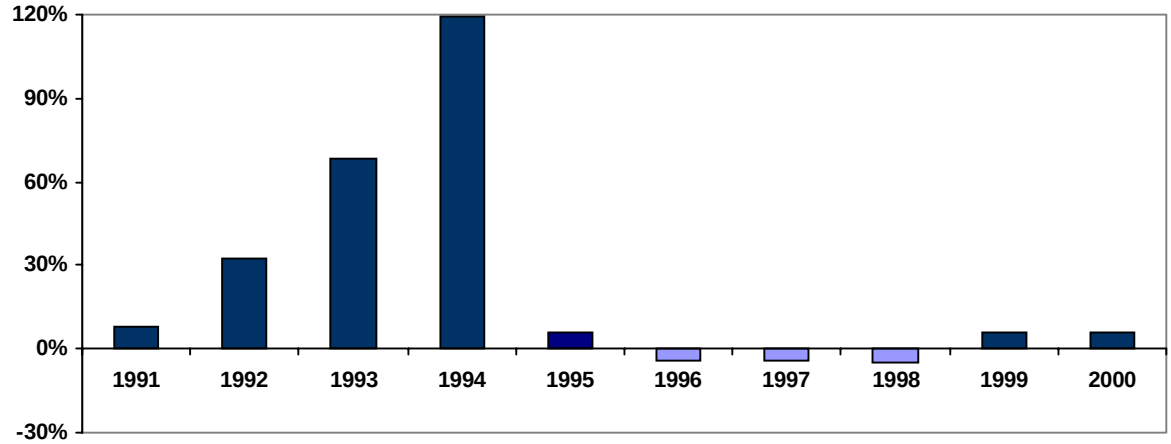
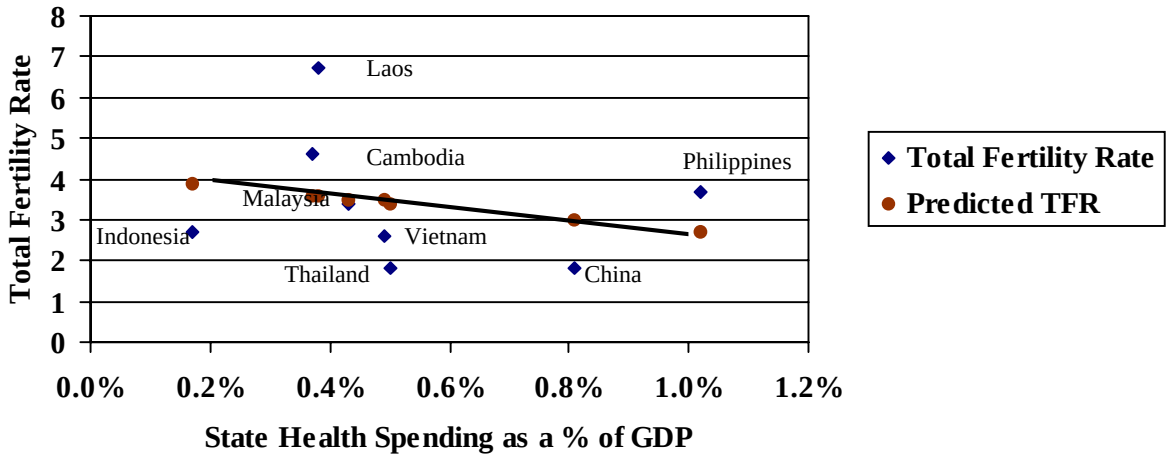


Figure 6-3 shows the relationship between total fertility rates and state spending for basic health services. The solid line indicates the regional relationship between these two variables. Generally, the greater the proportion of GDP spent by the state for basic health services, the lower the total fertility rate. The points represent the actual total fertility rate in eight countries in the region. Points below the regional average line represent countries with total fertility rates lower than the regional average, given their state inputs into basic health care. As observed for infant mortality (Chapter V), Viet Nam performs better than expected, but not as well as Thailnd, which spends the same proportion of GDP on state basic health services. As noted in Chapter V, GDP is considerably higher in Thailand than in Viet Nam, and although the state in both countries spends about the same

[34] This includes NCPFP spending and its local affiliate CCPFP organisations, and spending by the MOH for family planning services.

Figure 6-3: Total Fertility Rates and State Spending for Basic Health Services



on basic health in terms of the percentage of GDP, the higher GDP in Thailand means that it spends more in absolute terms. As Viet Nam's GDP grows, performance on this indicator should also improve as long as the Government of Viet Nam continues to devote the same proportional level of investment in basic health services.

The success of Viet Nam's population and family planning programme may be a factor in what some believe to be declining support among key decision budget makers.[35] Preliminary results from the 1999 national population census counted about 2 million people less than had been projected from the previous census for 1999. There is concern that reduced investments in this basic social service could have an adverse effect on the sector's ability to meet future national population goals.

[35] Comments from government participants at the BSS Study National Workshop, Ha Noi, Viet Nam, August 23-24, 1999.

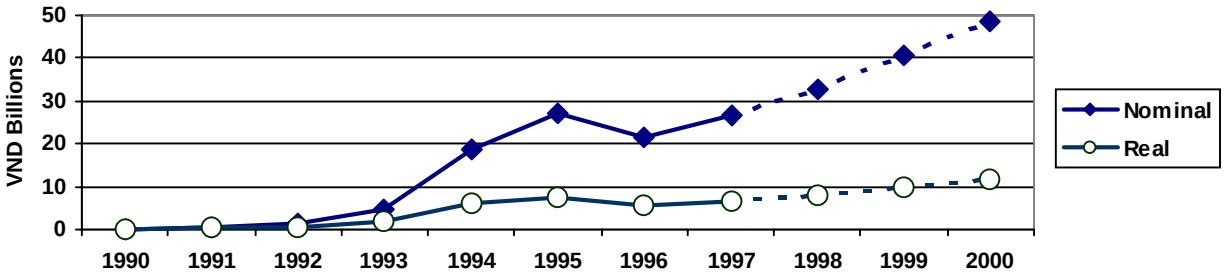
VII. Rural Water and Sanitation

The water supply and sanitation sector in Viet Nam is organisationally complex. Three ministries share major responsibility for this sector: Agriculture and Rural Development (MARD), Construction (MOC), and MOH. The MARD is responsible for rural water supply. The MOC is responsible for urban water supply, including towns with populations from 4,000 to 30,000. The Department of Preventive Medicine in the MOH is chiefly responsible for sanitation services, although the MARD and the Ministry of Science, Technology, and Environment (MOSTE) also have roles. A National Steering Committee for Water Supply and Sanitation, currently chaired by MOSTE, is responsible for co-ordinating activities of these ministries. Similar steering committees are established in about half of Viet Nam's provinces. The Rural Water Supply and Sanitation Programme (RWSSP) became a national programme in 1997 reflecting growing commitment to and recognition of the programme's complexity. As with other sectors, provincial operations are administered under the purview of provincial authorities, whose budgets are determined in negotiations with the MOF. Water supply projects that cut across provincial boundaries are administered directly by the relevant ministry. Few water systems projects fall into this category.

National objectives call for 80 per cent of rural households to have a safe water supply by the year 2000 and to achieve 100 per cent coverage by 2010. These objectives are considered by some to be too ambitious, given the level of committed resources.[36] According to NRWSS survey results, about one-half of all rural households' use dug wells as their water source, 25 per cent use surface water, and 10 per cent use rainwater. While 30 per cent of rural households are estimated to have access to a safe water supply, only 9 per cent are using that safe source. In terms of sanitation, only 20 per cent of rural households are using a latrine considered to be hygienic. Some of the major challenges facing this sector are low past investment, low coverage levels, poor knowledge and interest among rural households, organisational complexity and heavy emphasis on capital-intensive technological approaches (in the face of poor consumer knowledge and acceptance). These challenges are mitigated by the high priority that the government has recently placed on rural water supply.

The large increase in state spending for rural water and sanitation since 1990 mirrors the increasing policy priority placed on this sector (Figure 7-1). Nominal spending has increased from nearly VND 40 million in 1990 to more than VND 26 billion in 1997. In real terms, this is a 160-fold increase. By the year 2000, the state plans to increase spending for rural water and sanitation to VND 48 billion. Even at this higher spending level, rural water and sanitation will account for only 0.5 per cent of total state spending.

Figure 7-1: Nominal and Real Rural Water and Sanitation Expenditures



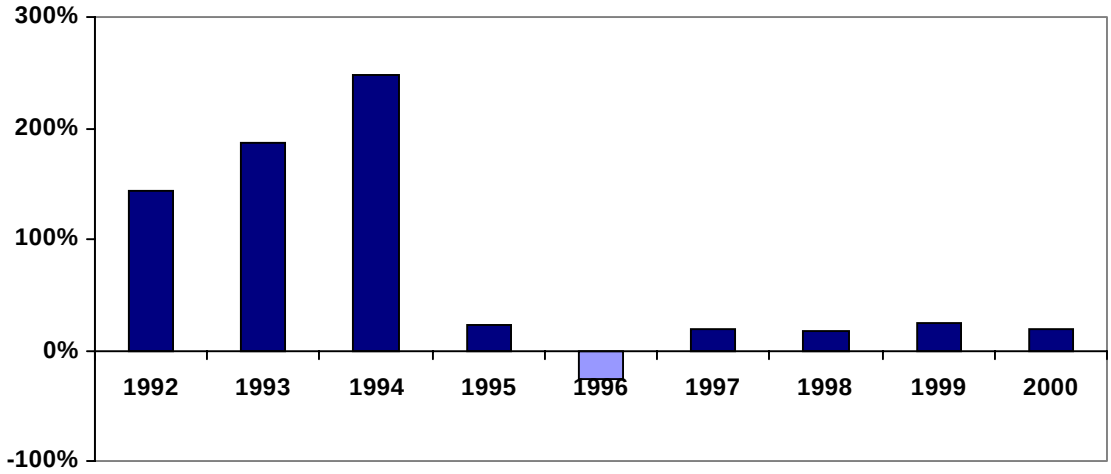
Growth rates in state spending for rural water and sanitation have been the highest among the social service sectors, largely due to the low base from which spending started at the beginning of the decade. The period of highest growth was from 1990 to 1994 when spending doubled and tripled each year over the previous year (Figure 7-2).[37] Lower growth rates have prevailed since 1994, averaging around 20 percent, with the exception of a one-year negative growth rate from 1995 to 1996. Growth rates through the year 2000 are

[36] National Rural Water Supply and Sanitation Strategy Study: Draft Strategy Report (Carl Bro International a/s, CERPAD, in association with Crone & Koch, VKI, 1998)

[37] The growth rate from 1990 to 1991, not shown in Figure 7-2, was 1,006 percent..

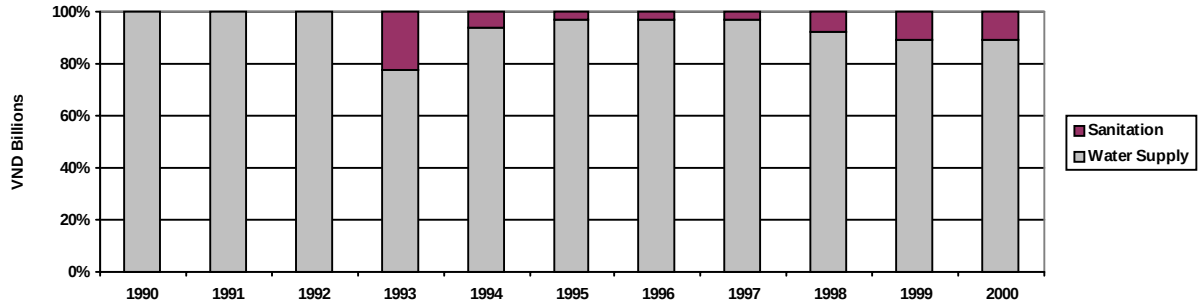
expected to remain in the 20-per cent range. Policymakers have noted that in the early 1990s, most state spending for this sector was from local budgets. They report that as central state and donor spending increased, local spending decreased.[38] This may have been an unintended consequence of increased support by the central government and donors.

Figure 7-2: Growth in Real Spending for Rural Water and Sanitation



The pattern of spending in the rural water and sanitation sector is different from the other social sectors. In education, health, and social security, recurrent spending accounts for 80 per cent or more of total spending. In rural water and sanitation, capital spending predominates. From 1990 to 1997, between 75 and 90 per cent of all spending in this sector financed capital costs. Most spending in this sector was for rural water supply systems (Figure 7-3).

Figure 7-3: Distribution of Expenditures for Rural Water and Rural Sanitation



In 1993, the first year rural sanitation spending was recorded, 22 per cent of total sector spending was for sanitation and 78 per cent was for water supplies. Since then, spending has increasingly favoured water supplies, and by 1997, only 3 per cent of total spending was for sanitation. This pattern is a result of the fact that state spending on rural sanitation is limited to the construction of demonstration sanitary latrines. It is government policy to encourage households to finance construction of their own sanitary latrines.[39]

It has been noted that spending in the rural water and sanitation sector is inherently pro-poor, since poverty is concentrated among Viet Nam's rural communities and their households. No quantitative information was available to assess efficiency in this sector. However, programme experts cite the need to improve maintenance of installed systems and facilities as one area where efficiency can be improved.

[38] Comments by government participants at the BSS Study National Workshop, Ha Noi, Viet Nam, August 23-24, 1999.

[39] Information provided by BSS Study Advisory Committee at September 23, 1998, meeting in Ha Noi.

VIII. Social Protection Services

Background and Description of the Sector

Social services, other than education and health, are mostly the responsibility of the Ministry of Labour, Invalids, and Social Affairs (MOLISA).[40] This sector is characterised by a heavy emphasis on services and income transfers to the poor and other groups whose welfare is of high national priority. In 1997, programmes for the poor served more than 2.1 million people. Another 1.4 million benefited from programmes for those who contributed to the revolution in Viet Nam. This category includes war veterans, invalids and others injured in battle, families of martyrs, hero mothers, those who supported war efforts through employment in war-related industries, and families who sheltered revolutionaries. Almost 360,000 people benefited from other social protection programmes, including services for the disabled, street children and orphans, elderly persons with no means of support, drug addicts and prostitutes and repatriated returnees. About 90,000 persons were enrolled in MOLISA employment training centres. Victims of natural disasters, such as floods and typhoons, are provided assistance on an as-needed basis. MOLISA policymakers also define 6 million persons living in households with one of these beneficiaries as "indirect beneficiaries."

MOLISA also administers pensions to 1.2 million retired civil servants. Administrative responsibility for this pension programme is gradually shifting to the new Viet Nam Social Insurance Agency (VSIA). This new fund is intended to eventually be self-financing through contributions from workers. Presently, pensions for civil servants who retired before 1995 are paid from the central budget through MOLISA. Pensions for those who retired after 1995 and for all future civil service retirees will be paid from the VSIA.

As in other social sectors in Viet Nam, communities are encouraged to participate in providing assistance to those in need. According to a 1996 World Bank report, 44 per cent of all households receive some sort of social protection or safety-net assistance from their community.[41]

The difference between the national and UN definitions of a basic social service is largely a function of the difference in interpretation of services provided in this sector. In the UN definition, only services to victims of natural disasters, other emergency food relief, and food subsidies to the poor are considered to be basic. The national definition encompasses a broader range of services. Given its unique modern history, Viet Nam includes services to war-contributors, as well as services to the poor and other disadvantaged groups, to be basic. Therefore, the analysis presented below adopts a two-tiered approach, showing results based on both definitions.

Social Protection Expenditures

Expenditures for social safety protection services and programmes in Viet Nam have increased from VND 1 trillion in 1990 to more than VND 9.3 trillion in 1997 (Figure 8-1). In real terms, this is more than a twofold increase. A further increase is reflected in the 1998 budget of VND 10.3trillion. More than 90 per cent of state spending for this sector is from the central budget; only 9 per cent is from local budgets. Expenditures in this sector are high, in part, because of the large outlays to beneficiaries in war-contributor categories (nearly 40 per cent of sector spending; see below). Because of the high priority placed on providing benefits to war-contributors, such high spending levels are likely to be maintained for the foreseeable future. In contrast to education and health, in which 25 per cent of sector expenditures are for capital expenses, less than 2 per cent of social protection sector expenditures are for capital purposes, a reflection that most services in this sector are cash and in-kind benefits, rather than services at fixed facilities.

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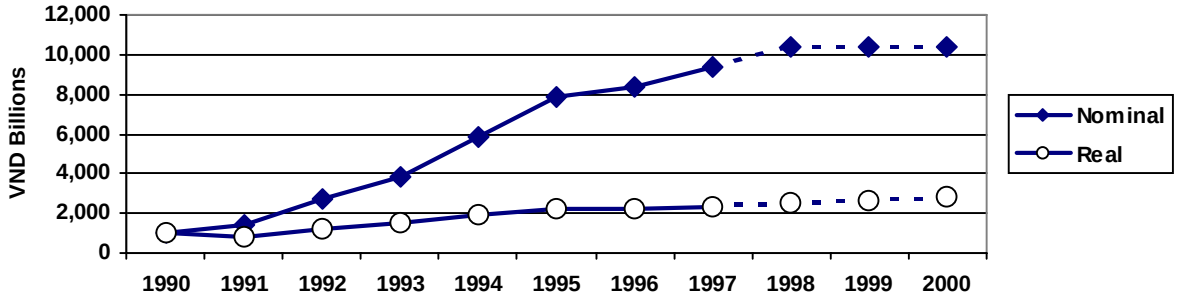
[40] Information about social security and safety services administered by MOLISA is provided in "Expenditure for Social Welfare," prepared by MOLISA in September 1998, for this BSS Study.

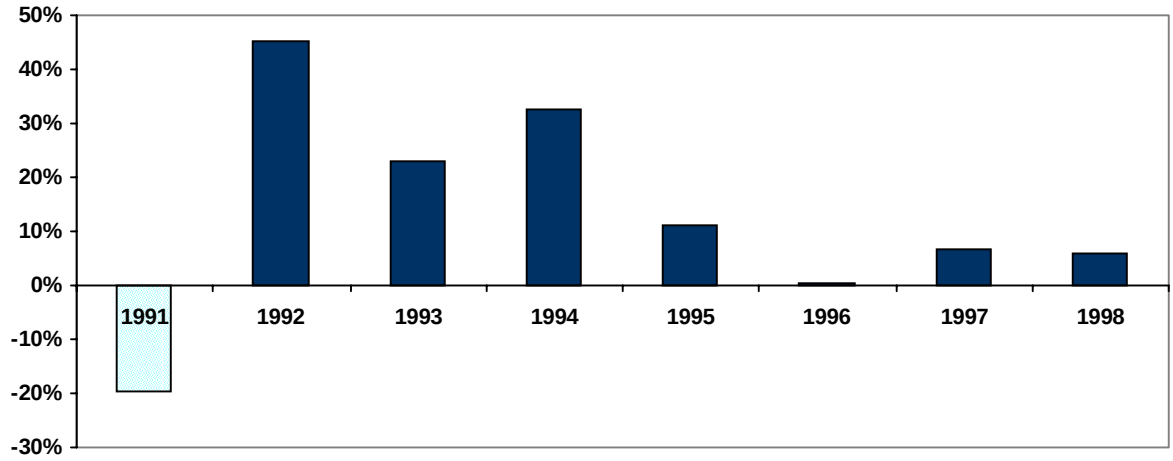
[41] "Viet Nam: Fiscal Decentralisation and the Delivery of Rural Services" (The World Bank, 1996).

Figure 8-1: Nominal and Real Social Security and Safety-Net Expenditures



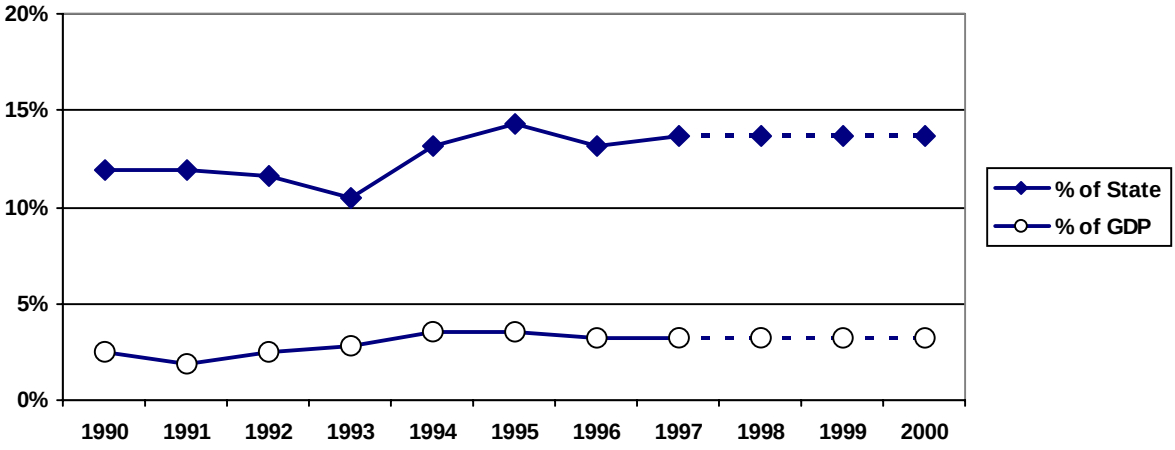
The growth pattern in spending for social security and safety net services is similar to the observed pattern in the other social sectors—a 20 per cent decrease from 1990 to 1991, followed by three years of large increases (Figure 8-2). A positive growth rate resumed in 1997 after flat growth from 1995 to 1996. The 1998 budgeted amount for this sector is a 6 per cent increase over the previous year, or about the expected GDP growth rate.

Figure 8-2: Growth in Real Spending for Social Security and Safety-Net Services



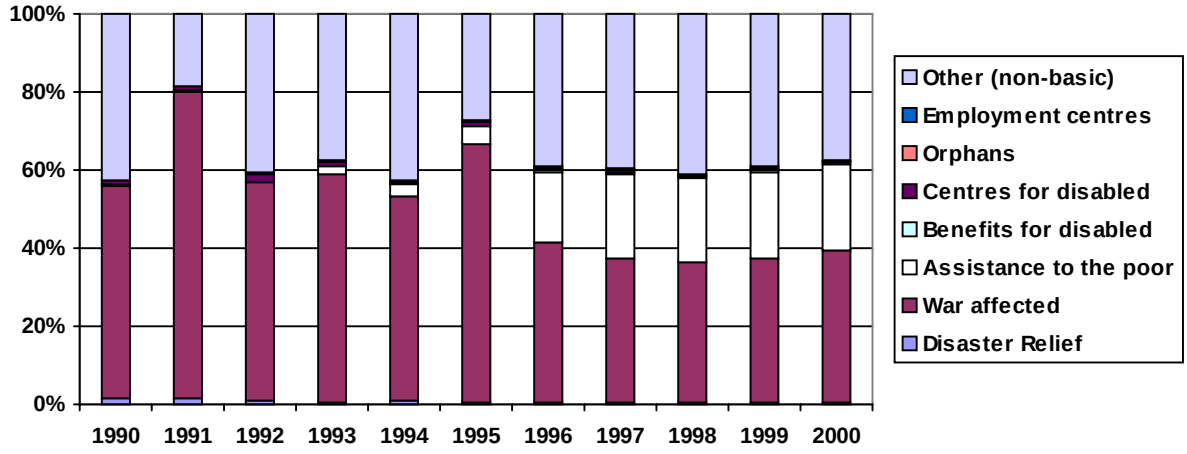
Overall, spending for social security and safety net services increased from 12 per cent of total state spending to almost 14 per cent in 1997 (Figure 8-3). This is nearly equal the 15 per cent share of state spending for education and indicates the high priority placed on these services. State spending in this sector has also risen as a percentage of GDP and in 1997, it was 3.2 percent.

Figure 8-3: State Social Security and Safety-Net Spending as a Percentage of Total State Spending and as a Percentage of GDP



The allocation of sector resources across programmes and services is shown in Figure 8-4. The percentage of total sector spending allocated to disaster relief is shown at the bottom of each column, a barely perceptible proportion that amounts to less than one-half of one percent. The low proportion spent for disaster relief reflects the difficulty in planning for these unpredictable needs and the strong official encouragement of local communities to contribute to meeting their needs in this area. It also reflects that donor organisations and other non governmental organisations (NGO's) contribute much of the total amount spent for disaster relief in Viet Nam.

Figure 8-4: Distribution of Social Security and Safety-Net Expenditures, by Programme and Service



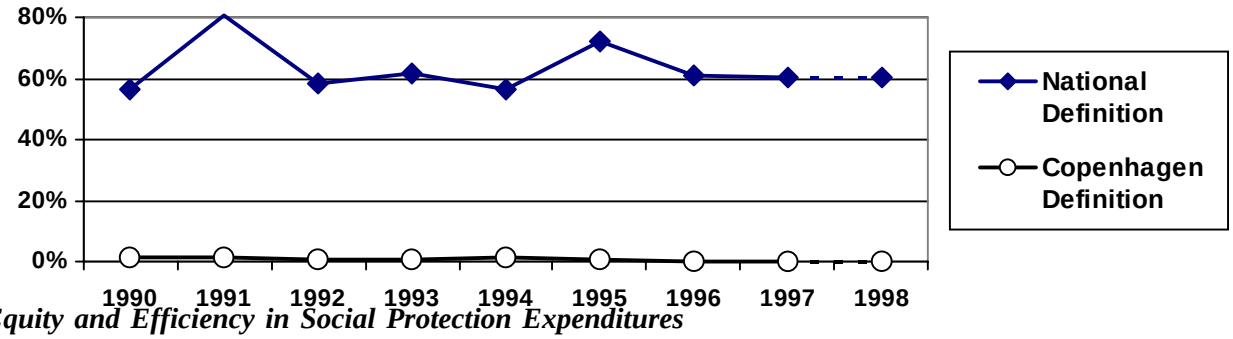
The second portion of each bar shows the proportion of sector resources allocated to services and support to war-contributor classes in Viet Nam. This is an entitlement programme with no income means testing to determine eligibility. Those entitled to benefits include families of martyrs, disabled veterans, veterans who contracted a disease during service, hero-mothers, and others considered to have made an important contribution to the revolution. In 1990, these resources used for these programmes accounted for 55 per cent of all spending in this sector. These programmes were protected during the budget retrenchment in 1991, and as a consequence, accounted for 79 per cent of all spending that year. There was a gradual decrease in the following three years, until 1995, when a one-time pay out was made to war-contributor beneficiaries. In that year, these benefits accounted for 66 per cent of all sector resources. The downward trend in the proportion of resources allocated for these programmes resumed in 1996; 41 per cent of total resources were used for these services. A gradual increase of this proportion is expected as the pension programme for retired civil servants is gradually shifted to another agency.

Organised services to the poor were initiated in 1993, quickly expanding as a percentage of all sector resources. By 1997, these services accounted for 22 per cent of all sector resources spent, and this level is expected to remain steady through the year 2000. The proportion of resources used to support programmes for the disabled, orphans and street children, drug addicts and prostitutes and the elderly was about 1.5 per cent in 1990 and has since declined to about one per cent in 1997. Spending for other programmes and services, which primarily includes pensions for retired civil servants, accounts for a large proportion of sector spending (37 per cent in 1990 and 40 per cent in 1997). This proportion is expected to gradually decrease as administration of the social insurance programme gradually shifts to the VSIA.

Using the UN definition of basic social services, less than one-half of one per cent of this sector's resources can be counted as spending for basic social services (Figure 8-5). Moreover, this percentage has been declining since 1990, when it was 1.3 percent. Using the national definition, 60 per cent of all resources spent in this sector would be considered spending for basic social services. Of this 60 percent, nearly two-thirds is spent on services and programmes for war-contributors, and nearly all of the remaining basic spending supports cash subsidies and other non-food support for the poor. 1 - 1.5 per cent spending is used to support programmes for

the disabled, orphans and street children, the elderly, drug addicts and prostitutes, which are considered basic social services according to the national definition. In 1991 and 1995, the proportion of sector resources used for national defined basic services was higher than the general trend. The spike observed in 1991 reflects the protection of entitlement programmes for war-contributors in a year of budget retrenchment. In Figure 8-5, the spike observed in 1995 reflects the large, one-time payments to war-contributor beneficiaries.

Figure 8-5: Percentage of Social Security and Safety-Net Expenditure for Basic Services



Equity and Efficiency in Social Protection Expenditures

Little empirical information is available to assess equity and efficiency in social protection services. However, a study recently published by the World Bank addressed some of these issues based on results from qualitative research.[42] The study notes that a pervasive view among policy makers in this sector is that responsibility for social protection is a shared responsibility of government agencies, communities, and the poor themselves. This opinion was also widely expressed to BSS Study interviewers during key informant interviews among central government policymakers and with local officials during the province case studies.

This opinion is also borne out in information that shows low proportions of some eligible persons receiving benefits in some programmes in this sector. Government sources report that in 1998, 24 per cent of orphaned children and 15 per cent of disabled persons were served by state services designed for those populations, and 46 per cent of the solitary elderly received state benefits.[43] Moreover, policymakers estimate that 30 per cent of beneficiaries to state services are poor, and between 50 and 70 per cent of war-contributor beneficiaries are poor.[44] This suggests opportunities to improve targeting for state programmes and services. Policymakers also suggested that efficiency could be improved through better mechanisms to track services received by individual beneficiaries. Presently, beneficiaries may receive benefits from multiple programmes and there is no mechanism to identify such overlapping benefit outlays.

As in education and health, this sector relies heavily on individual's contributions to finance social protection services. In the case-study provinces, officials reported that more than 40 per cent of programme expenses were financed from non-budget resources, which is consistent with projections reported to the World Bank on sources of funds for needed sector resources between 1998 and 2000. Government officials report that 43 per cent of those resources is expected to be raised from mandatory and voluntary contributions from people and their communities. When communities are expected to meet a large proportion of their own resource needs

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42 Van de Walle, Dominique. Protecting the Poor in Viet nam's Emerging Market Economy. Policy Research Working Paper, WPS 1969; The World Bank; September, 1998.

43 These 1998 figures were obtained from MOLISA. They contrast with official figures for 1993, showing that 10 per cent of orphaned children, 5 per cent of disabled persons, and 2 percent of the solitary elderly are served by state services designed for those populations. Some MOLISA policymakers express scepticism about these large reported improvements in the proportion of eligible populations served, suggesting that they may indicate poor identification of eligible populations, rather than true coverage improvements.

44 Comments by government participants at the BSS Study National Workshop, Ha Noi, Viet Nam, August 23-24, 1999.

for social protection services, a disproportionate share of the financing burden falls on those with a higher level of need. Alternately, when the source of financing is at higher government levels (for instance, province and central government budgets), the burden falls more broadly across the population, including both those in greater need and those in lesser need.

Social protection sector policymakers report that local officials have gradually reduced this sector's priority for local budget spending. This has occurred commensurate with increased central government priority placed on socialisation. These trends have caused some policymakers to question whether the increased central budget support and increased attention to socialisation has promoted the notion among local policymakers and planners that these services are a local order of priority for local budget spending. Greater equity would be achieved if provinces devoted 10 per cent of local budget resources to social protection services (more than five times the current proportion), as central-level policymakers interviewed for this BSS Study recommend.

Still, state budget constraints pose a definite challenge to achieving even this modest goal. Great hope is expressed that the recent consolidation of anti-poverty programmes into the National Programme for Hunger Eradication and Poverty Reduction (HEPR, to be administered by MOLISA) will improve efficiency and result in more services reaching programme target populations. However, it is unclear how much new money, if any, this programme will bring to the sector. The HEPR represents a consolidation of existing programmes and services formerly in several government agencies. Resources to finance the HEPR will reportedly come from central government budget as well as being mobilised from local government and private sources, contributions of local communities and ODA. The greatest potential for this programme to affect the proportion of state resources allocated to basic social services is in the possible reconfiguration of the newly consolidated programmes and services. Planning documents show that the UN definition of basic social services will be emphasised.

Some HEPR priorities include 1/ targeting the poorest 1000 communities in 1998-2000; 2/ developing infrastructure in these communes, including building primary schools, commune health centres and extending safe water supplies; 3/ extending school fee exemptions for poor children and free health services for poor people. If the HEPR results in a shift in resources from non-basic services in the former programme structure to these basic services, an increase in overall state spending on basic social services may result. Future analyses of this sector's spending will need to examine HEPR spending in detail to disaggregate basic and non-basic services.

In summary, through the HEPR, the GOV does appear to be responding to the need to better target scarce poverty alleviation resources to the poorest households and communities and to finance those services from broader based sources.

IX. Official Development Assistance[45]

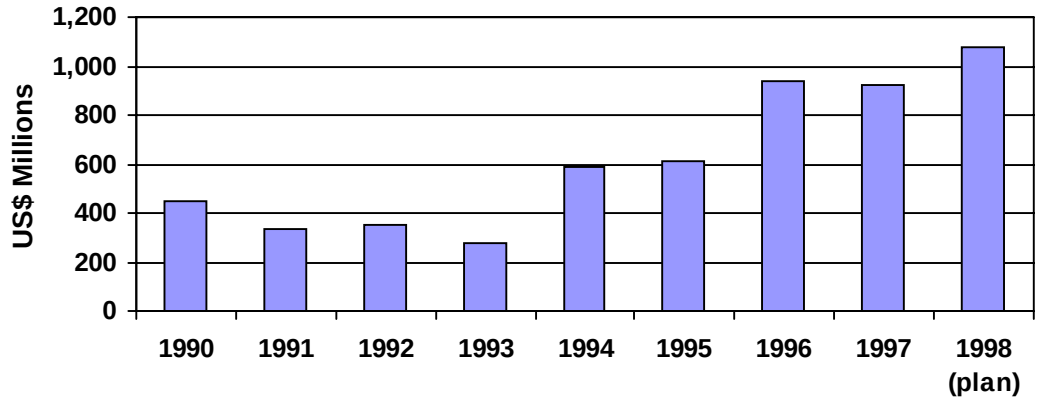
ODA has made an important and growing contribution to funding development activities in Viet Nam during the period covered by this study.[46] ODA comprises contributions from multilateral organizations, bilateral organizations (together 98% of the total) and NGOs. Since 1990, the overall trend in disbursements has been positive, although as discussed below, the growth between years has been uneven.[47]

ODA is recorded under 16 separate classifications. For clarity of analysis, total disbursements have been grouped under the following five major categories.

- *Economic Management and Development Administration.* This category includes assistance with macroeconomic, fiscal, monetary, and employment policy and planning.
- *Energy, Industry, and Trade.* The major component of this category is lending to major power projects.
- *Agriculture, Forestry, Fisheries, and Natural Resources.* This category includes assistance with water resources planning, food crops, and forestry management.
- *Transport and Communication,* which includes road and rail projects.
- *Social,* which includes ODA to various basic and nonbasic social programmes to be discussed in more detail.

Total ODA increased from US$448 million in 1990 to US$919 million in 1997, representing a more than two-fold increase. In 1998, disbursements were planned to reach US$1,081 million (Figure 9-1).

Figure 9-1: Total ODA Disbursements



During the period, ODA generally increased to 1997 (and was expected to increase further in 1998). However, the pattern of annual growth is volatile. In 1991, ODA dropped from US$448 million in 1990 to US$339 million, largely due to the decline in assistance from Countries of Mutual Economic Assistance, particularly the former Soviet Union[48]. In 1992, US$359 million of the total of US$552 million (that is, 65%) was a loan from

[45] Information about ODA disbursements is drawn from a database compiled and published annually by UNDP, Ha Noi. This database, Development Co-operation Report, is prepared using data provided by bilateral, multilateral, and NGO members of the development community in Viet Nam.

[46] ODA represents flows to developing countries and multilateral institutions provided by official agencies, each transaction of which satisfies two tests: ODA is administered with the main objective of promoting economic development and welfare, and ODA is concessional in character with a grant element of at least 25 percent.

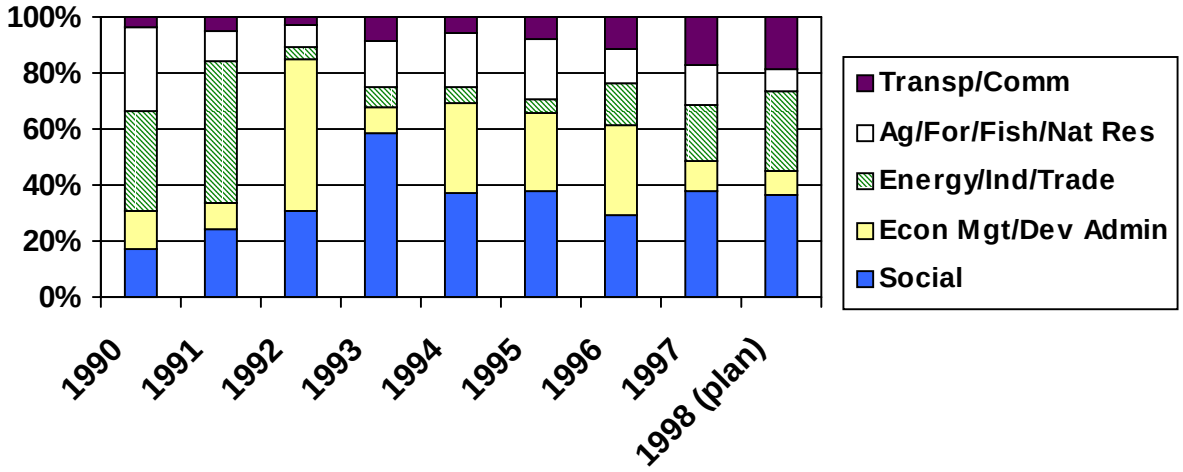
[47] Disbursements represent the actual international transfer of financial resources. The discussion here focuses on disbursements rather than commitments, to parallel the analyses in earlier sections of this report, which focus on actual expenditure rather than planned expenditure.

[48] Development Co-operation Viet Nam 1991 Report (UNDP).

the government of Japan for balance of payments support[49]. The loan was disbursed entirely in 1992, and accounts for the spike in 1992 figures.

In October 1993, Viet Nam cleared its arrears with the International Monetary Fund (IMF) and the Asian Development Bank, allowing relations with International Financial Institutions (IFIs) to return to normal, and thus opening the way in 1994 for an increase in quick-disbursing, general purpose lending for balance of payments and budgetary support[50]. These loans were advanced from the World Bank's Structural Adjustment Credit and the IMF's Enhanced Structural Adjustment Facility, and account for the high levels of disbursement in 1994 and 1995 relative to preceding years. The lower total of US$274 million in 1993 reflects that a number of donors were planning future ODA projects during 1993, while awaiting the conclusion of discussions with the IFIs[51]. The increase in disbursements to US$936 million in 1996 and US$919 million in 1997 was fuelled by a growth in lending from IFIs and disbursements to a number of energy projects[52]. The pattern of ODA by each of the five major categories is shown in Figure 9-2.

Figure 9-2: Distribution of ODA by Major Category



ODA on Social projects peaked in 1993 at 58 per cent, declining to 29 per cent of total ODA in 1996. The peak in 1993 was due to an increase in Social ODA (from US$108 million in 1992 to US$156 million in 1993), combined with a reduction in total ODA disbursements (see Figure 9-1). Social projects increased again as a proportion of total ODA to 38 per cent in 1997. In 1998, social ODA was planned to remain at about the same level in percentage terms.

Disbursements on Economic Management and Development Administration spiked in 1992 because of the government of Japan's loan. Between 1994 and 1996, disbursements in this category averaged 31 per cent of the total ODA, reflecting the significance of the agreement with the IFIs at the end of 1993.

There are two other noteworthy trends. First, there was significant ODA to the power sector in 1990 and 1991; and second, ODA to road and rail projects increased the relative importance of the Transport and Communication category in recent years. To analyze basic social services ODA, the Social category can be broken down into its six constituent parts.

- Health ODA comprises mainly primary health care and preventive programmes.
- Social Development is largely assistance to water and sanitation projects.

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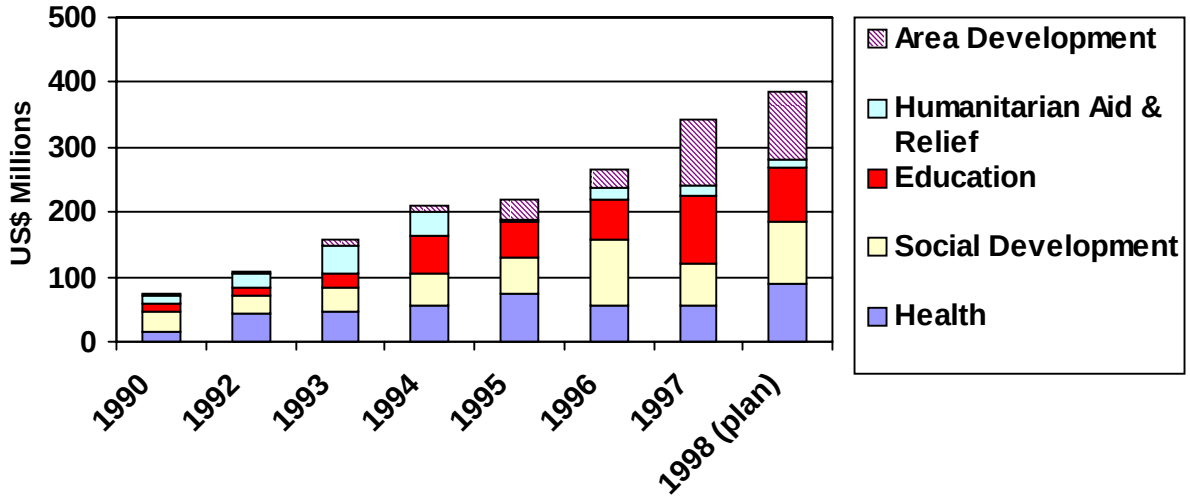
49 Overseas Economic Co-operation Fund (Japan) (Ha Noi).
50 For further detail, refer to "Overview of Official Development Assistance in Viet Nam" (Ha Noi: UNDP, 1997).
51 Development Co-operation Viet Nam 1993 Report (UNDP).
52 UNDP Development Co-operation Report database.

- Education assistance is mainly for tertiary and vocational education.
- Humanitarian Aid and Relief includes food aid, disaster relief and assistance to returnees and refugees.
- Area Development mostly comprises integrated rural development programmes and village and community developments.
- Disaster preparedness is the final constituent part of the Social category.

ODA to the Social category as a whole increased steadily from US$74 million in 1990 to US$342 million in 1997, representing nearly a fivefold increase (Figure 9-3). The increase from US$156 million in 1993 to US$211 million in 1994 reflects the increased ODA flows from a number of bilateral agencies following the agreements with IFIs at the end of 1993.

Figure 9-3: Components of ODA Social Sector Disbursements



Health has remained an important component of social spending, rising in absolute terms from US$16 million in 1990 (22 per cent of total social ODA) to a peak of US$73 million in 1995 (34 per cent of total) and falling to US$56 million in 1997. Social Development ODA increased in absolute terms from US$32 million in 1990 (42 per cent of total) to a peak of US$103 million in 1996 (39 per cent of total). The majority of this component (on average 78 per cent) relates to water and sanitation assistance. Social Development ODA decreased considerably from this peak to US$63 million in 1997 (18 per cent of total social ODA, its lowest proportion in the period), but is plannedto increase again in 1998 to US$94 million (24 per cent of total).

Education has generally grown in importance until 1997 both in absolute and relative terms. It grew from US$12 million in 1990 (16 per cent of total) to US$105 million planned for 1997 (31 per cent of total). Humanitarian Aid and Relief declined from a peak in 1993 of US$44 million, as assistance to returnees and refugees was reduced. Area Development attracted significant sums from 1994 onwards, and in 1997, disbursements were US$102 million, representing 30 per cent of Social ODA, an increase reflecting growing donor interest in integrated rural development programmes in particular.

These five components of social spending have been analyzed in terms of basic and nonbasic ODA (Table 9-1).

As a percentage of total Social ODA, assistance to basic social services has ranged from a low of 24 per cent in 1996 to a peak of 54 per cent in 1991. The major category of basic ODA has been basic health care, accounting for on average 68 percent of basic social services ODA. Primary and preventive health assistance are the largest elements of basic health, accounting for, on average, 65 per cent of ODA to basic health care. The largest programme in basic health care in 1995 was US$44 million, spent on immunization and other disease control, which dropped in 1996 to US$18 million, a reduction accounting for the reversal in the trend in basic ODA, which from 1990 to 1995 had been generally increasing.

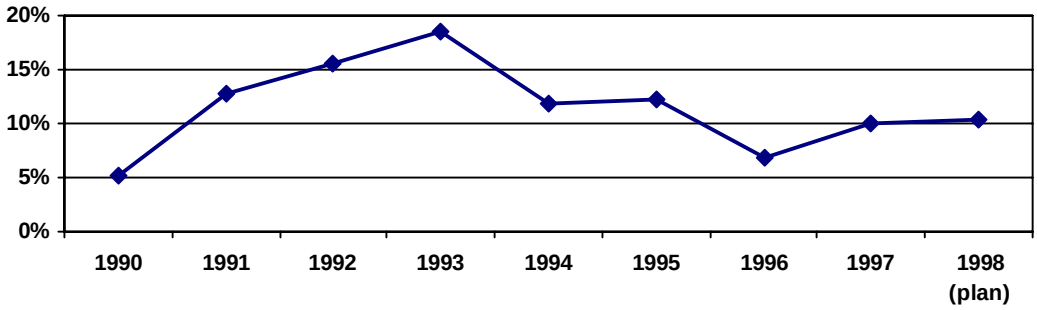
Table 9-1: ODA on Basic Social Services (US$ millions)

SECTOR/SUBSECTOR	1990	1991	1992	1993	1994	1995	1996	1997	1998 (plan)
EDUCATION	1.5	.08	1.6	4.4	24.0	5.1	13.	43.7	31.5
HEALTH	15.8	30.3	40.7	35.4	42.1	65.6	41.1	43.7	31.5
SOCIAL DEVEL.	0.1	3.2	5.1	8.9	3.6	3.4	4.4	1.7	1.8
HUMAN. AID & RELIEF	6.0	9.0	6.9	1.2	0.6	0.1	3.3	2.1	5.6
AREA DEVELOPMENT	0	0	0.2	0.9	0.3	1.0	0.6	1.7	1.8
TOTAL BSS ODA	**23.2**	**43.3**	**54.5**	**50.8**	**70.5**	**75.3**	**63.3**	**92.0**	**112.9**
TOTAL SOCIAL ODA	74.2	80.1	107.8	156.5	211.3	218.2	265.2	342.5	386.9
TOTAL ODA	484.2	338.6	352.5	273.8	590.9	610.4	936.0	918.9	1081.4

Although Social Development represents an important component of Social ODA (Figure 9-4), the largest share of this is spent on urban water and sanitation projects. According to the UN definition, rural, and not urban, water and sanitation expenditure is considered basic. Hence, the contribution from Social Development ODA to basic social services ODA expenditure is small (Table 9-1).

When the relatively steady increases in ODA to basic social services is overlaid on to the erratic pattern of total ODA disbursements in the period from 1990 to 1994, the ratio of basic social service ODA as a percent of total ODA is consequently erratic (Figure 9-4).

Figure 9-4: Basic Social Service ODA as Percentage of Total ODA



The ratio of basic social service ODA rises from 5.2 per cent in 1990 to a peak of 18.6 per cent in 1993. By 1996, the ratio declined to 6.8 per cent. In 1997 the ratio increased to 10 per cent, and it was projected to be 10.4 per cent in 1998[53]. The peak in 1993 is explained by the fact that disbursements on basic social service ODA were virtually unchanged from the amounts in 1992, while total ODA dropped by 22 per cent.

[53] These figures differ from the figures given in the preliminary report of this study, and in the Government of Viet Nam's report presented at the International Conference on the 20:20 initiative, Ha Noi, Oct. 1998. At that time the propotion of ODA spending on BSS was reported as less than 5 per cent and the percentage of state resources spent on basic social services was 9.1 per cent using UN definition and 17.3 per cent using the national definition for 1997. New figures are the result of more in-depth analysis of both state & ODA expenditures for BSS. The major change of BSS ODA is due to the late and substantive changes in the data provided by the donor community to the UNDP's database on Development Co-operation Report

X. Province Case Studies[54]

Information presented in the preceding chapters reflects national patterns. These national patterns mask regional and provincial differences and there is a prevailing sense among policymakers in Viet Nam that these differences can be substantial. Although central directives and review mechanisms largely drive the state budget planning process (see Chapter III), spending authority is largely decentralised. Local spending authorities are required to request permission from higher level authorities for most expenditures, and it is this system of requests and approvals that underlies central government expenditures reports. MOF officials estimate that this system captures about 95 per cent of all state expenditures, including both central and local government resources.

There are two reasons, however, to investigate spending patterns at sub-national levels. First, it has been reported that some provinces collect higher amounts of tax revenue than projected during the budget planning process.[55] Provinces are permitted to retain a portion of these excess revenues, and informants report that, compared to central government expenditures, a higher proportion of these revenues are spent to support social services.[56] Second, the system of reporting the use of these funds is said to be less complete than the system for reporting the use of resources from the approved state budget.

A review of public expenditures of all Viet Nam's 61 provinces and cities was beyond the scope of this study. Therefore, to obtain a picture of provincial spending patterns, two provinces were selected for case studies. The two provinces, Thai Binh in the north and Long An in the south, were selected according to the following criteria a) to reflect reputed northern and southern differences in expenditure priorities, patterns, and policies, b) each selected province should possess rural/urban and socio-economic diversity to address rural/urban poor/non-poor spending patterns, and c) selected provinces must have an expressed commitment to collaborate with the study team. This chapter summarises information about state expenditures in these two provinces, focusing primarily on their use of local (as opposed to central) resources. It is important to recognise that the two provinces selected for case study do not represent the diversity of provinces on the dimension of central budget subsidies. Both Thai Binh and Long An are considered to be "average" provinces. Case studies of "poor" provinces (those with very high subsidies from the central budget) and "rich" provinces (those that collect revenue in excess of their expenditures and require little if any central budget transfers) would compliment the case studies reported here and facilitate broader generalisations.

Central resources are defined as those resources derived from taxes assigned to the central government (such as the special consumption tax, profits, and depreciation from SOE's, and revenue from major minerals; see Chapter III, Table 3). Central resources are used in part to meet central government budget needs as well as to subsidise local budget needs. Local resources are defined as those resources derived from taxes assigned directly to the province or local government (such as the agricultural tax, land and housing tax, slaughter tax, etc.) to meet budgeted expenses. As described earlier in this report, private expenditures for public services were not included in the analysis reported here, since this BSS Study was intended to examine spending from state (and ODA) budgets only. Figure 10-1 shows the trend in the proportion of total state expenditures in each case-study province derived from local resources.

In both provinces, the proportion of expenditures met using local resources declined from 1991 to 1992, but has increased since then, taking a sharp turn upwards in 1997. In Long An, almost one-half of all state expenditures are now met using local resources. Although increasing, this proportion is considerably lower for Thai Binh, at 30 per cent.

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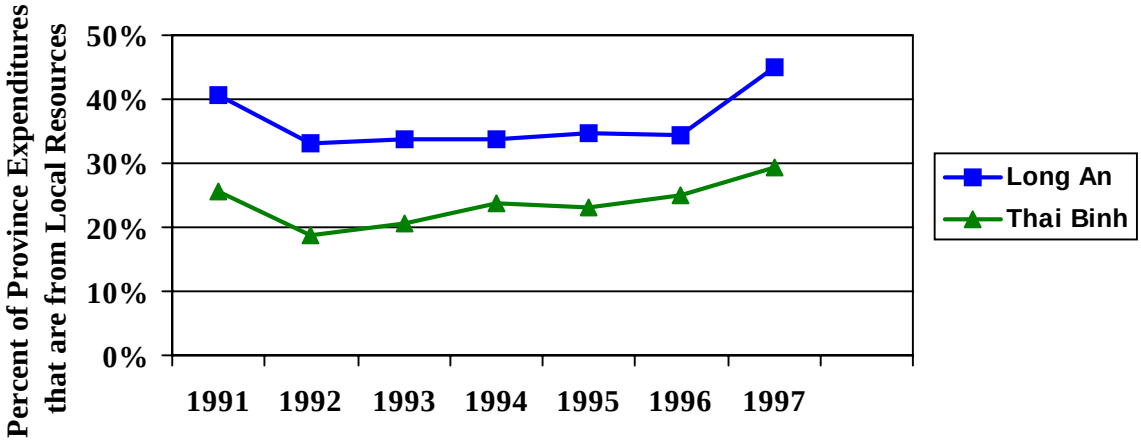
54 For the full report on the province case studies, see "Basic Social Services–Results of the Case Study in Thai Binh and Long An Provinces" (Ha Noi: Central Institute for Economic Management, 1999).

55 In 1998, eight provinces and cities collected revenues in excess of their approved expenditures. (Reported by Government officials at the BSS Study National Workshop, Ha Noi, Viet Nam, August 23-24, 1999.)

56 Source: Interviews with Hai Phong People's Committee members and Central Government officials, January 1998.

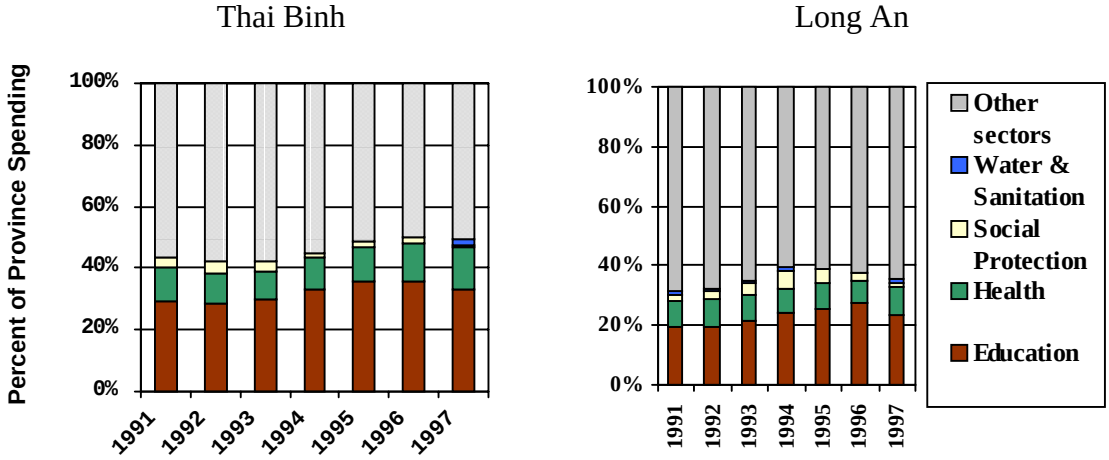
Figure 10-1: Percentage of State Expenditures Derived from Local Resources



An important objective of the province case studies was to investigate the composition of local resource use. In total, Thai Binh allocated almost one-half of its local resources to the social sectors, compared to 36 per cent in Long An and 37 per cent at the aggregate national level.

The pattern of allocation of local resources across sectors is similar in the two provinces, with education, and health receiving the largest shares (Figure 10-2). In 1997, the share of local resources allocated to education was higher in Thai Binh (33 per cent) than in Long An (24 per cent). Thai Binh also allocated a higher proportion of its local resources to health, compared to Long An (13 and 9 per cent, respectively). Both provinces, however, spent a greater proportion of their local resources on education and health, compared to the proportion of national state expenditures spent on these sectors (15 and 6 per cent respectively).

Figure 10-2: Composition of State Expenditures in Thai Binh and Long An Provinces



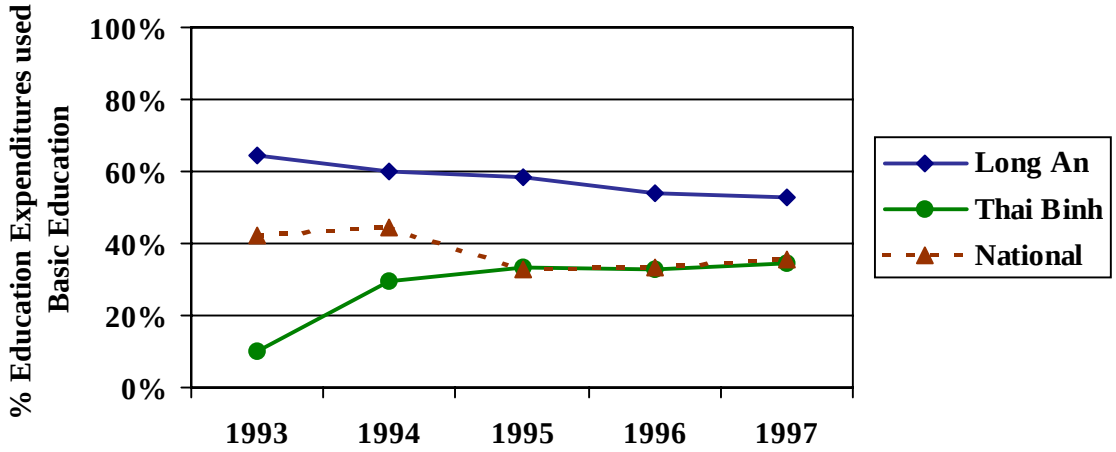
These patterns were opposite for social protection. Both provinces spent less than 2 per cent of their local resources on social protection services, whereas social protection accounted for 14 per cent of state expenditures nationally. Assistance to war-contributor preferential groups accounts for about 40 per cent of national spending in this sector, with most of that spending administered directly by central government agencies. In Long An, local government officials reported that there are few remaining individuals eligible for benefits under the national programmes for war-contributor preferential groups. However, they also reported large increases in the number of individuals eligible for social protection assistance, such as the disabled, homeless children and indigent elderly. In Thai Binh, government officials report that there are still thousands of families with a member eligible for benefits through a war-contributor preferential group. They also report large numbers of disabled

persons, homeless children, and indigent elderly; however, less than one per cent are reported to be receiving social protection benefits. Nationally, social protection services, including cash transfers, are provided to war-contributor preferential groups and civil service pensioners. It appears that provinces spend little of their resources providing benefits to other categories of persons needing social protection services.

The rural water and sanitation sector did not receive a substantial allocation of resources at the province level, and local programme administrators reported that in 1997 and 1998 no central resources were received for this sector. They reported that UNICEF or individual contributions financed most spending on rural water and sanitation programmes and services rather than local government resources.

Figure 10-3 compares basic education expenditures as a percentage of total education expenditures for the two case-study provinces and for the nation (see Chapter IV). The proportion of education resources spent for basic education has been converging among these three entities. In Thai Binh, the proportion has more than tripled, from 10 per cent in 1993 to 34 per cent in 1997. Since 1995, Thai Binh's proportional allocation of local resources for basic education has been nearly identical to the national average. The proportion in Long An, on the other hand, has declined from 64 per cent in 1993 to 53 per cent in 1997, still considerably more than the national average. Policymakers explain that higher proportional spending on basic education is common in southern provinces, which lagged behind northern provinces on such indicators as school enrolment and dropout rates. This has required higher investment to develop infrastructure, such as primary schools and roads. The recent trend towards convergence between Long An and Thai Binh may be an indication that this strategy is producing the intended results.

Figure 10-3: Basic Education Expenditures as a Percentage of Total Education Expenditures[57]

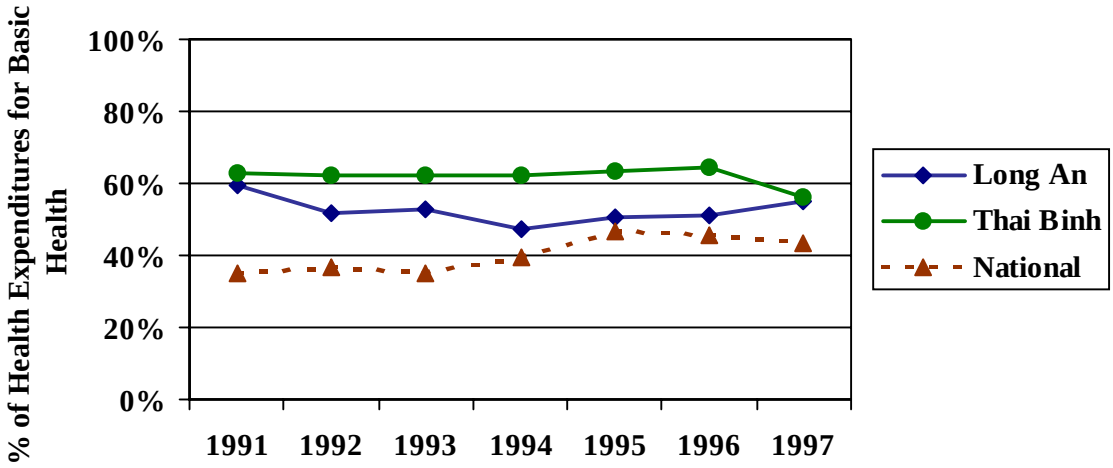


The analogous trends for health are shown in Figure 10-4. Both provinces studied spent a greater proportion of their local health sector resources for basic health services, compared to the national average. Compared to the education sector, there has been less change over time. In 1991, both provinces spent about 60 per cent of their local health resources for basic health services. By 1997, these proportions declined to about 55 per cent. During the same period, national expenditures on basic health (including both local and central government resources) increased from 32 to 40 per cent of total health sector spending.

In Thai Binh, 17 per cent of health expenditures were used for disease prevention services, one component of basic health services, and another 11 per cent to support commune health stations. In Long An, the proportion of local health services used for disease prevention services fell from 11 per cent in 1991 to 6 per cent in 1997. Health programme administrators interviewed in that province attribute this decline to a commensurate increase

[57] Accurate figures for 1991 and 1992 local education expenditures in Thai Binh and Long An are not available.

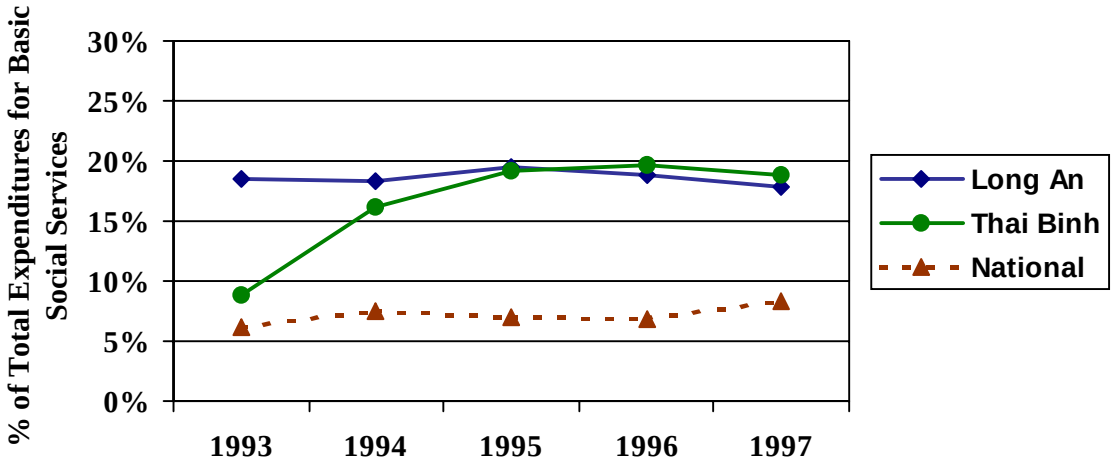
Figure 10-4: Basic Health Expenditures as a Percentage of Total Health Expenditures



in centrally funded and administered national prevention programmes. Both provinces reported a decline in local funding for population and family planning services (another component of basic health services), again commensurate with increased central-level programme support.

Figure 10-5 shows the aggregate analysis of spending for basic social services in the two case-study provinces and at the national level. The UN definition of basic social services is used for this analysis. In Thai Binh, the proportion of total local resources allocated to basic social services increased considerably, rising from 9 per cent in 1993 to 19 per cent in 1997. Most of this increase was due to the increased emphasis on basic education in that province. In the aggregate, Long An has consistently allocated about 19 per cent of its local resources to basic social services, in comparison to a trend from 6 per cent to 8 per cent nationally.

Figure 10-5: Basic Social Services Expenditures as a Percentage of Total Social Services Expenditures



Four principal conclusions can be drawn from this analysis of state expenditures in the two provinces. First, the two provinces differ in the amount of local resources required to meet financing needs of local programmes and services. Compared to Long An, Thai Binh receives a higher subsidy from the central government. Seventy per cent of state expenditures in Thai Binh are central government resources, whereas only 55 per cent of expenditures in Long An are provided by the central government. Thus, Long An meets a substantially higher proportion of its expenditure needs using local resources. This study did not investigate the reasons for the difference in central subsidy levels. Possible explanations include differences in local revenue raising outcomes and desired service inputs.

Second, in both provinces, expenditures are increasingly being met using local resources. Central resources as a percentage of total province expenditures have been declining in recent years. Still, the gap between these two provinces has remained remarkably similar during the five-year period for which data were available.

Third, there are clear differences in how provinces choose to spend their local (non-central) resources. Thai Binh, the province receiving the higher central government revenue subsidy, spends proportionately more on social services (about half), compared to Long An (36 per cent). However, each province uses nearly the same proportion of their local resources for social services (18 and 19 per cent, respectively). Thai Binh achieves this by spending a higher proportion of its resources on health and education in general, whereas Long An achieves this by compensating for lower overall health and education expenditures by allocating a higher proportion of its social sector funds to basic health and basic education.

Finally, evidence from these two provinces confirms anecdotal notions that provinces spend a greater proportion of their local resources for health and education services in general and for basic social services in particular, compared to overall state spending. At the national level, health and education combined account for 21 per cent of state expenditures. In Thai Binh and Long An, these two sectors account for 46 and 33 per cent of expenditures using local resources.[58] At the basic social service level, the two provinces use about 18 per cent of their local resources for basic health and education. This is much closer to the 20/20 Initiative target of 20 per cent, compared to the 8 per cent level attained nationally.

[58] When spending for social protection services are added in, the percentage of local resources used for all social services in Thai Binh is similar to the national percentage. Social protection accounts for 14 percent of state expenditures nationally, bringing the national total proportion devoted to social services to 35 percent. Neither of the two provinces studied spent more than 2 per cent of their local resources on this sector.

XI. Progress Toward 20/20 Initiative Targets and Prospects for Restructuring the Budget

Progress Toward 20/20 Initiative Targets

Viet Nam's commitment to basic social services is both clear and longstanding. This commitment was as logical as it was necessary given the country's unique recent history. At the end of the colonial period, infrastructure for delivering social services was poor and the needs of a large and impoverished rural population great. In addition, these needs were exacerbated by the need to finance efforts to reunite the country. Resources were not available to develop sophisticated social services. The logical alternative was to promote the provision of basic services at the grass-roots level, where needs are the greatest and where interventions would better match available resources.

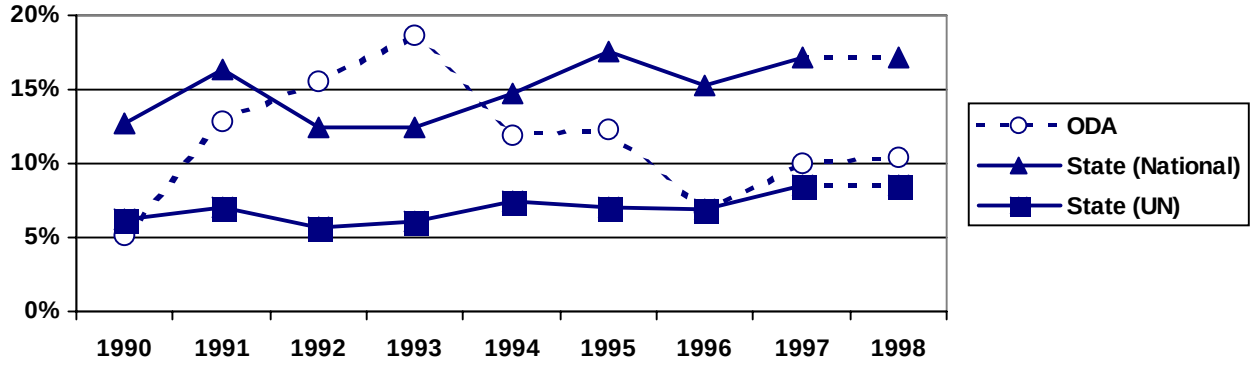
By 1975, when the country was unified, substantial progress had already been made, particularly in the north, in developing an infrastructure and the human resource base for delivery of basic social services. At that time, education and health indicators were already ahead of Viet Nam's level of development as measured in economic terms. However, Viet Nam faced substantial challenges in its efforts to solidify the gains made in the delivery of basic social services. First, it had to overcome the bifurcation of education and health systems that evolved during the years of national division. Since 1975, substantial resources have been devoted to unify social service systems in the south with the rest of the country. Second, the years of conflict created unique social service needs in Viet Nam. Large numbers of people made heroic sacrifices to the independence and reunification movements. The state takes seriously its obligation to the families of those who gave their lives, to the disabled, and to other groups whose sacrifices were great. Substantial state resources are devoted to providing social relief to these groups, and in Viet Nam, these services are considered to be basic. The principal difference between the UN definition of basic social services and the national definition is this class of social services provided to these war-contributor populations. In addition, the national definition encompasses social services to the poor, disabled, street children and orphans, destitute elderly persons and recovering drug addicts and prostitutes. These services are not included in the UN definition.

This understanding of the unique context of social services in Viet Nam sets the stage for assessing the quantitative analysis of state expenditures. In the context of the national definition of basic social services, Viet Nam is close to the 20-per cent mark set as a goal in the 20/20 Initiative (Figure 11-1). Perhaps more importantly, the trend in allocations of state spending to basic social services is clearly upward. Between 1990 and 1997, the proportion of total state spending for basic social services increased from 12.7 to 17.2 per cent. Even in the context of the more restrictive UN definition, the trend is clearly upward. Using the more restrictive UN standard, allocations for basic social services increased from 6.2 per cent of total state spending in 1990 to 8.5 per cent in 1997, which contrasts sharply with both the proportion and trend in donor allocations to basic social services. Using the UN definition, the proportion of donor resources spent for basic social services fluctuated from 5.2 per cent in 1990, rising to 18.6 per cent in 1994, but declining to less than 10 per cent by 1997.

The two trend lines for state spending parallel each other. The difference between the two lines, however, is accounted for by the fact that the national definition is more inclusive than the UN definition. In education and in health, services defined as "basic" are the same for both definitions. The same is true for population and family planning and rural water and sanitation sectors. In education, Viet Nam has already achieved its goal of allocating 15 per cent of total state resources to the education sector. In 1997, budgeted resources for education amounted to 10.5 per cent of the total state budget, while actual education spending accounted for 15 per cent. This implies that achieving the 15-per cent goal occurred because the education sector successfully utilised a greater proportion of budgeted resources compared to other sectors. It further suggests that should other sectors improve their capacity to spend budgeted resources, analysis of expenditures may show education slipping below the 15-per cent mark. Whether this implies that budgeted education sector resources should be increased to a mark closer to the 15-per cent target is an important policy question to be addressed.

Figure 11-1: Proportion of State and Donor Resources Spent for Basic Social Services in Viet Nam

(see also footnote 53)



Currently, 5.6 per cent of total state spending is for health, and this proportion has changed very little since 1990. Within the health sector, 39 per cent of state spending is allocated to basic health services; that is, primary health care, preventive and public health services. enerally, this proportion increased during the early part of the 1990's. There has been a slight decline since 1995 when it stood at 41 per cent. The context of health services delivery in Viet Nam suggests opportunities to further strengthen the position of basic services within the state health sector. Namely, the private health sector that has grown significantly is the curative care market. As household incomes continue to rise, as consumers increasingly demand higher quality services and as the private sector is increasingly able to meet those consumer demands, all indications are that the private sector market share in health care will continue to increase. Most of this growth will occur in the market for curative care and, at least initially, in urban areas. These trends will allow the state to allocate more of its health sector resources to preventive care, public health services, and primary care to rural populations. There are areas where the private sector is less likely to grow and where the state has a compelling interest. A clear indication of this trend toward orientation of state health spending to basic health services has been the rapid expansion of resources allocated to population and family planning and rural water and sanitation services.

If one considers the national definition of basic social services, nearly 60 per cent of state resources in the social security and safety-net sector is devoted to basic services. This is higher than education and health. Within this category, nearly two-thirds is used to support relief and services to war-contributor groups. Among services to the poor, most is devoted to cash support and in-kind provision of goods and services to improve the beneficiaries ability to increase farm production in order to become self-sufficient. In the context of the UN definition, neither class of spending qualifies as basic social service spending. In 1997, the remaining 40 per cent of resources in this sector were spent for services not considered basic in either the UN or national definitions. Most of these resources were used to finance pensions and other support services to retired civil servants. Demographic and administrative trends suggest that changes may be coming to this sector too. First, as war-contributor populations age, there will be fewer people claiming these benefits. Second, an administrative shift of the pension programme for civil servants away from MOLISA is currently underway. MOLISA will retain responsibility for providing services to those who retired before 1995. As this group ages and as the proportion of post-1995 retired persons rises, MOLISA's role in this area will also decline, thus providing MOLISA with an opportunity to concentrate its services more intensely on meeting the basic needs of other socially disadvantaged persons.

The performance of donors with respect to the 20/20 Initiative target raises interesting and important policy issues as well. The rise in 1993 to 18.6 per cent of total donor resources being spent on basic social services appears to be an artefact of a one-time drop in total ODA resources. In 1993, total resources committed to Viet Nam declined precipitously, but spending in the social sectors was protected. Following 1993, total donor spending in Viet Nam rose rapidly, but much of the growth was in non-social sectors. Immediately after 1993, significantly more resources were committed for economic management and development administration. More

recently, spending on energy, trade, and industrial development expanded rapidly. In absolute terms, total spending in the social service sectors has remained relatively constant. The consequence of these dual trends has been a steady and large decline in the proportion of spending for basic social services. Policy dialogue between government policymakers in Viet Nam and donor community leaders should address the question of whether these trends in donor spending suggest the need to reorient some of these higher spending levels towards the social sectors.

In summary, trends in state spending for basic social services show steady progress toward meeting the goals of the 20/20 Initiative. This is true regardless of whether the analysis is predicated on the UN or national definitions of basic social services. An analysis of trends in each social sector further reveals continued propensity to allocate increasing proportions of social sector resources toward basic services. There are also clear opportunities to accelerate the momentum toward directing state resources to basic services. Analysis of donor resources on the other hand, reveals a more complex picture. Commitment to the social sectors in general, and to basic social services in particular, has not declined; rather, total commitments have increased dramatically as donors increasingly finance other development sectors. Whether increasing allocation to social sectors is desirable within this context of higher commitment levels is an important policy question to be jointly addressed by government and donor leaders.

Prospects for Restructuring the Budget

Strategies for achieving 20/20 Initiative targets need to consider both the short-term wish to better finance social services and the long-term interests in establishing sustainable financing solutions. On the other hand achieving the 20 per cent target is not in itself an absolute goal but a means to achieving wider access of people to better quality, basic social services. Any future increase in funding for basic social services should be based on concretely identified needs in Viet Nam. Furthermore, increased spending should be accompanied by initiatives to strengthen the national capacity to spend the funds in an efficient and equitable manner. With these issues as a context, five strategies to increase state spending on basic social services are briefly described below. Donor commitments should be considered in the GOV supporting to undertake these strategies.

Strategy 1: Increase BSS Spending through Increases in Public Sector Revenue

This strategy simply relies on overall macroeconomic growth to pay for increased basic social services spending. If the economy grows, it will generate increased fiscal receipts for the state, and some of the increased revenue can be disproportionately channelled to basic social services. Indeed, Viet Nam's state spending strategy appears to have been doing exactly that during the high-growth 1990s. As noted above, the proportion of state spending allocated to basic social services showed a steady rise from 6.2 per cent (using the UN definition) in 1990 to 8.5 per cent in 1998. Assuming that the long-term outlook for Viet Nam's economy is for continued high growth, policymakers in Viet Nam should be encouraged to continue this strategy. To exemplify how the 20 per cent target could be achieved, consider the following scenario in which a 6 per cent average annual GDP growth rate is assumed.

Six-per cent GDP Growth Scenario: Assumptions

- 6 per cent average annual GDP growth rates in next several years.
- Government maintains spending at 22 per cent of GDP.
- 50 per cent of the resulting increase in state spending allocated to basic social services.

Six-per cent GDP Growth Scenario: Outcomes

- State spending increases by VND 4,804 billion in 1999 (6 per cent of VND 80,069 billion) over 1998 spending, by VND 5,092 billion in the year 2000 etc., through each year.
- State spending on basic social services increases by VND 2,402 billion (one-half the VND 4,804 billion increased state spending) in 1999 and by VND 2,546 billion in 2000.

- Using the national definition, spending on basic social services increases from 17.2 per cent in 1997 (VND 11,801 billion) to 20.8 per cent of state spending in 2000.
- Using the UN definition, spending on basic social services increases from 8.5 per cent in 1998 (VND 6,771 billion) to 20.7 per cent in 2004.

In other words, the 20 per cent target is achievable in the short term if GDP growth rates are reasonably strong. However, prospects for GDP growth rates in the near term are debated within government policy circles. The government reported that the GDP growth rate for 1998 was 5.8 per cent, lower than the 9 per cent projected at the beginning of that year. Some government officials openly question whether this rate is attainable in 1999, or even if positive growth rates will prevail, given regional economic circumstances. If an average of 2 per cent GDP growth were to prevail instead of 6 per cent, Viet Nam would not achieve the 20-per cent target until 2002 (instead of 2000), using the national BSS definition, or 2014 (instead of 2004), using the UN definition. Assuming policymakers in Viet Nam maintain their commitment to disproportionately increasing allocations to basic social services, policies that assist Viet Nam in achieving high economic growth rates will quicken the achievement of their 20-per cent BSS target. Years in which economic growth is poor (as may occur this year and next), disproportionate allocation of increased government revenues to basic social services may be difficult to sustain, and the trend observed in the 1990's may be interrupted. Efforts are warranted to encourage Viet Nam to at least hold the line on basic social services spending during these times.

Short-term prospects for restructuring state spending are clearly threatened by the downturn in GDP growth rates in Viet Nam. While average GDP growth between 1990 and 1997 was 8 per cent, it declined to 5.8 per cent in 1998 and was reported to have been 4.5 per cent in the first two quarters in 1999. Government officials attending the BSS Study National Workshop in Hanoi (August 23-24, 1999) stated that a return to the higher growth rate pattern will be necessary as a prerequisite to continued progress towards the 20 per cent target of the 20/20 Initiative. As long as growth rates remain in the 5 to 6 percentages, policymakers expect to be able to protect basic social services spending at the current proportion of total state spending. Policymakers expect that even the percentage of total state spending on BSS will fall should growth rates drop below 5 per cent.

The latter is particularly important when policy dialogue strategies concerning basic social services are considered. Reducing emphasis on basic social services in budget allocation decisions due to GDP growth rates below 5 per cent would indicate that protecting increased spending in other sectors is more important than protecting progress towards the 20/20 Initiative target. It will be important to determine which other sectors are considered more important to protect and then to draw policymakers into dialogue about the relative merits of continuing progress towards the 20 per cent target for basic social services.

Strategy 2: Increase BSS Spending through Intersector Reallocation

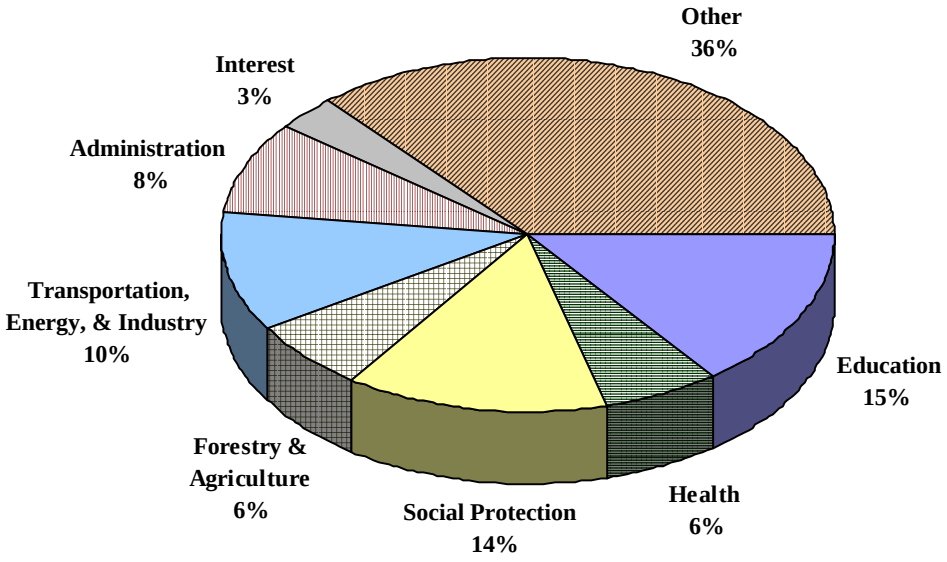
A second strategy is reallocating resources from non-basic sectors to the basic components of the social sectors. To identify possibilities here requires further in-depth study and perhaps more information than is presently available. More than one-third of total state spending is in an unidentified "other" category (Figure 11-2). In the absence of more detailed information about this category, it is not possible to make informed judgements about potential reallocations to basic social services. As public spending in Viet Nam becomes increasingly transparent, there will be greater opportunities to explore proposals for reallocations.[59]

Within the three main social sectors (education, health, and social services), there is probably little scope for reallocation from one sector's non-basic components to the basic components of another social sector. Together, these three sectors absorb nearly 35 per cent of state spending.

[59] It is believed that there is "hidden" BSS spending in the "other" category due to the aggregated nature of the reported expenditure figures of some state programmes and that the "other" category may also include some small expenditures which could be classified to other sectors. However, MOF officials claim that no health and education spending is included in the "other" category. More detailed information about the "other" category is necessary for more accurate analysis of state spending on BSS.

- Current state spending, as a percentage of GDP is 22 per cent, neither high nor low compared to other Asian countries.
- Total education spending is VND 10,081 billion (14.8 per cent of total spending, 3.4 per cent of GDP); this represents a mid-level of spending compared with other Asian countries or countries at Viet Nam's level of development.
- Total health spending is VND 4,172 billion (6.1 per cent of total spending, about 1.3 per cent of GDP); this is similar to other Asian countries.
- Total rural water and sanitation spending is VND 26 billion, a small percentage of social sector spending, and is reflected in Viet Nam's low standing among other Asian nations on measures of access to a safe water supply.
- Total social protection services spending is VND 9,339 billion (13.7 per cent of spending).
- Economic services amount to about 20 per cent of total spending.
- Other spending is 36.3 per cent of total spending.
- Administration is 8.5 per cent of total spending.

Figure 11-2: Distribution of State Spending Across Sectors, 1997



With the exception of rural water and sanitation, none of these allocations are obviously unreasonable, and opportunities for reallocation would need to be based on well-formulated investigations of spending efficiency. Such investigations are warranted in all sectors, and should include analysis of the capacity of each sector to absorb and spend more money efficiently and more equitably, and their ability to improve the quality of these services.

Strategy 3: Increase BSS Spending through Intrasector Reallocation

This strategy would reallocate resources within a given sector from non-basic to basic services. This may be achieved through simple budget realignments or by more indirect means.Within each of the major sectors, there appears to be little room for simple reallocations to basic services at the expense of other services (efficiency improvement in the social sectors is discussed in Strategy 4 below). Within each social sector, the percentage spent on basic services has been fairly steady during the 1990s, and it is unlikely that these can be

changed without significantly reorienting these programmes.

- Basic education spending was VND 3,579 billion in 1997 (35 per cent of total education spending). Because of the high levels of enrolment at the primary level, as these students pass into secondary and higher school levels and as fertility continues to decline, the proportion of resources going to primary education may start to decline. One way to maintain or increase BSS spending in education is to increase allocations to adult literacy. If goals in the adult literacy programme are achieved, this area too may decline as a percentage of total education spending. Another way to maintain or increase allocations to basic education is to focus more on the quality of primary education, rather than on access and quantity. Opportunities include reducing the prevalence of double and triple shifting at primary schools, increasing allocation to teaching materials, increasing subsidies for text books, exempting more students from primary school fees, and reducing the need for primary schools to levy special fees for operation and maintenance of facilities. As noted earlier in this report, the concept of what constitutes a "basic"social service differs among countries, and it also varies across time in a country. As new needs arise, the UN definition may become less appropriate and the national definition may need to be adjusted.This might be applicable to the Viet Nam's education sector. While primary school enrolment in 1999 remained nearly the same as in 1998, secondary school enrolment rose by 17 per cent. Several forces contribute to these trends, including success in universal primary school enrolment policies and successful population and family planning programmes that are reducing growth the size of new school-age cohorts. If education sector spending increases commensurately with enrolment, secondary school spending would increase relative to primary school spending, shifting the balance in the proportion of spending away from the basic level. Judged against the 20/20 Initiative target, this would be an undesirable change. However, judged against a more localised assessment of national needs, the reduced proportion spent on primary school may be considered appropriate.

- Basic health spending was VND 1,982 billion in 1997 (38 per cent of total health spending). There is evidence that higher-income urban residents disproportionately use subsidised health services, even at communal health centres, compared with the poor. The clearest evidence for this is in the disproportionately high percentage (28 per cent) of total health sector state resources spent to support services at the relatively small number of urban tertiary and speciality hospitals. Trends, however, have favoured basic services, and health policymakers express confidence that this trend will continue. Looking beyond the expenditure numbers, it is clear that Viet Nam has achieved much in terms of population health status. It ranks fourth out of 7 nations in Southeast Asia in infant and under-5 mortality, and second in maternal mortality and contraceptive prevalence. Fertility is the third lowest in the region. Among eight poor Asian nations, only China and Sri Lanka rank higher in infant mortality and Viet Nam is not far behind at that. These indicators suggest that, in fact, resources allocated to maternal and childcare and population and family planning have been well used. Increasing allocations to those programmes and services may not be required to continue the improving trends in health status; however, Viet Nam ranks low on indices of child nutrition, both among its Southeast Asian neighbours and other poor Asian nations. Viet Nam ranks lowest in Southeast Asia and among poor Asian nations in access to a safe water supply, at only 30 per cent of the population. Clearly, this is an area worth considering for intrasector (health) reallocation.

- Using the national definition of basic social protection (non-education, non-health) spending, VND 5,634 billion was spent in 1997 (60 per cent of total social protection spending). However, two-thirds of this amount was spent to support war-contributor preferential groups. Nearly all the remaining basic spending supports poverty alleviation programmes and services. Neither spending for war-contributor groups or for poverty alleviation services fits the UN definition of basic social services. Opportunities to reallocate spending within this sector are limited. Policymakers in Viet Nam are strongly committed to services to war-contributor groups. At present, policy dialogue intended to reconsider this level of commitment is unlikely to foster change. Opportunities to engage in productive dialogue may increase over time as war-contributor persons age out of the population (as was found in the province case study in Long An province), and the perceived need for these programmes wanes. Poverty alleviation programmes, which at present consist largely of support to increase income generation potential, may be an area where policy dialogue may be more appropriate within the context of basic social services. Given the high levels of childhood nutritional deficiencies in Viet Nam, consideration may be given to directing more resources to alleviating this aspect of poverty.

Thus, those expenditures would constitute basic social service spending within the UN framework.

Strategy 4: Achieve Efficiency Gains and Use the Savings to Increase BSS Spending and to Improve the Capacity to spend for BSS Efficiently

- In some cases, the way that money is being spent may be inefficient. If such inefficiencies occur in non-basic social service areas, either in the social or in other sectors, and if these inefficiencies can be reduced, the resulting cost savings could be channelled into basic social services. As with Strategy 5 below, the potential for this strategy to pay for increased basic social service spending depends on the sector. Also, there may be as much technical and allocative inefficiency in basic social service spending as there is in other spending. Improvement in efficiencies in non-basic services and reallocation of savings to basic social services may result in achieving the 20-per cent BSS target, but will not necessarily result in improvements in social indicators. There are needs to improve efficiency in use of new and existing resources for basic social services. This can be done through greater efforts in strengthening capacity especially at local levels in managing and implementing basic social services.

Strategy 5: Increased Private Sector Participation and/or Cost Recovery in order to Free Up Resources for Basic Social Services.

The last strategy relies on shifting the financing burden from the state to the individual for certain non-basic social services. There is already strong impetus for this approach in Viet Nam's "socialisation" efforts. Attention should be addressed to ensuring that "socialisation" of the costs of social services, particularly basic social services, does not fall disproportionately on the poor and under-served. As with Strategy 4, the resulting saved resources could then be used to increase BSS spending. The scope for this option may vary from sector to sector, and Viet Nam's current level of income and development suggests that this strategy may be limited.

- In education, the World Bank has estimated that nearly 50 per cent of primary education costs are covered through cost recovery and about 60 per cent for secondary education. However, since less than 20 per cent of tertiary costs are paid for in this way, there may be some scope for increased cost recovery here and then intra-sectoral transfers of savings to basic education. In other Asian countries and elsewhere in the world, students at higher levels pay proportionally more of their costs than students at basic levels. Yet in Viet Nam, the reverse is true.

- In health, about 80 per cent of all health spending is private and about one-half of all services are supplied by private providers. Examination of the pattern of spending could help to reorient state spending toward basic health services. As mentioned, 28 per cent of current state health spending supports urban hospitals and speciality facilities, whereas only 8 per cent supports community health stations and polyclinics. There has been little change during the 1990s in the percentage allocated to these community-based primary health care centres. If some services provided at urban and speciality hospitals can be shifted either to private sources (such as actuarially sound insurance), the saved resources can be used to decrease the costs to users of primary health care facilities, particularly in rural communities. Formulating an explicit and appropriate segmentation of public and private roles in the health care sector is one area with high potential to increase the proportion of total spending allocated to basic social services.

XII. Concluding Comments

- This study clearly shows that Viet Nam has made substantial progress toward achieving the goals of the 20/20 Initiative. Whether measured according to the national or UN definition, government spending on basic social service increased by more than one-third between 1990 and 1997. By the more restrictive UN definition, Viet Nam has almost reached the halfway point to the 20 per cent mark. ODA, on the other hand, lags behind, ending the period nearly where it began, at 10 per cent, or halfway to the target as well.

What Are the Prospects for Further Progress Toward 20/20 Initiative Targets?

The GOV increased the proportion of its state expenditures on basic social services by an average of 0.3 per cent per year between 1990 and 1997. Projections indicate that there will be little or no increase for 1998, the first year of that Viet Nam is experiencing the macroeconomic downturn that faced much of the rest of East and Southeast Asian region. Prospects for resuming progress toward the 20 per cent target, therefore, depend in part on Viet Nam's ability to re-establish strong macroeconomic growth. Strong growth may not return simply as a function of regional solutions. It has been suggested that part of Viet Nam's downturn can also be attributed to the need for a reinvigorated round of market reforms.[60] When strong macroeconomic growth returns, progress will also depend on the government's commitment to use a disproportionate share of new revenue to finance social services. Until that time, there appear to be efficiency-promoting changes in government programmes and services that could finance expanded or improved basic social services, even in these difficult macroeconomic times.

Aside from the direct impact of public finances on social sector spending, several other social and economic trends will impact on the ability of Viet Nam to continue moving toward the 20 per cent target.

- Viet Nam's population and family planning programme has been tremendously successful, nearly halving the average number of children born per woman from nearly 5 to 2.6 in less than two decades. As a result of this success, Viet Nam will soon begin to experience a drop in the number of infants born per year. These changes should ease the government's task of providing basic social services, particularly in primary school education and MCH services. Policymakers may decide to respond by reducing spending for services commensurate with the smaller cohorts of infants and children, or they may decide to maintain current spending levels to increase quality of services.

- Successes in education have also been noteworthy. Having nearly achieved universal primary school education, demand for secondary school education is already increasing. This will exert pressure to spend more at the secondary level, potentially squeezing resources at the basic education levels. Even were the amounts spent on pre- and primary school levels maintained, higher spending at the secondary level would result in lower proportional spending on basic education. This would be exhibited on lower BSS proportions. Policy analysis concerning the appropriateness of public spending on basic education services should take these issues into account. Some countries respond to changing needs by adjusting their definition of basic education.

- Similarly, efforts to increase equity at the higher education level may require increased spending by the state to support students from the poorest quintile of the population, who according to household survey data are poorly represented in the nation's higher education institutions. According to the definitions of basic social services, such new spending would not be considered basic and would erode the calculated proportion of education spending that is basic. However, reducing subsidies provided to higher education students from non-poor segments of the population may offset such new spending on poor students for higher education.[61]

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[60] Karel Jansen, "Economic Reform and Welfare in Viet Nam," (Institute of Social Studies, The Hague, and National University, Ho Chi Minh City; May 1997).

[61] See "Viet Nam Education Financing Sector Study" (The World Bank, 1996), chapter 5, External Efficiency and Equity, for recommendations on financing reform in higher education.

- Since the introduction of *doi moi* policies in 1986, Viet Nam's economy has undergone substantial change. Industrial output has increased at a fast pace. To the extent that the industrial sector will continue to be an important component to economic growth, demand for managers and technically skilled workers will increase. The education system will need to respond to these demands, adding another dimension to pressures to increase investment beyond the primary school level.

- On two major fronts, Viet Nam is moving toward actuarially sound insurance systems to finance social services. The new Viet Nam Social Insurance Agency will eventually assume complete responsibility for civil service pensions, a responsibility that currently rests with MOLISA and consumes about 40 per cent of that agency's spending. Health insurance reforms are also under discussion as a financing mechanism, especially for hospital care and to finance services to the poor. To the extent that these new systems succeed, they will result in substantial government savings. These resources represent a pool that may become available to either increase investment in basic social services, or to finance other new, non-basic social sector demand, such as those described above.

General Themes from Key Informant Interviews with Central Government Policymakers

As part of this BSS Study, senior policymakers (vice-ministers and department heads) at central government agencies (mostly confined to social sectors) were interviewed to review key results from this study of state expenditures and to obtain information about social sector policy directions.[62] Several themes emerged from these interviews, which provide a useful basis for wider policy dialogue about this study's findings in particular, and about financing for basic social services in general.

1. Policymakers in all social sectors expressed the opinion that targeting of state programmes and services can and should be improved in order that they have a greater impact on the poorest segments of the population. Some target groups are clearly defined for certain state programmes and services, such as programmes for war-contributor groups, ethnic minorities and people in remote, mountainous and poor areas. It has been pointed out, however, that some of these target groups include substantial numbers on non-poor individuals and families. As policy dialogue about financing basic social services gears up, it may be timely to include discussion about the appropriateness of current targeting policies and opportunities to redefine them. One group that warrants consideration in this dialogue is migrants from rural to urban areas.

   Consolidation of poverty programmes into the National Targeted Programme for HEPR can serve as a focal point for policy discussions about how to achieve better targeting. Another programme that will improve targeting of public services to the poor is the 1715 Poorest Commune Programme or the National Programme on Socio-Economic Development in Mountainous Deep-Lying and Remote Communes with Special Difficulties focusing on development of ethnic minorities and mountainous regions. Specific priority areas stated by policymakers for improved targeting include:

   - Essential drug supplies, health and education services—policymakers stated that "poor households" and "special policy families" (those containing a member eligible for benefits from one of the war-contributor social protection programmes) and those with "social diseases" should be provided free essential drugs and free health service. Children of these families will also be exempted from school fees and other contributions as well as get subsidies for textbooks and learning materials. Further analysis should be conducted to investigate the likely effects on poverty alleviation of exempting such groups. As mentioned earlier, it is not clear how much of an overlap there is between poverty and special policy family status.

   - Community health stations, primary education class rooms, as well as rural water supply in the communes included in the 1715 Poorest Communes Programme will be targeted for increased support. This should result in a substantial increase in state health and education sectors subsidies reaching the poorest

[62] For a complete report on results from the key informant interviews, refer to "Basic Social Services–Interviews on Central Government Officials" (Ha Noi: Central Institute for Economic Management, 1999).

households. However, it should be made clear what would be the funding source for these programmes. If the source is state funds, it will tend to increase the incidence of state spending for basic social services. If the source is donor funds, it will have no impact on the incidence of state spending.

- Policymakers referred to a "targeted national programme" for rural water and sanitation services; however, few details were available about the nature of such targeted programme.

Implementation of programmes will provide a rich source of lessons in the continual process of refining targeting mechanisms.

2. In all sectors, policymakers referred to the national poverty alleviation programmes, particularly the HEPR, as key to success in achieving their sector's goals to increase the resource base for basic services. Policymakers in education, health, rural water and sanitation, and social protection services all stated that money has been allocated to the HEPR budget for their sector. Several issues, therefore, become relevant. First, co-ordination between MOLISA, which will be administering the HEPR and other social sector line ministries at the central level, between various departments at provincial and sub-provincial levels and between central and local levels will be critical to avoiding duplication and ensuring that HEPR funds are spent efficiently. This provides an opportunity to assess and address the issue of overlapping benefits paid to individuals and families. Second, expectations appear to be high about the contribution the HEPR will make to state financing of basic social services and to improving equity in those services. Again, co-ordination and communication can play an important role in ensuring that line ministries plan their own programmes and services with realistic expectations about the HEPR, ensuring that no important service or group falls between the cracks. Finally, future analysis of BSS spending needs to take account of this new, consolidated programme. One of the greatest challenges to this state-expenditure analysis was to obtain detailed, programme-level information in order that the accurate assignment of spending to basic and non-basic services could be accomplished. Obtaining detailed information about spending in the HEPR will clearly be important to any future analysis of the 20/20 Initiative in Viet Nam.

3. Policymakers in almost every sector express reluctance to engage in policy dialogue about prospect for reallocation of resources from the non-social sectors. Perhaps prospects for such an outcome are perceived to be low. Perhaps the general lack of information about the use of 36 per cent of the state budget designated as "other" leaves policymakers feeling ill-equipped to discuss inter-sectoral dialogue about state finances. Perhaps there is simply little precedent for such open dialogue at the line ministry level. In any case, this reluctance will limit the range of choices available to policymakers as they strive to identify strategies to increase the financing priority for basic social services.

4. Capacity of social sector programmes especially at the local levels to absorb additional resources and to ensure the improvement of spending efficiency and quality of the services, particularly in the short term, was raised as an issue. For example, policymakers expressed the opinion that 20 per cent of health sector resources should be spent at the commune health-station level (versus the current level of 7 per cent). According to policymakers expressing this opinion, this increase is needed to improve quality and reduce the need for health care providers to refer patients to higher levels of care due to insufficiency of medical equipment and supplies at commune health stations. However, achieving a sector goal that would essentially triple the proportion of resources spent at this primary care level may be difficult to achieve in the short term and would need special efforts to strengthen capacity of the system of commune health stations.

5. Policymakers also expressed the opinion that improved informational links between the central and local governments would improve planning for sector strategies. In particular, policymakers at line ministries stated that they have little information on spending patterns of local government entities. Some policymakers described central government plans to establish computer links between local and central government agencies, in part to improve routine spending reporting. Little information about the status of such an initiative was provided to the key informant interviewers.

Recommendations–Education Sector

Commitment to education is high among Viet Nam's senior policymakers. The national target of 15 per cent of state spending occurring in the education sector has been achieved. In fact, *planned* education spending as a percentage of the total state budget is somewhat lower than 15 per cent. However, the education sector is apparently more successful than others in spending budgeted resources. It is this success that has resulted in the achievement of the 15-per cent target.Policymakers agree that this level of state funding is appropriate. Recommendations expressed, therefore, were tailored more to the use of existing resources than to efforts to secure additional sectoral resources. Some key recommendations emerging from this BSS study are listed below.

1. Improving primary school teachers' salaries is a priority policy issue. The sources of funds to pay for this initiative should come from outside the existing pool of resources for basic education. This will increase the proportion of state education spending used for basic education, leading to further progress towards achieving the 20/20 Initiative target for state spending. At the same time, it will protect the amount spent on non-salary inputs to education services and improve the chances that the new spending will have a positive impact on education quality and effectiveness.

2. Most education policymakers interviewed agreed that too little is spent on teaching aids and textbooks. They estimate that current allocations for these items meet only about 20 per cent of need. This means that the remaining 80 per cent is coming either out of people's income or, for the poorest, perhaps not being met at all. Questions about how much of this small proportion met by the state (20 per cent) reaches the poorest families are important. Evidence from the province case studies suggests that children from preferential families are targeted and it is unclear how much of an overlap between these war-contributor groups and poverty there is. This needs to be investigated. However, respondents were quicker to propose meeting the un-funded need by increasing parents' contributions and "socialisation," rather than re-examining existing targeting strategies. The former solution has the risk of reducing equity in education unless policies are crafted to selectively increase contributions among non-poor groups. The latter solution can have a positive impact if "socialisation" is promoted to serve children from better-off families.[63]

Recommendations—Health Sector

As noted in the chapter on the health sector, Viet Nam's health status indicators are impressive for a country at its level of economic development. The health facility network covers nearly all communes in the country and considerable attention is paid at the policy level to extending basic preventive and public health services to all. After a period of declining utilisation of state health services in the late 1980s and early 1990's, the system has experienced increasing utilisation more recently. This may reflect efforts to improve access to better quality services at the primary level.

1. Improving availability of equipment and supplies at the basic level (CHSs) is widely acknowledged to be one of Viet Nam's most important health sector challenges. Poor financing leaves primary care level ill-prepared to provide appropriate services and encouraging referrals to better-financed, higher level services, which drives utilisation and need for/use of funds higher, exacerbating the imbalance of funding. However, a number of policymakers question the capacity of the CHS system to absorb more than a modest increase in resources. Reasons for this assumed limited absorptive capacity needs to be investigated so that appropriate responses can be mounted.

2. As in education, important questions need to be answered about the role private spending in financing state health services.

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[63] As described earlier in this report, socialisation refers to promotion of private and semiprivate schools, whereby all or a substantial proportion of operating costs are met by fees paid by parents rather than by state budget resource.

- Users fees are an important source of funds at the primary health care level. Since CHS's are the primary source of care for rural, poor populations, the impact of these policies on the poor needs to be more closely examined. Some policymakers recommend shifting the burden of charging fees for state health services away from CHS's and to higher levels of care. Yet, there is a sense that consumers already have difficulty paying charges at hospitals. The impact on demand of higher hospital fees should be estimated before new policies are adopted in order to prevent a backsliding on what is widely viewed as a positive development in utilisation of public sector health care services.

- Insurance may offer a better solution, though financing insurance for the rural population, which is largely employed in subsistence agriculture may require high state subsidies in the short run. Initiatives in other countries, like China, that have successfully implemented insurance mechanisms for rural agricultural workers, should be explored to determine adaptability of such schemes in Viet Nam. A clear financing plan should be negotiated with local government so that the insurance fund is not under funded. The existing rural health insurance programme is a national programme that calls for co-financing from central and local budgets. This financing plan is reportedly the source of ongoing discussions between the central and local government levels. Rules for the flow of funds from the government and subscribers, to the insurance fund and to providers should also be re-examined. Health sector policymakers report that the current flow of funds does not follow the flow of services well.

- A better insurance mechanism is also needed to cover catastrophic care for a wider proportion of the population (instead of just those employed in the formal sector) and which is actuarially sound. This should free up resources to increase subsidies at the primary care level, allowing for decreased reliance on user fees, better equipped CHS's, and in turn increased confidence among consumers and decreased need among providers to forward refer patients to higher levels of care.

- Targeted socialisation should also be considered, allowing some tertiary care facilities to be reconstituted as private or semiprivate entities. Private facilities can be encouraged to attract the better-off that are able to pay for care, reducing the burden on the state to finance and provide care. An alternative is to move toward socialisation by leaving ownership and operation of some hospital services to private enterprises, with the state maintaining a financing role.

- Another alternative is to encourage the establishment of local control boards with increased authority over the day-to-day operation of facilities and staff management.[64] These would encourage greater efficiency in service delivery. Models such as in neighbouring countries, such as Malaysia and Thailand, should be examined.

3. A sharp increase in the volume of services provided by the private sector has been noted. As people's ability and willingness to pay for private services increases, this trend can be expected to continue. Policymakers are rightfully calling for a systematic examination of the state's role in health services. At the same time, consequences of loose regulation of the private health sector industry are increasingly noted in the press. Commensurate with recommendations presented above, the state should examine the appropriateness of the role it plays in financing, delivering, and regulating health care services.

4. Rural water and sanitation is perhaps one of the most under funded basic social service in Viet Nam. Central funding is very low and provinces appear to follow the central government's example, allocating very little of its resources to these important health services. Much of the financing burden therefore falls on donors and individuals. Though policymakers foresee little change in financing policy for rural water and

[64] Presently, a committee consisting of local government authorities, usually members of the local People's Committee oversees health facility operations. Health sector policymakers consider the present system ineffective. The recommendation being proposed here is that membership of oversight committees be expanded to allow other community members to serve.

sanitation, they clearly recognise the disjoint between allocation of resources and the ambitious goals set for this sector. Addressing this disjoint should be placed highly on a policy dialogues agenda for basic social services financing.

Recommendations—Social Protection Sector

Despite the fact that 14 per cent of all state spending occurs in this sector, social protection sector policymakers consider these resources to be too low. This perspective may be related to the fact that spending in this sector is dominated by programmes for war-contributors and their families (37%), and for civil service retirees (40%). Less than one per cent of this sector's resources are spend on services that meet the UN definition of basic social services designed for vulnerable and disadvantaged groups. On the optimistic side, perhaps the greatest prospects for intra-sectoral reallocation to basic social services exists in this sector. A process is already underway to shift pension financing for civil service retirees to a self-finance social insurance fund (VSIA). As this process proceeds, fewer and fewer central government funds, currently allocated to MOLISA will be required. Similarly, as the population of war-contributors ages, fewer and fewer eligible beneficiaries will remain, freeing resources for other uses. Some issues that should be placed on the basic social services policy dialogue agenda are:

1. According to government sources, between 50 and 70 per cent of war-contributor programme beneficiaries are poor. This means that between 18 and 26 per cent of this sector's resources consist of transfers to non-poor households. If this proportion can be reduced, substantial new resources will become available for other programmes and services. The GOV is currently considering a major policy initiative that would eventually achieve this objective. This initiative would offer war-contributor beneficiaries a one-time, lump-sum payment, after which they would be ineligible for transfers from this programme. Short-term costs for this initiative could be high (estimated at VND 400 billion), depending on the number of beneficiaries accepting the offer. Policy analysis should be conducted to estimate the demand for different types of offers, and to estimate the budget feasibility of the alternatives. Any long-run savings accruing from this initiative should be retained in the social protection sector to increase funding for other basic social protection services, such as disaster relief, services to orphans and the disabled (services that fit the UN or national definition of basic social services) and to the HEPR.

2. Central policymakers perceive that local governments are severely limited in their ability to finance social protection services, a perception borne out in the province case studies. Less than 2 per cent of local government resources are spent on social protection services. In light of these findings, central funding will probably have to take the lead in any effort to increase spending for basic social protection services. However, central policy thinking is actually heading in the opposite direction. Sector policymakers support increased decentralisation of authority to decide about spending priorities in programmes for the poor. If further decentralisation of authority occurs, there needs to be a concurrent infusion of money for local governments.

Additional Recommendations

Some overarching recommendations also emerged from this BSS Study. First, the GOV should continue to build on recent changes that have increased transparency in state sector financing information. The GOV began publishing its state budget in 1999. As useful at this change is, routine publication of state expenditures would be more useful to planners and policymakers. Social sector policymakers who participated in this BSS Study almost unanimously cited limited information about central and local expenditures as an impediment to improving sectoral spending plans.

More detailed accounting of expenditures would also be useful. It was noted earlier in this report that about one-third of state spending was not defined and may "hide" some small amounts of BSS spending. Lack of information about this large part of state spending limits efforts to rationally consider possibilities for inter-

sectoral allocation. Within sectors, details about the uses of funds could be improved as well. It was noted in the education sector, for instance, that few details were available about non-salary recurrent expenditures. In the health sector, no information was available about how expenditures break down within each level of care (CHS, hospitals, and public health programmes, for instance).

Information sharing emerged as another area where changes could have a beneficial impact on planning and efficiency of state spending. Year-end feedback from the MOF to line ministries about spending would greatly facilitate planning. Line ministry planning would also be improved by increased information about local government spending. Finally, information sharing among central government line ministries would aid efforts to improve inter-sectoral co-ordination, providing a basis for policy dialogue about state spending priorities.

Policymakers in Viet Nam call for increased policy analysis tools, such as cost-effectiveness analysis, to evaluate the utility of state programmes and services. Such analyses would help to identify strengths and weaknesses in state spending, to modify weak programmes, and to reallocate resources from less effective to more effective programmes.

Efforts are already underway to create a set of indicators to track progress on the 20/20 Initiative. Some measures used in this BSS Study may be useful in this regard. Others should be carefully considered to determine if alternative measures are more appropriate. For example, policymakers' point out that the dimensions of equity, other than the household expenditure quintile dimension, should be examined. Other dimensions of equity such as geographic region, rural versus urban residence, ethnic minority and Kinh majority; and dimension of individual/ private spending and contribution versus state spending for basic social services should also be looked at.

The lack of sex-dissagregated data and information also emerged from this BSS Study as a serious obstacle in efficiency and equity analyses. Such data would help to identify strengths and weaknesses in and to improve targeting strategies of the programmes to ensure the equitable access to the basic social services by both men and women, boys and girls.

The increase funding for basic social services alone is not enough to improve the social indicators. Greater efforts in strengthening capacity, especially at local levels in management and implement basic social services may improve the sector's capacity to absorb more funding, spend the existing and new state funding more efficiently, and to provide basic social services with better quality to wider groups of needy people.

Recommendations—ODA

It would be useful if following issues were addressed in dialogue amongst the donor community to promote the 20/20 Initiative goals:

1. Certain donors specialise in non-social sectors and cannot be expected to meet the 20 per cent goal; for example; for economic management. Should other donors be expected to compensate by spending more than 20 per cent of their resources on basic social services?

2. Some donors are reluctant (for supportable reasons) to finance recurrent government expenditures; however, basic social services expenditures are often heavily recurrent in nature. In countries where social services physical infrastructure (financed by capital spending) is already mostly in place, reluctance to finance recurrent expenditures reduces options for donor spending on basic social services.

3. Development needs vary across countries and, within countries, through time. Investments in industrial and transportation infrastructure are considered by some to be more efficient as a means to achieving economic development goals. Proponents of this position argue that in the long run, economic development is a more sustainable means to generate resources for social services and development.

4. As the funding for BSS is the investment in human development it is useful if the increased ODA spending for BSS goes along with the donors' increased support to GOVN in strengthening capacity of the social sectors to improve the efficiency, access and quality of the BSS.

Policy Dialogue Issues

Policy dialogue on this and other issues emerged from this BSS study as a key need in ongoing efforts to promote the 20/20 Initiative goals. Many of these issues were raised and discussed during key informant interviews conducted as part of the BSS Study. Key national issues are summarised below.

- **Under-funded central programme mandates** – Financing plans for centrally devised national programmes often call for local budget contributions that local leaders sometimes consider unrealistic.
- **Investments in infrastructure vs. social services** – Some policymakers in Viet Nam express the opinion that increased allocations to basic social services should not occur, particularly in remote regions, until infrastructure development is sufficient to support efficient use of social services investments.
- **Policies about central budget subsidies to local budgets** – A gap between official policy and implementation is noted by policymakers (as evidenced in the BSS study's Province Case Studies) in determining central budget subsidies for local budgets. Three general levels of support are intended (for poor, average, and well-off provinces), though subsidy levels in fact vary considerably within categories.
- **Achieving consensus on key definitions** – It was noted that different definitions of poverty (at the household, community, and area levels) and of "basic" social services impedes planning.

Programmatic issues for policy dialogue were also identified. Key issues include: (1) identification of strategies to more effectively reach remote and mountainous communities with basic social services; (2) identification of strategies to encourage vulnerable persons (including women, children and ethnic minority people) and households to take advantage of state programmes and services intended for their benefit; and (3) re-examination of strategies to reach safe water supply programme targets within the constraints of state budget allocations.

While policy dialogue is needed on these and other key issues related to policies affecting basic social services spending and implementation, there are a number of concrete tasks that can be initiated immediately. These include:

- **Development of a monitoring system for BSS** – Key issued to be addressed here are, what indicators should be used, what agency or agencies should be responsible for maintaining the monitoring system, how can co-operation across sectors be ensured, and how often should reporting occur? how sex-dissagregated data will be collected and used?
- **Improving information sharing** – Feedback from the Ministry of Finance to line ministries about expenditures would improve line ministries' ability to plan effectively. Likewise, improved information to line ministries about actual spending by local authorities would greater improve central ministries' ability to plan. Mechanisms to improve communication among these entities should be developed.
- **Development of co-ordination mechanisms** – Policies in one sector often impact on other sectors, yet at present there are few forums for inter-sectoral co-ordination. A similar situation exists at the programme level.
- **Local capacity building** – It was noted that programme efficiency is much affected by local programme management skills. Local capacity should be considered alongside proposals for increased spending for social services in general and basic social services in particular. Meanwhile consideration should be

given to development of initiatives to upgrade local capacity to manage and implement social services. This capacity strengthening efforts should aim at the provision of wider access of needy people to the better quality of basic social services.

As the GOV continues to track progress towards 20/20 Initiative targets, policymakers should consider the 20 per cent target for state spending on basic social services more as a rallying point to advocate for appropriate financing for basic social services as one of the best ways to invest in the sustainable human development of the country, not as an absolute target in itself.

The stage is set to begin more broad-based, serious policy dialogue on the priority position of basic social services in state and ODA spending. Basic information has been collected, analysed, and prepared for policy communication. Participation in this process has been broad, but mostly confined to social sector leaders and some donors. These players should now engage in a formal strategic planning process to guide the policy dialogue among government agencies, among the donor community and between government and donors. The strategic planning process begins with identifying important stakeholders (both from government and donors) and decision-makers who influence state social policy and finance decisions. Next, these influential stakeholders need to be assessed to determine likely sources of support and resistance for changes in state and ODA financing for basic social services. At that point, a series of policy dialogue and planning sessions should begin. Once started, the process should be ongoing. Changes in BSS financing policy will alter future financing needs, as will the general process of national development, requiring ongoing evaluation and dialogue. The end of this BSS Study is therefore most appropriately defined as the beginning of this process.

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