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**THE ROLE OF PUBLIC ADMINISTRATION  
AND MANAGEMENT REFORMS IN ECONOMIC  
TRANSITION:  
THE CASE OF VIETNAM**

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FACULTY OF SOCIAL SCIENCES AND LAW**

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**BY**

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## LIST OF ABBREVIATION

<b>ADB</b>	Asian Development Bank
<b>AFTA</b>	Asian Free Trade Association
<b>ASEAN</b>	Association of South East Asian Nations
<b>CEE</b>	Central and Eastern Europe
<b>CMEA</b>	Council for Mutual Economic Assistance (COMECON)
<b>CCP</b>	Chinese Communist Party
<b>CPV</b>	Communist Party of Vietnam
<b>DARD</b>	Department of Agriculture and Rural Development
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FSU</b>	Former Soviet Union
<b>GB</b>	Great Britain
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>GOV</b>	Government of Vietnam
<b>HCM City</b>	Ho Chi Minh City
<b>HR</b>	Human Resource
<b>HRD</b>	Human resource development
<b>HRM</b>	Human resource management
<b>IMF</b>	International Monetary Fund
<b>MARD</b>	Ministry of Agriculture and Rural Development (Vietnam)
<b>MOF</b>	Ministry of Finance (Vietnam)
<b>MOFA</b>	Ministry of Foreign Affairs (Vietnam)
<b>MPI</b>	Ministry of Planning and Investment (Vietnam)
<b>NA</b>	National Assembly (Vietnam)
<b>NAPA</b>	National Academy of Public Administration (Vietnam)
<b>NGO</b>	Non-governmental Organisation
<b>NICs</b>	Newly Industrialised Countries
<b>NIS</b>	Newly Independent States
<b>NPM</b>	New Public Management
<b>ODA</b>	Overseas Development Assistance

<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OOG</b>	Office of Government (Vietnam)
<b>PAR</b>	Public Administration Reform
<b>PC</b>	People's Committee (Vietnam)
<b>PRC</b>	People's Republic of China
<b>SOE</b>	State Owned Enterprise
<b>SRV</b>	Socialist Republic of Vietnam
<b>TA</b>	Technical Assistance
<b>TQM</b>	Total Quality Management
<b>TVE</b>	Township and Village Enterprise (China)
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>USA</b>	United States of America
<b>USSR</b>	Union of Soviet Socialist Republics
<b>WB</b>	World Bank
<b>WDR</b>	World Development Report
<b>WTO</b>	World Trade Organisation

## ABSTRACT

The appropriate role of the state in economic and social development has been much disputed in the past few decades, with earlier ideas about an interventionist state under attack from a neo-liberal perspective rooted in the neo-classical theory of economics which emphasises the superiority of market forces. This led in some developed capitalist economies to radical reforms, with reductions in levels of public expenditure matched to reduction in the size of state bureaucracies, and a model of public service delivery which increasingly transferred responsibility for the provincial and lower levels, and management of public services, away from the central state towards decentralised service providers.

This radical reform thrust was further strengthened by the collapse of state systems based on central planning (mainly in Eastern and Central Europe), a development associated with drastic economic decline in many countries. International aid donors promoted a remedy which involved a move away from socialist political economy towards integration into the global capitalist economy. Despite this, many states continued to suffer extreme of economic and political instability and crisis.

A different model of state – market relations is that presented by economies which have embraced ‘market socialism’, pursuing market-oriented economic reforms while retaining their socialist political structures. The leading cases are China and Vietnam, and this thesis will use the case of Vietnam, while also drawing on materials about China, to examine these major hypotheses:

1. That market-oriented economic reforms in transitional economies can be effectively implemented on the basis of a strategy of gradualist, incremental change, avoiding the economic and political risks associated with the ‘big-bang’ approach;
2. That an efficient, capable state administration, linked to stable political institutions is beneficial to such process of economic change;
3. That a crucial component in the economic reform process is, therefore, the design and development of a reform strategy aimed at the transformation of outdated administrative mechanisms of central planning into modern, efficient, well-managed systems of governance.



The examination of these hypotheses will make a contribution to our understanding of the interaction of economic, administrative, and political processes in transitional economies, and may suggest lessons for policy makers involved in these processes of change. The case study will also contribute to the literature on public administration, public management, and governance reforms.

## DECLARATION

NO PORTION OF THE WORK REFERED TO IN THIS THESIS HAS BEEN SUBMITTED IN SUPPORT OF AN APPLICATION FOR ANOTHER DEGREE OR QUALIFICATION OF THIS OR ANY OTHER UNIVERSITY OR OTHER INSTITUTE OF LEARNING.

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## DEDICATION

TO THE MEMORY OF MY MOTHER NGUYEN THI KHANH

TO MY FATHER NGUYEN KHAC HIEP AND MY SON NGUYEN ANH  
TUAN

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## CHAPTER I

### INTRODUCTION TO THE STUDY AND ITS METHODOLOGY

The objective of this chapter is to provide an introduction to the research and its methodology. It aims at defining public administration, public administration reform, and transitional economy, and shows the gaps in existing research approaches to these issues, especially in regard to transitional countries. The chapter raises a number of questions relating to the reform of public administration and provides a direction to the rest of the thesis. After an outline of Vietnam and the economic and administrative reform attempts in that country, it shows the need for further efforts in the ongoing reform process. The chapter also explains the conceptual framework of the research and highlights the limitations of the methodology.

#### 1.1 SOME WORKING DEFINITIONS:

##### 1.1.1 Public administration:

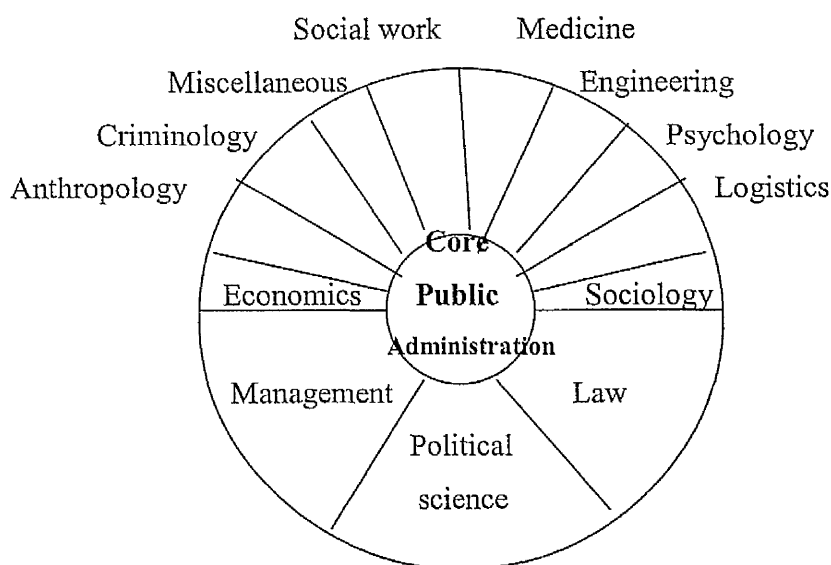
Public administration (PA) has inevitably emerged as an institution of central importance everywhere in the world and most clearly in developing countries. Politics is a primary content for analysis of the governmental system, and sometimes political forces play a decisive role, but administration accounts for the largest part of government quantitatively and, in many views, tends to be the dominant partner qualitatively also. Nowadays we live in an age of big government, not just because it shapes all aspects of our collective life, but also because we are subject to it daily as individuals. The rules of public administration "*set the framework of what we may or may not do; we use its services continuously – schools, hospitals, roads – the list is endless; we depend on it for licenses, permits, allowances, subsidies and other advantages it can grant or withhold – its benefit, indeed, can be claimed by others in our name at cradle and grave; and we pay for all this through a variety of burdensome taxes all the time*" (Ridley, 1979, p: 2). In fact, it is significant to note that the public administration not only forms the largest part of government, it stays at the heart of the policy and decision-making process. In addition, what is interesting is that the public administration, at the same time, holds the responsibility for execution of this policy as Heady (1979, p: 2) wrote: "*Public administration is that sector of administration found in a political setting. Concerned primarily with the carrying out of public policy*

*decisions made by the authoritative decision-makers in the political system, public administration can be roughly distinguished from private, or non-public, administration."*

Although the notion of PA is as old as government, understanding about it still differs among different academics and practitioners. Despite several decades of development in both developed and developing worlds, consensus about the scope of public administration is still lacking, and the field has been described as featuring heterodoxy rather than orthodoxy. Debate is still going on about whether PA is art or science or vice versa. No doubt that some people have a gift for administration and become natural administrators. *"They are not only perpetually organised but have a knack for getting people to harmoniously work together. The administrative art is judgement, panache, and common sense"* (Shafritz & Russell, 1997, p: 22). However, one may say that the artist is useless without necessary tools – without the technical skills (the science) that allow for the digestion and transference of information. It is, therefore, pointless to argue whether the practice of public administration is more art or science; it is inherently both. In addition, there is a view that public administration is a profession (Lawrence, 1997), which includes whatever the public employees of the world do, ranging from typing documents to running general elections. Although these people do not always think of themselves as public administrators, identifying themselves in their specific professions, they nevertheless provide public services. What makes this picture more complex is the fact that public administration is examined from a diversity of aspects and disciplines, which are illustrated in the following figure (Figure 1.1).

The results of all these debates and arguments are very different definitions of PA. Fletcher (1967, pp: 53-54) explained that *"Public administration can be used to denote: (1) The activity of public servants; (2) The structure of executive government: that is the institutions and patterns of relationships through which the activity of public servants is carried on; (3) The study of 1 and 2"*. Put another way, as a subject, PA *"focuses pre-eminently on the institutions, organisational structures and decision/implementation processes of government"* (quoted by John, G & Wilson, D, 1989, p: 2). It can be noted that while considering PA as *"the activity of civil servants"*, this meaning is very narrow and focuses only on day-by-day work of the public servants. Furthermore, *"the study"* is concerned mainly with the objective side of public administration as *"executive in action"* to implement the system of executive

**Figure 1.1** The Interdisciplinary Nature of Public Administration.



Source: Shafritz, J. M. & Russell, E. W. (1997).

power, omitting the subjective, behavioural side. Dunsire (1973) found fifteen different meanings of “administration”, among which some notions seem to be relevant to this discussion (see appendix 1.1). Waldo (1987) gave this definition: "(1) *Public administration is the organisation and management of men and materials to achieve the purposes of government.* (2) *Public administration is the art and science of management as applied to affairs of the state.*" A decade later, while considering that PA is too vast to encompass it all within one definition, Shafritz & Russell provided eighteen definitional discussions and clustered them into four categories: (1) political, (2) legal, (3) managerial, and (4) occupational (see Shafritz & Russell, 1997, pp: 7-32).

Given the complexity of the function of PA and also the scope of government at the present time, the following description is deployed for this research: (1) Public administration is a power named “administrative power”, one component of the executive power (which may be divided into administrative power that is the power to organise, run and manage the administrative system itself, and regulatory power that is the power to issue by-laws and regulatory documents to implement laws). It is the power to organise and manage the state administrative machinery to conduct the operation of the state; (2) A system of public bodies including the government, various ministries and central agencies, local authorities, and other public institutions which have the competence to organise and regulate socio-economic processes and the actions

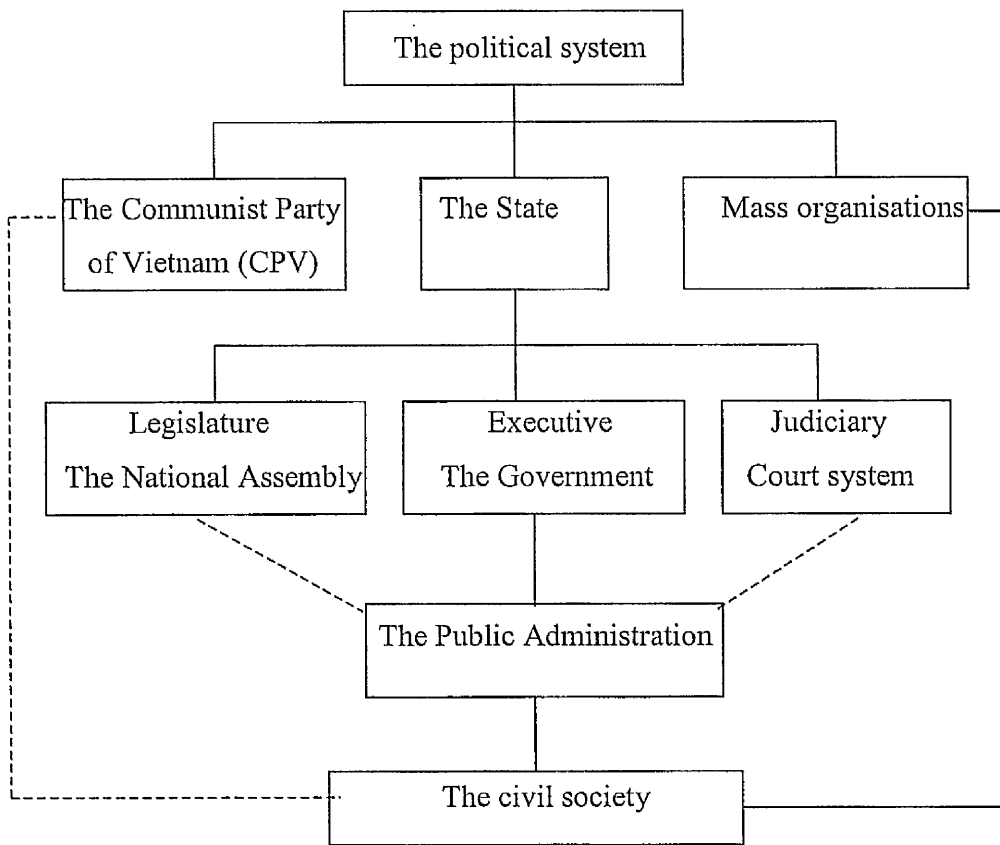
of different organisations and citizens; (3) A set of institutions<sup>1</sup> namely administrative institutions comprised of legal and regulatory documents and rules to govern the organisations; and (4) the action of public servants in the bureaucracy.

Since the eighteenth century, the theory of separation of powers by Montesquieu has had a strong influence on the state structure in many countries in the world. The state divides into three branches of powers: the legislature (Parliament, National Assembly or Diet); the executive (the Government or Cabinet); and the judiciary (Courts and prosecution bodies). The three powers are independent, co-exist and supervise each other with the view to avoiding abuse by any one power. The legislature is responsible for law making, the executive uses its administrative and regulatory powers to manage and carries out the daily operations of the state through its public administration, the judiciary implements the function of jurisdiction and interpretation of the legislation. In this context, the public administration may be viewed as both a highly aggregated *unitary actor* being responsible for carrying out the various functions of the state and a highly differentiated *action arena* in terms of being part or extension of the governing process (see McCurdy, 1986). As an institutional actor, the public administration has to execute public tasks in accordance with the standards set by external actors in the political system. As an operational action arena, the public administration itself has a number of actors whose actions have to be co-ordinated internally to achieve final outcomes of the whole system. The figure below shows, as an example, the position of the PA of Vietnam (see also the map of Vietnam in appendix 1.2) in the political system.

The figure shows that there is a close relationship between the state and the CPV and among the three powers of the state, namely the legislature, the executive and the judiciary. Unlike many countries in the world which apply the Montesquieu system of separation of powers, in Vietnam, according to the 1992 Constitution, the three powers are not separated, but rather unified in the National Assembly, the highest organ of state power. The executive and the judicial powers then are designated to the

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<sup>1</sup> In relation to Vietnam, two types of institutions are distinguished, i.e. economic and administrative institutions: (i) Economic institutions are those of the new economy itself, and set the new rules for the market economy; and (ii) The institutions of the public administration include two major elements: the institutions of the State executive machinery which headed by the Government, manages the economy, and the institutions which establish the relationship between the State and the public, especially in a democratic State, relation with civil society. (Proceeding of the International Colloquium on Public Administration Reform, Hanoi, Vietnam, 1996, p: 21).

**Figure 1.2** Public administration in the political system of Vietnam

government and the court systems to carry out. While it is obvious that the public administration is “the executive in action”, functioning as the essential mechanism of the government, its role as the door for the public to raise their voice is also highlighted. However, the simplified figure does not indicate the very complex relations among these factors as they interact in the reality. The CPV is seen as the “core” of the political system, therefore, it has played considerable functions not only in terms of policy-making, but also in implementation and interpretation. The relations between the PA and the legislature and the judiciary are not indicated. Furthermore, the system in the country “The CPV to lead, the state to manage, and the public to be the master” is rather rhetorical, being just a political slogan on the one hand, and reducing the role of the state on the other. These issues will be discussed in more detail later in chapters 3, 4 and 5.

PA performs diversified functions, the range of which depends upon the socio-economic and political system of a given state. These functions of administration can be grouped as: (i) *general policy* in administration conducted in pursuance of the decisions of political and representative bodies, such as of the ruling party or

parliamentary legislation; (ii) *general control*, which covers traditional functions of administration in terms of regulation of personal matters relating to citizens such as status, citizenship, foreign travels, military service; (iii) *management of national economy* through direct and indirect actions by public administrative bodies in setting up production, in domestic and foreign trade etc.; and (iv) *technical activities and services* connected with the national economy and social progress, comprising such services as taxation, transport and telecommunications, public education, healthcare and international co-operation.

It is evident from a number of sources (e.g. WB 1993, 1996, 1997, 1999, 2000, 2001; OECD 1993, 1995; UN 1998, 1999, 2000, 2001) that there has been rapid economic change and structural transformation all over the world. There has been almost a convergence among developing countries in favour of a market-oriented approach to development. It is believed (WB, 1996; Cook, *et al.*, 1998) that competition and entrepreneurial activities lead to a more efficient allocation of resources and better production, therefore, this has led to the wide-spread adoption of economic policy reform programme of stabilisation, structural adjustment, liberalisation and deregulation. As a result, various measures to promote the private sector and reduce the significance of the public sector have been implemented in the countries and, consequently, these economies are experiencing a major structural change as they move from a dirigiste to a more deregulated macro-economy. The same process of structural change has happened in Central and Eastern Europe and other transitional economies with their attempts to nurture their market economies. However, it is also argued that private sector development will not occur “*spontaneously via ‘the magic of the market’*. *Private enterprises require active encouragement and support by government and private sector development needs an integrated policy approach that addresses systematically the range of constraints that can inhibit private enterprise growth in different country and sector context*” (Cook, P. *et al.*, 1998, p: 3).

### 1.1.2 **Public administration reform (PAR):**

Over the past forty years widespread dissatisfaction with the performance of public administrations, cutting across national, socio-economic, and ideological boundaries, has made the need for administrative reform a universal theme. Problems such as the excessive centralisation of authority, the over-expenditure of the bureaucracy, the lack of adequate controls over bureaucratic power, including the

proper management and control of the parastatal sector, and the lack of proper co-ordination between central and local government units were so serious that they made administrative reform imperative. The reform agenda has varied through the development decades but it has always been there in the reality. There has been a "*radical transformation in the ideas and approaches to administrative reform and it is now regarded as a complex and diversified body of doctrine of very great importance. The theory of administrative reform represents the meeting point and culmination of all administrative theories profound up to now*" (Poudyal, 1989, p: 6). Almost in every country in the world, an expanding capability for converting political demands into administrative action is, after all, a fundamental state function. Although there are a number of attempts to define administrative reform (Caiden, 1969, 1984, 1991; Jreisat, 1988; Khan, 1980), its notion usually includes planned or at least deliberate change in administrative structures or processes to improve administrative output or related characteristics.

Even though administrative reform, as a term, has been interpreted differently by different authors, it has acquired widespread usage and recognition in matters relating to government and public administration. Some decades ago, Caiden (1969, p: 1) defined it as "*the artificial inducement of administrative transformation, against resistance*". He distinguished administrative reform from administrative change, that is, a self-adjusting response to fluctuating conditions, saying that the need for the former arises from the latter because of the malfunctioning of the natural processes of administrative change. In the same strain, Saxena (1980, p: 18) quoted Dror who defined administrative reform as a directed change of the main features of an administrative system, and further clarified that change must either (a) be at least of medium comprehensiveness plus high innovativeness; or (b) be of high comprehensiveness plus at least medium innovativeness. The emphasis then is on reforms to bring about necessary changes in public bureaucracies. Administrative reform, in this context, means and includes "*those efforts which call for or lead to major changes in the bureaucratic system of a country intended to transform the existing and established practices, behaviours and structures within it*" (Khan, 1980, p: 57).

By definition, administrative reform is concerned with fundamental as opposed to cosmetic change. It involves the deliberate refashioning of the organisations, institutions, structures, procedures and rules and regulations of the state and its

bureaucracy. It is also concerned with significant changes in the attitudes and behaviour of those involved in the administration of public affairs. As such, administrative reform is far from being an automatic or spontaneous process. It must be deliberately induced and, given the inherent human tendency to resist change, those responsible for its implementation must be dedicated and committed to its success. Furthermore, as Rweyemamu (1984) rightly wrote: "*Public administration functions within a political environment. It is influenced by, and influences, the political process of which it is part. Political environment means the behavioural consequences of social, economic, political and cultural forces in society. These forces interact with external forces to produce conditions that determine the patterns of behaviour of the polity, including the bureaucracy*", so that it is important to place administrative reform in the general context of interactions among different elements and relationships.

### 1.1.3 Transitional countries:

One of the most important events of the late twentieth century was the collapse of the former Soviet Union (USSR) and the breakdown of the Council for Mutual Economic Assistance (CMEA) in the late 1980s and early 1990s. The failure of the massive efforts made some decades ago to centralise control of production and allocate all resources through state planning has set in motion a radical transformation, "*as these same countries change course seeking to rebuild markets and reintegrate themselves into the world economy*" (World Bank, 1996, p: 1). The long-term goal of transition is to build a thriving market economy capable of delivering long-term growth in living standards, requiring fundamental changes in the rules of the game and in the institutions that shape behaviour and guide organisations, and drastic alterations in the relationship between people and their political and social not to mention economic institutions. This makes it a profound transition in both social and economic spheres, in which, paradoxically, the state and its public administration still play a significant role. Research by international organisations such as the World Bank (WB), International Monetary Fund (IMF), and United Nations (UN) have found that the process of transition does not merely reduce the role of the state, but rather requires the state to strengthen its capacity to regulate the socio-economic environment and to repair where the market forces fail. Public administration reform has, therefore, emerged at the forefront agenda of development of any country in transition.



While the overall experience of transition remains, at this stage, inconclusive about success or failure, the past ten years of transition have shown that in some countries such as Russia, Ukraine and Mongolia there has been a deterioration in terms of production, high inflation rate and drop in living standards; in others such as China and Vietnam, initial results of transition have dramatically improved human welfare. This research study is devoted to exploring the experience of public administration and management reforms in transitional economies, to identifying which approaches work and which do not, and to pinpointing the critical elements of success. The major premise is that analyses of the problems of development and administrative reform should take into account distinguishing characteristics of the social, political and economic forces in operation in each country. It will try to avoid over-generalisation by using the case history of Vietnam while also drawing on materials about China to examine the interrelationship between the public administration and economic development.

## 1.2 THE DEVELOPMENT THRUST:

Since 1986 Vietnam has embarked on the policy of economic and institutional reform, known as *Doi Moi*, to bring about a transition to a market-oriented economy while preserving political stability – which remains the highest priority for national authorities – and promoting equity. The policy has had remarkable success: the country achieved high rates of growth over most of the past decade or more with low levels of budget deficit and inflation, increased savings and investment, a rapidly expanding external trade and sizeable inflows of foreign direct investment and aid. Amongst the most notable achievements which may be cited (*e.g.* WB, 2001) is the reported dramatic improvement in poverty levels (reduced by over one half since the overall process of renovation started) and the fact that Vietnam is now the world's second largest rice-exporter after having been a rice-importer (by the end of 2000, the country has exported more than 4.5 million tons of rice in particular). Health and education indicators have generally improved for the majority of the population, and there has been an increase in employment levels. Nevertheless, despite this progress, income per capita remains low at some USD 390 per annum, and poverty and near-poverty remains widespread.

However, on the other side of the coin, the country is faced with a number of weaknesses, which are identified as “(i) *The level of internal economic accumulation is*

*still low; (ii) There is an insufficiency of experience in management of the transition to a market economy; (iii) The machinery is still inappropriate, and unsuitable for the market economy to develop; and (iv) The capacity of administrative personnel is inadequate in relation to the changing requirements of the Vietnamese society”* (Doan Trong Truyen, 1996, p: 16). In addition, while GDP growth is still positive, it is clearly on the decline from the rate of 9% achieved in 1997. Independent estimates by the WB set GDP growth for 1998 at around 4%, while the Government estimates it to be near 6%. This decline is in line with a considerable reduction in export growth (from an average of 25% in recent years to zero in 1998) and in DFI (estimated to have fallen by around 60%, with new commitments falling even more sharply). The poor performance of SOEs and the condition of the banking sector seem fragile.

Thus, the success of the economic reforms as well as the impacts of the recent Asian financial crisis have drawn attention to the weaknesses of the public administration, making public administration reform (PAR) imperative. There is an urgent and fundamental requirement to link PAR with economic reforms, considering PAR as the focus of the process to build and strengthen the State of the Socialist Republic of Vietnam (SRV). The Communist Party of Vietnam (CPV) and the Government launched the reform programme officially in 1995 with the goal *“to build a streamlined, capable public administration that uses properly the authority and is gradually modernised to manage effectively and efficiently the operation of the state, promoting the healthy development of the society, in the right direction and serving the life of the people, building the lifestyle and working style in accordance with laws in the society”* (the Resolution of the VIII Plenum of the Central Committee of the CPV, January 1995). This goal has political as well as scientific and professional implications, and serves as the development thrust for the current reform phase of the country.

Since the PAR programme was officially announced, the Government of Vietnam (GOV) has taken the lead in the reform efforts. Attempts have been made to (i) rationalise administrative institution (the legal and regulatory framework of the public administration) with the focus on streamlining administrative procedures; (ii) reform the administrative machinery at all levels in order to strengthen its capacity to cope with the new developmental tasks; and (iii) to renovate the civil service with the focus on training and retraining of the contingent of civil servants. In order to carry out such a challenging reform, a National Steering Committee for PAR headed by the

Prime Minister was set up in the central government, and a steering board was set up in every ministry and province in the country. It is also significant to note that PAR also goes along with other reforms in the country, such as economic renovation, reform of the legal system, public enterprise reform, and reform of the organisation and operation of the National Assembly and of the court system.

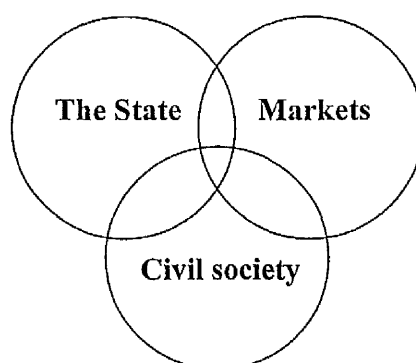
Initial results were achieved in PAR relating to the above-mentioned areas. According to the conclusion of the International Colloquium on PAR in Vietnam (September 1996, pp: 141-145), apart from a vast amount of new legislation and regulation passed, improvements were made to administrative procedures, especially in seven focal areas namely: (i) distribution of budget and basic construction fund; (ii) foreign investment; (iii) immigration; (iv) import and export; (v) issuance of construction permits and notification of the right to use construction land; (vi) establishment of enterprises and business registration; and (vii) dealing with complaints and grievances of the public. The government was also reorganised from 28 ministries in 1995 to the present 23 at the central level; and the number of departments at the local level was reduced accordingly. Efforts have also been made to reform public enterprises in the direction of corporatisation and equitisation of a number of state owned enterprises. And, annually, nearly 10,000 of civil servants have taken retraining activities run by the National Academy of Public Administration (NAPA) and other training institutions with the view to improve their capability as required by the newly developing market economy. However, despite all these improvements, there is still much to do with PAR as will be discussed in the following chapters.

### **1.3 RESEARCH PROBLEM:**

According to neo-classical theorists, PA has been analysed in the triangular relationships among the state, market and civil society (see figure 1.3) in which the state plays a role when market forces fail and vice versa. This role is even more obvious and essential in countries in transition from a centrally planned to a market economy where markets are new and still rather weak. The move from an old to a new form of capital accumulation and production requires a completely new role for the state and its public administration to play. Public administration is considered (Fforde & de Vylder 1996; Le Dang Doanh 1996; Pollitt 1997) a stimulus for the development of markets as driving forces for national development, therefore, a reformed and improved performance of the public administration and management both in terms of

organisational structure and behaviour of public servants is desirable. Different authors have tried to analyse the relationships from different dimensions as applied to transitional economies, but in fact, it is also argued that the process is very much contextually and country based. Two major approaches in transition are identified with the name of big bang or shock therapy (all-out liberalisation and reform) and gradualism (step-by-step reform) and raise lots of argument pro-and-con in terms of their political economy. China and Vietnam are seen as representatives of the gradual approach. Their initial successes in reform have attracted much attention from academics and practitioners.

**Figure 1.3** The state, market and civil society



Administrative reform has a long story dating back to the Napoleonic era in the eighteenth century in France. A lot of writers have been dealing with different aspects of the reform theories and practices but not intensively for transitional economies, apart from articles (Chow, 1988; UNDP, 1992; Hesse, 1993; Letowski, 1993; Taras, 1993; Balazs, 1993; Szabo, 1993; Vetubelyi, 1993; WB, 1993, 1996, 1997, 1999, 2000). Despite the richness of the general literature, certainly no thorough study has been undertaken to examine the multi-dimensional character of public administration and management reforms in transitional economies, and the interrelationships between the public administration and economic development. Other relationships such as the crucial role of state bureaucracy in ensuring successful transition from a centrally planned to a market economy are not fully examined. In addition, the link between PAR and economic reforms and the politics/administration dichotomy and its implications leading to a significant role of political will and support in public administration and management reforms are still under discussion. Furthermore, there

is an extensive debate about the appropriate strategic framework for administrative reform as it applies to countries in transition. This research intends to unravel these problems and relationships within a theoretical, conceptual and practical framework of analysis. It also potentially represents a positive contribution to the existing literature on the theoretical and practical aspects of the reforms in transitional economies through a case study of Vietnam.

Administrative reform in transitional economies is seen as a continuous process, not an end, that is much influenced by both internal and external factors. After the first few years of the reform programme in Vietnam, despite the initial results achieved and the expansion in scope, there are now signs of slow-down. Given the centralisation of decision-making in the country, the tendency towards micro-management at all levels and the compartmentalisation of the administration with vertical links being much stronger than horizontal ones, the importance of a revitalised public administration for Vietnam's reform efforts cannot be over-emphasised. It is important to recall here that the tradition of a dominant central administration precedes the central planning practice of more recent vintage. Hence change and reform must break down barriers of long standing. While new ways of carrying out government's business need to be fostered, it is equally important, if not more so, that the traditional functions of government are re-examined and revamped, at the macro level as well as the level of key institutions, to respond to the new realities of the country. This research, therefore, is intended to contribute directly to the reform efforts in the country.

#### **1.4 RESEARCH OBJECTIVES:**

The general goal of this research is to increase understanding about public administration and management reform in Vietnam in the context of a transitional economy and its implications for national development. This goal is to be achieved by examining the essential aspects of political economy of several transitional countries, the role of the state and its public administration and the importance of public administration and management reform in economic transition and development. The specific objectives of the research, therefore, aim:

- (i) to identify the multi-faceted nature of public administration and management reform in Vietnam;

- (ii) to explore the relationship between administrative reform and economic development in the overall context of the economic and social transition of the country;
- (iii) to determine key political, organisational, and technical factors that are significant in the reform process in Vietnam;
- (iv) to suggest ways of promoting administrative reform with the aim to improve the effectiveness and efficiency of government operations.

In addition, the aim of this research is to examine what happened and what is happening with the administrative reform movement; the policy implications are only suggestive in nature for policy-makers and reformers in shaping the future. For this purpose, the following hypotheses of the research are developed and discussed through the latter chapters, based on the synthesis of relevant data sources:

1. That market-oriented economic reforms in transitional economies can be effectively implemented on the basis of a strategy of gradualist, incremental change, avoiding the economic and political risks associated with the 'big-bang' approach;
2. That an efficient, capable state administration, linked to stable political institutions is beneficial to such process of economic change;
3. That a crucial component in the economic reform process is, therefore, the design and development of a reform strategy aimed at the transformation of outdated administrative mechanisms of central planning into modern, efficient, well-managed systems of governance.

It is hoped that detailed analysis of the Vietnamese case will contribute to the more general debate on reform in transitional economies, in particular on the strengths and weaknesses of the gradualist strategy.

### **1.5 RESEARCH METHODOLOGY:**

Research methodology is "*not just about data collection and the rules for evidence, it is more about the nature of explanations and the means by which explanations are produced*" (Berry, 1983, p: 97). This methodology is known as "the science of finding out", a sub-field of epistemology which is the study of validity and science of knowing. How knowledge is developed from explanations depends upon the methodologies deployed. The choice of methodology derives from certain considerations: the methodology should enable us to test the research hypotheses, it

should be an acceptable approach within the field of social sciences, and it should be feasible in the context of the resource and time constraints facing the researcher.

### **1.5.1 The conceptual framework:**

Administrative reform as a sub-field of study of administration has developed from a variety of perspectives and disciplines, but the integration of the insights into a more coherent theory is still problematic. This, in fact, has created difficulties in having a widely accepted definition and in determining essential steps involved in the reform processes. In addition, under the centralised systems, the significance of public administration and reform was undervalued by Marxists (quoted by Poudyal, 1989, p: 3). This practice suggests that the immediate challenge is the development of a theoretical framework to explain and contextualise reform practice.

The review of literature on administrative reform, transition and development of China and Vietnam in chapter 2 reveals that while many authors have written on administrative reform aspects in both developed and developing worlds, literature on transition has concentrated more on economic areas of the process, while few studies have addressed the distinctive reforms of China and Vietnam. Among the two major approaches to transition indicated earlier, the two countries have adopted the step-by-step, gradual transformation of their systems, firstly in economic areas, then expanding the impact of the reform to other dimensions including the state and its public administration. This review helps to provide an initial conceptual framework for this research as shown in the following diagrams. The different relationships of the diagrams will be discussed in detail in chapter 2.

### **1.5.2 Selection of approach:**

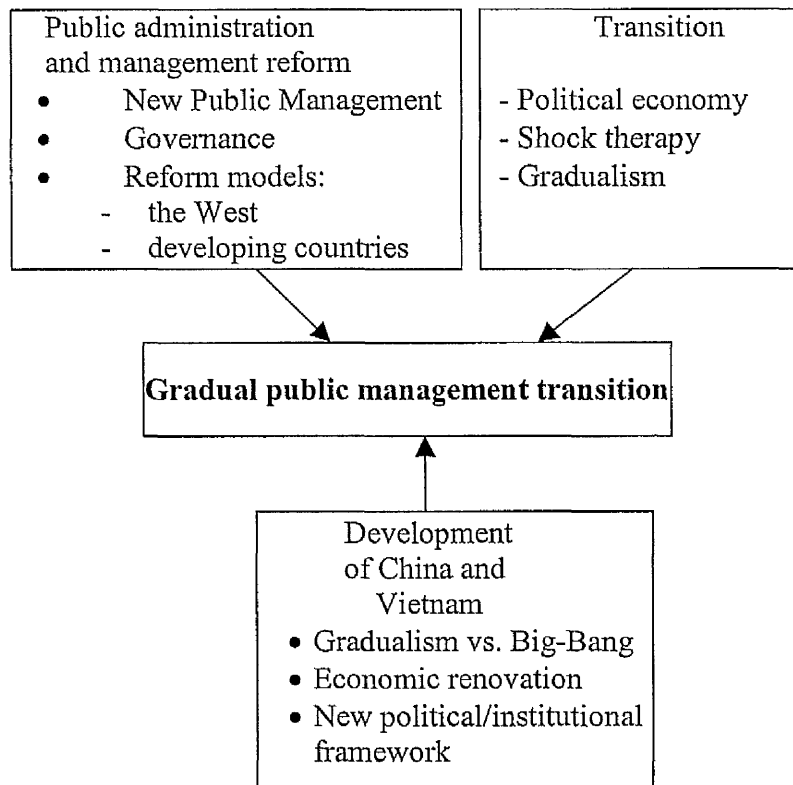
Basically this research follows the deductive method<sup>1</sup> in social sciences by building up from previous studies. A variety of international organisations and authors have been dealing with issues of administrative reforms and economic development from different disciplines and dimensions. As a result, theories have been developed through the long process of evolution and improvement of the state and its administration.

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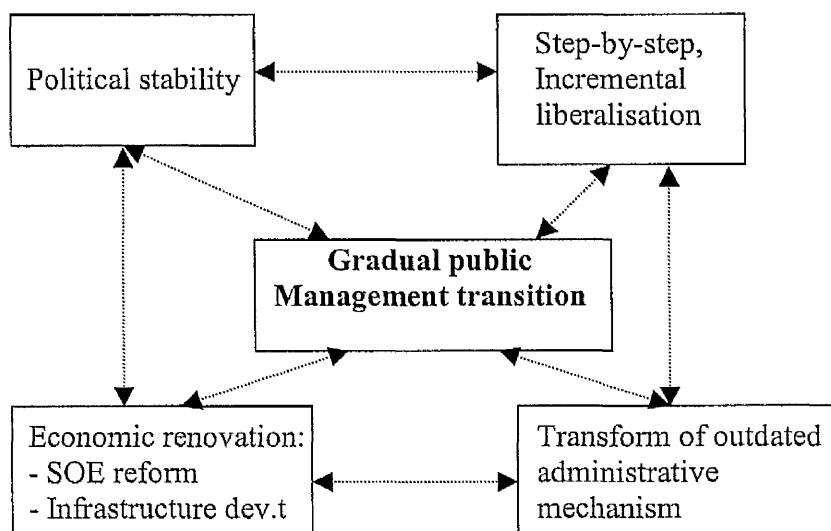
<sup>1</sup> A deductive approach follows the process of deduction which is a form of inference deriving its conclusion by reasoning through premises that serve as its proof.

On the basis of the existing theories, a conceptual framework is developed through synthesising the relevant concepts. Hypotheses are then formulated to operationalise the framework in terms of major variables with operational definitions of

**Figure 1.4** A simplified conceptual framework of the research



**Figure 1.5** Main relationships of the gradual public management transition model





the variables being established. These hypotheses are tested using data collected through process of interviews in those organisations and with people involved in the academic fields as well as practices of the reform. And finally, conclusions are drawn with the view to make a contribution to the theoretical body of knowledge, as well as suggestions for the policy makers and practitioners of administrative reform programmes.

### 1.5.3 Method of analysis:

For the past few decades, the field of administrative and management research has benefited from an empirical approach that seeks to establish links between contextual elements and aspects of relevant control variables. For this purpose, different methods, including the quantitative, that often use questionnaire surveys are utilised. A *survey* design provides a quantitative or numeric description of some fraction of the population or sample – through the data collection process of asking (Foller, 1988). This data collection, in turn, enables a researcher to generalise the findings from a sample of responses to a population. An *experiment tests* cause-and-effect relationships in which the researcher randomly assigns subjects to groups. The researcher manipulates one or more independent variables and determines whether these manipulations cause an outcome (McMillan & Schumacher, 1989). The researcher tests cause and effect because, theoretically, all (or most) variables between the manipulated variable and the outcome are controlled in the experiment. The quantitative method has some advantage in narrowing down variables and then making them generalisable, but it may fail to provide detailed coverage and specifications of administrative reform efforts under study. It is, therefore, insufficient as a single good choice for this research.

While a survey of the literature on administrative reform, transitional economies and the development of China and Vietnam provides the theoretical-conceptual basis for the study and permits the framing of propositions, the nature of the study requires detailed field work. This is because an assessment of the results and impact of the public administration reform programme in Vietnam as a transitional economy demands detailed information derived from a systematic empirical investigation. Secondary data sources are utilised but these are insufficient in themselves to test propositions and identify processes. The field investigation can pursue either a broad or a deep approach for data collection which may produce a better understanding of the

complicated interrelationships surrounding the central and local government environment. In addition, this also provides the sense of behaviour and attitudes shown by those involved in the reform process which are an important aspect of improvement that any administrative reform efforts pursue. This method is now widely known as a qualitative research method, using case studies, interviewing and document analysis.

Merriam (1988, quoted by Creswell, 1994, pp: 19-20) suggested six assumptions relating to the qualitative method as follows: "(1) Qualitative researchers are concerned with *process*, rather than outcomes or products; (2) Qualitative researchers are interested in *meaning* – how people make sense of their lives, experiences, and their structures of the world; (3) The qualitative researcher is a primary instrument for data collection and analysis. Data are mediated through this human instrument, rather than through inventories, questionnaires, or machines; (4) Qualitative research involves fieldwork. The researcher physically goes to the people, setting, site, or institution to observe or record behaviour in its natural setting; (5) Qualitative research is *descriptive* in that the researcher is interested in process, meaning, and understanding gained through words or pictures; (6) The process of qualitative research is inductive in that the researcher builds abstractions, concepts, hypotheses, and theories from details". As thus, the method is referred to as thick, deep and holistic. In contrast to the quantitative method, case studies and interviews provide opportunity for the researcher to develop theories that are based on the real world practices. The choice of the case-study method in social research, therefore, is also adopted for this study.

Thus, a combination of the quantitative and qualitative techniques using both primary and secondary data is utilised for this study. This view is endorsed and supported by a respected author who argues:

*"...when quantitative and qualitative research are jointly pursued, much more complete accounts of social reality can ensure... the rather partisan either/or tenor of the debate about quantitative and qualitative research may appear somewhat bizarre to an outsider, for whom the obvious way forward is likely to be a fusion of the two approaches so that their respective strengths might be reaped" (Bryman, 1993).*

The combination is reflected in the principle of triangulation which is determined as the use of multiple but independent method in analysis. The concept of triangulation is based on the assumption that any bias inherent in particular data sources, investigator, and method will be neutralised when used in conjunction with other data sources,

investigators, and methods. It is believed that in general, multiple methods allow for greater accuracy of the results and more flexibility for researchers in analysis. Furthermore, the adoption of data source triangulation reduces the likelihood of serious distortion in the research finding. However, the use the combined approach does not mean exclusion of other methods, but rather consider them as complementary while pursuing the objectives of the research.

#### **1.5.4 Selection of respondents:**

For the interview the purposive sampling method is employed. It is “*a type of non-probability sample in which you select the units to be observed on the basis of your own judgement about which ones will be the most useful or representative*” (Barbie, 1989). The judgement of whom to interview is arrived at using multiple criteria so that representation is possible across a number of facets of public administration and management reforms in a transitional economy. This is in line with the conceptual model of determining the reform discussed in the following chapters. The first criterion is the organisations involved in the interview. For the purposes of the two case studies envisaged under this research, one on the administrative reform at the central ministry level and the other on the reform at the decentralised, local government level, interviewees were selected to obtain focused results and to avoid the resource constraints. The second criterion is the level of respondents in their respective organisations. For in-depth interviews, heads of organisations or their deputies, directors of divisions and front-line officers were involved. Although the interviews were not structured, the main issues explored were prepared in advance (see appendix 1.3).

In order to conduct this research, three main groups of organisations are selected for the interviews, including central government agencies, local government units and international donor organisations. The rationale behind this option is that they are not only involved in the administrative reform policy-making but also in the implementation processes. In addition, as they function at different levels of governance, their views may be diverse, enabling a wider vision and more through understanding of the policies and practices.

The first group includes key central agencies of the government which are assigned the task of setting reform policies, taking vertical and horizontal co-ordination roles and being involved in sectoral implementation of the reform. The Office of

Government (OOG) is in part an advisory body for the Prime Minister and his Deputies who are now the heads of the National Steering Committee for PAR. A department has recently been established within OOG to assist the Committee in directing and monitoring the reform process throughout the country. The Government Committee on Organisation and Personnel (GCOP) is the central personnel agency in charge of re-organising public bodies, human resource management (HRM) and human resource development (HRD) policies. This Committee now is designated with the task of monitoring of foreign related inputs and activities for the PAR in Vietnam. The Ministry of Planning and Investment (MPI) plays the primary role in formulating socio-economic development plans. In addition, it is the agency to co-ordinate all the official developmental assistance (ODA) and takes part in the foreign direct investment (FDI) procedures, including those for PAR. The Ministry of Finance (MOF) is responsible for a vital part of the administrative reform in ensuring the effectiveness and efficiency of public revenue and expenditures. In this regard, many reform attempts are going on within the ministry and between it and other public institutions. The Ministry of Foreign Affairs (MOFA), together with the National Academy of Public Administration (NAPA), are active in the reform process at the central level of government. The first international seminar to discuss administrative reform issues was jointly organised by the two agencies in 1991. NAPA is the training arm of the government, playing an important role in HRD for the civil service and seen as one of the major components of administrative reform in the country.

The Ministry of Agriculture and Rural Development (MARD) is chosen as a case study for this research for a number of reasons. Since the economy of Vietnam is still largely based on agricultural production with nearly 78% of the population living in rural areas, the importance of the sector is clear. As a result of the initial efforts in PAR in the structure of the government, in late 1995 the ministry was merged from the former three ministries of agriculture, of food industry and of forestry, and now is one of the biggest ministries in term of organisation and personnel. Since the PAR programme was launched, the ministry has been selected as a "pilot" ministry for administrative reform at the central level of the government. In addition, it has received an increasing amount of foreign assistance projects (*e.g.* in 1999, the number was 106) relating to different aspects of its activities. With these distinctive features, in-depth interviews with senior officials, middle level managers and front-line officers in various units of the ministry were arranged in order to provide a more thorough

understanding about what is going on with the administrative reform efforts at the ministerial level of government. Moreover, it can be expected that evaluation of this pilot activity will influence the direction and content of future system-wide reform.

Since the reform now expands towards decentralised units of the government, a province and a municipality located in two parts of this geographically large country are selected for interview as representatives of the second group. *Ninh Binh* is a newly established rural province as a result of the split-up into three of the former *Ha Nam Ninh* province in 1997. As such, *Ninh Binh* is faced with a number of challenges including administrative problems which demand immediate alterations. *Ho Chi Minh City* (HCM City) is viewed as the economic centre of Vietnam where the conflict between rapid economic development and maladministration most obviously emerges. The city has created many initiatives to cope with sluggishness and overlapping in the administrative organisation and functioning, and is considered as a "pilot" city in the national reform programme. *Urban district No. 1* and *Cu Chi rural district* of the city, which are now in the fore-front of the reform of administrative procedures, including the "one door, one stamp" (one stop shop) functions, was visited and selected officials were interviewed during the field trip. In addition, discussion was held at grassroots level with officers in a ward and a commune to find out how the reform operates at the frontline level of the public administration. The organisation and functioning of the national administrative system is discussed in more depth in chapters 4, 5, 6, 7.

The third group comprises those international organisations and governments, which have shown much interest and input for the administrative reform in Vietnam. On the one hand, international organisations such as the United Nations Development Programme (UNDP) has engaged in three key areas: poverty alleviation, governance reform, and environment and sustainable use of natural resources, in which PAR counts for the largest part of its efforts. The first initiative for administrative reform concluded in the UNDP-MOFA-NAPA jointly organised seminar in 1991, materialised in the first project for PAR coded VIE/92/002 in 1993. The impact of the project now includes several technical assistance (TA) projects for administrative reform related sectors and localities in the country. Both the WB and the Asian Development Bank (ADB) have been involved in a number of TA and loan programmes for infrastructure development and capacity building. ADB, in particular, has provided funding for administrative reform in GCOP, MPI and NAPA counting for millions of US dollars. On the other hand, bilateral government donors are increasingly involved in helping Vietnam in its

attempt to modernise the bureaucracy. The governments of Sweden and Holland, among others, are good examples of this bilateral assistance. Interviews were conducted with representatives of both multilateral and bilateral organisations, and their documentation was collected for analysis.

### 1.6 LIMITATIONS OF THE METHODOLOGY:

The above-mentioned methodology also has several limitations, which may have some effect on the quality of the research findings. *First*, the adaptation and use of quantitative data from secondary sources provides the research with certain advantages in the possible quality and validity of the data as well as enabling the researcher to avoid time and resource constraints. However, the same data have a risk in being interpreted differently by different people because they may be intended for different purposes. Reality has shown that biases usually exist somewhere in the data and the way they are interpreted, therefore, one should be extremely careful in selecting the variables and data and yet there is no other way for the researcher but to rely on secondary data produced by someone else. In case of necessity, some kind of viability test was done with the secondary data in order to ensure the validity and quality of the research.

*Second*, in relation to intended interviews, the selection of respondents is focused on several organisations and individuals. Although this method may produce focused information for the research, it may be restricted by the availability as well as the willingness of the interviewees<sup>1</sup>. Once the intended officer is engaged with other assignments, the interviewer will have to be satisfied with any replacement person. In such a case, the danger may lie in the information provided which may be not double-validated, leading to some possible mismatch in the interpretation of the research outputs later on.

*Third*, many of both primary and secondary data for the research will come from Vietnamese language sources and may create incompatibility in English because of the difference in the systems and cultures. In order to avoid this difficulty, necessary data has been translated into English by the researcher and then double-checked by an

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<sup>1</sup> While the reluctance of interviewees to respond to sensitive issues may be a difficulty for some interviewers, the researcher was not faced with this problem as an official within the system. All interviews have been recorded for the purpose of this research.

English native specialist in public management to ensure a reasonable consistency of conceptualisation and interpretation.

*Fourth*, despite many obvious benefits of the case-study method adopted, one of its major drawbacks has been the accusation of limited generalizability (Bryman, 1989; Casley & Lury, 1989). Case study evidence is sometimes seen as being non-representative. Nevertheless, the method helps to provide a comprehensive understanding of the outcomes and processes of a development initiative. PAR in Vietnam is now spread throughout the country. There is a sub-programme in each of the central ministries and local authorities attempting to address the malfunctioning of the public administration in the particular sector or locality. With such a diversity of reform efforts, the selection of respondents may seem too narrow and focused to produce a wider spectrum of findings. Given the time frame, the researcher has to be satisfied with what has been reported by the respondents during the interviews.

*Finally*, it is also necessary for me to admit that since I have been working for the government for nearly twenty years with close involvement in the PAR process, there may be bias and personal preferences in my interpretation of the findings. Although it is a real challenge, I have tried my best to overcome this possibility and be objective in every way.

## **1.7 ORGANISATION OF THE THESIS:**

The thesis comprises eight chapters:

*Chapter two* reviews literature on public administration reform in terms of history, theories and experiences, on transition and on the development of China and Vietnam. It examines the debates that are continuing among the scholars and practitioners in these fields of study and attempts to provide a conceptual framework for the analysis of the research. An evaluation at the end of the chapter will show the gap in the existing literature that the research attempts to make some moderate contribution to filling.

*Chapter three* attempts to provide an analysis of public administration and management reforms with special regard to transitional economies. The chapter highlights the distinctive features of public administration system in transitional economies that lead to requirements for reforms. It examines the framework in which these reforms take place, the critical role of political will and support to overcome any resistances and to ensure the success of the reform and also the role of external aid in

the relation to public administration and management reforms. The analysis in this chapter raises several implications for the reform programme in Vietnam, the details of which are discussed in next chapters.

*Chapter four* examines the reform of state-owned enterprises (SOEs) as a link between PAR and economic reforms. It highlights the efforts of Vietnam in making the enterprises more effective and productive by a number of measures undertaken, reveals strengths and weaknesses that exist. In addition, the chapter attempts to examine the interactions between PAR and economic development through the means of SOEs which are seen as a key sector in the economy.

*Chapter five* provides an overall outline of China and Vietnam in the path from plan to market. It reviews the history and background of the PA systems and an overview of the current reform efforts at different levels as well as dimensions of governance. The chapter also attempts to compare the two reforms with a view to highlighting the typical features of countries representing the gradual approach in transition. The findings from this comparison will help to draw some conclusions in the final part of the research.

*Chapter six* is a case study of PAR at the central level of the Government of Vietnam. MARD is chosen to examine in-depth in terms of the formation, main undertakings and challenges that it faces and tries to overcome in order to provide practices and lessons for the reform processes elsewhere in Vietnam. An attempt is made to review the reform of public enterprises under the ministry to highlight further the link between economic and administrative reform efforts. Since the ministry has received lots of donor inputs in its development activities, the effect of the inputs on administrative dimensions is explored to support the issues raised in previous chapters.

*Chapter seven* is another case study on PAR in a decentralised local level representing the sixty-one provincial-level local authorities of the country. Ho Chi Minh City is purposely chosen because of its importance in economic development as well as its significance in scope and population, especially in the context of high urbanisation that is continuing in the city. The chapter examines different efforts and attempts that the different units of the locality have made to respond to various requirements of the development process. Some lessons are drawn from this case study which may suggest ways to improve administrative functioning in similar settings elsewhere.



*Chapter eight* summarises the study and the extent to which the initial hypotheses have been validated. Although the focus of this research is not on what may be the future of PA and its reform, to a very limited extent, it attempts to raise several policy implications for the reform processes in transitional economies and provides suggestions for further research.

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## CHAPTER II

### REVIEW OF PUBLIC ADMINISTRATION REFORM THEORIES AND EXPERIENCES

#### 2.1 INTRODUCTION:

This chapter aims to provide a theoretical and practical background to the study by firstly reviewing literature on the subject of public administration reform (PAR) in general, and, secondly, evaluating relationships between the theoretical and conceptual issues raised therein and the PAR experiences in the Western world, in developing countries and in transitional economies, especially in Vietnam and China. While discussion on the reform movement offers an overview, the early reforms of the older states in Europe and America provides a background for the contemporary reform theories and practices, the review of reform efforts in transitional economies, particularly in Vietnam and China, produces a specific focus for the research.

#### 2.2 ADMINISTRATIVE REFORM MOVEMENT:

It was discussed in the previous chapter that public administration (PA) has a long history. This evolution could date from ancient Egypt, which deployed administrative systems to administer irrigation from the annual flood of the Nile and to build the pyramids, and China in the Han dynasty (206 BC to AD 220) which adopted the Confucian precept that government should be handled by men chosen, not by birth, but by virtue and ability. In Europe, the Greek, Roman, Spanish empires, which were long ago seen as administrative empires, controlled from the centre by rules and procedures. But, although some kind of administration existed earlier, theoretical and conceptual focuses on the reform phenomenon really date only from the middle of the nineteenth century (Caiden, 1969, 1984, 1991; Hammergren, 1983; Mutahaba, 1989; Hughes, 1998).

The interest to change the early public administrative systems arose out of the growing complexity of governmental activity and resulted in a new form of public administration, which is nowadays called the traditional model of public administration. Hughes (1998, p: 22) wrote "*instead of being carried by amateurs bound by personal loyalties to leaders, as it was earlier, the task of administering public organisations became a professional service*". Public servants were highly

prestigious people, forming a distinct administrative elite (Meksawan, 1996). Politicians might come and go but, while the apparatus of government remained in the hands of permanent officials, the transition between regimes could be handled smoothly.

The traditional model of PA can be characterised as: an administration under the formal control of the political leadership, based on a strict hierarchical model of bureaucracy, staffed by permanent, neutral and anonymous officials, motivated only by the public interest, serving any governing party equally, and not contributing to policy but merely administering those policies decided by the politicians (Hughes, 1998). Its theoretical foundations as well as the reform background derive from a number of authors who felt that the new approaches, which were becoming increasingly used in the management of business and industry, could be adapted to the operation of government. In the United Kingdom (UK), it was men, such as Sir Charles Trevelyan who were most aware of the defects and shortcomings of the administrative system itself, and produced the famous Northcote-Trevelyan Report (Wheaton, 1968). This report in 1854 recommended: *“the public service should be carried out by the admission into its lower ranks of a carefully selected body of young men”* through *“the establishment of a proper system of examination before appointment”*. It was the first time recommendations were made to abolish patronage and to use open competitive examination under the supervision of a central board for recruitment; to reorganise central departments in order to deal with intellectual and mechanical work respectively; and to deploy the notion of merit into higher posts of the bureaucracy.

Impressed by the reform in the UK, in the United States (US), the Civil Service Act (the Pendleton Act) was passed in 1883 which established a bipartisan civil service commission and contained four key points: (i) the holding of competitive examinations for all applicants to the classified service; (ii) the making of appointments to the classified service from those graded highest in the examinations; (iii) the interposition of an effective probationary period before absolute appointment; and (iv) the apportionment of appointments in Washington according to the population of the several states and their major areas (Gladden, 1972, quoted by Hughes, 1998). It was later on supplemented by Woodrow Wilson (28<sup>th</sup> US President) and others in the US who at the turn of this century unhappy with the inefficient spoils system, advocated a number of administrative reform measures including the elimination of the spoils system and the institution of a merit-based system (Muhataba, 1989).

The reforms in the UK and the US, combined with the even more comprehensive bureaucratic model in Continental Europe, dating as early as the mid-nineteenth century in Prussia, led to a consistent model being adopted in the first part of the twentieth century. In Germany, Max Weber had earlier written about the need to adopt rational systems for running and operating governmental organisations. From him came the theory of bureaucracy, the idea of a distinct, professional public service, recruited and appointed by merit, politically neutral, which would remain in office throughout changes in the government. Woodrow Wilson had the view that politicians should be responsible for making policy, while administrators would be responsible for carrying it out. These two views produced the notion that administration could be instrumental and technical, removed from the political sphere. Other people such as Fredrick Taylor in the US and Henri Fayol in France initiated scientific management, advocating some spillovers of reform ideas from industry and businesses to governmental organisations at the practical level, and these ideas are important for what followed in the management of both public and private sectors.

The depression period of the nineteen-twenties and thirties, and the subsequent efforts to recover from it, led to some new thinking on ways of organising and operating government. In the US, for examples, *“a number of scholars studied how some novel public organisations, like Tennessee Valley Authority (TVA), which had been formed to spearhead recovery from the depression, were operating, the lessons from such organisations and their operations thus being documented”* (Muhataba, 1989, p: 24). The Second World War did not provide much opportunity for further thought on ways and means of organising government operations for effective performance, apart from English engineers who, while thinking of ways of fighting the war more effectively, came up with operations research as a management tool. The operations research later on was adopted in both government and industry to improve efficiency.

It can be argued that, after the Second World War, the achievement of independence by many third world countries in the late nineteen-forties and fifties created a new era for the administrative reform movement. The newly independent states were, in fact, *“the countries that most need administrative reform that are least equipped for it”*, because they *“can no longer rely on foreign administrators and their imposed methods but must build its own indigenous administration borrowing what they can from the departing rulers and improvising the rest”* (Caiden, 1991, p: 244).

The governments of these countries, in conjunction with older states, international organisations and different individuals began to think and devote time to the ways to make their administrative systems more capable to cope with the situation. As a result of their efforts, an intellectual movement emerged focusing on the reform phenomenon and labelled the “development administration” movement, representing a sub-area within the broad discipline of PA (Hammergren, 1983; Bhambhri, 1985; Caiden, 1991).

While summarising literature on development and administrative reform in the period after the Second World War, Hammergren (1983, pp: 5-15) identified two phases. He argued that in the earlier literature (roughly from 1950 to 1970) reform was the only change policy and was also a principal theme. Most of the writing was prescriptive in outlook and focused on describing common problems and their solutions. More specifically, there were: (i) a series of studies on the politics of administrative reorganisation and other strategies for rationalising public bureaucracies; (ii) historical studies on specific reform movements focusing on the political forces producing them; and (iii) attempts to evaluate reform programmes in some developing countries with an eye to proposing improvements. A shift in the late 1960s radically altered this situation. Following a few years in which “*little was written on reform programmes aimed at questioning and criticising them, the emphasis is now on outlining alternatives to reform and devising new approaches to improving administrative performance*” (*ibid.*, p: 5). The new trends built on the earlier criticisms, attempting to deal with the implied need for new kinds of administrative systems and organisations relevant to the needs of specific societies and culture. The attempts then were to seek general improvements in performance through general changes in structures and procedures of the public administration.

Thus, the focus of “development administration” discussion related to the context of reform, the processes and meaning of administrative reform, as well as a variety of case studies on the reform practices in a number of developing countries. The ideas of the movement were disseminated through books and journals, such as the *International Review of Administrative Sciences*, the *Indian Journal of Public Administration*, and the *Journal of Administration Overseas* etc. The movement has had much influence on the administrative reform discourse as Muhataba (1989, pp: 24-25) put it “*While the ‘development administration’ movement has had its ups and downs and has shifted ground both on what it focuses on and its composition, it is still the*

*most important source of intellectual discourse on the subject of administrative reform and will continue to be so for a long time”.*

From the late 1980s, there has emerged a new direction within the administrative reform movement. The move of a number of former centrally planned economies to a market oriented development process has created acute requirements for the government bureaucracies to be improved to meet the new demands and challenges of the transformation. A number of sources (e.g. Kornai, 1990, 1992; WB, 1993, 1996; Evan, 1994; Melo *et al.*, 1997; Kolodko, 1999) started to write about the economic transition as well as the different attempts to strengthen and consolidate the government machinery. An initial look at the literature about administrative reform in transitional economies provides some observations. *First*, issues related to public administration and administrative reform in the former centrally planned economies were largely ignored by Marxist scholars as quoted by Poudyal (1989, p: 3) “*state bureaucracy and polity were never subjected to a systematic treatment by Marx*”, despite this, their importance for national development is now widely recognised by both policy makers and academics (Chow, 1988; Balazs, 1993; Fforde & de Vylder, 1996). *Second*, what makes the transition countries different from the newly independent states of the fifties and sixties is that there is a long established and functioning bureaucracy, and the reform mainly aims to adjust and improve its performance to fit the new situation rather than to create a new one (Collins and Nixon, 1993; Hung and Rondinelli, 1996). *Third*, the authors focus both on change of structures and procedures as well as behaviour of public servants (Collins, 1993; Truyen, 1994, 1995, 1998; Tong, 1999; UNDP, 2000, 2001). *Finally*, writings about this seem to be relatively fragmented, concentrating mainly on country experiences in their efforts to improve the public administrative systems rather than developing a conceptual framework of the reform. However, the literature has also made a significant contribution to the understanding of the interesting and complex phenomenon of administrative reform.

### **2.3 EARLY REFORMS IN THE OLDER STATES:**

Looking back at the administrative reform in the older states of Europe and America, which have been seen as the driving force for the reform movement, as suggested by Chapman (1989) and Caiden (1969, 1984, 1991), two broad stages can be distinguished. The first stage, which coincided with the passing of the traditional society and the coming into the scene of the industrial revolution, started at the

beginning of the eighteenth century and involved the transformation of simple, undifferentiated state instruments into the complex machinery of the industrial state. During that period, the state was involved only minimally in the regulation of the activities of its citizens, the need for a big state did not emerge, therefore, the governments could work with a relatively simple and small administration. The second stage, which dates from the beginning of the twentieth century, has been concerned with ensuring that the machinery in place performs efficiently and effectively, and involved a dramatic expansion of the administrative state, through wars and welfare.

While talking about the methods adopting in effecting reform in the older states, Mutahaba (1989, *op. cit.*, p: 28) argues that three distinct groups of countries can be distinguished. The first group, consisting of countries such as France and Russia, used mainly revolutionary methods (the French Revolution and the Napoleonic wars in France and the 1905; 1917 Revolution in Russia) in effecting reforms: administrative reforms being considered to be an essential part of sweeping reforms in the polity. The second group of countries, which included Great Britain and Prussia, reformed their administrative systems in an evolutionary manner, for example, Britain took a generation to accept the Northcote-Trevelyan proposals. Most of their reforms were concessionary, that is they were inevitable if the regime was to survive in war and revolution; their reforms were pragmatic and empirical, lacking ideological motivation and having few ideological trimmings. The third group of countries can be represented by the USA, which, having started with a new state, had an opportunity of creating a new organisation, adopting the latest methods and insisting on the highest performance standards<sup>1</sup>.

The older states also experienced another administrative reform thrust distinct from the one of the earlier phase. This new thrust was derived largely from the scientific management movement, which had been developed by engineers in the late nineteenth century. The efforts of the movement provided many suggestions and ideas on how to cope with the problems of control and co-ordination experienced by the emerging complex organisations in both business and government sectors. All these were aimed at making the government machinery, which had been developed over time, work more efficiently. The traditional methods of management and organisation

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<sup>1</sup> This view was also initiated and shared by Caiden (1969, 1984).

then were then considered insufficient, and new scientifically based approaches took their place.

It was the Americans who took the leadership of much of the newly emerged managerial revolution both in terms of scientific management movement as well as the later exploitation of human behaviour aspects of management associated with names such as Fredrick Taylor and Elton Mayo (Hammergren, 1989; OECD, 1991; Lane, 1996; Hughes, 1998). Countries, such as Britain and France, adapted some of the scientific management methods into their public administration, at first, slowly and cautiously. Other countries, such as Germany and Russia (after the 1917 revolution) were faster in taking advantage of developments in industry into their public sector practices to improve their public administration systems (Caiden, 1991). This experience led to a distinction of two different approaches to administrative improvement in the industrial countries, the consolidative and the innovative. While the first approach, represented by Britain and some countries in the southern Europe, is more restricted in scope, responding to rather than anticipating crises and pursuing minimum change in organisation of the public administration, the second approach can be represented by the US, Germany and Russia, is relatively forward-looking and oriented toward more change in the internal organisation of their administrative systems. The two approaches were adopted by the different sets of countries due to a number of factors, among which the historical and social pressure of the contextual situation of each country were significant (Chapman, 1989; Muhataba, 1989).

Basically, in reviewing the administrative reform in the older states, it can be said that there were two major themes (Wheaton, 1969). Firstly, there was a desire for a more rational structure for PA, entailing a thorough review and reform of the whole machinery of central government in order to ensure a proper division of function, and a more economical distribution of labour and greater efficiency in the performance of duties. Secondly, there was a desire to improve the quality of those employed in the public service. In short, there was a desire to professionalise the public service. It can also be noted that the process took a long time and success varied among countries. The adoption of the organisational-improvement reforms in the same countries has not been any easier; indeed, success has been as varied as it was with the earlier reforms. Studies of more recent efforts to reform public administration in OECD countries (Hood, 1995; Lane, 1996; Kickert, 1997; OECD, 1998, 1999) reveal that for a number of reasons, the success attained has not been high, apart from the cases of the UK and New Zealand.



## 2.4 CONTEMPORARY REFORMS:

### 2.4.1 Critics of the traditional public administration and the emergence of new public management:

Without any doubt, the traditional model of PA discussed earlier was a great improvement over what had gone before it, but the inadequacies of this kind of government management are now apparent. The classic bureaucratic theory of Max Weber with its notion of hierarchical structures now seems not necessarily the most efficient of organisations, especially in terms of comparing outputs with inputs. It is argued (Kickert, 1997; Minogue *et al.*, 1998, 2001) that bureaucracy may be sufficient for control but not necessarily for management; it allows for certainty but is usually rigid, slow in moving forward; work may be standardised, but at the cost of flexibility, discretion and innovation. In addition, the strict separation between politics and administration advocated by Wilson in the 1880s “*was never realistic and, in its original home, was never really followed*” (Hughes, 1998, p: 39). The model of political control was always problematic in assuring genuine accountability because the principle of political neutrality led in some instances to the idea of “service to the nation”, above and beyond that of advice to and carrying out the wishes of the elected authority, leading to the fact that unelected officials might act in line with what they want instead of what the politicians want them to do.

The critics of the traditional model of public administration went on to include a new theory labelled “public choice”, advanced by conservative market economists (Friedman and Friedman, 1980; Dunleavy, 1986). There are two claims made by these theorists leading to the demand for reducing the size and scope of government. The first argument was that government bureaucracy largely restricted the freedom of individuals so the bureaucracy’s power needed to be reduced in the name of “choice”. The idea of supporting freedom was that consumer choice was better than bureaucratic command in ensuring efficient and effective government. The second argument was that the traditional bureaucratic model did not provide an equivalent body of incentives and awards to those of the market, leading to the conclusion that the model was probably less efficient than market processes. In essence, the theory of public choice is the application of micro-economic principles to political and social areas, including government functioning.

Although public choice theory is widely plausible, it has been challenged by a variety of ideas. The question about bureaucrats maximising budgets to achieve their personal ends suffers from lack of evidence or even some means of empirical examination (Lane, 1995, pp: 64-65). Since there are central agencies or senior officers who gain personal benefits by restricting the money going to others, there can hardly be an overall conspiracy to increase the agency's budget (Dunleavy, 1986). Furthermore, bureaucrats are in no position to spend on themselves any extra funds they may get for their agency, so they naturally do not care much about maximising their budgets since they cannot enjoy the results of this. Hughes (1998, pp: 49-50) argued:

*“the theory may be more applicable to the United States, where agencies build separate political relationships with Congress and where fiscal responsibility is hard to locate. In parliamentary countries, funding is more directly controlled by the executive and central agencies and there are particular bureaucrats whose career paths are advanced by their ability to cut the budgets of their own or their agencies”.*

Despite these critiques, the theory has had its impact on the ways in which government performance is improved.

This analytical framework is further expanded and criticised by two conceptual approaches, which may be designated as the public policy and the public management perspectives (Minogue *et al.*, 1998). The first perspective focuses on the policy process rather than formal institutions, emphasising: (i) the political context in which public administration operates; (ii) the organisational and personal networks involved in the formulation and delivery of policies; (iii) the success, failure, and desirability of actual policies, so linking implementation mechanisms to results; and (iv) the central concept of “the state”, essential to an understanding of the relationship between the administrative and political systems, and between politics, economy and society. The second, the public management perspective, rooted in neo-classical economic principles, questions the size, roles and structures of public sectors in both developed and developing countries. It is claimed that in many countries, the public sector failed to be the engine of national development, in some countries, it is even the main obstacle to development. According to the perspective, public bureaucracies are not capable of managing effectively and delivering efficiently public services; civil services are too inflexible to change. The private sector is increasingly “*seen as having the*

*managerial capacity, flexibility and competitive drive essential for the efficient and effective provision of many activities previously assumed to be the province of the public sector.*" (*Ibid.* p: 3). The table below summarises further the nature of these conceptual models.

**Table 2.1** Public Administration, Public Management and Public Policy

Public Administration	Public Management	Public Policy
Structures/institutions	Structures	Process
Organisation	Organisation	Decisions
Implementation	Behaviour	People
Review	Systems	Results
Bureaucracy/Hierarchy	Efficiency/Rationality/Market	Politics/Networks/Impact/Participation

Source: Minogue, M. (1999, lecture note).

So, by the 1970s of this century in developing countries, it had become clear that neither the strategy of development administration nor the policy of administrative development that was usually followed, was capable of solving the problems it had been hope they would solve (Al-Saigh, 1986, pp: 91-92). It was argued that, first, concerning development administration, there was a decline in agricultural production, increased urbanisation, decay; serious balance-of-payments problems, extended unemployment etc. (Caiden, 1991). A relatively high growth in gross national product (GNP) achieved in the fifties and sixties was soon to decline from the early part of the seventies in most of the non-oil-exporting countries, while many basic needs remained unsatisfied. Secondly, in the areas of administrative reform, the changes introduced were never fully satisfactory, either to the clientele or the political leadership, so that they had always to be repeated, each time with more vigorous rhetoric but with less effective performance.

The rise of public management as an alternative to traditional public administration can be traced to the late 1960s and early 1970s, a period characterised by the efforts of many academics to strengthen the analysis of central and local administration through the application of decision making and organisational theory and the development of policy analysis and policy studies (Hogwood, 1995, quoted by

Gray and Jenkins, 1995, p: 75). It was then a convergence shared by practitioners and academics that the practice of public administration could be reformed effectively by a combination of strategic management, structural reorganisation to create more responsive and accountable units, and the development of better personnel management systems. In pursuing these beliefs, the study of public administration widened to accommodate not only political scientists but also organisation theorists and other management specialists, all seeking to contribute to the field.

The most widely used empirical evidences for the development of public management reform are the reviews of the OECD (1990, 1993). A recent analysis of the organisation concluded that notwithstanding differences in nature, size, and approach to reforms, a common agenda has developed "*a new paradigm for public management has emerged, aiming at fostering a performance-oriented culture in a less decentralised public sector*" (OECD, 1995). According to the OECD, this new public management paradigm has the following characteristics:

**Table 2.2** Characteristics of the new public management paradigm

- devolving authority, providing flexibility	- improving the management of human resources
- ensuring performance, control, accountability	- optimising information technology
- developing competition and choice	- improving the quality of regulation
- providing responsive service	- strengthening steering functions at the centre

*Source:* OECD (1995), quoted by Kickert (1997, p: 18).

The entrepreneurial model, conceptualising a move away from the market and towards the state was illustrated by Osborne and Gaebler (1992) in terms of the following ten principles:

1. *Steer the ship, rather than row it*
2. *Empower communities, rather than simply deliver services.*
3. *Encourage competition rather than monopoly.*
4. *Be mission driven rather than rule driven.*
5. *Fund outcomes rather than inputs.*
6. *Meet the needs of customers rather than the bureaucracy.*

7. *Concentrate on earning resources, not just spending.*
8. *Invest in prevention of problems rather than cure.*
9. *Decentralise authority.*
10. *Solve problems by making use of the marketplace rather than by creating public programmes.*

To summarise this reform in the US, evidence can be cited. When Vice-President Al Gore invited the US public to send him complaints about American bureaucracy, they simply marked the envelope "Reinventing Government". However, Osborne and Gaebler have been under attack, both in terms of academic arguments and empirical evidences. On the academic side, "*the authors seem to have been feeding snacks from the Boston Globe, Washington Post, Time and avoiding the square meal of a relevant academic source*" (Jordan, 1994, p: 271). The major objection to Osborne and Gaebler is that it is not "real world" enough to deal with the problems of practice. In fact, the US government has adopted only some aspects proposed by the two authors (Hung, 1996, p: 40).

There has been a relative convergence among scholars in regard to requirements for the new public management. The main reason relating to the financial pressure has been expressed by a number of authors (e.g. OECD, 1995, 1998; Commonwealth Secretariat, 1995; Kickert, 1997; Hughes, 1998; Minogue *et al.*, 1998, 2001). In the OECD countries government expenditure per capita almost doubled between 1980 and 1990 (see table 2.3). Many developing countries suffered from growth of public expenditure while the economic decline was going on (Commonwealth Secretariat 1995). This led to three ways of dealing with deficits (Osborne and Gaebler, 1992): *first*, expenditures can be limited and public tasks can be terminated as happened to a large degree in the US under the Reagan administration and in UK under the Thatcher government; *second*, revenue, mainly through taxes, can be raised, but "such a thing is equal to political suicide"; *third*, perform the public tasks with less money. The third way, as argued by Kickert (1997, p: 17) "*thus emphasises an increase of productivity, greater efficiency, better value for money, and so on, all issues that play a central role in thinking about management. Therefore, the third way almost logically forces the public sector to move towards public management*". A significant component of new public management reforms is expenditure and cost reduction. This picture is made more complicated by the fact that in some countries welfare costs are rising. In UK, for

example, a recent projection shows an increase over the next 30 years of around 50 per cent in the 60-84 age group (Minogue *et al.*, 1998).

**Table 2.3** Total government outlays as percentage of GDP 1970-94

	1970	1975	1980	1985	1990	1991	1992	1993	1994 est.
Australia	-	31	32	37	35	37	38	34	38
Austria	38	45	48	51	49	50	50	53	52
Belgium	42	51	59	62	55	56	56	57	55
Canada	34	38	39	45	46	49	50	50	48
Denmark	41	48	56	59	59	59	61	63	63
Finland	30	38	38	44	45	54	59	61	59
France	39	43	46	52	50	51	52	55	55
Germany	38	48	48	47	45	48	47	48	49
Greece	24	29	31	44	47	46	46	48	49
Iceland	-	31	28	31	34	35	36	-	-
Ireland	-	-	49	52	41	42	43	43	43
Italy	33	42	42	51	53	54	54	56	56
Japan	19	27	32	32	32	31	32	34	35
Netherlands	41	51	55	56	54	54	55	56	55
Norway	40	45	48	45	54	55	57	57	57
Portugal	22	30	26	43	43	50	53	53	53
Spain	22	24	32	41	42	44	45	47	46
Sweden	43	48	60	63	59	61	67	72	67
Switzerland	32	39	40	43	43	43	-	-	-
Turkey	-	-	21	18	-	-	-	-	-
United Kingdom	37	44	43	44	40	41	43	44	43
United States	31	33	32	33	33	34	35	34	34

1. Total government outlays = current outlay + net capital outlays

Source: OECD Analytical Database and *OECD Economic Outlook*, No. 56. December 1994, OECD, Paris.

The second major group of requirements is related to “quality” termed by Minogue (*et al.* 1998, p: 20). This is reflected in the way in which the public has been seen as citizens, the clients and now customers. Citizens nowadays want better services with lower costs, considering themselves as customers of government services rather than active recipients only. And finally, the change occurred as a result of the shift in the way people think about the state and its role in the new era (Truyen, 1995, 1998; Manning, 1996; Minogue *et al.*, 1998; Vasavakul, 1999). This is not only reflected in the idea that the state was too distant from the public and there was a need for bringing it back, but also in the view the policy makers conceive “*the new reforms as a means of entrenching and reinforcing their power at the centres, while distancing themselves from the uneasy problems of implementation at decentralised levels; they may also perceive opportunities for political and personal gain*” (Dunleavy & Hood, 1994, quoted by Minogue *et al.*, 1998, p: 20).

A related development was the appearance of the idea of “good governance” based on a political conception of appropriate reforms (OECD, 1993, 1995; WB, 1992, 1993; UNDP, 1994, 1999, 2000, 2001). *“Rooted in the sudden ‘collapse of socialism’ in the former Soviet Union and some Eastern European countries, this idea took shape and substance from new policies of political conditionality applied by both multilateral and bilateral aid donors in their aid relationships with developing and transitional economies”* (Minogue *et al.*, 1998, p: 2). The WB (1992) defined governance as *“the manner in which power is exercised in the management of a country’s economic and social resources for development”*. It distinguished three distinct elements in governance: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country’s economic and social resources for development; and (iii) the capacity of governments to design, formulate and implement policies and discharge functions (quoted by Corkery, 1997). More clearly controversial than economic interventions by aid donor associated with structural adjustment reforms, this approach raised many objections from those to whom these new political pressures were applied (Stokke, 1995; Minogue *et al.*, 1998).

#### **2.4.2 Administrative reforms in the West:**

One starting point was the 1968 Fulton Report in the United Kingdom, which noted concerns with the management capability of the public service. The report recommended: *“the system be opened up, that outsiders be employed at all level and that the rigid hierarchical structure in which barriers were placed at several points be removed”* (Hughes, 1998, p: 57). Fulton expressed a modern, result-based, view of management arguing that four aspects... make up the total management task of the Civil Service: (i) formulation of policy under political direction; (ii) creating the machinery for implementation of policy; (iii) operation of the administrative machine; and (iv) accountability to Parliament and the public. The report could be described as a start to infuse management principles into an administrative system. Later on, this was strongly carried out by Margaret Thatcher as Flynn (1997, p: 3) argued *“no government had much enthusiasm for the task until the Thatcher administration”*.

The reform efforts soon spread to many countries in the world, especially the West, as Wright (1994) wrote: *“... the 1980s and 1990s have been the golden age of administrative reform throughout the Western world”*. In the USA, for example, there

was a demand for improved management in the public sector, at least from the Carter administration onwards. The Civil Service Reform Act of 1978 aimed at giving managers greater responsibility for results, merit pay for middle managers and forming an elite group at the top of the civil service by establishment of a Senior Executive Service. Hughes (1998, p: 58) argued:

*“Although focused on personnel, it (the Act) was an attempt to improve management in the public sector, which seem to lag behind the private sector.” In Australia, the Red Inquiry was set up in 1982, and the Australian Prime Minister Malcolm Fraser noted: “the government believes there is a question whether the public service, as presently organised, has the management tools, the flexibility and the capacities to meet the challenges that presently exist and that lie ahead. Departments and authorities must be able not only to meet the demands of today, but also to anticipate the demands of tomorrow” (Australia, 1983, p: 131).*

In other countries such as Canada and New Zealand, although there were different characteristics, the same process occurred.

a. *United States:* In term of administrative reform, the US has been famous with a number of major reforms such as Roosevelt’s New Deal, the post war Hoover Commission’s reorganisation and the Clinton-Gore National Performance Review (NPR). If the New Deal was a series of inspired improvisations (Schlesinger, 1959, quoted by Montgomery, 1996), the Hoover Commission reforms came out of the tradition of public administration (Moe, 1982; Thompson & Jones, 1995). In the most recent development, “Reinventing Government”, the Clinton-Gore reforms drew heavily on doctrine borrowed from business administration (Wright, 1994, p: 201). Taken together, the three reforms present an exhaustive repertory of administrative change in the country. It is argued that the call for entrepreneurial government in the NPR is an expression of a renewed attention to management in the American public sector (Kickert, 1997).

The Clinton-Gore reforms stemmed from a new tradition in public administration: theory and practice derived from business. At the beginning, the efforts focused on performance of the bureaucrats. The NPR bristles with injunctions to apply the doctrine of total quality management (TQM) to government. Montgomery (1996, p: 955) wrote:

*“The doctrine regarded the customer as the ultimate judge of managerial performance; its concept of quality control would begin early and stay late*



*in program design and implementation; it regarded achieving standard output as the key to uniformity of quality; it assumed the system to be more important than individual effort as a determinant of quality; it required continuous improvement in methods; it expected worker participation to contribute to the highest product quality; and its view of quality implied total institutional commitment”.*

But after 1994, the strong pressure from the legislative branch dominated by Republicans led the efforts to both improved performance and downsizing the government. One may argue, then, these two attempts aimed at nothing less than a wholesale change in the behaviour of the civil service.

b. *United Kingdom*: Somehow in contrast to the individualist, anti-government culture of the US, the UK has a long, highly valued tradition of public service (Walsh, 1995; Aucoin, 1995; Barberis, 1996; Cook *et al.*, 1998). The threefold description of NPM in terms of (i) businesslike management, (ii) service and client orientation, and (iii) market-type mechanisms such as competition in the British civil service are reflected in successive official policy documents of the government concerning administrative reform (Hood, 1995; Pollitt, 1995; Kickert, 1997; Pollitt and Boukaert, 2000). The first dimension began when Thatcher became the Prime Minister and created the scrutinies conducted under the leadership of Rayner, who came from the private sector, in the various departments. The Financial Management Initiative started in 1983 with the creation of an automated information system to support financial management (Commonwealth Secretariat, 1993; Gray & Jenkins, 1995; Barberis, 1996). In 1988, the first Next Steps report was published in which there was a proposal to create executive service delivery agencies, which would achieve higher efficiency, better quality, and more value for money, characterised by managerial autonomy. The establishment of executive agencies has gained huge proportions, by 1998, 138 agencies were set up, counting for around 377,000 civil servants (Walsh, 1995; Kickert, 1997; Minogue, 1999). This practice also raises much concern. Its critics include the fact that the agencies are not subject to judicial review (National Audit Office, 1998), the complicated relationship between agency chiefs and ministry staff, especially between chief executives and ministers (Trosa, 1994), blurred lines of accountability (Glynn & Murphy, 1996; Polidano, 1998, 1999), separation of policy from management and fragmentation of central government organisation (Minogue, 1998;

Cabinet Office, 1999), and stepping-stone to privatisation (Lane, 1996; Cook *et al.*, 1998, 2000).

Improving public services by making public agencies more service and customer-oriented was clearly the main message of Major's Citizen's Charter initiative in 1991. Six principles were indicated including standards of the services, more information and openness, better choice and consumption, courtesy and helpfulness, putting things right, and value for money (1991 White Paper). The reform has achieved considerable results (see table 2.4 below) and served as a model for a number of countries in the world to follow.

**Table 2.4** Citizens Charter: Practice

- 
- 42 main charters for key public services were formulated (e.g. Patient Charter, Taxpayer's Charter, Passenger's Charter).
  - About 10,000 local charters were established (e.g. doctor, police, fire)
  - Setting standards for service:
    - e.g. processing passport applications reduced from 20 to 10 working days.
    - e.g. percentage of next-day delivery of mail
    - percentage of trains arriving on time
  - Compensation provision (refunds, discounts)
  - Performance tables, e.g. schools, hospitals.
  - Charter mark incentive awards (913 holders in 1998)
- 

*Source:* Minogue, lecture note, 1999.

The third characteristic of NPM in the UK – market and competition – is reflected in the massive wave of privatisation of British public corporations and agencies since 1979 (Lane, 1996, Cook, *et al.*, 1998, 2000) and in Major's policy document, *Competing for Quality*, in 1992. The document included a proposal to force every public organisation that provides goods or services into a market test every five years (Gray & Jenkins, 1995; Kickert, 1997). Upon this market test, open tender can be given for the provision of a particular good or service. The public agency involved can subscribe but so can providers from other public or private agencies. Only if the agency involved has the best offer, will it win the competition and continue to exist.

But there may be problems in securing the advantages of client-oriented service systems where targets are set at existing or inadequate levels, creating "façade" achievements; or where financial and organisational resources are scarce, rendering

service targets unviable (Gray & Jenkins, 1998, quoted by Minogue, 2001). A critical assessment of the impact of “charterism” suggests that British citizens have responded with “indifference”, and there is “no reliable or synoptic picture of... impact” (Pollitt, 1994, p: 113). Minogue (2001, *op. cit.*, p: 32) argued:

*“The Blair government appears to recognise the need to tighten up the charter process, and recent Cabinet Office documentation refer to the likely impact of the provisions in the draft Freedom of Information legislation, which will require public authorities to publish their service targets and the results achieved against those targets”.*

This approach raises issues of performance management and measurement. The reforms reviewed above depend for successful outcomes on the application of performance management systems, to measure both organisational and individual efficiency. It is argued: “*New public management reforms insist that one part of the package of increased managerial autonomy should include delegation to specific departments and agencies of responsibility for hiring, rewarding and firing staff; for removing poor performers and rewarding good performers; and for establishing a link between managerial performance and effective results*” (Minogue, *ibid.*, p: 32). While this requires a major cultural shift for public service employees, it also demands the establishment of adequate performance indicators and measurement. The *Modernising Government* White Paper (Cabinet Office, 1999) pays special attention to the issue and to the achievement of improved efficiency and effectiveness in public services management.

In line with the drive of “rolling back the boundaries of the state”, particularly in the direct provision by government of public services, there has emerged a tendency to create new forms of public-private partnership, which may bring into collaboration any combination of central government, local government, non-governmental organisations and private sector groups. The argument is that “*such partnerships may relieve overstretched central agencies, or substitute for weak or non-existent public provision, supplying additional financial and human resources*” (Minogue, *ibid.*, pp: 33-34). This development in the UK is illustrated by two innovations, the Urban Regeneration initiative and the Private Financial Initiative. While the former brings together as partners in area-based programmes central government agencies, local government agencies, community organisations and private sector companies, the latter has stimulated the private financing of new public facilities, including transport

projects, roads, prisons, hospitals and museums. Although the progress has been slow in practice, the new Labour government committed to expansion of public-private partnerships of this type (Cabinet Office, 1998, quoted by Minogue, 2001, *ibid.*).

c. *France*: Government and administration in France are highly dominated by the legalistic perspective of constitutional and administrative law, so public administration is mainly inhabited by lawyers (Kickert, 1997). The country is the cradle of a separate state administrative law (Koopmans, 1978). Thus the formation of an identity *vis-a-vis* administrative law was primarily the resurrection in the sixties of a separate study of public administration in France (Chevallier, 1996). Apart from the considerable influence from famous organisational sociologists such as Crozier and Friedberg on the development of a French *science administrative*, the concept of *management public* played a significant role.

The administrative modernisation policy in France has been a government priority since the early 1980s as a response to the Welfare State crisis. In 1994-95, the word "modernisation" was replaced in the government literature by the broader concept of "State reform", indicating the ambition of the projected change as well as the political risks of the modernisation (Rouban, 1997). The major requirements for the reform to take place came from the need for opening up the decision-making systems, the appearance of new forms of collective action, and the struggle against public deficits. In addition, the State has also confronted challenges of internal order created by the civil service itself (Bodiguel & Rouban, 1991). These include the declining purchasing power of civil servants, especially that of the higher civil servants; the fact that higher ranks of management in ministries have been submitted to a growing politicisation of management (Lacam, 1994; Rouban, 1995); civil service careers no longer assume their traditional function of social promotion; and the due to the organisations' structure and rationale. Different policies have been made to tackle these during the four major periods of the French specificity: (i) 1984-86, the end of the socialist illusions; (ii) 1986-88, a tentative Neo-liberal policy; (iii) 1988-92, the 'public service' renewal; and 1993-1995, towards the State reform (Prada, 1993; Picq, 1994; Fraisse & Serieyx, 1995).

The modernisation policy has had mixed results.

*"More than 600 projects de service and 200 centres de responsabilite have been set up since 1989: professional schools, such as the ENA,*

*have reformed their programmes in order to allow room for more public management; policy evaluation is at least partially regarded by public managers as useful and a pedagogical effort has been made by the Civil Service ministry to diffuse new practices and methods throughout the various ministries and to incite them to emulate successful experiments” (Rouban, 1997, p: 151).*

In addition, civil servants have been relatively receptive to the reform process. Up to 80 percent of senior managers have been committed to operations of modernisation and up to 70 percent estimate that the policy has at least improved the situation slightly because they have been given with more managerial autonomy (*ibid.*). The lower level officers benefit from salary improvement and professional training. However, it is also noted a number of obstacles that are emerging, such as: (i) modernisation is not an homogeneous phenomenon; (ii) the fact that the process cannot lean on a real managerial culture; (iii) it is difficult to assess the whole process and the various governments may wonder whether the benefits are worth the social costs; and (iv) innovations concerning mechanisms of decision-making have been difficult to implement (Rouban 1993, 1994, 1997). These obstacles demand more global reforms but any ambitious change may hurt the social and historical structures of the public service.

d. *Germany*: Public administration in the Federal Republic of Germany has been the object of nearly permanent reform initiatives (König, 1995; Laux, 1995; Wollmann, 1995), but at least until the recent developments identified with the NPM, there were no deliberate departures from the classical Weberian concept of the hierarchical state. Although before the recent upsurge of NPM, administrative reform was constantly on the political agenda of the country, dealing with various aspects such as political programming, programme budgeting, civil service reform, citizen participation, information technology, deregulation and privatisation (see Jann, 1996), few conclusions can be made. *First*, while all of the reform efforts did influence and change German public administration, none of them fundamentally altered the basic structures and procedures of the German administrative state. *Second*, the quick and somewhat arbitrary change of reform agendas led to disappointment and disillusionment. *Third*, administrative reform suffered from political debates in the system, resulting in political stalemate. Therefore, “*by the end of the 1980s, administrative reform was considered ‘dead’ by all professional observers*” (Jann, 1997, p: 83).

While it was dead in the late 1980s, administrative reform has made a remarkable comeback in the last few years, gradually becoming one of the most popular domestic policy issues under the label of New Steering Model (NSM - *Neues Steuerungsmodell*) (Metzen, 1994). According to Jann (1997, p: 85), the development of NSM in Germany features some unusual characteristics: the movement originated from “below”, from local not from central government; it was pursued by practitioners, not by academics and think tanks; it is not part of a simple political strategy to “roll back the state”, but rather aims at legitimising state intervention; it is not only concerned with efficiency, but with democracy and accountability; it has a strongly anti-ideological bias and aimed right from the beginning at bi-partisan support, at least at the local and *Länd* level. The reform has had significant impact at both central and local levels of the public administration. While at the central level, the Social Democratic and the Green Party have commissioned reports and memoranda about the subject and have held hearings (Jann, 1994; Classen *et al.*, 1995), at the local level, nearly all *Länd* governments have started new reform initiatives of their own (Hill & Klages, 1995) with some reference to NSM. In addition, private consulting companies have quickly taken up and spread the new message among local governments and other public agencies. There are three aspects of modernisation in German public administration: reducing the role of the state; staff cost reduction; and structural reform (Daddah, 1996). Reducing the role of the state (or “lightening the state”) in fact involves broadening the moves toward privatisation and deregulation in the eighties. Reducing the cost of the civil service is conducted by adopting traditional economy measures such as cutting staff number, reducing the quality of service or extending the working week. Structural reforms are mainly targeted at the management of local authorities (Kickert & Jorgensen, 1995).

Despite the unusual success, the approach has come under severe criticism (Laux, 1995; König, 1995; Grunow, 1995). The critics stress its pre-occupation with concepts and visions, its affinity to commercial consultants, its naïve reform-euphoria, its neo-liberal belief in the market and its neglect of the cultural premises of public administration. However, it is also believed (Jann, 1997, p: 97) that NSM tackles the right questions. What is needed more is a new understanding of the role of public administration in a democratic state, and an organisational theory of the public sector that looks at public administration as it is, not as it should be.

### **2.4.3 Administrative reform in developing countries:**

In 1991, Caiden (p: 253) wrote “*Most Third World countries realise that they have been and are likely to remain poorly administered. Administratively, they are backward. Their administrative systems need modernising. In the meantime, their administrative incapacity severely handicaps their developmental efforts. They continue to place their faith in administrative reform*”. In these countries, the need for administrative reform came from a number of reasons such as administrative incapacity, the lack of effective supply, mounting corruption and insufficient democracy (*ibid*, pp: 232-245). However, it is important to note that administrative reform in developing countries in different parts of the world has had different focuses and characteristics and has produced different results or types of failure (Muttalib, 1985; Khan, 1989; Muhataba, 1989; Caiden, 1994; Polidano, 2001; Minogue, 2001).

a. *Arab countries*: While analysing administrative reform in the Arab countries during the past thirty years, Ashour (1989, pp: 44-84) identified an interesting discrepancy, namely the enormous efforts and resources directed towards the reform which have been met by increasing drawbacks in the Arab governments’ conditions and performance. This discrepancy exists in the building up and developing of institutional systems and structures, and in the administrative practice field. This bureaucratic growth both in terms of personnel and units, and public expenditure, termed as “*organisational and functional inflation*”, combined with “*an orientation whereby the administrative and technical dominate over the social*” (Ayubi, 1989, p: 87) has made administrative reform in this region imperative. The leading characteristics and results of the reform are summarised as: (i) the lack of attention to establishing an institutional approach to administrative reform; (ii) an incorrect belief in the adoption of the bureaucratic model; (iii) an emphasis on the legal dimension of administration; (iv) acquiring modern technological tools for administrative improvement; (v) partial care for administrative training; and (vi) duality, that is copying many Western systems into the Arab countries, at the same time creating new compatible elements and components of the Arab environment (Tayeb, 1989, pp: 116-150). Despite the considerable efforts of the Arab governments, what has been achieved in the countries in terms of administrative reform falls short of aspirations (Al-sigh, 1989; Tayeb, 1989; Caiden, 1991). The region is now still seeking for an appropriate strategy for the reform to be successful (El-Rawy, 1989; Alassam, 1989).

b. *Latin America*: A significant fact about Latin America over the past few decades has been the stubbornness with which it has pursued administrative reform, despite so many failures and disappointments. An interesting characteristic of the region is that Latin Americans had not slavishly followed foreign models or been forced to implement reforms not of their own making before the 1960s, thereafter they had been careful to craft their own reforms according to local circumstances (Caiden 1991, pp: 262-265). In order to overcome bureaucratic indifference, contempt and corruption, the countries conduct government reorganisation, privatisation, cutback management, budgeting and financial management, public service training and education etc. (Holanda, 1989; Martinez, 1989; The Office of President of Brazil, 1995). However, it is argued: "*possibly nowhere else in the world have so many governments announced bold, imaginative reform plans to achieve so little in practice*" (Caiden, 1991, *op. cit.*, p: 262). The reasons for this are usual – the reforms are too ambitious, too unrealistic, too big, too isolated administratively and too lacking in power, authority and backing (Hammergren, 1983; Groissman *et al.*, 1986). The fact has been that reformers did not consider adequately the government environment in which many competing agencies tried to preserve and promote their own interests and programmes, and reforms had to take account of the bargaining and compromises, the alliances and confrontations that took place in society and were reflected in the machinery and operations of the state. They have discounted too much the political nature of administrative reform (Hammergren, 1983; Jreisat, 1988).

c. *Africa*: This region was hit hard by world economic and trade crisis in the 1970s, combining with severe natural disasters such as droughts. It is argued that this region has been faced with most administrative problems (Mufson, 1986; Caiden, 1991), therefore, the needs for administrative reform were imperative. Before independence, the Africanization of public administration had emphasised the institutionalisation of public sector education and training with international assistance and a heavy dose of Western methods and techniques for public sector management. Muhataba (1989, pp: 31-35) identified three major groups of countries according to their propensity toward reform: (i) a few countries that have shown no propensity toward reform; (ii) other countries such as Malawi and Kenya that have improvised reform when the occasion warranted; and (iii) countries, such as Tanzania, Nigeria, Ghana, that have consciously planned reforms and established formal machinery for



these. One important factor for the region was the structural adjustment programmes imposed on the countries by the IMF and the WB. For the public sector,

*“the impact of the economic restructuring programs has been immediate in the reduction of public employment of anywhere between 10 and 50 percent, the freezing of remuneration, maintenance and capital development, the deterioration of the public infrastructure, the divestment and reforms, depressed morale, worsening industrial relations, reduced social services, tax reforms and demonopolisation”* (Caiden, 1991, *op. cit.*, p: 257).

Although much yet still to be done, mixed success has been achieved in the civil service reform in Africa (Wescott, 1998; Langseth, 1998).

For example, Polidano (2001, pp: 44-69) analysed administrative reform in core civil services in a number of African and Latin American countries that adopted two of the more common elements of the new public management agenda, that is privatisation and down-sizing (or retrenchment, as it is known in Africa). He argued (p: 46): *“such initiatives are part and parcel of the economic structural adjustment programmes which the majority of countries throughout the developing world have undertaken at some point in time; they are often the first stage of public sector reform”*. His findings include that the volume of privatisations in developing countries remain too small to have made a substantial dent in the overall share of the public sector in the economy. With regard to retrenchment, apart from few star performers – Uganda, for example, cut its civil service by more than half in the early 1990s – many other countries have been laggards (*ibid.*, p: 47).

d. *Asia-Pacific region*: It is possible to distinguish countries in this region into four groups with different characteristics. The first comprises higher income countries such as Japan, Australia and New Zealand (OECD, 1992, 1993, 1995, 1998). The second includes transitional countries from plan to market such as China, Vietnam and Laos (Child, 1994; Fforde & de Vylder, 1996; Cook *et al.*, 1998; Litvack & Rondinelli, 1999). The third includes newly industrialising countries such as South Korea, Singapore, Malaysia, Thailand and Philippines (WB, 1993, 1994, 1995); and finally, a group of South-Asian countries such as India, Nepal and Sri Lanka. While the first group is listed among the OECD countries, the second group is now following a step-by-step reform with remarkable success (WB, 1994, 1996, 2000, 2001; UNDP, 2000, 2001; Gungwu & Wong, 1998), the third group is famous as the fastest-growing group

in terms of economic development for the past few decades, the fourth group is still struggling with developmental issues (Khan, 1991; Tomas, 1996).

In terms of administrative reform, the first group of countries is characterised by reducing the public sector, promoting competition and massive privatisation of public enterprises (Evans, 1994; Tomas, 1996; Cook *et al.*, 1998, 2000). The process involves reform efforts such as demonopolization, debureaucratisation, deregulation and decentralisation (Nakamura, 1987; Lockyear, 1994). The second group of countries is now trying to reform the administrative systems in order to be able to cope with the new requirements of a market economy (Chow 1988; Truyen, 1993, 1994, 1999; Gungwu & Wong, 1998). The administrative reform programmes focus on renewing the legal framework, restructuring the administrative machinery, streamlining the civil service and reforming public enterprises (Child, 1994; Doanh, 1996; Fforde & de Vylder, 1996). The economic success of the third group of countries for the past few decades is said to have made an effective contribution to the administrative systems (WB, 1993; 1995; Meksawan, 1996; Richard *et al.*, 1998). It is argued (Karim, 1992; Quah, 1992; Taib, 1996) that administrative reform in the countries very much follows the ideas of NPM in terms of enhancing the role of the private sector in economic development, civil service reform and privatisation. Nowadays, these countries embark on a number of new reform efforts such as electronic government and the application of ISO into government operations. Although the group of South-Asian countries has put lots of efforts on administrative reform in their development process, they still face with much resistance and the result received is not compatible with the desire (Khan, 1991; Khatri, 1994).

To summarise the administrative reform efforts in the developing world, it is possible to argue that different countries have undertaken different methods to respond to their reform requirements. Even for the most commonly adopted reform agenda in line with new public management, *“while many developing countries have taken elements of the new public management agenda, they have not adapted anything close to the entire package. More over, they are simultaneously undertaking reforms that are unrelated or even contrary to that agenda. The new public management is only one among a number of contending strands of reform in developing world”* (Polidano, 2001, *op. cit.*, pp: 45-46). There have been success stories as well as failures. Specific situations and circumstances in different countries call for radically different responses.

Minogue (2001, *op. cit.*, pp: 36-37) summarised the mixed results of administrative reform in developing and transitional economies as follows:

*“The literature on privatisation and market-type mechanisms such as contracting makes it clear that there is no hard evidence of real efficiency gains (Cook, 1998; Parker, 1998; Gray and Jenkins, 1998...). The literature on civil service reform and executive agency restructuring suggests that the only clear result so far, other than a substantial reduction in numbers employed in the public sector, has been a serious loss of public accountability (Polidano, 1999...). The literature on the application of new public management reforms to local government has been fiercely critical of increased ‘democratic deficit’ and the emasculation of local authority autonomy (Elcock, 2001...). It is virtually impossible to find rigorous evidence or evaluation of the impact (for better or worse) on public services, despite the emphasis of the reform model upon this aspect.”*

## 2.5 LITERATURE ON TRANSITION:

The notion of “transition” somehow means different things to different people both in terms of states involved in and the processes such as transition from what, transition to what and along what route or path. Some authors (CAPAM, 1995; Barberis, 1996) consider any country in its efforts to develop economically as a country in transition. By “transition”, other authors (such as Kornai, 1991; Kizilyalli, 1994; Vichit-Vadakan, 1996) mean any countries moving from centrally planned economy towards a market economy. This group of transitional countries includes some countries in Africa and Latin America. There are other authors who make this notion more focused “*this transformation from centrally planned economies governed by one-party communist regime into democratic, market type systems*” (Hare & Davis, 1997, p: 1). The authors (including the WB, 1996) focus more on Central and Eastern Europe (CEE) and Former Soviet Union (FSU) countries on the one hand, and Eastern Asian countries on the other hand. In any case, the long-term goal of transition is the same as that of economic reforms elsewhere: to build a thriving market economy capable of delivering long-term growth in living standard. Transition, “*must therefore unleash a complex process of creation, adaptation, and destruction*” (WB, 1996, p: 4) and occur in different approaches. This section explores “transition” in its political economy and two major approaches, namely shock therapy (or Big Bang) and gradualism.

### **2.5.1 Political economy of transition:**

It can be said that the economic challenge of transition is emerging from itself. Although many planned economies were tied together through the links in the CMEA, none traded with the world at large (WB, 1996; Fforde & de Vylder, 1996). The long period of central planning created serious distortions for the economies in terms of overemphasising heavy industries, especially in the then more developed socialist countries in CEE and FSU, and repressing service and light industries. Relative prices were made very differently from market patterns by using massive subsidies among sectors. While agricultural products and several services such as housing and transport were suprisingly cheap, manufactured products were terribly expensive (Hill & Ziellonka, 1990; WB, 1996). The state meant almost everything, and state ownership did not allow enterprises to have property right either to promote profit making or spur work effort. WB (1996, p: 4) argued: "*Firms had little reason to use inputs efficiently and strong incentive to hoard both labour and raw materials*". In addition, the combination of the economy focusing more on heavy industries with low prices of energy and inefficient use of resources led to severe environmental impacts. In less developed countries with socialist regimes, development policies shared certain biases in economic spheres as argued by Fforde & de Vylder (1996, p: 16):

- *An exaggerated belief in state planning and a pervasive use of administrative allocation of resources.*
- *An excessive use of price controls and subsidies, with concomitant distortions in relative costs and prices.*
- *A low cost-consciousness within the state sector.*
- *A high priority given to modern industry at the expense of agriculture and small-scale undertakings.*
- *A tendency to overoptimistic targets and excessive fixed capital formation (the "hunger for investment"), especially in the early years.*
- *A neglect of exports.*

The central planning system, somewhat simplified, was basically intended to operate (Kornai, 1992; Doanh, 1996) as follows: Capital resources were supplied by the state to SOEs in order to produce a certain product. These resources were essentially supplied free. Each unit was managed by a level of the state bureaucracy (a ministry, if centrally managed; a provincial or city department, if locally managed) that allocated labour to it. The unit was then given a regular production target, in quantity terms, and in order for it to meet this target it was provided with levels of current inputs calculated

on the basis of simple arithmetic norms. These inputs were supplied directly to the unit by the state, and its output was also supplied directly to the state. The obligation of the unit was just to produce for the target, and it had almost no say in what to produce and who to produce for.

When transition reform packages are under discussion, they are usually considered to comprise different elements (WB, 1996; de Melo *et al.*, 1996; Hare & Davis, 1997), namely: (a) liberalisation; (b) stabilisation; (c) legal, institutional and economic policy reforms; (d) creation of a private sector; (e) restructuring of existing SOEs; and (f) establishment of the social safety net. The first two elements are vital and usually initiated together in the early phase of transition. While liberalisation involves freeing prices, trade, and entry from state controls, stabilisation means reducing inflation and containing domestic and external imbalances (de Melo *et al.*, 1996; WB, 1996). Liberalisation aims to decentralising production and trading decisions to enterprises and household and directly addresses the two major weaknesses of central planning, i. e. poor incentives and poor information. This exposes enterprises to customer demand, the profit drive, and competition, and it lets relative prices adjust in line with true scarcities. Stabilisation is crucial for transition (Dabrowski, 1996; Fforde & de Vylder, 1996; Kolodko, 1999) because it refers to macro-economy and macroeconomic imbalance denies countries the gains of market reforms. Price stabilisation helps to reduce the hyperinflation that many countries suffered before transition, and complements liberalisation as a basis for growth to take place.

It is argued (Rice, 1992; Hesse, 1996; Stern & Stiglitz, 1997; Kolodko, 1999; Litvack & Rondinell, 1999) that the fundamental, if not revolutionary, changes going on in transitional countries affect the foundations of their political, social and economic life. Despite their differences in terms of extend and pace of the process, it is possible to see a number of shared characteristics in socio-political change in CEE and FSU countries. The features are suggested by Hesse (1996, p: 115) including: the transition of what were systems of one-party rule to pluralist, multiparty systems; the abandoning of the principle of "democratic centralism" in favour of expanding decentralisation of political power; the rejection of the principle of unity between politics and the economy which involves the emergence of distinct spheres of political and economic life; and far-reaching economic reforms aiming at strengthening the private sector, privatising the previously state-controlled productive capital, and liberalising the national economy.

In reviewing the process of transition from the late 1980s up to now, a number of questions and characterisation have been found. For example, having defined “transition”, Hare & Davis (1997) have argued that despite the different experiences the countries have in the process, some common features can be deployed to justify the overall term. They went on to write:

*“partly as a consequence of the massive government failure perceived – not wholly correctly – to have characterised the socialist period, and partly because of somewhat naïve early views about what was entailed in building a market economy, transition was initially conceptualised in very simplistic terms. It was seen as a mixture of dismantling the old economic system and then rapidly creating a market system in which very little role in economic management remained for the government”* (1997, p: 3).

While this indeed acknowledged previous government failure, it did nothing to address pervasive market failure, such as the complete lack of a capital market or a functioning banking system, the lack of protection for private property rights and private business contracts, the need to establish effective monetary and exchange rate systems, all entailed new role for the government. In addition, other economic issues such as how to create a market economy from the old one with privatisation and tax reform, the need for intensive enterprise restructuring stimulated political debate because they raised the unwelcome picture of unemployment. This was seen as a threatening of the social guarantees that had been formed in the socialist regime, therefore, probably undermined support for reforms.

One question that raised lots of controversy was, for a given economy, how long is transition expected to last, and when it is essentially over. One way of thinking about transition is to suggest that it is largely over when the economies concerned have resumed growth once more along a path that appears to be sustainable. This way is somehow more quantitative and statistical, whereas transition can be seen as a process of market formation, institution building and reform, which is more qualitative. Another approach adopted by EBRD (1994), using the estimates of the share of the private sector in GDP as an indicator for the completion of transition in an economy. According to this, *“transition is complete when the economy concerned has a high share of private sector activity (say, over 70 per cent)...”* (Hesse, *op. cit.*, p: 5). However, it is natural to note that the completion of transition does not mean that the

given economy no longer has any economic problems, it simply means that the economy has become “normal”.

This discussion suggests that transition is unavoidably a political as well as an economic process. The process involves a complex set of legal and institutional reforms that redistribute assets, the rights to various income streams, and economic power (WB, 1996, 1997; Dabrowski, 1996; Hare & Davis, 1997; Litvack & Rondinelli, 1999). New institutional arrangements are of key importance for successful transformation. A market economy requires not only liberal regulation and private ownership, but also adequate institutions to operate. In this aspect, again, the government involvement in the process of comprehensive institution building is of vital importance. This is true because without adequate care of institutional arrangements, solely liberalisation and privatisation is unable to deliver what the nations expect from their economies (Stern and Stiglitz, 1997; Kolodko, 1999). If the state fails to design a proper institutional set up, then the market failures prevail and informal institutionalisation takes over.

A foundation for market capitalism requires the dominance of private property, but also a competitive enterprise sector, functioning markets, and respect for the rules of market allocation. Well-performing financial intermediaries are necessary to facilitate trade transactions and investment deals, as well as to promote savings. But, it is argued (Kolodko, 1999, p: 16) that the market, its introduction notwithstanding, also needs a proper legal environment, one that is able to support execution of market rules, enforcement of contracts, and the correct behaviour of economic agents (firms, households, organisations, and the government). For these reasons transition calls not for a dismissal of government, but for its strengthening and adjustment to the new circumstances. In 1997, the WB (p: 7), unlike the advocates of market fundamentalism, admits that:

*“The state makes a vital contribution to economic development when its role matches its institutional capability. But capability is not destiny. It can and must be improved if governments are to promote further improvements in economic and social welfare... Three interrelated sets of institutional mechanisms can help create incentives that will strengthen the state’s capability. These mechanisms aim to:*

- *Enforce rules and restraints in society as well as within the state*
- *Promote competitive pressures from outside and from within the state, and*
- *Facilitate voice and partnership both outside and within the state”.*

There are a number of authors (e. g. WB, 1993, 1996; 2001; Hare & Davis, 1997; Cook *et al.*, 1998; UNDP, 2001) who write about restructuring of existing SOEs, including their management and regulation, as well as privatisation. At the beginning of transition, there was a widespread view that privatisation would be rapid and that those enterprises, which could not be privatised, would be shut down. Therefore, for most economies in transition (apart from some East Asian countries which will be discussed in the following section), usually after the hardest phase of stabilisation has been completed, privatisation forms the centrepiece of their economic strategy. Most countries have recognised that privatisation is best subdivided into several distinct programmes to do with small firms, medium and large firms, and agriculture (WB, 1996; Hare & Davis, 1997).

Small firms have proved much easier to privatise than large ones because most small firms were engaged in trade and services, activities with simple technology and easy entry. Two major reasons of this are: first, small firms privatisation does not apply to major obstacles such as high capital requirements, major restructuring needs, and regulatory and governance weaknesses; and second, small sales are easier politically, organised opposition is weak. However, privatisation of large and medium-size enterprises has proved far more difficult than originally thought because several problems had to be resolved if privatisation were to succeed. For example, WB (1996, pp: 50-56) argued that it was important to clarify the goals of privatisation, since these could affect the design of programmes as well as the eventual outcomes. In addition, the institutional framework to support the process also had to be settled, as did the appropriate procedures for and methods of privatisation. With regard to methods of privatisation, although different approaches were identified such as one based on the free distribution of state assets to the public at large, and the other following a case-by-case commercial approach, several countries adopted mixed solutions (Hare & Davis, 1997; UNECE, 1998).

After more than a decade of transition, it has turned out that a large number of firms still remain in state ownership for many years, both because privatisation has not been implemented as rapidly as expected in most countries, and because certain firms such as a number of public utilities are expected to belong in the public sector. Thus, it is critically important to devise ways of managing SOEs more effectively than in the past, since their performance can have a significant impact on the outlook for the whole economy (Kizilyalli, 1994; Doanh, 1996; WB, 1996). In addition, it is clear that the old



system of “tutelage” under which SOEs were subordinated to a sectoral ministry or a local level of authority as part of the administrative structure of central planning, is no longer appropriate for these firms. In the management of SOEs, two important steps were identified (Hare & Davis, 1997): first, to transfer formal ownership rights away from the existing ministry or other government agency into a newly created state property holding company; second, to construct a new management and governance structure for the firms. Here, the notion of corporate governance emerged (WB, 1996; Melo, *et al.*, 1996; Dabrowski, 1996, UNECE, 1998).

It can be now argued that even without the complication of disputes about state boundaries, successful transition involves a complex set of legal and institutional reforms that redistribute assets, the rights to various income streams, and economic power. Although it was expected that “*it should have been possible to manage these changes in a Pareto-improving manner, using higher aggregate income to compensate the losers from change*” (Hare & Davis, 1997, p: 7), it has rarely been the reality. Instead, the dramatic drop in outputs and decline in living standards in the early stage of transition in many countries, especially in CEE and FSU, even made the losers worse off. In fact, the potential losers are mainly the poor, workers and managers of SOEs threatened with the loss of subsidies and even jobs. In some countries, some of these potential losers have proved to be sufficiently powerful politically to block or delay reforms. As a consequence, two sets of questions relating to the politics of reforms are raised: (i) how to structure reforms in such a way to enhance reform credibility and build constituencies favouring further reforms; and (ii) whether the overall pace of reforms is likely to have a bearing upon the extent of political support for their continuation (*ibid.*).

### **2.5.2 Transition of China and Vietnam, and the shock therapy versus gradualism debate:**

The transition process in China and Vietnam started quite early in comparison with CEE and FSU countries. After the death of Mao Zedong in 1976, the reformist Deng Xiaoping rose to power at the end of 1978 and brought in a completely different kind Marxist-Leninism regime which gave free scope to entrepreneurial spirit of the Chinese and propounded that what China needed was not leftist revolution but modernisation (Chow, 1988; Walder, 1996; Maidment *et al.*, 1998). China opened itself very deliberately to the outside world, aiming to bring about the kind of technology

transfer and modern management and thinking that could industrialise the country and raise the living standards of its people. Vietnam won the war against the Americans in 1975, with the country formally reunified as the SRV in July 1976. Reform policies were introduced by the CPV in 1979 and, after a great deal of debate, adopted by the Fifth National Assembly in 1982. Free market reforms were introduced in 1986 at the Sixth Congress of the CPV with the name of *Doi Moi*, meaning overall renovation (Truyen, 1997; UNDP, 1991, 1993, 1997, 1999, 2001; WB, 2000, 2001).

Although the reform policies were similar in direction in China and Vietnam, the two countries saw the need for reform independently at about the same time (CPV, 1986; Golblatte, 1998). It was for domestic reasons that Vietnam instituted reform, and there was no suggestion that it was following China's lead. In fact, in the late 1970s, relations between the two countries worsened so much that they even fought a border war in 1979. Vietnam had undergone glorious wars against France and then the USA and its allies, but it never went through any process even remotely similar to the Cultural Revolution in China. While China's relations with the FSU were broken in the 1960s, Vietnam used to be a CMEA member before the block collapsed (UNDP, 1991; WB, 1993, 1996). In addition, Vietnam went through a phase of rapid reform in 1989 in response to high inflation, which some authors consider as a phase of Big Bang transformation, whereas China has never gone through such a period.

However, the experiences of transition in China and Vietnam share distinctly different features from countries of CEE and FSU (UNDP, 1993; Doanh, 1996; WB, 1996; 2000, 2001). The literature on transition emphasises the importance of different factors in different groups of countries. Many observers (*e.g.* Bruno, 1992, 1993; de Melo *et al.*, 1996, 1997; Litvack & Rondinelli, 1999) have noted that the inherited economic conditions, natural resources, histories, and institutions of transition countries were very different. While before transition, China and Vietnam were considered poorer, with the economy dominated by agricultural production, countries in CEE and FSU were much more industrialised with higher per capita GDP. In addition, the share of the public sector in the economy of CEE and FSU countries was much larger than in China and Vietnam (WB, 1993, 1996; Walder, 1996). These findings have in turn focused attention on the determinants of policy choices in different groups of countries. While the emphasis in CEE and FSU countries has largely been on political transition, with little attention being given to the role of initial conditions as a key factor shaping the reform process and hence economic outcomes, the transition in China and Vietnam

has broadly consistent with improved economic performance and limited extent of political change (de Melo *et al.*, 1996, 1997; WB, 1999). For example, White (1996, p: 40) argues:

*“On the one hand, there are the nations of east and central Europe and the former Soviet Union (FSU) where the transition to a market economy has been accompanied by varying degrees of political democratisation; on the other hand, nations such as China and Vietnam have embarked upon economic liberalisation within a basically unchanged political framework of authoritarian state-socialism”*

In terms of outcomes of transition, China and Vietnam have contained inflation and benefited from continued high growth in GDP since the beginning of their reforms (WB, 1993, 1996, 2000, 2001; UNDP, 1993, 1997, 2000, 2001; Maidment *et al.*, 1998). While the Chinese economy has been growing at about 9.5 per cent since the start of economic reform in 1978 (Gungwu & Wong, 1998), Vietnam has enjoyed the rate of 8.5 per cent from 1991-1997 (WB, 1999). Between 1979 and 1990, real GDP per capita in China has increased more than fourfold, from US\$150 to US\$610 (all in 1990 prices) (Lau, 1998). During 1986-1997, GDP per capita in Vietnam has increased from US\$185 to US\$390 (UNDP, 1999, 2000; WB, 1999, 2001). Considerable results have also been achieved in political dimensions. While the role of China is strengthening in the international arena as an emerging power (Kristof & Wudunn, 1994; Walder, 1996; Gungwu & Wong, 1998), Vietnam had the US embargo lifted in 1993 and is now enjoying full membership of ASEAN. In the social sphere, while China enjoys an increasing literacy rate, especially at the higher education level, poverty level in Vietnam dropped by half from 1986-1998 (WB, 1999).

Yet China's and Vietnam's transition to a market system remains far from complete. There are still a number of challenges that the two countries are faced with such as the reform of SOEs, the suspectness of the banking systems, and corruption (Rawski, 1996; UNDP, 1997). However, major reasons to explain the initial success of the transition in the two countries are identified. For example, Fforde & de Vylder (1996) and Lau (1998, pp: 43-70) argue that their success in economic reforms was thanks to compensating the losers, essential elements of the reforms including the “open-door” to international trade and foreign investment; ‘marketisation’; devolution of decision-making power based on the basis of the “contract responsibility system”, and the creation of non-state-owned modes of organisation for production. In Vietnam, key reform areas have been addressed including agriculture, financial sector

restructuring and legal framework, SOE reform, and reforms in trade and investment, all helping to produce remarkable achievements for the country (Doanh & McCarthy, 1996).

The reform efforts and initial results in China and Vietnam make the shock therapy vs. gradualism debate sharper and involves arguments for and against. Shock therapy (or the all-out approach) aims to replace central planning with the rudiments of market economy in a single burst of reforms (Katz, 1996). The WB (1996, p: 9) argues that these reforms include rapid price and trade liberalisation combining with price stabilisation; a quick move to current account convertibility; opening of markets; initiating privatisation of SOEs; demonopolisation of industry; and the reform of accounting standards, the tax system, the legal system, the financial sector and the civil service. This approach is widely used in CEE and FSU countries; as implied in their policy choices (Kizilyalli, 1994; WB, 1996; Murrel, 1996). The emphasis has largely been on political transition, with little attention being given to the role of initial conditions as a key factor shaping the reform process and hence economic outcomes. De Melo *et al.* (1997, pp: 3-4) argues that there have been close links between political transition and intensity of reforms, concluding that economic reform has been easier in countries where rapid and fundamental political change has taken place. In these countries, an initial period of extraordinary politics “*provided a window of opportunity for policy makers to push through decisive reforms*”. Other authors such as Kizilyalli (1994) and Shleifer (1997), comparing the performance of Russia and Poland, point out the importance of political transition in determining the success of economic reforms. In addition, there is a view that rapid reform is preferable to slow reform, given the breakdown in the central planning apparatus, the status quo was not a viable option for CEE and FSU countries (de Melo *et al.*, 1996).

On the contrary, gradualism is characterised by step-by-step, incremental and phased reforms, starting with localised experiments, which are expanded as perceived successes emerge (WB, 1993; UNDP, 1993; Naya & Tan, 1996). For this approach, “*a few repressed sectors such as agriculture are liberalised up front. After this first step, markets are slowly but steadily extended to other parts of the economy as the institutional building blocks of a market system are put in place*” (WB, 1996, p: 10). Advocates of this approach (*e.g.* Katz, 1996; Montes, 1997; Kolodko, 1999) argue that a market economy requires not only liberalised regulation and private ownership, but also adequate institutions. This is why transition can be executed only in a gradual

manner, since institution building is a gradual process based upon new organisations, new laws, and changing the behaviour of various economic entities. Reform in a gradual manner helps to reduce the possibility of having many losers, therefore, it probably benefits from wide popular support, making political choices easier in the transition process (Lau, 1998). Kolodko (1999, p: 2) argues that it is naïve to believe that a market economy can be introduced by “shock therapy” and, only liberalisation and stabilisation measures can be introduced in a radical manner, and even this is not a necessity. The need for such method depends on the scope of financial destabilisation and is only possible under certain political conditions. Reviewing the transition in China and Vietnam, Montes (1997) highlights that attention to development policy and treatment of market-oriented reforms as the means for successful development have contributed significantly to the high rate of growth in the two countries. This is interesting because there is not yet any such flourishing in terms of durable growth example in post-socialist economies of CEE and FSU. *“The reforms of the socialist system that fail in Europe still work in Asia”* (Kolodko, 1999, p: 19).

## 2.6 CONCLUSION: AN EVALUATION

The review above has shown that administrative reform has a long history, dating back from the ancient empires to the older states in the West, then to the third world countries in the second half of the twentieth century, and now spreads throughout the world. The emergence of the phenomenon came from a number of factors, both outside the scope of government and inside it. The external requirements include, among other things, the increasing demands from the public for a more variety and better quality of services provided by the state, combined with international competitiveness in a highly globalising world which forces the nation state to improve its performance. Inside the government the increasing complexity of its activities has not only required it to expand its scope and professionalise itself, but also to rationalise the functioning of different units on the one hand, and the attitude and behaviour of its personnel on the other hand.

Administrative reform in Western countries traditionally was based on a system of governmental organisation which was highly differentiated and functionally specific, and where the allocation of political role was by achievement rather than ascription, reflecting general characteristics of the society. Two major phases in the reform process could be specified. The first phase was a long period concerned mainly with the

creation and development of an administrative machinery that could command legitimacy from everybody in the polity. The second phase was mainly the concern with economy, efficiency, effectiveness, citizen participation etc. when the administrative machinery was already firmly established. Although different countries adopted different approaches to reform, the level of success achieved in each of the countries was varied. Reasons for the different levels of achievement could range from the political and popular support of reform to the choice of reform focus and methods.

It can be said that administrative reform in most developing countries began with their attainment of independence after the Second World War and throughout the 1950s and 1960s of the twentieth century. Independence called into question the appropriateness of the entire machinery of government, which had been designed by the departing colonialists. The objectives and the functions of the newly established state were to change considerably, thus government activities also increased in number, scope and size. With all the new emerging demands in most uncertain circumstances and with no past experience as a guide, the new states could only grope their way through, reacting to events rather than controlling them according to an overall master plan. That was the reason why not much was achieved with administrative reform in these countries by the late 1960s-70s, though high levels of political instability were also an explanatory factor.

New public management as a new paradigm of public administration emerged from the early 1980s as a consequence of the perceived weaknesses of traditional public administration and began with a political theory of the role of the state in modern life. The state-centric practice was generally seen as a failure to meet developmental role, the needs of citizens, as well as the demand for more democracy and accountability. The state role is still acknowledged, but only as a "facilitator" and minimalist regulator for market systems. Boundaries between the public and private sectors became blurred. It is widely recognised that governments have had to cut back, to reduce expenditure, staff, investment and services and to demand higher productivity and better performance from their sluggish public sectors. In order to improve their countries' position in the emerging world economy, governments have been forced to redefine their roles and strategies. In doing so, almost all have blamed the dead hand of bureaucracy, especially the poor performance, the daily annoyances of cumbersome restrictions, red-tape, poor service and corrupt practices.

In public administration and management reform in line with NPM, the review shows rich diversity in emphases and different results or failures they have achieved. Although no uniform pattern can be established while comparing the most advanced countries of OECD, few most commonly used measures can be identified as: financial and management reforms, devolution, delegation and democratisation with core government. While civil service reform, commercialisation, corporatisation and privatisation have been pursued more in the Anglo-saxon countries (UK, Australia, New Zealand and Canada), decentralisation to lower level bodies has been a prominent feature of reform in countries such as Germany, France, and the Netherlands, while deregulation of private-sector activities has been adopted mainly in the USA. This is just to show that there is no "one best practice" to public sector reform as implied by some literature. Whereas the fundamental impetus for public sector reform in OECD countries was the need to achieve better and less costly governance within a contracting economy, the reason for reform in fast growing developing countries such as Taiwan, Malaysia, Korea may be of a different order. In the later cases, *"the problems of governance are essentially those of managing state-building and economic growth, albeit growth which demands closer co-ordination and co-operation between the public and private sectors"* (Cheung, 1997, p: 448). Although lots of efforts have been put into administrative reform in many other developing countries, results are still behind expectations. In transitional economies of CEE and FSU, administrative reforms were primarily defined in terms of a process of getting away from the previous situation instead of arriving at a desired state of affairs.

The replacement of central planning and one-party states by market economies, democracy and the rule of law is eminently multi-disciplinary: it is a complex set of independent problems, affecting nearly all aspects of the economy and society. Although the literature on transition examines the development mainly from economic views, an increasing number of authors are interested in what role the state and the public sector play in these countries. Following the upheavals of 1989, the necessity to reform their public sector led the countries of CEE and FSU quite naturally to look to the West for inspiration. However, one would be mistaken in assuming that Western advice was valued only for the democratic accountability and economic success of Western systems. The problem remains what of it is useful to copy, and how to adapt innovations to the real situation of the given country with its specific conditions and circumstances. In addition, as the transition is still going on, debate is mounting about

what approach, shock therapy or gradualism, more likely produces economic growth and improved living standards for the people. Although there has not yet been any complete success of transition, initial results that China and Vietnam achieved have attracted the interest of developmental academics and practitioners.

Most of the literature on current development of China and Vietnam argues that the success the two countries attained so far is due to their incremental, step-by-step approach to reform. It is also important to note the role of government and institution building in the transformation process. In the long-run, after learning the bitter lesson that market economies do not expand without a wise government-led development policy and well-designed institutions, both types of economies, i. e. CEE and FSU economies in transition as well as the reformed economies of China and Vietnam, have a chance to succeed in their market endeavours. The administrative reforms of China and Vietnam will be examined more thoroughly in following chapters and lessons will be highlighted.



## CHAPTER III

### AN ANALYSIS OF PUBLIC ADMINISTRATION AND MANAGEMENT REFORM IN TRANSITIONAL ECONOMIES, AND THE IMPLICATIONS FOR VIETNAM

#### 3.1 INTRODUCTION:

The literature review in Chapter 2 has revealed that the transition from a centrally planned to a market economy is a long and fundamental process involving changes in the political, economic, social and cultural life of the country. The collapse of central economic planning, the new mode of resource allocation and production have led to a determined search for government structures and systems which provide an opportunity for the citizen (and customer) to shape the future of the state, and the services it provides. The inherited administrative system had been basically designed to perform functions mainly of a regulatory and extractive nature, but the new functions are mostly developmental and promotional in character which the administrative system was ill-equipped to carry out. It is, therefore, obvious that after a certain period of economic restructuring, administrative reform has become imperative in almost all countries in such transition to ensure the continuous operation and functioning of the country amidst sweeping changes.

On the one hand, the public administration in transitional economies shares many features with the public administration in other developed and developing countries, and on the other hand, has a number of features that makes it distinctive. The distinctive features, among other things, may include the fact that the public administration was established to serve the will of the Communist Party, and as time went by, the boundaries between the two became so blurred that in many cases, in practice, it was hard to find out who did what. In addition, the over-centralisation of the command economy made the public administration extremely rigid and rule-based, allowing very little discretion and flexibility in its operations. While summarising challenges that most transitional countries in Asia, CEE and FSU are faced with, Kolodko (1999, p: 9) identified eight elements of key importance:

- *The lack of organisational structure for a liberal market economy.*
- *Weak financial intermediaries unable to allocate efficiently private assets.*

- *A lack of commercialisation of state enterprises prior to privatisation.*
- *Unqualified management unable to execute sound corporate governance under the conditions of a deregulated economy.*
- *A lack of institutional infrastructure for competition policy.*
- *A weak legal framework and judiciary system, and a consequent inability to enforce tax code and business contracts.*
- *Poor local government unprepared to tackle the issues of regional development.*
- *A lack of non-governmental organisations (NGOs) supporting the functioning of the emerging market economy and civil society”.*

These features, in turn, lead to some distinctive requirements and contents for the public administration and management reforms in the countries.

The purpose of this chapter, therefore, is to examine some crucial aspects concerning public administration and management reforms in transitional economies. It aims to analyse the different frameworks essentially involved in the reform; to discuss the crucial role of political will and support to overcome any resistance to ensure the success of the reform. Furthermore, it will also attempt to point out the significant role of aid in promoting the reform in the context of different related countries.

### **3.2 FRAMEWORKS OF PUBLIC ADMINISTRATION AND MANAGEMENT REFORMS:**

The general goal of public administration and management reform is to build a public administration, which is democratic, well-disciplined, and modern in order to be capable of effectively, and efficiently carrying out successfully the tasks assigned by the state. This is even more significant in transitional countries where governments are preoccupied with big questions of dismantling inherited socialist structures and their command economies, reviewing and rewriting their constitutions and laws to facilitate the emergence of free markets and wider democracy, responding to the new arising demands and needs of their citizens, including the requirement for more openness and transparency in the operation of the state machine. Understandably, administrative reform touches upon various areas and levels of government activities resulting in different types of changes at different levels. Furthermore, it cannot stand alone in such a fundamental transformation, but rather affects and is influenced by other components of the state. The WB (1996) identified that of first significance are good laws and effective means for their enforcement, second are strong financial institutions to

encourage savings and channel these to the most productive uses; the third essential is better government which is oriented towards supporting and implementing the development of the private sector. It is, therefore, essential to identify frameworks in which the reform exists and interacts with other branches of government in the overall process of transition. Four major frameworks can be identified as legal, institutional and organisational, personnel, and financial.

### **3.2.1 A legal framework:**

The legal system, which includes the constitution, laws and regulatory documents is crucial because all the individuals and communities as well as organisations act within it. Although constitutional change and lawmaking are not functions of public administration bodies, in many former communist countries, these bodies were involved in the drafting of a body of legislation before passing it on to the parliaments to enact. In addition, the government has the power to issue law-based regulatory documents to govern different aspects of the society. Thus, the public administration and management reforms are expected to establish and improve a legal environment, which is suitable for the new economic and social developments of the country. All governments have a continuing responsibility to review, adjust and renew their own legal and regulatory structures and processes to ensure that they promote the well-being of their people. Otherwise, they may create a real risk, particularly in a time of profound and rapid change in political and socio-economic conditions that these can become an obstacle to achieving the very economic and social well-being for which they are intended.

Under a centrally planned economy, laws and regulations were first and foremost an instrument of state control. This means that there have been many laws and regulations, but there are problems with them. The World Development Report (WDR – WB, 1996, p: 87), for example, identifies:

*“Many countries have good laws that are ignored, but the centrally planned economies brought this dichotomy between law and its application to an extreme. Many laws were put on the books – such as constitutional provisions guaranteeing basic freedoms – that were never meant to be applied in practice”.*

In addition, the administrative-command system of central planning marginalised law within the economy, and all formal judicial institutions atrophied in the economic

sphere. In many cases, economic disputes between enterprises were removed from courts' jurisdiction altogether and instead decided by special arbitration bodies. All these have led to the fact that in most transitional economies, there are too many laws and regulations governing certain areas of the socio-economic life of the country, while at the same time, there is a severe insufficiency of laws and regulations in other areas, particularly those required for a market economy and to establish the rule of law (*ibid.*).

Law in market economies defines the rules of the game and gives individuals the rights and tools to enforce them. Where the rule of law is in force, laws are applied fairly, transparently and even-handedly to all; individuals can assert and defend their rights; and the state's powers are defined and limited by law. Transitional economies struggle with a constant tension between, on the one hand, the need for a strong state to enforce laws and impose order and, on the other, the need for constraints on state power to make room for individual rights, and to create an appropriate legal framework for private sector development. Two phrases are constantly recurring in public management reform literature:

*"In one sense, deregulation is a key theme: managers must be freed from hierarchical and budgetary controls and allowed to manage; public services (through market-type mechanisms) must be freed from the orthodox command and control systems; the private sector must be able to operate in an environment free from regulations and controls. On the other hand the implementation of public management reforms has also required a need for new forms of regulation. Mechanisms for ensuring efficiency, for setting standards of service, and for exercising financial audit, act to regulate public management agencies and their outputs, and through performance contracts and incentives regulate the activities of public managers"* (Minogue, 1999b, p: 13).

Economic laws in market economies have at least four functions: defining and protecting property rights; setting rules for exchanging those rights; establishing rules for entry and exit out of productive activities; and promoting competition by overseeing market structure and behaviour and correcting market failures (WDR, *op. cit.*, pp: 87-93).

Combined with the need to review laws and regulations and to make new ones to serve the emerging markets, there is a requirement to strengthen judicial institutions because laws are only as good as the institutions that enforce them. It is now well recognised by many countries (UNDP, 1995; OECD, 1996; WB, 1996, 1999, 2000) that courts should be independent from other branches of state power. Moreover, they

not only enforce laws and resolve disputes; their interpretations also fill in the many inevitable gaps in legislation. As the market economy expands, there are likely to be more cases related to business spheres and this requires more efforts from the court system to deal with them. In a civil society, there is also a demand for private arbitration, which is always used for domestic disputes. In addition, the private legal profession must be developed as people become more familiar with the law and use it more effectively. All these require a strong and competent state, which in turn, through the proper functioning of its legal framework, for example, to combat corruption and stop organised crime, gains more confidence and trust from the private sector and citizens in the state.

### **3.2.2 An institutional and organisational framework:**

Colloquially, the term “institution” is often understood as “organisation”, and the challenge of institutional transformation is mis-specified as consisting of organisational reforms. In addition, it is also argued (North, D., 1993; Schiavo-Campo, S., 1994) that institutions are best understood as a set of formal and informal rules, and thus, are distinct from the public organisations, which emerge to administer and enforce them. Institutions comprise both formal and informal rules and procedures – which extend to cultural habits and psychological variables, including “commercial morality”, which is essential for a well-functioning market economy but is non-existent or rudimentary in most transition economies. Formal rules can be changed overnight, but informal rules cannot. In the reform process, *“rule modification is unlikely to produce results in an operationally-meaningful timeframe unless organisational improvements proceed apace”* (Chiavo-Campo, 1994, p: 5). Obviously, then, the massive challenge of institutional transformation in transition economies comprises both institutional (regulatory and procedural) reform and organisational development.

This framework can be seen in two interrelated levels of governance. At a narrower level, this is an institutional reform of the relationship between the state and citizens, of the executive machinery in its relation to the legislative and the judiciary, including clear functional demarcation among the legislative, executive and judicial bodies; a definition of the relation between the state and the ruling party; strengthening the central government, especially in the major areas of state management, while at the same time promoting the participation of local authorities in the operations of the state; and reform of both vertical co-ordination (central-local) and horizontal relations (inter-

agency). The framework should also incorporate administrative and legal relationships with non-governmental organisations with a public policy role (UNDP, 1994). Within the broad literature, the institutional framework can be viewed on the basis of the assumption that it is a network of social institutions to support the market. Hauser *et al.* (1993, p: 1) provide the following definition:

*“This institutional framework includes among other things the distribution of property rights, the principle and scope of government intervention in economic processes, the extent of local self-management, the creation of organisations which represent the interest of different economic agents and social groups, and procedures to co-ordinate the actions of such organisations. The institutional framework has also an international dimension involving controls on labour migration, foreign investments, trade flows, etc.”.*

It was argued in the previous chapter that the move to a market economy clearly requires a new institutional set up because the foundation of the central planning system is no longer suitable. As quoted by Litvack and Rondinelli (1999, p: 3), Charles Lindblom concisely summarised the characteristics of centrally-planned systems as those with a strong concentration of political power and authority in the hands of a small group of party leaders who were committed to achieving collective goals selected largely by ideological criteria. Most communist systems “*suppressed individual political freedom, limited social pluralism, and used a privileged mobilising organisation – usually the dominant political party – to guide society toward collective goals*” (*ibid.*, p: 7). In most societies, the government substituted formal large, complex and hierarchical parties or government bureaucracies for other forms of social coordination. Their leaders insisted on state ownership or most of the productive assets in society and relied heavily on controls to assure conformance to planned targets.

Thus, the question facing transitional economies is how they can embark on the process of establishing an appropriate institutional and organisational framework. Copying all from the West is risky because of different initial circumstances and conditions of development. Yamin and Bastone (1995, p: 58) argue that “*marketisation is a process that creates essentially new institutions by which we mean patterns and regularities in behaviour and not merely formal legal and contractual structures*”. Thus, the institutional framework for a market economy consists of a broad range of institutions, including patterns of behaviour and attitudes. It can be understood from this that patterns of behaviour and attitudes not only cover those inside the system of

the institutions and organisations, but also the interrelationships among the institutions themselves. The question of clear distinction of functions and responsibilities among different bodies of the different branches of the state becomes, therefore, of great importance to avoid overlapping and duplication that may occur in their operations. Furthermore, as government activities become increasingly complex, it is required that co-ordination as well as co-operation between different levels and among various bodies of the system be strengthened to ensure that the functioning of the state is smooth. Apart from this, the role of NGOs in modern society should be emphasised so that their voice can be heard and even integrated into the policy process. Finally, as the world becomes more globalised, reform of the institutional framework in transitional economies should also take into account international factors that may affect it in certain ways. For example, international organisations such as WB, IMF or UNDP have had their influence over many governments through political conditionality combined with loans. As such, globalisation challenges the power of the nation-state; the question that remains for the nation-state is how to protect its sovereignty on the one hand, and to make use of globalisation for economic development on the other.

The overall goal for any transitional economy is economic development aimed at raising living standards for citizens. In order to achieve that goal, governments need to go through a major restructuring as it is argued (Vichit-Vadakan, 1996) that state intervention is needed only where the market fails. It is argued (Schiavo-Campo, 1994, pp: 5-6) that “*The transition economies and the external donors cannot afford to ignore the fact that institutional change is key to a successful transition to market-oriented economies with accountable governance*”. A number of institutional arrangements are required to be strengthened including financial structures. Some issues are considered important in creating a market-based financial system. *First*, there must be competition and contestability in financial markets (cited by Lavigne, 1991) which can be achieved by financial reforms with a stress on entry of new private banking systems. *Second*, allocation of resources must be for their best use; the intervention of too many administrative procedures may undermine the efficiency of the financial system while creating opportunities for rent seeking. *Third*, it is necessary to develop non-bank financial institutions, for example, portfolio capital funds, venture capital funds, leasing and factoring companies. These funds can be particularly useful in transitional economies because equity investments offer some hedge against inflation. And *fourth*,

the creation of a capital market that facilitates the reallocation of property rights (WDR, 1996, pp: 106-108).

As such, “institutional strengthening” is particularly challenging in transition economies because institutions that support market exchange and shape ownership did not exist under central planning. Litvack and Rondinelli (1999, *op. cit.*, p: 2) argued: “Government undergoing transition must not only strengthen existing institutions but also create new ones... Continued growth, however, will depend on each country’s unique situation (i.e., structure of production, labour force, political climate), but in all cases growth will require strong and accountable institutions – particularly legal, financial, and government – to be developed to support and implement economic and social policies””. In addition, the process must also be accompanied by the development of institutions that seek to alleviate poverty, protect those who are disadvantaged in the market system, improve human resources, create an environment for the development of the private sector, and deliver basic social services.

### **3.2.3 Personnel framework:**

Human resources (HR) are generally accepted as the most important resource of any organisation including governments because they perform the tasks, co-ordinate them, organise the inputs and produce the outputs. Without them there would be no organisation. It is not surprising, therefore, that attention to matters of better ways to manage and develop human resources is of great concern to reformers aiming for greater efficiency and effectiveness in state bureaucracies so that they can fulfil the tasks assigned by the state. This personnel framework focuses on an effective regime of civil service and local government management, and the development of a corpus of public servants that is qualified, capable and skilled in the management of the public administration in the new development context.

The transition from central planning to market economy inevitably has different implications for human resource management (HRM) and human resource development (HRD). In particular, Elson (1995, p: 41) argued:

*“it can be expected to liberate individual initiative and to foster entrepreneurship through the provision of new incentives and the opening up to new opportunities. It also promises more flexibility in the allocation and reallocation of human resources to the most productive uses; and more regard for efficiency and quality in production. This obviously has positive implications for international competitiveness”*.



However, it is significant to note that markets also have some deep-rooted inadequacies with regard to HR because apart from several similarities, HR is not exactly like other resources. Markets have inadequacies both with respect to the formulation of human capacities and with respect to the utilisation of human capacities in production. These may include the possibility to undermine the gains, which may be derived from market co-ordination; “market Stalinism” based on the continuing repression of autonomous organisations; or the reliance of the economy on “market patriarchy”, *i. e.* an increase in the salience of authoritarian family forms. In addition, in the case of a market economy, it is likely that instead of further development of human capacities through improvements in health and skills, there may be deterioration, as public expenditure on health, education and training services is run down, and social services are encouraged to focus on monetary rather than human indicators. In this regard, it can be said that whatever its other faults, central planning has proved to have had some success in dealing with health and education in a more effective way than in many market economies at comparable levels of development (*ibid.*, p: 41-48).

However, central planning has also created a number of problems in regard to HR as the move to market economy is continuing. The problems can be seen particularly clearly in civil service systems whereby recruitment and promotion used to be conducted not on the basis of merit but much influenced by political patronage or personal connections, where pay was low in comparison with the private sector, and where inflexibility and rigidity in operations led to poor public service delivery and widespread dissatisfaction of the public. It is important, therefore, to emphasise the argument by the WB (1997, p: 92) in relation to civil service reform as applied to transitional economies:

*“Whether making policy, delivering services or administering contracts, capable and motivated staff are the lifeblood of an effective state. Efforts to build a competent and dedicated civil service usually focus almost exclusively on pay. Pay is certainly important, but so are other things, such as merit-based recruitment and promotion and esprit de corps. Meritocratic recruitment and promotion restrains political patronage and attract and retain more capable staff. A healthy esprit de corps encourages closer identification with an organisation's goals, reduces the costs of making people play by the rules, and nurtures internal partnerships and loyalty”.*

Making a meritocracy of the civil service, no doubt, helps bring in high quality staff, confers prestige on civil service positions, and can do a great deal to motivate good

performance. This can be done through competitive entrance examinations to recruit able staff into the civil service system.

An increasing number of countries nowadays build prestige for their civil service through merit-based recruitment and promotion, thus government employment becomes more attractive. But if civil service pay lags far behind that in the private sector, prestige alone will not make up the difference. Therefore, the demand is to increase public sector salaries because this helps attract and maintain more talented people for the government. Prompted by the desire to raise civil service compensation, combined with the need to correct aggregate fiscal imbalances, many transitional economies have embarked on initiatives to reduce employment, decompress the salary structure, and raise average pay in the civil service. However, it can be argued that these actions can only be effective if they are combined with other elements in civil service reform, namely proper performance measurement and orientation, creation of mechanisms to improve accountability, well designed and conducted plans for HRD and training, and the creation of *esprit de corps*.

The aim of any civil service reform is not only to increase performance, but also to change the behaviour and attitudes of public servants in a rapidly changing environment. While the former can be seen quite easily, the latter is somehow more ambiguous and may require more time to assess. The WDR (1997, p: 96) argues that effective and capable bureaucracies share a commitment to their organisation's objectives. This *esprit de corps* includes a common understanding about what is desirable and undesirable behaviour, manifested in formal and informal norms and grounded in a set of common objectives, and a commitment to upholding the honour of the group, based on this common understanding. An *esprit de corps* gives members a sense of purpose and belonging and imposes self-discipline that guides members toward achieving the group's objectives. Again, these can be supplemented by other measures such as the reduction of corruption, better co-ordination and co-operation among public employees in service delivery, helping to build more confidence from the public toward the state as a whole, and the civil service in particular.

#### **3.2.4 Financial framework:**

It is believed that in the new public management, markets induce economic efficiency by allocating resources to their best uses, in response to supply and demand. A good system of financial markets and institutions is integral to this process,

allocating high-return investments. A financial management framework is, therefore, emphasised in public administration and management reform because its major objective is to improve the financial management system in order to increase state revenue, run public expenditure in a more efficient manner and have more funds to invest in new development projects which in turn will lead to economic growth. In addition, a well established and functioning auditing system ensures that public funds are spent efficiently and economically to achieve the objectives of public projects. Accounting, budgeting and auditing have dominated the discourse about the delivery of public services and changed the language and rules of resource allocation in areas as diverse as education, health, and policing... (Gray and Jenkins, 1995). Thus, any government with the desire to modernise its public administration should pay sufficient attention to the framework. This is particularly appropriate for transitional economies because "*Transition implies vast reallocation of resources and ownership, a task at which effective financial systems could help enormously*" (WDR, 1996, p: 98).

The challenge for reformers is to find ways to help the financial systems to overcome the weaknesses of central planning and to create conditions for new financial institutions to grow. Under the centrally planned economy, the systems were run mainly by passive state-owned banks, with limited capacity to access credit risk, and an insufficiency of financial regulation, and an absence of key supporting institutions, and capital markets. Banks were mere accounting agencies, passively taking in household deposits (which were often the only asset households could hold) and keeping track of the financial transactions that corresponded to allocations under the plan. Many necessary banking skills were lacking. Furthermore, in most countries, nonbank finance simply did not exist. All these weaknesses of the inherited banks were shown up as the transition started and became more serious issues requiring adequate solutions.

There are two main tasks when addressing issues of banking reform. The first is to develop the central bank into an independent body to formulate and conduct monetary policy and to play a constructive role in formulating macroeconomic and fiscal policies. The second is to tackle the weaknesses of the commercial banks. Again, the role of government is crucial to support this change by dealing quickly with problem banks, developing effective supervision, screening new entries, and improving disclosure, and establishing reliable banks early on (WB, *ibid.*). It is also necessary for governments to develop non-bank institutions such as portfolio capital funds (mutual funds), venture capital funds, and leasing and factoring companies because they are

well suited to the needs of transitional economies. In addition, as capital markets in their various forms have played an important role in the transfer and initial reallocation of company ownership (vouchers and shares), especially when many countries implement SOE reforms with different degrees of focus on privatising the enterprises, developing capital markets is of great importance for transitional countries.

This discussion highlights the close interactions among the frameworks in public administration and management reforms. A proper institutional and organisational set-up can hardly be achieved without an appropriate legal framework that provides the foundation for organising and managing the reformed institutions. The lack of appropriately established laws and institutions leads to improper management and use of different resources, particularly human resources. While personnel can be wasted if they are not organised and managed in line with the goal of the organisation, those within the system may have little discretion and creativity in their operation. The pace of legal and enterprise reforms also heavily affects the evolution of financial systems because banks rely on the legal system, including procedures for collateral recovery and bankruptcy to enforce their claims and perform their role as monitors of firms. Capital markets, in turn, require company law to define the rights of shareholders of joint stock and limited liability enterprises and allow them to exert their influence on management.

### **3.2.5 Links of public administration reform with other reforms:**

The links between PAR and other reforms have been commented on by a number of authors (Nelson, 1992; Edwards and Hulme, 1996; Minogue *et al.*, 1998; OECD, 1998; UNDP, 2000, 2001; WB, 2000, 2001). Two preconditions for national development are identified as the improvement of governance capabilities and making defective authoritarian states more responsive, accountable and effective in the delivery of economic reforms. This is related to the central dilemma that while the state and its public administration are perceived to be a problem, it is also considered crucial to the successful implementation of economic reform programmes, especially where markets are imperfect and the institutions of civil society are underdeveloped. This is also the reason why reforms such as political, economic, legal and SOE reforms are intended to remedy these very deficiencies, so reducing dependence on the “big state” (WB, 1991; Minogue, 1998). All the reforms are integrated in a comprehensive transformation of a nation.

A common assumption is that the major goal of national development of a country is economic development. Economic development can be achieved by joint efforts of the public sector and other non-public sectors like the private, the informal and voluntary sectors. The role of the state and its public administration in economic development is to ensure that the public sector promotes the development of these other sectors to ensure real economic growth. Another role is to ensure a low level of unemployment and to create conditions for sustainable economic development through environmental protection. These functions are usually achieved through macro-economic policies, such as export promotion, price liberalisation or those policies that ensure fair competition in the market economy. Therefore, in the context of national development, it can be argued that economic reform should go hand in hand with PA and management reform. Economic development is an essential precondition for a well functioning administrative system, but only with a stable and well managed PA system can high and sustainable levels of economic development be ensured. This relationship can be seen as two sides of the same coin: without one reform, the other reform can hardly go far and the expected impact can hardly be achieved.

Another prerequisite of national development is to create a full and appropriate legal framework that is seen as the backbone to regulate all aspects of political, socio-economic and cultural life of the society. The legal and regulatory documents also provide foundations to resolve any conflict that may arise, not only within the public bodies, private bodies and persons, but also between the private and public sectors. This is why many countries in the world are involved in legal reforms. In some countries, especially transition economies like Russia, Mongolia, Hungary and Vietnam, where the legal system is not fully developed, the reform focuses on the formulation of new laws and by-laws to regulate the new relations that have occurred in the new economic development environment, especially in supporting view market relationships. In developed countries like the USA, the UK, and Germany where the legal system has become too restrictive, leaving public servants insufficient room for further innovation, the reform concentrates on deregulation to give members of society more discretion in running their activities (WB, 1996, 1997).

Although the nature and scope of the public sector in the late twentieth century and assumptions about the role of the state are being challenged and have been for a decade, the public sector constitutes an important component of any economy. It is generally recognised that the public sector includes the authorities of the central

government, local administrations and SOEs. The rationale for the question of the important role of the public sector even in a market economy is that market failure can only be corrected by the government through its public sector (WDR, 1997). It is, then, obvious that there are two interrelated components in a public sector reform: a PAR to deal with the central government and local authorities, and a reform of SOEs. The two reforms “*are required to address the most urgent development issues, namely greater macroeconomic stability and increased economic efficiency and growth*” (UNDP, 1993, p: 8). Nowadays, the increasing involvement of the “third sector” or the “voluntary sector” – the NGOs, is of crucial importance to provide supplementary services apart from the effort of the sectors in promoting national economic development.

### 3.3 POLITICAL WILL AND SUPPORT:

The presupposition has been that the consideration of administrative reform issues in isolation from basic political issues is reminiscent of the debate over the distinction between politics and administration (Greenaway, 1980; Regan, 1984; Greenfield, 1997). Narrow reform efforts that tinker with the machinery of government presuppose that one can separate the administrative from political. However, the failure of administrative reform efforts in many countries indicates that such a distinction is almost impossible. Indeed, “*at the root of the concern with administrative reform is recognition that the role of the welfare state demands a new relationship between the traditional ‘political’ institutions and the newer ‘administrative’ institutions, as well as a reevaluation of the individual’s relationship with both the political and administrative institutions*” (Regan, 1984, p: 547). In addition, even the interrelationships between the politics and techniques within an institution should also be redefined so that administrative reform efforts can produce more successful policies, better administered.

Thus, while administrative reform should not be seen as simply a political undertaking, in the public administration it necessarily involves political elements of different kinds. Administrative reform seeks to adjust the structures and processes of administration in line with pressures of the social and political environment, so it should incorporate consideration of the political values of participants as well as their immediate political ambitions. The course of administrative reform is affected not only by the long-term ideological predilections of political leaders, but also by pressing

short-term expediencies. Quoting Sir John Hunt, Secretary to the Cabinet of the UK, who once declared that the Civil Service is an instrument of Ministerial policies, and to some extent its structural organisation must reflect not only these policies, but also how a Prime Minister feels he can best deploy his Ministerial strength and the team he has got, Greenaway (1980, p: 200) concluded that it is both a political and organisational matter. Obviously, policy here involves politics as Harold Wilson put it "*policies without politics are of no more use than politics without policies*" (*ibid.*).

It is important to note that the political dimension to administrative reform must be considered in a wide perspective, including "internal" politics of bureaucracies as well as political pressures from outside government. There is no doubt that any change process in the administrative system contains various political pressures that are closely interconnected. Pressures come from different sources, from various political quarters, from within the bureaucracy, and from social values and influences, and are often brought into focus by the impact of events. Politicians may be unwilling to admit deep malaise in their administrative systems until they realise that they themselves lack administrative capabilities comparable with the magnitude of problems involved in national development. Once they push for reform, they still use "*it for their own personal ends to divert public attention from bad policies, to plunder the public purse, to purge the public sector of opponents, and even to sacrifice the administrative system to avoid greater evils*" (Dror, 1976, p: 130, quoted by Caiden, 1984). Many common pressures and obstacles come from within the bureaucracy itself. Resistance manifests itself in a variety of ways, both overt and subtle. These include industrial action by staff; the withholding of necessary agreements by parliament; sabotage by managers (*e.g.* through misinformation, or the preserve use of management incentives); vociferous lobbying by affected interest groups; deliberate delay; and feigned acquiescence. More may be added to this list with resistance of staff and line personnel to reform ideas, incompatibility with existing systems and demands, lack of adequate commitment and support, inadequate skills and insufficient data. All these combined contribute to the wide gap between proposed and executed administrative change.

The involvement of a technical dimension to the reform policy process is mainly at one stage of policy making (*i.e.* planning). The knowledge of experts at this stage is very important because their resource base is specialised in the manner and location of its application. Although the experts are not powerless, their power is generally limited to the ability to define problems and form solutions to tackle the

problems. They have not much say in ensuring that the solutions be accepted and implemented. In other non-technical stages of policy-making and especially during the implementation of programmes, other actors come into play. These actors have more varied political resources like authority, control over elements essential to one or other programmes, or popular support. These actors gradually become dominant because they have the power to change the rules of the game and recommended tactics.

A significant point here is that there might be potential division between the interests dominating the planning stage of a programme and those who implement it. This should be paid special attention to since it can lead to dramatic changes for the reform and a possible failure in the anticipated results. Four possible groups participating in the process can be identified: the political leaders (who have political power), bureaucrats (who carry out the programme), the reform experts, and the public or segments of it. The four groups may have different interests in the reform and may act differently to achieve their targets. Politicians may see the process as a means to achieve their political goals or to gain more support from their constituencies in elections. Bureaucrats may be in different positions with regard to the reform. On the one hand, they may want to have better capabilities, skills, equipment and even pay, on the other hand, they may fear that the reform, including downsizing, may put them out of a job or reduce their powers. Reform experts are of great importance, but they may not have much say and power in implementing the proposals they have made. The public are both beneficiaries of the reform and taxpayers so they are deeply concerned with how their money is used by governments. Any reforms, including PAR, costs money. The situation then creates pressure for the reformers to spend the money much more carefully and be more accountable to the public, especially in a time of increasing transparency.

It is usually the case that the analysis of winners and losers in the reform process implies a prediction of when or at least whether reforms will be undertaken. The World Bank (1997, pp: 13-14) argues: "*Reforms have little appeal if the winners cannot compensate the losers. Even when the potential gains are enough to allow for compensation, reform can be hard to achieve because the gains are spread over many people, whereas the losers, although smaller in number, are powerful and articulate*". In addition, the benefits are often realised in the future, whereas the losses are immediate. Only when conditions have deteriorated so far that the winners far outnumber the losers, can reform then produce immediate political and economic gains.



This, therefore, requires further and careful understanding of the reform policy process as well as the implementation to stimulate the success of the reform.

As mentioned earlier, public administration and management reform is basically a political process and takes place within a polity with the government playing a vital role. The success or failure of reform efforts depends on the attitudes of the political leadership that may be either positive, committed or ambiguous and inconsistent. Ashour (1986, p: 65) argued: "*Political leadership plays an important role in thrusting administrative reform efforts forward and adopting objectives, plans and programs. The importance of the political leadership role increases when adopting comprehensive administrative strategy, or sectoral reform strategy*". The pronounced support and commitment of the political leadership is imperative for the success of reform ideas; bureaucracy in the societies in question responds to serious prodding by the political masters. Ultimately, the political leadership's sustained commitment to reform is interpreted as the end of ideology itself, as "*theoretical conceptualism has given way to pragmatism*" (*ibid.*).

Experiences of successful PAR programmes in the world have shown that the main element was the ideological concept presented to the administrative reform plans by the political leadership. Japanese Prime Minister Nakashone was the chair of a commission responsible for administrative reform in the 1980s. During that period, Japan achieved remarkable success in its PAR, especially by privatising the Japanese Railways and in reforming the Pension Programme in 1988. In the U.K., the Conservative Government of 1979 led by Margaret Thatcher sought to reduce public expenditure in order to reduce direct taxation in line with its overall economic policies. Privatisation, and the intended reduction of the state sector, lay at the heart of Mrs. Thatcher's government's policy and the election in 1979 began a considerable process of privatisation. The country has been a leading proponent in this field and a new word has been coined: "Thatcherism". Later on, John Major, appointed Prime Minister in 1990, and Tony Blair in 1997 have also clearly stated their support for similar types of administrative and civil service reforms. Lessons learnt from Asian countries' experiences in confronting administrative corruption problems indicate that the degree of leadership's adoption of and commitment to an integrated programme to eliminate the causes of corruption explains the success of countries like Singapore, Hong Kong and Malaysia. Countries like Thailand and Indonesia failed because they applied weak procedures that did not receive the political leadership's support.

### 3.4 THE ROLE OF AID IN PROMOTING REFORMS:

While it is clear that challenges facing transitional economies are formidable, their transformation and restructuring offer significant potential for co-operation with both the western and developing countries. Nowadays, government has increasingly to play the role of facilitator rather than regulator, and a more competent and skilled bureaucracy is necessary. Foreign assistance and aid to PA and management reforms in the countries have a crucial role since they do not only create opportunities for learning from each other's ideas and experiences, but also provide some necessary resources to materialise reform proposals. These will benefit both transitional economies and the donor community. On the one hand, in the attempt to liberalise and stabilise their economies, countries in transition need many things, ranging from policy advice on creating a conducive environment for free markets, to devising restructuring plans for different sectors. On the other hand, there are many opportunities for the donor community to benefit from technology transfer, know-how and increased trade with transitional economies, since they offer a wealth of experience and skills that can be transmitted to other countries. This is also the reason why for a number of years the WB has undertaken public expenditure reviews (PERs), or budget analysis, in various recipient countries. These analyses are designed to bridge the gap that frequently exists between overall macroeconomic and development-oriented objectives, and the national budget, with the state development programmes and projects.

Foreign assistance to the transitional economies can take several forms. While analysing the role of technical assistance in the industrial sector, Assaf (1998, p: 133) provides a list:

*“balance of payments support aimed at removing hard currency constraints and financial critical imports; stabilisation assistance which is geared towards stabilising the exchange rate and foreign reserves; humanitarian assistance (food and medical emergency); and technical assistance which provides infrastructural support, institution development and capacity building and, particularly, training and policy advice”.*

Two major types of aid can be distinguished as technical assistance (TA) and loans. While technical assistance is usually non-refundable, and focuses more on institutional and capacity building and policy advice, loans are used more for infrastructural development.

One of the functions of PERs is to provide information on the rationalisation and restructuring of the state bureaucracy that are called for and the changes in the

budget process that must be implemented. This is an important basis for aid that is in the nature of public administration and management assistance (PAMA). Governments such as the Swedish Government through its international development agency (SIDA, 1994, pp: 42-48) have defined the PAMA sector as the central government functions normally performed by the ministries of justice, public finance, and local government, and by their subordinate bodies. It has long been realised that social and economic development is difficult to achieve if the basic functions of the state are not carried out satisfactorily. In addition, aid cannot be absorbed effectively and provide the desired results if the administrative apparatus suffers from excessive shortcomings. PAMA has been adapted to the requirements and reality of each country, taking into account the distinctive characteristics of its PA. It is directed at developing the requisite basic functions at both central and local levels of government. The main thrust is to strengthen the organisations that are responsible for each function.

PAMA has given priority to a number of issues: (i) public finance management and administration, such as budgets, accounting, auditing, taxes, central bank, etc.; (ii) state organisation, administration and management: state personnel, structures and administrative reform; and (iii) local/local government autonomy: decentralisation, development of urban and local-government administration (SIDA, *ibid.*, 1994, p: 43). In addition, PAMA is also emerging in a number of new areas. *First*, it stimulates development of a market economy by helping the state to formulate a legislative and regulatory framework that permits the private sector to function and gives the state the instruments it needs for a reasonable capacity to control and supervise this sector. *Second*, it assists in strengthening the pluralist society by supporting the growth of pluralist organisations, including associations of local authorities and civil rights organisations. *Third*, it gives high priority to support democratic development which means the development of strategically important institutions within the judicial system, and the legislative process and contents of laws including the set-up of procedures of the legislative assembly, administration of electoral, election supervision and other aspects of the electoral process. *Finally*, it assists in boosting the supply of qualified staff by offering greater support for relevant university departments and for civil service colleges and schools of economics.

The above discussion highlights main areas that PAMA has given priority to which are very much in line with the frameworks analysed earlier. In *the legal area*, current aid programmes are aimed primarily at the legislative process in the commercial

legal area necessitated by the transition from a planned to a market economy. This legal development is a task exclusively for the state, directly aimed at promoting market development and the emergence of a private sector. In *the area of state organisation, management and personnel*, these inputs are highly relevant, relating to the process of change, especially in civil service reform. This is aimed at restricting the role and size of the state, at the same time making the state perform its basic functions efficiently and democratically. In *financial management*, inputs include projects in current structural adjustment programmes. It is especially important in the transition for the state to have a firm grip on resources; for it to be capable of openly reporting and controlling resource utilisation; and through budget and fiscal measures, for it to promote the development of the market and ensure that any adverse effects are offset. Inputs in *the area of local government control and administration* primarily involve support for decentralisation, local government financial and administrative autonomy, and physical planning/surveying. These are aimed at greater local autonomy and better resource utilisation, as a means of promoting greater democracy and improved services for the public. In addition, they are also aimed at transferring financial responsibility for education and healthcare, for example, from the state to the local authorities and thereby to the local population. In this regard, Straussman (1998, p: VI-3) argues that objectives of TA and aid to local governments in transitional economies include: "(i) making local governments more influential in national politics; (ii) help local governments to manage their resources effectively; (iii) stimulate transparent governmental processes; (iv) improve service delivery mechanisms; and (v) promote democratic political processes".

While the role of aid to promote reform efforts in transitional economies is now obvious, there are a number of related critical issues. On the part of donor governments and institutions, they have been deeply criticised because of some of the conditions (especially in political conditionality) they impose on borrowing countries and because of poor co-ordination in providing aid, advice and know-how. Moreover, "*donors tend to direct a very small proportion of their aid to social development (health, education and basic sanitary facilities), which is now widely recognised as deserving priority.*" (Cranenburgh, 1998, p: 80). These have led, in many TA and loan programmes, to low effectiveness and efficiency of assistance. There are even more problems on the part of borrowing countries, including both subjective and objective causes. On the objective side, in a number of countries, the lack of management capability combined with poor

infrastructural foundations limit the outcomes that aid is expected to provide. In addition, subjective causes such as corruption and even resistance to new ideas and methods create lots of barriers in the absorption of foreign assistance. All these combined require more review and discussion between both sides to make aid more efficient and effective in catalysing the profound transition to a market economy. There is now a need to establish aid mechanisms that leave the maximum amount of room for the recipient country to allocate the aid to specific programmes in consultation with domestic social groups once the management capabilities of the recipient country are improved.

### **3.5 CONCLUSION:**

There is a general view that public administration and economic management reform is a long and comprehensive process involving changes in all aspects of a country and its impact influences the life of many people. This is particularly obvious when referring to transitional economies that have been undergoing a dramatic transformation for the past 15-20 years. To respond to internal and external pressure, many of these governments have launched far-reaching reforms to improve their performance. Changes in macroeconomic policy – dealing with liberalisation and stabilisation of the economy, exchange rate, and fiscal policy and trade policy – have come first and fastest. Then as a domino effect in the wake of reform, other reforms to deal with regulation, social securities, finance, HR and infrastructure have occurred and together with the above changes, have formed an overall transformation. The four frameworks identified in PA and management reform are not peculiar to transitional economies, but each of the frameworks has different implications for the group of countries.

Comprehensive reform along these lines takes a great deal of time and effort and the agenda varies from country to country based on different political regimes. The reform requires changes in the four frameworks of PA to be in close interaction. Any adjustment to the legal and regulatory framework will result in changes of institutional and organisational structures because they are established for different purposes, to fit the rules of a different game. This kind of institutional reform involves wrenching changes in the way government agencies and employees think and act and often a complete overhaul of a long-established system of patronage and corruption. The emerging markets necessarily entail changes in the financial framework, including new

legislation, organisational set-up and ways in which different resources, particularly HR, are mobilised, utilised and promoted. HR, being the most valuable asset of any system, needs to be strengthened in its knowledge, skills and attitude to cope with the changing environment, while creating requirements to change the legislation governing it and institution in which it acts.

It is in this context that governments are facing their greatest challenge to achieve a better balance between citizen demands and expectations on the one hand, and the capacity of the state to meet those demands and expectations on the other hand. Seen in this context, several implications can be drawn for the reforms of a country in its transition.

*First*, the changes necessary to improve the quality of PA and management leading to better economic and social development will generally take time, and their benefits may take even longer to become manifest. PA and management reform should not therefore be viewed as a quick fix; rather the pursuit of reform will continue to be a more gradual and evolutionary process, but nonetheless fundamental. In addition, the reform cannot exist alone since the transition is an overall process touching almost every sphere of the political, socio-economic and cultural life of the economies. Only in close conjunction and interaction with other reforms can PA and management reform efforts produce real results and positive impact on the whole nation.

*Second*, it is most important to build political support for reform. This means *“overcoming the opposition of those whose instinct is that they will be disadvantaged, and/or building support among those who stand to gain from the reforms”* (OECD, 1998, p: 55). Some options may be appropriate as one wants to turn opposition into commitment: (i) remove opponents from office, or place them in areas with a less significant sphere of influence; (ii) identify them at an early stage and use them in the change process to promote involvement, and thus build commitment; and (iii) place them in new positions with authority, but with clear accountability to turn strong negative opposition into support. The task of reformers is to demonstrate benefits of reform and to create a win-win situation, resulting in better services for the client at less cost. For example, improvements to develop active labour market policies should, at least in the medium term, lead to a more efficient labour market and a higher rate of economic growth, better living standards for the people, a lower rate of employment, and eventual savings to the budget.

*Third*, it is important to get started on implementing reforms and not wait until all issues are absolutely clarified. The win-win situation is expected to produce a real difference leading to encourage the momentum towards reform. Indeed, it is usually not possible to develop worthwhile reforms without running some risks. Elements of the new public management reforms inevitably involve some tension between the component elements such as between expanding public participation and ensuring policy coherence, or between more devolution to enhance flexibility and better accountability. Although the dilemmas are not new in public policy and public management, what is important is to establish the right direction for reform, and to get started, recognising that the reform essentially involves learning by doing and that it is possible to make adjustments without significant damage in most cases.

*Fourth*, while the announcement of a rigid blueprint for reform would not be desirable, it may be possible for leadership to express the commitment to reform by adopting a set of general principles which help to maintain the overall degree of consistency and coherence. Drawing from experiences and a comparative perspective, this strategic set of principles could include a disposition of: (i) results in terms of outcomes and outputs and not just process; (ii) a client focus; (iii) introducing more competition and choices; (iv) wider devolution together with increased accountability; (v) building internal markets and the use of market-based practices where possible; and (vi) distinguishing between the government's interests as a purchaser and as a provider. These include central policy co-ordination, decentralisation, organisation and managing institutional change and the role of consultancy and technical co-operation therein, government and information technology, auditing, HRD and strategic planning and management.

*Finally*, the role of foreign aid and assistance should not be negated as the reform is taking effect. This aims at strengthening basic state functions in a period of change. In transitional countries, the policy making process is heavily influenced by development aid. The aid relationship has far-reaching consequences for state-society relations: major macro-economic policies are the result of negotiations between the government and donor institutions or governments. The questions now include those of ownership and evaluation of development aid and how better to input this aid into the process; development aid needs to become more predictable and to be more clearly geared to good policies.

We now turn to examination of public management reforms in the case of Vietnam, with supplementary analysis of China. The next chapter begins this examination by a review of state-owned enterprise reform in Vietnam. Since for most transitional economies, reform of this sector is the major reform initiative in creating a move to a marketised system.



## CHAPTER IV

### FROM PLAN TO MARKET: THE REFORM OF STATE OWNED ENTERPRISES (SOEs) IN VIETNAM

#### 4.1 INTRODUCTION:

A common picture that has been seen in the reform agenda of many countries in the world, both developed and developing, for the past few decades is their drive to reform SOEs. If the SOE sector was considered an important component of a healthy economy during the 1960s and 1970s, this same sector has increasingly come under scrutiny in recent years. The main reasons for such a change in attitude include complaints of inefficiency, a multiplicity of objectives, corruption, political abuse and the losses with which SOEs have burdened public finances. In addition, there is a view that the deficiencies of SOEs include bureaucratisation, lack of incentives, low levels of management, and slow adaptation to the new developments in national and international markets.

Explanations for the poor performance of SOEs have been theorised from a variety of perspectives, collectively referred to as the theory of government failure, the central theme of which is the view that public ownership leads to the pursuit of objectives that detract from economic welfare maximisation. The combined forces of the theory “conclude that enterprises operating under public ownership will be less efficient compared to their private sector counterparts” (Cook, P. & Fabella, R., 2001, p: 1). This was the reason why privatisation has been a key element in the ascendance of the new market orthodoxy leading to various public sector reforms in all parts of the world since the 1970s. The wave of privatisation began in the UK, and thereafter rapidly spread to other industrial countries, such as New Zealand, Canada, France, Spain, Italy, then to developing countries. The policy objectives and motives for privatisation varied from country to country and have altered with time. Cook, Nixon & Kirkpatrick (1998, p: 3) wrote: “In the case of the industrialised countries in the early 1980s, it could be argued that the dominant motive was an ideological one, with issues of economic efficiency assuming a significantly less important role”. Whatever the objectives and the motives are, some of 75% of privatisation, in terms of number, and value of sales, has taken place in the developed countries and in transitional European economies; with substantially less activity in developing countries

Although transition countries vary considerably in history and current institutional set-up, they do share certain important features. They all have a large sector of SOEs that need to be restructured and in many cases phased out. These countries also need new enterprises to emerge in underdeveloped parts of the economy, particularly in the service sector. These two sectors of the economy pose different governance problems. Furthermore, the countries all experience the same problems in managing SOEs. While some countries try to improve the performance of SOEs in the hope of increasing their efficiency, others find rapid and widespread privatisation the only feasible course of action. However, transforming SOEs in transition economies is obviously a much larger undertaking than in developing-market economies. Until recently, SOEs dwarfed all other forms of ownership in the transition countries, and they are currently involved in broad, systemic reforms. The results of SOEs reform in transition countries are so far mixed, and there have been almost no exemplary incidences of success. Why is this? There is no simple answer; "*it depends on the strength of the state and the capacity of its administrative institutions*" (WDR, 1996, p: 44). In addition, the transition countries have inherited a dysfunctional legal system, and in many cases they have had to construct basic institutions from scratch.

Even before the start of *Doi Moi*, Vietnam began to reform its SOEs, which were considered as holding leading positions in the national economy. The shift from the centrally planned economy to a market-oriented economy under state control has exerted more demands on restructuring the state sector, particularly the SOEs sector. Since then, multiple policies and measures have been undertaken and initial successes as well as weaknesses have been seen in the reform. Also, in the process, the role of the state and its public administration (PA) in regulating the economy becomes obvious through the need to provide a legal and regulatory framework, institutional set-up and a conducive environment for the SOE sector.

The purpose of this chapter is, therefore, to examine the process of SOE reform in Vietnam. The chapter will explore the history of SOEs in the country in order to provide their profile and outline demands for their reform. An overall evaluation of SOEs' efficiency will be made, and then an analysis of the different stages and policy implications of administrative decisions in the reform process. The conclusion attempts to work out some recommendations on how to proceed further with restructuring the SOE sector, and to estimate the extent to which Vietnam follows or diverges from SOE reform models in other transitional countries.

## 4.2 PROFILE OF SOEs IN THE PUBLIC SECTOR OF VIETNAM

### 4.2.1 History of SOEs:

The definition of SOEs varies from country to country, depending on the level of state ownership in the enterprise. In Vietnam, SOEs, together with non-corporate economic institutions - such as the State Bank of Vietnam, the national reserve<sup>1</sup>, and the country's infrastructure system - constitute the state-managed economic system. *"They comprise all the capital, assets, and natural resources of the country, owned by the nation. The Government of the SRV is the sole representative of that ownership"* (Phan Van Tiem and Nguyen Van Thanh, 1996, p: 3). This is further specified in Chapter 1 of the Law on State Enterprises (1995): *"SOEs are economic entities entrusted with state capital, are organised and managed by the state in their broad business operations, for either commercial objectives that is profit or social objectives (such as providing public utilities), in order to achieve the roles assigned to them by the state. SOEs have their titles, seals and headquarters on the territory of Vietnam"*.

SOEs have been operating in Vietnam since the founding of the DRV in 1945. For more than four decades (1945-1986) the SOE system has passed through a series of wars and peacetime construction periods; therefore, it has acquired diversified characteristics and conditions. These features can be summarised thus: (i) while a number of SOEs were established on the basis of nationalisation of means of production, others were created by the state budget and with the assistance received from the USSR, China and former socialist countries; (ii) partly because the SOEs operated during lengthy armed conflict and in the context of the country dividing into two regions (North and South Vietnam), their size was small, their production objectives were not mainly for profit and economic efficiency was low; (iii) the long-lasting, centrally-planned economy has made severe distortions, leading to a very complicated SOE sector, which has been neither dynamic nor balanced in terms of the business sectors involved; (iv) there has been a clear distinction between state-run and locally-run enterprises; (v) most of the socio-political organisations (Party units, the Vietnam Fatherland Front, Women's Union, the Youth League etc.) have set up their own enterprises; and (vi) there has not been a unified legal framework in which public and private enterprises operate. Each sector is regulated by a separate law. These

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<sup>1</sup> Vietnam has established a special institution as a reserve to store food and other resources which can be used when necessary.

features have all affected the policy-making and measures undertaken in SOE reform in the country for the past two decades.

While carrying these features, the number of SOEs increased very fast in North Vietnam between 1960 and 1970, and across the whole country after the 1975 victory over the Americans. By the end of 1989 there were 12,297 SOEs operating in the country with a total value of 34, 216 billion *dong*<sup>1</sup>. Because of the historical context, most of the SOEs were medium and small-scale in size, particularly those run by local authorities. By 1996, as measured by size, "77 per cent of the existing SOEs are capitalised at less than 3 billion *dong* (less than US\$ 300,000) each, and 50 per cent of SOEs have assets of less than one billion *dong* (less than US\$ 100,000)" (Nguyen Ngoc Tuan, *et al.*, 1996, p: 20). The very small category of SOEs in Vietnam, mainly run by district authorities, have been closed down or merged in the reform process, because most of them were loss-making.

However, it should be noted that SOEs of Vietnam have played a significant role in the national economy. The most important sectors of the economy are located in the hands of SOEs, mostly in the industrial sector. In general, the sector has been rehabilitated and has maintained an annual growth rate higher than the average growth rate recorded by the national economy, in terms of values and quantity of important products. Although the SOEs employ only 6-7 per cent of the country's total labour force, they have attracted most of the skilled technicians, scientists and trained staff. They continue to be a major source of revenue for the state budget (see table 4.1 below)<sup>2</sup>. In four years between 1996 and 1999, transfers made by SOEs to the state budget have been at the rate of nearly 40 per cent annually.

With regard to the aggregate share of SOEs, the share of SOEs in the industrial sector is largest, counting for 73.9 per cent in 1995, when the share of the agricultural sector is excluded. Indeed, most of the very small-scale enterprises are in the agricultural sector. In industries, such as metals, electricity, steel, energy, chemicals, fertilizers and food processing, SOEs hold a dominant position. The reason why it is so is that such capital-intensive industries need large-scale fixed investment.

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<sup>1</sup> The exchange rate was approximately 4,000 *dong* to one US dollar in 1989.

<sup>2</sup> The figures are usually collected and interpreted for different purposes, however, for this research, I try to use them in an objective way to illustrate my analysis.

**Table 4.1** Structure of State Budget Revenue in Vietnam (1996-1999)

	Unit: %			
	1996	1997	1998	1999 (Est.)
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>I. Tax Revenue</b>	<b>85,4</b>	<b>83,7</b>	<b>80,2</b>	<b>78,9</b>
1. Tax from private sector, trade and service	10,2	10,8	9,0	9,2
2. Tax on agriculture land use	3,0	2,6	2,7	2,7
3. Import-export duties	24,2	20,4	20,4	20
4. Tax from SOEs	39,8	41,0	39	38,3
5. Income tax	2,2	2,2	2,4	2,2
6. Land and housing tax	0,6	0,5	0,4	0,4
7. Tax from joint-venture enterprises	4,8	5,7	5,8	5,6
8. Tax on transfer right of using land	0,5	0,5	0,5	0,5
<b>II. Grants</b>	<b>2,5</b>	<b>3,9</b>	<b>2,9</b>	<b>2,7</b>
<b>III. Other</b>	<b>12,1</b>	<b>12,4</b>	<b>16,9</b>	<b>18,4</b>
1. Other revenue from SOEs	1,5	0,6	0,7	0,7
2. Others	10,6	11,8	16,2	17,9

Source: Ministry of Finance, 2000.

Thus, as quoted by OECF (1998, p: 197), the WB (1995) presented a very optimistic view on the condition of SOEs in Vietnam:

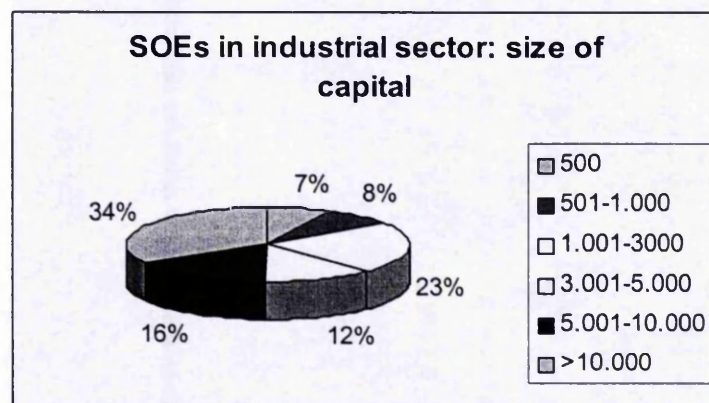
*"The state enterprise (SE) sector in Vietnam can surprise even the most experienced observer of public enterprises. First, the contribution of SEs to aggregate GDP is substantially lower than in other transition economies, although it continues to be very important in particular in industry. Second, in recent years the sector has experienced faster growth than the economy as a whole, while the number of SEs, their employment, and their share in total domestic credit have declined sharply. Third, the SE sector has registered a steady increase in its net remittances of taxes and transfers to the state budget, which amounted to some 11 percent of GDP - or about 50 percent of total budget revenues in 1993-4".*

#### **4.2.2 Main weaknesses of SOEs:**

Despite such optimistic views, the SOEs sector in Vietnam is faced with numerous deficiencies and weaknesses, which can be seen clearly in the industrial sector. The weaknesses are: (i) the number of SOEs is still substantial. In 1997 there were approximately 6,000 SOEs, in which there were 1,880 SOEs in the industrial sectors. As the role of the state should be limited in production and business activities, it is argued (Le Dang Doanh, 1996; WB, 1998) that the number should be reduced; (ii) most of the SOEs are small-sized with limited capital. Figures 4.1 and 4.2 below

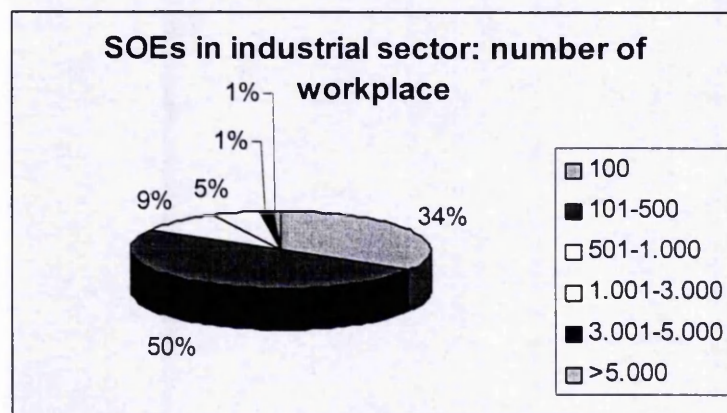
illustrate SOEs in the industrial sectors in terms of their size and labour force in 1997. Only 33.44 per cent of SOEs had capital of more than 10 billion dong (about 80 million US\$), and less than 1 per cent employed more than 5,000 workers; (iii) there are too many SOEs in those areas that can be run by other economic sectors rather than the state such as in food processing, textile, leather, furniture; (iv) shortage of capital flowing into SOEs due to cuts in government subsidies and inflation; (v) outdated technology that most SOEs have; and (vi) low operating efficiency in their production and business.

**Figure 4.1** (million Dong)



Source: adapted from Trang Thi Tuyet (1999, pp: 97-98).

**Figure 4.2** (workers)



Source: adapted from Trang Thi Tuyet (1999, pp: 97-98).

With regard to the efficiency of SOEs, in recent years business and production in the state sector have not developed sufficiently well. For example, the average rate of return on capital was 4.9 per cent in 1991, 4.8 per cent in 1992, and 5 per cent in 1993.

The rates of return were too low because the inflation level was then two-digit. In the industrial sector, the proportion of loss making SOEs has increased, particularly in the current financial crisis, from 10 per cent in 1995, 22 percent in 1996, 32 per cent in 1997, to 35 per cent in 1998. In addition, there has been a serious decline in operating efficiency of the SOEs, particularly for 1996 and 1997 as indicated in the following table 4.2. It is significant to note that the proportion of profit decreased by 33.4 per cent in 1997 in comparison with the previous year.

**Table 4.2** Economic efficiency indicators of SOEs in Vietnam's industrial sector

		(per cent)	
	<b>Economic efficiency indicators</b>	<b>1996</b>	<b>1997</b>
1	Ratio of profit/Fixed assets	7.78	5.06
2	Ratio of profit/Turnover	8.55	5.47
3	Ratio of profit/Capital	12	8
4	Ratio of contribution to budget/Capital	17.86	19.63
5	Ratio of turnover/Capital	143	146

Source: General Statistical Office (1998)

In addition, there are still other issues that the SOEs sector is faced with such as the inadequate legal framework governing the restructuring of SOEs; Vietnam's capital market remains underdeveloped; the limited capability of the managers in the sector; and the psychology and training of both managers and employees in the state sector are not conducive to their willing participation in the reform of SOEs. All these brought together lead to the reason why there is such a low efficiency rate among Vietnam's SOEs and demand further reform of the sector. Nguyen Ngoc Tuan *et al.* (1996, *op. cit.*, p: 29) clearly wrote:

*"First, there is no clear delineation between those SOEs that are business-for-profit and those SOEs that are public utilities. As a result, the right type of management mechanism for each form of SOEs has not been established. Secondly, taxation and credit policies for SOEs remain incomplete. The allocation, preservation, and development of capital are not based on the full autonomy and accountability of SOEs. Thirdly, based on a rigid concept of state ownership, for many years the organisational pattern of SOEs was uniform, and could not respond to the needs of diversified business operations, unlike other forms of ownership. Fourthly, SOEs have not had a system to distribute profits. Profits earned by SOEs were distributed at whim, thus giving rise to inequity among SOEs. A common phenomenon has been the maximum distribution of financial gains to employees of SOEs. Fifthly, the contingent of state sector personnel and business managers have not adapted themselves to the market mechanism, and have not been retrained in a systematic way. Recruitment, appointment, training, and*

*remuneration of personnel have not been in keeping with their responsibilities and accountability. And finally, the process of reforming Vietnam's SOEs has been conducted over a short period of time, within a difficult environment".*

### 4.3 SOE REFORM IN VIETNAM:

#### 4.3.1 Pre-renovation period of SOEs in Vietnam:

The process of restructuring SOEs in Vietnam began in the late 1970s. The Sixth Plenum of the CPV (the fifth term of office) criticised the mechanism of central planning and worked out the direction to improve the management of SOEs. In the early stages, the reforms were mainly in the direction of giving managerial authority to SOEs in order to overcome inefficient production conditions. For the first time in the history of SOEs, Decision No. 25-CP of January 1, 1981 allowed them to be partially autonomous in production, supply delivery, product consumption and income distribution. At the end of 1981, experiments of the "self-balancing, self-financing" model were conducted at two SOEs: Thanh Cong Textile (in Ho Chi Minh City) and Sea Products Export and Import Enterprise (Seaprodex). The CPV resolution was further specified in the Resolution 156-HDBT (November 30, 1984) of the Council of Ministers (now the government), which was a further step in the restructuring of SOEs. One of the results of the efforts was the partial solution to the problem of shortages in the planned system, which became the forerunner for further reforms. However, these initial efforts were not sufficient, and a more comprehensive reform was required.

**Table 4.3** Important regulations relating to the reform of Vietnam's SOEs before *Doi Moi*

Regulations	Promulgation date	Contents
Decision No. 25-CP	January 21, 1981	Renewal of planning system for state-owned industrial enterprises
Decision No. 26-CP	January 21, 1981	Wage policy for state-owned industrial enterprises
Decision No. 146-HDBT	August 15, 1982	Additional regulations for Decision No. 25-CP
Decision No. 156-HDBT	November 30, 1984	Improvement of state-owned industrial management
Decision No. 16-HDBT	June 26, 1986	Securing autonomy in sale and production for small-sized economic units
Decision No. 67-HDBT	1986	Granting of autonomy to small-sized economic units

Source: OECF (1998, p: 211)



### **4.3.2 SOE reforms since the launch of *Doi Moi*:**

The restructuring of SOEs for the past 15 years in Vietnam has concentrated on the following major issues: (i) to renew the mechanism of state management of SOEs in the direction of giving more autonomy to the enterprises and gradually phasing out the paternalistic patronage of different government supervising agencies over them; (ii) to reduce the number of SOEs in order to enhance their efficiency; (iii) to diversify the ownership of SOEs through equitisation and economic joint-ventures; and (iv) to renew the organisation and internal management of SOEs with the aim to make them adaptable to the conditions of the market economy.

A. *To renew the mechanism of state management of SOEs:* The government issued Decision No. 217-HDBT on November 14, 1987 on the reform of SOEs planning system and profitability. With this decision, production and operational autonomy and self-supporting accounting system for SOEs were introduced for the first time in the country. The decision abolished the mechanism of the existing centralised subsidy system and achieved an initial result. SOEs began to develop short-term, medium-term and long-term plans in their production and business. The rights to decide the quality, types, raw materials and levels of production of products were given. According to the plans, resources should be used through contracts, and SOEs should take the initiative within legal quotas. SOEs were now allowed to mobilise funds from different sources, and were allowed to choose the appropriate bank for their financial needs. In addition, they were able to export their products and undertake contacts with international partners. Decision No. 176-HDBT on October 9, 1989 determined the one-time severance payments for workers, who were made redundant, thus reducing the burden of wage for SOEs.

Following Decision No. 217-HDBT, the government promulgated the Charter of the Industrial Enterprises which clearly determined the rights and obligations of SOEs, of their managers, and of concerned state organs. In 1990, experiments of usage and capital management by SOEs were conducted. The innovations were expanded to other enterprises in the following year. In this manner, the state gradually moved away from the direct management of investment of capital and assets of SOEs, permitting the directors of the enterprises to assume the responsibility instead.

B. *To rearrange and reduce the number of SOEs*: With the introduction of more autonomy to SOEs and reduction of the state interventions in their business, the enterprises have entered to a more competitive environment. However, by 1990, the number of SOEs increased very fast reaching 12,297 enterprises, which were located in almost all sectors and areas. Among the SOEs, there were a number of loss-making enterprises with increasing debts. This situation forced the government to embark more on the direction of reducing the number of SOEs. Therefore, the government issued Decree 388-HDBT on November 20, 1991 which established regulations on establishment and dissolution of SOEs. This Decree and supplementary Decision No. 96/HDBT issued in 1992 provided for the liquidation or merging of those SOEs which were judged to be inefficient or lacking in capital or technology; that did not have sufficient market demand for their output; or which did not meet their pre-determined conditions. But for those SOE whose operations were considered adequate, they had to register and were allowed to continue operating. *"Although such decisions were not quite in harmony with the "rules of the game" under a market economy, in the absence of a bankruptcy law for enterprises - which was subsequently adopted in 1993, and enacted on 1 July 1994 - Decree No. 388-HDBT seemed to work well in governing SOEs on this issue"* (Le Dang Doanh, 1996, p: 66).

The main contents of the Decree included: legal and economic conditions required for enterprise establishment such as minimum capital, sector of business and other justifications; the ownership of the state over the SOE and the freedom of the enterprise to conduct production and business according to the law; reduction of the authorities who have the power to establish SOEs to three, namely the Prime Minister, government ministers, and chairpersons of the People's Committee at the provincial and central city level; and a definition of the legal personality of the SOE. All these have been a step ahead in the direction of a multi-sector economy with equity in running business, and equal competition among enterprises of different sectors according to the law. In reality, this Decree has created new pressure on SOEs to develop themselves in a competitive environment and to take the leading positions. It also required all ministries, local authorities and SOEs to undertake comprehensive reviews of their business which focused on the essential elements such as the financial situation of the enterprise, real assets, mobile capital, profit, losses, debts and accounting methods, with the aim to work out solutions for proper adjustment.

Lifting the paternalistic mechanism (i.e. the direct patronage given to SOEs by the supervising government authorities) and breaking the connection between the enterprises and their supervising government authorities were not difficult matters technically, but were not easy politically. The critical step in this process was the one that took away the power to appoint top managers of the enterprises away from a number of central and local authorities. As long as the power remained with these authorities, the principal objective would be to gain approval from the supervising agencies. In theory the objective could be profit maximisation, but in reality they could have different political, social, personal or economic objectives. Perkins, D. (1998, p: 33) argued: "*They (the authorities) will want to see their political supporters and friends hired and kept on regardless of performance, they will want the enterprise to invest in particular areas of the country rather than others for political or poverty fighting reasons, and much else*".

Various measures have also been undertaken to keep corruption and rent-seeking under control, particularly reducing the opportunities for such behaviours. Most opportunities for rent-seeking come from the efforts of government supervising authorities to regulate SOEs through decisions, licensing, appointing managers and similar procedures. The lifting of the paternalistic mechanism was seen as a critical step in reducing the interventions to the minimum necessary to achieve important national goals. The Ordinance on Anti-corruption that was enacted by the National Assembly in 1996 was a further step in this direction.

As a result of the restructuring of the public sector under Decree 388-HDBT, the cumulative number of SOEs dropped significantly, from 12,297 SOEs in late 1989 to 6,246 by April 1994. In this way, as many as 6,033 SOEs were ordered to merge or dissolve from the first quarter of 1989 through the mid-1990s. A further 2,040 enterprises among these were forced to dissolve or change their form, with the remaining SOEs disappearing via mergers. This situation is presented in table 4.4 below. In addition, the implementation of this decree also meant that the proportion of loss-making SOEs dropped from around 30-40 per cent of all SOEs in 1990 to just 10 per cent in 1995-96.

Various reforms were also conducted for labour, wages and other social matters integrally related to the SOE reform, and reinforcing their autonomy. The reforms aimed to reduce the labour burden of the SOEs and the burdens caused by other social

**Table 4.4** Decrease in the number of SOEs in Vietnam (1990-1994)

Form	1990-1991	1992-1/6/1993	1/6/1993-1/4/1994
Decrease	2997	2240	796
Merger	2187	1340	58
Closure	800	900	707
Other reasons	-	-	31

Source: OECF (*op. cit.*, 1998)

problems. Among the reforms related to labour, the most important was the transfer to SOE managers of the supervisory authority concerning employment plans, recruitment criteria, the number of employees and employment contracts. The government issued Decision No. 176-HDBT in October 1989 to regulate the implementation of employment adjustment in national economic units during the period from 1989-1990 in order to deal with surplus labour and support the creation for SOEs of a system of self-supporting accounting. According to this decision, redundant workers were given a number of benefits, including (i) retirement allowances paid according to their tenure of service and basic salaries (one year of service was calculated as basic wage for one month plus other subsidies); (ii) where the service could not continue, the length of service is cut by half, and the wages for those month were paid; and (iii) for the workers whose health was poor and for those who were younger than the retirement age by 5 years but had health problems, preferential early retirement was allowed without physical check-up. These measures achieved a reduction of as many as 518,000 employees and workers by the end of 1990, amounting to 25 per cent of all SOE staff.

In the process of implementing Decree No. 388-HDBT, most of the unions of state enterprises<sup>1</sup> (*lien hiep xi nghiep*) were faced with the threat of dissolution. While a number of these unions at the local levels changed their forms to become independent enterprises, some others lost their operational directions and could not monitor member enterprises. In such a context, the Prime Minister issued Decision No. 90-TTg on continuation of the readjustment of SOEs and the establishment of the union of state enterprises into State Corporations, and Decision No. 91-TTg on the piloting establishment of State Corporations. Like all other SOEs, such major corporations might only register after they had met all the capital, technology, efficiency, and

<sup>1</sup> The government established these unions as an intermediary level between the top management and the individual enterprises in order to avoid direct contacts between the enterprises and various ministries or local authorities.

various other requirements, and could provide evidence to support the claim that they should become a state corporation. Those that could not meet the requirements had to be dissolved, or divided into smaller SOEs.

By 1998, 80 corporations have been established under Decision No. 90-TTg, and 18 state corporations have been established under Decision No. 91-TTg. The 18 state corporations are in the key areas where the government wants to maintain its control, including electricity, coal mines, cement, steel, oil, chemical, paper, textile, etc. This registration process for state corporations helped reduce the number of unions of state enterprises and their member enterprises, particularly in the industrial sector, as illustrated in table 4.5 below.

**Table 4.5** Reduction in SOEs in Vietnam's industrial sector (1990-1996)

	1990	1991	1992	1993	1994	1995	1996
Entire sector	2,782	2,575	2,250	2,066	2,014	1,988	1,880
State run	589	583	538	525	529	557	553
Locally run	2,193	2,037	1,712	1,541	1,485	1,431	1,327

*Source:* Trang Thi Tuyet (*op. cit.* 1999)

In total, over the last ten years, the number of SOEs has fallen from 12,297 in 1990 to around 5,300 in 2000. Most of this reduction took place by 1994, but around 700 enterprises were equitised between 1994 and 2001. The share of SOEs in total industrial output fell from 62 per cent to 42 per cent between 1990 and 2000, and employment fell from 2.5 million to around 1.6 million (WB, 2000, 2001a).

It is noteworthy that in December 1993, the National Assembly enacted the Bankruptcy Law, which has been a milestone in the SOEs reform of Vietnam. Since then, all enterprises (including SOEs) running at a loss, or unable to pay overdue debts will, in principle, be considered for liquidation, according to the procedures and formalities stipulated by the law. Le Dang Doanh (1996, *op. cit.*, p: 67) argued "*This (the law) puts an end to the previous situation, where the state was obliged to spare no effort in retaining loss-making SOEs*". The implementation of the law helped create an equal environment among the country's enterprises in dealing with debt and bankruptcy.

C. *Equitisation of SOEs:* The SOEs reform from 1990 until now has been further complemented by the diversification of ownership structure through divestiture

and equitisation of SOEs. In the first period (up to 1998), equitisation was experimented with only in those SOEs which met certain conditions and aimed at the following objectives: (i) to ensure state ownership of state capital and assets, to preserve and develop the assets and capital of the whole nation whose representative is the government; (ii) to facilitate employees' exercise of the right to ownership of the enterprises and strengthen the bonds between employees as shareholders and the enterprises; and (iii) to mobilise the idle capital of the enterprises' employees and the public for economic development in the interests of the state. In recent years, the government has issued a number of regulations to govern the forms and processes of equitisation such as Decision No. 202/CP in 1992 on pilots of equitisation of selected SOEs, Decree No. 28/CP in 1996 on moving some SOEs into holding companies, and Decree No. 44/CP in 1998 on continuation of equitisation.

Equitisation so far has been in two main forms: equitisation by offering shares to the public and equitisation by government-employee partnership. There are a number of conditions for SOEs that are equitised by public offering, including the fact that the enterprise must be viable and profitable, the equitisation is endorsed by the employee collective, and a number of the employees can buy shares. A government-employee partnership enterprise *"is jointly owned by the government, as representative of the people's ownership of capital and assets, and the employee collective, owners of labour and technology"* (Nguyen Van Huy & Tran Van Nghia, 1996, p: 57). The two owners form a partnership in business and generate profits which will be divided between them according to the shares after tax or transfers to the state budget and disbursement of fines, if any, as determined by the law. The profits are divided between the government and the employee collective.

Since 1998, the government has conducted an assessment of all SOEs and developed a detailed programme for reform. As of 1999, SOEs accounted for 30 per cent of GDP and nearly half of the bank credit. But the conditions of the enterprises have been deteriorating due to the inherent deficiencies from the past, which are inefficiencies, overstaffing and outdated technology. At the end of 1997, official estimates showed that 60 per cent of SOEs were loss-making or marginally profitable.

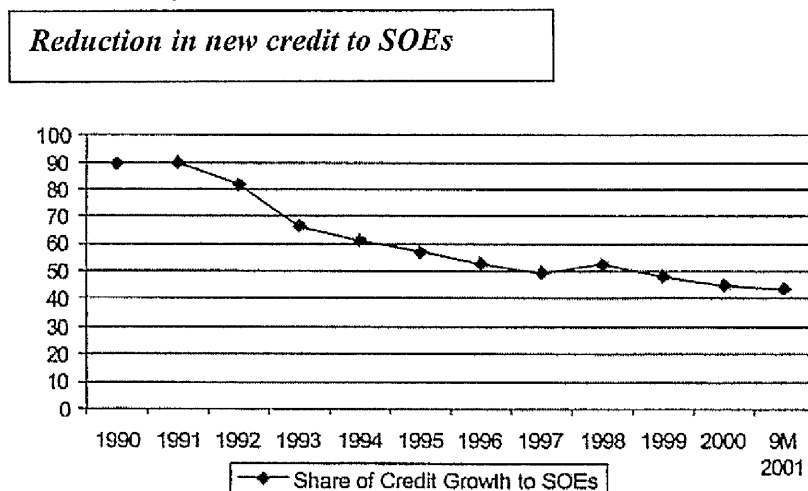
*"The Government's SOE report notes that although SOEs show only small book losses, in 1997-1999, the Government provided about 2.2 per cent of GDP annually in supplementary capital, subsidies, tax exemptions, debt write-offs, and preferential credits. Total SOE debt at end-1999 was officially estimated at 126 trillion dong (equivalent to*

*almost 9 billion US\$ or 32 per cent of GDP), a large proportion of which is non-performing, thus contributing to a weakening of the state-owned commercial banks" (WB, 2001a, op. cit., p: 32).*

Thus, the requirements for SOEs reforms have become vital, and equitisation has been accelerated over the current period. If there were only 17 completed SOE equitisations by 1998, the number has increased every year since then, totalling more than 700 equitised SOEs with half of them selling more than 65 per cent of shares by the end of 2001. In addition, decrees have been issued to permit outright sales of small enterprises as well as to establish an enterprise-restructuring fund for redundancy payments to SOE workers and employees affected by reform. These efforts have helped to reduce considerably the number of SOEs as well as the burden on the state budget.

Credit policy has been restrained by the government, thereby reversing the trend of the last two years (2000-2001). A breakdown of credit growth shows that a declining share has been allocated to SOEs (see figure 4.3). In 2000 and 2001, a substantial part of the credit allocation to non-state sectors reflects the government's decision to extend loans for rural development purposes.

**Figure 4.3** Share of credit growth to Vietnam's SOEs, in per cent



*Source:* International Monetary Fund, quoted by WB (2001b)

In this way, equitisation of SOEs has been implemented in Vietnam for nearly a decade in the context of no formal privatisation being applied. Despite a number of difficulties, initial results have been achieved, particularly in mobilising resources from the enterprise employees and from the society. New impetus for enterprise management

has been created in the direction of profit making. A survey was carried out in 1998 by the Economics and Investment Newspaper, which showed that major economic and technological indicators of selected equitised enterprises were higher than before they had been equitised (see figure 4.4).

**Figure 4.4** Business situation of selected SOEs in Vietnam after they have been equitised (billion *dong*)

Holding company	Location	Sector	Date of equitisation	Capital	Share of State (%)	Turnover before equitisation	Turnover in 1997	No. of employees before eq.	No. of employees in 1997	Export
Mechanic Co.	HCM City	Service	Oct 1993	16.0	30	46	426	200	800	80%
Hiep An Shoes Co.	HCM City	Goods production	Oct 1994	4.8	30	3.5	7.6	380	400	100%
Long An Agri-Export Co.	Long An Province	Food processing	Jun 1996	3.5	30	45.6	75.6	1000	1500	100%
Dong Giao Stones Co.	Ninh Binh Province	Mining	Jan 1997	3.2	39	8.0	10.7	212	300	
Nam Do Chemical Co.	HCM City	Goods production	Nov 1997	6.4	33	31.0	26.2	80	80	40%
Bach Tuyet Paints Co.	HCM City	Goods production	Nov 1997	20.0	35	130.0	130.0	192	192	
Bach Tuyet Cloth Co.	HCM City	Goods production	Nov 1997	11.4	30	46.7	46.7	205	205	

*Source:* Economics and Investment Newspaper (March 12, 1998).

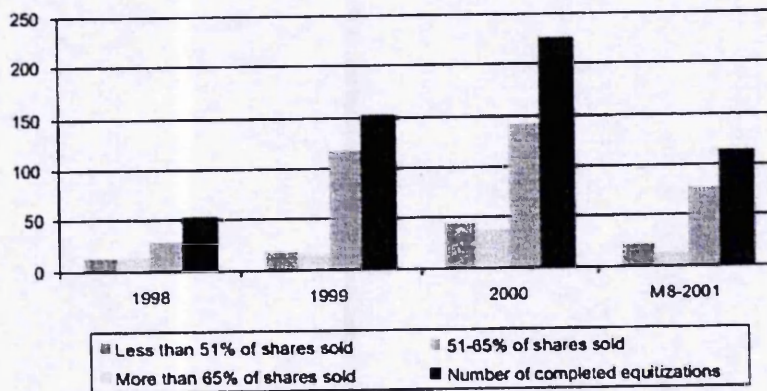
However, practice so far has also revealed that the implementation of equitisation has been faced with enormous difficulties both in terms of perception of different stakeholders and policies of the government. *First*, many people still think that equitisation means losing state ownership of means of production, thus deviating from the path of socialism. This thinking has its roots in the original of socialist model, considering SOEs as a form of socialism. *Second*, managers of SOEs that were appointed in the central planning system, do not really support equitisation, because this will take away the opportunities to rely on state subsidies and to conduct corrupt practices. *Third*, many employees are concerned about their employment and income once the enterprise is equitised (Trang Thi Tuyet, 1999, *op. cit.*). In reality, the present policies are not in their favour, therefore, they do not themselves advocate the process



of equitisation. *Fourth*, techniques of determining the real value and assets of the enterprises to be equitised are still lacking, thus discouraging both managers and employees. And, *fifth*, it is not easy to deal with debts of the enterprises in equitisation because most of their debtors are unable to pay back or are bankrupt already. These may be some among a number of reasons why the process of equitisation has slowed dramatically in 2001 and the establishment of the re-designed social safety-nets, and the removal of caps on shareholdings in equitised SOEs are both behind schedule (see figure 4.5).

**Figure 4.5** Number of completed SOE equitisation in Vietnam

*Slowdown in Equitization*



Source: WB (2001b, *op. cit*)

Facing such a situation, in the year 2000, the government decided to develop a strategy for SOEs reform in the next decade, in which the efforts were reaffirmed:

*"Government plans to make efforts to complete the programme of rearranging, restructuring, and reforming managerial mechanisms to improve productivity in SOEs within 5 years. This includes equitising SOEs where the state will not hold majority shares, in order to create more incentives for more efficient performance. In the same equitisation process, priority will be given for workers to access stocks, and at the same time to open stocks for outside domestic and foreign investors. Implementing the policy of sale, leasing or contracting of small SOEs, for which the State does not need to maintain any ownership, will be part of these efforts". (quoted by WB, 2001b, *op. cit.*, p: 33).*

As such, most of the enterprises that are targeted for equitisation and divestiture are likely to have a stock of capital of less than 10 billion *dong* or US\$ 700,000.

D. *To renew the organisation and internal management of SOEs*: Restructuring enterprises that remain under state control is the most challenging part of the reform agenda for stemming losses, reducing accumulation of unserviceable debt and improving competitiveness. The establishment of state corporations under Decisions No. 90-TTg and 91-TTg had a number of purposes, including enhancing the competitiveness of SOEs in the market, gradual abolition of the regime whereby some state bodies control SOEs, eliminating administrative-bound economic parochialism and the differentiation between centrally run and locally run SOEs, improving the ability of SOEs to mobilise capital and allocate investment capital in keeping with the market mechanism, and strengthening the macro-economic management of the government over all economic sectors. The government issued Decree No. 39-CP on June 27, 1995 on organisation and operation of state corporations to govern the management mechanism for the state corporations established under Decisions No. 90-TTg and 91-TTg.

The Law on State Enterprises was enacted by the National Assembly on April 20, 1995 to become the most important legal basis for the organisation and management of SOEs. Until then, SOEs operations were regulated under various regulatory documents (decrees, decisions etc.) stemming from the government, without a rule of a law (as passed by the National Assembly). The law provides the foundation for SOEs to operate in equality with business enterprises under different forms of ownership. It has a separate chapter stipulating state ownership and the implementation of state ownership, and the management of state enterprises. These are important provisions that have prompted much debate. The rights of ownership include those related to issues such as establishment, liquidation, restructuring, determination of business objectives, directions of operations, location of capital, investment, joint ventures, changes in investment strategy, profit distribution, salary and management awards, mode of management and so on.

The Law on SOEs also defines that appropriate organisation for their management, in a bid to ensure that the rights of both SOEs and the state are exercised fully. Depending on the type of SOE, a state corporation may or may not have a board of management. Those corporations with a board of management have a mechanism that includes a board of inspectors (formed by the board of management), a general director, and supporting staff. The general director is responsible to the board of management for the operation and performance of the corporation. Since state

corporations may consist of various member companies or enterprises, their obligations and rights are defined in accordance with the binding relations that exist between state corporations and their members.

Since the establishment of state corporations and the issuance of the Law on SOEs, the resources that used to be allocated in a dispersed and piecemeal manner are now more focused on important sectors of the economy, thus enhancing the competitiveness of the SOEs, while the number of SOEs has also been reduced. Initial results in the performance of several state corporations are shown in table 4.6 below..

**Table 4.6** Selected business indicators of 7 Vietnamese state corporations in 1996  
(per cent)

	State corporations	Ratio of profit/business capital	Ratio of profit/turnover	Ratio of transfer to state budget/capital
1	Vietnam Coal Corporation	3.16	1.95	21.36
2	Vietnam Electricity Corporation	5.68	15.20	7.70
3	Vietnam Steel Corporation	0.77	0.57	12.14
4	Vietnam Garment Corporation	0.61	0.45	13.53
5	Vietnam Shoes Corporation	0.39	0.41	6.53
6	Vietnam Cement Corporation	12.09	8.19	36.82
7	Vietnam Tobacco Corporation	5.73	1.13	176.83

*Source:* Ministry of Industry, 1997 Report (quoted by Trang Thi Tuyet, 1999, *op. cit.*)

Figures in the table indicate that although the percentage is different, all the corporations made profit in the respective year. The seven enterprises made some contribution to the state budget as compared with their capital.

Despite the initial results, there are still a number of issues that state corporations are faced with. The issues include: (i) the organisation of state corporations is still in a management hierarchy of the central planning model (i.e. government agencies still supervise their member enterprises), which limits considerably the autonomy of the enterprises; (ii) most of the top managers of the state corporations are appointed from administrative agencies and they are not well-equipped with management knowledge and techniques of business enterprises; (iii) state corporations are still subject to management and monitoring by too many ministries or

central agencies, leading to multiple relationships which cause delays in decision making and corrupt practices; (iv) there is not a clear distinction between the function of state management (i.e. to ensure the observance of the current laws) and the function of business and production management (i.e. to mobilise resources in order to make profits) in the state corporations; (v) the authority of the board of management is very limited, particularly in the most important aspects such as planning, financial management, investment and personnel, thus making it difficult for the board to function; and (vi) there are still overlaps in the work of the board of management and of the general director. Sometimes the chair of the board interferes into the management of the general director and other times the general director may use the board as a means to disguise non-objective decisions by him/herself<sup>1</sup>.

In addition, the managers of SOEs are not only political appointments but they also often have to work under difficult bureaucratic and administrative constraints as well. Many of the internal managerial problems result from government rules and regulations externally imposed on SOE managers. Supervising government authorities sometimes go as far as making the decisions for the managers. This suggests that the pressures on SOE managers and the rules under which they have to function can make them incapable of making the right decisions. All these issues inevitably demand further reform of SOEs. It also means that the habits of the old central planning system have not been abandoned.

#### **4.3.3 What comes next?**

It can be argued that getting these large SOEs to behave according to the rules of the market and restructure with a view to maximising profit by cutting costs or raising their sales volume is not an easy task. The process requires not just efforts from different stakeholders, but also the ability of the government to take quick, and sometimes, brave actions when necessary. This did not happen in the reforms conducted in the 1990s, and the current condition of the SOE sector bears testimony to that. Nevertheless, in the coming years, the government plans to take the following measures in an effort to change behaviour of SOE management:

*"- imposing a hard-budget-constraint by enforcing a ceiling on credit-growth for all manufacturing SOEs and a sub-ceiling on a number of*

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<sup>1</sup> Duong Duc Ung, Interview, November 2001.

*highly indebted SOEs as well as asking banks to provide credit to SOE only on commercial-criteria;*

- *making SOEs relatively more autonomous and their management more accountable for performance;*
- *assessing operational performance through "diagnostic audits" of 100 large and troubled SOEs and taking follow-up actions to improve competitiveness and profitability;*
- *monitoring quarterly performance of another 200 or so large SOEs that are highly indebted or otherwise troubled to prevent further accumulation of non-repayable debts;*
- *developing detailed restructuring-actions-plans, on a pilot basis, for 3 general corporations (SeaProdex, Vinatex, Vinacafe covering 140 individual SOEs), using international consulting firms, and then implementing them to improve competitiveness". (WB, 2000, op. cit., p: 34).*

These measures aim to make considerable change to the performance of SOEs over a five-year period. Hardening the budget constraint implies that government has to stop giving implicit and explicit subsidies to these firms, and directing credit from the banks, every time an SOE gets into trouble. This task seems to be difficult to carry out politically as the connections between the SOEs and supervising government agencies are still not fully dissolved. Experience from the 1990s has shown that explicit subsidies from the state budget were stopped, but were partly replaced by increased credit from the banks. In addition, applying tax-rules according to the law is not easy when SOEs are in trouble. For example, the provision of various new exemptions to the value added tax (VAT) when SOEs claimed problems in paying the VAT, sends the wrong signal, that government's tax regulations do not have to be followed.

SOE reform does not only include reducing the number of the enterprises, but also means changing the way the managers set their goals and run the business. Since the top management of SOEs is still part of the bureaucracy, it is increasingly required to fulfil not only purely economic objectives, but also other aims determined by the supervising authorities. As such, making profit or increasing efficiency is only one among many objectives that the SOEs strive for. If the managers are not assessed properly on their real performance on profitability, the reform of SOEs may not be successful. It is essential for the government to make profitability the main concern for the managers by getting away as far as possible from direct intervention into the business of the SOEs, and giving them real autonomy. Then the practices of government appointing and promoting managers of the enterprises may be subject to change or even be abolished as the managers can be selected by the board of

management on the basis of capability of the persons and according to the law. The government bears the task of monitoring the actual performance of each enterprise and its financial results each year. This requires that standards of transparency in accounting and auditing are properly developed and followed by all SOEs, the big and the small alike.

In addition, there is an aspect that needs to be taken into serious consideration, the social safety nets. It is no doubt that there are winners and losers in any reform process, and the reform can only achieve its purposes if the losers are, at least, partly compensated. This is obvious in SOE reform as liquidation, equitisation and so on produce redundant workers and employees, whose number is estimated about 400,000 for the next five-year term. These people cannot be simply kicked out of the enterprises without any adequate repayment for the time and the efforts they have given for the business. Therefore, accelerating SOE reform must go hand in hand with strengthening the social safety nets. The government has recently established an Enterprise Restructuring Assistance Fund to compensate redundant workers and employees from SOEs. Apart from the state budget, the fund also includes loans that the government borrows from different donors to provide severance payments and for training redundant workers. The establishment and operation of the fund is of great use as it helps ease the life of the redundant workers and their families as well as reduce resistance in the restructuring process.

Finally, although formal privatisation has not been applied in Vietnam, the issue has caused a lot of debate among academics and practitioners of SOE reform. This is a very difficult issue in terms of political outlook because state ownership is identified with socialism, and so regarded as preferable in the eyes of a number of people. However, there is a dilemma of retaining such a huge number of loss-making enterprises in the government on the one hand, and of keeping state ownership of the national economy on the other hand. Furthermore, socialism does not mean merely state ownership, its nature is also in the means and methods of production, and the way in which resources are distributed. If the national goal is to create economic growth and prosperity for the people, then the question that remains to be addressed is how to make this happen. The state must then define its proper role in some key economic areas while allowing autonomy in other economic sectors. The practice of restructuring SOEs in Vietnam shows that several ministries and local authorities have already sold out small enterprises that made losses. It is critical that the government should review the

performance of all SOEs and decide what to keep and what to let go, otherwise loss-making enterprises will exacerbate the economic conditions and hinder the renovation of the country.

#### **4.4 CONCLUSION:**

Neo-classical economic theory advocates a minimal role for the state and, consequently, its administrative system, in the economy. However, experiences of Vietnam and other Asian countries have shown that governments will continue to have an important role in economic development. Despite the fact that their boundaries should be drawn back from most production and business activities, apart from the state, other sectors are unable to provide a fully developed legal framework and other administrative institutions to regulate the functioning of the economic units in a market environment. SOEs will hence continue to act as vehicles serving many ends, and in Vietnam in particular, they play a leading role in the economy. In most cases, the government appoints the top management of SOEs, determines their major objectives, and supervises their functioning.

SOEs, however, are seldom impelled by economic objectives alone. The government has often used SOEs to achieve other social and political objectives, which are at times in conflict. The same situation happens with SOE reform, whereby multiple objectives of the government are followed, such as to consolidate political power or support, or to redistribute income, which sometimes are achieved at the expense of economic objectives. The problem of SOE reform in Vietnam is, therefore, more structural than just procedural, requiring firstly the change in the relationship between the enterprises and their supervising government authorities. The reform strives for reduction of government interference in day-to-day operation of enterprises, enhancing their autonomy, and strengthening their management. In addition, it is now recognised that when the enterprises are subjected to market pressure and competition, they tend to perform better. The mushrooming of private businesses according to the new Enterprise Law as well as the increase of joint-ventures with foreign companies have strengthened demand for SOEs to operate in an increasing competitive environment.

Despite mixed results in the SOE reform process of Vietnam, restructuring the sector needs to be further extended. Government policies and regulations introduced so far have led to some rationalisation of the sector and to the closure of several thousand loss-making enterprises. However, SOEs continue to have privileged access to

resources, especially capital. Investment by some enterprises is supported through the budget or through government-guaranteed borrowing, without clear criteria for this choice. SOEs, more generally, continue to receive the bulk of the working capital loans from the banking system. The reform leading in particular to the elimination of subsidies from the state budget and preferential access to credit from the banking system would release resources which could be redirected to other public services or to private sector borrowers. As the reform is accelerated, further bold steps should be taken in the direction of continuous change in the way in which the government regulates the sector, hardening the investment capital flow to SOEs, enhancing their management capacity by providing more autonomy, and considering privatisation of insignificant or loss-making enterprises. In addition, social safety nets should be subjected to further consolidation with the aim to ease the life of SOE workers as well as the burdens on the enterprises.

It is evident that SOE reform constitutes a basic component of transitional economic reform in Vietnam, as well as providing a sufficient link to the government's public administration reform (PAR). The next chapter looks at PAR in detail, drawing conjunctions with similar reform processes in China.



## **CHAPTER V**

### **FROM PLAN TO MARKET - THE CASES OF PAR IN VIETNAM AND CHINA**

#### **5.1 INTRODUCTION:**

This chapter aims to examine the PA and management reforms in Vietnam and China, the two countries representing the gradual approach of transition to a market economy. In order to understand the current situation and reform efforts, the chapter will firstly explain the foundations of the two PA systems through their evolution in the history of the countries since their independence. It then analyses the reform process, which involves different actors, layers and aspects of the societies. A comparison of the PAR in the two countries will provide a clearer understanding of the similarities as well as the differences, and more significantly of the policy choices and implications for the reforms that each of the countries has adopted and carried out. The conclusion will summarise the most important points of the reform and serve as a linkage with the previous chapter on SOE reform.

#### **5.2 BACKGROUND OF THE PUBLIC ADMINISTRATION SYSTEMS:**

##### **5.2.1 After independence and in the central planning period:**

A. *Vietnam*: Vietnam has struggled for more than a thousand years with revolution and change, frequent traumatic upheavals in its economy and society that few other countries have experienced for so long a period of time. Its history has been one full of wars to maintain national identity as an independent nation. After thousands of years of different feudal dynasties, including nearly ten centuries of wars against the Chinese, the French invaded and Vietnam became a colony of France in the late 19<sup>th</sup> century. The dramatic rule of both French governors and feudal regimes made the life of the indigenous people unbearable and revolutionary movements broke out throughout the country. French colonial rule was strongly centralized, but existed to serve functions rather than development - the maintenance of colonial rule, the collection of revenues, and the protection of French commercial interests. The August Revolution under the leadership of Ho Chi Minh in 1945 gained independence for the

nation and the new state of the Democratic Republic of Vietnam (DRV) was formed. The first constitution was promulgated in 1946 as a foundation of the contemporary government and PA.

It can be argued that the PA of Vietnam has, therefore, retained obvious influences from the feudal, and to some extent, the colonial periods. The reigns of the feudal dynasties shared a number of common features, such as strong centralisation and monarchy in terms of polity, self-production and consumption on the basis of the King's and communal public ownership in terms of economy, heavy impact of Confucianism and Taoism with regard to ideology and culture, severe laws to protect the King's throne, and the feudal regime and mandarins' interests in legislation (Doan Trong Truyen, 1997, pp: 9-12). Although the term "administration" was not used at the time, the main characteristic of government was hierarchical bureaucracy; in principle the public fully obeyed the King and his mandarins. In practice, however, within the authority, anarchy and conflicts frequently occurred to contradict the central rule giving rise to the dictum "The King's law loses to the village rule". The customs of small scale production also represent a feature of the backward feudal bureaucracy. However, the history of the country has shown distinctive features of self-reliance and independence of the nation that combined with new ideology of Western capitalist countries from the 19<sup>th</sup> century when the French invaded. The French created the "Indochina Federation" in 1887 and sent a governor who had overall political and economic authority in the region. At the same time, the feudal form of government was still maintained. Vietnam was divided into three major parts with different ruling systems. A new bureaucracy combining the French rulers and the feudal mandarins was established and the indigenous people suffered from the dual-ruling system. Public servants were trained to be neutral, non-political, and to serve the government.

The PA of Vietnam has also acquired positive local traditions, which include the spirit of national unity, a strong sense of ethics and morality, independence, humanity, fairness in judgment and community. These characteristics put together formed the state and its administration after the socialist and nationalist revolution which was represented by the principle of a state "of the people, for the people and by the people" and the 1946 Constitution. For the first time in Vietnam's history, the three crucial powers - legislature, executive and judiciary - were identified and formal administrative machinery was established.

Soon after the DRV was established, the country was divided into two parts. After the victorious campaign of Dien Bien Phu in 1954 and consequently the convention held in Geneva, North Vietnam followed a central planning path towards socialism, while the southern part of the country was governed by successive regimes operating with American economic and military support. In the North, the communist-controlled Vietnamese government relied on a central planning system - modelled on those of the Soviet Union and Eastern European countries - to mobilize human and material resources during the 30-year battle for national independence and reunification. The two major tasks of nation-building and reunification of the country made distinct demands on the state and administrative system, which had to develop the national economy on the one hand and serve the war effort on the other. To this end, the state controlled all land and natural resources and almost all means of production. *"It allocated equipment and raw materials for production and organized agriculture under a collective system"* (Litvack & Rondinelli, 1999, p: 1). The state managed the distribution of agricultural products and consumer goods for personal consumption through a process of egalitarian rationing, making the country for all practical purposes a grants economy. The state also created monopolies in important industries and in foreign trade. Central plans set production targets, ignoring requirements for profit-making and thus eliminating competition among state-owned enterprises. Prices were set in advance by the state planning committee and subsidised levels much lower than those of the "free" or "black" market, thereby creating a two-tiered price system. Jobs were guaranteed for everyone willing to work, but severe restrictions were placed on the size and number of employees as well as capitalisation of non-state enterprises.

The essential premise of the DRV model was Soviet-style central planning aimed at rapid industrialisation with collectivisation of agriculture and strong central control of the economy. The model held the elimination of private property and its replacement by public ownership of the means of production to be the criteria for the construction of socialism. Le Duc Thuy (1992, p: 101) argued: *'This was the theoretical and ideological foundation of campaigns that established state and collective control over all fields of production and business in the North in the years 1958-1960 and, in a more resolute and decisive manner, during the ten post-war years in a national-wide scale'*. The state sector was considered the 'engine of growth' and there was virtually no room for small-scale private production. The system required

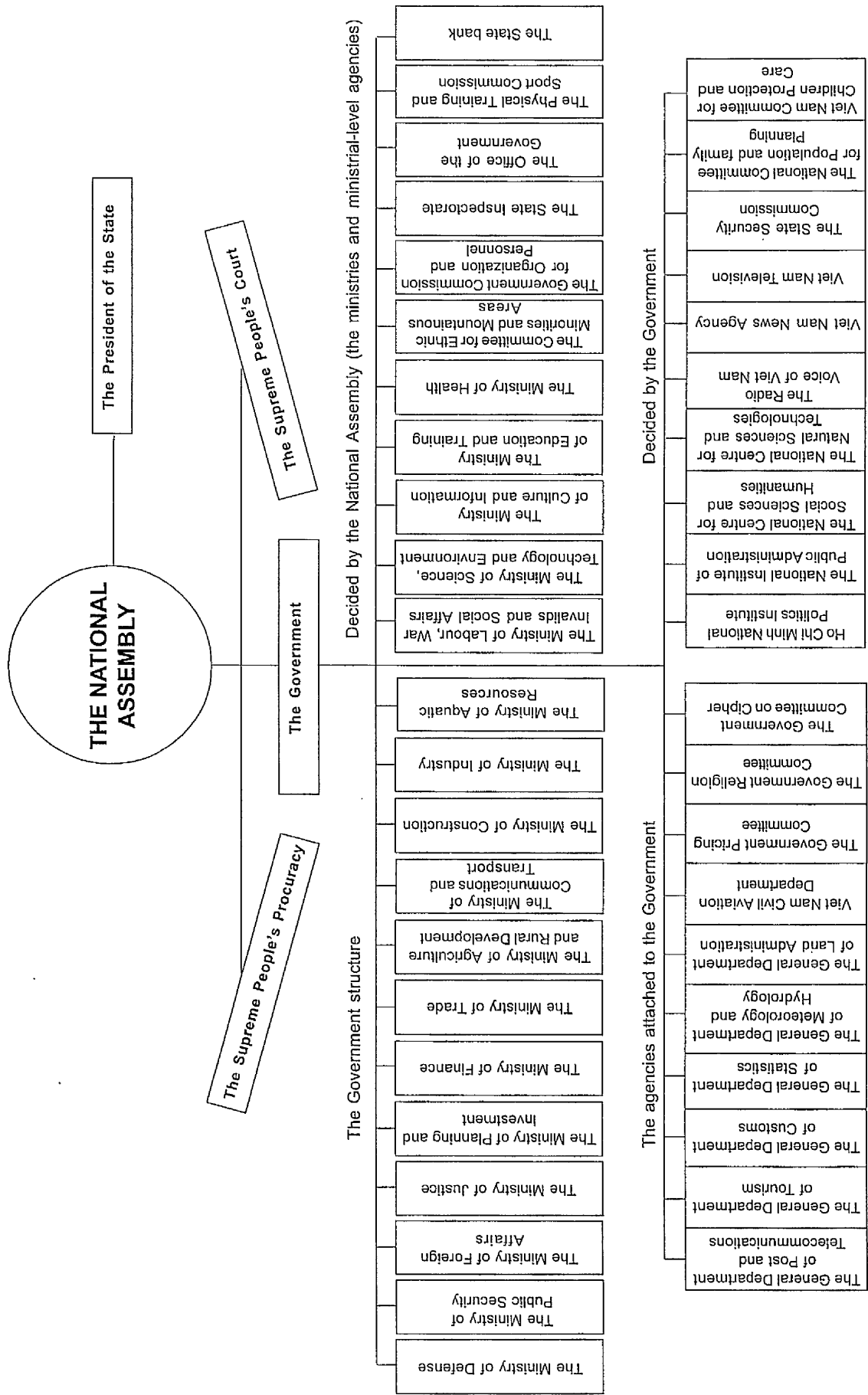
strong state monopoly in the allocation of resources to both industry and agriculture, and industrial enterprises and agricultural cooperatives were given quantitative targets for their compulsory deliveries to the state.

In North Vietnam, this attempt to implement neo-Stalinism was soon characterised by increasing sectoral imbalances and macro inefficiencies. By 1961-1962 this had led to inflation in parallel markets (Fforde & de Vylder, 1996, p: 12). Debates rose in the closing years of the First Five Year Plan (1961-1965) and were resolved in favour of the rectitude of neo-Stalinist orthodoxy. The Fourth Party Congress (1976) after the reunification of the country again asserted the correctness of these ideas and policies and their applicability to the whole country. However, the basic problems of the DRV model were not solved by national reunification, they deteriorated and gave birth to a new model.

To serve such a centralised state, the administrative system was also established in a special pattern to ensure the control and supervision of the state over all production and distribution processes, allowing very little room for creativity and autonomy. Even after the country was reunified in 1976 following the victory over the Americans in 1975, the system of North Vietnam was the model for the whole nation. The number of ministries and administrative agencies at the central government level was high, reaching 76 in 1986. The administration was separated into four levels: apart from the central government, there were 53 provinces and cities under the direct control of the central government, 500 rural and urban districts, and approximately 10,000 communes, wards and townships (Doan Trong Truyen, 1997, *op. cit.*). The whole system operated within the framework of the three constitutions of 1949, 1956 and 1980. In 1992, a new constitution was promulgated to meet the new demands of renovation. In total, there were about 1,2 million civil servants working in the state apparatus at that time (figure 5.1).

In fact, the central planning system created enormous obstacles to economic growth and severe economic adversities, especially for rural people. As in any country that follows the centrally-planned mechanism, the primary objective of Vietnamese managers of state enterprises and agricultural collectives was to meet government-established production targets. They paid little or no attention to the quality of their goods or to the costs of production. State enterprises were vertically integrated, retained large surplus labour forces, and accumulated huge inventories in

**Figure 5.1 ORGANISATION OF THE STATE APPARATUS IN VIETNAM**  
(The 1997-2002 tenure)



the face of chronic shortages of supplies. There was virtually no incentive to develop management skills in marketing, quality control, product development, and finance.

The central planning model in Vietnam was inappropriate, not only because of the North's material shortcomings, but because the state was weak, relative to the model's requirements. While analysing the failure of command economy in Vietnam, Riedel & Turley (1999, p: 13) argued:

*“The DRV lacked the necessary staff to gather adequate statistics to operate a planning system and the means to communicate orders, prices, and other instructions in the requisite detail. Party discipline was lax, a legacy of wars fought under conditions that encouraged local initiative, while cooperatives retained some of the closed corporate character of the traditional communes on which they were based. Localism thrived despite constant exhortation to place national interests before communal ones”.*

These features were combined with the consequences of the thirty-year war that has made enormous losses to the country. The experience of war had more effect than the experience of development in shaping the post-war strategy. Millions of people died in the war and most key economic infrastructure in North Vietnam was destroyed during the American bombing. It is hard to find a family that has not lost a member during the wartime. While the most productive labour force went to battle fields, only old people and children were involved in production activities. The effect of the war is still obvious even today, nearly thirty years after the 1975 victory, as the state budget has to cover, apart from 1.4 million civil servants and cadres, more than five million people who are either invalids of war, or families of dead soldiers<sup>1</sup>. As a result of all these, living standards of the population dropped dramatically, as particularly shown in the decrease of per capita grain production from 357 kilograms in 1955-1959 to 259 kilograms in 1976-1980 (Selden, M., 1992, p: 223-224).

In Vietnam, popular political participation has been understood by party leaders and probably most party members in conventional Leninist terms as active involvement in the implementation of decisions made by the party. As in China, the party's rise to power in an extremely competitive political and military environment forced it to be “mass-regarding”, or responsive to popular interests and demands in a “quasi-democratic” way, despite its authoritarian internal structure (Turley, W. S., 1992). To

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<sup>1</sup> According to GCOP (2001, Vu Tien luong), there are now 6.6 million of people who receive wages, allowances or fringe benefits from the state budget.

ensure its “absolute and comprehensive” leadership role in all spheres of the political, economic, social, and cultural life, the CPV has established its system of party organisations from the central downward to the grassroots level. In the relationship to the government, there has been a party system coexisting with the PA, serving as a policy-making mechanism, while the government and its PA, in this regard, are as implementers of the policies. Almost all top officials of the administrative agencies are appointed, or at least, nominated by the Party. In addition, the party’s system monitors the performance of the state administration in an attempt to curb bureaucratic abuses and “commandism”, and to assure implementation of instructions from the centre. These processes are quite familiar from the ways in which a range of mass organisations is operated, with, for example, leaders “introduced” to the masses (perhaps four from which three must be chosen). Administrative agencies of this sort, are thus best seen as managed by people whose power base depends upon their position within the political elite, rather than their capacity to manage (Turley, *op. cit.*; Fforde and Huan, 2001).

Condemnation of the party’s tendency to devour the government, however, was neither new nor an early indication of commitment to reform. Periodically, though with increasing intensity in the late 1960s, party leaders attacked excessive rigidity of the party-state, centralisation, “bureaucratism”, and isolation from the realities of daily life. However, Turley (1992, *op. cit.*, p: 262) argued: “*declining of the party to sustain high levels of popular mobilisation after 1975 despite a still threatening international situation, or to halt the erosion of its prestige due to economic mismanagement, abuses of power by cadres, and the entrenchment of privilege, was a major impetus to political as well as economic reform*”. While this statement may be not fully correct, it clearly implies one of the failures of the party in the period.

The precipitous decline in the economy during the 1970s and early 1980s was combined with the world economic decline in the same period. Although Vietnam was not as open to the world economy as many other countries round the globe, the two oil crises in 1973 and 1979 also made a critical impact on the level of aid the country received. The DRV model came under increasing strain during the late 1970s, when bad harvests, in combination with the military intervention in Cambodia and the political and economic isolation of Vietnam from most of the outside world, triggered a systemic crisis as the party’s and the state’s ability to supply inputs to the planned economy, and food to people broke down (Fforde & de Vylder, 1996, *op. cit.*). It can be

argued that all these situations and failures led to a series of economic policy reforms known as *Doi Moi*, or economic renovation, that reversed the economy's slide and led to strong economic growth averaging 8.5 per cent a year in the early 1990s.

B. *China*: China was once considered as the cradle of civilization in the East. This large country has seen an enormous number of civil wars and developments in its approximately five thousand years history. In the process, famous ideologies such as Confucianism and Taoism have occurred and have had great influence on the way the country was governed. The feudal state existed for thousands of years until the Jing dynasty, during which different European countries began to attack China and some occupied parts of the country. A capitalist revolution broke out and then was overtaken by the 1949 revolution under the leadership of Mao Zedong. The People's Republic of China (PRC) was then established with the Chinese Communist Party (CCP) at the heart of the political system.

The CCP, with its absolute power, increasingly controlled the entire administrative system. The will of the party was superior to the rule of law; consequently, the principle of legality played only a secondary role in administration. At all levels, party secretaries were usually the chiefs of the executives. The domination of the party also meant excessive interference of the state in the economy, its over-bureaucratic centralisation and concentration of decision-making over economic production. The government and its bureaucracies were directly involved in managing and running public enterprises - from making production plans and investment, deciding on employment and market, to determining product consumption and pricing. Such an over-interference (which separated production from market and management from economic accounting) has resulted in waste of human and material resources, sluggishness and ineffectiveness and inefficiency of the entire national economy.

One of the main tasks of the Chinese state was to deal with the private ownership of productive instruments. The task was considered fulfilled in 1956 at the 8<sup>th</sup> Congress of the CCP in Beijing, which was also the start of the "leftist direction" initiated by Mao Zedong and lasting for 20 years. Both in political and economic terms, the "leftist direction" has been the source of repeated sufferings for the nation, beginning with the "Great Leap Forward" in 1956, eventually a forced industrialisation which brought about serious losses to the economy. The "Great Leap Forward" was then corrected by the "Cultural Revolution" in 1966, which brought Chinese society



into the deepest crisis in its history. When President Mao Zedong died in 1976, the "Cultural Revolution" was over; GDP, industrial and agricultural growth rates were all negative: 2.7%, 2.4% and 0.4% respectively when compared with the rates for 1975 (Vu Quang Vinh, 2001, pp: 30-38).

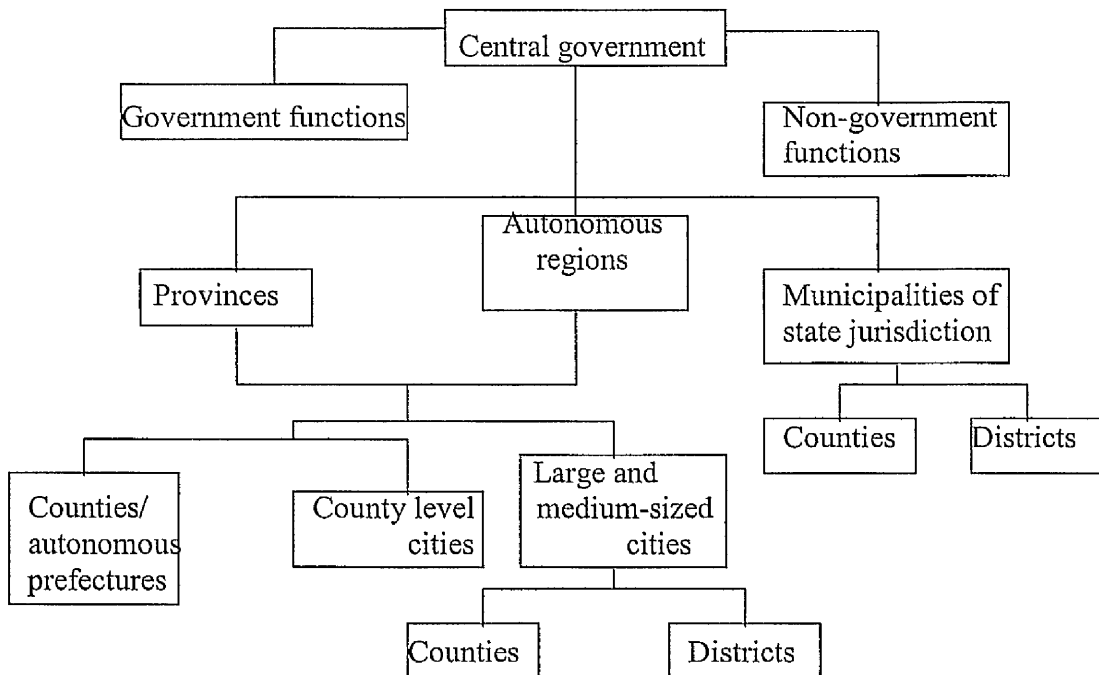
As in most of the ex-socialist economies, all activities, including manufacturing, mining, service and banking in China in the pre-reform period, were in the state sector. Agriculture was largely collectivised and domestic trade was organized by state-controlled marketing and distribution agencies. The allocation of labour, materials and financial resources was related to anticipated requirements for achieving predetermined supply objectives. Under this scheme, the production and consumption of products was coordinated. Cook and Nixon (1995, p: 7) argued:

*"... the predominant mode of planning was based on a system of material balances... Resources, whether produced locally or imported, were balanced against the distribution of products for individual consumption and those which were used as inputs for further production and exports. Labour balances were used to co-ordinate human resources with output requirements. Financial balances were concerned with the creation and distribution of money income. Finally, demand elasticities were estimated and used to balance supply and demand."*

In principle, where imbalances were found, adjustments were made by the state either to supply (through increasing output, technological improvements or substitution of inputs) or demand (curtailing wants or requirements).

The public administration of China is organized in three levels: a central level, a provincial layer, and a local apparatus. In 1997 there were 30 provinces or provincial-level units, comprising 22 provinces, five autonomous regions, and three centrally-governed special municipalities. The lower level consists of 333 autonomous prefectures, counties, 2148 autonomous counties, cities and 697 municipal districts under city administration (Jiaqi, G. & Burns, J. P., 1997, p: 2). The basic level comprises townships and villages. Planning and macro decision-making are largely centralised in Beijing, but because the country is so big, operations and problem-solving are decentralised through provincial and local agencies. The size of this administrative structure has been enormous, reaching nearly 20 million political and administrative officials by 1982. By 1987, there were 98 government ministries and commissions at the central level (the current government structure of China is shown in figure 5.2 below).

Figure 5.2 Administrative structure of the Chinese Government system



The development of the Chinese modern PA is hindered by the ideologies and traditional habits formed under the feudal systems. China has accepted the Soviet type of management system since the founding of the People's Republic, but this was not fully followed; witness, for instance, Mao's reforms in the "Cultural Revolution". Since 1978, new theories and experiences from many countries have been incorporated into the administrative system. The influences of these administrative cultures have made the PA and administrative reforms in China distinctive.

### 5.1.2 The move to a market economy and the requirements for PAR:

A. *Vietnam*: The economic and political reform in Vietnam began in 1979 as a result of a number of factors including the economic crisis, due to a series of natural disasters, and to over-hasty socialist transformation of the South where all private enterprises were nationalised after 1975. The conflict with China was then brewing and the invasion in Cambodia in 1978 led to a substantial drop in Western aid and trade. These meant a sharp decline in the growth of income both in national and in per capita terms.

It is interesting to note that the first steps to adjust to the new economic conditions were "spontaneous bottom-up reforms" in both agriculture and industry, because the political leadership did not respond rapidly enough to these changes. In

fact, as argued by Riedel & Turley (1999, p: 10) "*Pressure for market-oriented change came from the bottom of the Vietnamese political system before leaders at the top perceived a need for them*". The innovation in agriculture was first, leading eventually to party endorsement of the "output contract" (de Vylder & Fforde, 1996). The nature of this contract was the agreement of the cooperative with farm families on quotas for set pieces of land to be delivered at the state price, with the family free to sell any excess over the quota on the open market. Obviously, families had greater incentive to increase production. In industry, the term "fence-breaking" came to be applied to the efforts of individual factories to break through the constraints of the central planning system. For instance, when materials were short, goods could be sold on the open market to raise cash to buy supplies, or to pay bonuses to workers and thus raise productivity. Though largely illegal, these practices quickly became widespread, leading to the first key reform decree for state industry in 1981 which required factories to register all activities they conducted outside the plan and allowed them to acquire and dispose of resources as needed for their supply of inputs. State enterprises were also allowed to diversify their products outside the plan as long as they met their quotas.

These initial cautious reforms helped to revive the economy in the early 1980s but also brought in new problems and challenges. Inflation rose quickly because demand grew more rapidly than supply and thus the gains from a series of wage and salary increases were wiped out. In addition, "negative phenomena" such as speculation, smuggling and various forms of corruption also became widespread. This was the reason why the reformist tendency met enormous rejection even from the top leadership up until 1985 when the Soviets were pushing for greater economic efficiency and favoured Vietnamese reform (de Vylder & Fforde, 1996, *op. cit.*).

In order for more dramatic change to happen, "*decision makers at the top have had to make choices which, in their perceptions, have involved high degrees of risk – to ideological goals, to their personal positions, and to the survival of the regime*" (Riedel & Turley, 1999, *op. cit.*, p: 10). Their risk propensities have been crucial, especially considering that Vietnam's political institutions allowed them to defer risk through repression. The early reform efforts were not complete because of entrenched interests within the party and the state was needed to launch significant change. The Sixth Congress of the CPV in December 1986, therefore, marked an important development in the history of the country. It was increasingly accepted that the basic institutions of

the DRV model and the macro imbalance of the economy had to be tackled and dealt with effectively. The Congress acknowledged that the imported model the party had followed since 1954 had failed and initiated the overall renovation (*Doi Moi*) in all socio-economic spheres and considered reform as vital requirement. It asked for the renewal of perception as a basis for new policies and directions, and new human resources for carrying them out. Economics were seen as the core of the development process. There has also been a steadily increasing tide of self-criticism within the party and frank admissions of past failings.

Thus, the tide was running in reform's favour with the representation of new, post-war members and state officials in the Central Committee of the CPV which rose to 49 per cent (from 30 per cent in the previous committee (Thayer, 1988, quoted by Riedel & Turley, *op. cit.*), and key positions in the PolitBuro held by reform-oriented leaders. The Congress allowed reformers and technocrats to introduce change, at least, at the margins. For example, in 1987, the change included a reduction of differences between free market and official prices, abolition of rationing for many commodities, removal of check points on internal trade, enactment of Foreign Investment Law. In 1988, it included the grant of more autonomy to SOEs and the separation of central and commercial banking functions.

After cautious beginnings, during 1986-1988, Vietnam implemented a gradual reform strategy that failed to address serious macroeconomic imbalance. Inflation accelerated up to 774.4% in 1988 while growth and trade performance remained unchanged. Renovation soon dropped all pretence of perfecting the existing system with the launching of fundamental change in 1989. The centrepiece of this change in the economic sphere was a dramatic shift toward a market economy. OECD (1994, p: 27) argued: "*In 1989, Vietnam enacted an Eastern-European style 'big bang' including price liberalisation, a 450 percent devaluation to unify the exchange market, and sharply tightened credit policy. The collective farms were returned to family farms with long-term leases*". Some of the main policies included payment of wages and salaries on a straight cash basis, pricing of inputs to state enterprises on the basis of costs, permission for private manufacturers to employ up to 10 workers<sup>1</sup>, abolition of internal customs checkpoints, a revised Foreign Investment Law, virtual decollectivisation of agriculture, elimination of almost all direct subsidies and price controls, increased

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<sup>1</sup> the number later increased.

autonomy for enterprise managers, devaluation of the currency (the *dong*) to market rates, elimination of the state foreign trade monopoly, separation of central banking from commercial banking, provision for foreign participation in banking, reduced restriction on private enterprise, creation of export processing zones for one hundred percent foreign owned enterprises, legislation on shareholding corporations, dismantling major elements of the central planning and price bureaucracies, a fifteen percent government workforce reduction<sup>1</sup>, and return of businesses in the South (that had been nationalised in 1975) to their former owners or relatives. The implementation of the policies helped to accelerate growth, and end inflation. Agricultural productivity soared, and small, non-state enterprises proliferated (see table 5.1).

**Table 5.1** Some macro-indicators of Vietnam's economy 1989-98

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP growth (%)	8.0	5.1	6.0	8.6	8.1	8.8	9.5	9.3	8.2	5.8
Inflation (%)	34.7	67.5	67.6	17.5	5.2	14.4	12.7	4.5	3.6	9.2
FDI (US\$ billion) a		1.5 b	1.4	2.3	2.1	4.1	5.5	9.2	5.5	4.1
Exports (US\$ billion)	1.32	2.40	2.09	2.58	2.98	4.05	5.46	7.26	8.95	9.36
% change	80.1	82.1	-13.2	23.7	15.7	35.8	34.4	33.1	23.4	2.4
Imports (US\$ billion)	1.67	2.75	2.34	2.54	3.92	5.83	8.16	11.1	11.7	11.49
% change	18.3	64.8	-15.0	8.7	54.4	48.5	39.9	36.7	5.4	-1.8

a. total commitment

b. 1988-90

Source: General Statistical Office & MPI (adapted by Vo Tri Thanh (2000)).

It is evident in the table that while the trend of GDP growth has increased, despite uneven rates, inflation has considerably decreased. GDP growth was quite high during 1992-1997 averaging 9,0% per annum. Although there was a decrease in GDP and export and import in 1998 due to the financial crisis that occurred in Asia in 1997, the rates were still positive in comparison with most of Asian countries. The decrease in inflation from two-digit rates up until 1995 to single-digit in 1996 and the years following suggests real improvements in per capita GDP. The increased trend in FDI flow has made considerable contribution to the growth of the economy in terms of GDP growth rates.

<sup>1</sup> In fact, 8.2% of the government workforce was reduced then.

However, the initial successes in the new stage of development up until then have also revealed unintended consequences, shortcomings, and constraints that need to be addressed. All of these create new and greater demands on the state machinery for greater capacity, efficiency and effectiveness in the delivery of services as outcomes of a well managed system of PA. The major constraints and shortcomings of the current system of the PA in the country were highlighted in the then National Programme on PAR of the GOV (1993, pp: 2-4):

- (a) The organisational structure of the state machinery presently lacks a clear articulation of roles, functions, objectives, and operating procedures within and between the central executive, legislative and judicial functions of government.
- (b) Vertical and horizontal coordinating mechanisms lack a unified design, consequently promoting significant levels of ambiguity in functions, responsibilities and operations of the state machinery. Executive functions are not integrated and unified, and thereby lack coherence, a problem extending from the centre to grassroots level. Authority, functions and responsibilities at each level require substantial delineation.
- (c) Regulatory authority and powers are not exercised largely due to poor regulatory capacity on the one hand, and an underdeveloped system, lacking updated laws and regulations on the other. Lack of administrative discipline, demonstrated by breaches of rules and regulations, and lawlessness, are widespread in the state machinery and in society. This results in insufficient and incompatible legislation which constrains and fails to accommodate the state ability to meet the demands of strengthening the socialist democracy and its economic management reforms.
- (d) The state PA and its administrative institutions are unsuitable and incompetent with new economic structures and new economic management mechanisms. This is reflected by inadequate laws, organisational structures, and managerial competence to oversee the state macroeconomic management and control.
- (e) The state administrative machinery is cumbersome. This is evidenced by unnecessary intermediate levels, connections, administrative rules and regulations, and convoluted coordinative mechanisms that change without sound justification. This increases the instability of their operational effectiveness, breeding red-tape and excessive discretion.
- (f) The public service is too large, and over-staffed. Public servants are inadequately trained to administer the renovation process, lacking skills and knowledge about state

managerial, administrative or legal procedures. This is further exacerbated by the lack of enforcement, or comprehensive administrative statutes for governing public servants. This contributes specifically to a general decline of responsibility, discipline, accountability, transparency, initiative, and *esprit de corps* with direct implications for low levels of performance throughout the public sector.

(g) Lastly, administrative operations and procedures are primarily conducted by hand without benefit of equipment of management information technology and lack of access to office technologies. The result of this is an inability to accommodate economic and social development renovation requirements of the state.

In short, these administrative deficiencies can be classified as: red-tape and bureaucraticism, and authoritarian attitudes; corruption and non-transparency; undisciplined application of rules and regulations; and with most administrative activities carried out inefficiently by hand. These deficiencies lead to the fact that reforms of the state machinery, and of the country's PA are basic and urgent tasks, and indispensable requirements for promoting national economic development.

B. *China*: Since 1978, following Mao Zedong's death and the reinstatement of Deng Xiaoping, China's leadership has embarked on a process of economic development that stresses local initiative, transition to a market economy, and decisive moves towards opening China to foreign trade and investment. China's "opening up" to the outside world has allowed the country to exploit opportunities provided by its access to foreign capital, technology and markets. Macroeconomic indicators show that China is currently one of the most dynamic economies in the world with a GDP growth rate that increased nearly 10 percent annually in real terms over the 1979-1995 period making it very different from the pre-reform stage (see table 5.2). During the past 20 years, China's per capita GDP has more than quadrupled and the living standards of ordinary Chinese people have improved significantly. The number of people living in absolute poverty has been substantially reduced from over 250 million to about 50 million in two decades. Life expectancy has increased from 64.37 in the 1970s to 70.80 in 1996, with infant mortality falling from over 50 per thousand in the 1970s to less than 30 per thousand in the 1990 (Qian, Y. adapted from China Statistical Yearbook, 1997).

**Table 5.2** Comparison of the Average Annual Rates of Growth of Selected Economic Indicators

	1954-1979 Pre-Reform Growth	1979-1995 Reform Growth
Real GDP	5.9	10.0
Real GDP/Capita	3.8	8.5
Real Gross Value of:		
Agricultural Production	2.9	6.1
Light Industry	8.7	16.5
Heavy Industry	12.8	14.4
Real Personal Consumption	4.0	8.6
Real Consumption/Capita	2.0	7.1
Real Gross Fixed Investment	7.7	11.9
Capital Stock	5.3	9.1
Employment	2.5	2.6
GDP Deflator	0.4	7.4
Retail Price Index	0.7	8.1
Exports (in current US Dollars)	10.5	15.2
Imports (in current US Dollars)	9.9	13.7

*Source:* Gungwu, W. & Wong, J. (1998, p: 51)

Such an impressive performance has resulted from a number of policy measures and practices. The historic decision on "reform and opening up" made at the Third Plenum of the Eleventh Congress of CCP in December 1978 marked the beginning of China's reform era. As early as 1979, China started to devolve government authority to local levels, including provinces, prefectures, counties, townships, and villages. Local governments were given the authority to issue business licenses, to coordinate local business development, to resolve business disputes and to engage in tax policies. They also acquired the authority to determine the structure of local expenditure, to be responsible for local public goods provision and urban development, etc. The first reform success in the country came from its household responsibility system applied to individual farm families, combining with price reform, which involved upward adjustment of contract prices as well as increasing use of market prices, and market reforms from mandatory targets aimed at local self-sufficiency towards market orientation and purchasing contracts. The growth of agricultural production not just helped reduce poverty levels but also provided necessary materials for the development of industry.



The most distinctive characteristic of the growth in China is the development of non-state enterprises, the share of which increased from 22 percent to 57 percent. Between 1979 and 1993, most of the new Chinese firms are not private firms but local government firms, the majority of which are township and village enterprises (TVEs). The formation of TVEs initially depended on the success of agricultural reform, through the availability of excess rural labour, through savings from income, and through increased demand. The number of TVEs in 1993 was 1.5 million with employment of 52 million counting for 72 percent of the share of output and 58 percent of employment in rural industry. The crucial feature of TVEs is the community (i.e. township or village) government control of firms. The community government provides TVEs with a conducive environment, helps finance investment. Although opinions about TVEs are mixed, the enterprises have made considerable contribution to the overall growth of China for the past two decades (Qian, Y., 1999, pp: 10-14).

At the present time, China has approximately 305,000 SOEs, excluding 24,000 financial enterprises (Liu & Gao, 1999). Among them, while small- or medium-scale SOEs account for approximately 95%, large-scale SOEs are only 5%, that is around 16,000, but they are in the key sectors of the economy. By the end of 1995, the total assets of the SOE sector was 7,421.1 billion *Yuan* (more than 900 billion US\$), of which non-production assets (houses for employees, schools and hospitals) accounted for 20%. The total debt was 5,176.2 billion *Yuan* (more than 600 billion US\$), while the average ratio of debts to assets was 62.27% (*Ibid*).

With regard to employment, between 1978 and 1991, the number of workers in the SOE sector increased by 33% to around 107 million. Their share of industrial employment is even higher than their share of fixed capital (65%). The percentage of the urban working population employed in the sector was about 63% in 1992 and down to 55% in 1996 (OECD, 1998, p: 31). This is because employment adjustment progressed in the sector. Over 20 million of workers have been laid off from SOEs since the mid-1990s, of which more than 10 million have difficulties in finding new jobs. Although the registered urban unemployment rate was only around 3-4%, when adding the surplus workers and layoffs in the SOE sector, this figure went up to double digit. Liu & Gao (1999, *op. cit.*) documented that the actual unemployment rate was 18.9% by the end of 1997, and was estimated to be 15.6% in 1998. This serious unemployment has brought enormous threats to social stability, which intensifies the dilemma of SOE reform and constitutes a reason why the reform has been delayed.

The reform of SOEs in China has aimed to release public enterprises from central planning administration, and adapt them to a market economy. In order to enhance the efficiency and competitive capacity of the enterprises, a number of measures have been undertaken although there is no coherent blueprint for the measures. The approach to SOE reform, as a whole, is trial-and-error, from incremental reform "out of the system reform" in the 1980s, to emphasis on reform of the existing system in the 1990s (Qian, 1999; Zhang, 1999). Basically, the reform has undergone four phases.

The first phase was from 1978 to 1983 as an experimental phase, with the emphasis on the agricultural sector that took the household contract responsibility system as a foundation. The experiment was initiated in Sichuan province, involving a programme of expanded enterprise autonomy, that is, after fulfilling state quotas, the SOEs would have certain decision flexibility in production plans, product marketing, worker employment and technological innovation; and would share profits according to specified plans and above-plan profit retention rates. Based on the initial success of the province, the Chinese central government announced a new responsibility system for profits and losses. By 1983, almost all SOEs had adopted this responsibility system (Huang, 1999). To sum up, this phase of SOE reform was to grant more autonomy and allow profit-sharing between enterprises and government.

The second phase was from 1983 to 1987, focusing on the adjustments and regulation of rights, responsibilities and benefits between enterprises and government. The major measures included two steps of "tax for profit" and "the repayable loan for free grant". In distribution system, the profit and tax that the enterprise should submit to the state were combined into one item; the enterprise submitted a certain percentage of the sum to the state and retained the rest. In 1983, only 50% of the enterprise profit was combined with taxes, the other 50% of profits had to be fully submitted as state fiscal income. In 1984, however, this was changed to a combination of 100% of enterprise profits and taxes. This aimed to replace the previous co-existence of tax and profit remittance with a simple tax system, and SOEs could, therefore, pay taxes in accordance with state regulations. Then the system of "four taxes and two fees" was employed for SOEs, including "*annual fees for fixed assets and working capital financed from budgetary grants, a 50% income tax, taxes on real estate, vehicle tax and adjustment tax*" (Huang, *op. cit.*, p: 7). On the basis of the tax for profits, in order to reduce the pressure on state fiscal investment in SOEs while strengthening control over

the enterprises, the investment in enterprise fixed assets was changed from state fiscal grants to loans from the state bank. At the end of 1984, it was decided that all state investment would be on a repayable basis rather than by free grant, allocated through the state banking system. However, the reform of “bank loans for budgetary grants” did not succeed because state banks could not effectively force unprofitable SOEs to repay the loans. “Tax for profit” on its own was not able to help realise enterprises’ self-operation, responsibility for profits and losses, and fair competition (Qian, *op. cit.*, pp: 30-32). This situation required further SOE reform.

The third phase was from 1987 to 1992. The Chinese government decided to adopt the contract responsibility system (CRS) that has proved successful in the agricultural sector, to the SOE sector. CRS was adopted partly because it could maintain state ownership, and emphasized the responsibilities of SOEs while retaining the rights and incentives of the enterprises. The most widely used form of CRS was the contract management responsibility system, which consisted of three elements: (i) the contracted management system; (ii) the manager responsibility system; and (iii) the internal contract system. Among the three elements, the contracted management system was a formal contract between the enterprise and the state, including three components: (i) a profit-sharing scheme; (ii) projects for upgrading the enterprise’s technology and management; and (iii) a scheme for determining wages and bonuses that were contingent upon the enterprise’s performance. By 1992, 95% of SOEs adopted CRS (Liu & Gao, 1999, *op. cit.*). This period also witnessed the enactment of two important laws relating to SOEs, the Bankruptcy Law and the Enterprise Law. However, the application of CRS was not as successful as expected in comparison with that used in the agricultural sector. While short term results were reasonably effective, long-term consequences, including unemployment and price effects, were damaging, leading to disorder in the economy and rising prices.

The fourth phase is from 1992 up to now. The benchmark was the 14<sup>th</sup> Congress of the CCP in 1992 that institutionalised the establishment of a social market economy as the target of reforms in China. The impact on SOE reform has been clear, with the core component of the reform at this phase being the establishment of a modern enterprise system, and the main form is shareholding system. The modern enterprise system was officially defined to include four aspects: (i) clearly defined property rights; (ii) clear-cut responsibility and authority; (iii) separation of the function of government and enterprises; and (iv) scientific management (Huang, 1999, *op. cit.*). According to

the system, the state no longer directly intervenes in the enterprise management. SOEs, in turn, become legally responsible for self-management, profits and losses, tax payment, and asset maintenance. As a result, the number of State council departments was cut from 40 to 29.

In sum, SOE reform in China started initially by local governments as experiments in few provinces, such as Guangdong and Sichuan. Later the central government promoted it with the slogan of "grasping the large and letting go the small". One interpretation of "grasping the large" is to keep about 1,000 large enterprises as state owned. Qian (1999, *op. cit.*, p: 31) wrote:

*"Privatisation of small SOEs was very significant for China because, in contrast to Eastern Europe and the Soviet Union, China's industrial SOEs were dominated by small- and medium-size enterprises. In 1993, they accounted for 95 percent in number, 57 percent in employment, and 43 percent of output of the state industrial sector. Most of these enterprises were under the supervision of county and city governments. By the end of 1996, up to 70 percent of small SOEs had been privatised in pioneering provinces and about half were privatised in many other provinces. Although in 1998, the process slowed down somewhat because of the Asian economic crisis, the trend already became irreversible".*

In its transition to a market economy, China also experienced a sharp government tax revenue decline but it has generally managed macroeconomic and financial stability well by using "financial dualism". There are two aspects of financial dualism. The first concerns government revenue: although tax revenue declined, it was accompanied, and thus partially compensated by an increase of "quasi-fiscal" revenue from impressive financial deepening. This provides a basis for China's economic stability and helps to avoid financial crises. The second aspect concerns the lending side of the financial system. For a number of reasons, state enterprises received the most credit from the state bank and faced soft budget constraints, while non-state enterprises received only limited credit and faced harder budget constraints. Although the discrimination against non-state firms was often complained about, it forced the non-state firms to be more disciplined and performed better. In the case of an SOE, the government controls both the enterprise and the state bank. Therefore, it alone receives all the benefits from refinancing a project after sunk investments. Qian (*ibid.*, 1999, p: 17) argued:

*"This is ex post efficient, but makes an ex ante commitment to no refinancing less credible. In the case of TVEs, the community*

*government controls only the TVEs but not the state banks. The distinction of control over firms and funds induces information asymmetry between the creditor and the borrower thus reduces the benefits the state bank receives from refinancing a project after sunk investment. This in turns increases the ex ante credibility of no refinancing. Limited authority of a community government becomes, therefore, a good thing and it serves as a commitment device to harden budget constraints".*

After 1990, China took a "dual track" approach to price liberalisation under which the market was first liberalised at the margin while planned prices and quotas were maintained and then passed out later. Under the plan track, economic agents were assigned rights to and obligations for fixed quantities of goods and fixed planned prices as specified in the pre-existing plan. Furthermore, a market track was introduced under which economic agents participated in the market at free market prices, provided that they fulfilled their obligations under the pre-existing plan. It can be argued that the approach has an advantage in providing opportunities for those agents who participate in the market track to become better off, while maintaining the status quo rents under the pre-existing plan to compensate the potential losers from market liberalisation. This also helps to maintain stability in certain periods of transition.

From 1994 China has moved to a new stage, which aimed to replace the planning system with a market system. The Decision of November 1993 served as a landmark document which made four major advances in the areas of reform strategy, a rule-based system, building market-supporting institutions, and property rights and ownership, respectively. The Decision was followed by important policies developed from the Fifteenth Congress of the CCP in 1997 which, among other things, addressed the issue of ownership. While state ownership was regarded as a "principal component of the economy", the official ideology towards private ownership became more friendly, categorising it as a "supplementary component of the economy". The Congress also emphasised the rule of law, considering it crucial for a modern market economy to work well. The issues of private ownership and rule of law were later incorporated into the Chinese Constitution's amendments in March 1999, which demonstrated China's commitment to a full market system based on the rule of law (Qian, 1999, *op. cit.*)

Following the overall policies, China has conducted a series of radical reform measures. In building market institutions, the country continued with previous

practices, addressed problems left from the previous stage and started to incorporate international best practice market institutions based on uniform rules. Considerable efforts were made in unifying foreign exchange, converting the current account, overhauling the tax and fiscal system, reforming the monetary and financial system, privatising SOEs, and down-sizing the government bureaucracy. These attempts were necessary to bring about a socialist market economy with Chinese characteristics.

Although there have been bold measures undertaken for economic development, issues of governance still remain for the country to address. The economic growth as well as China's joining of the WTO in 2001 have placed critical requirements on the administrative system. Main measures in political reform in China 15 years ago were to reduce concurrent offices held by party leaders in governments; separate power and functions of the government from the party at local level; define and differentiate power between government and party bureaucracies; reduce direct management by the central government and transfer decision-making power and responsibilities to local governments; detach co-operative and enterprise management from government control (Chunmei, 1986). Since then, the political moves have paved the way for further economic and administrative reforms which focus on the financial system, the reform of SOEs and corporate governance, and building the rule of law for the new century.

### **5.3 PUBLIC ADMINISTRATION REFORMS:**

#### **5.3.1 PAR in Vietnam:**

PAR is of enormous importance to Vietnam's current development prospects because as in any country, the exercise of state power has a major effect upon national development and PA is at the heart of the way in which state power is exercised. It is obvious in Vietnam that major social and economic change is placing great pressure upon the state. What should its role be? How should it implement this role? PAR should be seen in this context. In analysing PAR in Vietnam, it is significant to take into account the earlier discussion through a typically Vietnamese process involving issues of perception, interests and resource allocation. This is forcing the reformers to seek out creative solutions viable under Vietnamese conditions. It is therefore best to view PAR as a process, rather than policy to be devised and then implemented.

PAR in Vietnam was officially announced at the Eighth Plenum of the Central Committee of the CPV (seventh tenure) in January 1995 and then specified by the Government in March the same year. The programme came out as a result of long

debate within the country leadership and experimentation in different sectors. Its objectives are closely linked to the overall renovation process and to economic reforms in particular, that is, to make the PA responsive to the needs of an emerging market economy. The PAR aims at *"building a PA that is honest, competent, capable of correctly exercising its delegated power and step-by-step modernising itself to effectively and efficiently manage the affairs of the State; a PA that acts as the prime mover to the society in the right direction, serves the people's interests, builds a new way of life and of work in accordance with the law of the society"* (Resolution of the Eighth Plenum of the Central Committee of the CPV, January 1995).

PAR in Vietnam has been undertaken in the context of the reform of the state of SRV, and renewal of the political system. The CPV clearly admitted its deficiencies:

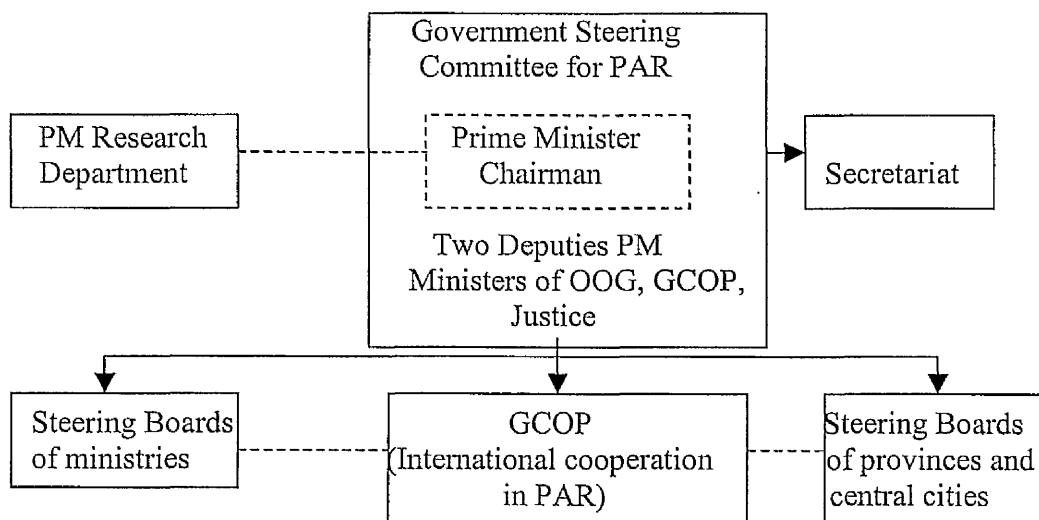
*"Main weaknesses remain in the political system. The competence and efficacy of the Party leadership, the effectiveness of the state management and administration and the efficiency of the activities of political and social organisations have not been up to par with the requirements of the situation. The apparatuses of the Party... have been slow to reorganise, streamline and improve in quality; there remain many instances of bureaucratism and serious violations of the people's democratic rights... All the achievements and shortcomings of the renewal process are closely linked to the leadership and operation of our Party." (CPV, 1996, pp: 22-23).*

It later on asked for the reform of the state and state administration to be linked to the renewal of the political system: *"The reform of the organisation and operation of the state is closely linked to the reconstruction and development of the Party, the renewal of the contents and methods of the Party's leadership toward the state. Since our Party is a ruling party, if it is streamlined, firm, and acquires leadership capacity and high combativity, can the state improve its quality, firstly the political quality, with high effectiveness and efficiency in its operations"* (CPV, 2001). These statements highlight the continuous commitments of the CPV toward PAR.

In order to undertake the important and sensitive reform, the Government established a National Steering Committee for PAR headed by the Prime Minister, who is assisted by a research department for economic and administrative reforms. The Committee includes the First Deputy Prime Minister as the Deputy Chairman, a former Deputy Prime Minister as a permanent member of the Committee, and ministers of key ministries in the reform, such as the Office of Government, GCOP and the Ministry of

Justice. A Steering Board for PAR has also been set up in each ministry and province in order to lead the reform process in their own sector or area (see figure 5.3).

**Figure 5.3** Newly set up mechanism for PAR in Vietnam



Three main reform areas were identified in the PAR process: institutional reforms, reform of the administrative machinery and civil service reform.

A. *Institutional reforms*: High priority in PAR has been given to institutional reforms because, in Vietnam, administrative institutions are seen both as the legal and regulatory framework for the functioning of the state machinery and citizens, as well as the linkage with economic reforms whereby the state machinery develops mechanisms and conditions to manage the economy. Similarly, the link between PAR and other ongoing reforms at the macro level, such as legal reform, SOE reform and the reform of the judiciary,<sup>1</sup> is obvious. The reforms aim to develop a legal and regulatory framework suitable for economic development and to strengthen the relationship between the state and citizens, hence enhancing democracy. The main parts of institutional reforms include: (a) review of the existing legal documents and renewal of law and regulation-making process; (b) reform of administrative procedures; (c) reform of economic, financial and enterprise institutions; and (d) "one door, one stamp" reform.

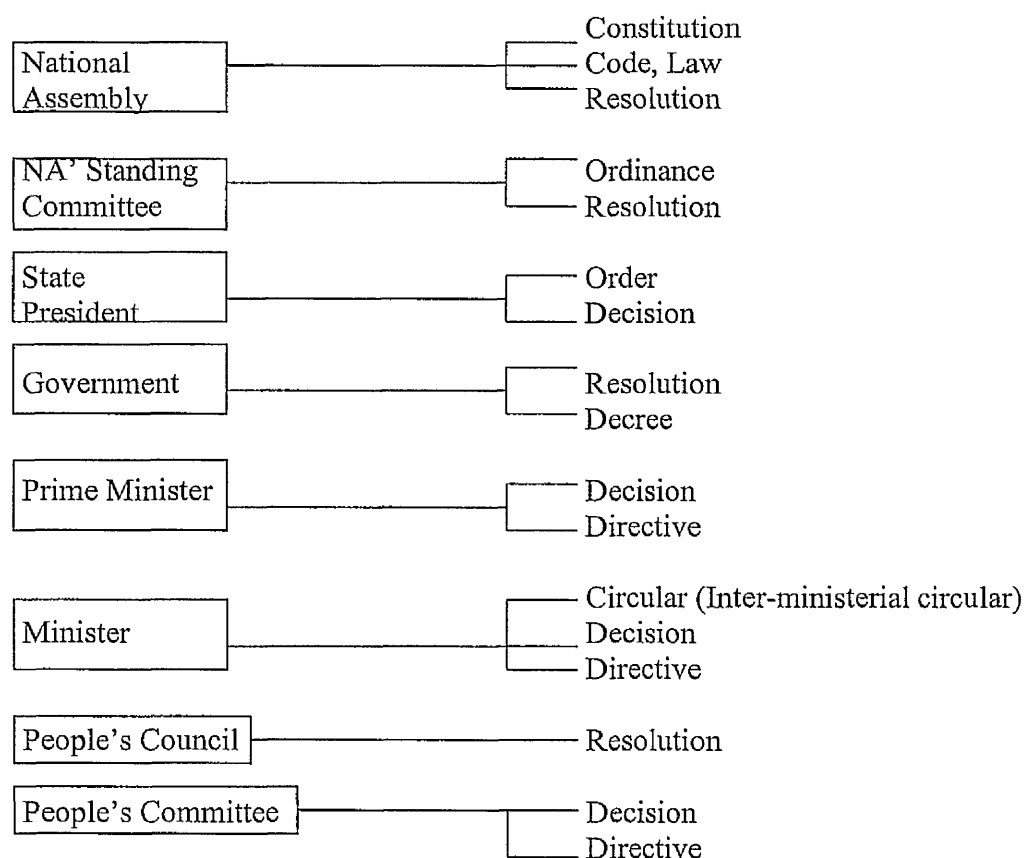
a. Since the country has embarked on *Doi Moi*, the renovation has required the enactment of a great number of legal documents. With the inclusion of the law-making

<sup>1</sup> Vietnam is currently undertaking these reforms with assistance of bilateral and multilateral donors.



programme into the National Assembly's annual activity programme over the last decade, much progress has been made in the legal reform<sup>1</sup> with the enactment of a number of essential laws and ordinances. Improvements have been also made to legal processes in the government system. For instance, before 1996, although some stages of law-making process were institutionalised, there were still few stages conducted based on experiences. To address the problem, the Law on Promulgation of Legal Document (enacted in November 1996) and the Decree 101/CP of September 1997 have provided the power to enact, the form of legal document to be issued by different state organs (see figure 5.4), and the procedures of making and passing legal documents (figure 5.5).

**Figure 5.4** The power to enact and forms of legal document to be issued by different state organs

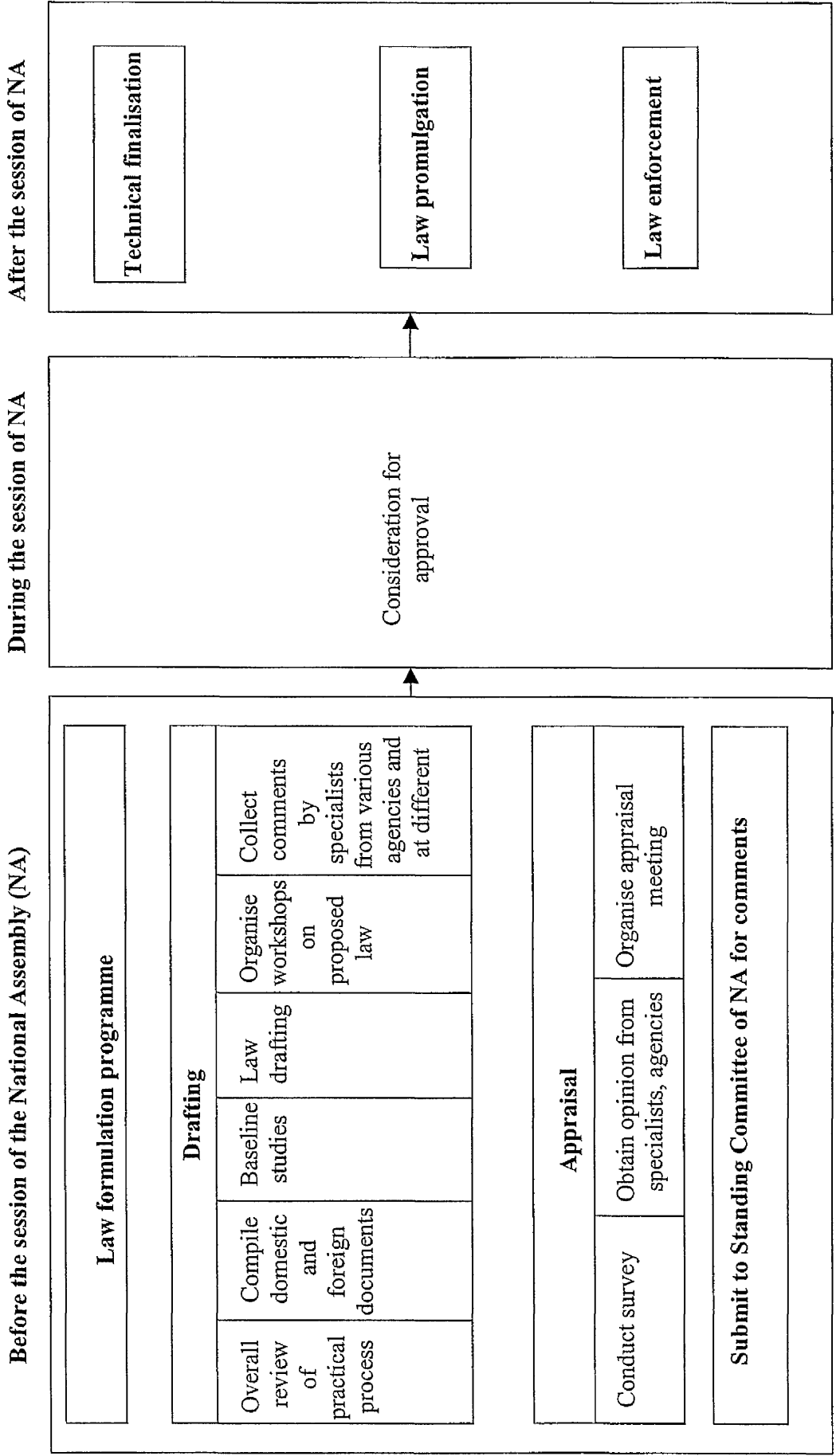


*Note:* ————— : Hierarchical effect of legal documents.

<sup>1</sup> During the thirteen years of *Doi Moi* Vietnam has adopted over eighty laws and seventy-five ordinances compared to the forty years (from 1945 to 1985) period in which only thirty laws have been adopted (UNDP, 1999).

Figure 5.5

## LAW FORMULATION PROCESS IN VIETNAM



In addition to the issuance of new laws, Vietnam has also carried out a review and codification of the existing legal documents in order to point out any overlapping or gap among them and to suggest appropriate alterations. Statistics show that initial results have been achieved: out of 7,059 legal documents issued by the Government and ministries, 2,014 should be repealed, 1,107 should be amended, and defective legal documents account for 45% of them; out of 54,806 legal documents issued by the governments of provinces and central cities there are 9,985 of them that should be repealed and 1,276 should be amended; respectively for implementing the Civil Code (which has taken effect since July 1996), 43 legal documents should be repealed, 49 should be amended and 21 new documents should be developed (source: The statistics from 1996 to 1998 of the Review and Codification of Legal Documents Board).

However, the reform is also faced with mounting criticism, which requires immediate action. *First*, the reform largely emphasises the quantity of the documents to be enacted while paying not enough attention to their quality, thus the quality of some documents is not adequate. *Second*, the process fails to encourage active participation by state agencies, experts and people in the research and survey of the legal base. *Third*, whenever the NA or its Standing Committee is faced with difficulties in making certain provisions in laws or ordinances, it usually entrusts the Government to do so which, by its nature, is a delegation of power. Consequently, the effect of the documents issued by the NA or its Standing Committee must be based on the effect of the documents issued by the Government and relevant ministries or agencies. *Fourth*, there are too many legal documents issued by local governments that lead to the fragmentation of administrative power of the government upon the local governments. Many documents issued by the central government are not enforceable until the local governments issue documents to implement them (Secretariat of the Government Steering Committee for PAR, 2000).

b. The reform of administrative procedures started before the official launching of PAR. In May 1994, the Government issued Resolution No. 38/CP on one-step reform of the PA with the focus on reforming administrative procedures in eight areas directly related to people and enterprises. The eight areas include setting up enterprise and business registration; foreign direct investment; export, import; immigration; construction licenses and certificates on land use rights in urban areas; allocation of the State budget; complaint, denunciation; public notary, registration of civil acts and

resident registration. This reform aims to lift a number of barriers for the functioning of enterprises and to ease the life of a majority of population.

Since 1994, numerous improvements have been witnessed in this reform. Each of the central ministries and agencies, and provinces has reviewed their own procedures and removed unnecessary procedures and unreasonable fees. As a result of a decision by the Prime Minister, 84 types of "unnecessary" permits in state management have been removed. Particularly in the field of business registration, the procedures have been much streamlined and the duration has been much shortened (from dealing with multiple public agencies requiring multiple permissions over a period of years to just one focal point for 15-30 days), thus paperwork has also been much reduced. The new procedures required amendment and merging of the former Law on Private Enterprise and Law on Company (both were put into effect in 1998) into a new Law on Enterprise (2000), which brings a more open investment environment to all sectors of the economy. Other improvements include the application of uniform forms and documents and publishing procedures and fees in public offices for the public. And annually, approximately 80 per cent of complaint and denunciation cases have been settled by state agencies at the central and local level (The Secretariat of the Government Steering Committee for PAR, 2000, p: 36).

On the other side of the coin, the reform of administrative procedures has been considered as ad-hoc measures lacking general application. Indeed, administrative procedures are the most centralised manifestation of how the state interferes in the economy and society, but the question of how and how much the state should intervene in the business sector and the life of individuals is still open to answer. In addition, the nature of reform is learning by doing: one cannot go far without proper review and gathering best practices. State employees who deal with investors and public may disclose their discontent with the streamlined procedures and fees, as these were their source of income in the old mechanism of "begging - granting" (*xin - cho*) in the central planning system. This situation may affect the quality of service they provide, not to mention their capability to work with the streamlined procedures.

c. Although the reform of public finance was not included in the PAR programme in 1995 as a separate item, its components of reform of economic, financial and enterprise institutions were put in the institutional reforms. The reform aimed to establish a legal basis for the development of economic sectors and the diversification

of ownership; to restructure the SOE sector to meet the new economic mechanism; to reform monetary and financial policies with the focus on taxation and banking reforms; and to ensure the freedom and fairness in the functioning of the various economic sectors.

As analysed by a number of authors (e.g. Fforde & de Vylder, 1996; WB, 1996; Litvack & Rondinelli, 1999), after the period 1989-1991, Vietnam has acquired fundamental principles of a market economy. Since then consolidation has been made for different entities to get involved in business activities, freedom to run business and to contract has been granted, and free price and fair competition have been put into practice. Issues of ownership were restated in key documents of the highest leadership (Resolution of the Ninth Congress of the CPV, 2001), and the grant of land use rights to individual families started in 1997. The Law on Enterprise of 2000 was a plausible event for free markets to blossom. Since the promulgation of the law, more than 60,000 enterprises are reported to have registered. Frameworks for equitisation of SOEs, enterprise bankruptcy, means for economic dispute resolution are put in place. The most significant implication of these developments is the redefining of the role of the State by distinction of the State governing the economy from the function of running business and production activities.

As transition in Vietnam continues, the economic institutions are still far from being complete. Despite mixed results, they fall short of many constituents of a market economy such as a productive elements market, an immovable property market, and a technology market. The lack of these markets brought in the formation of an illegal capital market, which is difficult for the State to control. They are lacking coherence, internal unity and stability. The lack of integrity is indicated in the current mismatch between policies set forth and organisations to carry them out. For instance, although the State has issued regulations on stocks and bonds, which are in fact operational, organisations in charge of the secondary market such as a stock exchange centre, a stock investment fund, and a stock auditing company have not been established. In addition, due to inadequate expertise of policy-makers in this field, regulations on capital management are not drafted well, particularly with respect to capital in SOEs, leading to huge losses in capital and widespread corruption. All these bring back the fundamental question of the managing role of the State over the economy, which is not clearly redefined. The issues must be dealt with in the PAR process.

d. The transition to a market economy requires not only changes in state organisations, but also in the way the operations of the organisations are carried out, particularly in the relationship with the public. The initiative of the "One door, one stamp" (One stop shop) was developed in the implementation of the Resolution 38/CP by the Government in 1994. The idea of this mechanism is that whenever a citizen or an organisation has a matter to be settled by a state agency, this citizen or organisation should only have to get in contact with and receive the result of such settlement from this one state agency. All administrative procedures, what kind of documents to submit, time limits for the answers, administrative fees, etc. are publicly posted at the office. Before this model, the citizen had to travel five to seven times to four or five agencies for the resolution of their business, now they have to come only twice to one agency. Almost all local authorities are now able to solve 90 to 97 percent of all matters received in a month (The Secretariat of the Government Steering Committee for PAR, 2000, *op. cit.*).

The application of this model is very much welcomed by the citizens as it improves the relationship between the state agencies and the citizens, but it has created a number of new issues, to name a few among which are: lack of expertise of the frontline staff and insufficient delegation of power, coordination among state agencies and remuneration for the staff. Details of this model will be further discussed in Chapter 7 of this thesis.

e. In an attempt to enhance democratic participation of the people, particularly of the ordinary citizens and employees, and to involve them more into the process of decision making of the administrative agencies, the CPV and the government enacted three decrees in 1998 on promoting democracy at the grassroots level, in public agencies, and in SOEs. These decrees specified those areas in which the people discuss and decide by themselves (*e.g.* policies on mobilising local labour for building welfare and infrastructure objects; public fund establishment etc.); the people discuss and the authority decides (*e.g.* the development of village rules, or regulations on villages of cultural significance); and the authority decides (*e.g.* quarterly, bi-annual or annual performance reports plus self-criticism by heads of local authorities before the public). During 1998-2000, pilots of practice of democratic participation were conducted in three provinces, Quang Ninh, Son La, and Kien Giang. A review conducted by GCOP reveals that the decrees were welcomed by the people and their voice was better heard

(GCOP, 2001). These results were then expanded to the entire country with mushrooming forms of wider popular involvement in the operations of the authorities.

**B. Reform of the state machinery:** The PAR programme gives high priority to restructuring so as to define state management functions in a market economy to overcome an unsynchronised, overlapping and inconsistent system of administrative institutions and to simplify cumbersome administrative structures and procedures.

The current situation of administrative structure has been subjected to severe criticism because there are unclear definitions of individual state agencies, unnecessary and irrational duplications and overlapping in roles and functions of state management. This leads to the fact that individual ministries and agencies do not necessarily know exactly what their terms of reference are, what they are supposed to do and to what extent. Confusion and ambiguity still remain between those agencies responsible for policy-making and those in charge of carrying out the policy. Even the statutes governing the organisation, tasks and functions of the agencies are made in general, incohesive and unclear manner, making the agencies difficult to operate. Since the start of *Doi Moi*, the Government has carried out reforms in different aspects of its organisational structure in an attempt to make it more streamlined, focusing on the central level, the local governments and SOE sector.

a. At the central level, as compared with 1986, the government organisational structure has reduced from 76 to 48 agencies, which include 17 ministries, 6 ministerial equivalents and 25 government agencies (see figure 5.6). One of the major restructuring efforts was the merging of 8 ministries and committees into 3 ministries in 1995. These are:

- the Ministry of Agriculture and Rural Development from the former Ministry of Agriculture and Food Industry, Ministry of Forestry and Ministry of Irrigation;
- the Ministry of Industry from the former Ministry of Heavy Industry, Ministry of Light Industry and Ministry of Energy;
- the Ministry of Planning and Investment from the former State Planning Committee and State Committee on Cooperation and Investment.

This merging has also resulted in a reduction of 38 departments within the ministries and consequently the number of offices in local governments has also decreased.

**Figure 5.6** List of Government Ministries and Ministry Equivalents in Vietnam

<b>Ministries:</b>	
1. Ministry of Agriculture and Rural Development	10. Ministry of Industry
2. Ministry of Aquatic Products	11. Ministry of Interior*
3. Ministry of Construction	12. Ministry of Justice
4. Ministry of Culture and Information	13. Ministry of Labour, War Invalids and Social Affairs
5. Ministry of Defence	14. Ministry of Planning and Investment
6. Ministry of Education and Training	15. Ministry of Science, Technology and Environment
7. Ministry of Finance	16. Ministry of Trade
8. Ministry of Foreign Affairs	17. Ministry of Transport and Communication
9 Ministry of Health	
<b>Ministerial Equivalents:</b>	
1. Committee on Ethnicity and Mountainous Areas	4. Office of Government
2. Committee on Sports and Games	5. State Bank of Vietnam
3. Government Committee on Organisation and Personnel	6. State Inspection

*Source:* adapted from UNDP (1997) Government Directory of the SRV, and The Secretariat of the Government Steering Committee for PAR (2000).

\* Ministry of Public Security

In 1999, while recognising the importance of trimming down the structure of the PA, the Government conducted a review of functions and tasks of all central ministries, agencies and localities. The review aimed to work out all overlapping and gaps that existed in the machinery which revealed more than 140 duplications and overlaps in the functions of the central level agencies<sup>1</sup>. On the basis of the review, organisational reshuffling continued with two general departments in the Ministry of Finance that were vertically structured from the central down to the local levels, namely the General Department of SOE Capital and Assets Management and the General Department of Development Investments. Consequently, the abolition of the general departments led to a reduction of 106 vertically-structured entities in the localities (MOF, 2000).

Considerable efforts are being undertaken in the reform of government-affiliated agencies, the list of which is contained in figure 5.7. The agencies are considered numerous, diverse in functions and title, and disunified in organisational

<sup>1</sup> Nguyen Huu Tri, Interview, November 2001.



matters. Among them, there has been no definite clarification and delineation between those exercising public power and those providing public services. The reform directions for these agencies include placing those agencies that have functions of state management related to a ministry under the jurisdiction of the ministry; merging those agencies that have the same or similar functions and mandates into a single agency or ministry if eligible; just keeping intact a small number of agencies under the direct control of the Government.

**Figure 5.7** List of Government-Affiliated Agencies in Vietnam

1. General Department of Post	14. National Centre for Natural Sciences and Technology
2. General Department of Hydrometeorology	15. National Centre for Social Sciences and Humanities
3. General Department of Customs	16. National Committee on Population and Family Planning
4. General Statistical Office	17. National Reserve Agency
5. General Department of Tourism	18. State Audit Agency
6. General Department of Land Administration	19. State Securities Committee
7. Government Committee on Codes	20. Vietnam Civil Aviation Agency
8. Government Committee on Frontiers	21. Vietnam's Committee on Children's Protection and Care
9. Government Committee on Religion	22. Vietnam News Agency
10. Government Committee on Pricing	23. Vietnam Social Insurance Agency
11. Ho Chi Minh National Academy of Political Sciences	24. Vietnam Television
12. Management Board for President Ho Chi Minh Mausoleum	25. Voice of Vietnam
13. National Academy of Public Administration	

*Source:* The Secretariat of the Government Steering Committee on PAR (2001).

In addition, the government recognises the increasingly important role of mass organisations in the delivery of several public services. Alongside the efforts to streamline the administrative system, efforts have been underway to strengthen the current socio-political organisations in the political system, namely the Fatherland Front, the Trade Union, the Youth League, the Women's Union. Being political arms of the CPV, these organisations play a critical role in encouraging popular participation in fulfilling the tasks assigned by the state. While other mass organisations such as the Association of War Veterans, or the Association of Vietnam's Farmers, continue to receive support from the state, a number of voluntary organisations have emerged at

both central and local levels<sup>1</sup>. Many of these are working with communities to develop production and income raising activities, thus reducing poverty of the local people. In order to facilitate the registration and operation of the organisations, the government established a department within GCOP to deal with non-governmental organisation (NGO) matters in 1997. A draft law governing NGOs is being developed with the involvement of the department and other mass organisations concerned (GCOP, 2000).

b. The reform of organisational structure at all levels of local authorities has been carried out together with changes at the central government. There are currently three layers of local government: provinces and cities under the Government; districts, towns and cities under provinces; and communes and townships. At each level there are a People's Council (selected body) and a People's Committee (administrative body). The reforms aim to simplify and reduce the number of focal points in the administration and to improve the quality and effectiveness of state management.

Bold steps have been undertaken to reduce the number of departments and divisions at the provincial and district levels, the most obvious example being the merger of the former departments of agriculture, of forestry and of irrigation into the current department of agriculture and rural development. If before there were 38-40 departments and offices in each province, the numbers are now reduced to 20-24. The number of divisions at the district level has also been reduced from 20-25 to 10-11<sup>2</sup>. At the communal level, the organisation has been restructured to become more suitable to the conditions and characters of the locality. Two main directions can be seen in this reform: restructuring the local departments into multi-sector management units and the reduction of some intermediary services and unnecessary units, particularly at the district level.

At the present time, discussion is increasing about the role and function of the governing authority at the district level. Historically, districts were seen as "revolutionary castles" during the wartime because they were given a lot of autonomy in production as self-contained units as well as in the struggle against aggressors. But nowadays, in the context of peace and development, with the application of scientific and technological progress, this role is no longer appropriate. It is argued that while the

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<sup>1</sup> The number of registered voluntary organisations now is 186 (NGO Department, GCOP, 2001).

<sup>2</sup> Nguyen Ky, Interview, November 2001.

provincial and communal levels should be strengthened, the district level should be rearranged into an "incomplete authority level". This means that there will be no People's Council at the district level, and the district People's Committee will function as an administrative body with limited power. As such, the structure of the PA will be slimmer by gradually reducing one authority level from the four-tier administrative structure while giving more function, management autonomy and power to the provincial and communal levels.

c. Together with above-mentioned changes in the organisational structure at the central and local levels, the overall picture of SOEs has also been substantially readjusted. While other sectors have rapidly developed in the economy, the state sector and its SOEs were officially restated by the Government as the leading force in the national economy. Although the role of SOEs in the economy still raises a lot of debate, initial reforms have been carried out in order to restructure the sector to be more productive in its business.

The first step undertaken in the early 1990s was an attempt to reduce the paternalistic patronage of ministries or authorities over SOEs, thus leaving the SOEs with more autonomy in the process of production and business. This was followed by a review of the situation of the enterprises to serve as a basis for dissolving a number of those enterprises, which made losses. In 1994, the Government issued two decrees No. 90/CP and No. 91/CP on the establishment of general corporations under the control of the Government and of ministries. From 1995 the process of equitisation of public enterprises started with some pilot SOEs. This equitisation has accelerated particularly from 1998. Although the pace and the speed of the reform are criticised as slow, the combined efforts have reduced the number of all public enterprises from approximately 12,300 in the pre-reform period to the present 5,300 (see chapter 4 for more details).

### *C. Civil service reform:*

a. HRM: At the present time, there are more than two million public employees working for the state machinery from the central down to the grassroots levels (including the staff of authorities of all levels, party organisations, mass organisations and the armed forces). The employees count for 2.8 percent of the country's population

and are paid from the state budget. However, the number of civil servants<sup>1</sup> is approximately 1.3 million, out of which 203,000 are involved in state management activities (see table 5.3). This number is not very large when measured against the responsibility of a country of 78.2 million inhabitants.

**Table 5.3** Size of Vietnamese Civil Service (Selected Years)

Year	Central level	Local level*	Total
1975	129,517	348,800	477,317
1978	211,166	744,280	955,446
1984	247,991	932,536	1,179,527
1987	268,331	998,266	1,266,597
1991	210,195	997,716	1,207,911
1994	182,139	947,510	1,129,649
1999**	198,828	1,116,973	1,315,801

Source: Adapted by Nguyen Tien Dung (2000) from:

Wage and Employment Department (GCOP)

\* Comprises two levels (provincial and district)

\*\* To chuc Nha nuoc (State Organisation Review), May 1999.

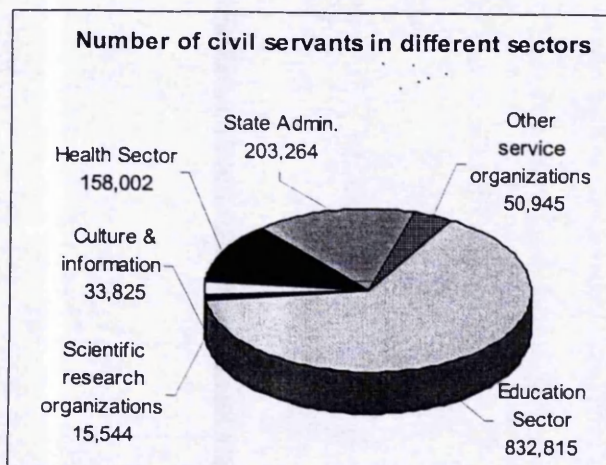
Figures 5.8 and 5.9 below show the number of civil servants in different sectors and at the central and local levels. While the majority of civil servants work in the different service sectors, the number of civil servants working for state administrative agencies<sup>2</sup> is only more than 203,000 people. In the service sectors, the largest numbers of civil servants work for education and health sectors, and the least number is scientific researchers. It is anticipated that the further extension in the education and

<sup>1</sup> According to the ordinance, civil servants are those employees who work for the agencies of the three branches of the state, *i. e.* the National Assembly, the Government, the People's Court and the People's Procuracy (excluding several types of supportive staff, such as drivers, security guards). Those, who work for party organisation, for socio-political organisations (*i. e.* the Fatherland Front, the Trade Union, the Youth League, and the Women's Union) are cadres. Employees working at the communal level authorities are not considered civil servants. Instead of monthly salary, they get allowances and fringe benefits from the state budget.

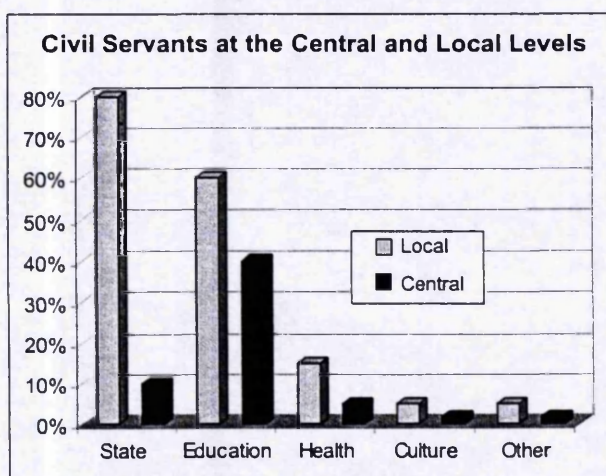
<sup>2</sup> In the context of Vietnam, the term "state management" is loosely meant as "exercising state power", the power of the three branches of the state (the legislature, the executive, and the judiciary); the power to make decisions of lateral authority. Vasavakul, T. (1999, p: 177), quoting Pham Quoc Te (1993), provided the following two definitions of state power in Vietnam: "*The narrow definition considered state power as administrative power; the broad one treated it as the strength of the state based on public coercive instruments (cong cu cuong che cong khai). A person or an organisation would represent the strength of the state when they were delegated to exercise organisational power. State power is a total power deriving from all levels of state coercive agencies and state cadres over organisations, legal entities and citizens.*" In this way, two types of public agencies are distinguished, namely administrative agencies (*co quan hanh chinh*) or state management agencies, *i. e.* line ministries, several government affiliated agencies such as the General Department of Land Administration, and People's Committees of the provincial and district levels; and service agencies (*co quan su nghiep*) that are responsible for delivery of public services. State hospitals, schools, research institutes and training institutions are service agencies.

health sectors will bring more employees to work for the sector in the years to come (GCOP, 2001b, *op. cit.*).

**Figure 5.8** Number of civil servants in different sectors in Vietnam



**Figure 5.9** Civil servants at the central and local levels in Vietnam



Source: extract from PAR Review Report of Group 4 (2000)

There have been a number of inadequacies related to the civil service in the context of one party governing the state. The legal and institutional framework for the civil service had not been adequately developed up until 1993 when the Prime Minister issued the Decree No. 25/CP. Despite the effect of the Decree and subsequent legal and regulatory documents governing HRM, there has been a failure in defining a clear division between civil servants and cadres or between different types of public employees, hence their duties and obligations are stated in general terms only. Most of the civil servants have been trained in the centrally-planned and subsidy economy, therefore they lack new knowledge of the market economy. Another related issue is an

insufficiency of professional staff at the macro policy-making level. The local staff is generally large in quantity but low in qualifications because most of them received inadequate training<sup>1</sup>.

In May 1998, after a few years of sharp debate, the Ordinance on Cadres, Civil Servants was finally promulgated to serve as a legal basis for the functioning of the civil service. Once again, the confusion between the concepts of cadres and civil servants is reflected in the title of the ordinance. Anyway, this law establishes important preconditions for a more merit-based civil service system. Since then, initial improvements have been achieved in the conduct of entrance examinations, examinations for promotion, training and retraining, and in making positions, grades and levels of civil servants standardised. However, the implementation of the ordinance so far has also revealed numerous problems in regard to HR planning, quality of civil service recruitment, retention, promotion and rotation, reward and discipline, control and inspection, etc. These require that more reinforcement needs to be done in the direction of enhancing the quality of HRM<sup>2</sup>.

In March 2000, a big downsizing (rightsizing) programme<sup>3</sup> was introduced across the administrative system. Given the redefined role of the government that will be required to manage a market economy, the size of the public service needs to be adjusted. Although new regulatory and other functions may require some additional staff, it is expected that there will be a reduction in the size of the public service. Higher salaries for public servants will not be affordable unless the size of the service is smaller. And appropriately skilled staff will be difficult to recruit unless salaries are competitive and adequately linked to performance. The first phase of downsizing of the PA in Vietnam is led by resolution No. 16/2000/NQ-CP on reduction of payroll in administrative agencies and public service units adopted by the Vietnamese Government on October 18th, 2000. The resolution sets the target for reducing the year 2000 payroll by about 15 percent in the state management agencies and the indirect payroll in the public service units by end 2002. The implementation of the downsizing programme until end 2002 is based on this resolution.

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<sup>1</sup> Thang Van Phuc, Interview, November 2001.

<sup>2</sup> Bui The Vinh, Interview, November 2001.

<sup>3</sup> The programme was initiated by the CPV at its Seventh Plenum (Eighth Term of Office) in August 1999.

In preparation for this, a comprehensive database of government employees at all levels is being assembled by GCOP. Each ministry and agency has submitted its downsizing proposals to the Prime Minister. Proposals for severance payments include a one-time allowance of approximately US\$ 1,000 (VND 15 million). Until the end of 2002, the Government estimates the severance pay package will be paid to 45,000 civil servants and the approximate costs for this exercise will be US\$ 45 million. The cost of downsizing during the period 2003-2005 is currently estimated to be US\$ 100 million (WB, 2001). But this should be subjected to more rigorous analysis using the experience with redundancies under the SOE programme. In addition to that, the costs for retraining people that will be moved to new job positions will have to be added. However, it is important to take into account the uneven success of similar programmes in other countries<sup>1</sup>. The Government should proceed cautiously in this area, and ensure that it is the less effective civil servants that are to receive severance and that appropriate transitional mechanisms are put in place while subjecting severance payments to rigorous cost-benefit analysis before going ahead on a large scale.

b. Salary reform: Similar to the employment issue, salary has long been a reform subject in the history of the government. As a consequence of a decade of economic recession and hyperinflation across the 1980s, there has been a sharp reduction in real wages. That is also the reason why civil servants in Vietnam have to do other part-time jobs to earn extra income (a kind of moonlighting, as the pungent Vietnamese phrase "*the outside foot is longer than the inside foot*", Fforde and Vyllder, 1996). Extra income is often much higher than that paid from the main job by the government (see table 5.4). The erosion of wages and low salaries in the public sector no longer encourages the in-service civil servants or attracts talented people into the public service.

A fundamental reform in the salary system started in May 1993 with the setting of the minimum salary level at VND 120,000 per month<sup>2</sup>. The salary included other remuneration such as housing, commuting, and medical insurance. Basically, the

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<sup>1</sup> For example, Nunberg (1995, 1997) analysed civil service reforms in a number of African countries and came to a conclusion that despite certain successes, most of the efforts failed because of poor reform agendas; non-sequencing reform activities; political factors, such as pervasive political influence, nepotism and corruption; lacking capacity and coordination; and disconnection from political and economic reforms.

<sup>2</sup> In 1993 the exchange rate was VND 10,000 for US\$ 1.00

**Table 5.4** Income Structure in Vietnamese Civil Service: Selected Groups (1995)

Civil service group	Salary-based income (%)	Extra income (%)
University lecturers	37.8	62.2
Secondary school teachers	62.8	37.2
Medical doctors (at central level)	59.3	40.7
Scientific researchers/technicians	40.5	59.5
Mass media (Vietnam Television)	22.5	77.5
Customs service	36.1	63.9

Source: State Salary Commission (1995).

income of public servants has been translated into monetary terms (their main income has been salaried). Salary scales have been worked out on the basis of specification and characteristics of different types of public employees in the PA (elected personnel, administrative staff, workers in SOEs etc.). This was the first time specified salary scales were designed for civil servants, which were based on positions, and performance standards for each civil servant's grade<sup>1</sup>.

Despite initial achievements of the reform, shortcomings and weaknesses still exist in the salary system. In general, salary is not sufficient to cover all expenses for an average living standard of public servants in the society, therefore moonlighting continues and the state cannot control the real income of cadres and civil servants. Differences in salary between administrative, service and business sectors are widening with the salary in the administrative sector lowest, thus becoming a cause for fraud and corruption<sup>2</sup>. Remuneration packages for cadres at the grassroots level are irrelevant and lead to demotivation among the staff (e.g. fringe benefits for the chairperson of the People's Committee of a commune is set at only VND 370,000 per month, equivalent to US\$ 25). In addition, real wage value continues to drop. In 1998, inflation rose by fifty-two per cent, but minimum salary increased only by twenty per cent (to VND 144,000) and in early 1999 was equivalent to just more than seventy five per cent of that in 1993 (Vu tien luong, quoted by Nguyen Tien Dung, 2000). At the beginning of 2000, the government raised the minimum salary level to VND 180,000, and then in the middle

<sup>1</sup> Doan Cuong, Interview, October 2001.

<sup>2</sup> Doan Cuong, Interview, *op. cit.*



of the same year to VND 210,000. With such an increase, the government wage bill rose to forty per cent of the state budget (Lao Dong newspaper, April 6th, 2000).

It is now anticipated that the salary system for cadres and civil servants will be fundamentally reformed by 2005 through fully monetising salaries and adjusting salary scales. In addition, allowances for skills and a form of performance-based salary system will be introduced (UNDP, 2001).

c. Training and retraining of public servants inevitably play an important role in PAR since they provide and improve knowledge and skills to meet the new demands of the transition to a market economy. In Vietnam, the system of training institutions for PA include the National Academy of Public Administration and the Ho Chi Minh National Academy of Political Sciences at the central level, 61 provincial schools of politics, 30 professional training colleges at different ministries and about 600 training centres at the district level. These institutions provide training activities within the framework of the Decision No. 874/TTg issued on November 20th, 1996 governing HRD for the civil service.

For the past decade, the number of public servants undertaking training has increased remarkably. For NAPA only, table 4.5 below represents an obvious increase in the number of trainees attending courses organised by the academy during the six year period. Counting in general for the whole country, if in 1998, 15 per cent of public servants from central government agencies and 10 per cent from local authorities attended training courses, the figures rose to 20 per cent and 12 per cent respectively in 1999 (The Secretariat of the Government Steering Committee for PAR, 2000). Together with this, training curricula have also been improved in the direction of reducing theory and focusing more on professional and management skills. Qualifications of the training staff have been strengthened both in terms of subject matters they teach, and the more interactive, participatory methods of training they apply in the classroom.

**Table 4.5** Number of public servants attending courses at NAPA, Vietnam (1990-1995)

	1990	1991	1992	1993	1994	1995
Short-term courses	1,389	2,397	2,058	2,657	6,025	7,600
Long-term (formal) courses	82	82	96	84	72	170

Source: Nguyen Duy Gia (1996, p: 313)

Given the initial improvements, training activities of the government are still subject to criticism that arises not only in regard to the organisation of the system, but also the quality of training. The tendency to focus more on the number of trainees has, to some extent, made the quality of training suffer. While there are two academies at the central level which provide training curricula and materials, provincial schools of politics are under their double subordination, therefore decentralisation of the training function is sometimes not clear. Training activities are often conducted following the requirements for different corps of civil servants, rather than on the basis of training needs. Control of training quality is not adequate to ensure that courses' participants are equipped with proper skills and knowledge required for their work. Furthermore, there is a tendency to commercialise training courses for the civil service while the main purpose of HRD is neglected<sup>1</sup>. These issues are now being reviewed and consequent adjustments will be made in the next phase of PAR.

#### *D. Foreign assistance to the PAR process:*

Apart from the efforts and inputs of the government, Vietnam has enjoyed enormous assistance and funding from donor's community for PAR. Recognising the importance of an improved and efficient PA to facilitate economic transformation in Vietnam, both multilateral donors, such as UNDP and ADB, and bilateral donors, such as the governments of Sweden, of the Netherlands, of Canada has provided support to the process through a number of TA projects. By May 2000, there were 17 projects for PAR with the total fund of approximately US\$ 48 million (see table 5.6 below). The projects have so far been coordinated by the Government Committee on Organisation and Personnel (GCOP, May 2000).

While the assistance and funding are of great importance for Vietnam in the reform process as they provide opportunities to strengthen the capacity of recipient agencies through policy workshops, exchange of ideas, new equipment and training activities, there are a number of issues that need to be addressed. On the donors' side, overlaps still occurred due to their poor coordination and information sharing as in the case of late 1999 whereby ADB and UNDP were separately funding GCOP to develop

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<sup>1</sup> Pham Kien Cuong and Bui The Vinh, Interview, November 2001.

Table 5.6 Donor's on-going involvement in Vietnam's PAR programme

Programme Area/Donors	1		2		3		4		5		6		7	
	Legal	MOJ HCM City	Organisation	MARD HCM City Hai Phong	Downsizing	GCOP	HRM&D	HCM City GCOP	Salary	GCOP	Finance	MOF	Modernisation	HCM City Hai Phong
UNDP	MOJ HCM City	MARD HCM City Hai Phong	GCOP											
SIDA	MOJ													
DANIDA		OOG	NAPA											
ADB		OOG												
NORAD		Ninh Binh												
Switzerland	Quang Binh Nam Dinh													
France	MOJ													
Germany		MARD GCOP												
WB														
DFID														
Finnida	Quang Tri													
Australia														
Japan														
Netherlands		MARD Hai Phong												
Canada														

Source: Adapted from UNDP (2001)

a PAR strategy. The situation is worse on the government's side where the absorptive capacity is still low, and coordination among different agencies and localities is poor. At the NA session in 2000, the minister of GCOP was questioned by a number of deputies about foreign assistance for PAR. Their view was that despite lots of money having been spent, tangible results have not been many. It is required that for the assistance to be effective, these issues must be addressed in the next round of administrative reforms as donors have indicated their further willingness to give support (UNDP, 2001, *op. cit.*).

#### **E. Master Programme for PAR:**

After a few years of implementing PAR in Vietnam, the Government organised a mid-term review in 2000 with assistance from UNDP. The main findings of the review are that, despite positive initial results, PAR efforts have been still piecemeal and fragmented, and do not sufficiently support economic reforms. Criticism is mounting about both the scope and speed of PAR. An overall assessment of progress on PAR was given at the Ninth Congress of the CPV in Mid-2001, which clearly showed the undesirable failure in PAR, despite the fact that a considerable amount of efforts, projects and money were put into the process:

*"Administrative reform has been slow and irresolute, and results meagre. The State apparatus has been organisationally cumbersome, with overlapping functions, numerous intermediaries and harassing administrative procedures; with not a few cases of disharmonious actions between higher and lower levels, and central and local authorities, hindering socio-economic development and reducing development opportunities. Certain individuals, due to personal and local interests, have been reluctant to step up administrative reforms and reform of the State organisation and apparatus. Not a small number of public officials and employees have been substandard both in ethics and integrity, and in job qualifications, professional capacities and vocational skills." (Central Committee's Political Report to 9th Congress of the CPV, 2001).*

The Government recognises that building a modern governance structure is fundamental to Vietnam's transition to a successful market economy. It is impossible to implement reforms and allocate public resources effectively in a sustained way without a strong and well-functioning PA. Neither can a multi-sector economy grow rapidly and in a sustainable manner without a strong commitment to the rule of law and to an independent court system. Therefore, in September 2001, the Government approved a

master programme for PAR which covers the four related areas of (i) organisational restructuring; (ii) HR reforms; (iii) institutional improvements; and (iv) public finance management (see the full text in appendix 5.2). Seven national programmes have been established to conduct the reform, each under the leadership of a specific government agency (see figure 5.10).

**Figure 5.10** Vietnam's PAR Master Programme 2001-2010: Four Pillars and Seven Programme areas

**Organisational restructuring**

1. Redefinition of roles, functions, and organisational structures of the agencies in the PA system (Lead Agency: GCOP and the Office of the Government - OOG)
2. Modernisation of the PA system (Lead Agency: OOG)

**Human Resource Reform**

3. Downsizing (Lead Agency: GCOP)
4. HRD: building and improving quality of public servants (Lead Agency: GCOP and NAPA)
5. Salary reform (Lead Agency: GCOP)

**Public Financial Reform**

6. Reform of financial management mechanism in the public sector (Lead Agency: Ministry of Finance)
7. Improve the process of law-making and of developing and issuing legal documents (Lead Agency: Ministry of Justice)

*Source: WB (2001, op. cit.).*

This is the first time ever in Vietnam that a long-term and comprehensive programme has been developed and served as an overall strategy for PAR with a vision of a modernised PA in the years to come.

**4.3.2 PAR in China:**

The Chinese government's experience of administrative restructuring (major reforms were carried out in 1952, 1955-1956, 1962, 1982, 1988, 1993 and 1997-1998) has stretched over many years. The most recent major reforms were conducted in 1982, 1988, 1993 and 1997-1998 with the focus on institutional reorganisation and staff reductions. Prior to the economic reform and open-door policies of the 1980s, China practised a traditional command economy with extensive control of the economy and society. In the 1960s and 1970s, as the economy expanded and the population grew, the government's workload increased. Consequently, government organisations multiplied

and the number of government employees grew. The ratio between government officials and the population of the country was 3,900 to 1 in Tang Dynasty (618-906 AD), 2,900 to 1 in Ming Dynasty (1368-1644 AD), 291 to 1 in 1950s, 50 to 1 in 1978 and 29 to 1 in 1994 (Jin San Jiao, 1998).

#### A. *Administrative reform in 1982:*

The first "organisational reform", which began in 1982, was designed to cut down redundant staff and employ younger cadres. In view of the problem that leading groups of all levels, at that time, were overstaffed with aged personnel, the aim of making cadres younger, revolutionary and knowledgeable was proposed. Through this reform, the number of units subordinate to the State Council were reduced from 100 to 60, groups of leaders were substantially reorganised. Statistics of 38 ministries and committees showed that the number of ministers and vice ministers, directors and vice directors of departments reduced by 67 per cent and the average age of the staff was down from 64 to 58 (Peilun, W. 1992, p: 19). These figures imply that during the initial period of administrative reform in the opening era, the main achievements "*were characterised by optimisation and improvement of the age composition and professional knowledge structure and moral integrity of employees at central and local governments as well as the elimination of the tenure system*" (Dexin, Z. & Lijia, Z. 1998, p: 184).

Although the new concept of organisational reform was put forward, economic reforms were still in their initial period, and due to insufficient experience in administrative reforms, the results were mainly the abolition or merging of organisations while reforms of other aspects of the administrative system were left aside. Soon after, organisational expansion recurred. Up to 1988, the number of units under the direct control of the State Council increased from 60 to 72.

With the widening of economic reforms in China, the government was more acutely faced with new demands, particularly in extending decision-making power to localities and enterprises. In 1986 Deng Xiaoping said "*The main problem is that the reform of the political system has not satisfied the demands of the reform of the economic system. As a result, without reforming the political system, the achievements of the economic system cannot be guaranteed and economic reform cannot be further implemented*". The aim of the political reform was how to motivate the mass into business, to improve efficiency and to do away with bureaucratic practices. The focus

was then to separate the functions of the CCP and the Government, to address the problem "how to lead and how to lead well", and to delegate power to local governments. As such, administrative reform was considered as an essential component of the political reform. In 1986 and 1987, the Government developed plans for further organisational reform, which was adopted by the Seventh National People's Congress in March 1988.

#### ***B. Administrative reform in 1988:***

The second round of administrative reform started early in 1988 with the task of "transformation of government functions" set forth for the first time. The aim of the reform was central government agencies, with experiments conducted in a number of local governments. The aims and policies for this were clearly stated; therefore positive results were achieved.

This reform was not carried out hastily. A series of experiments had been conducted earlier in medium-sized cities; lessons and experiences were gathered and put into practice in the reform process.

The reform was conducted in close connection with economic and political reforms.

It was not just simply to merge organisations and reduce staff. The main idea was to change the functions of the Party and government organisations, and to restructure the relationship between organisations, and departments concerned. While the Party remained the leading force, it should not interfere in the macro management function of the government. The PA was required to focus more on macro policies and on the creation of a favourable framework for different economic sectors to operate.

Administrative organisations were simplified and strengthened. During the reform, *"the number of units subordinate to the State Council were reduced from 72 to 68. The functions of 31 departments were reduced, their staff was reduced by 13,900 persons. The functions of 35 departments were expanded and their staff increased by over 36,000 persons. The total staff establishment was reduced by over 2,900 persons compared with the original number"* (Peilun, W., *op. cit.*, p: 19).

To meet the demand of shifting functions, the departments of the State Council followed the 'three fixes' programme, *i. e.* "fixing function, fixing organisation and fixing establishment". A careful review and analysis of functions of departments was made in order to determine what would be preserved and strengthened and what would

be abolished or shifted. This programme made the allocation of tasks among departments clear, and overlapping was overcome.

Experiments were carried out in the State Environment Protection Bureau, the State Building Materials Bureau and the Ministry of Communications to introduce new public management theory and practices into their operations. System analysis was done for each position to clarify tasks, processes and measures, and the people responsible for the tasks.

After the experiments in ten medium-sized cities, large-scale experiments were conducted in a number of provinces and other municipalities such as Hebei, Inner Mongolia, Shanxi, Harbin, and Qingdao. In accordance with the principle of separation of the functions between the government and enterprises, and that of the Party and of the government, specialised economic departments were streamlined in size, professional management was strengthened and macro-administrative and supervisory departments were consolidated. In Harbin, bureau level departments in municipal governments were reduced from 69 to 53, the staff of Party units was reduced from 6,167 to 4,900. In Huarong county, organisations of the Party and the government were reduced from 51 to 37 with the number of staff at the county level reduced from 810 to 605. The experiences gathered from the pilot localities provided valuable lessons for the reform of local organisations in the next years (Tong, *et al.*, 1999).

### *C. Administrative reform in 1993:*

The new wave of administrative reforms in China started in 1993 which required a thorough re-appraisal of the role of the state in the Chinese society. The aim was to create a streamlined and efficient PA with Chinese characteristics by changing the functions of government and separating government from economic enterprises and the administrative organisations would thus become leaner, more cohesive and more efficient. The primary objective "*was to seek functional transformation, streamlined relationships, simpler administration and higher efficiency*" (Xianrong, J., 1997, p: 251). As such, the new reform was fundamentally different from the previous reform of administration in China that focused primarily on institutional reorganisation and downsizing.

The goal of public service reform in China is to promote restructuring in the country, including economic reform, to liberate and further develop social productivity, and to make the life of Chinese people prosperous. As such, the requirement to



establish an administrative system adaptable to the socialist market economy has become inevitable. Consequently, there was a need to strengthen the capability of government for development and promotion of markets, improve its functions of macro level control and supervision, intensify management functions on the society, and to get away from numerous micro management functions. The government chose to manage large enterprises properly while relaxing control over small ones and invigorating them.

This round of administrative reforms has produced considerable results, particularly in regard to streamlining of government institutions. Almost all departments in charge of economic administration, apart from the State Planning Commission, the Ministry of Finance, the People's Bank of China and the State Economic and Trade Commission, were removed. The departments specialising in economic administration were rearranged into three types of organisations. The first type included industrial councils, which had the main tasks of formulating industrial plans, implementing industrial policies, exercising macro level guidance and providing services to enterprises. The second type comprised economic entities without administrative functions of government, because they had to shed their former administrative functions to relevant government departments. And the third type covered the remained or newly established administrative organs, which were also required to transform their functions, simplify administration and decentralise powers (Denxin, Z. & Lijia, Z., *op. cit.*, pp: 185-186).

Thus, the number of the ministries, commissions and immediate subordinate units under the State Council was reduced from 68 to 50, or nearly 30 per cent. The number of non-permanent organs of the State Council was streamlined and reduced from 86 to 29, or 66 per cent less. The various ministries and commissions under the State Council had 8 per cent less departmental bodies. The workforce of the public administrative units was trimmed down by 20.14 per cent. In 1998, the reform accelerated further. Most of industrial ministries, such as the textile and machinery industries, were abolished and replaced by much smaller corresponding bureaux, which were then absorbed into the State Economic and Trade Commission. Some new ministries were created, such as the Ministry of Social Security. The same action took place at the local level in 1999. The number of civil servants was cut by half, from 8 million to 4 million (Qian, Y., 1999, *op. cit.*).

Considerable change also occurred at the local level. Local government organisations were divided into two main types: those which were indispensable for

ensuring a unified leadership and those which were set up to accommodate local conditions. As a result of the restructuring process,

*"the governments of the provinces and autonomous regions now have 20 less departments, or are 30.3 per cent slimmer. Beijing, Tianjin and Shanghai, the three municipalities directly under the control of central government, now have 30 less departments, or are 34 per cent slimmer. The governments at city and county levels also have far fewer departments. Staff quotas were also re-set for the governments at various levels in this reform, cutting the staff by 2 million people."* (Xianrong, J., *op. cit.*, pp: 251-252).

Obvious progress was seen with the efforts in terms of governing the country according to laws. The intensifying of economic restructuring required legalized democratic and scientific government administration. Since 1993, the government of China has attached great importance to the establishment and consolidation of social intermediary organisations. Reforms of insurance policy for pension, unemployment, illness and injury were introduced. The social security system, which combines overall planning with personal account has been put in place and nowadays plays a positive role. A nation-wide "talent fair" system was established with more than 4,700 agencies of personnel exchange services set up, with some 170,000 people employed through talent fairs (Denxin, Z. & Lijia, Z., *op. cit.*). In terms of law-making in the context of intensifying of the reforms of government institutions and the personnel system, more than 120 laws and regulations have been enacted in recent years which have made valuable contributions to the legal system.

However, like previous reforms, 'the more you cut it, the more it grows', particularly in the number of public employees. By the end of 1996, the fiscal system in China had a payroll of 36.7 million employees, a growth of 82.3 per cent from that of 1978 which was much higher than the 7.1 per cent growth of population (Jin San Jiao, *op. cit.*, 1998). This brought most important set of pressures for reforming the government organisations.

#### **D. Administrative reform in 1997-1998:**

The most recent administrative reform was initiated at the end of 1997 and formally launched in March 1998 by the newly elected Premier Zhu Rongji. Fifteen government ministries were to be axed or merged by the end of the year and millions of bureaucrats were to be made redundant. The reform aimed to leave economic decision-

making to market forces rather than regulators. Fang Lee Cooke (2001, p: 8) quoted *The Economist*, 1998: '*Among the government departments facing the axe are those most closely associated with the centralised state-planning system from which China now seeks to break free, for example, the ministries of coal, labour, metallurgy, machine building and chemical industry*'.

The 1998 restructuring was considered one of the largest, most radical and ambitious plans of administrative reform in China since 1949. Its objective was to create a clearer distinction between the role of the central government and that of local government in the new market economy. While the central government was in charge of policy-making, the local governments would focus on policy implementation and provision of social services. It was, therefore, proposed that forty ministries and commissions in the central government would be reduced to twenty-nine through merger or removal within nine months. This would result in halving of the 70,000 civil servants in the central government. From the beginning of 1999, governments of other levels also carried out similar large-scale restructuring. One guiding principle for the latest reform and the previous one was that "the number of posts should be fixed according to the number of institutions which are determined according to the pre-determined functions of the government". This reform also subjected the CCP to the pressure of downsizing. According to the Ministry of Personnel of China, the total number of full-time Party cadres was to be cut by half as part of the reform programme. Within three years, the number of civil servants in local government would also be cut by fifty per cent. As such, this round of administrative reform was applauded by the National Congress (Cooke, *ibid.*).

A distinctive feature of the new reform is the new way to deal with redundant staff. In previous reforms, "*redundant staff were simply moved from one organisation to another, the 1997-1998 reform programme required that all staff made redundant be removed completely from any organisation of the ministry*" (Cooke, *ibid.*, p: 9). These staff had to clear out their offices and their names were transferred from their organisation's payroll to a new organisation set up by the ministries to handle the displaced staff. The new reform allows ministries to retain their redundant staff for a maximum of three years during which the ministries are responsible for offering training programmes to these staff in order to create re-employment opportunities for them. During the three years, the government still looked after salary and welfare for the redundant staff. Other measures have also been undertaken, such as extra incentives

offered for those who were willing to go and work at the remote and poor areas; or financial assistance provided to those who wish to set up their own businesses.

*E. Reform of China's civil service:*

Together with the reform of general government institutions, the reform of the civil service has also undergone significant breakthroughs. Widespread economic reforms have created great pressure for improved government performance by administrative organisations at both the central and local levels. Modernising the personnel system through the creation of a professional administrative corps has become the centrepiece of administrative reforms in the country.

The reform emerged more urgently after some piecemeal efforts to reform the former cadre system in the early 1980s failed to produce desired results. By the mid-1980s, the cadre system became so irrelevant that the Thirteenth Congress of CCP summarised: "*The concept of 'state cadres' was too general, as there was no scientific classification; there was lack of combination of personnel management and office work management; the approach employed in personnel management were so outdated that it has hindered the development of the talented; the management was not completed*" (quoted by Lianxuan, M., 1992, p: 173). The government decided to follow the civil service model. After many changes and revisions, the Provisional Regulations on State Civil Servants was signed by Premier Li Peng in 1993. This served as a starting point of the civil service reform in China that aimed to establish a highly qualified and professional administrative corps, a merit-based performance evaluation system, open and fair competition in recruitment and promotion, and a system based on law.

A significant development was the endorsement of the principle of "openness, fairness, competition and selection of the best" which is clearly stated in the Provisional Regulations. Once the principle was put in application, competition has become a favourable word in the Chinese PA practices of personnel management, from entrance examinations to promotion. Tong, C. and Straussman, J. (1998) described an interesting example of how competitive examinations are different from the process of filling management positions through a top-down process that depended heavily on personal connections. The latter was widespread and accompanied with inefficiency and corruption. In response to this, the city of Lianjiang opened to competition 68 deputy bureaux chief and 56 deputy section chief positions in 35 agencies. Candidates made presentations at the employing unit's general meeting, answered questions about their

knowledge and skills, and assessed their own strengths and weaknesses. The committee and others attending the presentations then rated the candidates. The competition has provided important indicators of success, for example the people are now working the whole day instead of leaving early, the average age of deputy bureau chiefs has dropped by five years, the number of personnel with higher education degrees has increased by 11 per cent.

Alongside with these improvements, pay reforms have been experimented with in the civil service system. The 1993 reform was predicated on the assumption that in a socialist market economy decisions over salaries should be decentralised. As a result of the decentralisation, a number of localities were given with the authority to develop a new salary system to make civil service employment attractive to individuals who had alternatives in the market economy. The new system included varying price subsidies in the determination of pay to better account for cost of living disparities, pay and salary increases on the basis of performance assessment. These measures, taken together, have substantially increased the number of people applying for government employment (see table 5.7).

**Table 5.7** Public sector employment in China

Public sector employment						
General civilian government employment					State-owned enterprises	Armed forces
Government	administrati on	Social sectors		Total		
Central government	Non central government	Education	Health	General civilian government		
1,331*	18,579	11,100	2,929	33,939	106,250	3,000
0.2**	2.6	1.6	0.4	4.7		0.4
0.2***	2.7	1.6	0.4	4.9		0.4

Source: Schiavo-Campo *et al.*, (1997b), World Bank: Policy Research Working paper 1806.

\* figures in thousands

\*\* figures in per cent of labour force

\*\*\* figures in per cent of total employment

Performance evaluation has been improved on the basis of "*moral integrity, ability, attendance and achievements, and concentration on actual work performance*" (Chapter V of the Regulations). Although these criteria were still general, they were different from the evaluation practice in the old cadre system, which was determined

mainly by political loyalty and social class background. The application of the new evaluation system is faced with difficulties, particularly in how to handle poor performers. Experiments were conducted with dismissal practices in government agencies, something unheard of until very recently. Although the number of people dismissed is still rather low, the practices have shown clearly how the government is serious about removing unqualified people.

**Table 5.8** Government wages in China  
(figures in *Yuan* and per cent)

GDP per capita (yuan)	GDP per capita (US dollars)	Average government wages	Wages in manufacturing	Government wages to manufacturing ratio	Government wages as per cent of GDP	Average government wages to per capita GDP
3,772	530	4,900	2,774	1.1	3.8	1.3

*Source:* Schiavo-Campo *et al.*, (1997b), World Bank: Policy Research Working paper 1806.

To complement the new civil service system, the Chinese Government established the China National School of Administration, a key training institution for senior civil servants. Provincial and local administration schools were also established to train lower and middle level civil servants. Apart from the training of ideology, the system of training institutions provides new knowledge about market economies and the rule of law in government management, and skills necessary to manage government functions. In addition, training is used for other purposes such as a way to handle poor performers in Shenzheng where ethic training is provided.

Another important aspect of the civil service reform in China is to change the governing tradition from the rule of man to the rule of law. The Regulations require: people in leadership may not directly supervise their family members or close relatives; they should avoid holding leadership positions in their hometown (for lower levels only); leaders are also encouraged to rotate and exchange posts within the government or between government agencies and state run enterprises or institutions. These measures were developed in the hope of curbing nepotism, patronage, corruption and other undesirable behaviours (Tong, C. & Straussman, J., *op. cit.*). All these reform efforts are summarised by Feng Lee Cooke in Table 5.9 below.

Table 5.9 Seven reforms in civil service in China

Reforms	Launch year	Reasons and actions	No. of departmental organisations in central government before and after reform
First reform	1952	Government expansion Decentralisation of power	35 in 1953 81 in 1956
Second and Third reform	1960	Recentralisation of power Downsizing local governments	36 in 1959 79 in 1965
Fourth reform	1982	Oversize of central government Downsizing governments at all level	100 in 1982 61 in 1983
Fifth reform	1988	Reducing government control over SOEs Vertical devolution of government power	72 in 1987 65 in 1989
Sixth reform	1993	Changing role of government function Marketisation of economy	86 in 1992 59 in 1996
Seventh reform	1998	Changing role of government function Marketisation of economy	40 in 1997 29 in 1999

Source: Fang Lee Cooke, 2001.

Despite obvious improvements in the reform, China is still faced with a number of challenges in its efforts to bring about a PA responsive and accountable for the development of a market economy. Finding the balance between political will and administrative autonomy is one of the main issues that the country needs to address. It can be argued that in the case of China, the leadership's challenge is to maintain the Party's prerogatives while allowing enough autonomy in government to achieve the desired efficiency. Then, decentralisation emerges as one of the subsequent challenges. No doubt, decentralisation is necessary in such a huge country, but the problem is how to solve the dilemma of the more decentralisation is implemented, the less power the central government has, particularly in fiscal and revenue matters. In addition, how to solve side effects of the model of the civil service system, which is mainly borrowed from the West, is still open to answer. For instance, frequent rotation of senior leaders is considered a way to curb patronage, nepotism and "localism" in the civil service, but on the other side, Chinese bureaucratic records suggest that, in practice, frequent rotation compelled short-term leaders to rely all the more heavily on their permanent staff, local functionaries who controlled the files and knew the local ways to get things done. As a result, central directives were even less effective than they might otherwise have been. These and other issues should be addressed by the Chinese Government in the years to come in its efforts of PAR.

*F. Administrative reform agencies:*

The principal agency in charge of administrative reform in China is the State Commission for Public Service Structure and Establishment Administration (SCPSSEA) and its local network of commissions organised at the provincial, prefectural and county levels. The SCPSSEA, headquartered in Beijing, is headed by the Premier, and consists of two Vice Chairmen and four Commission members. It also brings together top party and state leaders in charge of organisation, personnel, finance and coordination work. At the local level, the commissions are composed of senior party and government officials in the same functional areas. Each commission has a general office, which is a standing body in charge of the day-to-day operations of the commission.

The general office of SCPSSEA in Beijing is organised into five departments with a total staff of more than 100 (see figure 5.11). The Commission and its offices are responsible for administrative restructuring across the country. Provincial commissions



are responsible for administrative reforms in their provinces and accept the leadership and supervision of the central Commission. Each province receives guidelines from the centre, including, for example, a list of government agencies that must be established in the province, produces a plan for administrative reform that must be approved by the centre, and accept supervision from the centre.

**Figure 5.11** Organisational Structure of the SCPSSEA



#### **Service Units**

China Administrative  
 Management System  
 and Organisational  
 Reform Research Centre  
 Organisation Service Centre  
 China Organisation Magazine

Establishment: 100 positions

Source: Jiaqi, G. & Burns J. P. (1997)

While considering administrative reforms as a complicated political and technical process, particularly in such a huge country as China, the establishment of SCPSSEA as an independent body to provide guidance and monitor the reform efforts is of great importance. Unlike the Government Steering Committee for PAR in Vietnam, the commission not only plays the role of policy-making but also provides

direct guidance and directions for its branches in the localities. The composition of the commission and its branches including key party and government officials in the same functional areas ensures the active involvement of both party and government units into the administrative reform process. A number of functional bureaux have been established within the commission that focus on reform efforts of specific group of organisations, making the operations of the commission more institutionalised. As such, the commission is in a better position to have enough resources and expertise to provide interventions where necessary. Experience of administrative reform in Anhui province (Jiaqi & Burns, 1997, *op. cit.*) shows that the central commission has worked in close relationship with the sub-commission in the province to have produced positive results. However, this set up may be subject to some criticism that while efforts have been undertaken to streamline the government structure, the establishment of SCPSSEA and its system definitely requires material and human resources adding to the current system.

#### **5.4 PAR IN VIETNAM AND CHINA: A COMPARISON**

Economic reforms of Vietnam and China have received a great deal of attention in the recent press and in scholarly literature. However, there is less knowledge about the efforts to implement administrative reforms. It has been argued that although the two countries began their process of opening up at almost the same time, they did it independently and the paths they followed were not the same. This can be seen more clearly in their PAR processes, which account for both similarities and differences between the two countries.

##### **5.4.1 Points of convergence:**

Probably the most important point lies in the fact that PAR efforts in Vietnam and China are undertaken in the context of single-party socialist states, under the leadership of the Communist Party. While party rule has collapsed in the Soviet Union and Eastern Europe, Vietnam and China seem to stand apart, implementing reform strategies, suggesting a "*distinctive Asian, or at least Sino-Vietnamese, socialism*" (Turley, W., 1992). It can be argued that in both countries, PAR processes serve multiple purposes, namely to strengthen and consolidate the socialist states, to develop the national economy and bring about better life for the population, and to gain wider support for the Communist Party. In reality, it is the Party who provides overall

guidelines and policies for the reform process through the congresses or plenums of the Party. As such, the relationship between the Party and the State is very much the one between the policy-maker and the implementer of the policy. It is not surprising while resolutions of the Communist Party have always been cited as guidelines in the reform of government machinery and its PA.

An important related issue in the current development of both countries is the relationship between the party and the state. Despite the fact that "political reform" is a term reluctantly used by the leadership of both Vietnam and China, PAR processes in the countries are placed in the overall context of political system renovation. Socialist state administration differed fundamentally from what is required for PA in a market economy. What was known as the principle of "democratic centralism" in central planning provided in many aspects a sense of centralisation of power. Hesse J. (1993, pp: 219-220) argued:

*"Centralisation was coupled with concentration, i.e. the fusion of executive and legislative powers in the highest organs of the state, which were, in turn, controlled by the decision-making bodies of the ruling Communist/Socialist Party. Party control extended over all levels and branches of state administration, and the Party and state apparatuses were closely intertwined. The will of the Party was superior to the rule of law; consequently, the principle of legality played only a secondary role in administration. Accordingly, effective external controls over the legality of PA hardly existed. Concerning administrative personnel, allegiance to the ruling party was the decisive criterion for career development".*

It can be argued that both Vietnam and China were experiencing such practices. However, in the new development context, the issue is not government vs. party or vice versa, but to make a clear distinction of who should do what and how. While the party leadership concentrates on overall and long-term policies, the state administration should carry out the management and running of state affairs, and both subject to the law once it is passed.

In their administrative reform efforts, both countries have adopted a pragmatic approach as Deng Xiao Ping once said, "*It doesn't matter the cats are black or white so long as they can catch mice*"<sup>1</sup>; accordingly the reform concentrates first on the most urgent areas of the public administration, then expands the effect to other areas. The state in Vietnam and China recognised the need to change its role to match the need of

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<sup>1</sup> Soren Davidsen, Interview, 5 October 2001.

the new economic environment. This included transforming the government functions from economic planning to macro-level adjustment, reducing functional control over business organisations, while strengthening the role of the government in social administration, law enforcement and public service. The re-organising process also included the establishment of agency organisations to manage the operations of industries and commercial trades, which used to be the responsibility of the government. The ideology was to move from controlling the society towards priority for providing services to the society and the public.

In both countries, PAR has emerged as an essential requirement of economic reform, particularly in their transition to a market economy. For the past two decades, economic transformation in Vietnam and China has resulted in considerable achievements for the societies which have been the basis for other reforms to accelerate. The initial economic development, in its turn, has placed increasing demands on the administrative systems to change in order to meet the new economic principles, new ways of resource allocation and capital accumulation. It is natural that if the PA does not change, it may become a hindrance for national development. Therefore, whether one likes it or not, PAR is linked to and supplements economic reforms. The two reforms go side by side and cannot be separated.

The description of the two administrative reforms suggests that these two countries began their PAR with organisational restructuring. There is no doubt that organisations serve as the skeleton for a PA, and reforms of administrative organisations imply the change for the whole system including the personnel and the pattern of relationship among its components. Although there have been mixed results with organisation reforms in Vietnam and China, the efforts were made to transform the out-of-date organisations from central planning to new ones suitable for an emerging market economy. The organisational restructuring brings into play the reforms of other elements such as the legal and regulatory framework in which the PA operates; the procedures and patterns within the administrative system and in its relations with other branches of the state, and with the public; and its civil service.

Another feature can be found in the approaches the two countries have adopted to administrative reforms. Unlike the all-out political reform elsewhere, it is clearer in the case of China and less obvious in the case of Vietnam, that the two countries have followed a step-by-step path in the reform of government machinery. Almost all important reforms started with experiments at certain levels or areas of the system.

Lessons and experiences were then drawn from the pilots to become a foundation for the decision to curb or expand the reform efforts. This approach has an advantage in securing any risk that might arise and providing enough preparation for large-scale reforms. It is important to note that both countries have taken the issue of compensation of losers in administrative reforms into serious consideration. This is most clearly seen in the downsizing process whereby those public servants to be moved from the service are provided with a lump sum enough to find another job or are entitled to buy public housing at lower price. These practices help to build up strong support for the reform and reduce resistance.

In addition, it might be suggested that while the developed countries are moving toward a more flexible and flatter government bureaucracy with fewer, more appropriate and effective rules and regulations, Vietnam and China seem to be going in the opposite direction by adjusting their politics-dominated system towards a more law-based system. It is understandable that, particularly in the gradual transition to a market economy, the two countries want to reduce the ad-hoc elements in policy-making and in the old approach of state management. Hence, the rule of law is a plausible phrase in Vietnam and China. However, this direction does not prohibit innovation and creativity in the operations of different administrative units or individuals. This will be one of the challenges for the two countries in the 21 century.

#### 4.4.2 Points of divergence:

In drawing such parallels, however, one must be careful not to overlook important differences that affect or exist in the PAR processes in the two countries. The differences may be for various reasons, ranging from objective ones, such as geography and history, to more subjective ones, such as the pattern and focus each country has adopted. In addition, economic development level may also be another cause for some points of divergence.

Generally speaking, Vietnam and China share more traits with each other than either of them does with post-communist Eastern Europe and Russia. However, it would be "*a mistake to see reform in Vietnam as but a variant of reform in China. China is but one model among several that the Vietnamese consider worthy of study, and the differences between China and Vietnam as countries and between their reform experiences are profound*" (Riedel & Turley, 1999, *op. cit.*, p: 12). At the time it initiated reform, Vietnam was much poorer and less industrialised than China, so the

“advantages of poverty” were even greater for it than for China in transition. While China enjoyed three decades of economic development in relative peace, Vietnam was torn apart by war and half of Vietnam was entirely outside the socialist system until 1975. Furthermore, when the two countries began their reform, Vietnam was under embargo by the West and the US whereas China largely enjoyed support from the West and Japan for their opening to the capitalist world economy.

The fact that Vietnam began its PAR later than China may be an advantage because the former has had opportunities to learn from success or failure of the latter. However, empirical evidence shows that China seems to be more determined and successful in many aspects of administrative reform. Examples of the success in China include the merger of the positions of the President of the State and of the Secretary General of the CCP into one at the central level, or in the proportion of agencies streamlined or staff reduced as the result of administrative reform. The decisive role of the leadership is most clearly seen in the policies initiated and the guidance throughout the implementation. In the case of Vietnam, as discussed earlier, reform policies, in some cases, reflect political compromise rather than focus on drastic change.

One of the reasons for such a difference may be the possible formation of the Vietnamese PA<sup>1</sup>. In the history of Vietnam, there has never been a strong capitalist class, nor a dynamic market. In addition, the period after independence has witnessed a wish to advance directly to socialism without going through the stage of capitalist development. The administrative system of Vietnam was established through such a process with a pool of cadres who came mainly from rural areas and were strongly imbued with ideologies of Confucianism, Taoism, Marxism, with family connections, and with national traditions. These cadres have run the state affairs quite well through the wartime and since *Doi Moi*, as Turner, W. (1992, p: 4) argued: "*Whereas China began reform with a large public industrial sector, help from a strong entrepreneurial tradition and a receptive international environment, Vietnam began with very little industry and relatively entrepreneurial traditions while isolated from the West and Japan*". The ironic feature is that customs and habits of running state affairs as in their families, plus side effects of "collective responsibility" leading to "responsibility by no one" have also developed among these same cadres. Furthermore, there is still a rather naive view among certain segments of the population, and even of the civil service,

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<sup>1</sup> Interview of Prof. Doan Trong Truyen, November 2001.

considering the PA not to be advanced, nor really bad<sup>1</sup>, so why change it when it still works? These causes may well contribute to the reason why PAR in Vietnam has been so slow up to now.

By comparison with China, this has meant relatively weaker opposition to reform from state and bureaucratic establishments. Low levels of economic and technical development also have implied less pronounced discontinuities between ideological and popular political cultures and comparatively weaker social pressures for administrative change. Since the two countries began to open up, Vietnam has not experienced upheaval even remotely comparable to that which came to a head in Beijing's Tiananmen Square in June 1989. Weaker internal opposition combined with the homogeneous character of the leadership helped Vietnam emerge as the most stable country in the region even in the recent world crisis after the event of September 11<sup>th</sup>, 2001. However, on the other side of the medal, the same feature may have become an obstacle for administrative reform while it is under way. The ideology favouring stable conditions of work within the bureaucracy, the reluctance to accept risk, along with patronage and nepotism networks all become forces to pull PAR back.

It can also be argued that before opening up, China went through very difficult periods of time while the leadership of the country was attempting rapid industrialisation with the "Great Leap Forward" and ideological change in the "Cultural Revolution". The movements in fact were real disasters for the Chinese people, as they led to the deaths of millions of people and widespread famine in the country for years (Vu Quang Vinh, 2001, *op. cit.*). These were later on admitted by Chinese leaders as "big mistakes" in the history of the PRC, from which hard lessons have been learnt. These lessons, undoubtedly, taught them never to return to such practices, and that opening up reforms were the only appropriate medicine to the nation. Vietnam has been more fortunate as it has never undergone such processes. On the one hand, the more cautious steps the CPV and the government undertook helped the people to avoid extreme sufferings. On the other hand, ironically, the country's leadership has not learnt hard lessons like these, and their weak determination and reluctance could be one of the reasons why administrative reforms in Vietnam have not proceeded more quickly.

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<sup>1</sup> Banet, J., Interview, October 2001

Another point is that Vietnam, after all, has the population and geographical size of just one average Chinese province. The different sizes of the countries have led them to different policy choices in administrative reform efforts. It is argued that China is a unitary state, but it is governed as a federal state (Kuhn, P. A., 1998, pp: 149-166). In such a context, decentralisation of power to local governments was surely the most favourable policy alternative for Chinese leadership, freeing the central government from more micro level management to concentrate on macro policies. There is no doubt that the policy adoption of decentralisation in China has produced initial positive results both in economic development and in strengthening the capability of local governments. Vietnam is still wrestling with this issue of decentralisation, which was even unheard of until recently. A general view is that the Vietnamese leaders are willing to decentralise functions (*phan cap*) rather than powers (*phan quyen*). This may be the effect of a number of causes ranging from the fear of losing power of certain higher agencies or individuals, the anxiety of possible dispersion of power, and the low capability of lower level agencies or staff<sup>1</sup>. Whether one likes it or not, this issue should be addressed thoroughly in the administrative reform process as the government must lift its hands from running specific business and production operations.

Some divergence between the two countries in their reform efforts is also evident in the reform of the SOE sector. It is striking to note that the numbers of SOEs in China and Vietnam are so different, partly due to their history. Perkins (2001, p: 254) argued: "*China... experienced nearly three decades of industrial development before the reform era began – nearly nine decades, if one goes back to the first modern factories established during the 1890s. Vietnam in 1986 or 1989 had a much smaller industrial sector than did China*". While China currently has around 305,000 SOEs, Vietnam has reduced the number from more than 12,200 (in 1989) to 5,300 SOEs currently. The methods deployed by the two countries in SOE reform have not been the same, somewhat reflecting the differences in political will of the two governments. After some cautious attempts to improve the relationship between the enterprise and government, and the internal management of the enterprise within the framework of state ownership, that produced limited results, China has recently embarked on more radical reforms under the slogan of "*grasping the large and letting go the small*" (Qian, 1999, p: 31), and produced certain results in privatising small- and medium-scale

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<sup>1</sup> This issue will be discussed further in Chapter 7.



SOEs. Vietnam has undertaken two major measures to reform the SOE sector, namely corporatisation and equitisation, while a number of loss-making small SOEs, mainly run by local authorities, have been abolished. It is argued (Perkins, 2001, *op. cit.*) that China is determined to pursue privatisation of SOEs, even large-scale enterprises, while Vietnam is still reluctant about privatisation as such (WB, 2001).

In addition, the mode of development of private companies in the two countries is also different. While China enacted the Enterprise Law before 1992, Vietnam enacted the law rather late, in 1998. China has long developed several halfway forms of industrial enterprise that are neither state owned in the classic sense nor privately owned in the capitalist sense, that is the township and village enterprises (TVEs) which mainly produced consumer goods for domestic and international markets (WDR, 1996). Qian (1999, *op. cit.*, p: 12) argued: "*China's reform performance would look very different without TVEs, and therefore it is not possible to understand industrial reform in China without appropriate accounting for them*". Since the Enterprise Law has been put into effect in Vietnam in 2000, some 60,000 private companies have been registered and put into operation. It is reported (UNDP, 2001) that the development of the private companies partly absorbs labour force laid off from SOE reform, thus reducing the social costs of the process. However, the increasing number of private companies, in turn, requires better capacity of the government in monitoring their performance according to the law.

### 5.5 CONCLUSION:

Economic development has been considered as the key factor in national development. This is even more precise for countries in transition to a market economy such as Vietnam and China. For the past two decades, considerable results have been achieved in economic terms in the countries, which have assisted a reduction in poverty levels and improvements in the life of millions of people, to strengthen their role in the international arena. These achievements are also the results of the effect of government policies and guidelines provided to different economic sectors through the administrative systems without which no policies and national programmes can be realised. Although there are still a number of issues remaining for further careful analysis, such as in what way and how far should the state and its administration intervene in markets and the economy, the role of the state and its administration is still significant, particularly at the national and macro level. All the initiatives from the

lower level cannot be materialised on a wider scale without institutionalisation by the state and implementation through its administration, or otherwise they would be limited to only certain areas. It is possible to argue that a well functioning PA may serve as an effective means through which the state strives to promote national development. In its turn, economic development also places increasing demands on the PA to adjust accordingly, to satisfy the new conditions of resource allocation and production methods.

Thus, together with economic reforms, Vietnam and China have undertaken PAR, which aims to support economic change by enhancing the effectiveness and efficiency of the administrative systems; to promote transparency and openness in the operations of the systems; and to consolidate democracy through the provision of improved public services to the public. The reform might also have been perceived as necessary to avoid political disquiet and opposition deriving from state-led economic and policy failures. Administrative reform efforts have been placed within the overall political renovation and state reform in each country, so their effects have gone much further than just within the administrative machinery. It is, therefore, not surprising that the two Communist Parties have taken the leadership of the important reform processes and provided clear guidelines for implementation. Administrative reforms began with organisational restructuring and staff reduction (extensive scale) then moved to clarification of functions, rationalising relationships and changes in behaviour and attitude of the staff (intensive scale). Despite mixed results, a common pattern can be found, i.e. they have both adopted a gradual, incremental, step-by-step approach. Important reforms were initially put for experimentation at a limited scale for a certain time, lessons and experiences were then drawn from the pilot schemes to put into larger-scale implementation. Such a cautious approach so far helped the countries avoid possible risks and make appropriate decisions when necessary.

While comparing PAR in Vietnam and China, a number of similarities and differences have been found. However, it is still premature to conclude that the gradual and incremental approach is the only effective way in administrative reform for any country wishing to modernise the PA. Both Vietnam and China have their own distinctive features that one must carefully consider such as they are single-party ruled, and began their reforms with low agricultural basis. This approach seems to work well in Vietnam and China thanks to their relative political stability and because they have taken advantage of economic growth that helps reduce internal resistance to change. It

is possible to argue that further economic reforms, combined with accelerating administrative reforms, will still be one of the magic medicines for the two countries in their efforts to transform their economy to a market economy in the years to come.

In order to understand how such general PAR works in detail, it is necessary to look at specific examples in more depth. The following chapters do this by reference to cases of central administrative reform (the Ministry of Agriculture and Rural Development) and local administrative reform (the case of Ho Chi Minh City).

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**CHAPTER VI**  
**PAR AT THE CENTRAL GOVERNMENT LEVEL-**  
**THE MINISTRY OF AGRICULTURE AND RURAL**  
**DEVELOPMENT**

**6.1 INTRODUCTION:**

Together with the reform of SOEs, PAR is inevitably a comprehensive process, which involves interactions of different stakeholders and layers in the system to produce desirable changes. Changes in the role and mission of government require, in the first instance, reform of the central machinery of government, particularly of the different ministries, which are responsible for the different sectors of the economy. The reform of the central government machinery is not just limited in the reduction of the number of agencies directly affiliated to the government, but more significantly, in the role, functions and the ways in which various ministries operate in their efforts to fulfil given role and functions, to deliver public services in a more effective and efficient manner. Good government means that a policy area be unambiguously located in a single ministry, and the capacity of policy-making be strengthened in the ministry while other alternatives for service delivery are carried out. Consequently, the reform in the ministry follows functional lines, that is, it deals with a substantive policy area rather than being concerned with a narrow administrative perspective.

This chapter aims to examine the administrative reforms that are under way in the Ministry of Agriculture and Rural Development (MARD) in Vietnam. The ministry is an interesting case because it has gone through successive periods of change, reflecting clearly the gradual move of the country from a centrally planned mechanism to a market economy. Subsequently, the structure, the role, functions and tasks of MARD have also evolved to meet the rising demands of the development era from the government as well as from the public. It strives to materialise the paths of reform the overall PAR programme has integrated into the agricultural and rural development sectors by carrying out different reforms in its institutions, organisational structure, personnel, and to some extent, the public enterprises it still supervises. In such a challenging process, apart from the support from the government and its own efforts, the ministry has enjoyed a great deal of assistance from foreign partners which work to

help the ministry to improve its own capacity. However, huge challenges still remain ahead, with bolder steps of reform required to produce real achievements.

## **6.2 THE FORMATION OF MARD:**

### **6.2.1 The history of MARD:**

Vietnam is mainly an agricultural country, with more than 75 per cent of the population living in rural areas. The agricultural sector has been an important component of the national economy. The vital role of agricultural development has repeatedly been acknowledged in the various documents issued by the CPV and the government. In the socio-economic strategy for the period 2000-2020, agricultural development is determined as one of the focuses aiming to reduce poverty and to serve as an essential foundation for the development of various industrial sectors. Much attention has, therefore, been given to development of agricultural production, and consequently, to the ministry which manages the sector, MARD.

The history of MARD dates back to the foundation of the DRV in 1945. In 1946 the Ministry of Farming and Agriculture was established to carry out the function of state management in the sector. This was the first time in the history of Vietnam that a central ministry was created to look after the broad sector that affects the life of the vast majority of people. But soon after that, the country was engaged in a nine-year struggle against the French colonialists, until the Geneva Conference in 1954 that divided Vietnam into two parts. North Vietnam followed the path of socialism, with central planning at the heart of the economy. The Ministry of Farming and Agriculture was then renamed as the Ministry of Agriculture and Forestry, which, apart from agriculture, was given the responsibility to take care of the forest sector. The central planning mechanism rapidly expanded to all sectors of the economy, particularly since 1960. The first five-year plan under central planning produced positive results, which contributed to a considerable growth of the state sector. Thus, in the overall flow of the economy, the year 1960 witnessed the splitting up of the Ministry of Agriculture and Forestry into three new ministries of agriculture, of plantations, and of hydro electricity and irrigation<sup>1</sup>. At the same time, four other central agencies were also established to be in charge of line sectors, namely the General Department of Land Administration, the General Department of Forestry, the General Department of Water Products, and the

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<sup>1</sup> The part of hydro electricity was later moved to the Ministry of Energy.

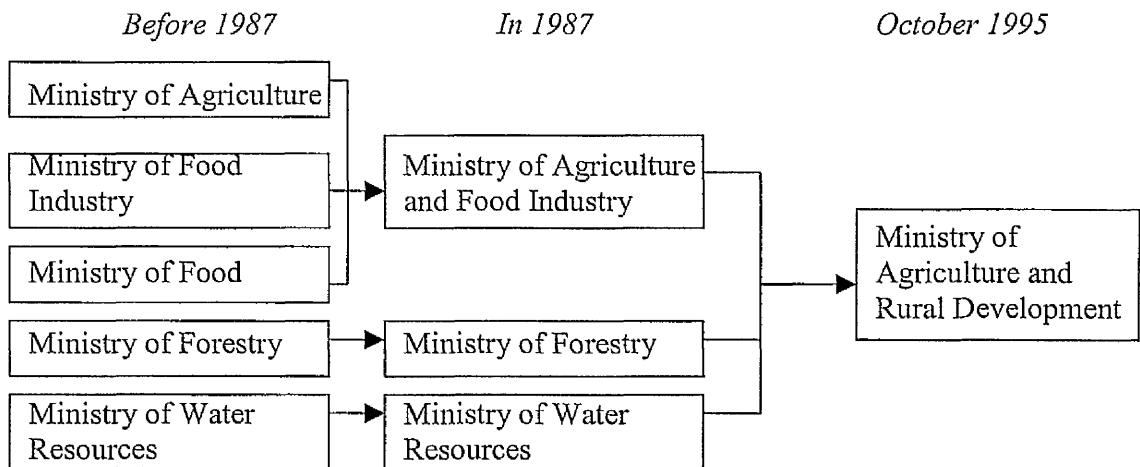
Department of Food. Whilst the former three general departments operated with the same title up until 1975, the latter was renamed twice, as the General Department of Food in 1965, and the Ministry of Food in 1975 (GCOP, 2000, pp: 18-20).

The reunification of the country in 1975 produced remarkable changes to the economy and the government structure. In the agricultural sector, there were two main types of ownership belonging to the state and to the collectives. The collective ownership in agriculture was reflected in the operation of cooperatives, which were widespread throughout Vietnam from 1975 to 1986. The period was also marked by the merger of the former Ministry of Agriculture and the Ministry of Plantations into the Central State Committee - Management Council of Cooperatives, which was given the duty of management of the state plantations and cooperatives.

As such, it can be noted that by the launch of *Doi Moi*, the organisational structure of the agricultural sector was vertically fragmented. By 1986, there were five government ministries, which managed different aspects of the sector. In 1987, in an attempt to reduce the bureaucracy, the five ministries were reorganised into three. While the Ministry of Forestry and the Ministry of Irrigation remained unchanged, the Ministry of Agriculture, the Ministry of Food Industry, and the Ministry of Food were merged into the Ministry of Agriculture and Food Industry. The latest reorganisation was in October 1995 when the three ministries were merged into the current MARD (see figure 6.1 below). This transformation has created a number of new challenges and opportunities for the ministry. It has produced considerable effects on the organisational structure as well as the internal relationships within the ministry. The effect has also expanded to the local authorities at all levels, from the provincial to the district and the communal levels (Bui The Vinh, 1998), because of the decentralised operations of the ministry.

### **6.2.2 The structure, current functions and responsibilities of MARD:**

The functions, tasks, power and organisational structure of each ministry in Vietnam is determined by a government decree. According to Government Decree No. 73-CP on November 1<sup>st</sup>, 1995, MARD is a government agency that has the function of state management in agriculture, forestry, water resources and rural development. The decree (see the full text of the decree in appendix 6.1) defines the following tasks and powers of the ministry:

**Figure 6.1** The organisational transformation of MARD since 1987

Source: Bui The Vinh (ed.) (1998, *op. cit.*, p: 15).

- Submitting to the Government<sup>1</sup> draft laws, ordinances and other legal documents concerning agriculture, forestry, water resources and rural development. Issuing, within its jurisdiction, documents with regard to the areas under its management.
- Proposing to the Government the strategies, master plans, long-term, medium-term plans and, after getting the Government's approval, organizing the directions and guidance for the implementation of those plans in the following areas:
  - (i) Cultivation, husbandry, processing of agro-forestry products and rural industries development.
  - (ii) Management, protection and development of forest resources, exploitation of forestry products.
  - (iii) Management of water resources (except natural mineral water and geothermal water), management of the construction and operation of hydraulic works, dyke protection and management and flood control, management of the exploitation and integrated development of rivers.
  - (iv) Carrying out state management functions of specialised services activities.
- Unifying the management of the national systems of breeding and genes pools both of fauna and flora (including import and export productions).
- Organising and providing guidance for agro-forestry extension activities.

<sup>1</sup> The decision-making committee of the government (equivalent to Cabinet).

- Organising scientific and technology research studies and applying advanced technologies and sciences into the fields that are under its management.
- Managing the quality of specialised construction projects, the quality of agro-forestry products, the safety of dams and dyke projects, national food security, animal and plant diseases and epidemics (pest control), the safety in the utilisation of chemicals in production and preservation of agricultural products and foodstuffs etc. within the scope of its responsibilities and in accordance with law.
- Presiding over and collaborating with the various branches and localities in formulating and submitting to the Government regimes, policies, guidelines and programmes for rural development in economic, cultural and social fields, monitoring and reviewing the issues, and reporting to the Government.
- Performing the functions of State management over the enterprises of the agriculture, forestry and water resources sectors under its management in accordance with the Law on State Enterprises and the Government's regulations on decentralisation and delegation of management authority to MARD.
- Managing its organisational structure and public/civil servants of the ministry in accordance with laws and government decentralisation policies.
- Undertaking specialised inspection activities.
- Organising and providing guidance for the implementation of plant and animal quarantine and protection (including domestic, imported and exported products), the forest protection works, the protection of hydraulic works, dykes and rivers.
- Organising and managing international cooperation in the areas under its management.
- Carrying out the tasks of the Central Steering Committee for dykes management and flood control and the tasks assigned by the Viet Nam National Mekong Committee.
- Organising and providing guidance to the distribution of labour and population, the development of new economic zones and settlement development.
- Organising and managing the specialised usage and protection of forests.
- Managing the issuance and withdrawal of licenses in these fields under its management in accordance with laws.

At the present time, to assist the minister, there are six vice-ministers who are in charge of different dimensions of the operation of the ministry. The number of



departments has reduced from 34 (before October 1995) to 18 by merging those departments that had similar operations. The list of the current departments is as follows:

- Advisory departments (*Vu* departments):
  - (i) The planning and programming department
  - (ii) The capital construction investment department
  - (iii) The science, technology and product quality department
  - (iv) The department of agriculture and rural development policies
  - (v) The international cooperation department
  - (vi) The finance – accounting department
- The specialised state management departments (*Cuc* departments):
  - (i) The forestry development department
  - (ii) The ranger department
  - (iii) The plant protection department
  - (iv) The veterinary department
  - (v) The agriculture and forestry promotion department
  - (vi) The department of agro-forestry products processing and rural employment
  - (vii) The water resources and hydraulic work management department
  - (viii) The department for prevention and fight against floods and storms, and dyke management
  - (ix) The settlement and new economic zones department.
- The Inspectorate
- The Office of the ministry

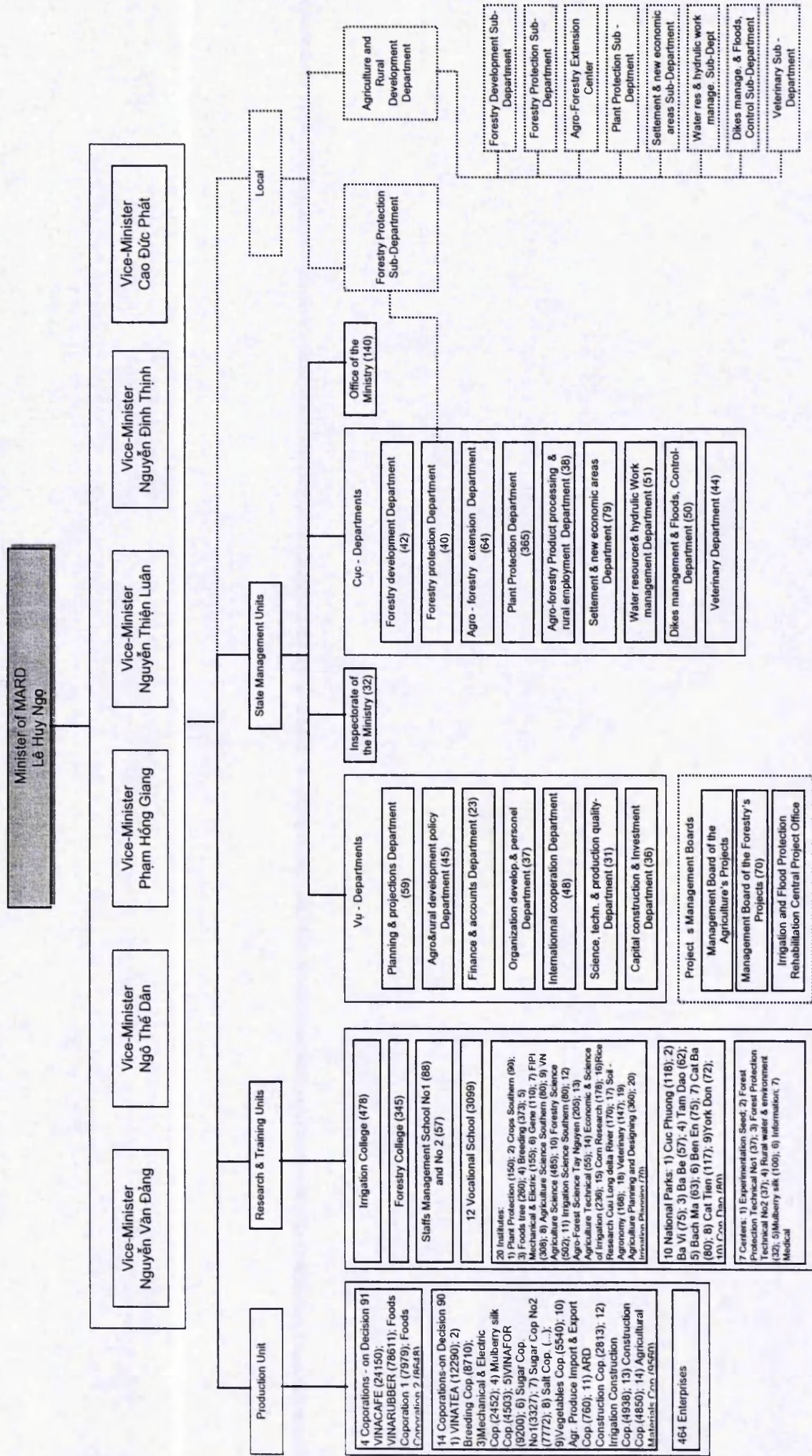
Apart from these units, MARD is a big ministry that manages 18 general corporations, 27 companies and enterprises, 19 task forces, 8 special companies, 2 non-profit organisations, 34 training schools, 27 institutes, 9 centres and 10 national parks. The total figure of units belonging to MARD is more than a hundred (see figure 6.2).

### 6.3 MAIN UNDERTAKINGS IN PAR:

Since the new ministry was established, MARD has engaged in the continuous process of PAR to restructure its organisational machinery to carry out assigned tasks and functions. The reform aims to rationalise the ministry after the merger, and to modernise its operations to meet the rising demands of the market economy. A Steering

Figure 6.2

Structure of Ministry of Agriculture and Rural Development



REFAS-doc.05/2000  
Source: Office of the Ministry (Mr Huy) and Mr. Thy

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Board of PAR was set up, headed by a vice-minister and includes key staff of the various departments of MARD, totalling 12 members. The board has developed reform programmes and monitored the process of implementation within the ministry and served as a focal point of contact with other central agencies and local authorities in the reform area. Under the framework of the national programme, administrative reforms in MARD have been conducted in the areas of administrative institutions and implementation of the regulation on democracy; restructuring of the ministry's organisational machinery and reforming SOEs in the sector; and HRD and training (Nguyen Van Dang, 2001).

### **6.3.1 Reform of administrative institutions and implementation of the regulation on democracy:**

MARD has recently conducted a review of all legal and regulatory documents that have been issued in the period 1976-1998. Since the ministry has a rather complicated development history through splitting up and merging, the number of documents issued by different agencies in the period was huge, including 3,010 legal and regulatory acts and regulations. As a result of the review, among the 3,010 documents, proposals were made to keep 895; 1,242 be repealed; 29 be amended; 308 be replaced; and 479 documents were not considered as state management documents<sup>1</sup>. The review was completed in 2000 and a new programme for drafting legal and regulatory documents was developed. Most of the documents have then been codified and organised in a management information system, which was installed and now is operational. The use of information technology (IT) in the ministry for archive and retrieval of documents has enabled the staff concerned to access sources quickly and for the ministry to make appropriate amendments when necessary.

From 1996 up to now, MARD has drafted and submitted to the government for promulgation 15 government decrees, 72 decisions and 27 Prime Minister's instructions related to agricultural and rural development policies. Since 2000, the reform of administrative institutions has accelerated to a new stage. As the key policy-making agency in the sector, the ministry has drafted ordinances on prevention of natural disasters, on exploitation and protection of irrigation objects, on dams, on plant protection and veterinary services. These drafts were submitted to the government and

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<sup>1</sup> Nguyen Duc Son, Interview, August 2001.

the National Assembly (NA) for official enactment. At the present time, MARD is drafting the Law on forestry protection and development, which will be sent to the NA in 2002. In 2000-2001 particularly, the ministry has drafted and submitted to the government for promulgation 2 government decrees, 2 resolutions, 11 decisions and 2 instructions (see table 6.1). In addition, MARD has also made proposals to the government to make policies related to cooperatives, to renewal of state plantation management, to leasing of forestry land, to socialisation of fresh water delivery and rural environmental protection and hygiene etc. (Nguyen Van Dang, 2001, *op. cit.*).

**Table 6.1** Government decisions related to agriculture and rural development in 2001

No.	Decision	Content
1	Government Decision No. 03/2001/QĐ-TTg	Regulations on protection of new plant seeds.
2	Government Decision No. 28/2001/ QĐ-TTg	Regulations on amendment and addition to the Government Decision No. 141/2000/ QĐ-TTg on the investment and benefit policies for households, individuals and communes involved in the project on forestry management in Thanh Hoa, Quang Tri, Phu Yen and Gia Lai provinces.
3	Government Decision No. 08/2001/ QĐ-TTg	Regulations on management of the forests of special use.
4	Government Decision No. 162/2001/ QĐ-TTg	Regulations on transforming SOE of MARD, the Construction Company No. 40 into a holding company.
5	Government Decision No. 42/2001/ QĐ-TTg	Regulations on socio-economic development for additional communes of special difficulty in mountainous and remote areas.
6	Government Decision No. 44/2001/ QĐ-TTg	Regulations on transforming SOE of MARD, Bien Hoa Sugar Company into a holding company.
7	Government Decision No. 50/2001/ QĐ-TTg	Regulations on readjustment of boundary and rename of Bien Lac Nui Ong natural reserve.
8	Government Decision No. 52/2001/ QĐ-TTg	Regulations on timber exploitation from natural forests in 2002-2005.
9	Government Decision No. 85/2001/ QĐ-TTg	Regulations on transforming Ba Mun natural reserve, Quang Ninh Province into Bai Tu Long National Park.
10	Government Decision No. 91/2001/ QĐ-TTg	Regulations on transforming Phu Quoc natural reserve, Kien Giang Province into Phu Quoc National Park.
11	Government Decision No. 108/2001/ QĐ-TTg	Regulations on the establishment of State Steering Committee for settlement of population of Son La hydroelectric plant project.

Source: adapted from MARD. (Document No. 3257, November 27<sup>th</sup>, 2001).

Within the authority of the minister of MARD, considerable efforts have been made to reform administrative institutions. The minister created a clear focus from the

beginning of the reform: concentrate on how the ministry works, not on what it should be doing<sup>1</sup>. With such a pragmatic approach, MARD has issued 127 regulatory documents, which include 112 decisions, 6 instructions, 8 circulars and 1 resolution (Nguyen Van Dang, *op. cit.*, 2001). Following the guidance of the government, the ministry requested all departments to review and develop business conditions in planting and husbandry sectors. This is an attempt to abolish 12 business licenses and transform 14 other business licences into less regulated business conditions. By doing so, the ministry has reduced the burden of regulation on businessmen operating in the sector.

In order to standardise the functioning of the civil service in the ministry, MARD has reviewed, amended and developed rules and regulations for internal management. The regulations cover areas as wide as human resource management and development, saving and anti-wastage, civil service statute, funeral procedures when a ministry employee dies, use of public vehicles, use of office telephones etc. The application of the new rules and regulations has assisted in developing a new organisational culture in the ministry. For example, before now, civil servants of MARD, especially senior officials were accustomed to use office telephones for various purposes, including private talks through international lines. This costs a lot of money from the state budget. Nowadays, the regulation (MARD decision No. 178 issued in 2000) says that each senior official is allocated with a limited amount of funds for office telephone use. Anyone who has overused the amount has to pay from his or her own salary, which the ministry automatically deducts from the payroll of the next month. The practice has contributed to the fact that the ministry has saved up to 30 per cent of its annual management expenses. The implementation of these rules and regulations help improve both the services the ministry provides to the public as well as the work life for employees.

In fact, the emphasis that the ministry has placed on service to its customers and enhancing the work life for employees illustrates the extent to which the intangible idea of stakeholder support has become an integral element of the new organisational structure. This was indicated, for example, by the introduction of the one-door system (one stop shop) in a number of service units of MARD and in various local DARD whereby the public and other organisations come to deal with different matters. Instead

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<sup>1</sup> Nguyen Thi Hong Loan, Interview, August 29th, 2001.

of multiple travels and permission before, they now come only to a single point where their requests and applications are handed, and results returned back to them in a clearly defined timeframe. All regulations and fees related to dealing with the general public are posted at the public offices, as a result, more transparency has been built in the day-to-day work of the ministry and its branches (MARD, 2001).

This process has further been strengthened by the implementation of 3 decrees issued by the government in late 1998 on democracy at grassroots levels, in public agencies and in SOEs. The regulations clearly stipulate the function of every management level in the organisations, what can be decided by the management, what issues should be discussed widely among the employees before decisions can be made. The decrees have multiple purposes, including the attempts to enhance the role of the staff in decision-making; to make the voice of the ordinary employee heard; to bring in more openness and transparency in the operations of the agency or organisation; and to reduce to minimal level opportunities for abuse of power. Following the regulations, most of the major directions, programmes and projects in MARD have been carefully discussed among the collectives of management of different departments before finalisation. This practice helps bring careful discussion and analysis in important issues the ministry is about to decide and, in many instances, reduce unnecessary rumour about its functioning. The supervisory role within the ministry has also attracted more attention from different groups of stakeholders, thus enhancing discipline in the daily work. In 2001 particularly MARD established 3 task forces to undertake inspection of how its affiliated departments and units were implementing the regulations on democracy. Once the task forces discovered deficiencies or improper behaviour in the work of a unit, they made proposals for adjustment accordingly (MARD, 2001, *op. cit.*).

A huge legal and regulatory reform has been under way in Vietnam in late 2001 and in 2002. The National Assembly and the government decided to amend the 1992 Constitution and a number of key legislation such as the Law on Government Organisation and the Law on Organisation and Operation of the People's Councils and People's Committees in order to meet better the transition to a market economy. These developments will inevitably require the amendment of a number of government decrees on the role, functions and tasks of different ministries and central agencies. To meet the forthcoming demand, MARD has established a group of regulatory experts to review and to redevelop the Government Decree No. 73-CP, which governs its

functions and tasks. In addition, with the assistance of UNDP, the ministry organised a training course on skills and techniques of legal and regulatory document drafting for 30 key staffs in August 2001. The follow-up review workshop of the training in late November the same year revealed that the skills and techniques have been applied by most of the participants in their work<sup>1</sup>. As such, the activities have gradually enhanced the regulatory capacity of the ministry in the highly changing environment in Vietnam currently.

However, the reforms have also revealed that development and drafting of legal and regulatory documents are not the most difficult stages in the rationalisation of administrative institutions. As argued by Ingraham, P. (*et al.*, 1998, p: 66) "*the root cause of many of the problems with the existing regulatory system that were identified by most businesses was not the goals of the regulations but rather the enforcement process*"; implementation and enforcement of the documents are not easy. When they are put in practice, mismatches with other existing regulations are found, some meet with resistance from certain groups because of conflicts of interest, more paperwork causing delays in implementation. MARD is currently tackling these issues in an attempt to change gradually the regulatory enforcement culture from a confrontational culture to one of cooperation and partnership. If before, departmentalisation was evident in the operations of virtually all units of the ministry, each functioned in isolation from each other, nowadays, managers and staff of different units usually sit together to discuss ways to solve inter-sector matters or even conflicts when they occur. In addition, the ministry also calls for more participation of other actors, such as NGOs and socio-political organisations in delivery of a number of public services to communities (MARD, 2001, *op. cit.*).

### **6.3.2 Restructuring of the organisational machinery and reforming SOEs in the sector:**

**A. Reorganisation:** A more challenging reform the ministry has carried out is the one in its organisation and affiliated SOEs. There is no doubt that the reform is more difficult because it directly affects the operation of virtually all departments, the work and life of the majority of employees in the agricultural and rural development sector. Contrasting views on the reform have been expressed and debate has been

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<sup>1</sup> Nguyen Manh Dung, Interview, November 30th, 2001.

lively. On the one hand, the historical evolution of the ministry has finally created an enormous number of units, organisations and subsidiary levels that the minister alone cannot manage efficiently. On the other hand, since the launch of *Doi Moi*, the agricultural sector production has developed fast, making an increasingly important contribution to the GDP growth rate (see table 6.2). In addition, the growth of outputs in the sector has made Vietnam the second world largest rice exporter in 2000-2001. It, therefore, requires that while restructuring of the ministry is essential, cautious steps should be taken so as not to do any harm to the further growth of the whole sector.

**Table 6.2** GDP by economic sector in current prices (*Billion of Dong*)

	1994	1995	1996	1997	1998	Rev. 1999	Prel. 2000
<b>Total</b>	170,258	228,892	272,036	313,623	361,016	399,942	444,139
State	70,267	91,977	108,634	126,970	144,406	154,927	173,118
Non-state	99,991	136,915	163,402	186,653	216,610	245,015	271,021
<b>Agriculture, Forestry</b>	48,865	62,219	75,514	80,826	93,027	101,723	107,913

*Source:* Adapted from General Statistical Office, Statistical Yearbooks 1975-2001

These initial results are illustrated more specifically in table 6.3 below on agricultural production. Using constant 1994 prices with the inflation rate decreasing from year to year (14.4 per cent in 1994 to 3.5 per cent in 2000), growth has been

**Table 6.3** Agricultural production

(constant 1994 prices)	1994	1995	1996	1997	1998	Rev 1999	Prel 2000
Gross Output	76,998	82,370	86,489	92,530	96,103	102,933	102,114
Crop Cultivation	61,660	66,183	69,620	74,493	77,298	82,946	86,860
Food Crops	40,653	42,110	44,654	46,953	49,050	52,738	54,938
Industrial Crops	10,299	12,149	12,806	14,550	15,042	14,762	17,623
Livestock	12,999	13,629	14,347	15,465	16,204	17,337	18,505
Services	2,339	2,558	2,522	2,572	2,610	2,650	2,748
Memorandum Items:							
Paddy Output (000 tons)	23,528	24,964	26,397	27,646	29,146	31,394	31,394
Food grain Output per Capita (kg)	369	382	399	412	422	447	447

*Source:* General Statistical Office, Statistical Yearbooks 1975-2000 (quoted by WB, 2001b).



steadily increasing in all branches of the sector. Despite the Asian financial crisis in 1997-1998, agricultural production in Vietnam continued to grow. Although the crisis placed difficulties on export of rice, coffee and other products, the outputs help increase food grain output per capita from 369 kg in 1994 to 447 kg in 2000, thus reduced remarkably the poverty level in the society through increase in income of farmers, in food inputs, and in export of agricultural products.

When MARD was established in 1995 as a result of merging of three former ministries, the number of affiliated departments and units was reduced from 34 to 18. Subsequently, the number of staff<sup>1</sup> of the 18 departments was also streamlined from 1,059 to 476, who are currently working in MARD headquarters. After some initial fluctuations, the new organisational structure began to function quite smoothly to carry out the assigned functions and tasks (Nguyen Van Dang, *op. cit.*, 2001). Since 1999, MARD has conducted a review of the machinery, functions and tasks of all departments and units to serve as a basis for relevant adjustments. The ministry has also developed and implemented a programme for reorganisation and salary reform in the sector as required by the resolution of the Seventh Plenum of the CPV in 1999.

Three major segments of departments and units can be distinguished in the organisational chart of MARD, that are *Cuc* department, *Vu* departments, and business and public service delivery organisations. Continuous efforts have been made by the ministry to clarify the role and tasks of the different types of units. In May 2001, a workshop was held with the view to strengthening the *Cuc* departments. What distinguishes *Cuc* departments from other units is that they carry out professional management functions. Each *Cuc* department functions within a framework of government decree, which specifies its tasks and functions. Whilst *Cuc* departments are not "sub-ministries" as they are accountable to the ministry for the assigned professional tasks, some of them even have network of offices at the local level. As such, in their professional areas, *Cuc* departments make their own decisions, providing that key decisions and plans are submitted to the minister for approval. Since the *Cuc* departments have intensive expertise in their narrow professions, they are also involved in the process of policy drafting, the result of which is then submitted to the leadership (the minister and vice ministers) of MARD to make final decisions (MARD, 2001d).

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<sup>1</sup> The contingent of civil servants, excluding supportive staff.

In the current tendency of wider decentralisation, it is argued that more authority should be given to the heads of *Cuc* departments in order to enhance their role of state management. It is, therefore, required that the organisation structure of *Cuc* departments be strengthened through the application of a "soft" structure in addition to the "hard" structure. While the hard structure is fixed for every *Cuc* department, the "soft" structure is more flexible and depends on specific duties and functions of a particular *Cuc* department to define its organisation. Proposals were made to place several research and training institutions under the jurisdiction and management of *Cuc* departments, thus reducing the management burden of the ministry. In addition, the role of professional inspection of the departments needs to be consolidated according to the legislation governing the area, such as the Law on Forest Protection and Development, the Veterinary Ordinance, the Ordinance on Dyke management<sup>1</sup>.

For example, a comprehensive review was conducted for the veterinary services in 2000. A team of senior experts was established to undertake a functional analysis of the whole system of veterinary services from the central level (the *Cuc* Department of Animal Health in MARD) to the local authorities at all levels (from the provincial to district and communal levels). In reviewing the organisation of the livestock services at the macro-structural level, the local animal health service, and other related aspects such as human resource policies and the sale of veterinary drugs, the team has found that these tasks are scattered among different ministries and units leading to difficulties in functioning and monitoring the services. Based on the review and analysis, proposals for reorganisation and improvement of the services were made to MARD (Bollinger, D., 2000).

*Vu* departments are ranked at the same level as *Cuc* departments in the hierarchy of MARD. They do not carry out professional management, but play mainly advisory functions to the leadership (the minister and vice-ministers) of the ministry. Practical evidence has shown that enormous overlaps occur in the functioning of various *Vu* departments, *Cuc* departments and other units affiliated to MARD. For instance, it is not clear whether the planning function is of the Planning *Vu* Department, or of various *Cuc* departments, thus leading to the fact that they all make plans. In order to overcome the weaknesses and to strengthen the capacity of *Vu* departments, MARD held a workshop in June 2001 to discuss issues related. The findings of the workshop

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<sup>1</sup> Nguyen Manh Dung, Interview, August 27<sup>th</sup>, 2001.

included that each *Vu* department should focus on providing the minister with advice on key functions of its own competence. In order to do so, the *Vu* departments need to enhance their capacity of information collection and analysis, and to apply more information technology in their daily work. It should also be noted that, being advisory units to the leadership of the ministry, *Vu* departments do not usually have subsidiary divisions in their organisation (MARD, 2001c).

Apart from the 18 *Cuc* and *Vu* departments, MARD is directly supervising 34 different training schools, 22 scientific research institutes and 9 centres for experiments. The huge number has created a lot of problems for the ministry in its management and supervision. Therefore, a project for restructuring these institutions has been developed, which includes a number of measures. *First*, based on the review of the roles and functions of the institutions, the ministry will maintain several key institutions under its jurisdiction. Detailed plans have been developed to strengthen the capacity of remaining institutions through equipping them with new technology and providing more experienced staff. *Second*, while a number of institutions that are similar in functions will be merged together, others may be closed. *Third*, some of the training and research institutions will be moved to *Cuc* departments to manage in the same professional areas. And *fourth*, a few institutions will be moved to the management of local authorities to make their operations closer to the needs of the localities. All these efforts aim to make the structure of the ministry slimmer to focus more on policy-making<sup>1</sup>.

In its management of the large sector, MARD is often faced with issues of horizontal relationships with other related ministries and central agencies, such as the Ministry of Aquatics and Fishery, the Ministry of Transport, and the General Department of Land Administration. Inter-sectoral coordination has, therefore, been of vital importance, as an improved mechanism of coordination would enable smooth functioning of related agencies. The Prime Minister, who is also the Head of the National Steering Committee for PAR, issued a document No. 128/TB-VPCP on September 26<sup>th</sup>, 2000 requesting better coordination among government ministries. Following the announcement, MARD has held a series of meetings and discussions with other related ministries and agencies to determine clearly the boundaries of state management between them. Progress has been made in coordination of cross-sectoral

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<sup>1</sup> Nguyen Thi Hong Loan, Interview, 2001, *op. cit.*

matters such as management, utilisation, exploitation and refertilisation of soil resources; management of dykes; agricultural and forestry product processing; and food processing (MARD, 2001a, *op. cit.*).

The reorganisation of the ministry has also expanded to the local level. As a result of the merger of the former three ministries into the present MARD, the former three departments of agriculture, of forestry, and of irrigation at the provincial level were also merged into the present department of agriculture and rural development (DARD). DARD operates under a double subordination system, in which it is accountable to the provincial People's Committee that established it, provides it with staff, salaries, office etc. on the one hand, and is accountable to MARD in professional areas, such as implementing policies set forth by the ministry in agriculture and rural development on the other hand. The director of DARD is appointed by the provincial People's Committee, but he/she must be approved by MARD. As the administrative system of Vietnam is vertically structured, the reform went down to the district level where the former three sections of agriculture, of forestry, and of irrigation were integrated into the current section of agriculture and rural development (SARD). At the grassroots level, the communes, a vice-chair of the communal People's Committee is responsible for the agricultural and rural development sector of the commune.

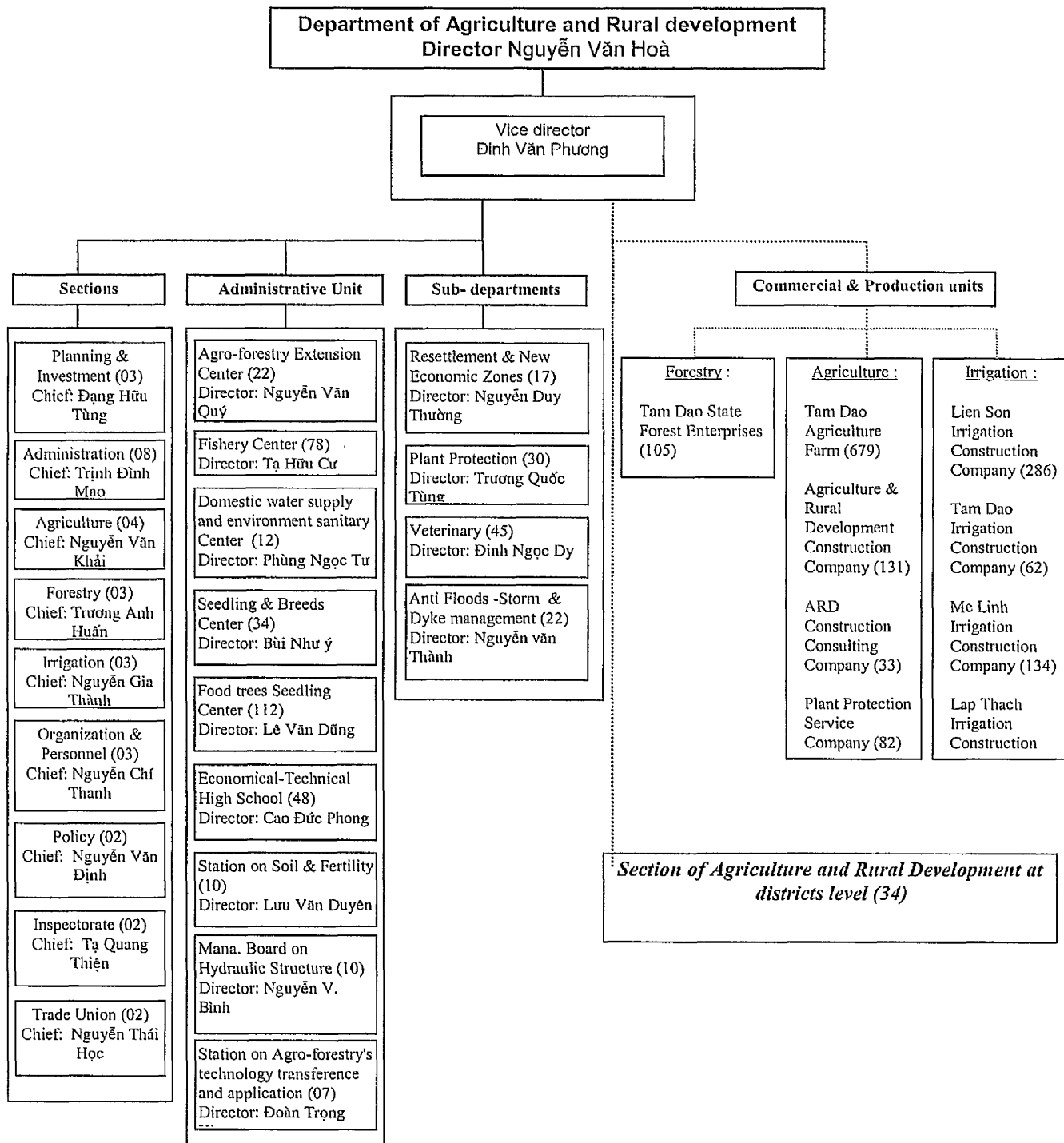
Since the country is mainly rural, the functions and tasks of DARD and SARD are enormous in the locality. In its structure, DARD has different functional sub-departments, sections, units that are in charge of areas related to agriculture and rural development. Typically, the structure of DARD is shown in figure 6.3 below.

The structure of DARD may be slightly different from province to province, however, it looks similar to the structure of MARD at the central level. While the sub-departments are the lower level units of *Cuc* departments, the sections are similar to small *Vu* departments, the administrative units are centres for experiments and training institutions, there are also production and business units under the supervision of DARD. This structure seems to be unified on the one hand, but it reflects the rigidity in the way the department is organised, which does little to reflect the different conditions and the varieties of the localities in Vietnam on the other hand.

**B. SOE reform and equitisation:** MARD currently supervises 18 general corporations and 27 companies and enterprises (see the list of the SOEs in appendix 6.2). The ministry has developed a plan for restructuring the SOEs which focuses on

Figure 6.3

Organizational chart of the  
Department of Agriculture and rural development  
Vĩnh Phúc Province  
(last update 9/6/2000)



renewal of their organisation and management. Following the Government Decree No. 12/CP on March 2<sup>nd</sup>, 1993, MARD has moved 32 state agricultural plantations to local authorities to manage. In addition, it cooperates with the Ministry of Finance in implementing the Decision No. 187/1999/QĐ-TTg issued by the Prime Minister on renewal of organisation and management mechanism for state forest plantations. Since then, the two ministries have jointly reissued registration for 437 state agricultural plantations throughout the country. Based on the experiences with the renewal of organisation and management mechanism for state forest plantations, MARD is currently working on a proposed renewal of organisation and management mechanisms for state agricultural plantations, which will be submitted to the Prime Minister for approval and issuance (Nguyen Van Dang, 2001, *op. cit.*).

Although there are still difficulties with equitisation, the process has been accelerated in the agricultural and rural development sector since 1998. In 2000 in particular, MARD completed the procedures to transform 30 SOEs into stock companies, thus reducing the number of SOEs under its direct supervision. In total, the number of complete equitisations in MARD is now 50<sup>1</sup>, which include more than 10,000 employees. As assessed by MARD (2001a, *op. cit.*), most of the equitised companies have been more efficient in their production and business, showing an increase of turnover, profit, transfers to the state budget, and income for their employees. A number of the companies have attracted more labour force for further investment in their production.

### 6.3.3 Civil service reform and HRD:

New reforms efforts need to be sound and to correspond to the requirements of the ministry, and change agents need to be stimulated to succeed, but even when these ingredients exist, it is still not enough. An official of MARD argued:

*"Managers and employees require proper reorientation, training of new knowledge and skills, and development opportunities. To be sure, the leaders must take specific measures to unfreeze the status quo and to highlight the importance and the benefits of administrative reforms. However, lower level managers and employees may resist the reforms unless they feel confident that they possess the knowledge and the skills to implement the desired change. Without the skills, they naturally*

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<sup>1</sup> As discussed in chapter 4, equitisation of SOEs is a kind of "incomplete" privatisation, in which the government still maintains certain number of shares to have an important voice in the decisions of the already equitised enterprises.

*gravitate toward the familiar, toward what existed before. That world looks more comfortable because they know how it works and what is required of them*<sup>1</sup>.

In this way, training and development play a paramount role in the administrative reform process in the ministry.

Having recognised the importance of training and development of the staff, MARD has undertaken a number of specific measures that aim to enhance the capacity of the pool of employees. The first step was the development of the strategy on labour force and HRD in the agricultural and rural development sector, which the ministry accomplished in 2000. The strategy focuses on capacity building for the staff by integrating it into HR planning, training and retraining, primarily to serve the integration of Vietnam into the region and the world. Skills training is emphasised in the strategy, as more skills are required for agricultural production, and for ASEAN activities. The training is conducted in professional and management matters, as well as in foreign languages and information technology. Since the fund for training is limited, the ministry has attracted different donors through development projects to finance training and retraining activities for its staff (Nguyen Van Dang, 2001, *op. cit.*).

In order to carry out the strategy, the second step MARD undertakes is to strengthen and consolidate the training institutions it supervises. More investment has been given to upgrade facilities and staff of the two cadres management training centres in Hanoi and Ho Chi Minh City so that they can run short-term retraining courses for the ministry's personnel. At the same time, efforts have also been made to improve the quality of postgraduate education at the ten research institutes and universities under its umbrella. New training curricula, materials and methods have been developed and put into practice in the institutions in an attempt to enhance the quality of the training to meet the specific requirements of different target groups of participants. In this regard, cooperation between MARD and the Ministry of Education and Training (MOET) and NAPA has been improved<sup>2</sup>.

The third critical step is the increasing attention the ministry has paid to professional and vocational training. The approach has shifted from political and general knowledge training to training targeted on professional requirements to meet specific programmes or projects such as training of workers for salt production,

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<sup>1</sup> Nguyen Duc Son, Interview, August 28<sup>th</sup>, 2001.

<sup>2</sup> Bui The Vinh & Nguyen Duc Son, Interviews, 2001, *op. cit.*

artificial timber production, and fruit processing. In such a direction, MARD gradually moves to training for specific purposes, that is to conduct training of technical workers on the basis of the training needs of different investment and development projects, and to combine theoretical lessons with fieldwork at production sites. In addition, extensive courses have also been conducted for farmers and managers of private plantations whereby MARD trainers introduce extension skills to assist the farmers increase their crop productivity (Nguyen Van Dang, 2001, *op. cit.*).

This more pragmatic approach in training has produced some results. As reported by the ministry (MARD, 2000), in 2000 particularly, 132 officials were sent to courses of political theory, 435 participated in training in state management, 593 attended training in economic management. Furthermore, 2,398 officials underwent retraining in operational matters, 586 participated in IT training, and 566 in language training. Apart from the above number of officials who attended various in-country training courses, 290 others were sent for overseas training.

Training activities have further accelerated since 2001 as the result of the new policy of the government to send more staff for overseas training on the state budget. MARD has then developed a plan to send its junior staffs for postgraduate courses abroad, which combines consolidation of both professional knowledge and language training. In an exam organised by MOET in 2000 to select candidates for overseas training, 63 per cent of MARD applicants have met the requirement. In addition to this, in 2001, the ministry conducted in-country training for 78 Ph.D., 160 MSc/MAs, 2,070 undergraduates, 5,420 graduates from vocational training, and 13,400 technical workers (MARD, 2001a, *op. cit.*). It also organised seminars to discuss ways to improve the quality of training and retraining, and to combine better postgraduate training with scientific research and studies. In this manner, it can be argued that training is the most advanced area the ministry has undergone in its PAR efforts.

However, these figures do not tell a lot about the quality of training as well as problems the training institutions are faced with. The tendency to focus more on number of output trainees has made the quality of training to suffer. As there is a tendency for more learners to participate training, courses are not always conducted on the basis of proper training needs analysis. There are overlaps in courses that different institutions organise, particularly in the part of political theories. Training materials and methods in many cases are not up to par with the new requirements of industrialisation and modernisation of the sector. There is a need to evaluate the effects of training



within the ministry to see whether the sum of money inputs has produced feasible value. In addition, the lack of trainers who have acquired new management knowledge, skills and methods for professional areas of agriculture and rural development also undermines the outcomes of training efforts. As reform continues, the training institutions are gradually tackling these issues with the support from the ministry.

#### 6.3.4 Foreign assistance:

As one of the most important line ministries in Vietnam, MARD has increasingly attracted attention and assistance from different international organisations as well as governments of other countries. By the end of 2001, there are 186 development projects that are on going in the agricultural and rural development sector, the total fund of which is more than US\$ 1.6 billion (MARD, 2001a, *op. cit.*). These projects are both technical assistance (TA) and investment, usually combined with contribution of resources from the government of Vietnam. Within the ministry, the projects are coordinated by the *Vu* Department of International Cooperation, which develops and discusses new projects with related agencies, supervises the activities of projects and organises periodic meetings with projects and donors on different issues and occasions.

There are currently three major TA projects for PAR in MARD. The first is the institutional development and capacity building for water resources management funded by the Danish government through its development agency (DANIDA). This project assists MARD in administrative reforms in the irrigation sector. The second project is on support for reform of the forestry administrative system (REFAS), funded by the German government with the total amount of US\$ 10.5 million. This project was developed even before the merger of the three former ministries into current MARD, focusing on the forestry sector. Its first phase finished in late 1999, and the second phase is now on-going. Apart from assistance for administrative reform in the forestry sector, the project has developed four sub-projects and assisted administrative reforms in four provinces, namely Dak Lak, Thanh Hoa, Son La, and Vinh Phuc. In addition, the REFAS project has taken a positive part in the five million hectare afforestation programme, which is one of the three national target programmes assigned to MARD to

conduct in the total of eight<sup>1</sup>. In such regard, REFAS has provided assistance to the different *Cuc* departments in their efforts to protect the existing forests and plant new forests.

The third TA project to assist PAR in MARD is jointly funded by UNDP and the government of the Netherlands, coded VIE/98/004. This project started in June 2000 and aims 'to improve the functioning of the administrative system within MARD so that it can effectively promote socio-economic development in rural areas of Vietnam' (MARD & UNDP, Project Document, 2000, p: 2). In order to fulfil the general aim, specific objectives of the projects include: (i) to define the role and responsibilities of the ministry in relation to those of other ministries, agencies and provincial authorities involved in rural development activities; (ii) to strengthen institutional and HR capacities to carry out the tasks of PAR in MARD; and (iii) to develop an information exchange strategy for the ministry based on the newly defined role and responsibilities. So far, a number of activities, such as functional analyses of different departments of MARD, policy seminars, study visits and training workshops, have been undertaken under the umbrella of the project to fulfil the objectives. In 2001 in particular, the project was involved more in assisting MARD with drafting a new decree to replace the Government Decree No. 73-CP, which defines the role, functions and tasks of the ministry. In addition, it organised two workshops to discuss restructuring *Cuc* and *Vu* departments, and organised training courses to strengthen the capacity of selected staffs in new skills and techniques of drafting of legal and regulatory documents.

By bringing in international expertise and combining it with local expertise, the project has made positive inputs to the PAR efforts of MARD<sup>2</sup> as the project has participated in various dimensions of the administrative reform efforts in the ministry. Through capacity building, a number of staff of MARD have opportunities to work in

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<sup>1</sup> There are currently 8 national target programmes in Vietnam, namely: (i) National Programme for Hunger Elimination and Poverty Reduction (including assistance to ethnic groups of special difficulties); (ii) National Programme for Rural Clean Water Supply and Sanitation; (iii) National Programme for Population and Family Planning; (iv) National Programme for Liquidating some Social Diseases and Dangerous Epidemics; (v) National Programme for Preventing and Combating of HIV/AIDS; (vi) National Programme for Building the Young and Talent Athletes Forces; and (vii) National Programme for Solving Jobless. The three national programmes conducted by MARD are: (i) Hunger Elimination and Poverty Reduction; (ii) The Five Million Hectare Afforestation Programme; and (iii) The National Programme for Rural Water Supply and Sanitation.

<sup>2</sup> Nguyen Duc Son, Interview, 2001, (*op. cit.*)

teams with foreign experts in field trips, where they analyse the current situation and together work out alternatives. Some of these joint teams conducted surveys and reviews of functions and tasks of different *Cuc* and *Vu* departments, and suggested relevant adjustments to the minister. A number of workshops have been organised under the umbrella of the project, run by both foreign and domestic consultants who supplement each other to produce more realistic views to Vietnam and more feasible outcomes.

#### 6.4 DISCUSSION OF PROBLEMS AND CHALLENGES:

As PAR expands and intensifies in the sector, MARD is increasingly faced with new problems and challenges that are inherent from the current administrative system as well as emerge from the new development of the sector. The challenges are both at macro and micro levels, and both within vertical and horizontal relationships.

In the reform process, MARD is subjected to an increasing number of policies and guidelines from the government (the Prime Minister and his Deputies; other related ministries and central agencies). In many cases, the policies come without clear guidance, making it difficult to carry out. Lack of coherence and delays in providing clear instructions further undermines the effect of the policies while they are implemented at the ministry level. For example, while the Party and the government announced the policy for downsizing of 15 per cent of total staff in administrative agencies in mid-1999, nothing had happened until GCOP issued a circular to guide the implementation of the policy in September 2000. The delays are more exacerbated by low capacity to implement national policies at the ministerial and local levels, bringing limited level of achievement of the goals set forth in the policies<sup>1</sup>.

The issue is closely related to the role and responsibility of the minister. As defined by Schick, A., (1996, pp: 42-43), the role of responsible ministers to steer the departments include (i) participating in selecting chief executives and in overseeing their performance; (ii) developing strategic objectives and policies; (iii) negotiating annual agreements for the chief executive's performance, including the key result areas; (iv) allocating appropriated funds for the purchase of outputs; and (v) taking responsibility for the overall capacity of the department. While conditions are different between Vietnam and OECD countries, it can be argued that ministers in Vietnam do

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<sup>1</sup> Nguyen Manh Dung, Interview, 2001 (*op. cit.*).

too many jobs, and they are virtually overloaded in fulfilling their functions. As political appointments, ministers in Vietnam must be members of the National Assembly, which holds sessions twice a year, each time for a month. At the sessions of NA, they have to answer queries from deputies related to the sector they are in charge of. Almost all ministers are also members of the Central Committee of the CPV and they have to participate all plenums of the Committee that are organised three to four times a year, each time for a week. In addition to these, each minister is a member, in most of cases, the head of a number of temporary councils or committees, which are organised to deal with ad-hoc or inter-sector issues. The minister of MARD, for example, is involved in 22 committees of this type<sup>1</sup>.

Differing from many countries, ministers in Vietnam play both the role of policy-making and management of the sector. In MARD, the minister is responsible for all detailed matters such as personnel recruitment, their salaries, and budget expenditures. While some areas of work are delegated to six vice-ministers, the minister takes the responsibility for overall management and is directly supervising several national programmes. These dual roles leave him little room to concentrate on making macro level policies for the sector, which should be, arguably, of his primary concern. This overload, combined with all the accountabilities to the NA, the CPV and the temporary councils and committees, give him no choice but to rely on departments that draft policies and submit to him for approval. It is paradoxical that whilst the minister is involved in a number of management and operational issues, the departments are in charge of working out policies<sup>2</sup>.

The performance capacity of departments now emerges as an issue of special importance. The reduction of departments from 34 to 18 in 1995 was resulted from merging *Vu* departments while *Cuc* departments were kept the same. Since *Cuc* departments are in charge of managing various professional areas, the minister probably cannot consider all aspects of their performance. The current structure of MARD includes six vice ministers who are given the charge of a number of sub-sectors that are carried out by the departments. The set up clearly reflects the excessive control pattern and the over-centralisation may be the cause of discontent. On many occasions, the minister is called on to undertake too many decisions about detailed departmental

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<sup>1</sup> Nguyen Thi Hong Loan, Interview, 2001, *op. cit.*

<sup>2</sup> Hoang Hong, Interview, August 27th, 2001.

operations that should have been left to departmental managers. On the other hand, as a manager<sup>1</sup> argued: "*departmental managers are frustrated with the extensive control over all aspects of personnel, finance and other matters, and are well disposed to the idea that they should accept more accountability and loss of permanent tenure in exchange for the freedom to manage with much greater responsibility and discretion*". One possible way to deal with this in administrative reforms is for the minister to coordinate and build the capacity of their departments and steer them in new directions, while leaving more power for the departments to manage the tasks assigned to them. In this way, the minister should see departments as his most valuable resource for accomplishing the purposes of government and for implementing his strategic vision. Otherwise, the reform may be just "old wine in new bottles", because the form of the departments may be changed while they still do the same things in the same ways.

The operations of the Steering Board for PAR in MARD are not well connected to the reform activities of the departments and units. The Board is expected to be a focal point to develop long-term and medium-term plans for administrative reforms, to assist the minister in coordinating reform efforts of the various units in the ministry, and to guide the activities of PAR projects funded by foreign sources. These objectives are still far from expectation as none of them is properly carried out (Nguyen Van Dang, 2001, *op. cit.*). While most of the reform efforts are now directed by the leaders of the ministry and departments, the Board failed to develop a strategic plan for PAR in the ministry that could identify priority reform areas on the basis of the National Master Plan for PAR approved by the government in September 2001. The failure in the functioning of the Board is one of the reasons why administrative reforms have been slow in the ministry. It is, therefore, essential to strengthen the organisation and operation of the Board to take on the tasks as the reform accelerates. In addition, there is some evidence of inertia among the ministry's staffs toward administrative reforms, particularly among the older civil servants. While the reform may be of no interest for some, others even resist it. The reason is simple, people prefer status quo and do not want to change. Administrative reforms, by its nature, bring changes that produce positive results for the majority of the population in the society while some groups may suffer from their side effects. There is a fear among the civil servants that with PAR, they may be given more work while many of them are already overloaded, or some

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<sup>1</sup> Hoang Hong, Interview, 2001, *op. cit.*

may lose their job as downsizing continues. In the reality of MARD, this limits the active involvement of the staffs in the reform, and as a consequence, produces delay in the process.

### **6.5 CONCLUSION: WHAT DOES THIS CASE TELL US?**

It is now relatively evident that administrative reform in Vietnam, as applied in MARD, is a somewhat top-down process with less evidence of bottom-up participation, which follows the overall framework of the national programme for PAR. The reform efforts in the ministry have been conducted mainly in the areas of administrative institutions by developing and streamlining legal and regulatory documents, and enhancing democratic practices; reorganisation of the ministry and its units by redefining their role and functions; and training and retraining of employees. As the ministry supervises a huge number of SOEs, administrative reforms are conducted in conjunction with restructuring the SOE sector. Despite initial results, there are still enormous challenges that require the ministry to undertake bolder steps if real impact is to be achieved. The case also provokes some policy implications for the reform, particularly at the central level of the government.

The principal aims of reforms affecting central agencies have been to reduce control of operational detail in order to refocus the attention of the centre on their proper functions, which are the coordination and the determination of policy and priorities. It is particularly necessary to establish the authority of ministers in time of rapid change, because necessary decisions about structural reforms and the development of socio-economic policies can only be successful if they are driven by ministers. When ministers clearly set out their objectives and values, the bureaucracy is then in a better position to respond with expert advice directed towards what it is exactly that ministers are trying to achieve. The role of ministers, is therefore, strengthened by their capacity of macro level policy making rather than of managing and running operational matters. It is of vital importance then is the careful nomination and selection of new ministers by the National Assembly of the next tenure<sup>1</sup>.

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<sup>1</sup> According to the 1992 Constitution, all ministers must be nominated by the Prime Minister for the NA deputies to approve. The 10<sup>th</sup> tenure of the NA is now ending, and the general election for the 11<sup>th</sup> NA is planned to be held this year (2002). New ministers will be selected at the first session of the 11th tenure of the NA which will be held at the end of the year.

Delegation of power to various departments in the ministry should be further expanded so that to allow them to take more responsibility of management functions. If the departments are provided with more autonomy in operational matters and improved capacity of policy advice, the minister will undoubtedly be freer to focus on his primary functions. In this way, the departments become more responsive to the minister instead of being left in the position of trying to second-guess the minister and consequently intruding his own values and policy goals. It can be argued that by enhancing departmental management and linking their key results expected to longer-term strategic goals of MARD, the power of the minister is reinforced.

More participatory approach should be deployed for the reform efforts. Practical evidence of the ministry has shown that while most of the reform directions are provided from the top, the civil servants' involvement has not received adequate attention. As they play the role of both change agents and beneficiaries of PAR, their extensive support and participation will likely ensure better the reform success. It is, therefore, essential to develop effective dialogue between the civil servants and the management, to encourage them to have initiatives, and to take on seriously their advice and suggestions. In addition, an incentive scheme should be built into the reform to serve as a means to create impetus for the civil servants to be more active toward achieving the expected goals of PAR.

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**CHAPTER VII**  
**PUBLIC ADMINISTRATION REFORM**  
**AT THE LOCAL LEVEL - HO CHI MINH CITY**

**7.1 INTRODUCTION:**

This chapter aims to analyse the PAR at a decentralised level of the government of Vietnam, using Ho Chi Minh (HCM) City as a case example. In order to get a clear understanding of the reform initiatives and efforts the city has contributed to the national PAR programme, the chapter begins with a brief introduction of the historical and institutional background of the city. It then analyses the various reform undertakings that make the city most advanced in the PAR direction of the country, such as the "one door, one stamp" (one stop shop) pilots, the application of IT for business application and licensing, the use of ISO 9004 in the administrative system, and the experiment of giving autonomy to organisations in using their payroll and administrative cost budget. A brief discussion about decentralisation in the country will also be provided to clarify points of central-local relationships in Vietnam. The conclusion will sum up the chapter by pointing out a number of lessons and experiences from the case of administrative reform in the city. It argues that the success of reform in local government has been strongly influenced by the degree of local government involvement and support in the reform process, a lesson that has wider application.

**7.2 HISTORICAL AND INSTITUTIONAL BACKGROUNDS:**

**7.2.1 Background of the city:**

HCM City (Sai Gon before 1975) is by far the largest province/city level administration in Vietnam with an official population of more than 5 million and nearly one and half million temporary and unregistered inhabitants. The present area is 2,056 km<sup>2</sup>. The history of the city dates back to the year 1698 when a feudal mandarin named Nguyen Huu Canh, with the authorisation from the King of the Nguyen dynasty, established the administrative regime in the southern part of the country. The feudal state divided the part into administrative units, set up household registration, and determined the taxation system (NAPA, 2000a, p: 202). Because the territory was large with few inhabitants, the feudal state encouraged settlement, expanded agricultural and trading activities. The initial policies resulted in strong private ownership, particularly



on farming land, and turned rice into trading commodity in the south in the 1698 - 1832 period.

The administrative division and structure of Sai Gon have gone through different periods in the history of the country. In the 1832 - 1859 period, the southern part was divided into six provinces with high centralisation of power in the central government (NAPA, *op. cit.*, pp: 203-205). Sai Gon was one of the six provinces. During the eighty years under the colonialist regime of the French (1859-1954), Sai Gon developed to become a big city, a major trading centre with numerous industrial and transport factories. In 1954 - 1975, Sai Gon was occupied by the Americans and their puppet government who established new administrative organisation for the city. There was a mayor, a municipal council, different districts, wards and neighbourhoods. Each was designated with clear administrative functions. The 1975 victory reunified the whole country and the first session of the National Assembly (NA) of the unified SRV in 1976 decided to rename Sai Gon as the present Ho Chi Minh City.

Nowadays, HCM City is at the forefront of economic growth in the country with GDP of around 15 per cent (compared with a national average of 7 per cent), producing around 25 per cent of national GDP and 60 per cent of recorded exports. The GDP per capita increased from US\$ 937 to US\$ 1,365 in 2000 (1994 prices) (Fforde, 1997; NAPA, 2000, *op. cit.*). The rapid pace of socio-economic development is leading to both pressure and enhanced capacity for innovation and management within the administration, raising the link between economic growth and the efficiency of state management.

According to the 1992 Constitution, HCM City is a city under the direct control of the central government. There are two major organs: a representative organ, the People's Council; and an executive organ, the People's Committee.

The City People's Council is the organ of state power at the locality, which represents the will, aspirations and the rights of mastery of the local people. It is elected by the local people<sup>1</sup>, is accountable to the local people and to the higher state agencies. The tenure of the People's Council is five years. Its main function is to approve by

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<sup>1</sup> The tenure of the People's Council is five years. The nominations of candidates are conducted by the Fatherland Front of Vietnam, which is a socio-political organization in the country. Apart from the nominees from party cells and other organizations, such as the Trade Union, the Women's Union, the Youth League, there are also free nominated candidates for the election.

resolutions methods to implement the Constitution and the law in the locality; the socio-economic development plans and budget; the local security and defence; the methods to stabilise and improve living standards of the local people; and the accomplishments of the tasks assigned by the superior agencies. There are three committees in the City People's Council, the Economic and Budget Committee, the Socio-Cultural Committee, and the Legality Committee (SRV, 1992 Constitution).

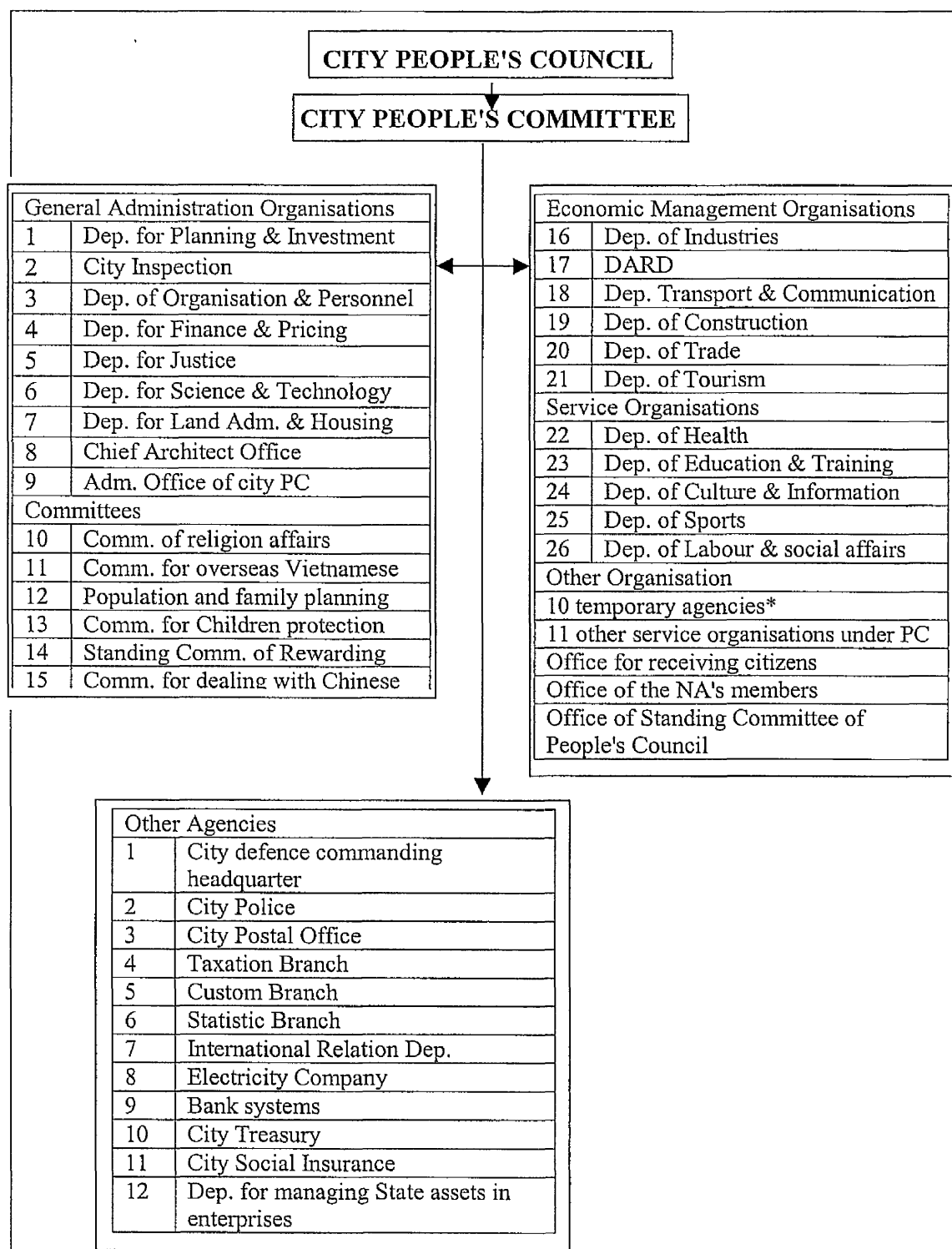
The City People's Committee (PC), elected by the City People's Council, is the executive body of the People's Council and the administrative agency of the locality. The PC is responsible for implementation of the Constitution, the laws, and various documents enacted by the superior state agencies, and the resolutions of the People's Council. At the present time, the PC is headed by a chairman who takes the overall management, and is directly in charge of internal matters, master planning, and urban design. The chairman is assisted by four vice-chairmen, who are responsible for sectors such as economic - financial - trading sectors, foreign trade, investment cooperation; socio-cultural sectors, healthcare, sports and games; industrial, construction, transportation, housing and land management (NAPA, *op. cit.*, p: 224). In addition, there are eight other members of the PC.

HCM City is a very large and complex organisation. It consists of 26 departments, 10 service organisations, 12 agencies and 10 temporary agencies (see Figure 7.1 below). The city is divided into 22 districts, of which 17 are urban and five are rural districts. The 22 districts are further divided into 238 wards, 62 communes and four townships. To support this massive and complex organisational structure, the city currently has a total of 4,643 administrative civil servants, of which 2,226 work at city level and 2,417 work at district level. In addition, at commune/ward levels there would be a large contingent of cadres who are currently not classified as civil servants (HCM City, 2001a, p: 6).

### **7.2.2 Central-local relationships and issues of decentralisation:**

The city structure, to some extent, reflects the complicated relationship between the central government and the provincial/city level in Vietnam. As argued by Turner, M. (1999, p: 1), "*the technical impossibility of total centralisation, and the political pressure for decentralisation, entail a situation in which all systems of government involve a combination of both centralised and decentralised authority*". However,

Figure 7.1 Organisational structure of HCM administration



\* The list of these organisations is in appendix 7.1

Source: HCM City, 2001a, *op. cit.*

finding a combination of central control and local autonomy that satisfies regime requirements and popular demands is a persistent dilemma for Vietnam, particularly at the present favourable tendency of decentralisation in the world (as argued by strong advocates, such as WB (1993, 1998), UNDP (1992, 2000)).

Under central planning, at least four features of the local administrative state can be identified. *First*, local administrative units were demarcated according to production-related factors such as the land area, the density of population or the economy of scale, rather than historical and cultural factors. *Second*, each administrative level functioned both as an administrative agency and as an economic manager (the paternalistic mechanism). Government agencies at all levels were entitled to own and run industrial and agricultural production enterprises of various sizes. *Third*, party committees and mass organisations played an important role in mobilising local people to implement party and government policies. *Fourth*, the administrative structure was based on the principle of "management along the territorial line" (Vasavakul, T. 1999, pp: 169-170). All these brought a situation in which activities of all administrative levels are duplicates of those of a nation-state in miniature, since local administrative agencies were allowed to issue administrative orders as if they were independent administrative levels (Nguyen Huu Duc, 1996). As thus, although the term "administrative hierarchies" was used, in reality the situation of most localities was "self-administration".

This was combined with the powerlessness of the state under central planning as the political power of the state mainly rested upon its ability to claim property rights, control economic resources, allocate their use and attain output targets. Central-local government relations were manifested in the realm of resource allocation, resource extraction, management of state assets and fulfilment of production targets. Vasavakul (1999, *op. cit.* pp: 170-172) argued:

*"In the state bureaucracy, politics tended to be vertically confined, and was characterised by a tug of war between state planners and ministerial officials, between ministerial officials and managers of production units, and between managers and workers. In the industrial sector, the issues dealt with were the allocation of investment capital, quota for production material, production targets and workers' wages and social benefits. In the agricultural sector, the issues under contention included the long-term mechanisation of agriculture, investment funds, procurement quotas, agricultural prices and agricultural taxes".*

The rise of a new, market-oriented economy, and the long war and its fragmentations, gave birth to new patterns in Vietnamese politics. With the diminishing resources coming from the centre, and the loosening of certain aspects of administrative control over production activities, the vertical administrative and economic ties disintegrated. The transition allowed local authorities to consolidate their economic and political powers because their role as investors and managers to accumulate resources independent from central supervision was enhanced, and in the face of a legal vacuum, local officials became involved in law-making and law implementation in their territory. This process in turn allowed many of them to mobilise and allocate resources to their advantage (*ibid.* p: 172).

With the fragmentation of power (see appendix 7.1), a number of pervasive problems rose around both economic and administrative conflicts. As there was no appropriate delegation of power to the provinces in the area of managing natural resources, so local authorities freely exploited the resources, as a result, the central government was faced with the problem of accessing and protecting natural resources and the environment. Local authorities imported and exported freely, with revenue going to the local budget. They sometimes issued regulations contradictory to those of central government, leading to the dispersion of management power of the latter. In addition, many decisions issued by the central government were not elaborated by local authorities in the form of guidelines, and as a result could not be implemented<sup>1</sup> at the locality.

Faced with this deterioration of administrative boundary and power, reforms were launched both to the administrative state in general and the local administrative state in particular. With the Seventh Party Congress in 1991 and the promulgation of the 1992 Constitution, the central government moved in earnest to redefine central-government relations. The delay stemmed mainly from the fact that the leadership focused more on economic reform than political reform. Furthermore, it is argued (Fforde & de Vylder, 1996, *op. cit.*) that in the late 1980s, the central government was too weak financially to attempt recentralisation. In the 1990s, however, it had regained strength and was in position to assert its authority in the relationships. Particularly, since the launching of the PAR in January 1995, the reforms of central-local relationships have been under way with the rethinking of the basic issues: separation of

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<sup>1</sup> Nguyen Ky, Interview, November 2001 (*op. cit.*)

state administrative management and economic management functions, the rule of law, and types of authorities and power relationships within the administrative state.

According to the new thinking, the new state would be an administrative state, which was not only an instrument of the majority and represented their interests, but was "*also a public power with universal characteristics capable of representing public and national interests. State power was based on the ability of state agencies and state cadres to exercise power*" (Vasavakul, 1999, *op. cit.*, p: 176). The local authorities were vertically linked with the central government and their exercise of power had to be carried out with due recognition of that vertical link. The rule of law was used as a means to create a vertical link with the local agencies. However, the reform policy did not eliminate the old model of power relationships, and the administrative state continued to be diversified.

The new thinking goes hand in hand with the need to enhance democracy with the idea that people should participate in or determine the decisions that affect their lives. Decision-making should be located closer to the people, and that entails placing it in the hands of local institutions and officials. This clearly provides impetus to decentralisation as advocated by strong institutions like WB (WDR, 1997) through the banner of "bringing the state closer to the people" and UNDP (1999). As argued by Turner (1999, *op. cit.*, p: 4), "*decentralisation is the conceptual framework that is most frequently employed to address central-local relations*".

While analysing decentralisation, Turner and Hulme (1997, p: 153) developed a table of forms of decentralisation (see table 7.1 below), in which they drew six forms of decentralisation on two bases - territory and function. The organisational structure of HCM City in figure 7.1 (p: 233) may well illustrate the forms of decentralisation that Vietnam has adopted for its local authorities within the 1992 Constitution. It can be argued that from the territorial angle, devolution and deconcentration are two main forms the government of Vietnam has deployed. The 26 departments and other organisations on the two sides boxes are the authorities the central government has delegated to the city level. The twelve other agencies in the box at the bottom are the offices of the central government allocated at the city to fulfil central functions. In addition, on the functional angle, several aspects of production and business functions that used to be undertaken by government agencies have now been transferred to non-state agencies.

**Table 7.1** Forms of decentralisation

Nature of delegation	Basis for delegation	
	Territorial	Functional
Within formal political structures	Devolution (political decentralisation, local government, democratic decentralisation)	Interest group
Within public administrative or parastatal structures	Deconcentration (administrative decentralisation, field administration)	Establishment of parastatals and quangos
From state sector to private sector	Privatisation of devolved functions (deregulation, contracting out, voucher schemes)	Privatisation of national functions (divestiture, deregulation, economic liberalisation)

Source: Turner and Hulme (1997, p: 153)

However, there has been much confusion over decentralisation in Vietnam. This is indicated in the fact that a distinction is being made between decentralisation of function (*phan cap*) and decentralisation of power (*phan quyen*), whereby the latter is seen as negative, and the former is positive. In reality, there is a tendency for the allocation of tasks (decentralisation of function) to become contrary to the desired, decentralisation of power. This is widely seen as a major unwanted element of the current situation as it amounts to a lack of central power to confer authority, leading to a weaker state rather than stronger. The reasons may be several.

Firstly, while the roles between the CPV and the government are still not fully distinguished, the notion of the widely used slogan "The party to lead, the state to manage, and the people to be the masters" has not been sufficiently clarified. The 1992 Constitution considers sectoral (*nganh*) and territorial (*lanh tho*) divisions of the state administration as roughly on the same footing of power, leading to difficulties in working out whose authority is relevant in each instance. In addition, Fforde (1997, pp: 5-6) argued: "*A... simpler explanation... of the main cause of current problems is that the real costs involved in carrying out the institutional changes required by the market economy are considerable, and so, when the resources (both material and intellectual) available to the party and the state administration remain limited, it inevitably takes time and effort to do so*".

Secondly, the situation is further exacerbated by the fact that even though provincial and city authorities are given devolved authority that rests with many of their departments, these departments are still in a double subordination situation. The Law

on organisation and operation of People's Councils and People's Committees in 1994 provides that while the local authority provides the departments with office, finance, staff, and takes the day-to-day management of the departments, the departments have to report to their superior line ministries and are subject to guidelines and instructions of the ministries in professional matters. The heads of the departments are appointed by the local authority, but must be approved by the superior ministries and agencies. This double subordination has created a number of delays and conflicts in central-local relations, and has been one of the reasons for the complaints from the local staff as in the case of PAR in HCM City. The issue of power is, therefore, further analysed and clarified in the current amendment of the 1992 Constitution and 1994 Law on local authorities. Debate is going on about how to eliminate the double subordination and to make improvements to central-local relation arrangements.

### **7.3 PAR EFFORTS IN HCM CITY:**

#### **7.3.1 History of PAR in the city:**

As the fastest growing local authority in Vietnam and the largest city, the current rapid pace of economic growth is leading both to pressure, and (as interestingly) to enhanced capacity for the development of new ideas and their application. This is due to the nature of the process of socio-economic development in the city, partially to the awareness of the local leadership and senior members of the local administration, of the scope that exists for improvement through institutional change, as well as the willingness to "have a go"<sup>1</sup>.

The city has been faced with a multiplicity of problems since the country embarked on a market economy. There have been an enormous number of SOEs, both centrally and locally managed. Also, the failure to maintain state economic monopoly intact, and the weakness of the local administration generally means that management of local markets and businesses was weak. It is hard to prevent speculative activity from destabilising markets, and private interests from generating corners in particular product lines. Economic change and restructuring have a major impact upon transactions costs. The domestic businesses and foreign investors face increasing

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<sup>1</sup> Nguyen Huu Duc (Interview, 19 July 2000) argued "We organized regular meetings with officials from different departments and districts to encourage reporting problems caused by existing legislation and policies from the central government. We try to sort out for them by the next meeting. If the central government will not answer then our attitude is 'to do anyway'".



competition in markets and a need to invest resources to cope with that as well as exploit the opportunities presented to them. The increasing level of economic activity, combined with the regulatory attitude of much central legislation, is placing a heavy additional load upon the city's administration. In addition, the failure to generate an efficient and effective local administration must be having an effect upon social and cultural issues (Fforde, 1997, *op. cit.*). These are combined with low levels of resource availability, weak infrastructure, low investment and poor urban planning in the city. The situation leaves the city no choice but to change, and one of the focuses has been administrative reform to deal with the inefficiency and effectiveness of state management, which has failed to follow social change.

Administrative reform in HCM City began in the late 1980s, before the official launch of the national PAR programme. While the main goal of the reform in the city is "to build a state administrative machine which is capable, effective and efficient", the specific objectives include: "(i) to serve and accelerate the process of renovation and development of the market-oriented economy under state management for the sake of industrialisation and modernisation; (ii) to ensure that state management activities must facilitate and support the positiveness and dynamism of the market economy on the one hand, and to prevent its negativeness on the other hand; (iii) to choose the norms for the sake of the people and for serving the people as the base and foundation for state management activities." (NAPA, 2000a, *op. cit.*, p: 14).

The experiences of HCM City clearly show the way in which low-level experiments interact with process of analysis and review, in the context of increasingly widespread sentiments that there is a major, systemic issue to be addressed. Also, that this systemic issue has to do both with the origins of the administrative system in the now abandoned central-planning system as well as the concerns that the particular process of reform is itself a cause of problem. Since *Doi Moi*, the city leadership has set out steps and policies to implement administrative reforms on an incremental basis (see Appendix 7.3).

The stages of PAR in HCM City can be classified as: (i) 1989-93: reorganisation of ward, commune and township authorities; (ii) from 1994: reorganisation of departments and branches affiliated to the city; and restructuring districts; (iii) from 1995: PAR acceleration with "one door, one stamp" applied to all districts and "one door" application to six departments of the city administration. Early work in this area started at the city with the establishment of a research group to study

administrative reforms and the selection of sites for "breaking-through". This appears to have played an important role in supporting the City Department on Organisation and Personnel and the Law Department in focusing upon key adjuncts to PAR activities - the role of the Party, and the role of Law. This was combined with the process of reorganisation and merging of various departments. As a local authority, this required permission, or classification as an experiment. The number of such units was approximately halved, from 40 to 22. Numbers of units at district level authorities were also reduced, mainly by merging those that have the same functions and abolishing unnecessary ones (Fforde, 1997, *op. cit.*). These early activities revealed important elements of the process - for example, working procedures could be established before central legislation was available, and then corrected. The key role played by the human factor, above all knowledge, and the importance of separating state management from business and production management per se were also emphasised.

A number of specific steps have been undertaken in an effort to reform the local administration. Administrative reform taskforces were established in various organs and agencies to assist the leaders to implement necessary changes. Surveys of administrative procedures related to the people and organisations were conducted in order to abolish irrelevant and unnecessary regulations, and to minimise troubles for the people. Reorganisation was carried out together with revising the working regulations at both district and grassroots levels. More delegation of power of settling administrative procedures on granting business licenses was provided to the Department of Planning and Investment. One of the most complicated administrative procedures related to housing and land management has now been assigned to specific agencies, namely the Department of Land Administration, the Chief Architect's Office and the Office of the city's PC, to cooperate in seeking solutions to solve knotty and complicated issues (HCM City, 2000b, *op. cit.*).

Together with the activities in the early 1990s, District 1 was selected to try out reforms that were to emerge later as the "one door, one stamp" system which involved having a special unit within the district (or other administrative organisation) that was responsible for dealing with the public - the "one door" aspect. It also ended the situation where the authority's divisions had their own seals, permitting them to issue administrative decisions independently of the authority's leadership, and shifted to one

where all legal decisions coming from the authority used the authority's stamp - the "one stamp" aspect<sup>1</sup>.

This experiment started with a simple "one door" system whereby members of the population ceased to have direct formal relations with the officials who worked on their case. This was the core of the matter, and the later expansion into the "one stamp" system appears to have come about as part of the drive to re-control local administration. Once officials could no longer rule ad hoc in response to their own interpretations and direct relations with the public (with the associated opportunities for "negative behaviours"), then the issue may have arisen as to on what basis they then should rule. This led on to a concern with the generation of repeatable and predictable outcomes, and so to clear procedure and delegation of authority (*ibid.*, p: 16). It also naturally came up against the issue of power and local politics involved in the expansion of such a model into other areas. The "one door, one stamp" system will be discussed in details below.

### **7.3.2 PAR in HCM City to date:**

Since the official launching of the National PAR Programme in March 1995, the city has engaged in widespread processes of reform. From March to December 1995, while the City Party Committee and the People's Council worked out the reform directions, the City People's Committee devised an action plan, which was then submitted to the Prime Minister for endorsement. The action plan incorporated a proposal to select urban districts 1 and 5, and Cu Chi rural district for piloting the "one door, one stamp" system. On October 30th, 1995, the Prime Minister issued Document No. 6914/CCHC to approve the action plan of the city. After six years of implementation, PAR to date covers the following areas:

#### **A. *Administrative institutions:***

A comprehensive review of all regulatory documents issued by the city PC and by the various departments and branches was conducted. Out of the total 7,300 documents issued by the city PC, 4,463 were proposed to be abolished. As a result of the review, the city authority made proposals to central ministries and agencies to amend or supplement another 103 documents. In addition, out of the total 1,170

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<sup>1</sup> Lam Quoc Tuan, Interview, 22 November 2001.

documents issued by various departments and branches under the review, the city PC requested to have abolished 365 (see table 7.2).

**Table 7.2** Number of documents reviewed, abolished, supplemented or amended in HCM City

<b>Documents issued by the City's People's Committee</b>	Total number of documents reviewed	7,300
	Submitted to the City PC for abolition	4,463
	Proposed to central ministries and agencies to supplement or amend	103
<b>Documents issued by the Department of Justice</b>	Abolished administrative procedures	9
	Amended administrative procedures	28
<b>Documents issued by other departments and branches of the city</b>	Total number of documents reviewed	1,170
	Proposed for abolition	533
	Having been abolished	365
	Out of validity documents	55
	Supplemented or amended	12
	Documents issued beyond the devolved authority	23

Source: HCM City (2000b, *op. cit.*)

In its turn, the review of these documents and administrative procedures affected the allocation of functions and tasks among the city-level state agencies. As a result, the City PC has issued a statute regulating the functions, authority, responsibilities and working methods at city-level departments and branches; at People's Committees of districts; and working relationships between the agencies (NAPA, 2000a, *op. cit.*, p: 19).

The reform process of administrative procedures has helped the agencies to identify two main functions: to fulfil state management functions in accordance with assigned tasks; and to make administrative procedures known to the public and organisations on each type of services. With this identification, the agencies have managed to sort out more relevant and streamlined administrative procedures; to set up the "one door" for receiving and returning dossiers; and settle particular cases in a simpler, more timely and at lower cost manner. This has also helped abolish a number of complicated and lengthy procedures that cause troubles to the public and are no longer suitable<sup>1</sup>.

<sup>1</sup> Tran Thi Hanh, Interview, July 19th, 2000.

At the city departments and branches, while most procedures have been reduced, their functions become clearer with fewer agencies now involved in dealing with particular areas of service. Nowadays, they are assigned with specific services; for example, while the Department of Planning and Investment is mainly responsible for procedures related to granting of production and business licenses, the Department of Land Administration and Housing is the focal point for matters related to housing and land. As such, many overlaps have been cut. In case some agencies are involved in the settling of a particular case, the focal agency is responsible for the contact with other departments (HCM City, 2000b, *op. cit.*). New integrated forms of dossiers have now been developed and applied, making the agencies more efficient in their work and enabling them to avoid unnecessary errors. In addition, steps in dealing with specific matters are made clear, thus helping to reduce the time to settle matters.

Improvements have also been witnessed at the district level where streamlined work procedures and more openness help increase quality and efficiency and reduce troubles for the public. The reforms of "one door, one stamp" have brought new requirements of reorganising the divisions and units belonging to the district People's Committees. As a result, the advisory role of the units towards the district PC is enhanced on the one hand, the authority and responsibility of the district PC are also strengthened on the other hand. This situation helps the PC to reduce work-a-day affairs and concentrate more on state management functions<sup>1</sup>.

#### **B. Reorganisation:**

The improvements in reforms of administrative procedures have prompted changes of the organisational structures to match the new situation. The changes have been made at all levels of the local authority. At the grassroots level, the former nine sub-committees affiliated to the People's Committee have now been reorganised into one sub-committee. As a result, the workforce at the grassroots level has been considerably reduced (2,108 people were downsized).

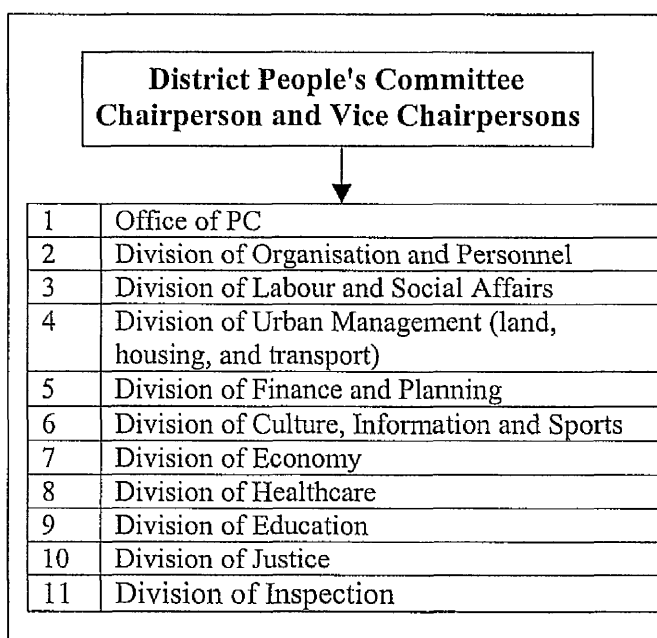
The organisation of the district-level authority has also been restructured. The number of functional divisions and units have been cut from 21 to 11 at urban districts; and to 13 at rural districts. By the year 2000, 447 employees were reduced from the total number of 4,643. As the "one door, one stamp" policy has intensified, the

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<sup>1</sup> Tran Thi Hanh, Interview 2000, *op. cit.*

organisation has further adjusted to be more streamlined (HCM City, 2000b, *op. cit.*). While figure 7.2 shows the current organisational structure of a typical district in the city with 11 divisions and units, figure 7.3 below illustrates the new structure of the district PC under the "one door, one stamp" system.

**Figure 7.2** Organisational structure of a typical urban district in HCM City

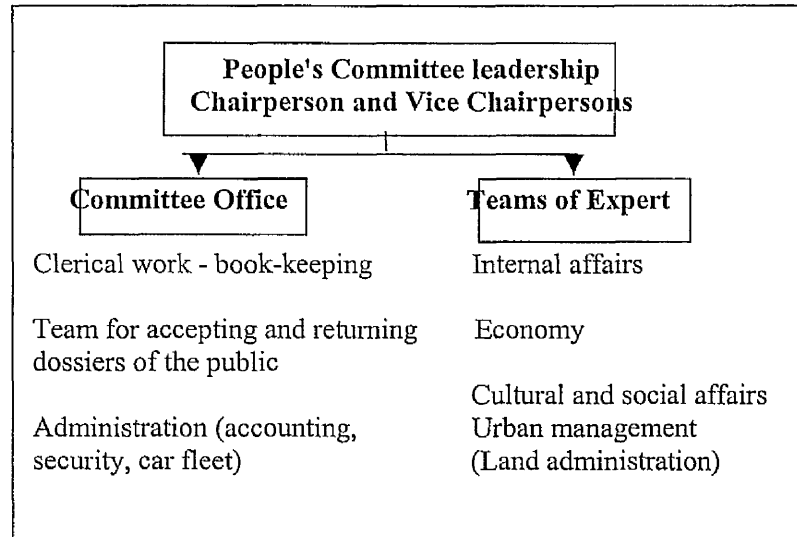


*Source:* adapted from HCM City (2001a, *op. cit.*).

The continued reorganisation of the districts includes transfer of a number of functions that are currently performed by the district PC, such as transfers of business functions to specialised units; of movement-based functions to social organisations of the city; and of responsibility for complaints, accusations and civil disputes to functional agencies, namely the Inspectorate, the Court, and the Prosecution Bureau. In this way, the two main functions left with the district PC are "*performing administrative management within the precincts of the district concern under the instructions of the City PC, and providing administrative procedures for the public and organisations in accordance with their devolved authority and responsibility*" (HCM City, 2000b, *op. cit.*). In order to carry out the two functions, the district PC have various teams to assist both in daily operations and in dealing with the public. Information technology is widely used through the city web to facilitate the work of the

teams. As such, the structure is much slimmer and the district PC focuses mainly on state management functions (figure 7.3).

**Figure 7.3** Organisational structure of a district PC under the new system in HCM City



Source: HCM City (2000b, *op. cit.*)

Considerable changes have also been made to the city departments and branches, the number of which has reduced from 58 to the present 37. Within the 37 currently functioning agencies, there are 20 departments and equivalent, 11 advisory agencies, and 6 business units affiliated to the city PC. One of the major improvements was the merger of the two former Departments of Land Administration and of Housing into the present Department of Land Administration and Housing in order to reorganise administrative procedures on land and housing for the people. Practical evidence has shown that in HCM City, there were a lot of complaints and civil disputes around land and housing issues, which used to be addressed by separate state agencies. Since 1998, the merger has proved suitable to the new requirements and has been applauded by the public. Apart from the simplicity achieved from the new process of administrative procedures, the merger has also brought about enhanced efficiency in activities of cross-sectoral management owing to the close and clear combination of functions and responsibilities (*ibid.* 18). On the basis of the mergers so far (see table 7.3), analysis is continuing for the further mergers of other specialised departments in coming years in order to improve the effectiveness and efficiency of the city authority.

**Table 7.3** Restructuring of some departments in HCM City

No.	New Agency	As merger of
1	Department of Planning and Investment	- Department of Planning - Committee for Cooperation and Investment
2	Department of Land Administration and Housing	- Department of Land Administration - Department of Housing
3	Department of Finance and Pricing	- Department of Finance - Pricing Committee
4	The City's Personnel College	- Nguyen Van Cu Politics College - The city's Administration College

Source: HCM City (2000b, *op. cit.*)

A new development in the PAR process in HCM City is the establishment of a specialised administrative zone, whereby a number of departments and branches are now gathered in the same area with the city's headquarters, namely the Department of Transportations and Public Works, the Department of Land Administration and Housing, and the Department of Trade. The same process involved with the relocation of divisions under the district PC into the same areas with the head-offices of the district. This is done together with gradual refurbishing and modernising of work facilities and offices, especially the offices for receiving dossiers from the public. The aim of these efforts is to facilitate the dealing with requests of the public between state agencies, and reduce multiple travelling back and forth by the people<sup>1</sup>.

Efforts have also been made to restructure the state owned enterprise (SOE) sector in the city. The three main directions the city has followed in the restructuring are establishing state corporations (according to the Directive No. 500-TTg of the Prime Minister); establishing public welfare enterprises<sup>2</sup> (in line with the Government Decree No. 56-CP); and equitising SOEs. By the end of 1995, the city managed 409 SOEs, which, by February 1999, have been rearranged into seven state corporations (as merger of 106 enterprises) and 52 public welfare enterprises; 42 enterprises have been equitised; and 17 have been listed as those to be disbanded or declared bankrupt. As

<sup>1</sup> Lam Quoc Tuan, Interview, November 2001, *op. cit.*

<sup>2</sup> There are two main types of SOEs in Vietnam, public welfare enterprises, and business enterprises. While the main aim of business enterprises is profit-making according to the law, the primary objective of public welfare enterprises is to provide public services to the people.



such, there are only 18 SOEs that are currently under the temporary management of various departments. The 18 SOEs will be restructured in the coming years. The rest of the SOEs still remain untouched (NAPA, 2000, *op. cit.*, pp: 22-23).

### C. *Civil service reform:*

The practice of administrative reforms in the city has given a strong boost to the quality of the workforce of cadres and civil servants. The new work regulations as well as operations in accordance with the "one door, one stamp" system require both qualifications and professional capabilities of the employees in receiving, analysing, dealing with, and returning dossiers. More significantly, the new development of the city has generated new demands for capabilities in strategic planning, policy analysis, and appraisal. These issues have been gradually tackled through a number of training and retraining activities for the contingent of cadres and civil servants of the city.

In an attempt to develop training need assessment for the whole workforce, the city conducted a survey of civil servants in late 1999. Table 7.4 below provides a profile of administrative civil servants of the city as of January 2000. The classification by civil servant's grades shows that in HCM City, most of the civil servants are at a low grade<sup>1</sup> (expert, pre-expert, and others). While the grade of principal experts is 12 per cent, there is less than one per cent of senior experts, implying an insufficiency of civil servants who work at strategic levels, such as policy-making and socio-economic planning. In terms of professional training, the number of undergraduates is nearly twenty times bigger than that of post-graduates, while a considerable number of civil servants have chosen to undertake political training.

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<sup>1</sup> Civil servants in Vietnam are classified into different corps, such as the corps of administrative civil servants, the corps of researchers, the corps of accountants. The corps of administrative civil servants is further divided into three grades, that is the grades of experts, of principal experts, and of senior experts. Each of the grades shows the complexity and the difficulty of the functions and tasks the civil servants do. In order to be promoted into a higher grade, civil servants must have the required qualifications and pass promotional examinations. For example, the grade of experts includes those civil servants who have at least a university degree in professional training. To become a principal expert, an expert must have at least a master's degree, and must have worked at least nine years for the civil service before taking the promotional examinations. Each of these grades contains a number of steps, which show the tenure of the individual civil servants, and related salary.

**Table 7.4** Profile of administrative civil servants in HCM City (as of January 2000)

Levels	Staff Numbers	Classification by Civil Servant's Grades				
		Senior Experts	Principal Experts	Experts	Pre-Experts	Others
CITY LEVEL	2,226	1%	20%	36%	16%	27%
DISTRICT LEVEL	2417	0%	5%	41%	32%	22%
<b>TOTAL</b>	<b>4,643</b>					

<b>Percentage</b>	<b>100%</b>	<b>0%</b>	<b>12%</b>	<b>38%</b>	<b>25%</b>	<b>25%</b>
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Number of Staff	Professional Training				Political Training	
	Post-graduate	Under-graduate	College Certificate	Others	Advanced	Middle level
CITY LEVEL	79	1,147	387	613	160	551
DISTRICT LEVEL	47	1,072	559	739	166	631
<b>TOTAL</b>	<b>126</b>	<b>2,219</b>	<b>946</b>	<b>1,352</b>	<b>326</b>	<b>1,182</b>

Source: HCM City (2001a, *op. cit.*, p: 41)

Like any large organisation the need for training in the city authority is very high. The types of training that the city provides to its staff, based on the city's training plan for 2000, can be categorised as: (i) training for civil servants at city and district levels leading to formal academic qualifications in administration (these could be full or part time courses); (ii) upgrading (short-term retraining) courses in administration; (iii) upgrading courses for members of People's Councils at city, district and communal levels; (iv) training courses leading to formal qualifications in specific subjects; and (v) training courses in computer skills and in foreign languages specifically designed for potential promotion candidates (*ibid.* pp: 6-7). (More details on the city training plan for 2000 are given in Appendix 7.4).

From the total number of trainees planned for the year 2000, it is clear that the city authority takes both formal training and upgrading very seriously. There are a number of weaknesses and deficiencies inherent in the civil service training system of the country, such as too much focus on quantity of trainees rather on quality of training, training curricula and materials are still theory-based and many of them are out-of-date, and training methodology is mainly one-way, trainer centred rather than a two-way, participatory approach<sup>1</sup>. Nevertheless, initial results have been achieved in training of

<sup>1</sup> Nguyen Huu Duc, Interview, July 2000, *op. cit.*

cadres and civil servants of HCM City during the 1995-99 period (see table 7.5). In early 2001, with the assistance received from UNDP, the city developed a training vision and strategy, which aims to improve both the training institutions and the quality of training. It is hoped that the strategy will be put into implementation in 2002 in order to fulfil the tasks of the Master Programme for PAR up to the year 2010 (HCM City, 2001a, *op. cit.*).

**Table 7.5** Results of training and retraining of cadres, civil servants in HCM City (1995-99)

Training course	Number of Participants
Middle level courses in state administration for managers	1,409
Upgrading courses in state administration for middle and senior civil servants (Chairmen, Vice Chairmen of the city People's Council, PC, directors and deputy directors of city departments and branches, Chairmen, Vice Chairmen of district People's Council, PC, and principal experts)	480
Course for university degree in administration	66
Participated in course organised by NAPA: - Post-graduate courses of administration: 37 participants - Master degree courses in administration: 46 participants	83
Upgrading courses on professional skills	14,076
Upgrading course for civil servants working in organisation-personnel field (organised by GCOP in HCM City)	392
Upgrading courses for members of city People's Council	37
Two master degree courses organised by NAPA: - One for District 1 PC - One for City Party Committee	

*Source:* adapted from HCM City (2000b, *op. cit.*).

It should also be noted that more specialisation of work in the city has created new demands for the state agencies as well as the workforce of cadres and civil servants. Therefore, all departments and branches in the city have gradually reshuffled the workforce, placing cadres and civil servants in right positions. In this process, best-qualified and experienced civil servants have been placed in frontline positions to deal with the public when citizens come and ask for service. Other civil servants have also been reassigned to new workplace in accordance with their professional qualifications

and capabilities, as it is argued: "*To place the right person in the right place*"<sup>1</sup>. The qualifications and capabilities required include, among other things, policy analysis, understanding development tendencies, management skills and application of information technology.

### 7.3.3 "One door, one stamp" reforms:

According to the report of the city authority (2000a), the idea of "one door, one stamp" system came up quite early in the PAR process in HCM City due to five following reasons:

(i) the system will create precedent for decentralising governance by adjusting "structures and functions" of the city public administration properly and scientifically.

*"Decentralising is based on both delegating more functions, authority and responsibility to subordinates and enhancing directing, controlling and monitoring from decision-makers; identifying the functions of divisional management to strengthen functions of each division; rearranging and transferring functions among the divisions as regulated by laws, and identifying their relationship and coordination; and also taking careful consideration of delivering decentralising governance better and more efficiently, step by step removing overlaps, bottlenecks, responsibility-shifting, constraints occurring among the divisions in the city public administration." (ibid., p: 3);*

(ii) "one door, one stamp" is an initial step aiming to reorganise and strengthen the district level authority and its complicated administrative procedures on the basis of clarifying the function of administrative and non-productive activities and restructuring the district PC in accordance with new procedures;

(iii) the change in the district level, in its turn, will affect other levels of the administrative system, namely the city and commune/ward levels, because over 80 per cent of paper workflow relating to the public takes place at the district level;

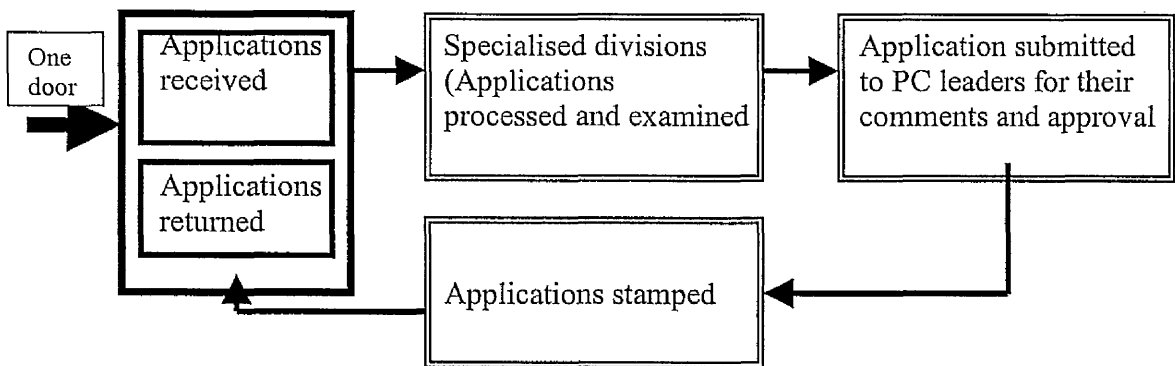
(iv) the redefined functions and restructured organisation will determine the number of staff required to carry out state management work; and (v) the system bears theoretical and practical significance. While the theoretical bases result from the organisational and operational principles of local authorities with the nature of "decided by people, selected by people and serving people", through clarifying and combining both territorial and sectoral state management in the area, the practical significance is shown

<sup>1</sup> Tran Thi Hanh, Interview, July 2000, *op. cit.*

through satisfying people's aspirations and wills, meeting the requirements of the city's socio-economic development, and improving people's living standards.

The introduction of the system in the mid-1990s was an attempt to seek areas of administrative reform that offer efficient cost-benefit outcomes. This focused upon three areas - first, re-systemising their activities (dealing mainly with work procedures); second, exerting the power of the PC over its own administration; and third, reorganising (staff and organisation). As such, a new system of dealing with the public was created (figure 7.4). This has led to great savings in time for all concerned (both staff and the public); far greater speed of work; and clear monitoring by both the public and the chairperson of the PC. Corruption has declined, largely because of the removal of direct relations between the public and decision-makers (Fforde, 1997, *op. cit.*, p: 25). As a further step in this direction, there are plans to introduce TV Monitors to control public access and contacts with officials.

**Figure 7.4** "One door, one stamp" procedures in HCM City



Source: NAPA (2000a, *op. cit.*, p: 41)

This system was experimented within District 1, then expanded to District 5 and Cu Chi rural district with the approval of the Prime Minister in 1995. It aims to subject local officials to general principles to stop them acting merely according to their own personal ideas and interests. That is, the intention was to reduce the "private" element in their decisions, and replace this by decision making that reflects public interests. These general principles are necessarily laid down in documents, which therefore have to be resystemised with the supportive role of the Law Department of the city. One crucial step of the reform was a physical centralisation of the district divisions and units

in one building, thus reducing costs directly, permitting the district offices to provide administrative support, and reducing arguments for retaining the divisions' own bank accounts. It should also be noted that the reduction of over 10 stamps of the various divisions and units to just one stamp of the district PC "*has the significance of both gathering power to one stop and enhancing responsibility in directing, administering and implementing the PC's functions*" (HCM City, 2000a, *op. cit.* p: 5).

So far, the "one door, one stamp" reforms at district level in HCM City has been through four steps. The first step has been the physical centralisation of all "doors" into a single "door" at the PC headquarters and the establishment of a "receiving and delivering applications" group, which has been assigned mainly with the new function. Public announcements have been posted about the regulations for each administrative procedure or application, the time frame and process for dealing with each type of applications, and the fees required. The second step has been the "one stamp" application whereby all stamps of various divisions and units have been withdrawn, requiring the use of only one PC stamp for all administrative activities. Although various vice chairmen of the PC and heads of divisions are authorised by the chairman of the PC to sign administrative documents in their professional areas, the use of the PC's stamp indicates the approval of these documents, which fall within the PC's jurisdiction. The third step has been the consolidation of the system through reviewing and adjusting all administrative procedures in the direction of streamlining the documents and reducing the burden imposed on the public. New work regulations have been developed to suit the system, staffs have been selected and reallocated to the appropriate positions, and new equipment and office facilities have been installed. In addition, a new archive centre has been set up with the use of information technology in order to facilitate better the workflow. The fourth step has been the restructuring of the district authority organisation to fit the system, including the abolition of the former divisions and units and the creation of specialised groups, and the separation of service functions from internal administrative functions (NAPA, 2000a, *op. cit.*, pp: 42-44).

The application of the system has produced positive outcomes that benefit all people related. The authorities of the city, district and commune/ward levels have benefited from improved efficiency of the activities, from the streamlined procedures, and better functioning organisations and staff. More significantly, they enjoy more public trust because the relationships between the people and the government have been improved. The people have benefited from the fewer burdens of procedures, from less

annoyance of bribery and corrupt practices by certain public employees, and from more convenience in the process. The openness of the system, the new regulations help to save the people's time, money and energy. Furthermore, the system enables better the people's participation in monitoring administrative activities of the government in the manner "people know, people discuss, people act and people check"<sup>1</sup>.

In 2000, HCM City authority jointly conducted with NAPA branch in the city a customer survey with regard to the "one door, one stamp" system. 3,000 questionnaires were delivered, of which 1,200 were delivered to public servants, and 1,800 were delivered to the people in districts 1 and 5, and Cu Chi rural district. The number of questionnaires returned was 2,551, of which 1,008 from public servants, and 1,543 from the people. There were 15 questions for the public servants and 10 questions for the public to express their comments and attitude towards the application of the "one door, one stamp" system. While 69.3% of the public servants think that the system fundamentally changes their working style and routine, most of the comments from the people showed that the system has brought satisfactory results (77%). 85.1% people think that administrative procedures have been open and clear. One of the major improvements has been witnessed in the change of behaviour and attitude of frontline officials toward their citizens/customers (85.5%). However, the survey also revealed that more improvement is needed for the effective application of the system (73.4%). The details of the survey results are included in appendix 7.6.

The experiences of the mid-1990s appear to have led other urban and rural districts in HCM City to follow suit. Since June 1997, in accordance with the approval of the Prime Minister under Decision No. 972/1997/QĐ-TTg, all of the districts have implemented the "one door, one stamp" system (see appendix 7.4 for the initial results). Since late the same year, the pilot of "one door" has been conducted in six key city departments, namely the City PC Office, the Chief Architect's Office, the Department of Planning and Investment, the Department of Land Administration and Housing, the Department of Cadastre, and the Department of Construction (HCM City, 2000a, *op. cit.*). More importantly, other provinces and cities have sent delegations to visit and to learn from HCM City experiences, and as a result, they have begun to adapt and apply the system in their areas. For example, Hanoi started the "one door, one stamp" experiment in 1996 in Ba Dinh District. In October 2001, the central GCOP held a

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<sup>1</sup> Lam Quoc Tuan, Tran Thi Hanh, Interviews, 2000 and 2001, *op. cit.*

workshop to review the implementation of "one door, one stamp" in the whole country, which gathered experiences from 31 provinces and central cities. The experiences have even expanded to all districts of two of the poorest provinces, Ninh Binh and Quang Binh, where "one door, one stamp" was put in operation in 1999<sup>1</sup>.

However, the system has not been without problems and difficulties. Practical evidence has shown that obstacles are found in many angles, particularly in the relations that affect administrative procedures between the central government and the local authority, and among the various levels and units of the city authority. These obstacles are found in a number of regulations issued by the central ministries and agencies that are no longer suitable and impede the implementation of "one door, one stamp". Despite the review and adjustment of all regulations on administrative procedures in the city, *"there are still circumstances whereby a number of regulations are abolished just to prepare the way for new red tapes to come forth. A typical example is that the nine administrative procedures on construction developed and currently carried out by the Chief Architect's Office are irrelevant and complicated, causing a lot of troubles for the people and organisations, especially for investment projects, leading to many instances of illegal construction"*<sup>2</sup>. In terms of personnel, the permanent workforce at all agencies in HCM City is in a paradox of a "simultaneously short and abundant" situation. While there are many of those who are considered as redundant with poor qualifications and capacities, failing to meet the requirements of new tasks, there is a severe shortage of highly qualified cadres and civil servants who are charged with devising policies, strategies, and development plans. These issues inevitably call for more efforts to be put into administrative reforms in the city in order to achieve the full realisation of the aims of the reforms.

#### **7.3.4 Pilot application of ISO 9002:1994 to public service delivery administration in District 1:**

District 1 is situated in the centre of HCM City and contains the most valuable real estate in the city. It used to have the largest administration of any, with 24 divisions and 160 staff. The district was selected to carry out the 'one door, one stamp' experiments since 1995. After five years (1995-2000), administrative reform efforts in

<sup>1</sup> Dinh Duy Hoa, Interview, 29 November 2001.

<sup>2</sup> Lam Quoc Tuan, Interview, November 2001, *op. cit.*



the district have resulted in positive changes, including a reduction of the number of divisions from 24 to present 11, of the civil servants from 160 to 110, wider support and trust of the public, and improved values and attitudes of the civil servants (HCM City, 2001b). In order to promote further change, the district PC set up a demand to themselves, that is to constantly improve public service delivery in a fast, streamlined manner, and in accordance with the law. As such, the district PC decided to apply quality management standards set by the International Standard Organisation (ISO) 9002:1994 system (or ISO 9004) to its public service delivery. The application was first piloted in four fields of granting building permits; household business registration; certifying applications for cultural services and transferring them to the Department of Culture and Information for working permits; and notarising photocopies, signatures and civil contracts. The official application began in July 2000.

There are a number of reasons why the district PC decided to apply ISO 9002:1994. After few years of PAR, administrative procedures have been considerably simplified and made more convenient, thus reducing troubles to the people. While the district authority has been restructured with less contact points, cadres and civil servants have been regularly trained for increased professional qualifications and improved ethical qualities. In addition, public offices in the district are well equipped<sup>1</sup>; the district network is linked to that of the Vietnamese central government, of the central city administration, and connected to all wards. The existing local application network (LAN) is an advantage for tracking, processing and managing dossiers.

The application of ISO 9002:1994 in the district has involved a number of objectives. While it is seen as a supplementary step to improve further the "one door, one stamp" system by increasing the effectiveness and efficiency of the authority, it helps define management's roles, ensuring work to be done correctly from the beginning, and preventing errors by delegating authority and necessary means for the staff to manage their own work. It aims to increase the quality of public administration in the shortest time following a fast, streamlined and law-observing path. And above all, it helps improve the established work processes, thus transforming the administration from the "begging – granting" mode to a "customer-serving" mechanism (HCM City, 2001b, *op. cit.*).

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<sup>1</sup> The district PC and 10 wards in the district are equipped with 140 computers, which are networked.

In order to carry out the application, District 1 has conducted a study for the application, including experiences of other countries, and prepared material and human resources for the purpose. The PC has established a Steering Board for ISO 9002:1994 application and a Quality Assessment (QA) Team. The QA team manages and guides the practice while working closely with members of a consulting company, which was selected to provide advice on the implementation process. Since this is a new exercise in government agencies, the district has paid due attention to train its staff, particularly those directly involved with administrative procedures. As reported by the district: "*4 training classes of ISO 9000 were held for 254 staff of district, ward, party agencies and mass organisations. In the fourth quarter of 2000, District 1 cooperated with the consulting company to deliver five classes of ISO 9000 application for 181 staff from the units under the district PC*" (*ibid.* p: 3). After 8 months of preparation, the exercise started on July 1st, 2000 and has been assessed three times by the QA team.

The assessments were conducted from June 13th to 30th, 2000; July 1st to 28th, 2000; and July 29th to October 20th, 2000 (see table 7.6 below about the results). Since

**Table 7.6** Application processing in 4 pilot fields, HCM City (from July 1st to October 20th, 2000)

Field	Receiving	Processed applications			Percentage of processed applications
		On time or before the fixed time		Not yet the time to process	
		Returned to customers	Not yet returned		
<b>1. Grant of building permits</b> July 1st to 28th, 2000	59	35		24	100
July 29th to Oct 20, 2000	167	117	03	47	100
<b>2. Business registration</b> July 1st to 28th, 2000	896	896			100
July 29th to Oct 20, 2000	1,923	1,923			100
<b>3. Certifying applications for cultural &amp; information service registration</b> July 1st to 28th, 2000	89	89			100
July 29th to Oct 20, 2000	254	245	09		100
<b>4. Notarising photocopies, signatures, contracts</b> July 1st to 28th, 2000	28,805	28,805			100
July 29th to Oct 20, 2000	81,149	81,149			100

Source: HCM City (2001b, *op. cit.*, p: 4).

then, no assessment has been conducted due to changes in the QA team, however, supervision and checks on the appropriateness of the process has been continued by the QA team. The initial results show that all dossiers in the four pilot fields have been processed on time or before the fixed time. The fact that all applications have been processed demonstrates a high sense of responsibility among the staff. However, there are still some applications in the column of "not yet the time to process", indicating that the requests may be not appropriate under the current regulations, demonstrating the need for amending regulations.

After the one year of experiment, it has become obvious that the application of ISO 9002:1994 allows the district to evaluate its management system by comparing the process displayed with the reality. In terms of effectiveness, it has demonstrated that while the administrative process is carried out in a systemic and stable manner, responsibility of each staff is clearly and specifically defined in each step. The district leaders provide close and quick supervision and instruction, and cooperation among different sections becomes closer with each section being more committed in processing dossiers. Since application forms are rationalised and synchronised, the process of dealing with dossiers is scientific and uniform, making it easy for the leaders to monitor each step. This exercise also helps increase the awareness and sense of responsibility of the staffs that directly deal with dossiers. As such, *"the application of ISO 9002:1994 to public administration is a basic premise for step-by-step standardisation of personnel and improving administrative reforms. The quality standards are objective and concrete to evaluate the effectiveness and efficiency of state management in the district."* (*ibid.*, p: 5).

However, the pilot application has also revealed some constraints to be addressed, including the fact that any changes in regulations may have influenced the exercise, therefore, if the process is not revised on time to respond to changes in relevant legal and regulatory documents, a mismatch will result. Mistakes have been found in several dossiers under process, for example incorrect record of the completion date of field surveys; failure to indicate the date of license drafting, or of signing and receiving field trip results. As the archive centre of the district PC is overloaded, its rearrangement, building new centres, staffing of the centres etc. require a huge amount of time, efforts and budget. In addition, supervision and monitoring by the QA team has

not been conducted in a continuous way, producing some failure in identifying constraints and obstacles for the PC leaders to undertake necessary adjustment actions<sup>1</sup>.

Having recognised the advantages as well as the constraints of ISO 9002:1994 application, the district PC has decided to go further in the direction of expansion of the quality standards management. While measures have been worked out to minimise the constraints and improve the application, since the late 2001, the district has extended it to three wards, namely Ben Thanh, Ben Nghe, and Pham Ngu Lao (HCM City, 2001b, *op. cit.*). A proposal has been developed and submitted to the city PC for extended application in other areas of the city administration.

### **7.3.5 The application of information technology (IT) in business registration at the City Department of Planning and Investment:**

Application of IT in the operation of the administrative system has long been a focus of the government of Vietnam. In the early 1990s, the government issued a resolution No. 49-CP guiding the development of a nation-wide IT system, which could be used for multiple purposes. In accordance with the general direction, HCM City worked out a master plan for IT development in the authority by the year 2000, including hardware technology, software development, and human resource training. In 1996, the Department of Planning and Investment (DPI) developed a plan for a Management Information System (MIS) on enterprises that was then approved by the city PC. The objectives of the MIS include strengthening the management of enterprises, creating a database on enterprises to serve analysis, assessment and orientation of economic development, and collecting, processing and providing information to meet better the development needs of enterprises and relevant customers (*ibid.*, p: 8).

There are three main steps in conducting the MIS. The first step is a detailed design of the system, including its contents, standardisation and computerisation of reporting tasks, infrastructural facilities required, and design of an application software. The second step is to establish a MIS centre at DPI, which will be connected to other departments and districts; develop the application software and put it in practice at pilot agencies; collect and enter initial data into the MIS; update data and explore information needed. The third step is to extend the MIS to other city departments,

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<sup>1</sup> Tran Thi Hanh, Interview, July 2000, *op. cit.*

districts and information centres; to establish a working network; and to maintain a data store of enterprises for the management of the city authority, departments and districts.

By September 2001, as reported by the department, the first two steps have been completed with the MIS operational in pilot agencies (*ibid.*). Meanwhile, software for business registration and enterprise management has been put into operation. The database on the status of business licensing for various categories of enterprises, such as private businesses, limited companies, joint ventures, representative offices, is now in use. Besides, an overview of established and registered enterprises has been put on Internet by category, sector, and operational area, together with detailed information of each enterprise. Nowadays, the system is made very convenient for the public, as argued by a city official: "*if a citizen would like to register a business, he/she just opens the web-site and types in relevant data. Since the web site is a mobile one, there is someone at the DPI to respond at once. The web site informs the applicant the date and specific time to hand in application forms to the department. Business license is granted an hour later*"<sup>1</sup>. Wide application of the system is further supported by the fact that personal computers (PCs) are available among customers in the city.

The department is now moving into the third step - the extension of the MIS on enterprises - for the sake of post-registration management of enterprises, connecting with other departments and districts for joint management, and providing all information necessary for people concerned. Meanwhile, the department is developing a foreign investment web site in English to help foreign investors study Vietnam's laws and seek investment opportunities in the country in general, and in HCM City in particular. In addition, with the support of the central government, the department is involved in a country wide network for promotion of investment with the name of "Two tales cities", which links the Ministry of Planning and Investment in Hanoi and the DPI in HCM City<sup>2</sup> for the purpose of promotion of development investment.

It can be seen that the application of IT to business registration has made a positive contribution to step-by-step improvement of administrative reforms. Particularly, the display of all legal and regulatory documents relating to enterprises, of procedures and forms related on internet has kept enterprises, investors and the public well-informed, and enabled them to access and retrieve the data easily. Since it was put

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<sup>1</sup> Lam Quoc Tuan, Interview, November 2001, *op. cit.*

<sup>2</sup> Duong Duc Ung, Interview, November 2001, *op. cit.*

into practice (September 2000), the domestic investment website was reported to get 26,000 hits (HCM City 2001b, *op. cit.*). Dialogue between the department and business sector has been improved through the dialogue section in the website. Any queries from outside the department are responded to through emails. The ‘Where is my dossier now?’ section in the website enables businessmen to check the processing status of their submitted dossiers. Only when they see that their applications have been processed, the applicants come to get certificates at the department, thus avoiding waste of time. The use of the website allows customers 24-hour-a-day rather than 8-hour-a-day access to government agencies’ services. In addition, the capacity of the staff has been improved and processing time shortened. The accessibility to the website causes no big problems for the HCM City people as many of them are quite advanced in the use of IT (see more in appendix 7.7).

### **7.3.6 Pilots for giving autonomy to organisations in using their payroll and administrative cost budget:**

At the monthly meeting of the government in March 2000, the government approved the Resolution No. 05/2000/NG-CP, which criticised the current allocation of budget for administrative agencies<sup>1</sup> and called for a new system of giving autonomy to organisations in using their payroll and administrative cost budget (Dang Van Thanh, 2001, p: 34). The aims of the new system include managing state budget on the basis of outputs, improving the use of the budget allocated by enhancing the autonomy of agencies to make saving in their expenditures, to enhance the quality and efficiency of their operations. After its breakthrough in PAR, HCM City was allowed by the central government to carry out pilots in the new system of budget allocation and use.

With the Government Decision No. 230/1999/QD-TTg of the Prime Minister and subsequently the circulars from GCOP and MOF guiding the implementation of the decision, HCM City established a Steering Board for the pilot implementation of “giving autonomy to organisations in using their payroll and administrative cost budget”. The board comprises members from both city’s party and PC agencies and has two groups of experts to assist in its study and selection of pilot agencies. Fourteen organisations were selected by the board to carry out the pilot, including 7 urban and

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<sup>1</sup> Until recently, budgets were allocated to public agencies on the basis of the total number of employees listed in their payroll. This method provided no flexibility for the agencies in the use of the total budget, and no incentive for the users to make saving.

rural districts, 3 city departments, 2 party's commissions, and 2 mass organisations namely the Women's Union and the Youth League. Interestingly, while two of the selected districts, the two party's commissions and the two mass organisations later withdrew from the pilot due to their fear of difficulties, two other districts, namely District 3 and Cu Chi rural district, volunteered to joint the pilot (HCM City, 2001a).

With the withdrawal of the party commissions and mass organisations, the city PC assigned the Department on Organisation and Personnel (CDOP) and the Department of Finance and Pricing (DFP) to give guidance to the pilot organisations for their preparation and finalisation of the proposed options, and to review and recalculate the standardised expenditure budgets. After a number of open discussions between the two departments and the pilot organisations, a standardised expenditure budget was agreed upon, specifically as follows:

*“Payroll: the pilot organisations were allowed to use the payroll allocated by the city PC for the year 2000 (only used for administrative agencies). The total payroll the city allocated for the ten pilot organisations for the year was 1,076 people.*

*Administrative cost: for urban and rural districts: 23 million dong/person/year; for city departments: 19,5 million/person/year.*

*This standardised expenditure budget was applied for 3 years (2000-2002) since January 1<sup>st</sup>, 2000” (ibid. p: 2).*

On the basis of the standardised expenditure budget, the pilot organisations finalised their options of how to use the budget, which were then approved by the city PC on August 21<sup>st</sup>, 2000 for implementation. It was determined that the pilot should produce no staff upsizing and administrative cost increase while fulfilling the assigned functions and responsibilities, and would lead to further restructuring of the organisations and improving the quality of their human resources. There was also a hope that the pilot could help work out an appropriate policy to deal with poorly performing staffs.

After a year of implementation, the pilot has produced some initial positive results. Based on the review of functions and responsibilities, the organisations of the ten pilots have been restructured; consequently, 27 contact points have been reduced (see appendix 7.5 for details). Improvements have been witnessed in terms of payroll as indicated in the following figures: while the total payroll approved for the 10 pilots was 1,076 people, the then existing total payroll was 1,167 people. The number of cutback staff after a year was 152 people, counting for 13.2 per cent of the existing payroll.

Among the 152 reduced people, 36 retired, 26 were dismissed, 26 moved to other jobs at SOEs or public service delivery units that needed to recruit employees, and four people terminated their work at their desire or due to their poor health (Dang Van Thanh, 2001, *op. cit.*, p: 35).

In terms of budget and savings from the downsizing and saving administrative costs, it was reported (HCM City, 2001a, pp: 3-4) that while the total budget allocated to the 10 pilots according to the standardised budget norm was 23,803 billion *dong*<sup>1</sup>, the total savings in the year 2000 was 4,350 billion *dong*, accounting for 18.27 per cent, of which savings came from the use of stationery, communication and transportation expenses etc. District 1 particularly, saved 40,8 million *dong* from the use of stationery, 72.5 million *dong* from communications, and 20.4 million *dong* from transportation expenses. The savings were then reallocated in accordance with the circulars from GCOP and MOF, and the options for the pilots approved by the city PC as follows: 70 per cent is used for topping up staff's salary, 20 per cent goes to the award fund, and the remaining 10 per cent goes to the welfare fund. These savings have contributed to a significant change in staff's salary. If before the pilot, salary plus allowances accounted for only 25.3 per cent of the total expenditure, the figure has increased to 38.65 per cent of the total expenditure after the one year of the pilot implementation. As such, this new system has been found plausible by the agencies and staffs as a good thing, particularly in the context where salaries are still low.

However, the exercise has also revealed some issues to be addressed, including the fact that the functions and tasks of several agencies are not clear, leading to difficulties in defining the budget required. In addition, the practice requires that close supervision should be maintained from the higher level of the authority. On the basis of the initial positive results, proposals were made to the central government to extend this system into other layers and areas of the public administration (Dang Van Thanh, 2001, *op. cit.* pp: 36-37).

### **7.3.7 Re-balancing the public-private relationship:**

Since 1996, discussion has mounted in Vietnam on the use of other economic sectors (including the private sector) rather than the state sector to provide public services in order to improve efficiency and reduce budgetary costs. This process is

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<sup>1</sup> The exchange rate in late 1999 was 14,500 *Dongs* to 1 US Dollar.



named as “socialisation” (*xa hoi hoa*) of public services, which can be understood as “the process of transformation, creation of new operational and management mechanism of several socio-economic activities on the basis of joint responsibility to exploit and use efficiently resources in the society to serve the development goal of the country” (NAPA, 2000b, p: 106). So far, socialisation has been carried out in a number of public services, particularly in educational, healthcare, and cultural sectors. HCM City has also adopted socialisation in many areas, such as in the Chief Architect’s Office, the Department of Transportations and Public Works, and the Department of Land Administration and Housing.

As in the “one door, one stamp” system, efforts have been made in the Chief Architect’s Office to control the flow of files and papers. What is interesting is the perceived need to use private sector service providers to help prepare files. Here can be seen a shift towards a more “private” blend of private-public activities. Such experts would naturally also use access to the city’s collections of legal and regulatory documents, and rulings in advising their clients. The Department of Land Administration and Housing has a business company that could provide mapping services to clients. The Department of Transportations and Public Works is also well advanced in attempting to introduce the ideas and practice of socialisation, which amounted to increasing the degree of private involvement in various activities (Fforde, 1997, pp: 29-30, *op. cit.*). However, all these are consistent with the overall picture that almost no administrative resources, or formal organisation, were being devoted to managing the introduction of these new methods as such. It is clear that these attempts of the city authority are to move towards providing a conducive environment for other non-state sectors to involve in socio-economic development, but that there is still a fair distance to go. A key element of this, as is well understood, is to undertake a review of the practices and draw necessary lessons for wider application.

### **7.3.8 The UNDP project on PAR:**

Apart from its own efforts in the administrative reform efforts, HCM City has increasingly attracted interest of foreign donors and enjoyed some development projects, among which the technical assistance (TA) project for PAR funded by UNDP is particularly focusing on the reform area. The project is coded VIE/96/029 with the total amount of fund of US\$ 1,913,500. The project is located in the city PC and

working with a number of departments to provide TA in the three main component areas, which include:

*“(i) Improved information about administrative reforms and improved dissemination of them is to be institutionalised in the Office of the PC. In the Department on Organisation and Personnel, more attention than hitherto will be given to a HRM and development strategy especially related to women’s employment and promotion and staff motivation; (ii) Support the integration and streamlining of two recently merged key city-level departments, Land and Housing, and Cadastre, which are concerned with the issuing of land, land use, business and construction licenses. Also, improvement in the relationship of the newly merged department to other departments concerned with planning and development namely Construction, Chief Architect, Planning and Investment, Transportations and Public Works, and Office of the PC is central to the reorganisation. Such changes are seen as a major first step toward introduction of a modernised planning system (...) within the context of metropolitan administration, a strategy for which will be drafted during the project; (iii) The consequences of the city-level merger will, in turn, be implemented in one urban pilot district, District 1 where, in addition, special emphasis will be placed on the introduction of a computerised system for record-keeping and tracking of licenses.” (HCM City & UNDP, 1998, p: 3).*

Since the start in December 1998, the project has carried out a number of activities to support administrative reforms in the city. The activities range from providing policy advice to the leadership of the city, organising seminars and workshops, and study visits. More significantly, the project has provided close assistance for the different pilots in District 1 and city-level departments to experiment new ideas and ways of operation. Although training of staff has not been the focus of the project, a number of retraining activities have been conducted for senior and middle rank officials of the city and district levels to provide them with new concepts and skills of public management. Despite certain deficiencies, the project can be seen as a positive source for international expertise. As the first phase of the project is now ending, a new phase is being prepared to focus more on the internal management of the city authority.

#### **7.4 CONCLUSION: WHAT DOES THIS CASE TELL US?**

There is general agreement that economic growth in a market economy requires appropriate social organisations and institutions. Thus, institutions, if they do not change, become increasingly inappropriate to, and a hindrance upon, economic growth. This is, as can be seen from the experiences of HCM City, as true in Vietnam as

elsewhere. It is clear that the requirements for reforms emerged from a number of angles, particularly from the economic transformation associated with the opening of the country to the outside world. The city with biggest population and highest rate of economic development in Vietnam has increasingly faced acute social problems, many of which are connected to the administrative system, its institutions and staff. In addition, while foreign investors show their frustration with the way in which business is regulated, the public also feel tired and mistrust the troublesome and overlapping agencies that provide public services. All these have created pressure on the city administration, which, if not reformed, could easily lead to obstacles in the transition to a market economy, and possibly, even political unrest, as argued by a senior official<sup>1</sup>.

The importance for PAR in Vietnam today lies primarily in the sense of a top-down process, as has been shown in the administrative reforms of MARD. However, the case of HCM City clearly indicates a different approach whereby the notion of "local" initiatives point the way forward for the overall reform. Two main lessons drawn from the transition to a market economy appear to have been, first that economic liberalisation improves economic performance, and, second, that there is a close relationship between cognition and the process of learning-by-doing. As argued by Fforde (1997, pp: 9-10): "*The direction that the natural path of institutional change is following can be found through examining what is happening 'on the ground' in areas where local conditions encourage if not force experimentation. In this view of the nature of change, a key responsibility or function of leadership is to 'see the large in the small'*". HCM City so far has provided important examples of new ideas and ways of changing institutions, since conditions there are often at the frontier of trends in institutional change. Many administrative reform policies of the central government appear to have dated back to pilots and experiments carried out in different areas and branches of the city. It should also be noted that HCM City has enjoyed essential support from the central government, without which it would be impossible to conduct reforms on a wider scale.

It can be argued that one factor contributing to the lack of success in bringing about change to the local authority before *Doi Moi* has been the general unilateral and non-consultative approach adopted in the city. In contrast, as a result of the placement of PAR in the overall frame of political renovation, the city authority has established a

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<sup>1</sup> Trinh Tien Dung, Interview, November 2001.

Steering Board for administrative reforms that includes members of both party organisations and the PC agencies. The presence of party leadership in the board indicates political support for the reform process and provides better opportunities for closer consultation and experimentation. The fact that the Steering Board has so far been functioning smoothly shows that administrative reforms benefit the public in general, the authority and the party organisations in particular. It can be evidenced that the initial success of the reform in the city is directly linked to the level of support from and influence that the local authority is able to exert on the process. However, certain reluctance was seen in the process where the several party commissions and mass organisations withdrew from the pilots of “giving autonomy to organisations in using their payroll and administrative cost budget”. The more active involvement of party and mass organisations in PAR is likely bring desirable success.

There are still tensions and contradictions between central and local levels in PAR-related cognition, policy and implementation in both resource allocation and capacity. Interviews with HCM City public service staff clearly indicate the feeling that it is central government, which limits the efficiency with which the local authority can operate. The tendency to recentralise over the past few years has seen central government taking a stronger position on various matters but failing to give coherence and efficiency in the resulting procedures and legislation. This has led to confusion and frustration at local level – both in attempts to understand the underlying issues and in implementation of PAR. Having recognised the dynamism and capacity, and drawn on the successful experiences of the city, the government issued a decree in 2001 on decentralisation of more power to the city authority. The decree particularly defines four areas in which more delegation of both functions and authority is granted to HCM City<sup>1</sup>, including: (i) the management of master plans, planning, investment, and socio-economic development; (ii) the management of land, housing, and technical infrastructure; (iii) the management of state budget; and (iv) the management of public organisations and HRM.

In sum, while HCM City provides a good case of PAR in Vietnam, the more important challenge is for the central government to see the systemic and macro implications of particular issues, to select and adopt the experiences for a wider application in the country.

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<sup>1</sup> It is important to note that the decree governs only HCM City.

## **CHAPTER VIII**

### **CONCLUSION AND RECOMMENDATIONS**

This chapter presents the conclusions of the research. It begins by summarising all the findings that help to confirm the hypotheses of the research. Then it recapitulates the theoretical approach of the thesis and the theoretical issues that an analysis based on such an approach can make to theory. This covers the different sets of ideas and practices of public administration and management reform processes through the two case studies at the different levels of the government. As an attempt to contribute, to a limited degree, to the reform efforts in Vietnam, the chapter suggests some recommendations that may be taken into consideration for immediate and future actions. It also identifies the issues and themes that future research on the same areas may prioritise.

#### **8.1 SUMMARY OF RESEARCH FINDINGS:**

Although social science has been criticised for the lack of exact certitudes, it provides a lot of room for suggestions on the interaction among factors involved in such a complicated process as economic transition, and public administration and management reform. This section summarises the empirical findings and highlights, in a qualitative fashion, both the extent to which I have been able to confirm the original hypotheses (see chapter 1), and the extent to which they have proved intractable.

##### **8.2.1 Hypothesis 1:**

Hypothesis 1 says that market-oriented economic reforms in transitional economies can be effectively implemented on the basis of a strategy of gradualist, incremental change, avoiding the economic and political risks associated with the “big-bang” approach. This hypothesis is confirmed, at least from the examples of China and Vietnam. There are two major advantages of gradual transition in the microsphere and in the institutional sphere. First, more gradual changes make easier accommodation to the new rules of the game, and to new institutions. It more effectively responds to the need of producers, consumers and the public administration, which must also pass the complicated period of transition and have time to learn the new system functioning in a market economy. Second, slower restructuring of SOE can dilute, to some extent,

political resistance against change, as argued by Dabrowski (1996): *“too large a number of bankruptcies in a relative short period of time and too high a level of open unemployment is probably not acceptable politically, even for the most popular government”*. In addition, gradualism provides room for better sequencing of reform, and more time for paying off the losers of transition, thus reducing public pressure and resistance.

Two other potential advantages appear more problematic than the previous ones. First, it has been stressed by advocates of gradualism (de Melo, 1997; Dabrowski, 1996) that a slower path of transition allows for better designed and mutually coordinated institutional changes. While this is true in the case of China and Vietnam, it may be not so elsewhere because it creates a danger of a longer systemic vacuum in the meantime or an excuse for inaction. Furthermore, gradual and incremental change helps sustain and can be effectively implemented in the condition of political stability, otherwise taking more time for institutional changes runs the risk that pieces of legislation enacted later may not be consistent with those enacted earlier. Second, macroeconomic restructuring too rapidly may lead to the collapse of budget revenues and the explosion of social expenditures, thus the optimal speed of transition is called for. However, this needs more detailed verification.

### **8.2.2 Hypothesis 2:**

The hypothesis says that an efficient, capable state administration, linked to stable political institutions is beneficial to such process of economic change. This hypothesis is confirmed. Although a government could be a large, bureaucratic obstacle to economic transformation and development, it is possible that government and its public administration can serve as initiator, organiser and regulator, by leading potential participants into the dynamism of the market. At the same time, the private sector may demand a government to absorb many of the risks and overhead or start-up costs directly and indirectly related to sectoral investments, especially in scientific and technological fields. The very insistence on reducing the external debt and government budget deficit implies direct state control of certain production and export activities. UNDP (1992) argued: *“Even honest private investors are relatively uninterested in conflict-ridden and low-profit activities which may be vital to society”*. Likewise, opening up the world economy cannot successfully be undertaken without a growing intervention of the state, so as to fine-tune and expand the markets and so that the

exporting aim of the adjustment is not resolved by dependency relationships steered entirely by foreign decision and investment centres.

The public administration, as the instrument for carrying out government policies, impacts heavily on economic performance. It is not just a matter of the size of the public sector – although as a major purchaser and employer, the PA can directly influence overall resource allocation. Even more importantly, the PA affects business production decisions and costs through a myriad of controls, services, subsidies and taxes. It also affects the pattern of demand by redistributing income and purchasing power in favour of some groups and/or services. By setting the legal and administrative environment in which private activity takes place, the PA can also influence national economic efficiency, the rate of innovation and the direction and speed of structural adjustment. As such, one may argue that an effective and efficient PA plays a key role in economic transition.

### **8.2.3 Hypothesis 3:**

This hypothesis says that a crucial component in the economic reform process is, therefore, the design and development of a reform strategy aimed at the transformation of outdated administrative mechanism of central planning into modern, efficient, well-managed systems of governance.

One of the main features of the PA in transitional economies is that it was created and evolved for a different system of governance. In the move from the centrally planned and command economy to a market economy it is unavoidable to transform itself to a new mechanism to suit the economic transformation. This study sets out to reveal that PA and management reform impacts on macroeconomic performance through at least three channels: changes in administrative institutions (regulations); introduction of competition and structural adjustment, especially through reform of SOEs; and fiscal and monetary policy.

An efficient and well-functioning regulatory system provides essential support for economic development, including through the corrections of inadequacies and distortions of central planning; the definition of property rights and contract law; the introduction and enhancement of competition; and correcting for various forms of market failure that inevitably arise. In order to achieve these, main undertakings in regulatory reform include a thorough review of all existing laws, regulations and procedures that help determine what are out-of-date and prove irrelevant to the new

situation, what are still working, and what are lacking. OECD (1998, p: 37) argued: “*New market-based mechanism, involving economic incentives and disincentives, and tradable property rights, are increasingly being used instead of the old command-and-control-style regulation*”. The following measures include the abolition of irrelevant regulations, amendment of those that still work, and development of new regulations required by the rising market economy.

This thesis suggests that many SOEs still remain in the public sector because they frequently occupy what is thought to be a strategic position in the economy. The question for transitional economies is to determine what should be in the monopoly of the government and what should not, hence which SOEs should remain in the public sector and which to let go. A number of methods are then available for reforming the SOE sector, ranging from gradual steps such as corporatisation and equitisation, to more radical ones such as privatisation. Although the choice of methods depends on the specific situation and conditions of each country, in Vietnam it very much follows the overall approach of transition the country has adopted. Vietnam proves to have achieved some initial results in SOE reform, but the road is still far and bold steps are required because the reform now touches on SOEs in more substantial sectors of the economy. This research suggests that equitisation of SOEs should be pushed forward if the public sector in Vietnam is to be slimmer, and the government is to free itself from business and production activities to focus more on public policy-making.

Macroeconomic performance is normally judged by the rate of economic and employment growth and the rate of inflation. Although this thesis has not been concerned to come to any definitive conclusion about the impact of fiscal and monetary policy on macroeconomic performance, there is a suggestion that the link between PA and management reform and fiscal and monetary policy is for the most part through the impact of the reforms on public revenues and expenditures, and the improved operations of the central bank (the financial framework of the PA). To the extent that the reform influence economic performance through fiscal policy, “*the main channels of influence are the level and structure of taxation, which can affect incentive to work and to save, and public saving, which forms a large part of total national saving and probably an even larger part of discretionary saving*” (OECD, 1998, *op. cit.*, p: 30). As such, it is by restraining outlays and therefore taxation and/or the fiscal deficit that PA and management reform can potentially contribute to macroeconomic demand management and performance. The introduction of a new taxation system in Vietnam,



combined with a number of measures promoting domestic saving, has helped to improve significantly the fiscal situation, while the role of the central bank has also been strengthened by the separation of the state bank from commercial banks.

In terms of the share of general government outlays in GDP and the overall budget balance, it is not immediately obvious that PA and management reform in Vietnam has achieved a great deal in restraining the size of government, indeed the number of public servants has increased (e.g. approximately from 1,267,000 in 1987 to 1,316,000 in 1999 – Figure 4.3, p: 170). However, during the *Doi Moi* period, with the introduction of the Enterprise Law and the growth of the private sector, the government, to some extent, has facilitated the flow of labour force into other non-state sectors, thus reducing unemployment. Nevertheless, these developments have not fully met the requirements of an intensified transition to a market economy, and the situation calls for more decisive reform.

In sum, the three hypotheses of this thesis are confirmed. They are further supported by an academic (Poudyal, 1989, p: 5) who argues:

*“(1) national governments have a central role in promoting, administering and sustaining socio-economic development; (2) the extent to which governments fulfil this role depends largely on the degree and speed of expansion of administrative capability at all levels of government and in major fields of development; and (3) the administration itself must be adaptable to changing circumstances if it is to be an effective instrument for the desired social and economic change”.*

## 8.2 CONCLUDING REMARKS:

Nowadays we live in an era of increasing complexity, in which many issues are still open to be addressed. One of the issues that raises a lot of debate, is inevitably the precise roles of the state and the market. Although the relationship between them is still controversial, it is generally accepted that even in a market economy, the role of the state is very important to correct the failures of the market. In national development, therefore, the result achieved is a product at least partially of guidance and support by the government, which operates through its public administration system.

The fact that governments change but administrations remain may be a cliché, but it is true for all countries. While electoral fortunes remove one government and bring another to power, the permanent civil service works on, adjusting itself to new masters without upheaval. Even in those countries, where there is constitutional change

and uncertainty, not only do governments change, even whole regimes may pass while administration remains. The importance of the administration is further highlighted because "*Politics is not always the froth on the governmental system, sometimes political forces play a decisive role, sometimes even parliaments, but administration accounts for the largest part of government...*" (Ridley, F. F., 1979, p: 1). As such, chapters 1 and 2 of this thesis showed that a strong government relies heavily on an efficient and effective public administration (PA) system to fulfil its roles. In a rapidly changing environment, the PA is expected to be very flexible and responsive to the needs of change. However, empirical evidences have indicated that government and its PA are not always the answer to problems arising in the development process; they are sometimes parts of the problem (Caiden, 1991; Minogue, *et al.*, 1998, 2001; OECD, 1998). Whenever the requirements for the PA are not met, a reform of it becomes a precondition for the improvement of the government machinery. In this sense, PA and management reform is placed at the heart of the development process of a country.

There is no doubt that the main goal of any country is to bring about economic growth and to improve the living standards of the people. This is even more obvious for transitional countries, which, after a long period of central planning with serious distortions in the economy, have now been struggling for some two decades to transform their economic structure to a market economy, and political institutions to more democratic ones. The transition, as such, is essentially both an economic and political process that requires a complex set of interacting reformed institutions. PA and management reform is one of the key undertakings that go along with economic reforms, particularly in the circumstances where PA did not receive enough attention in the central planning period. PAR and economic reform are interrelated and promote each other because the economic reform cannot produce desirable results unless an efficient and effective government machinery can be created to give support for social and economic development through timely and appropriate policies and guidance. On the other hand, PA and management cannot go far without the economic reform because there are not enough resources and conditions necessary to support the long term and complicated reform. In the process, the two reforms may provoke other reforms, such as legal and social changes that may supplement and reinforce the expected results.

It is striking that PA and management reform is, by nature, both a technical and political process in which political support is vital for its success. Pollit & Bouckaert

(2000), quoting Pierre (1995, p: 3), showed interesting positions of politicians in administrative reforms:

*“on the one hand we see policy-makers using administrative reform to displace accountability for public policy; on the other hand we see the very same policy-makers trying to increase their control over bureaucracy. Whilst these appear to be inconsistent developments, they may in fact reflect a general desire among elected politicians to increase their influence over bureaucracy while at the same time avoiding responsibility for the bureaucracy’s actions”.*

These paradoxical positions of politicians, combined with the desire of public servants to have more management discretion in decision-making may produce considerable difficulties, if not obstacles, for PA and management reforms. In addition, there are a number of different actors with different expectations involved in the reform process, making its future very unpredictable. It has been argued that unless a win-win situation is created, political will is sufficient to overcome resistance, and popular support is extensive, the reform is unlikely to succeed.

The nature of transition as well as mixed results of various transitional economies made the issue of working out the most relevant strategy for economic transition from a centrally planned economy to a market economy very controversial. While the advocates of shock therapy (or Big Bang) argue for a single burst of reforms involving sweeping transfers of property rights (including privatisation), sudden full-scale price decontrol, and trade liberalisation, the advocates of gradualism think that economic reform is a process requiring more gradual institutional change, which cannot be introduced overnight. The shock therapy is also in favour of political reform, arguing that economic reform has been easier when political reform has been in place. The gradualist approach supports economic transformation, suggesting that political change and renewal may follow in a more evolutionary and sequenced manner.

It is paramount to look at what must be done quickly and what can be done gradually in transition. When considering several most important elements of transition, Dabrowski (1996) argued that *macroeconomic stabilisation*, especially in the case of hyperinflation, must be a one time, comprehensive and radical operation. *Domestic and external liberalisation* can be implemented either in one radical package or gradually, step by step. But more comprehensive *institutional changes* usually cannot be introduced overnight, especially in the new democratic regimes where the legislative process needs some time. Then, although *privatisation* can be conducted faster or

slower, it is, by its nature, a gradual process. In addition, *restructuring*, aiming to change both the sectoral and branch structure of the national economy, and to change the internal relations and the behaviour of an individual firm, is not a one step process. In sum, most of the elements can be introduced in a gradual, step-by-step manner.

While transition from central planning to a market economy implies fundamental changes undertaken in the politico-administrative life of a country, it also requires changes in the four frameworks of the public administration to be in close interaction, namely the legal, institutional, personnel and financial frameworks. Chapter 3 demonstrated that these are essential not only for transitional economies, but also for any country with desire to improve its economic situation and to bring better life for its citizens.

Chapter 4 analysed the transition of Vietnam and China and argued that an important reason for the initial success of the two countries has been the differences, as compared to the Big Bang approach, in the sequencing and design of reform. While initial conditions and exogenous factors of Vietnam's and China's transition have played an important role in the process, both countries began to reform the agricultural sector with the twin objectives of improving the supply situation and alleviating poverty. A dual-price system was allowed temporarily for SOEs and TVEs to market their output. Then the reforms expanded to improve corporate management of the state sector and to rationalise the pricing and financial arrangements governing many of the old state enterprises. These developments involve a "bottom-up" approach, with the implementation of most aspects of microeconomic reform (e.g. price reform, enterprise reform, and reform of the legal framework under which enterprises operate) coming earlier than macroeconomic reforms (fiscal, monetary and foreign trade reforms). OECD (1994, pp: 126-128) called the approach as an Asian approach and argued that it

*"differs from the 'standard approach' of the WB and IMF, which places macroeconomic reforms first. The Asian approach was instrumental in developing relatively efficient commodity markets and in eliciting quick supply responses by helping establish market-oriented enterprises capable of responding to market incentives. It has also reduced the social costs of adjustment by generating supply responses rather than demanding belt-tightening and restraint".*

The gradual and incremental approach has clearly been indicated in the PA and management reforms of China and Vietnam (chapter 5), especially since their beginning to open up in 1978 and 1986 respectively. The countries consider PAR as

both technical and political processes because the PA is directly related to the nature of the polity; therefore, administrative reform is placed within the context of political change, with the Communist Party playing the leading role. The quasi-technical, quasi-political status of administrative reform is a characteristic of many types of polities, but it poses greater problems in the process because of the participants' different perspectives on the stakes involved. It is interesting to note that while the party may be a source of resistance if the fear of losing power, and of failure, overrides the desire to maintain the status quo, it is one of the main beneficiaries of the successful outcomes of PAR. If administrative reform succeeds, it can be an effective means to gain wider popular support, which strengthens the status of the party, hence consolidating the polity. The public, being fed up with annoyance, abuse and corrupt practices of public servants, would benefit from improved public services that the reformed administration provides, so they are a potential source of support and participation. The civil servants are the main actors in the reform and want to have more management discretion and increased salary.

This discussion helps explain why PA and management reform has been both a top-down and bottom-up process in the two countries and why it has been undertaken very cautiously. It is usually the case that new reform initiatives are put in experimentation on a small scale first, the results are then reviewed and analysed, and lessons are drawn before they are carried out in wider, or national-wide scales. At the central level, the government has taken charge of developing strategies and phasing steps for the reform. As administrative reform is not a stand alone operation, it should be placed and conducted in harmony with other on-going reforms, such as economic reform, SOE reform and legal and judicial reform. The central governments of Vietnam and China have gradually improved their capacity in coordination on the one hand, and regained more authority on the other hand. This leads, to a certain degree, to a tendency of recentralisation of power in Vietnam, as discussed in chapter 7.

However, both quantitative and qualitative data suggest that there are differences in transition between Vietnam and China. While the latter has been consistent with gradual reforms since the beginning, the former engaged in a radical change in 1989 with the abolition of the dual price system, the introduction of macroeconomic stabilisation and liberalisation measures. In general, with its longer transition and considerable contribution from TVEs, China has attained more positive results in economic development. It is also striking to note that, although Vietnam has

independently carried out its reforms in the gradual direction, there have been a number of evidences that several reform efforts appear more compromises rather than radical and fundamental changes. In some cases, gradual reform can “*easily be an excuse for inaction, or an avoidance of difficult areas*” (Minogue, 1999, p: 44). In addition, there is a warning that gradualism is not always a panacea to the entire reform process and in the long run as the reform progresses, fiscal and monetary problems will eventually arise, as in the case of SOE reform.

Vietnam began to reform its SOE sector even before the start of *Doi Moi*. The reform can be seen as a close link between PA and management reform and economic reform because the government and its PA regulate the process. As argued in chapter 4, there has been a consistent idea that the inefficiencies of the state sector become less worrisome as the relative size of the non-state sector increases. The country has, therefore, adopted a strategy of first encouraging the non-state sector and then progressively reforming the state sector, thus allowing the growing private sector to absorb laid-off public employees, and making this a less painful way for SOE reform. By and large, it was recognised that “*at the initial stages of reform a certain amount of industrial dualism (where the traditional ‘soft budget’ enterprises coexist with the newly liberalised ‘hard budget’ enterprises) is inevitable. ... that traditional enterprises become unprofitable as prices are decontrolled or rationalised*” (OECD, 1994, *op. cit.*, p: 131). An understanding of the social consequences and economic costs of letting these enterprises collapse has led the country to allow for a transitional period involving a two-track pricing system (in 1989, Vietnam unified and almost totally deregulated prices). The government has undertaken a number of measures necessary to reduce more than half the number of SOEs (mainly loss-making and small-scale ones), and strengthen the management of remaining SOEs. A conclusion can be drawn for the context of Vietnam that creating opportunities for non-state enterprises (including small-scale private businesses) and improving corporate governance of SOEs is more important and preferable than full-blown privatisation as such.

While quantitative data have shown some important achievements in SOE reform in Vietnam, as demonstrated in chapter 4, the same is less evident for administrative reform, especially at the central level. The case of PAR in the Ministry of Agriculture and Rural Development (MARD – chapter 6) illustrates a top-down process in exerting reform efforts on the one hand, and shows little innovativeness and flexibility on the other hand. The ministry has followed all reform directions and

guidance provided by the government and relevant ministries such as GCOP and MOF. However, limited results have been achieved due to a number of factors, such as the fact that policy making functions are not separated from policy implementation, hence the ministry supervises too many units including SOEs; the overlaps in the operation of different departments; and the inadequate capability of the public servants. It was discussed in chapter 6 that administrative reform in MARD is by no means an easy task, even for the minister, because of political pressure; the need to address both internal and external complicated relationships; and the delays in obtaining necessary guidance for the reform.

The top-down approach has been utilised in many administrative reform programmes, but it also has limitations. One of the complaints from the public towards the administrative system is the distance of the bureaucracy from the people. The higher up in the hierarchy, the less the administrators know about the real needs and expectations of the citizens. In addition, Ingraham *et al.* (1998, p: 175) wrote "*any reforms imposed from the top tend to enjoy limited success. Most organisations have a culture of their own and tend to resist imposition of external ideas. In the public sector this resistance appears to be manifested whether the ideas come from the administrative head of the organisation itself or from a political leader operating totally outside the organisation*". However, it was argued in this thesis that as both the political leader and administrative head of the ministry, the minister's role is expected to develop value-based justifications for the changes necessary and to involve more active participation of the employees in the process, thus combining change from top down and from bottom up.

The combination of reform efforts in this way was reflected more clearly in the case of PAR in Ho Chi Minh City (chapter 7) whereby change has been brought through both the implementation of reform policies and directions from the central government, and reform initiatives from the lower levels of the administrative hierarchy. Areas of success have been seen, for example, in the capacity to cope with contradictory legislation and the implementation of coherent internal restructuring of administrative units based upon proceduralisation and delegation of authority. Above all, we see the ability to initiate and carry through administrative reform under conditions of severely limited resources despite contending views of why state administration remains ineffective. As Fforde (1997, p: iii) put it "*some argue that it is because the administrative system was designed for a different economic system, and*

*although now being corrected, this is happening too slowly. Others, however, think that the way in which it is being modified is in fact aggravating the problem*". Such criticisms illustrate the need for more research and experimentation on reform initiatives, and emphasise the importance for PAR today that lies mainly in the change of process, and in the notion that "local" initiatives point the way forward for the overall system.

Furthermore, the experience of administrative reform in HCM City also reveals some aspects of future priorities in the national reform efforts. It is striking to note a focus on the idea of practice before theory as a basic principle in a situation where there is a lack of agreement (at national level) on basic ideas related to legislation and where the pressures for change arise. Nonetheless, the issue of central-local relations requires thorough study and review before remedies take place in forthcoming policies and implementation. In addition, more time is needed for careful analysis of a management mechanism that combines both close supervision of the higher-level authorities and the initiatives and management autonomy of the lower levels. Given HCM City's position within the economy, the goals for PAR in the city have both local and national implications and should be situated within that context with mechanisms put in place to ensure that other local authorities can learn from its experiences.

Finally, a word on government capacity is in order. As Vietnam is in the transition process, the government and its state administration need to have a number of capacities required by the emerging market, such as macroeconomic planning, policy-making, HRM. Unless these capacities are acquired, it is almost impossible to manage successfully the swift changes in the economy and the society to bring about better life for the people. With regard to management of the reform process, weaknesses and inadequacies have been witnessed among the key reform agencies, such as GCOP and OOG, which are in charge of external assistance to PAR, and in-country reform efforts. The agencies are, paradoxically, neither specialised nor have enough capacity to supervise and monitor PAR activities. Due to their workload, in many instances, guidelines for reform activities provided by the agencies are either late or lack clarity, thus making reform implementing units difficult to follow. In addition, the issue of accountability in the reform has not been adequately dealt with, so no agency is specifically responsible for reform success or failure. These issues will have to be taken into serious consideration in the immediate future as the overall goal of PAR is to be achieved.



### 8.3 RECOMMENDATIONS:

The following include some crucial recommendations that emerge from the findings of this study “*to suggest ways for promoting administrative reform with the aim to improve the effectiveness and efficiency of government operations*” (Chapter 1):

a. **The role of the Communist Party of Vietnam** as both the initiator and the instructor in the PAR should be more strengthened. Administrative reform in Vietnam is placed in the overall renovation of the political system that includes not only the state machinery, but also party organisations and other socio-political organisations. Once the party is involved more in the implementation process of the reform, it has better opportunities to provide closer direction on the one hand, and to strengthen its ownership of the reform on the other hand. In addition, the party organisations are also subject to the reform, thus improving their own structure and operation. It is also hoped that with this involvement in place, the leadership role of the party and the management role of the government are better clarified.

b. There is a need for creating **an independent agency for PAR** to undertake wider role in monitoring and execution of the implementation. The current National Steering Committee for PAR is just a temporary body and serves as a policy making body only, while it leaves the monitoring and execution functions to GCOP and OOG, that are, paradoxically, neither specialised nor have sufficient authority or capacity to carry out the functions. The agency would be created on a full-time basis and include senior level personnel drawn from all the ministries and agencies with government-wide mandates, of both central and local levels, and specialised technical experts in governance, public sector management and communication – drawing on the experience of other countries, particularly among those in the neighbouring countries. Once the agency is set up to assist the national Steering Committee for PAR in dealing with inter-sector and inter-agency matters, the information and reporting flow will be faster and more coherent.

c. It is crucial to improve the **public policy-making process**. One of the findings of this research is that although Vietnamese are pragmatic in policymaking, one of the weaknesses is that there is no thorough policy analysis before a specific question is addressed. In addition, in many cases, policymaking is the output of

consensus orientation. This can have both advantages and disadvantages. The major advantage is that when consensus is reached, then it becomes much easier to implement a policy. But the major disadvantage is that consensus requires a long time to reach, and when a policy is made, it appears to be too diluted and weakened. When this is linked to implementation, the what and the why questions are specified, namely why is it necessary to have the policy and what does it contain. However, the how question is not usually substantially addressed, thus making implementation very difficult. The current Master Programme for PAR (appendix 4.1) can be cited as an example of identifying the why and the what, *“but it sounds more a kind of promotional sentences rather than real programme, focusing on outcomes and how to achieve the outcomes<sup>1</sup>”*.

d. The reform is likely to be more successful if **an incentive scheme** is created to promote wider participation, more innovativeness and creativity among all stakeholders of the process. The two cases of administrative reform in MARD and HCM City have revealed that so far PAR has been perceived to be a more top-down direction, whereas bottom-up practices have been either at small scales or insufficiently emphasized. Both theory and experience of new public management and governance suggest that wider involvement from the lower levels of the bureaucracy and from the society helps enhance the flexibility in addressing reform issues on the one hand, and reduce resistance through better sharing of ideas and opinions on the other hand. In order to have more public voice and actions, it is important that the government develop necessary instruments to encourage consultation and innovation.

e. **The creation of a unified and professionalised civil service system** is expected to bring about well-qualified and competent people for the state administration and reduce political patronage. Such a system will be based on merit and serve as a strong management instrument which ensures continuity of administration and expertise. In addition, this will help avoid unnecessary confusions in the present system in the country. Two steps are essential in such a directions: to amend the current Ordinance on Cadres and Civil Servants to make a clear distinction between cadres and civil servants; and to conduct salary reforms for the civil service combined with higher requirements for qualifications and ethics.

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<sup>1</sup> Soren Davidsen, Interview, 5 October, 2001.

f. More study and analysis is needed on **decentralisation of power and creating partnership** within the PA and between different levels of the government. It is believed that delegation of more management discretion combined with closer monitoring and supervision within the PA will bring more accountability and thus improve operational efficiency. In addition, the development of partnerships with non-state sectors, such as non-governmental organisations, socio-political organisations, and the private sector will help the government to structure the public sector in a more appropriate way, and improve the delivery of public services to the people. This is also supported by Minogue (1999, *op. cit.*, p: 65), who analysed the PAR in Vietnam and argued: *“While ‘getting the public system right’ must be a first priority, the identification and development of an appropriate range of public – Non-state organisation partnerships could be a medium-term objective”*.

g. The acquisition of **new knowledge and experience from other countries** in PA and PAR is of special importance for Vietnam because this helps avoid many mistakes that the countries were faced with in their own reform processes, and develop necessary learning capacity for the government. In this regard, foreign aid and technical assistance are crucial as they provide some inputs and help to “cut short” the path to reform by focusing on the most urgent areas with the optimal approaches. This, of course, does not involve copying blindly everything from outside. A careful scanning and selecting ability is required to accept the most appropriate elements to be applied in the particular context of the country. In order to achieve this, it is paramount that the absorptive capacity be strengthened to facilitate the learning by doing process to produce feasible results.

#### 8.4 SCOPE FOR FURTHER RESEARCH:

I am conscious in writing this conclusion that I have left many issues unaddressed and there are also several aspects emerging from this study that could be explored further in future research. These include:

*First*, further research is necessary to explore in greater details whether in what circumstances top-down, power-led, or externally driven change in transitional economies can be more successful than expected in organisational-based approach. The evidence from Vietnam during the period 1989-1991 suggests that such strategies can produce radical and transformational change, but partly because of the failure of the

gradual steps earlier; key stakeholders 'highjack' the changes and produce unintended consequences. Research in other public settings (Ingraham, 1998; Lawrence, 1996) argues that top-down and power-led change can be surprisingly successful even in more hostile settings. Is it only true for a public sector where employees have been long accustomed to political dictates and learn to adapt? Or this is also true for other types of organisations, and if so under what conditions? In addition, in administrative reform, it was argued that top-down strategies can combine with bottom-up or more participatory approach to produce desirable results, but the when to combine and how to combine such approaches are still open to answer.

*Second*, the issue of incentive for administrative reform emerges as a necessary tool to involve stakeholders in the process and to sustain the reform momentum when it is in place. PA and management reform is a long and complicated process, so maintaining interests in the on-going reform and rewarding those who have developed and applied creative and renovative ideas that benefit the entire public administration are, undoubtedly, important. More research is then required to explore what kind of incentives, how to create the incentive scheme and what criteria to give the incentive.

*Third*, it is also essential to explore further the general public's attitude to PA and management reform. There are a number of questions arise, such as whether the public are interested in the reform or it is only a matter of the bureaucracy; if the public are seen as potential beneficiaries (or even losers?) for the reform, how are they kept informed about the status of the reform activities; how do citizens judge the reform success or failure. Given the situation of transitional economies, these are no less important questions that require proper answers, if the reform is expected to be more than just rhetoric.

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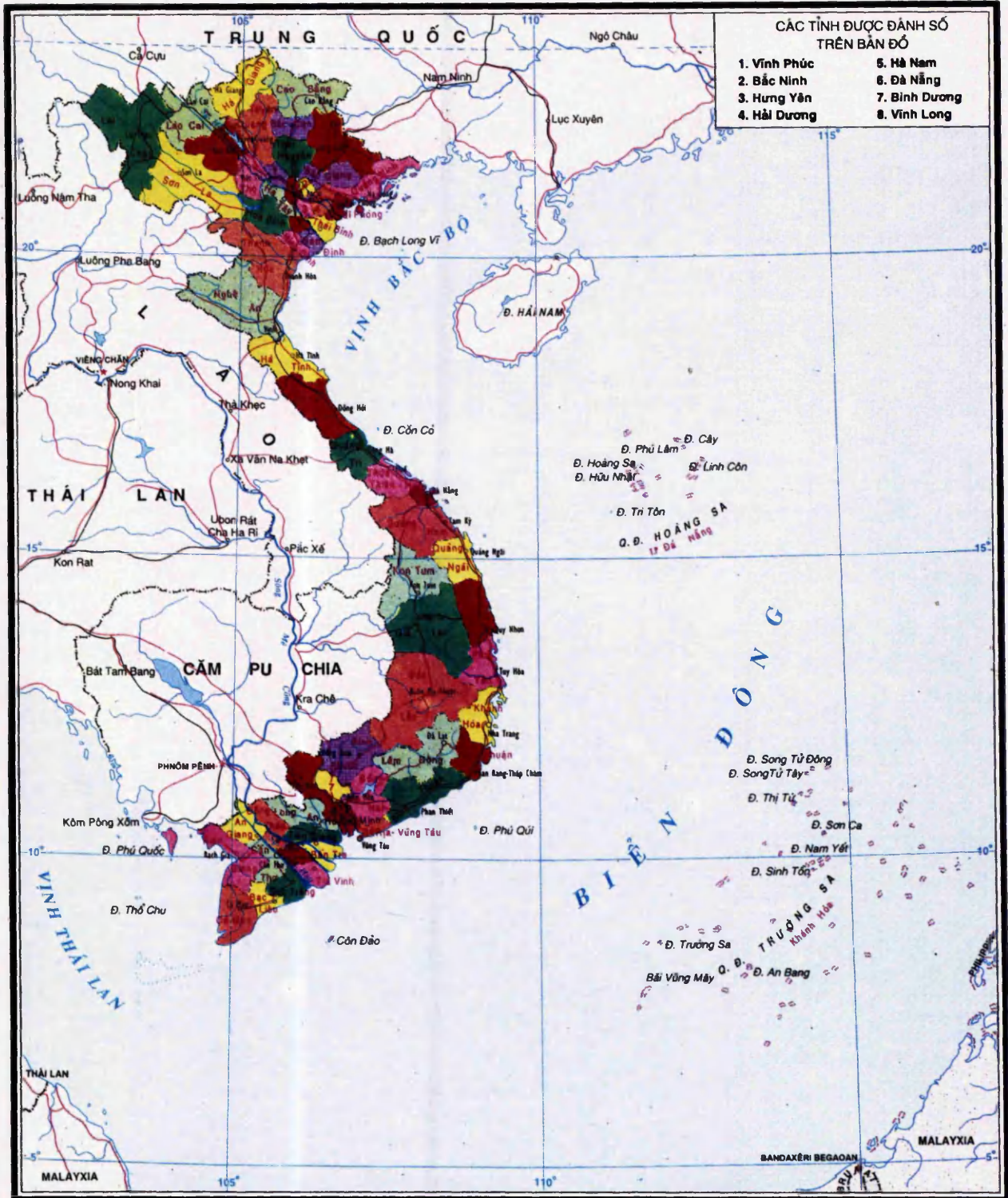
**APPENDIX 1.1**  
**THE MEANINGS OF 'ADMINISTRATION'**

1. 'help' or 'serve' *pure and simple* (with no notion of 'direction')
2. 'direction' or 'government' *pure and simple*, expressed colloquially as 'running the show', with connotations of 'service' or 'help' entirely suppressed, or remote
3. 'government' or 'direction' *in the implementation of a given purpose or end*; execution
4. 'direction' or 'execution' *in the interest of someone else*; government as deputy or trustee
5. *authoritarian service*; used in conjunction with 'of the sacraments', 'of medicine', 'of justice', and the like, or in imitation of that use
6. (lower case a) *collective noun for 'the Crown'*, or the King and his servants engaged in the government of the realm
7. (upper case A) *collective noun for the King's Ministers*, without the King; 'the Government of the day'
8. '*implementation of laws by non-judicial machinery of civil offices*'; the creation and maintenance of such machinery, and provision of information generated by it for legislative purposes
9. *work or directing, or establishing the principles of, the execution or implementation of the laws, or of public policy*, as contrasted with both the determination of those laws or that policy, and the detailed or routine stages of such execution or implementation
10. *collective noun for the non-judicial machinery of civil offices*, the complex of governments headed by Secretaries of State, other Ministers of the Crown, or Boards, and staffed by permanent civil servants or their like; 'public administration'
11. *the duties of the Administrative Class, 1920*; work concerned with the formation of policy, with the co-ordination of and improvement of Government machinery, and with the general (administration and) control of the Department of the public service
12. *work of analysing, balancing, and presenting for decision complex policy considerations*; assigning due weights so each factor (technical, financial, political, etc.), balancing short-term considerations against long-term considerations; to be contrasted with the work of giving specialist advice on any one factor;  
*work of persons trained in and experienced in this task*, as distinct from the work of persons trained in a specific professional capacity of technical expertise before entry and employed in such capacity
13. *ancillary housekeeping and 'office' or 'desk' work in an organisation*, or part of the work of an individual, contrasted with but inseparable from the work of producing the goods or services whose production defines the public role of the organisation or individual; work of logistic support, structuring and programming, procedural record and control, contrasted with direction of production, and with making of corporate policy, as well as with productive operations;  
*collective noun for persons engaged in such work in an organisation.*
14. *work of book-keeping, registration, accounting, and other internal communication of record*; 'clerical' work, as contrasted with the use of such records in control or in policy-making; *collective noun for persons engaged in such work*
15. *title of a subject, field, discipline, course, or examination in a school, college, university or other institution of training or education*, whose content is provided by the study of administration in one or more of the foregoing Meanings;  
*an area of academic and theoretical research*

Source: Dunsire, A., 1973.

**APPENDIX 1.2  
THE MAP OF VIETNAM**

**CỘNG HOÀ XÃ HỘI CHỦ NGHĨA VIỆT NAM  
SOCIALIST REPUBLIC OF VIETNAM**



### APPENDIX 1.3

#### **QUESTIONS AND ISSUES EXAMINED IN THE IN-DEPTH SEMI-STRUCTURED INTERVIEWS**

##### **I – Central government agencies:**

1. Their main tasks and functions.
2. What have they been doing in regard to public administration reform.
3. What results of the reform. Any changes in the structure and functioning, in the attitude of the civil servants.
4. What they think makes difficulties in the reform process. What are the costs, losses, and problems of the reform?
5. What benefit they may gain from this reform.
6. In their opinion, what might be the effect of the reform for different stakeholders. Any impact on national development.
7. What would be the change to the reform policy and implementation if they could make any?
8. Do they co-ordinate with other partners in promoting the reform.

##### **II – Local authorities:**

1. Their main tasks and functions
2. What have they been doing in regard to public administration reform.
3. What results of the reform. Any changes in the structure and functioning, in the attitude of the civil servants.
4. What they think make them difficult in the reform process. What are the costs, losses, and problems of the reform?
5. What benefit they may gain from this reform.
6. What do they expect from the central government to make their reform efforts successful.
7. What feedback mechanism do they use to get to know and understand the needs and opinions from the private sector and the public.
8. Do they co-ordinate with other partners in promoting the reform.

##### **III – Donor governments and organisations:**

1. How do they see themselves the role that they play in Vietnam.
2. To what extent are they involved in the public administration reform in Vietnam.
3. What are the results and impact of their assistance.
4. What is their vision on the future of the reform in Vietnam.
5. What mechanism have they deployed to influence the government policies and decisions relating to the reform.
6. How do they overcome disagreement or difference in opinion between them and the government if there are any.
7. Their co-ordination in assisting the reform process in the country.
8. What will be the future focus for their assistance in administrative reform.

## APPENDIX 1.4

### LIST OF INTERVIEWEES

No	Full Name	Position	Date of Interview
	<b>Central Government agencies - GCOP:</b>		
1.	Mr. Dinh Duy Hoa, PhD	Director, Public Administration Reform Group	27 November 2001
2.	Mr. Do Duc Cuong	Principal Expert, Information Technology Centre	31 August 2001
3.	Mr. Doan Cuong	Deputy Director, Salary Department	28 September 2001
4.	Mr. Thang Van Phuc, PhD	Vice Minister	25 October 2001
5.	Mr. Vu Truong Son, PhD	Principal Expert, Department of State Organizations and Staffing	1 October 2001
	<b>MARD:</b>		
6.	Mr. Hoang Hong	Deputy Head, Division of Legality, Veterinary Department	27 August 2001
7.	Ms. Marjo Nevala L'Ofkvist	UNDP/SIPU Consultant, PAR Project for MARD	27 August 2001
8.	Mr. Nguyen Duc Son	Principal Expert, Office of MARD, PAR Project Manager	28 August 2001
9.	Mr. Nguyen Manh Dung	Expert, Department of Agricultural and Forestry Product Processing	28 August 2001
10.	Ms. Nguyen Thi Hong Loan	Deputy Director, Department of Organization and Personnel	29 August 2001
	<b>MOF:</b>		
11.	Mr. Vo Van At	Deputy Director, Department of Organization and Personnel	22 September 2001
12.	Mr. Cuong	Head, Division of State Budget Management	27 November 2001
	<b>MPI:</b>		
13.	Mr. Duong Duc Ung, PhD	Director, Department of Economic Cooperation	13 November 2001
14.	Mr. Nguyen Dinh Cung	Director, Department of Macro-Economic Research, CIEM	2 November 2001
	<b>NAPA:</b>		
15.	Prof. Bui The Vinh	Director, Research Institute of Public Administration	21 November 2001
16.	Prof. Doan Trong Truyen	Former Minister, President of NAPA	20 November 2001
17.	Mr. Pham Kien Cuong, PhD	Deputy Director, Department of Organization and Personnel	23 November 2001
18.	Prof. Nguyen Huu Tri	Director, Training Department	11 November 2001
	<b>OOG:</b>		

19.	Mr. Nguyen Ky	Senior Manager, Prime Minister's Research Department	10 November 2001
20.	Mr. Nguyen Minh Man, PhD	Director, PAR Department	29 October 2001
21.	Mr. Nguyen Van Thu, PhD	Deputy Director, Department of Organization and Personnel	30 October 2001
	<b>Local Authorities - HCM City:</b>		
22.	Mr. Lam Quoc Tuan	Principal Expert, City People's Committee	22 November 2001
23.	Nguyen Huu Duc	Deputy Director, Department of Organization and Personnel	19 July 2000
24.	Ms. Tran Thi Hanh	Vice-Chairperson, People's Committee, Phu Nhuan District	19 July 2000
	<b><u>Ninh Binh Province:</u></b>		
25.	Mr. Le Xuan Duoc	Director, Center of Cadres Training and Retraining	8 June 2000
26.	Ms. May Endresen	Chief Technical Advisor, Norway's PAR Project	7 June 2000
27.	Mr. Quach Van Trang	Principal Trainer, Ninh Binh School of Politics	7 June 2000
28.	Ms. Tran Thi Lien	Expert, Division of Education and Training, Dong Hoi Town	17 September 2001
	<b>Donor Community ADB:</b>		
29	Mr. Dao Viet Dung	Macro-Economist	21 November 2001
30	Mr. John Samy	Resident Representative	25 November 2001
31	Vinyu Vichit-Vadakan, PhD	Senior Advisor, ADB	13 November 2001
	<b>Embassy of Sweden - SIDA:</b>		
32	Mr. David Holmertz	First Secretary, Programme Officer	14 November 2001
33	Mr. Nguyen Quang Ngoc	National Programme Officer	12 November 2001
34	Mr. Per Lundell	Counsellor, Development Cooperation	14 November 2001
	<b>UNDP:</b>		
35	Mr. Jean Banet	UN volunteer	12 November 2001
36	Le Huu Cat Dien	Assistant Resident Representative	10 October 2001
37	Mr. Soren Davidsen	Program Officer	5 October 2001
38	Mr. Trinh Tien Dung	Program Officer	5 November 2001
	<b><u>WB:</u></b>		
39	Ms.Nisha Agrawal	Lead Economist	8 November 2001
40	Ms. Nguyen Nguyet Nga, PhD	Economist	8 November 2001

## APPENDIX 4.1

### KEY LEGAL AND REGULATORY DOCUMENTS RELATING TO THE REFORM OF SOEs SINCE *DOI MOI*

Document	Date	Details
Government Decree No. 217-HDBT	November 24, 1987	Comprehensive decision on reform of SOEs. Includes reform of planning system, granting of autonomy, abolition of subsidies, and elimination of central planning.
Government Decree No. 50-HDBT	March 22, 1988	Promulgation of regulations on SOEs in industrial sectors.
Government Decree No. 27-HDBT	March 23, 1989	Promulgation of regulations on unions of state enterprises
Decision No. 38-HDBT	April 10, 1989	Promotion of economic cooperation in production, distribution and services.
Government Decree No. 64-HDBT	June 10, 1989	Regulations on import-export activities and joint venture with foreign enterprises.
Decision No. 195- HDBT	December 2, 1989	Transfer to SOEs of the right to use the assets of SOEs and assets evaluation.
Instruction No. 315/CP	September 1, 1990	Experimental transfer of rights of use relating to the capital of SOEs.
Decision No. 378- HDBT	November 16, 1991	Regulations on working capital of SOEs.
Decision No. 388- HDBT	November 20, 1991	Regulations on establishment and dissolution of SOEs.
Instruction No. 202-CT	October 6, 1992	Pilot corporatisation programme.
Law on Bankruptcy	December 1993	
Decision No. 90-TTg	March 7, 1994	Continuation of the readjustment of SOEs and establishment of general corporations.
Decision No. 91-TTg	March 7, 1994	Establishment of general corporations.
Law on SOEs	April 20, 1995	
Government Decree No. 39-CP	July 27, 1995	Promulgation of the Model Charter of General Corporations.
Government Decree No. 28-CP	May 3, 1996	Corporatisation policy.
Government Decree No. 59-CP	October 3, 1996	SOE financial management and business cost accounting principles.
Prime Minister Instruction No. 20-TTg	April 1998	Regulations on alternative ways of reforming SOEs.
Government Decree No. 44-CP	June 29, 1998	Regulations on continuation of equitisation.
Law on Enterprises	June 12, 1999	

*Source:* Adapted from OECF, 1998; Trang Thi Tuyet 1999; WB, 2000, 2001b.

**APPENDIX 5.1: NUMBER OF DEPARTMENTS**

No	Name of Agency	Number of Affiliated Intermediary Agencies			
		Total of intermediaries	of which		
			Depts and equivalents	Bureaus and equivalents	General depts & equivalent
1	Ministry of Justice	12	11	1	0
2	Ministry of Foreign Affairs	21	19	2	0
3	Ministry of Planning and Investment	22	22	0	0
4	Ministry of Industry	10	7	3	0
5	Ministry of Agriculture and Rural Development	18	9	9	0
6	Ministry of Water Products	9	8	1	0
7	Ministry of Commerce	18	16	2	0
8	Ministry of Construction	11	9	2	0
9	Ministry of Transport	13	8	5	0
10	Ministry of Labour, Invalid and Social Affairs	16	13	2	1
11	Ministry of Culture and Information	20	14	6	0
12	Ministry of Education and Training	17	17	0	0
13	Ministry of Health	12	12	0	0
14	Office of Government	19	17	2	0
15	Government Committee on Organisation and Personnel	10	8	2	0
16	State Bank of Vietnam	16	15	1	0
17	State Inspection	7	7	0	0
18	Committee on Ethnicity and Mountainous Areas	5	5	0	0
19	Ministry of Finance	19	16	1	2
20	Ministry of Science, Technology and Environment	10	7	2	1
21	Ministry of Defence	12	2	4	6
22	Ministry of Police	15	4	4	7
23	Committee on Sports	9	9	0	0
Total	Including Ministry of Defence and Ministry of Interior	321	253	49	7
	Excluding Ministry of Defence and Ministry of Interior	294	247	41	4



## APPENDIX 5.2

GOVERNMENT OF VIET NAM

SOCIALIST REPUBLIC OF VIET NAM  
Independence - Freedom - Happiness

### **MASTER PROGRAMME ON PUBLIC ADMINISTRATION REFORM FOR THE PERIOD 2001 – 2010**

*(Attached to the Prime Minister's Decision No 136/2001/QĐ-TTg on Sept 17, 2001)*

#### **I. CURRENT STATUS OF THE PUBLIC ADMINISTRATION AND OPPORTUNITIES AND CHALLENGES OF PUBLIC ADMINISTRATION REFORM FOR THE PERIOD 2001 – 2010**

##### **1. Current Status of Public Administration in Viet Nam:**

In implementation of the Resolution of the 7<sup>th</sup> National Party Congress, Resolution of the 8<sup>th</sup> Plenum of the Party Central Committee (Seventh Tenure), Resolution of the 8<sup>th</sup> National Party Congress, Resolutions of the 3<sup>rd</sup>, 6<sup>th</sup> (second session) and 7<sup>th</sup> Plenums of the Party Central Committee (Eighth Tenure), over the past 10 years (1991-2000) PAR has made important contribution to the *Doi Moi* process and to the socio-economic development of the country. The most significant achievements of the PAR are as follow:

- Functions and activities of the institutions in the public administration system, from the Government, central ministries and agencies, to the People's Committees at all levels have been considerably improved towards focusing on State management functions.
- Gradual steps have been taken to transform old administrative institutions in various fields and set up new ones, especially those in economic management, in line with the requirements of the transition towards a market-oriented economy with socialist orientation.
- Steps have also been taken to restructure and adjust the machinery of the central Government and local authorities at the various levels so that these became more streamlined, more efficient and effective.
- Initial but meaningful progress in personnel management and utilization, in terms of recruitment, performance evaluation, promotion, recognition, disciplinary action, training and retraining has been made in line with the Ordinance on Cadres and Civil Servants; initial reform measures in salary and entitlement policies have been underway in the direction of increased monetisation.

However, the current PA system, which is still heavily influenced by the former centralized and subsidized bureaucratic management mechanism, has not yet met the requirements of the new management mechanism as well as the needs to serve better people in the new conditions. Management effectiveness and efficiency are still limited.

- The State management functions and responsibilities of the PA system in a market-oriented economy with socialist orientation remain to be clearly defined. Task assignments between sectors and levels are still ambiguous.
- The system of administrative institutions is unsynchronised, overlapping and inconsistent; administrative procedures are still cumbersome and complex in many areas of activity; administrative order and discipline are loose.
- The organisational structure of PA is cumbersome; there are many layers; its operating modalities are both centralised and compartmentalised as well as not

- smooth; there are not yet appropriate financial mechanisms and policies for the operation of PA and public service delivery agencies.
- Cadres and civil servants still have weaknesses and shortcomings in terms of quality, sense of responsibility, professional capacities, administrative skills; their working styles have been slowly improved; bureaucratism, corruption and bribes remain rather serious among a section of the cadres and civil servants.
  - Administrative machinery at local levels is not really responsive to people, not well informed of critical problems in their localities, confused and reactive when handling complex situations.

The above realities had a number of root causes. *Firstly*, the understanding of cadres and civil servants on the role and functions of State management, the building of the State machinery as a whole and the PA system in the new environment in particular were not always clear and unified, there were a number of theoretical and practical issues which required clarification. There were many guidelines, policies and laws which had been developed under the centralized bureaucratic mechanism and which had not been revised or replaced. *Secondly*, the implementation of PAR tasks was not carried out synchronously with the organizational and operational renovation of the entire political system led by the Party; PAR was not closely linked to legislative renovation and judiciary reforms. *Thirdly*, PAR encountered a lot of resistance since it affected the status quo of many administrative agencies at central and local levels as well as personnel in these institutions; there was also the legacy of the old centralised bureaucratic system which were heavily impacting on the ways of thinking and working of not a few cadres and civil servants; PAR was not mentally well prepared. *Fourthly*, there were inadequate regimes and policies on organization and personnel, and salary, which did not create incentives for accelerating the reform. *Fifthly*, there were shortcomings of the Government, ministries and central agencies, and local People's Committees in guiding the PAR implementation; there was lack of determination and uniformity in guiding the implementation of PAR policies.

## **2. Lessons learned from recent PAR activities:**

Based on the realities in PAR over the past 10 years, on the results achieved and on the existing weaknesses and shortcomings, the following main lessons have been learned:

- PAR is a complex exercise, which relates to many sectors and branches. Therefore, it is essential that PAR is carried out in a uniform manner within the overall renovation of the political system and must be linked to the renovation and rectification of the Party, reform of the State machinery in general.
- PAR must be closely linked to economic renovation in each reform step, area and place in order to create synchronisation between and stimulus to PAR as well as the renovation of the economic management mechanism.
- PAR is a sensitive and difficult undertaking that requires the leading agencies to have consistent view and uniform guiding principles, realistic and time-bound program of action. The guidance of PAR must be centralised and unified with a strong determination and commitment.
- PAR must be carried out in a uniform manner, from the top to the bottom, and vice versa. At the same time, due attention and encouragement must be given to local and grassroots initiatives and experimental activities. Breakthroughs for each period as well as concrete incentives to promote reform should be identified.

- PAR must be based on realities of Viet Nam, with its own characteristics, traditions, and identity. At the same time, PAR must benefit from appropriate application of international knowledge and experience on organization and management operations.

### 3. **Opportunities for and challenges to PAR in the coming time:**

The first 10 years of the 21<sup>st</sup> Century will be a period of opportunities and advantages to further accelerate PAR:

- Practical lessons and experiences drawn from the PAR in the last 10 years will be a good foundation to make new decisions in PAR in the time to come.
- The requirement for a strong shift towards a market-based economy with socialist orientation will create a strong impetus for PAR that is closely linked with the economic reform process. The regional and international integration process will continue expanding opportunities of cooperation, exchanges and experience learning in PAR between Vietnam and other countries.

However, the PAR program will also be facing difficulties and challenges, which are the following:

- The biggest challenge to the requirement of developing a trustworthy, stable, efficient and effective administrative system is the long-standing weakness of the administrative machinery, red tape, corruption and ethical deterioration among a section of cadres and civil servants.
- Large scope and scale of PAR will require that it be carried out in a continuous manner, with a sustained and strong commitment, through learning by doing process in terms of new management models and ideas to be experimented, studied, reviewed and replicated. The public administrative agencies have to renovate and reform by themselves to achieve the objective of building a PA that is democratic and gradually modernized, able to fully implement the mastery of the people, to strengthen the rule of law and state discipline in a market economy with the socialist orientation.
- PAR will have to be placed within the overall renovation of the political system and of the State machinery in general. However, in reality there exist many fundamental issues, which are of paramount importance to the identification of the contents, and modalities for state machinery reform as well as PAR for building a Socialist State of Vietnam ruled by law remain to be studied and clarified.
- The lingering existence of inertia and habits from the centralized, subsidized bureaucratic system which have taken deep roots in the thinking, working styles and practices of a section of cadres and civil servants. In the meantime, we will carry out PAR with limited knowledge and experience in State management in a new economic management mechanism while meeting the requirement of building a democratic and modern PA system.

## II. OBJECTIVES OF THE MASTER PROGRAMME FOR PAR FOR THE PERIOD 2001 - 2010: AND VIEWPOINTS ON PAR

### 1. **General aim:**

The overall goal of the PAR Master Program for the next 10 years 2001 - 2010 will be *successfully building a democratic, trustworthy, strong, professionalised, modernized, effective and efficient PA system which operates in line with the principle of the socialist State ruled-by-law under the leadership of the Party; public cadres and civil servants will have appropriate capacities and ethical qualities able to respond to the requirements of the cause of national building and development.* Up to 2010 the PA system will be fundamentally reformed to satisfy the requirement of managing a market economy with socialist orientation.

The specific objectives of the program include:

- 1.1 Efforts will be made to build and gradually perfect the system of administrative legal institutions as well as mechanisms and policies which are appropriate to the period of national modernisation and industrialisation, especially economic institutions and those related to organisation and operation of the administrative system.  
Efforts will be made to renovate the processes for the development and issuance of normative legal documents, overcome compartmentalisation in the preparation of legal documents by ministries and agencies, strengthen the responsibility and accountability of each and every public institution which takes part in the process of institutional development, enhance democracy and mobilise the intellectual capacity of all sectors of population, in order to eventually improve the quality of normative legal documents.
- 1.2 The administrative procedures, which are bureaucratic, cumbersome and troublesome to businesses and people, will be fundamentally abolished; new administrative procedures, which are of transparency, simplicity and convenience to people, will be developed.
- 1.3 Institutions in the PA system will be assigned with functions, tasks, authorities and responsibilities, which are clearly defined and appropriate. A number of activities and public services, which are not necessarily to be handled by government agencies, should be transferred to enterprises, social organizations, private organisations and non-governmental organizations.
- 1.4 The organisational structure of the Government will be rationally streamlined according to the principle that ministries will be organisationally cross-sectoral and multi-disciplinary and whose functions will be focusing on macro-management of the society by laws, policies, guidelines as well as monitoring and supervising their implementation.  
The organisational machinery of ministries will be restructured, based on a clear differentiation of functions and operation modalities between advisory sections and other sections, which are responsible for implementing policies, and providing public services to society.
- 1.5 By the year 2005, new key regulations on decentralisation of administrative management between the central and local levels, and between the different levels of local authorities will have been developed and put into operation. The functions, tasks, authorities and organizational structures of urban and rural administrations will be clearly defined.  
Functional institutions under the People's Committee at provincial and district levels will be streamlined to perform the function of state management according to tasks and authorities defined in the amended law on organization of People's

- Councils and People's Committees. Characteristics, organisational structure, working regimes of communal authorities will be clearly defined.
- 1.6 By the year 2010 the contingent of cadres and civil servants will have a reasonable size, possess professional qualities and be modernised. They will have adequate qualities and qualifications to discharge their public duties and be dedicated to serve the course of national development and people.
  - 1.7 By the year 2005, fundamental reforms will have been undertaken with regard to the salary of cadres and civil servants, so that these will become the main driving force for the civil service system and be adequate to maintain their life and the life of their families.
  - 1.8 By the year 2005, the financial mechanism will have been reformed suitable for administrative agencies and public service delivery agencies.
  - 1.9 Administration system will be substantially modernized. Administrative agencies will be provided with modern equipment able to serve timely and smoothly state management requirements. A complete computerized Management Information System of the government will have put into operation.
2. PAR must be placed within the framework of the viewpoints and policies of the Viet Nam Communist Party regarding the renovation of the political system and of the State machinery.
    - The reform and perfection of the PA will be closely linked to the building and rectification of the Party, the renovation of the contents and leading modalities of the Party over the State in general and its PA in particular, in order to preserve and bring into play the nature of the working class and build a State of the people, for the people and by the people under the leadership of the Party.
    - PA must be organized into a uniform, smooth, disciplinary system based on a clear and transparent division of work and decentralised responsibility. Administrative agencies and civil servants should place themselves under close supervision by people. There must be effective measures to curb acts which violate democracy and freedom and which indulge in arbitrariness, red tape, corruption, harassment for bribes and trouble-making to people.
    - PAR policies and measures must be linked closely to each step in economic reform, to the requirement of national development in the process of industrialisation, modernisation, and integration into the world economy. They should encourage the formation and perfection of the elements of a market-oriented economy with socialist orientation, the maintenance of order and discipline in economic activities to promote the economic growth and improve the people's life.
    - PAR is a broad and complex task, which requires a comprehensive and long-term vision with crosscutting and uniform solutions. PAR should be closely linked with legislative renovation and judiciary reforms.
    - PAR must be carried out with firm and steady steps, with appropriate focus and emphasis. Relevant breakthroughs should be identified for each specific period.

### III. CONTENTS OF THE MASTER PROGRAM FOR PAR FOR THE PERIOD 2001 - 2010

#### 1. Institutional Reform

1.1 *Efforts will be made to build up and perfect institutions, focusing first and foremost on economic institutions required for the market-oriented economy with socialist orientation and institutions on organization and operation of the PA system.*

*Within the next five years, it will be important to focus on the following key institutions:*

- Institutions that regulate capital, monetary transactions, stock exchange, real estate markets, science and technology market, labour market, and service market.
- Institutions, which regulate the organisation and operation of the PA system, especially, those related to the Government, Ministries and People's Committees of various levels.
- Administrative institutions that regulate relations between the State and People, such as public opinion surveys for making important decisions and policies, public referendum, handling illegal acts of public institutions and civil servants while discharging public duties, authorities and responsibilities of administrative institutions and courts to deal with complaints lodged by people.
- Institutions on the state management authority towards enterprises in general and state-owned enterprises in particular; institutions clearly differentiating between the rights of ownership, of state management and of autonomy of enterprises to undertake business operations.

1.2 *Efforts will be made to renovate the process of developing and issuing normative legal documents*

- Constant efforts will be given to reviewing and systematizing normative legal documents, abolishing those documents which are no longer in force, which are overlapping and duplicating. The National Database on normative legal documents should be put into effective operation.
- Efforts will be made to strengthen the capacities of PA at the central and local levels in the preparation and issuance of legal documents. It will be important to avoid a situation where a law or an ordinance has become effective long before the decrees and circulars to guide its implementation are issued by respective agencies.
- To improve quality of legal documents and overcome compartmentalisation and lack of objectivity, it is necessary to study and renovate the modality and process of legislative document development from the initial stage to the stage of review and approval by the government for submission to the National Assembly.
- To issue regulations which will ensure people's effective participation in legal development process; to well organize the collection of comments made by all sectors of population and all target groups who are regulated by specific legal documents, prior to the formal issuance of such documents.
- Normative legal documents will be made public on the Gazette and mass media right after they are issued, so that people and businesses have adequate time to study such documents and implement them.

1.3 *Continued efforts will be made to ensure strict and transparent law enforcement by public institutions as well as by cadres and civil servants.*

- It will be necessary to make sure that cadres and civil servants will be well informed of State laws and policies so that they could apply such laws and policies according to their responsibilities and authorities.

- Efforts will be made to implement the grassroots democracy regulation as well as the regime to publish decisions and policies of the government at all levels. Efforts will also be made to develop regulations whereby leading officials of central Ministries and agencies and local authorities at the various levels will be required to periodically and directly meet and dialogue with people and businesses, and to give answers to their inquires/complaints.
- The institutions on monitoring, inspection and arbitration should be fully used to ensure the effectiveness of State management and the maintenance of social order and discipline. It will be important to clearly differentiate between responsibilities of inspection institutions and Administrative Courts in addressing complaints lodged against public institutions, cadres and civil servants.
- Efforts will be made to expand legal aid and counseling services for people, especially the poor people, social welfare beneficiary groups, and ethnic minorities living in remote and isolated regions. Favourable conditions should be created for lawyers to provide legal services efficiently and effectively in line with law provisions.

1.4 *Continued efforts will be made to reform administrative procedures:*

- Efforts will be made to renovate administrative procedures to ensure the legality, effectiveness, transparency, and fairness in handling administrative operations. It will be important to abolish those procedures, which are cumbersome, which can be easily abused for corruption, and which cause troubles people. It will be necessary to extend the reform of administrative procedures in all areas of activity, to abolish timely those regulations which are not required in the areas of licensing, monitoring, controlling and inspecting.
- Standardised formats will be introduced nation-wide for all papers required for dossiers that are submitted by citizens and businesses when they need their issues in businesses and life to be handled.
- Effective mechanisms will be developed to monitor the work of cadres and civil servants who are assigned to receive people and solve their requests, take strong disciplinary actions against those who show indications of harassment for bribes and arrogance while receiving people, and complement those who perform exceptionally well their duties.
- The “one-stop” shop will be applied widely by public administrative institutions at all levels in delivering service for the people and businesses. Any administrative procedure, process, fee and working schedule of public institution dealing with the people should be made public in front of the public offices.
- It will be necessary to clearly define personal responsibilities and accountabilities of cadres and civil servants while undertaking public duties. Such a definition of authorities and responsibilities must be closely linked to mechanisms for conferring awards, taking disciplinary actions and evaluating performance of cadres and civil servants.

**2. Reform of the organizational structure of the PA:**

- 2.1 *Efforts will be made to re-define and adjust functions and tasks of the Government, ministries and ministerial-level agencies, agencies of the Government, and local government agencies at all levels, so that these functions will be in line with the requirements of state management in a new situation.*

- The Government, ministries and ministerial-level agencies will focus on developing and issuing institutions, plans and policies which deal with macro-level management issues in socio-economic development, and on guiding and monitoring their implementation.
- The authority and accountability of the Government, the Prime Minister, Ministers, Heads of ministerial level agencies, as well as collective and individual responsibilities in administrative agencies at all levels should be clearly defined.
- It will be necessary to re-define the role and functions of local administration at the various levels in line with the degree of decentralization from the central to local levels and with the steps identified for economic reform.

2.2 *Constant efforts will be made to adjust work tasks that the Government, ministries and local authorities are handling in order to avoid overlapping and duplication in their functions and responsibilities, to transfer to social organisations, non-governmental organisations, or businesses to carry out public service delivery tasks which are not necessarily handled directly by government administrative agencies.*

2.3 *By the year 2005, new regulations on of decentralisation from the central to local levels and among various levels of local authorities will be fundamentally issued and put into effective implementation. This will improve the authorities and responsibilities of local authorities and strengthen their relationship with and accountability to local people. Decentralisation of administrative work will go hand in hand with decentralisation of financial, organizational and personnel management. It will be important to clearly identify those areas of activity for which decision-making will be entirely assigned to local administration, those areas for which decision-making by local authorities will require prior endorsement by the central level or areas that local authorities will implement according to decision made by the central level.*

#### 2.4. *Organisational restructuring of the Government.*

- Efforts will be made to develop an appropriate organizational structure of the Government, which consists of ministries and ministerial-level agencies implementing state management functions. Based on the re-defined and adjusted functions of the Government, ministries and ministerial-level agencies in line with new requirements of state management in economy, culture, society, internal affairs and on the inter-relationship between different sectors and areas in the new situation, the size and structure of ministries and ministerial-level agencies will be redefined to make the government machinery streamlined, clear division of responsibilities, scientific working style, efficient and effective operation. Agencies with state management functions will be restructured to be in line with the new structure of the Government. If required, several current Ministries and ministerial-level agencies will be renamed in accordance with their new functions and responsibilities.
- The number of agencies directly affiliated to the Government and to the Prime Minister will be reduced considerably. It will be necessary to keep only a limited number of professional Government subordinate agencies, which support the macro management functions of the Government.
- Functions and operation modalities of the Inter-Ministerial Advisory Organisations whose establishment is subject to the decision by the Prime



- Minister will be further clarified. These organisations will only be set up when the government needs to concentrate on some important tasks related to several sectors and branches. These Inter-Ministerial Organisations will not have separate organizational structures and staff of their own but its standing body will be placed in the ministry or ministerial-level agency whose functions are most closely associated with the issue to be coordinated.
- Based on the rightly defined state management functions and scope of management of ministry, Efforts will be made to separate the State management functions over the sector country-wide from the management functions over public service delivery agencies currently reporting to the Ministry or Ministerial-level Agency.
- 2.5. *Reform of the organizational structure within Ministries, Ministerial-level Agencies, and Agencies of the Government*
- Efforts will be made to separate the State management functions over the sector countrywide from the management functions over public service delivery agencies, which are currently reporting to the Ministry or Ministerial – Level Agency. Based on this distinction, its administrative component and public service delivery component will be separated so that each will efficiently operate according to its own mechanism.
  - The internal organization of the Ministry will be restructured to make it streamlined and consistent with its assigned state management functions. At the same time, it will be necessary to clearly define the characteristics and types of entities of the Ministry who will play advisory role and law implementation role.
- 2.6 *Reform of the organisational structure of local authorities*
- Suitable criteria will be developed for each type of administrative agency countrywide in order to rationalise and stabilise it and avoid the excessive splitting and merging as happened in recent years.
  - Efforts will be made to clearly define functions, tasks, authorities and responsibilities of local authorities on the basis of an appropriate degree of decentralisation from the central level to the local level. At the same time, it will be necessary to make a distinction between urban administration and rural administration in terms of their functions and tasks. Based on the amended Constitution and the Law on People’s Councils and People’s Committees, the People’s Councils and People’s Committees at each level will be rationally restructured.
  - The professional departments of People’s Committee at the various levels should be realigned based on the principles of clear division of tasks and responsibilities, streamlined machinery, improved professionalism, responsive in dealing with requirements of people and businesses.
- 2.7 *Improvements will be made to the management modalities and working styles of public administration at the various levels.*
- Working principles and coordinating mechanisms within the public administration system will be clearly identified. Functions and duties of heads of institutions will be clearly established whereby they will be responsible and accountable for the performance and results of the institutions, which they head.
  - Committed efforts will be made to abolish actions which are of mere formality and which cost excessive time/effort, without bringing practical benefits, to

reduce meetings and bureaucratic paper work. The responsibility and accountability of administrative agencies will be enhanced in dealing with requests of people and organisations.

2.8 *To modernise gradually the public administrative system.*

- Efforts will be made to study and utilise IT in the operation, leadership and guidance of the PA system, to accelerate the application of management modalities, which are being used by an advanced and modern PA system.
- By the year 2010, administrative agencies will be provided with relatively modern equipment/facilities; administrative agencies at the commune level country-wide will have adequate offices and working facilities to implement smoothly their management tasks; the Government-wide computerised network which can reach the commune level will have been fully and smoothly operational.

### **3. Renovation and improvement of the contingent of cadres and civil servants**

3.1. *Renovation in management of cadres and civil servants*

The management of cadres and civil servants will be reformed in line with the socio-economic development and PAR processes:

- To conduct a general survey and assessment of cadres and civil servants in order to determine their total number and actual quality for personnel planning and management. Civil servant databases and computerised civil servant management systems will be established so that IT can be applied for personnel management at the central and local agencies.
- The existing systems of categories, levels, professional standards and titles of civil servants will be reviewed. A system of standardized titles of civil servants, which is relevant to Vietnam's realities and better reflects substantive work of various positions, will be established as basis for assessing performance of staff.
- Efforts will be made to identify an appropriate civil servant structure which is closely linked with the functions and tasks of respective administrative agencies in each sector, each level. This will provide a basis for staffing and developing the contingent of State's administrative personnel. The present staffing methods will be improved in support of decision-making in terms of the quantity, quality and structure of civil servants corresponding to volume and quality of work assigned to each administrative agency.
- The personnel recruitment system will be perfected, implementing the new regulation on civil servant performance assessment, awarding, and punishing to improve the quality of civil service. The recruitment examination mechanism must be of democratic, transparent, which can ensure the selection of civil servants with the required professional and moral qualities to work in the state machinery. Due attention should be given to ensure an appropriate proportion of female civil servants working in the various sectors.
- A uniform mechanism for staff downsizing in administrative and public service agencies at both central and local levels will be introduced. Thus cadres and civil servants who do not meet professional capacity and qualification requirements and who have committed legal offences and violated professional ethics will regularly be dismissed from the State machinery in order to facilitate the reform and rejuvenation of cadres and civil servants and improvement of their capacity.

- Capacities of agencies and cadres who are in charge of civil servants and civil service management should be renovated and improved to meet the requirements and tasks of the period of industrialization and modernization.
- The present decentralization of civil servant management will be reviewed. Cadres and civil servant management authority will be further decentralized to local levels. The decentralization of personnel management needs to be accompanied by the decentralisation of tasks as well as financial management.

### *3.2. Reforming the salary system and developing incentive policies*

The salary system will be reformed in line with a new concept. Salary serves as a form of direct investment in human resources and investment in socio-economic development, contributing to the improvement of the quality of cadres and civil servants and civil services. The main activities will include:

- The minimum salary will be reformed in order to make sure that it can ensure a minimum decent living standard of minimum salary earners. The salary scale and payroll will be reformed taking into account required qualities and characteristics of labour of different types of cadres and civil servants. The salary multipliers and coefficients in the salary scales and tables will be appropriately adjusted.
- By the year 2005, the salary system for cadres and civil servants will have been fundamentally reformed through fully monetising salaries and adjusting salary scales in line with the increased income growth rate in society.
- A salary-related allowance system will be introduced to provide allowances in addition to salaries according to cadres' and civil servants' degrees and levels of qualifications and skills for staff working in unfavourable working conditions such as bad, toxic and hazardous conditions.
- Establish and put into implementation a regime on bonuses granted to civil servants for their excellent services and other treatments in addition to salaries.

### *3.3. Training and upgrading cadres and civil servants*

- Efforts will be made to review the training and upgrading activities; develop and implement a master plan on training and upgrading cadres and civil servants in the administrative system according to the different categories of cadres and civil servants, including advisory services for policy making, administrative management, public service delivery, and grass-roots government officials.
- The civil servant training content, curricula and methodology should be continuously renovated. Attention should be given to provide cadres and civil servants with knowledge and skills to enable them to fulfil their present tasks and responsibilities. Appropriate training/re-training programs and contents will be developed for each category of cadres and servants.
- Formal and informal training forms will be combined. Attention will be given to not only in-country training and overseas training, but also self-learning with the assistance by the State.
- The present system of cadre/civil servant training institutions will be re-organised; division and delegation of training and management will be carried out among these institutions. Favourable conditions will be created for the National Academy of Public Administration, public administration schools of Ministries, provinces and cities so that they are able to train a part of human resources to serve the administrative machinery at both central and local levels.

### *3.4. Enhancing cadres' and civil servants' responsibility and moral quality*

- Cadres and civil servants will be educated to develop for themselves a sense of responsibility/accountability for and commitment/dedication to work. Professional morality standards and norms of cadres and civil servants will be developed. Cadres' and civil servants' occupations and honour will be respected and enhanced.
- Develop and implement strictly Civil Service Regulation. This will be closely linked with the implementation of the grassroots democracy regulation in State agencies; and transparency will be ensured in civil services, especially in areas and activities related to citizens as well as to financial and budgetary issues; Strict discipline of the State machinery should be maintained, and cadres' and servants' sense of responsibility/accountability and discipline should be enhanced.
- The fight against corruption and red tape in the State machinery will be strengthened. Arrangements for auditing and protecting public property and the State budget will be implemented.

#### **4. Public Finance Reform**

- 4.1. The mechanism for decentralising financial and budgetary management will be reformed to ensure unity of the national financial management system and the leading role of the Central Budget; this will promote localities' and sectors' pro-activeness, dynamism, creativity and accountability in administering finances and budgets allocated to them.
- 4.2. The right to make decisions on the use of budget will be reserved for People's Councils at the various levels; favourable conditions should be created for local governments to enable them to proactively deal with affairs of their locality. The right of Ministries, provincial departments and offices to make decisions on budgetary allocations to their subordinate bodies will be ensured; so will be the right of budget users to pro-actively make expenditures within their approved budget allocations in compliance with the Government's financial regulations and policies.
- 4.3. Based on the separation of PA agencies from public service delivery entities, the reform of mechanism for preparing and allocating budgets to administrative organs will be fundamentally completed in 2 years 2001 and 2002. Efforts will be made to eventually abolish the staff number-based budget allocation and adopt a mechanism for calculating budget requirements on the basis of outputs and quality of operations, ensure the monitoring of outputs, quality of targets and objectives of administrative organs, and reform the expenditure norms setting system to make sure that it will be simple and ensure the ownership of budget users.
- 4.4. The financial management mechanism for the public service delivery sector will be fundamentally reformed:
  - Efforts will be made to build up a right perception about public services: the State is responsible to look after the material and cultural life of the people, but it does not imply that all public services are handled directly by the State. In each area, efforts will be made to identify clearly tasks the State should invest in and handle directly, and tasks should be transferred to mass organizations and social organizations to handle.
  - The State will develop policies, mechanisms enable social organizations, mass organizations, and the people themselves to deliver directly services which serve production and living requirements. These public service

providers will be supported, monitored, and supervised by the state administrative management agencies.

- The mechanism of budget allocation as “begging-granting” will be abolished. Relevant policies and mechanisms will be issued to help capable public service entities such as universities, hospitals, research institutes, etc exercise their financial autonomy on the basis of their clearly defined their tasks to be carried out, levels of budgetary support from the State Budget and the rest of the required budget to be covered by their own resources.

4.5. Further efforts will be made to pilot and then replicate some new financial mechanisms as follows:

- Mechanisms for renting out public service entities and for renting out land for the purpose of building schools and hospitals, social and health insurance for officials and civil servants, switching from publicly funded to people funded entities.
- An incentive mechanism will be issued to encourage both domestic and foreign investors to invest in the development of universities, vocational schools, post-graduate academic education institutions and in the construction of high quality hospitals in cities and industrial zones as well as to promote joint ventures and foreign direct investments in these areas.
- Contracting out mechanism will be applied to some public services such as urban sanitation, drainage, park tree management, irrigation service, etc.
- Some services within administrative agencies will be contracted out as well.

4.6. Auditing of administrative agencies and public service delivery entities will be reformed to enhance the sense of accountability for effective use of State budget resources and remove many of the existing focal points for the inspection, monitoring and auditing of administrative agencies and public service delivery entities. Democracy and transparency in the area of public finance will be exercised, hence all financial expenditures will be made public.

## **VI. PAR MASTER PROGRAM IMPLEMENTATION ARRANGEMENT**

### **1. Major measures**

#### *1.1 . Leadership and guidance strengthening*

PAR itself requires reforms in terms of mentality and way of thinking about implementation arrangement. Based on many valuable lessons learned from the PAR process in the past, efforts will be made to strengthen the leadership, guidance, and implementation of the PAR from the top with the highest determination. To address this problem, the commitment of the highest level of the Party and the State and heads of public administrative agencies at all levels should be ensured.

#### *1.2. PAR to be implemented in line with the political system renovation process*

The implementation of PAR should be carried out in parallel with the political system renovation process. The Party exercises its leadership on activities of the state of which the executive machinery is an important tool to implement orientations and policies of the Party. The renovation in organisation and operation of the Party,

especially in terms of the contents and modalities of leadership of the Party is extremely significant to the PAR. Guidance on PAR measures cannot be separated from those on legislative and judiciary renovation.

### *1.3. PAR should be carried out simultaneously at both central and local levels*

In order to follow up the idea to carry out simultaneously the PAR in all branches and at all levels, we should firstly implement actively the PAR in ministries and central agencies to create momentum to promote the PAR by the local governments. We should overcome the reactive and inactive attitude of ministries and central agencies in adjusting irrelevant institutions, in conducting more decentralisation to local authorities.

Responsibilities of heads of administrative agencies in organizing the implementation of policies and tasks of PAR in their respective areas should be clearly defined. From the government, Prime Minister to ministers, heads of ministerial-level agencies and agencies of the government, and chairmen of People's Committees should give sufficient attention to guiding and arranging the implementation of the assigned PAR tasks. These should be considered as the central and regular tasks that are related to all leading and managing activities of public administrative agencies at all levels.

### *1.4. Sufficient allocation of financial and human resources:*

To implement the PAR programme for the period 2001 - 2010, we should mobilize and allocate sufficiently capable staff for preparation and implementation of the assigned tasks. Efforts will be made to strengthen research and guiding capacity of the agencies, which are responsible to support the Government and People's Committees at all levels to implement their PAR tasks.

The financial resources from the state budget required for the implementation of concrete PAR action plans should be provided sufficiently.

### *1.5. Strengthening information dissemination and propaganda activities:*

PAR should not only be a task of the executive branch, but also a common requirement of the whole society. Thus the PAR information dissemination should be further strengthened to ensure all cadres and civil servants, as well as people to have correct understanding about the PAR in general and the government machinery reform in particular. There should be appropriate practical mechanisms to ensure the supervision right of people regarding operations of the public administrative system.

## **2. Stages to implement the Master Programme on PAR**

The 10-year strategy will be implemented into two stages:

Stage 1: (2001 - 2005) with the following central tasks:

- Functions, tasks, authorities and responsibilities of administrative agencies, from the Government to Ministries and People's Committees at all levels will have been clearly defined.
- Decentralisation in implementing the state management functions from central government to local authorities as well as among local administration levels will have been accomplished fundamentally.
- The mechanism for public financial management in administrative and public service delivery agencies will have been fundamentally renovated.

- The salary system for cadres and civil servants will be reformed fundamentally according to the Resolution of the Ninth Congress of the Party.

Major measures to be taken during 2001 – 2002:

- Effort will be made to improve continuously the institutions on organization of the state machinery through the amendment of the 1992 Constitution and Law on State Organisation
- Ministries, central agencies, and provincial People's Committees will continue to review their functions and tasks, define organizational structure, and implement staff downsizing according to the Prime Minister's Decision No 207/1999/QĐ -- TTg of 25 October 1999 and the Resolution of the Government No 16/2000/NQ-CP of 18 October 2000.
- Policies to handle the redundancy will be developed and put in place.
- By the end of 2002, the project on salary reform will have been completed so that its implementation can be started in 2003.
- Develop and put into implementation new mechanisms on organisation and operation of universities, hospitals, and scientific research institutes.
- A new government structure renovated in line with the PAR directions will be submitted to the new National Assembly (Eleventh tenure) in 2002 for approval.

Stage 2 (2006 - 2010): Based on the achievements to be made in the first stage, the machinery of the Government and the whole system of PA will be continuously improved and perfected to meet the requirements of social and economic development, to fulfil the overall objective of the 10-year PAR Master Programme for the period 2001 - 2010.

### **3. Major Action Plans of the PAR Master Program**

The PAR Master Programme for the period of 2001 – 2010 will be mainly implemented through a number of Action Plans as follows:

#### **3.1. Program to renovate the development, issuance, and quality improvement of legal normative documents**

*Main contents:*

- Reform rules and procedures of preparing and issuing legal documents. Reform modalities for co-operation and task assignment among agencies involved in the process of preparing and issuing legal documents
- Mobilise the participation of legal experts, public as well as major related agencies in the processes of development and issuance of legal documents
- Revise the law of 1996 on issuing legal normative documents and other related decrees; Develop and issue a law on development and issuance of legal regulatory documents by local governments.
- Strengthen capacity of agencies involved in preparing and issuing legal normative documents.

*Duration:* 2001 – 2010 with two stages: 2001 – 2005 and 2006 – 2010

*Lead agency:* MOJ and OOG

#### **3.2 Program on roles, functions, organizational structures of the agencies in the administrative system**

*Main contents:*

- Redefine roles and functions of Government, ministries, ministerial level agencies and agencies under Government in line with the direction of concentrating on implementing macro-level state management over the whole society.
- Review functions and tasks of ministries, central government agencies with a view to avoid overlapping, remove gradually tasks, which are not necessarily handled by these agencies.
- Based on new functions, restructure the organization of the government, ministries, ministerial-level agencies and agencies of the Government.
- Streamline and reduce the agencies of the government, which carry out state management functions.
- Identify streamlined structure within ministries, ministerial-level agencies and agencies of the government.
- Define and implement appropriate roles, functions and structures of local governments at different levels. Differentiate clearly between urban and rural governments in terms of quality and operation modality.
- Study and implement decentralization of tasks and authority from central to local levels in different areas and sectors.
- Identify organisational structure appropriate for local administration at all levels.

*Duration:* 2001 – 2010 with two stages: 2001 – 2005 and 2006 - 2010

*Lead agency:* GCOP and OOG

*3.3. Staff downsizing program:*

The implementation of this program will be continued for the period 2001 – 2002 according to the resolution of 16/2000/NQ-CP issued by the Government on 18 October 2000 concerning staff downsizing in administrative management and public service delivery agencies.

*Lead agency:* GCOP

*3.4. Program on quality improvement of the contingent of cadres and civil servants:*

*Main contents:*

- Re-assess, revise the classification, standard requirements for cadres and civil servants
- Decentralise personnel management.
- Reform modalities of training and upgrading cadres and civil servants
- Develop and implement relevant training programs targeting administrative civil servants and grass-root level officials.
- Develop and implement plans for training and upgrading of civil servants, including an overall plan of the Government and plans for ministries, agencies, and local authorities.
- Reorganise the system of training and upgrading civil servant based on decentralised functions and tasks.
- Develop tools for personnel management using IT.

*Duration:* 2001 – 2010 with two stages 2001 – 2005 and 2006 - 2010

*Lead agency:* GCOP and NAPA.

*3.5. Program on salary reform:*

*Main contents:*

- Improve minimum salary level.



- Rationalise the system of salary scales and establish appropriate salary levels suitable to different categories of civil servants (administrative management and public service delivery).
- Rationalise the system of job classification.
- Apply different regimes of non-salary incentives.
- Apply regimes to reward to civil servants who fulfil their tasks with distinction.

*Duration:* 2001 – 2005

*Lead agency:* GCOP.

### *3.6 Program on renovation of financial management mechanisms for administrative and public service delivery agencies:*

*Main contents:*

- Establish new criteria for formulating and allocating budget for administrative agencies based on their outputs, quality of activities, and level of performance.
- Implement the mechanism of allocating a lump-sum for operation costs of administrative agencies.
- Establish financial management mechanisms suitable to public service delivery agencies to ensure their relative independence and autonomy in making decisions for their operations in order to gradually reduce their expenditures from the state budget and make them self-financing.

*Duration:* 2001 - 2005

*Lead agency:* MOF.

### *3.7 Program on modernization of the administrative system*

*Main contents:*

- Modernise government offices. Equip, and provide administrative agencies with relatively modern facilities.
- Renovate the management modalities of the administrative system.
- Apply information technology in operations of every administrative management agency as well as in public service delivery agencies.
- Develop and put into operation an integrated computerized network from the Government to commune administration level.
- Commune governments will be provided adequate premises and working facilities to meet new management requirements.

*Duration:* 2001 – 2010 with two stages 2001 – 2005 and 2006 - 2010

*Lead agency:* OOG.

## **4. Responsibilities in Implementation Arrangement:**

- 4.1. The Prime Minister will provide the overall guidance for the implementation of the Master Programme on PAR for the period of 2001 – 2010.
- 4.2. The Government Steering Committee on PAR will be responsible to assist the Prime Minister to regularly orient, provide guidance for the implementation of the Master Programme on PAR for the period of 2001 – 2010.
- 4.3. Lead agencies in charge of PAR Action Plans should be responsible for formulating and submitting these Action Plans to the Prime Minister for approval and for being a focal point to co-ordinate the related agencies to implement the approved Action Plans.
- 4.4. GCOP will co-ordinate with MPI, MOF and OOG to prepare plans to mobilise domestic and external resources to meet the requirements of the implementation of the PAR Master Programme for the period of 2001 - 2010.

- 4.5. Based on this Master Programme and the guidance of the Government Steering Committee on PAR, ministries, central agencies and People's Committees of provinces and central cities should formulate and arrange the implementation of their annual and five year PAR plans. Annual report on the implementation should be submitted to the Prime Minister and Government Steering Committee on PAR

GCOP and OOG are responsible to monitor the progress of implementation, and periodically report on status and results of the implementation to the Government and Prime Minister.

**PRIME MINISTER OF THE GOVERNMENT**

**Phan Van Khai**

## APPENDIX 6.1

### **GOVERNMENT DECREE NO. 73-CP On functions, duties, authority and organizational structure of the Ministry of Agriculture and Rural Development.**

#### **Government**

- Pursuant to the Law on Organization of the Government enacted on 30 September, 1992;
- Proceeding from the Resolution adopted on October 21, 1995 by the 8th session of the Ninth National Assembly;
- At the proposals of the Minister of Agriculture and Rural Development and the Minister-Chairman of the Government Committee on Organization and Personnel.

#### **Decrees:**

##### ***Article 1:***

The Ministry of Agriculture and Rural Development (MARD) is an agency of the Government, having State management functions over agriculture, forestry, water resources and rural development.

##### ***Article 2:***

MARD shall have to carry out the State management tasks and authority provided for in chapter IV of the Law on Organization of the Government and Decree No. 15-CP of March 2, 1993 of the Government. It has the following main tasks and authority:

1. Submitting to the Government draft laws, ordinances and other legal documents concerning agriculture, forestry, water resources and rural development. Issuing, within its jurisdiction, documents with regard to the areas under its management.
2. Proposing to the Government the strategies, master-plans long-term, medium-term plans and , after getting the Government's approval, organizing the directions and guidance for the implementation of those plans in the following areas:
  - Cultivation, husbandry, processing of agro-forestry products and rural industries development.
  - Management, protection and development forest resources, exploitation forestry products.
  - Management of the water resources (except natural mineral water and geo-thermal water), management of the construction and operation of hydraulic works, dyke protection and management and flood control, management the exploitation and integration development of the rivers
  - Carrying out State management functions of specialized services activities.
3. Unifying the management of the national systems of breeds and genes funds both of fauna and flora (including import and export productions)
4. Organization and guidance the agro-forestry extension activities.
5. Organization for scientific and technology research studies and the application of advanced technologies and scientific in the fields that under its management.
6. Management the quality of specialized construction projects, the quality of agro-forestry products, the safety of dams and dyke projects, national food security, animal and plant diseases and epidemics (pest control), the safety in the utilization of chemicals in production and preservation of agricultural products and foodstuffs... within the scope of its responsibilities and in accordance with law.

7. Presiding over and collaboration with the various branches and localities in formulating and submitting to the government regimes, policies, guidelines and programs for rural development in the fields of economic, cultural and social, monitoring and reviewing those issues then report to the government.
8. Performing the functions of State management over the enterprises of the agriculture, forestry and water resources sectors under its management in accordance with the Law on State Enterprises and the Government's regulations on the decentralization or delegation of authority in management to the Ministry of agriculture and Rural Development.
9. Managing its organization structure and public/civil servants of the ministry in accordance with law and government decentralization.
10. Undertaking specialized inspection activities.
11. Organization and guidance for the implementation of the plant and animal quarantine and protection (including domestic, imported and exported products), the forest protection works, the protection of hydraulic works, dyke and rivers.
12. Organization and management of international cooperation in the areas under its management.
13. Carrying-out the task of the Central Steering Committee for Dikes management and Flood control and the tasks assigned by the Viet Nam National Mekong Committee.
14. Organization and guidance the distribution of labor and population, the development of new economic zones and settlement development.
15. Organization and management the special-uses and protection forests.
16. Management of the issuance and withdrawal of the licenses in the fields under its management accordance with laws.

***Article 3:***

The Minister of Agriculture and Rural Development shall define the functions and tasks of the Departments and the Office and submit his proposals on functions and tasks of the Professional State Management Departments to the Government for decision.

I- Belonging administrative and professional agencies:

Minister of Agriculture and Rural Development shall collaborate with the Minister-Chairman of the Government Committee on Organization and Personnel in reorganizing scientific research centres, training institutions, health units,... under the former Ministry of Agriculture, Ministry of Forestry and Ministry of Water resources and make proposal to the Prime Minister to decide on each issue.

***Article 4:***

This Decree takes effect from the date of its promulgation. All the previous provisions which are contrary to this decree are now annulled.

***Article 5:***

The Minister of Agriculture and Rural Development, the Ministers, the heads of agencies at ministerial equivalents and Government's agencies, Chairmen of the People's Committees of the provinces and cities under the Central Government shall have the responsibility to implement this Decree.

On behalf of the Government  
Prime Minister

**VO VAN KIET**

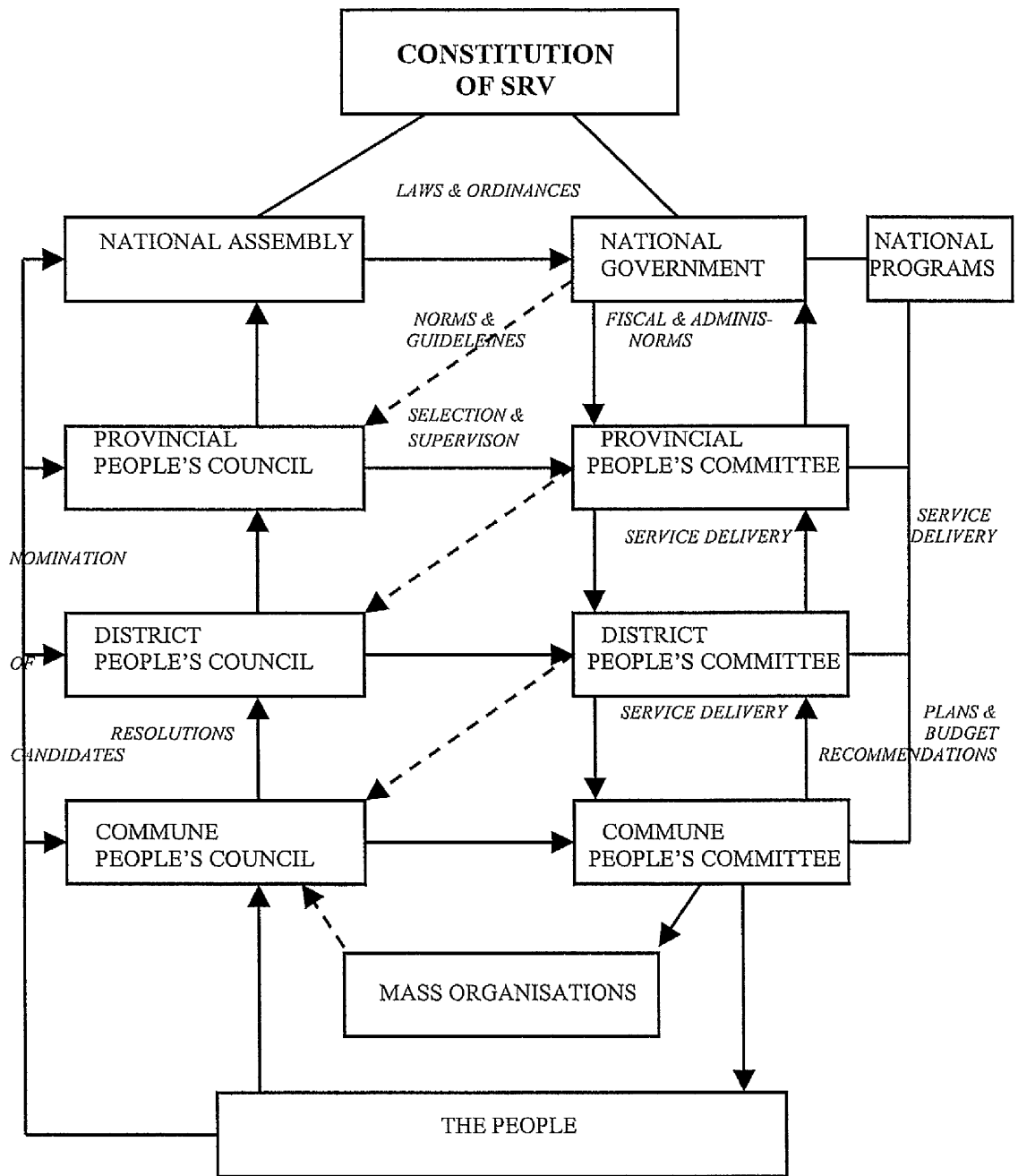
## APPENDIX 6.2

### LIST OF SOEs IN MARD

<p><b>General corporations:</b></p> <ol style="list-style-type: none"><li>1. Rubber General Corporation</li><li>2. Coffee General Corporation</li><li>3. Vietnam Cattle and Husbandry General Corporation</li><li>4. Vietnam Tea General Corporation</li><li>5. Agricultural and Irrigation Electric and Mechanic General Corporation</li><li>6. Silk General Corporation</li><li>7. Vietnam Forestry Products General Corporation</li><li>8. Northern Food General Corporation</li><li>9. Southern Food General Corporation</li><li>10. Sugar General Corporation No. 1</li></ol>	<ol style="list-style-type: none"><li>11. Sugar General Corporation No. 2</li><li>12. Vietnam Sal General Corporation</li><li>13. Vietnam Fruit and Vegetable General Corporation</li><li>14. Agricultural Supply General Corporation</li><li>15. Agriculture and Rural Development Construction General Corporation</li><li>16. Irrigation Construction General Corporation No. 1</li><li>17. Irrigation Construction General Corporation No. 4</li><li>18. Agricultural Product Export and Import General Corporation</li></ol>
<p><b>Companies:</b></p> <ol style="list-style-type: none"><li>1. Quang Ngai Sugar Company</li><li>2. Southern Plant Seed Company</li><li>3. Central Plant Seed Company</li><li>4. Central Forest Seed Company</li><li>5. GRAINCO Company</li><li>6. Agricultural and Food Industrial Advertising Company</li><li>7. Bac Hung Hai Irrigation Company</li><li>8. Southern Sterilisation Company</li><li>9. Deep Water Exploitation Company 1</li><li>10. Deep Water Exploitation Company 2</li><li>11. Dau Tieng Irrigation Company</li><li>12. OLEXCO Company</li></ol>	<ol style="list-style-type: none"><li>13. Central Honey Company</li><li>14. Shift Company 2</li><li>15. Construction and Commercial Marketing Company</li><li>16. Construction Consultancy Company</li><li>17. Construction Consultancy Company 1</li><li>18. Construction Consultancy Company 2</li><li>19. Plant Protection Supply Company 1</li><li>20. Plant Protection Supply Company 2</li><li>21. Veterinary Supply Company 1</li><li>22. Veterinary Supply Company 2</li><li>23. Construction and Design Company 1</li><li>24. Construction Company 40</li></ol>
<p><b>Other enterprises:</b></p> <ol style="list-style-type: none"><li>1. Agricultural and Rural Development Publishing House</li><li>2. Agricultural and Rural Development Publishing Factory</li><li>3. Central Veterinary Enterprise</li></ol>	

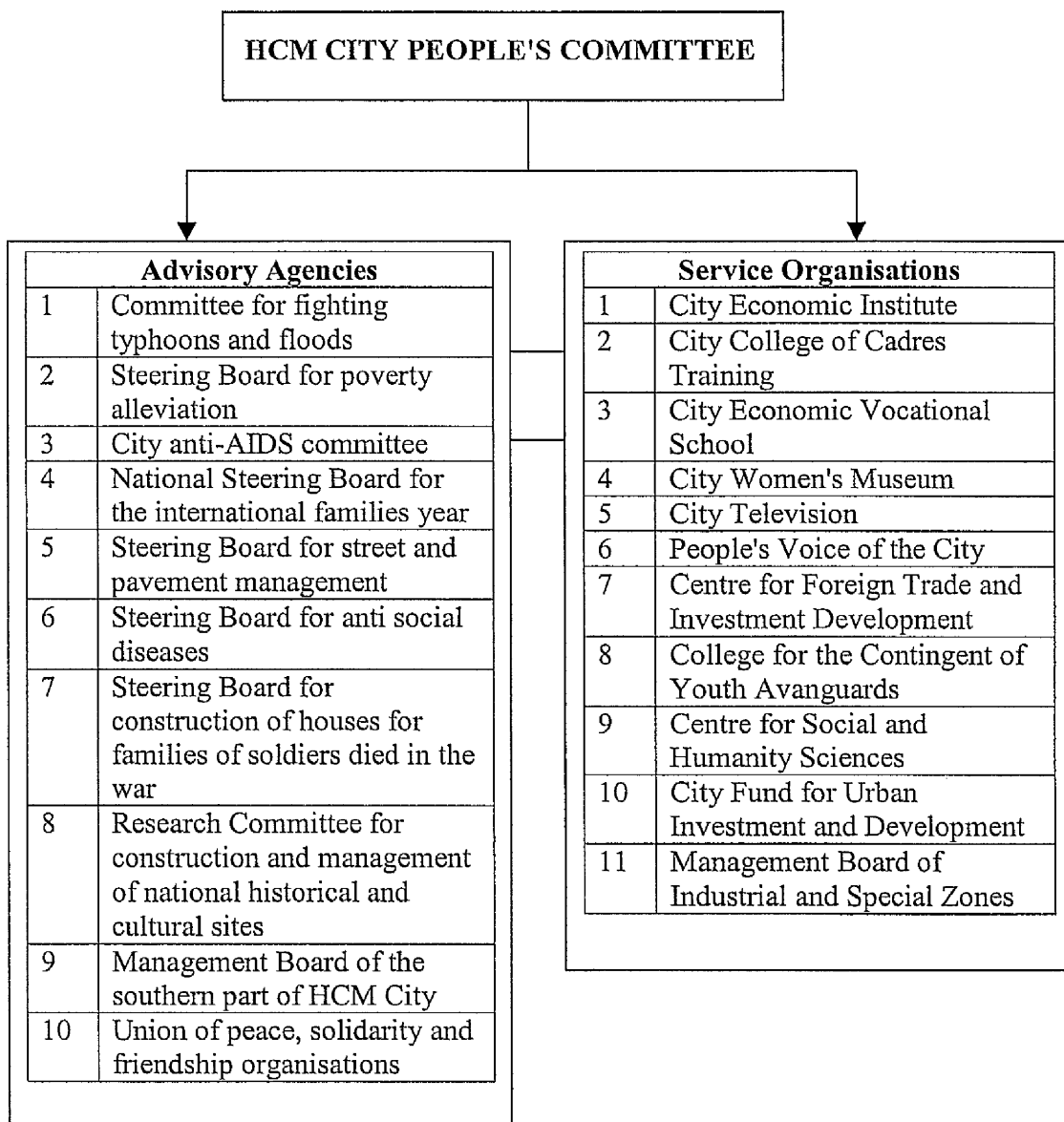
APPENDIX 7.1

**ADMINISTRATIVE ORGANISATION OF RURAL SERVICES DELIVERY  
IN VIETNAM**



Source: WB (1996, p: 45), quoted by Vasavakul, 1999.

**APPENDIX 7.2**  
**TEMPORARY AGENCIES AND SERVICE ORGANISATIONS**  
**UNDER HCM CITY PEOPLE'S COMMITTEE**



### APPENDIX 7.3

#### LIST OF DOCUMENTS GUIDING THE IMPLEMENTATION OF PAR IN HCM CITY (1989-96)

Organ	Date	Details
City PC	July 4, 1989	Decision on establishing the research group for administrative procedure reform.
City PC	July 5, 1989	Directive on the research of administrative procedure reform.
City PC	June 11, 1990	General regulations on administrative procedure reform.
City PC	Oct. 4, 1990	Establishment of the research board for administrative procedure reform.
City PC	Nov. 17, 1990	Directive to launch the four campaigns: anti-smuggling; anti-corruption; practicing thrift and saving; administrative procedure reform.
City PC	July 24, 1991	Regulations on functions, responsibilities and organisation of ward authorities and policies for cadres.
City PC	June 25, 1993	Issuance of the working statute for the PC of HCM City
City PC	Nov. 26, 1993	Approval of the project for personnel management system in the state sector.
City PC	Dec. 10, 1993	Temporary regulations on functions, responsibilities, authority and organisation of communal PC.
City PC	Sep. 13, 1994	Decision on administrative procedure reform (following the Resolution No. 38-CP of the government).
City PC	Dec. 20, 1994	Regulations on functions, authority and responsibility of city-level departments and equivalent organs.
City PC	Jan. 25, 1995	Rearrangement of functional divisions of district PC.
City PC	Feb. 9, 1995	Temporary regulations on HRM and payrolls for non-productive organs financed by the state budget in the city
City Party committee	Feb. 9, 1995	Action plan to implement the national programme for PAR.
City PC	Apr. 10, 1995	Establishment of City Steering Board for PAR.
City PC	June 29, 1995	PAR plan for 1995-1996 in HCM City
City PC	Oct. 2, 1995	Temporary regulations on the organisation and operation of city agencies.
City PC	Dec. 4, 1995	Assigning the PC of districts 1 and 5 and Cu Chi to experiment "One door, one seal".
City PC	Apr. 26, 1996	Approval of the temporary statute on organisation and operation of district 1 PC under the "One door, one seal".
City PC	Apr. 26, 1996	Approval of the temporary statute on organisation and operation of district 5 PC under the "One door, one seal".
City PC	May 15, 1996	Approval of the temporary statute on organisation and operation of Cu Chi PC under the "One door, one seal".
City Party committee	Oct. 18, 1996	Directive on the implementation of "One door, one seal" reform.
City PC	Nov. 11, 1996	Continuation of "One door, one seal" reform.

*Source:* adapted from HCM City (2000b).



## APPENDIX 7.4

### HCM CITY TRAINING PLAN FOR 2000

a. Training for civil servants at city and district levels leading to formal academic qualifications in administration. These can be full or part time courses.

Course	Duration	Numbers of participants	Venue
Master course in administration	3 years	30	NAPA2*.
Preparation course for enrolment exam to master course in administration	3 months	30	NAPA2.
Course for university degree in administration	2 years	80	NAPA2.
Middle-level courses in state administration (6 courses)	2 years	700	CAC**.

\* Branch of NAPA in HCM City.

\*\* City Personnel Training College.

b. Upgrading training course in administration.

Upgrading courses in state administration for middle and senior civil servants for director and deputy directors of departments, chairman and vice chairmen of district PC and People's Councils and principal experts (2 courses).	12 weeks per course	140	NAPA2.
Upgrading courses in state administration for civil servants of expert grades at city and districts.	4 months per course	5000	CAC
Upgrading courses in state administration by 27 subjects for civil servants at city and districts.	4 months per course	600	CAC
Upgrading course for civil servants working in organisation-personnel field.	1 month per course	100	GCOP (courses organised in HCM City)

c. Upgrading training course for members of People's Councils at district and communal levels.

Upgrading courses for members of People's Council at district and communal levels.	5 days per course	70,000	CAC
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d. Training courses leading to formal qualifications in specific subjects.

Middle level certificate on legal aspect - part-time training course	24 months per course	160	CAC
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for staff in charge of residential registration at communal level			
Middle level certificate on land administration and housing management	24 months per course	150	CAC
Middle level certificate in accounting and management - part-time course for directors, deputy directors, accountants of collectives (subsidised with 50% of training cost).	24 months per course	75	City College on economy
Middle level certificate in economics - part-time course for staff working in market monitoring units.	3 years per course	99	City College on international economics.

Source: HCM City (2001a, *op. cit.*)

**APPENDIX 7.5**

**RESULTS OF "ONE DOOR, ONE STAMP" IN CITY DISTRICTS, 1998**

No.	District	Applications received	Applications solved		Applications solved on or before the fixed time	
			Quantity	%	Quantity	%
1	District 1	69,312	69,312	100	68,899	99.41
2	District 2	2,744	2,493	90.85	2,493	100
3	District 3	69,954	69,895	99.90	69,895	100
4	District 4	4,181	4,179	99.80	4,179	100
5	District 5	14,531	14,531	100	14,313	98.50
6	District 6	56,786	56,786	100	56,786	100
7	District 7	16,257	15,866	97.60	15,866	100
8	District 8	29,343	28,413	97.00	28,413	100
9	District 9	9,710	9,442	97.24	9,442	100
10	District 10	17,760	17,334	98.00	17,334	100
11	District 11	8,276	8,041	97.16	8,041	100
12	District 12	8,276	8,041	97.16	8,041	100
13	Tan Binh Dist.	44,878	44,799	99.82	44,799	100
14	Binh Thanh Dist.	18,283	16,766	92.00	16,766	100
15	Phu Nhuan Dist	6,014	6,014	100	6,014	100
16	Go Vap Dist.	52,131	51,233	98.27	51,233	100
17	Thu Duc Dist.	25,131	25,220	97.25	25,220	100
18	Cu Chi Dist.	12,888	12,888	100	12,888	100
19	Hoc Mon Dist.	20,297	20,125	99.15	20,101	99.88
20	Binh Chanh Dist.	4,440	4,131	93.04	4,131	100
21	Nha Be District	2,244	2,206	98.30	2,206	100
22	Can Gio Dist.	6,227	6,117	98.23	5,162	96.03
	<b>TOTAL</b>	<b>500,965</b>	<b>493,788</b>	<b>98.57</b>	<b>492,297</b>	<b>99.70</b>

Source: HCM City (2000a, *op. cit.*, pp: 23-24).

## APPENDIX 7.6

### RESULTS OF CUSTOMER SURVEY

#### 1. Number of questionnaire delivered and returned:

- Number of questionnaires delivered: 3,000; 1,200 of which were delivered to public servants, and 1,800 to the people of districts 1 and 5, and Cu Chi rural district.
- Number of questionnaires returned: 2,551; 1,008 from public servants, and 1,543 from the people.

#### 2. Contents of each of the two questionnaires:

- Questionnaire A for the public servants consisted of 15 questions containing 43 data and one open question to enable the respondent to express their comments.
- Questionnaire B for the people consisted of 9 questions containing 48 data and one open to enable the respondent to express their comments.

#### 3. Results:

The following is the percentage of good comments on the "One door, one stamp" system.

#### QUESTIONNAIRE A FOR PUBLIC SERVANTS

Question No.	Contents	Percentage
2b	In comparison with the old mechanism, "One door, one stamp" has made improvements but not enough so far	62.6%
4a1	The relationship between the government levels and other state agencies in the process of solving administrative procedures: smooth at ward level	63.59%
5a	The length of time allowed to deal with the applications is realistic	70.24%
8a	Organisational structure of government agencies under "One door, one stamp" is rational and scientific	69%
10a	Present jobs assumed by the cadres and public servants match their capacity	89.6%
13a	"One door, one stamp" fundamentally changes working style and routine of cadres and public servants.	69.3%

#### QUESTIONNAIRE B FOR CITIZENS

Question No.	Contents	Percentage
1a	The current "One door, one stamp" is good	77%
2a1	Administrative procedures are publicised in an open and clear manner in wards	85.1%
2a2	Administrative procedures are publicised in an open and clear manner in districts	58.5%
3a1	Dealing with the applications of ward-level state agencies is accomplished in a timely fashion	66.8%

3a2	Dealing with the applications of district-level state agencies is accomplished in a timely fashion	64.2%
4a	Administrative fees are reasonable	81.3%
5b	Paying no extra fees apart from the administrative fees	83%
6d1	Solving administrative procedures for cultural and information matters is good	46.4%
6e1	Solving administrative procedures for trading and service matters is good	44.3%
7a1	When contacting the ward-level public administration, citizens are given sufficient information and guidance	85.5%
7a2	When contacting the district-level public administration, citizens are given sufficient information and guidance	49%
8a1	The attitude and behaviour of cadres/staff of the public relations units at ward-level are elegant, polite and helpful	84%
8a2	The attitude and behaviour of cadres/staff of the public relations units at district-level are elegant, polite and helpful	56.8%
9b	“One door, one stamp” mechanism should be maintained, but needs some improvement	73.4%

The results from the questionnaires indicate that despite improvements of the on-going administrative procedures, lots of issues need to be improved so that burden imposed on citizens can be reduced. Some issues revealed by the questionnaire results suggest that more attention should be paid to personnel policy and improvement of frontline staff.

(Source: HCM City, 2000a, *op. cit.*)

# INTERNET-BASED REFORM STARTS

People in HCM City will just stay at home and switch on the computer to apply for a construction license, a business registration certificate, or a driver license

By Minh Chau  
The Saigon Times Weekly

**The first attempt.** Since the HCM City Service of Planning and Investment introduced a new business approval scheme six months ago, 68 enterprises have received business registration certificates within an hour via the Internet.

The approval period has been cut short considerably, making life easier for investors. This initial success has promoted a number of other services and agencies in the city to urgently complete their websites designed to provide individuals and enterprises with online information.

Nguyen Cong Trung, an official with the Information Technology Division of the city Service of Trade, says that in addition to information at its forthcoming website, the service has mapped out a plan for the post-license supervision of foreign rep offices via the Internet. Under the current rules, foreign rep offices will have to work directly with the Service of Trade if they want to change staff, location or chief representatives. Meanwhile, when the new plan is in place, rep offices will just visit the service's website to inform and they will just go to the service once for a revised license. Trung, however, says this plan cannot be implemented immediately as the procedure for the establishment of foreign rep offices involves many legal matters. The service is expected to test-run the plan in the third quarter of next year.

Le Quang Trung, deputy director of the Service of Construction, says that his service is preparing to sign a design for its website and the installation of a Local Area Network. By the end of this year, the service will test-run the website, which will enable people, though at home, to follow the entire approval process by just a click of the mouse. Applications will be processed online stage-by-stage. If any problems with

## Model of e-Government and CPNET

To put into operation the Party's and Government's electronic information networks by 2005 in line with the Politburo's Directive 58, the Government Office has prepared for the upgrade of the CPNET network, which uses Cisco Systems solutions and technology. CPNET was built in 1997 and launched in early 1998 to facilitate information exchanges and work between the prime minister and local authorities nationwide. CPNET is linked with the computer networks of the country's 61 cities and provinces, and those of some 40 ministries and ministerial-level agencies.

CPNET will be used as a basis for applying a model of e-government and developing multimedia services, such as telephone, Voice-over-the-Internet Protocol (VoIP) and teleconferencing.



Cityweb - the home page of the HCM City - which can be used to put all the web-page of HCM state agencies into the Internet

the applications arise, investors will be informed at the website. However, under the current circumstances, the service cannot issue construction licenses online.

The Service of Communications and Public Works is taking a similar move. By the year-end, it will launch an Internet-based management scheme. All files and documents will be uploaded to the service's server and be automatically distributed to its relevant divisions via the Internet. From next year, the service will process applications for road-digging, tree-cutting or driver licenses via the Internet.

**The regulatory hurdles.** Under HCM City's Decision 3840, the services of Tourism, and Culture and Information, the Tax Bureau and the Customs Department will have to launch their websites by September 15. However, the lack of funds and staff has hindered the process. Existing regulatory inconsistencies

may make it difficult for the agencies to handle work online. The current situation allows the issuance of the types of license that are not required to undergo a complicated approval process. Meanwhile, the demand for other types of license is increasingly huge. The scheme is also dogged by other problems, such as the lack of information among many investors to register business online and the heavy traffic of the city's network. A large number of investors still have a common psychological tendency that it is safer to go to the authorities in person to seek approval, instead of using the Internet for business registration.

The Service of Planning and Investment will launch work on another scheme under which enterprises can apply for changes to their business scopes through the Internet

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