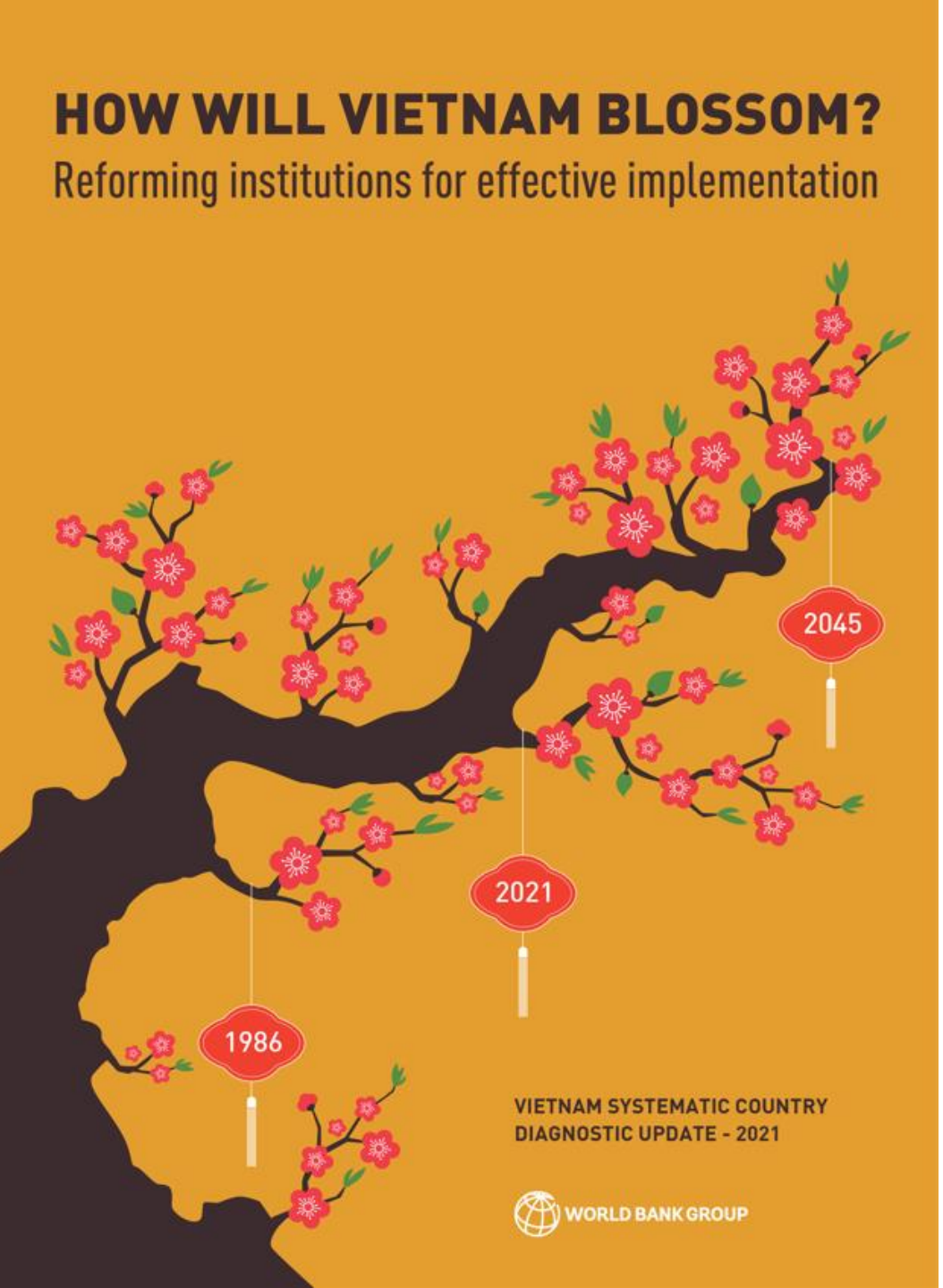


THE WORLD BANK

22 DECEMBER 2021

Embarking on an Institutional (R)Evolution

Vietnam aspires to reach upper middle-income status by 2035—prosperous, creative, equitable, and democratic—and high income by 2045

Realizing those aspirations demands a dramatic shift in economic model and a sharp improvement in coordinating and implementing economic policies and plans

Sharply improving implementation requires building a platform of institutional reforms

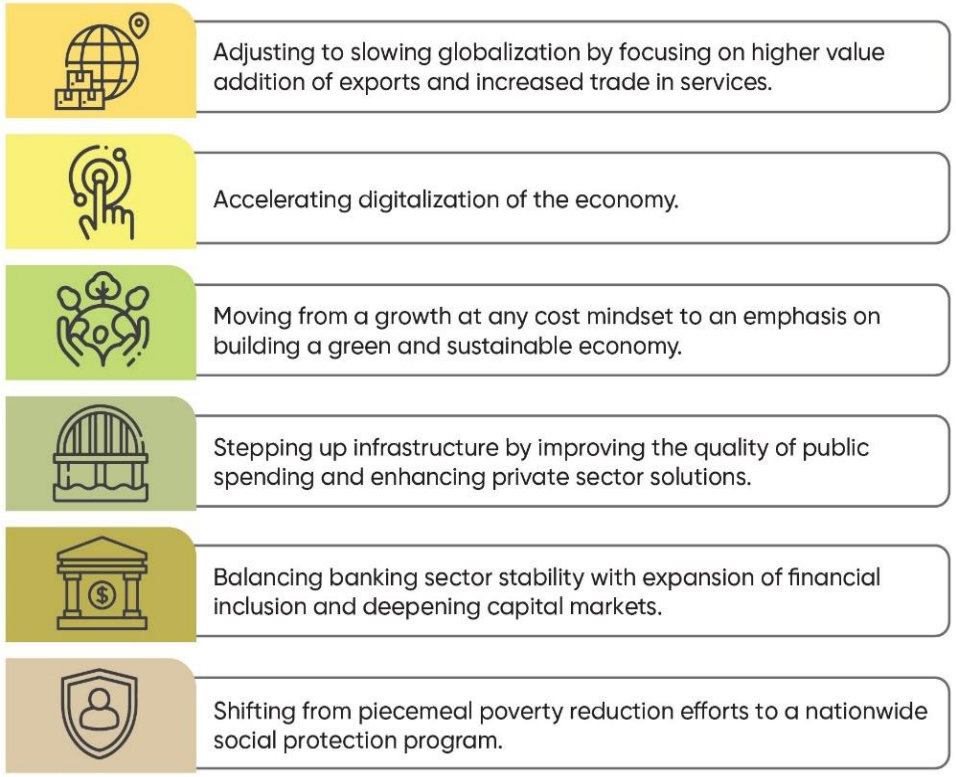
Building that platform will underpin the country's vision for economic development, its capacity, and its motivation to produce results.

Can Vietnam close the implementation gaps on so many economic fronts and become a high-income economy?

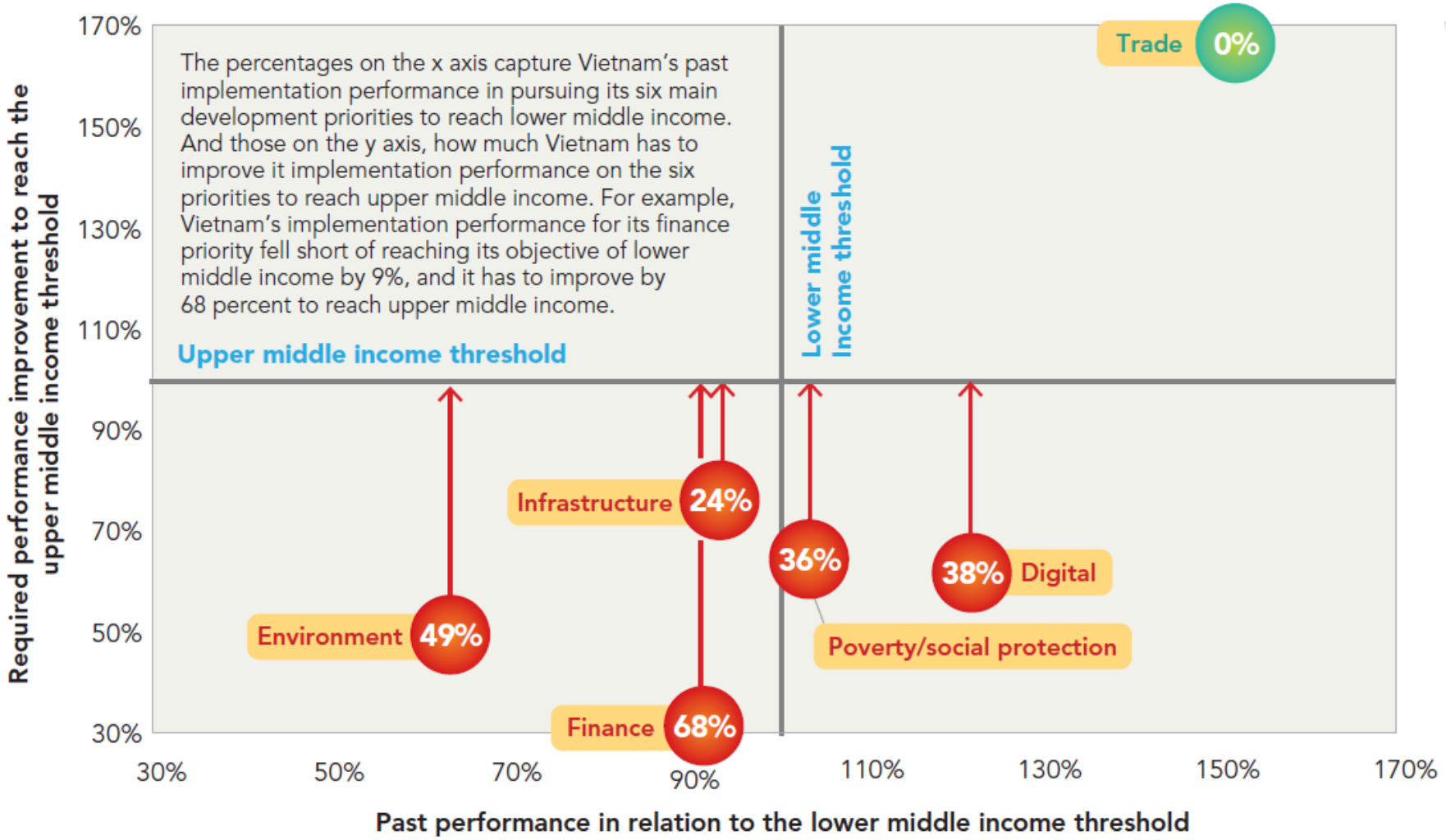
Shifting the economic and implementation model

- In these challenging times, Vietnam needs to navigate a series of shifts:
  - from focusing on the quantity of growth to focusing on its quality,
  - from dealing with urgent issues to dealing with structural problems,
  - from engaging in incremental experimentation and rollout to launching an institutional revolution (a second Doi Moi).
- These shifts will require greater attention to a series of six priorities, which have become even more important during and in the aftermath of the COVID-19 pandemic.
- But Vietnam will need not only to determine what to do but also how to do it more efficiently or to become an efficient implementer.

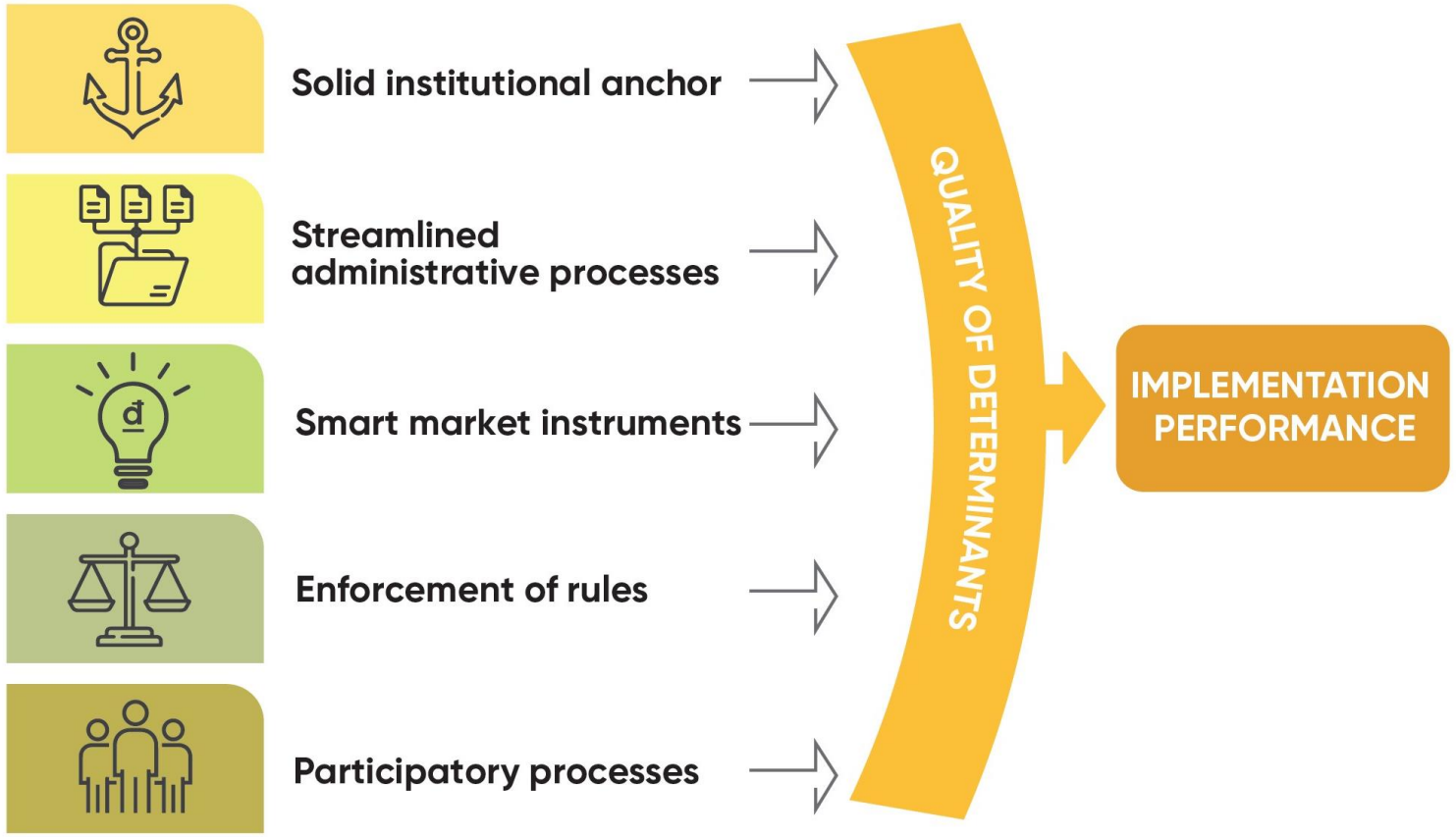
SIX PRIORITIES FOR THE POST COVID-19 RECOVERY



Raising the implementation performance



Building a platform of institutional reforms



Create a solid institutional anchor to transform reform visions into actions

- A solid institutional anchor is required to secure strong leadership and coordination—two components of the vision.
- But the government organizational structure has changed little since adoption of the new Constitution in 1992.
- The government has improved its implementation performance when it has adapted its institutions to changing conditions and priorities.
- Three main recommendations:
  - *Anchoring implementation of each priority on strong, high-level institutional arrangements*—often with direct reporting to the prime minister and vested decision-making authority.
  - *Consolidating key and related functions and responsibilities in one institutional anchor.* This has been effective in Vietnam, as evidenced by the experience of the Ministry of Industry and Trade or Committee for Ethnic Affairs
  - *Adapting the decentralization framework to current conditions.* Most fiscal decentralization rules have not been altered since 1996.
- **Examples: Vietnam (Trade); Netherlands (Environment and Economy).**

Streamline administrative processes to improve government effectiveness

- Streamlined administrative processes are crucial for enabling the proper functioning of public administration and influencing the determinants of capacity and motivation.
- The heavy administrative burden imposed on almost all ministries and agencies is a legacy of French colonialism and the centrally planned economic system.
- Recommendations:
  - *Continue efforts at rationalization, benchmarking, and digitalization need to be intensified, but they might not be sufficient.*
  - *Another option to further incentivize administrative reforms has been to provide civil servants or administrative units with appropriate financial awards or key performance indicators.*
- **Examples: Korea (1990s) - Regulatory Reform Committee (RRC) ; Serbia : Financial incentives**

Use market-based instruments to motivate public and private stakeholders

- Three first-order principles for a well-functioning market economy are making the same information available to all participants, ensuring fair competition in market entry and exit, and using pricing mechanisms to achieve supply and demand equilibrium.
- Reforms often require policy trade-offs, thus creating winners and losers.
- When Vietnam has applied the three basic principles of a market economy, its vision, capacity, and motivation to implement the country's development priorities have improved considerably.
- Economically successful countries have been able to reduce potential resistance from losers while optimizing gains for winners by deploying appropriate market principles and instruments. These approaches have included :
  - *combining pricing instruments, taking advantage of events that modify the existing equilibrium to create coalitions of winners, and*
  - *designing information campaigns to explain complementarities that justify, for example, increasing prices/tariffs to improve the quality and sustainability of public services or deploying climate financing instruments to reduce greenhouse gas emission.*
- **Examples: Vietnam (solar energy) ; Germany (from coal to education)**

Enforce rules and regulations to enhance motivation, trust, and fairness

- While incentives are a powerful instrument for modifying behavior, enforcing regulations is a key tool for strengthening motivation and thus implementation performance
- The government has been especially good at motivating citizens to follow rules during an emergency, especially one that is defined as a common enemy or threat to the national welfare.
- However, enforcement has not been systematic in non-crisis times, as weak enforcement can be rooted in inadequate or incomplete rules and regulations (for example, for the digital sector), and in the lack of monitoring and reporting, and of sanctions when the rules are not properly followed.
- Recommendations:
  - *Proper enforcement should therefore rely on an uncorrupted monitoring and inspection system, accompanied by strong and independent regulators, and an effective justice system to enforce property rights and consumer protection against potential abuses*.

Examples: OECD – 10 principles of good enforcement; United States – using new technologies to upgrade inspections

Engage in participatory processes to secure greater accountability and transparency

- Information is the nervous system of a country's political, economic, and social system.
- The government has applied participatory mechanisms unevenly or selectively across priorities, most notably in the use of data to monitor and share progress with stakeholders.
- Recommendations:
  - *Monitor implementation gaps (dashboard) and inform stakeholders*
  - *Ensure quality of the data collected*
  - *Accelerate the Open Data Initiative, which is to make data freely available online, in machine-readable format, and covered by a legal license that allows anyone to use and reuse it for any purpose, including commercial purposes*
  - *Take advantage of the e-government initiative that provides further opportunities to collect, standardize, and share more information and data.*

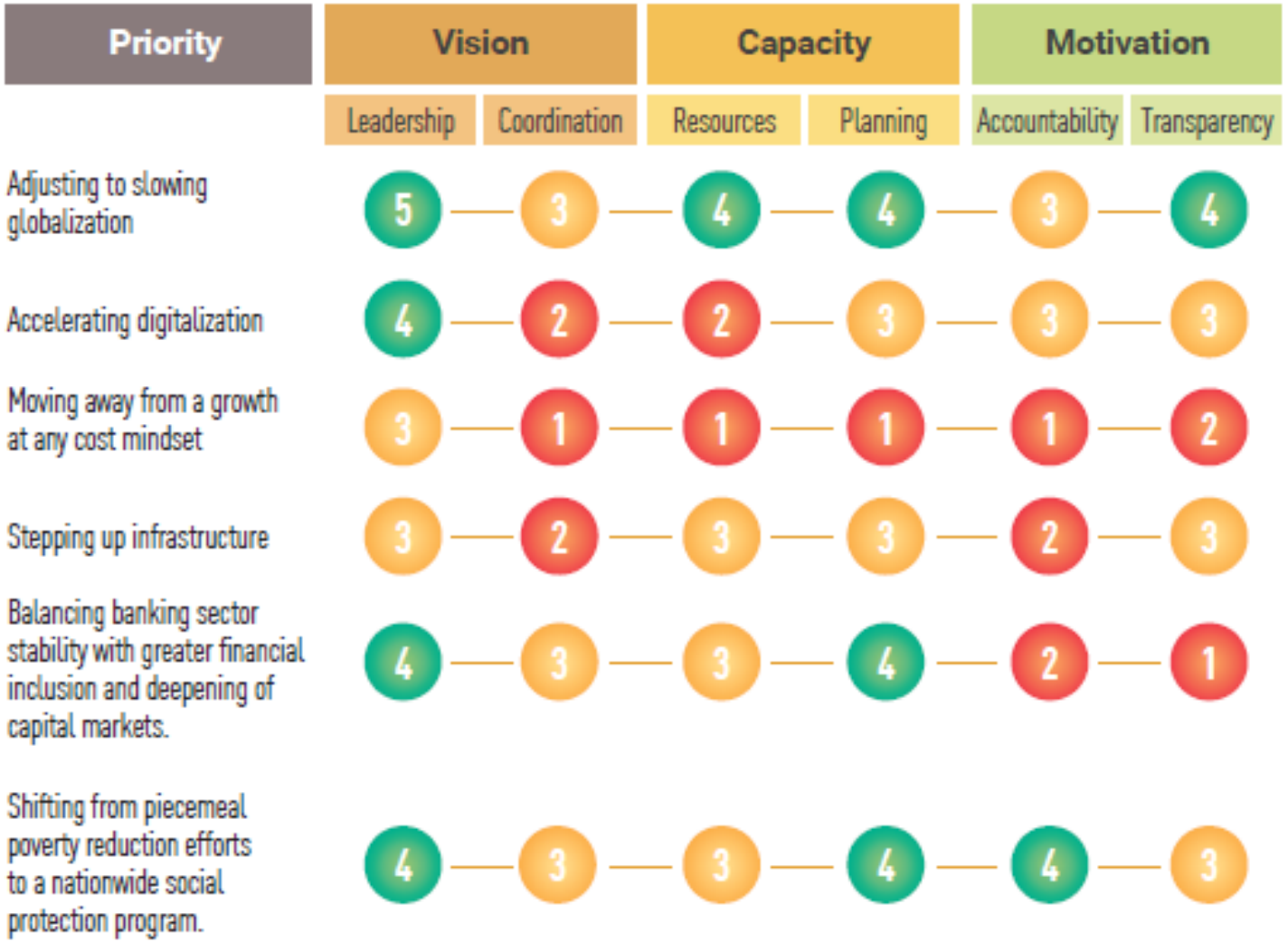
Examples: Vietman (COVID-19 data collection and sharing).

The platform for efficient implementation has been used for trade reforms

Institutional anchor	*Streamlined administrative processes and procedures*	*Market-based approach*	*Effective enforcement*	*Participatory processes*
• Creation of National Steering Committee for International Economic Integration • Strengthening of the Ministry of Industry and Trade (MOIT) • Empowering the MOIT with decision-making authority in leading the country's international economic integration agenda.	• Special regimes for strategic investors, including those established in export and industrial parks; • Delegation of approval processes to the provinces (notably for foreign investment); • Single window for customs procedures	• Increased competition by reducing barriers to entry and lowering external tariffs to change relative prices between tradable and non-tradable goods. • Multilateral and regional trade partnerships, with transparent information sharing, have been a powerful channel for introducing these market mechanisms.	• Close monitoring of the compliance by exporters and FDI companies with environmental, labor, and social regulations even if there are still huge variations in performance and sanctions.	• Use of open data and consultations with key stakeholders, including business associations and citizens. • The Vietnam Trade Information Portal and Vietnam Free Trade Agreement Portal were respectively established in 2017 and 2020 to greatly enhance information sharing.

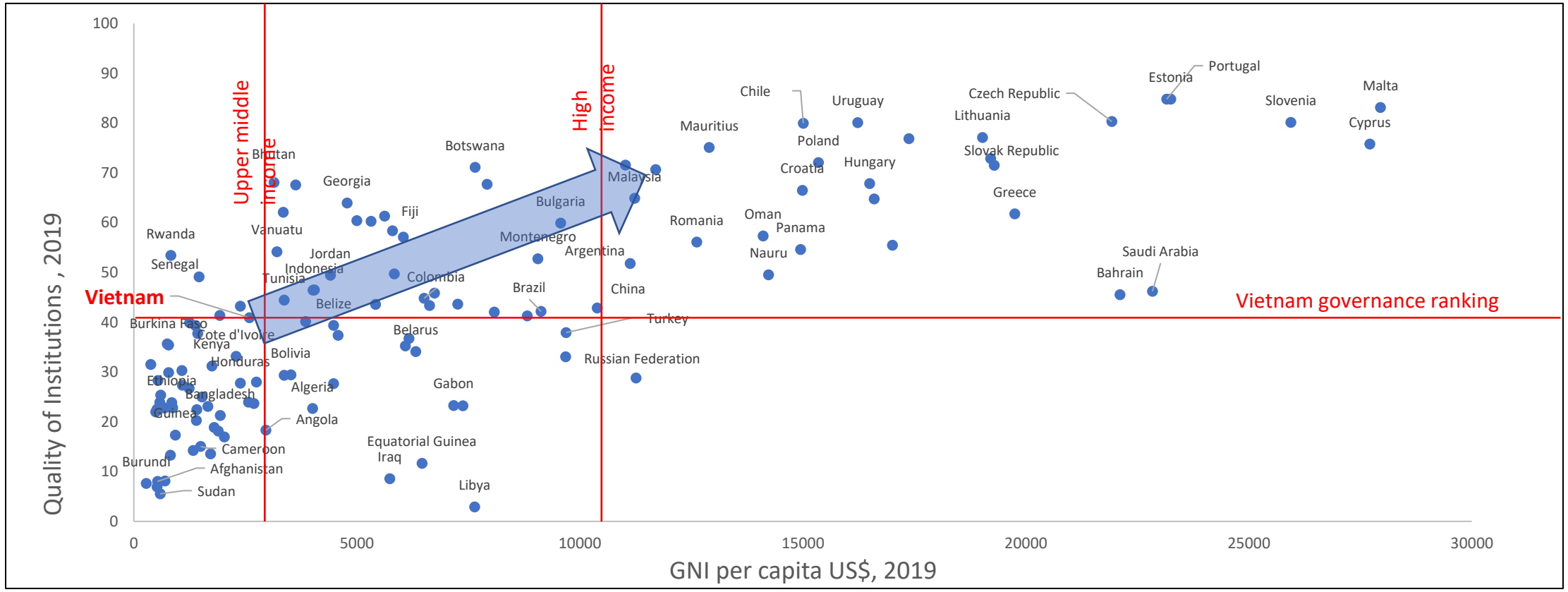
Driving the institutional revolution

Heatmap of the quality of the determinants of implementation performance

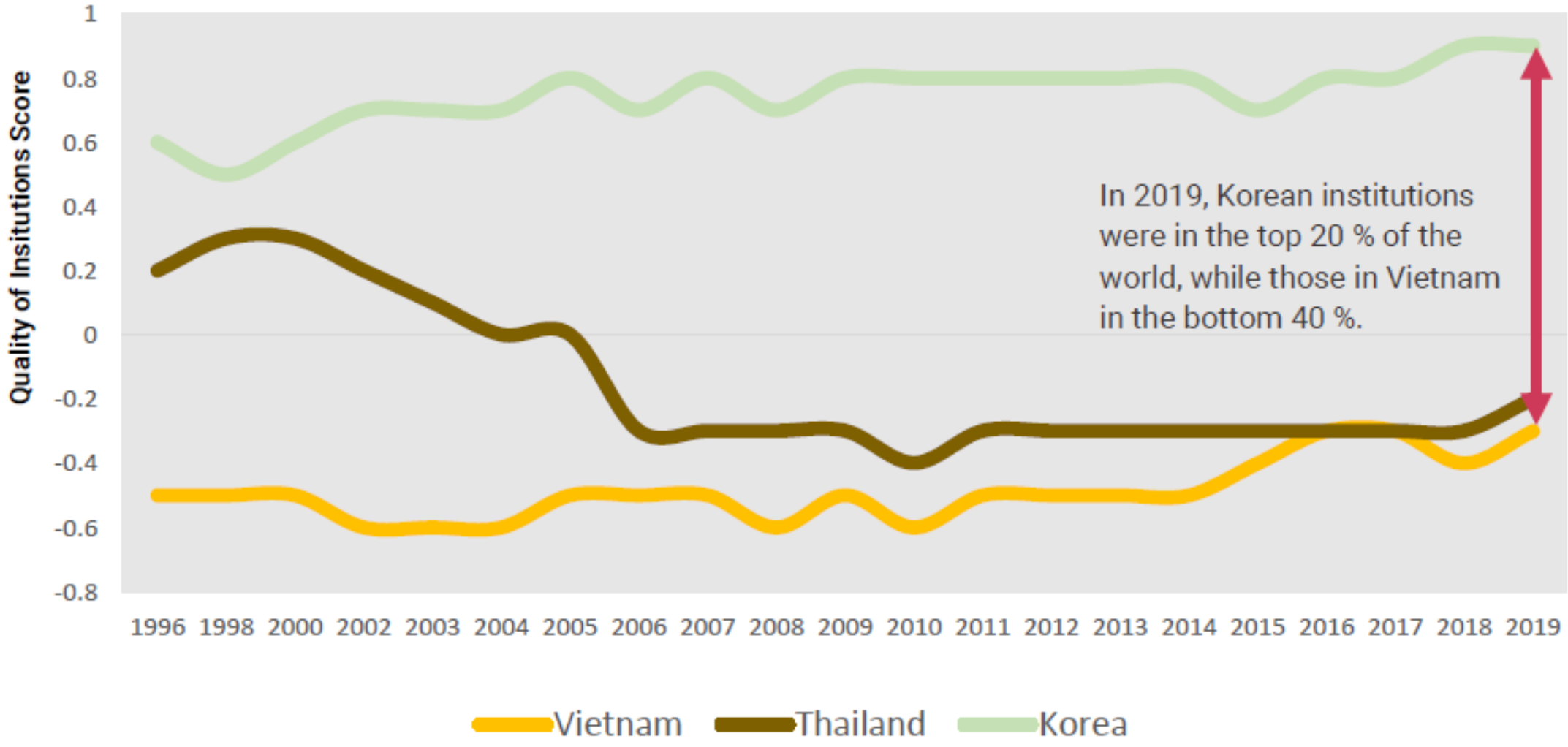


Note: Red is weak quality ([1–2 rating], orange is mixed quality [3 rating], and green is strong quality [4–5].

Reaching upper middle and high income



The institutional gap with Korea



Exceptional times, expectational reforms

Implementing the platform of five institutional reforms will require a change of mindset, determination, and commitment.

Vietnam's top policy makers evidenced such a bold change during the Doi Moi in the late 1980s, when the country faced one of its most severe economic crises.

Exceptional time calls for expectational responses. Vietnam now needs a second Doi Moi to rebound from the COVID-19-pandemic and achieve its goal of becoming a high-income country by 2045.

THANK YOU