VIETNAM

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: VIETNAMESE DONG (VND)

POPULATION AND GEOGRAPHY

Area: 330 967 km^2
Population: 95.540 million inhabitants (2017), an increase of 1.1 % per year (2010-2015)
Density: 289 inhabitants / km^2
Urban population: 35.2 % of national population (2017)
Urban population growth: 3% (2017)
Capital city: Hanoï (4.5% of national population)

ECONOMIC DATA

GDP: 647 billion (current PPP international dollars), i.e. 6775 dollars per inhabitant (2017)
Real GDP growth: 6.8% (2017 vs 2016)
Unemployment rate: 2.1% (2017)
Foreign direct investment, net inflows (FDI): 14 100 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23% of GDP (2017)
HDI: 0.694 (medium) rank 116 (2017)
Poverty rate: 2% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Vietnam is a unitary and unicameral socialist republic. As per the 2013 Constitution (Article 4), the Communist Party of Vietnam, the only political party, is the "leading force" of the State and society, while the National Assembly (Chapter V) is formally the highest organ of state power. This legislative body is composed of 498 members directly elected for a five-year term and has the mandate to elect the State President and Vice-President, the Prime Minister, the Chief Justice of the Supreme People's Court, the Head of the Supreme People's Procuracy, the President of the National Electoral Council, and the Head of the State Audit. Besides this establishment, the Vietnamese Fatherland Front is the centrally-organized, constitutionally-acknowledged political base of the "people's administration"; and is charged with "representing and protecting the lawful and legitimate rights and interests of the People", in the terminology adopted by the Constitution. The country has a three-tiered subnational government system, composed of provinces, districts and communes. It has existed since 1945, and its nature was further defined in the 1959 Constitution. The current multi-level governance framework builds on the provisions of the 1992 Constitution, the 1994 Laws on People's Councils and People's Committees and the 1996 State Budget Law (SBL), which formalized fiscal arrangements between tiers of government. These provisions were further formalized in the 2002 SBL and later updated in 2015 SBL as well as in the renewed 2003 Laws on People's Councils and People's Committees. The new legal framework established Peoples' Councils and Committees, with devolved administrative powers, at all administrative levels. It more specifically gave additional fiscal responsibility to the provincial Council and Committee over commune and districts (i.e., a form of recentralization).

Chapter IX of the 2013 Constitution acknowledges a dual system of legislative bodies, the People's Councils, and executive bodies, the People's Committees of Local Governments, and formally distinguishes territorial divisions ("Administrative units" in Article 110) from local government ("Local Administration levels" in Article 111). This distinction implies that local governments exist at each level of administrative units but do not necessary adopt the same structure. According to the constitutional provisions, the Vietnamese Fatherland Front has committees at all levels of administrative division: the Chairmen of the committees participate in the corresponding People's Council and Committees. Local governments report to the National Assembly, the Vietnamese Fatherland Front Committee and the line ministries, in particular the Ministry of home affairs in charge of state administration, local government organization and administrative reforms.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	8 978 communes *(xã)*, 1 581 wards *(phường)* and 603 commune-level towns *(thị trấn)*	546 rural districts (Huyện), 49 urban districts (quận), 51 district-level towns *(Thị xã)* and 67 provincial cities *(thành phố trực thuộc tỉnh)*	58 provinces (tỉnh) and 5 centrally-run cities *(thành phố trực thuộc trung ương)*	
	Average municipal size: 8 511 inhabitants			
	11 162	713	63	11 938

OVERALL DESCRIPTION. Article 110 of the Constitution states that the country is organized with a three-tier local government system: provinces, districts and communes. The 2015 Law on the Organization of Local Administration distinguishes (Article 4) between rural and urban local governments, described in Chapters II and III respectively. Rural local governments include 8 978 communes, 546 rural districts and 58 provinces. Urban local governments include 1 581 wards and 603 commune-level towns (townships), 49 urban districts, 51 district-level towns and 67 provincial cities, as well as five cities (Can Tho, Da Nang, Ha Noi, Hai Phong, Ho Chi Minh City) whose administration is still controlled by the national government.

COMMUNES AND DISTRICTS. The new Constitution does not promote a common definition of local self-government structures. According to the 2015 Law on the Organization of Local Administration, People's Councils are the elected local legislative body, which elects the People's Committee (executive body) at the same level. The composition of People's Councils varies depending on the nature of the jurisdiction, consistently with topographic, demographic and economic features. There is no mention of inter-municipal cooperation. Yet, both wards and townships have the duty to cooperate with competent agencies or organizations in the implementation of urban infrastructural development plans and service provision within the boundaries of their jurisdiction.

PROVINCES. The structure of provinces follows the same dual system and varies according to similar provisions as the Communes and districts. The National Assembly holds the power to establish, merge, divide or adjust the boundaries of provinces and centrally-run cities. Rural provinces are requested by law to cooperate with central and local state agencies, providing an economic connection among regions and ensuring the consistency of national policy altogether. A planning department in provincial Committees is in charge of vertical coordination with lower tiers of government. A regionalizing reform proposal, adding a fourth tier with three regional governments, was rejected in 2013.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution, the Laws on Organization of Local Administration and the State Budget Laws compose the main legal corpus establishing the duties of local governments. The legal framework of local government was initially established by the1996 Ordinance on the Specific Tasks and Powers of the People's Councils and People's Committees, as well as the 1996 State Budget Law. Both were revised in 2015 and effective since 2017. Both establish a clearer set of rules for the asymmetric allocation of resources and devolution of power. Provinces also have the autonomy to both allocate functions and determine the fiscal relationship with districts and communes within their jurisdictions. While the Constitution regulates the principles of division of competences (Article 11), assignment of powers to the local administration (Article 12), decentralization of powers to the local administration (Article 13), and authorization of state administrative agencies in localities (Article 14); many functions still overlap and devolved powers at commune and district level are not matched by adequate funding.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL	DISTRICT AND COMMUNES LEVEL
1. General public services	Public buildings and facilities	Civil registry; Public buildings and facilities
2. Public order and safety	Regional police; Regional firefighting services	Municipal police; Urban traffic signs; Municipal firefighting service
3. Economic affairs /transports	Regional roads, railways, airports and ports, inter-city and regional railway transport, pupils' transports; Employment services; Support to local enterprises and entrepreneurship; Agriculture and rural development; Regional tourism	Local road; Local ports; Urban transports; Pupils transport; Local tourism
4. Environmental protection	Nature preservation; Soil and groundwater protection; Climate protection; Sewerage.	Parks and green areas; Waste management; Street cleaning
5. Housing and community amenities	Construction and renovation	Construction and renovation; Distribution of drinking water; Public lighting; Urban and land use planning; Urbanism
6. Health	Regional hospitals	Primary healthcare (medical centres); Preventive healthcare
7. Recreation, culture & religion	Regional museums; Cultural heritage	Sports Libraries; Local museums
8. Education	Secondary education	Pre-primary and primary education
9. Social protection	Elderly and disabled people (benefits and services)	Social care for children, youth and elderly

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: : provincial, district and communal levels.	Other	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

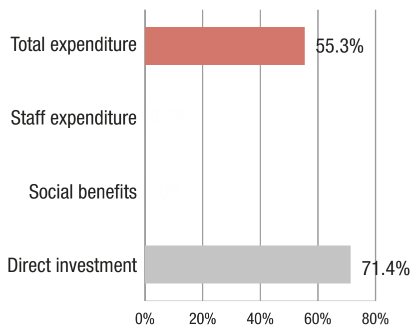
GENERAL INTRODUCTION. In Vietnam, decentralization was marked by evolving distribution of fiscal responsibilities and autonomy to local governments, and in particular to Provincial Councils. The 2002 State Budget Law (SBL) had set, for more than ten years, relevant spending assignments of local governments, as well as a framework of limited autonomy over sources of revenue. The National Assembly remains the highest authority over the state budget's composition and allocation to line ministries and local governments (Article 15). Despite improvements in giving public access to general government financial accounts per categories, there is no clear information on the fiscal relationship between provinces, districts and communes. The SBL was revised in 2015 and entered into force in this new form in 2017. Vietnam is an ODA top receiver worldwide. Local government's ability to access this source of revenue is also regulated by the latest SBL update. This is part of a reform process concurrent with Vietnam's graduation to lower-middle income country with decreasing access to concessional borrowing that the country will reform its debt management.

There are also important asymmetries among local governments and, in particular, among provinces. Provinces and centrally-run cities are allowed special financial mechanisms. These mechanisms and the legal framework supporting them build on the pilot experience of the Ho Chi Minh Investment Fund for Urban Development. In 2007, this model was standardized by Decree 138 of 2007 and expanded to all Provinces. In 2018, 36 of the 63 provinces had some form of specialized financial institution, whose purpose is to invest in urban and economic infrastructure projects.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**982**	**15.6%**	**100%**
Inc. current expenditure	714	11.3%	72.7%
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure	268	4.3%	27.3%
Capital transfers			
Direct investment (or GFCF)	268	4.3%	27.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



VIETNAM

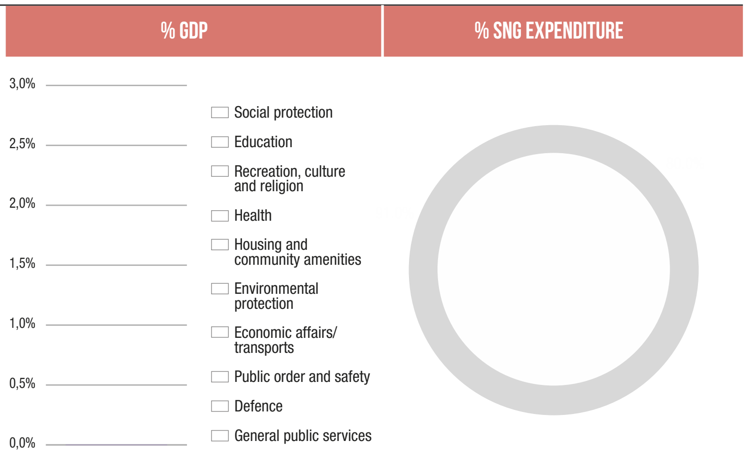
UNITARY COUNTRY

EXPENDITURE. According to estimates based on data from the Ministry of Finance, local government expenditure accounted for 15.6% of GDP and 54.2% of total public spending in 2016 (approximately 982 dollars PPP per capita). This is relatively high compared to the global average (at 23.9% in 2013) and even more when considering the trends in Vietnam's neighboring unitary countries. The 2002 SBL also specifies that upper-level budgets can provide targeted additional allocations to support lower-level budgets. This gives leeway to Provincial Councils to transfer money to other subnational tiers of government. Overall, most of the expenditure assignments of local governments are shared which results in overlaps and loss of accounting.

DIRECT INVESTMENT. The share of local government in total public investment is particularly high in Vietnam, accounting for 71.4% in 2016. Subnational investment amounted to 4.3% of GDP, which is also high by international standards. This datum is among the highest in the South-East Asia region. Over the past decade, Vietnam has experienced an important increase of public investment, particularly at subnational level. In Vietnam, public investment includes ODA funding, which has been an important financing source. Within the framework of the 2002 SBL, Provincial Councils have gained even more autonomy in allocating capital funds. In addition, Article 35 of the 2002 SBL grants communes, townships and cities the power to mobilize, within their jurisdiction, revenue for infrastructure investment from organizations or individuals. It also sets spending tasks in infrastructure investment for public schools, lighting, water supply and sewage, urban traffic, and other public welfare construction works. In 2015, direct investment represented about 40% of Provincial Councils' budgets in the country. In addition, the 2014 Law on Public Investment clarifies the duties of the Chairman of the Provincial People's Committee in coordination, approval of and reporting on the investments undertaken by local governments. This aims to improve transparency in terms of capital spending and budgeting, as well as for the overall public management of local governments' initiatives. This piece of regulation, however, is currently under revision.

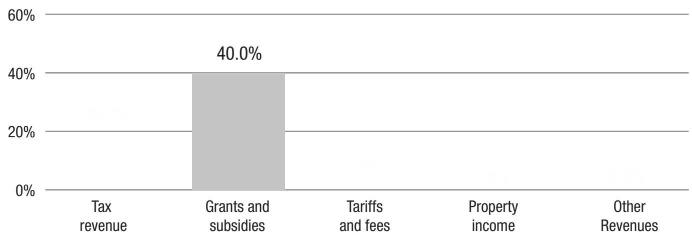
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

According to a 2018 AFD study, the local government's share of public spending is particularly high in education (more than 80% of total public spending in the same category), healthcare (80%), economic services and public administration (no data). This figure is generally higher than in other developing countries, but autonomy in terms of resource allocation is concentrated at the level of provinces and still under important guidance of central government.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**706**	**11.2%**	**45.8%**
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			



OVERALL DESCRIPTION. In 2016, local government revenue was estimated at 45.8% of total public revenue i.e. 11.2% of GDP. The cities of Hanoi's and Ho Chi Minh City's account for about 43% of all local governments' revenue. While institutional reforms have sought more fiscal autonomy for local governments, these are still highly dependent on transfers from central government. These include tax sharing systems calculated on the basis of provincial financing needs. The sharing rates are approved by the National Assembly for a three- to five-year period. Shared taxes include: VAT, Personal Income Tax, excise tax on domestic goods, CIT and an environment protection tax.

In terms of own revenue sources, a list is provided in Article 32 of the 2002 SBL. The main sources of own-revenue are land-use levies and lotteries which are fully assigned to the local level. Lastly, article 34 of the 2002 SBL requires the provincial People's Councils to allocate sources of revenue to each subnational level of budget.

TAX REVENUE. Local government tax revenue is collected via a tax-sharing system and taxes fully assigned to local governments.

The proportion of **Shared taxes** retained by each province is determined for a period of 5 years (the Stability period) on the basis of the provincial financing needs, meaning that poorer provinces will retain a higher proportion. For the 2017-2020 period, 47 provinces will retain full amount of the shared taxes. Thereby, the 16 other provinces are allowed to keep a portion of the shared revenue. In the last three Stability periods (2007-20010, 2011-2016 and 2017-2020), the share of major cities such as Hai Phong and Da Nang has decreased from 90% to, respectively, 78% and 68% of the shared taxes collected in the province. In comparison, the sharing rate of both Ha Noi and Ho Chi Minh City decreased from the 2011-2016 to the 2017-2020 Stability Period. This varied, respectively, from 42 to 35% and from 23 to 18%.

Own taxes revenue is mainly composed of the tax on non-agricultural land use (i.e. Land and housing taxes) which represents 0.04% of the GDP. In addition, other taxes account for an even smaller share of the GDP, these include: (1) Tax on use of agricultural land; (2) Natural resources tax, excluding taxes on petroleum activities; (3) License tax; (4) Tax on transfer of land use rights.

GRANTS AND SUBSIDIES. Fiscal transfers from the central government remain the key and major source of revenue for the subnational level. In 2015, this accounted for about 40% of total local revenue. Communes and townships are entitled, by law, to at least 70% of revenues from tax on transfers of land-use rights, land and housing taxes, license tax on individuals and individual households, tax on use of agricultural land collected from households, and registration fees for land and housing. Townships and urban districts are entitled to at least 50% of revenues from registration fees, excluding registration fees for land and housing. Lastly, Provincial Councils decide the percentage of revenue to be shared between tiers of local governments' budgets. There are two types of intergovernmental transfers: balancing transfers, and targeted transfers to implement specific national priorities.

Balancing transfers are unconditional, formula-based, budget transfers from the central government. The rate is approved by the National Assembly, according to the same schedule and method as the shared tax rate: 5-years, without taking into account inflation. In the 2011-2016 period, 50 provinces received balancing transfers from the central government. The redistribution system has an equalizing mechanism that reduces fiscal imbalance between provinces and across districts. In 2015, it represented half of central governments transfers to local governments.

Targeted transfers are used for projects financed by external funds (e.g., ODA funds under PPP models, according to the 2002 SBL) and implemented by local governments under an on-grant mechanism. In 2015, it represented the other half of central governments transfers to local governments. Between 2011 and 2015, 61 target transfer schemes were in place, as partial support to relevant projects and 16 National Target Programs (NTPs). According to the World Bank, during that period approximately 56% of funding for all NTPs came from central authorities, and 26% from local governments. Local governments could only access the funds through the central government's decision. This includes, in addition, the 21 Special target programmes that will be implemented in the 2016-2020 period. These are capital investment projects proposed by Provincial Councils in consultation with the central government. In this specific case, local government can access ODA funding, based on the new provision from the 2015 SBL, via an on-lend mechanism.

OTHER REVENUES. Starting in 2017, local governments were granted additional autonomy in setting fees and charges by the Article 32.1 of the 2015 SBL and the 2015 Law on fees and charges. This includes, but is not limited to, fees on forest preservation, fees for assessment of environmental impact of projects and environment protection, including wastewater discharge, irrigation and the use of underground, surface and seawater; use of infrastructure, service and public utilities; use of roads and street pavements; fees for tours of scenic beauties, historical remains, cultural facilities, museums and libraries; fees for assessment and issuance of certificates for sports facilities; fees for land use rights certificates; and other charges for state administration relating to rights and obligations of citizens.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**92**	**1.5%**	**2.3%**	**100%**
Financial debt*	92	1.5%	2.3%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Until 2017, the 2002 SBL established that local government must follow a balanced budget rule. The golden rule states that local government outstanding debt stock cannot exceed 30% of local government budget's total capital investment (Article 8, 2002 SBL). Debts are guaranteed by the central government and the National Assembly determined a 65% of GDP public debt threshold. The centrally-run cities of Ho Chi Minh City and Ha Noi were allowed by the National Assembly to reach up to 90% and 70% of their revenue respectively (by-law, debt stock limit is 60% of their retained revenue). Similarly, Hai Phong and Da Nang were authorized to borrow within a 40% debt ceiling. The 2016 national government debt reached 63.7%, which left little formal room for local governments. The public debt management law of 2017, in line with the 2015 SBL, acknowledges local government budget deficit and adds several conditions for local governments to manage the risk of local debt portfolios, based on the repayment capacity, and forbids overdue debts.

DEBT. The State Budget Law regulates local governments' borrowing. Under the control of the central government, local governments, mostly Provincial Councils and centrally-run cities, can issue bonds and borrow from other domestic sources to fund provincial budget deficits and repay outstanding debt. Since the 2015 SBL, on-lending is included in the local government debt stock limit and local government can access, via on-lending, government's foreign loans and ODA. Local government debt accounted for 1.5% of GDP (including on-lending) in 2016, and around 2.3% of total public debt. This is expected to rise considerably in the next 5 years, as poorer provinces will rely more on on-lending funds. In 2016, bond issuance weighted for 39% of total local debt. Decree 01/2011 provides the framework for municipal bonds issuing, which must be approved by the Ministry of Finance. Decree 52/2017 is the first to regulate on-lending, clarifying the role of local governments and the coordination between subnational departments of finance and, particularly, planning and investment departments. In 2016, the total outstanding debt of municipal bonds was VND 25,234 billion (approximately 35.6 dollars PPP per capita). Only seven provinces issued municipal bonds, Ho Chi Minh City has a more diverse set of instruments available. Regarding loans, only the provinces of Hai Phong and Dong Nai access to commercial banks loans. These account for 2% of total local government debt in 2016, while 61 provinces were able to borrow to the Vietnamese Development Bank, which accounted for 32% of total local debt.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal information: Ministry of Finance // AFD (2018) Local Governments' Access to Finance in Vietnam.
Other sources of information: UCLG ASPAC and Cities Alliance (2018) City Enabling Environment Rating // Ministry of Finance (2017) presentations: Vietnam's experience and lessons learnt on local government debt management and Fiscal Decentralization and inclusive growth in Vietnam // World Bank (2017) Vietnam Public Expenditure review // Asian Development Bank (2016) Fiscal Decentralization and Local Budget Deficits in Viet Nam: An Empirical Analysis // World bank (2015) Making The Whole Greater Than The Sum Of The Parts: A Review of Fiscal Decentralization in Vietnam // EU-Viet Nam Strategic Dialogue Facility funded by the European Union (2014) Development Finance For Sustainable Development Goals in middle-income Viet Nam.