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**LOCAL GOVERNMENTS
IN LOCAL AND REGIONAL
ECONOMIC DEVELOPMENT (LRED)
IN VIETNAM**



LOCAL GOVERNMENTS IN LOCAL AND REGIONAL ECONOMIC DEVELOPMENT

Instead of merely carrying out national-level plans and targets as it was under the centrally planned economy, local governments now have the task and the competence in many areas to design policies that will benefit their territories. Under the new decentralized setup, local governments, and provincial governments in particular, have to steer development processes and reforms on the lower levels of the system.



Political processes cover three dimensions:

- Policies, their content and coherence
- Political processes between political stakeholders
- Polity, the reform of institutions and organizations

(Source: *Instrumente und Ansätze der Politikberatung in der Technischen Zusammenarbeit, GTZ 2004*)

For example, to improve the local business and investment climate, (which falls under the mandate of local governments), **policies** will aim to remove obstacles to doing business and actively promote foreign and domestic investments or promote certain sectors or target groups.

Processes may target better coordination between agencies and government levels, priority-setting and consensus-building between stakeholders.

Polity aims to improve the performance of institutions and organizations such as business registration offices and investment licensing bureaus.

In the international discussion, the term business and investment climate (BIC) broadly covers a range of topics such as access to business know-how, business services and technology; access to qualified labor; access to productive infrastructure (water, energy, transport, telecommunications); access to land and property; access to financial services.

In a narrow sense, BIC refers to the improvement of the legal, political and institutional framework conditions for the development of the private sector. The narrow BIC definition has been the focus of international donor support in recent years. Recent efforts in Vietnam have been directed mostly at the improvement of administrative procedures focusing on simplifying business registration through the introduction of one-stop-shop services.

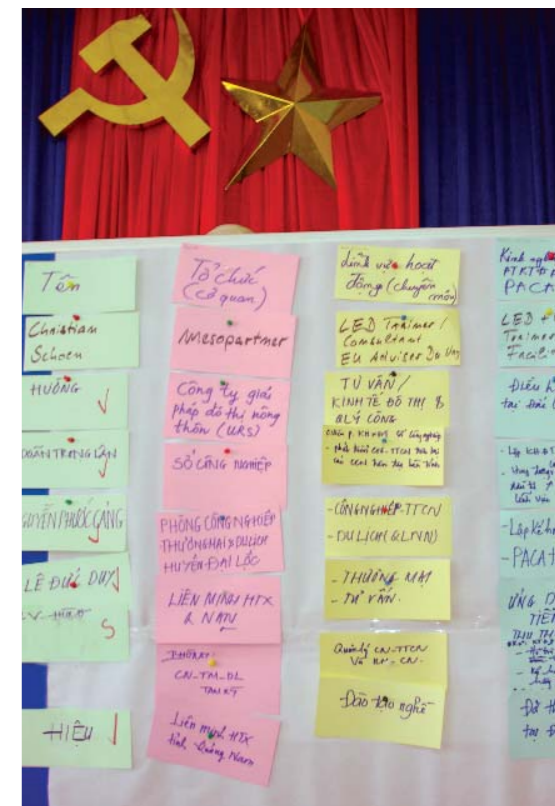
Policy-making by provincial governments encompasses strategic planning and the making of "legal normative documents". Strategic plans are goal-oriented and coherent but not legally binding. Resolutions, decisions and directives issued by provincial governments are legally binding. According to the law 31/2004/QH11 on the passing of legal normative documents by people's councils and committees, the decisions of people's committees are particularly relevant to the local economy.

The future challenge in provincial policy-making will be to create the "right mix of policies" for local and regional economic development, a combination of strategic policies and selective regulations. Both strategies and regulations will increasingly have to be consulted and co-produced with the local business community (according to Article 4 of the above-mentioned law). This will require new and innovative approaches to public-private dialog. The reform process also includes the removal of redundant regulations (Article 11) and possibly also impact assessments of new legal normative documents as provided by the RIA (regulatory impact assessment) procedure. Although national laws and regulations still have to be implemented by provincial governments, provincial regulatory reform will help to improve the business and investment climate and provincial competitiveness. The annual ranking of provinces according to their business-friendliness by the Vietnam Competitiveness Index (USAID) and the ensuing public debate has created awareness among political decision-makers in the provinces about competitiveness issues.

Policy-making reform also relates to new attitudes and skills of political decision-makers at the local level. Such skills include the implementation of national policies on the provincial level, the negotiation of priorities among competing political stakeholders and their objectives (considering

budget and personnel resource constraints), the analysis of existing strengths and weaknesses, and the capability to translate insights and objectives into practical actions.

POLICIES



While it is true that sub-national levels, (particularly provinces), have the mandate to shape local economic policies, their policy-making must fit within the larger political frameworks designed at the national level. Thus local governments are not completely free to do as they like but are still "upwardly accountable."

The following paragraphs illustrate the complex framework of overarching laws and policies that provincial governments have to integrate into their economic policy making.

The new Common Investment Law (2005) provides for the equal treatment of foreign and domestic private investors in Vietnam. A guiding decree to the law specifies the decentralization of the investment licensing process and of investment management by the provincial authorities. Unlike before where foreign investment projects were appraised and licensed by the Ministry of Planning and Investment, this authority is now being transferred to the provincial level.

The revised **Unified Enterprise Law** (2005) and its guiding decrees transfer business registration authority to the provincial and, where possible, even to district levels. Local administrations now also have the right to design the business registration process according to their preferences (single door, single window, or single portal approaches, Fact Sheet 1).

Other national laws such as the **State Budget Law** (2002), **Land Law** (2004) and the **Law on Natural Resources** (2005) provide instructions on how important resources have to be managed under conditions of decentralization on the different levels of the administrative system (Central Government - Province - District - Commune).

The overall reference document for policy-making is the **5 Year Socio-Economic Development Plan (SEDP)** 2006-2010. It defines the government's tasks in the areas of economics, science, technology and social areas, environment protection and sustainable development, institution building, defense and security, prevention of corruption and administration reform. The SEDP's economic targets focus on rapidly achieving growth rate, quality, efficiency, modernization and economic competitiveness.

One of the sector policy building blocks for provincial economic policy is the **5 Year SME Development Plan 2006-2010**, adopted by the Prime Minister in 2006. Its overall objective is to

increase the number of SMEs and to make them contribute more to national economic growth. Its main action fields are:

- To ease market entry and business registration by simplifying regulations. Measures include "one-stop-shop" mechanisms in every province/city and a computerized registration process
- To facilitate access to land and work premises for SMEs
- To help SMEs gain financial access. Measures include support for highly competitive sectors under WTO membership
- To enhance the competitiveness of SMEs
- To develop the skills of the labor force
- To promote social acceptance of entrepreneurship

The Provincial People's Committees are expected to produce their own provincial SME Development Plan and allocate sufficient resources for its implementation. It is proposed that "Coordination Units of SME Development Plan implementation" be established at the provincial/municipal level. Consisting members of relevant provincial departments and local business associations, they come directly under the People's Committee. The Public Administration Reform Program (PAR, 2001-2010) is also relevant to provincial economic policy-making. It addresses four key areas: institutional, civil service and public finance reforms as



well as reform of organizational structures, to be implemented at the national and sub-national levels. Most provinces have revamped administrative procedures in business-relevant areas such as the improvement of the business environment, the streamlining of business registration procedures, the tentative introduction of quality management (ISO) and the establishment of one-stop-shops (Fact Sheet 1).

Vietnam's accession to the **WTO** in 2006 has created new frameworks that affect sub-national level economic policies. The investment law for example has to be implemented following WTO standards. This includes the issuing of licenses by the provinces for investment projects. Many tax benefits for foreign investors or investment projects in special economic zones were abolished, affecting taxation. Although agricultural export subsidies were abolished, Vietnam still retained the right to keep up some support for its farmers which eventually needs to be channeled to the local level through appropriate promotional instruments. For

provincial governments, WTO accession is another factor to be examined. The consequences of global trade integration need to be monitored and incorporated into provincial policies.

PROCESSES

The LRED is a highly process-driven approach. At its core is economic policy-making and political processes among relevant stakeholders. As the quality of the process will have direct impacts on the outcome, political processes strongly influence the content and coherence of policies and their implementation.

LRED in Vietnam is predominantly driven by the local governments which are part of a strong and highly structured political and administrative system. Traditions of top-down planning and local autonomy co-exist in this system. The integration of new and flexible approaches like LRED is not easy. Existing procedures and planning processes will not





be completely discarded. Therefore LRED has to correspond with them - reconciling the hierarchy and the network mode of governance. Ideally, this will make the existing system more flexible, need-oriented and effective. In short, it will contribute to a higher quality of policy-making and implementation. However this is a complex task as numerous quality criteria need to be fulfilled:

First, processes must include elements of "upward" (i.e. to the ministerial and national government levels) and "downward" accountability. It is important that provincial policy-makers allow **participatory, bottom-up** approaches. They should accept inputs from the lower levels of the administrative system and from the local business community which is the final "customer" of local economic policy-making (Fact Sheet 3, 4). The business community's inputs will make provincial economic policies more realistic, relevant and effective. Hence, the planning process must include inputs from the national - and even international - levels (sector policies) as well as the "grassroots" levels (priorities of the district and even commune levels). This follows the principle of reverse flow, integrating top-down

and bottom-up elements.

Second, planning processes must include **cross-sectoral and inter-departmental cooperation and coordination** on the provincial level to achieve the most integrated results (Fact Sheet 2). Isolated sectoral planning should be avoided as this will lead to inconsistent and incoherent policies. However, cooperation and coordination also require political leadership to steer negotiation processes and promote **priority-setting**. Not all political objectives can be accommodated simultaneously under restricted budget conditions and so not all political stakeholders can be satisfied at all times.

Third, an LRED approach means making use of local potential and conditions. It is now a strategy to use **local comparative and competitive advantages** to enhance the competitiveness of locations or regions. Much depends on the quality of the analysis and the priority-setting and strategy-building for which different tools with different degrees of stakeholder involvement are available (Fact Sheet 3)



Fourth, local governments will increasingly face the challenge of involving the private sector in joint projects (**Public-Private Partnerships**). This will mobilize more funds than what can be actually leveraged from public sector sources alone. One PPP is currently being piloted in the GTZ-SMEDP value chain approaches. It links many stakeholders from the public and private sectors who commit themselves to joint initiatives and joint funding.

Finally, provinces in Vietnam also enter into temporary partnerships with **donor organizations** that provide much needed technical assistance and funding. However they expect their priorities to be included in the provincial political agenda. GTZ-SMEDP emphasizes on private enterprise development activities such as investment and start-up promotion, business services and value chain development and partnerships with domestic and international private companies.

Political processes are shaped by the stakeholders' **motives**. The provinces in Vietnam perform very differently although their leaders share the same political and ideological background. Till now, it has rarely been explored how and which **incentives** determine the behavior and attitude of those playing key roles in policy-making.



POLITY

The reform of institutions and organizations aims to improve performance considerably. This is an important element of a society's overall capacity to shape its own development path successfully. It is also often the most difficult undertaking as institutions and organizations tend to develop their own agendas and any change could cause considerable resistance.

The Vietnamese government is currently developing options for reforming central level ministries (July 2007). This will include agencies and ministries involved in economic policy, such as the Ministries of Industry, Trade, Planning and Investment, and Finance. How this will be applied to the provincial level remains to be seen.

To design a national policy on LRED, it is important to create an agency for regional (i.e. cross-provincial) planning. It will provide a framework for large-scale spatial planning and the coordination of individual provincial plans. The current lack of coordination causes inefficient use of public funds on the provincial level, and the duplication of efforts, especially in infrastructure provision.