

VIETNAM

UNITARY COUNTRY

ASIA PACIFIC

BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME Local currency - Vietnamese dong (VND)

POPULATION AND GEOGRAPHY

AREA: **331 041** km²

POPULATION: **93.387** million inhabitants (2014), an increase of 0.95% per year (2010-2014)

DENSITY: **289** inhabitants/km²

URBAN POPULATION: **33.6%** of national population

CAPITAL CITY: **Ha Noi** (3.72% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

ECONOMIC DATA

GDP: **510.7** billion (current PPP international dollars) i.e. 5 629 dollars per inhabitant (2014)

REAL GDP GROWTH: **6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **1.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **9 200** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **27%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.666** (medium), rank **116**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
11 145	710	63	11 918
COMMUNITIES	DISTRICTS (CITIES/TOWNS)	PROVINCIAL LEVEL (INCL. 5 CITY-PROVINCES)	
AVERAGE MUNICIPAL SIZE: 8 379 INHABITANTS			

MAIN FEATURES OF TERRITORIAL ORGANISATION. Viet Nam is a unitary country; local government system was established in 1945, and subnational levels are part of national governments. Vietnamese provinces, districts and communes are governed by People's Council and the Executive People's Committee since 2003 (regarding authority of budgeting levels in deciding budgeting issues). In addition to the 58 Provinces, 5 Municipalities are centrally-run. This committee has a provincial planning department in charge of coordination between levels of government. The country is working on a project of regionalization that would divide the country into 3 regions, but the creation of concrete regional governments was rejected in 2013.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The 1996 State Budget Law (SBL) established clear and generally sound "rules of the game" for resource allocation and resource use. A revised State Budget Law was approved by the National Assembly in December 2002 that allocates more responsibility to provinces and promotes more transparency through an enforcement mechanism to make communes post their budgets outside offices. Yet, the nested budgeting system complicates budget preparation and monitoring. The repartition of competences is not very clear, with some local responsibilities that are still being exercised by the central level, or some that are not being compensated with adequate financial resources.

SUBNATIONAL GOVERNMENT FINANCE

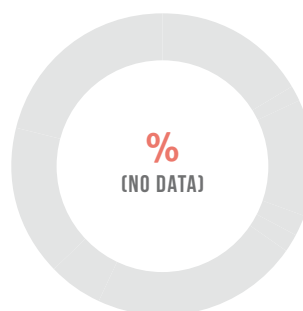
EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	19.9%	54.3%	100%
CURRENT EXPENDITURE	9.4%	-	47.4%
STAFF EXPENDITURE	3.2%	89.8%	16.0%
INVESTMENT	5.5%	73.9%	27.8%

Vietnamese provinces assign local functions, and can themselves spend on responsibilities not reserved to the central level, while the norms are still set by the central government. In 2012, around 54.3% of public spending was done at the subnational level. Subnational governments were responsible of 73.92% of capital expenditures, and 89.8% of staff expenditures, while local staff are selected upon central government's approval.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



According to SBL 2002 Art.33, local expenditures include development investment, recurrent expenditures and payments for the principal, and interest that shall be mobilized for investment at lower-level budgets. However, decentralization is still unclear, and most expenditures assignments are concurrent. There are an additional variety of expenditures specified for commune levels in Art34, and over-detailed regulations on minimum allocation to certain areas (e.g., no less than 20% of total spending on education) have constraining impact on local governments' autonomy.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	19.7%	55.3%	100.0%
"REGIONALLY-GENERATED" REVENUE	7.8%	38.7%	39.9%
GRANTS AND SUBSIDIES	6.6%	-	33.4%
OTHER REVENUES	5.2%	-	26.7%

The Provincial People's Council decides revenue sources for each budgeting levels of the local governments. Vietnamese LGs have three main sources of revenue:

- Revenue retained 100% by local authorities, such as taxes and fees related to lands, local fees and charges...;
- Revenue shared between local authorities and central government, such as VAT (except on imports), CIT (except on enterprises with uniform accounting) or PIT; excise tax on domestic goods...
- Transfers from upper levels of government.

Shared revenues constitute the bulk of revenues at all levels.

TAX REVENUE. Local own revenues are made of small taxes and fees, including land and housing taxes; yet, tax base and rates are set by the National Assembly. Shared taxes include the value-added tax, enterprise (corporate) income tax, personal income tax, special consumption taxes, gasoline and oil fees, environmental protection tax, special consumption tax on domestic goods and services. There is one state budget for all levels of government. Revenue sharing is defined according to a "sharing rate" defined for 3 to 5 years Stability Period. In the period 2011-2015, among all the provinces, 13 kept a portion of shared taxes, and 50 provinces retained 100% of the shared taxes collected within their jurisdiction.

GRANTS AND SUBSIDIES. There are two types of intergovernmental transfers: balancing transfers (48% of total transfers in 2012), and targeted transfers (52%) to implement specific National priorities. Balancing transfers are kept constant during the 5-years Stability period, without taking into account inflation. On the other hand, targeted transfers lack predictability and linkage with local needs of funding.

OTHER REVENUES. Local authorities have limited powers in setting fees and charges within the ceiling set by the central authorities. Law on fees and charges is under discussion and it is expected that more power will be given to local authorities.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	-	-

Local governments are legally allowed to mobilize capital through issuing local government bonds and from other legal borrowing, but in practice this is very limited, depending upon central government approval and unclear regulations. They are allowed to borrow (but regulations on local deficit are not mentioned) up to 30% of their capital budget (increased to 150% for HCMC and 100% for Hanoi). Borrowing cannot cover the debt service of local governments.

A joint- study of:



Sources: Ministry of Finance • Ministry of Interior • National Institute for Finance (2015), Fiscal decentralization and local budget management in Vietnam • SBL 2002 Art.32 • World Bank (2013), Assessment of the financing framework for municipal infrastructure in Vietnam • P. Smoke (2015), Quality support facilities in the field of decentralization, local governance and local development, Overview of the Asia Decentralization Case Studies