COUNTRY REPORT

Sequencing Civil Service Pay Reforms in Vietnam: Transition or Leapfrog?

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Introduction

For the Vietnamese state, the long-term implications of the reforms accompanying the transition from the command economy to a market system, known as *doi moi*, are still being worked out (Painter 2005a). One dimension of the restructuring is a substantial Public Administration Reform (PAR) program, undertaken with the aim of equipping the state for the new demands and needs of managing a mixed, open economy. PAR was formally given the status of a coordinated, national program at the eighth plenum of the seventh Party Congress in January 1995. Party–state officials produced a highly critical review of problems and progress in 2000, followed in September 2001 by the *Master Programme on Public Administration Reform for the Period 2001–2010* (Government of Vietnam 2001). This program targeted four key areas: institutional reform, organizational structures, civil service reform, and public finances. Different government agencies were handed responsibility for specific programs following which implementation plans were drawn up (UNDP 2001, 2002).

The *Master Programme* and the reviews leading up to it were candid about the scale of the problems and the scope of required reform. Because of the inheritance of the former Soviet-style "centralized and subsidized bureaucratic management system," many inappropriate procedures and habits remained in place. Administrative structures were "overlapping . . . inconsistent . . . centralized and compartmentalized," while "administrative procedures [were] cumbersome and complex" and "administrative order and discipline [were] loose." "Appropriate financial mechanisms" did not exist for the operation of public service and administrative agencies; cadres and civil servants were deficient in skills, professionalism, and ethical standards; and corruption and "harassment for bribes" remained as problems (Government of Vietnam 2001, 2). On civil service salaries, the diagnosis was bleak, pointing to some fundamental, linked issues of state finances, civil service remuneration and corruption:

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Governance: An International Journal of Policy, Administration, and Institutions, Vol. 19, No. 2, April 2006 (pp. 325–346).
 ISSN 0952-1895

> Current salary of public servants is not fully . . . in money terms. . . . The current system of salary is too broad . . . with emphasis on equality of income. The salary differential between grades is small, [which] de-motivates public servants. . . .
>
> In general, salary is not sufficient . . . salary is not yet the main motivator . . . , and is not yet an attractive . . . tool to maintain . . . talented personnel. . . . Salary in the administrative sector is lowest . . . contributing to the causes of corruption. . . . There exist some sources of higher and more stable . . . (remuneration) in addition to the salary of staff. . . . The state is unable to control the real income of public servants and cadres. (GSC 2000d, 13–14)

There are similarities between this account of Vietnam's public employment remuneration system and the mainstream diagnosis of such systems in many developing countries across the world (Lindauer and Nunberg 1994, 2). Resource scarcity, weak institutionalization of civil service rules, and "politicization" are often at the root of these problems, resulting in depressed salaries, bloated payrolls, compressed salary structures, and loss of discipline as civil servants look for additional sources of income. In the search for remedies, the Vietnamese reformers suggested not only higher salaries and less compressed pay structures, but also some other solutions:

- The salary system will be reformed in line with a new concept . . . fully monetizing salaries . . . a salary-related allowance scheme . . . a system of bonuses for excellent services.
- The decentralization of personnel management needs to be accompanied by the decentralization of tasks as well as financial management.
- The mechanism for decentralizing financial and budgetary management will be reformed to . . . promote localities' and sectors' pro-activeness, dynamism, creativity and accountability . . . a mechanism for calculating budget requirements on the basis of outputs and quality of operations (will be implemented), ensuring the monitoring of outputs, quality of targets and objectives. . . . (Government of Vietnam 2001, 14–16).

Here, it seems that parts of the New Public Management (NPM) menu were in the reformers' minds (Painter 2005b). Indeed, as later sections of this article recount, the coupling of fiscal and managerial decentralization with salary reform resulted in the implementation of some quite radical versions of "market-type-mechanisms," such as requiring a portion of salary increases to be funded from locally generated sources of revenue in the form of user charges.

These remedies seem to break a generally accepted "rule" of public management reform in developing countries, namely to do things by stages and in the right order. This rule was emphasized and elaborated by Allen Schick (1998) in a discussion of the limited transferability of New Zealand NPM reforms to developing countries. Essentially, Schick's argument is that developing countries needs a rule-bound neutral, professional, centralized, Weberian-style bureaucracy and firmly established basic public sector budgeting and accounting procedures before they can safely introduce more decentralized, market-mimicking models of public service delivery. In a similar vein, the World Bank advises "choosing and sequencing public sector reforms carefully, in line with initial capacities, to create firmer ground for further reform" (World Bank 2004, 194). "First-stage reforms" should aim to achieve or strengthen "formality, discipline and compliance with the rules," while second-stage reforms (after a "formality threshold" has been reached) should aim to "strengthen flexibility, discretion and a focus on results." In the case of civil service and pay reform, "first-stage reform" requires "creat[ing] a legally defined cadre with common terms and conditions," following which "second-stage" reforms can be introduced, such as ". . . devolve[ing] and diversify[ing] pay arrangements to provide flexibility to employers" (World Bank 2004, 194–196).[1]

However, in Vietnam high levels of local discretion in salary determination (accompanied by devolution of financial responsibilities and greater discretion to levy fees and charges) have been introduced without first effectively institutionalizing a set of centrally managed personnel and pay rules—the first stage has been leapfrogged. Observers and commentators might question the appropriateness of the strategy, but it was clearly a deliberate one rather than something that was blundered upon.[2] To understand the reasons for it, we need to trace carefully the steps taken in the process of salary reform (and more widely, civil service reform) since *doi moi* was launched. This is the subject of the next two sections, the first of which provides essential background on the Vietnamese public employment system and the structure of public administration. Later, in the analysis of the reforms, experience in contemporary China will be discussed as a parallel case with similar features (in case it be thought that Vietnam were alone in the strategies it has adopted in the face of the dilemmas of transition). The conclusion returns to the general issue of leapfrogging and asks, first, whether the Vietnamese strategy is doomed to failure for reasons of "poor sequencing"; and second, what the analysis suggests about the relevance of contemporary global models of public sector reform to Vietnamese public sector reformers.

Public Employment in Vietnam

There are approximately 1.5 million employees in the Vietnamese public employment system (Table 1). The most recent comparable data available show Vietnam's civilian government employees make up 5.5% of the total workforce, compared with 4% in Indonesia, 4.1% in South Korea, 5.3% in

TABLE 1
Public Service Employment in Vietnam (Excluding Commune-Level Officials)

	1995		2002	
Sector	Number	%	Number	%
Public administration	204,100	17.1	252,400	16.6
Party and mass organizations	54,800	4.6	66,100	4.3
Education and training	710,700	59.6	941,500	61.8
Health and social work	163,400	13.7	192,900	12.7
Science and technology	26,800	2.2	33,900	2.2
Culture and sporting	31,800	2.7	36,600	2.4
Total	1,191,600	100.0	1,523,400	100.0

Source: Government of Vietnam General Statistics Office (2002, 2003).

the Philippines, and 4.3% in Thailand.[3] In 2002, government expenditure on civilian wages and salaries amounted to 33% total recurrent expenditure (excluding defence), up from 21% in 1997 (IMF 2003). The figures in Table 1 exclude the army, police, and state-owned enterprises (SOEs), but cover employees in all levels of government (other than the most local commune level). Under the 1998 Ordinance on Public Employees, there are five categories: (1) elected officials; (2) party officials; (3) civil servants; (4) judicial officers; and (5) civil workers in the army and police force. Civil servants are defined as being ". . . recruited, appointed, or assigned a regular public duty, . . . categorised according to their training degrees and professional specialty, . . . arranged in an administrative or non-business grade in state agencies, each grade reflecting a professional position and rank as well as title according to certain specific criteria."

The system of government in Vietnam is unitary, with lower-level provincial and district levels of government exercising strictly delegated powers from the center. However, both subnational bodies and agencies operating under the umbrella of central ministries tend to have increasingly high levels of operating autonomy (Painter 2003, 265–266), despite continued attempts in the 1990s by the center to reorganize, rationalize, and assert more effective control (Vasavakul 2002, 26–28). More recently, decentralization has been cautiously implemented as official policy. This pattern of evolving de facto local autonomy, with the center playing catch-up, is illustrated by the case of personnel management. The central personnel agency—the Ministry of Home Affairs—formulates policy and monitors government-wide conformity with the rules, but it possesses somewhat limited supervising capacity. There is relatively weak institutionalization of the rules across all levels of government and agencies. As discussed in a later section, as a result, there are high levels of local discretion over personnel matters, with the government acceding to this fact in some of its recent reform measures.

In Vietnamese doctrines of democratic centralism, the status of the civil service is not clearly enunciated. Technical expertise is highly valued, as is evident from the emphasis placed on educational qualifications, but there has been considerable ambivalence regarding meritocracy as the overriding principle for staffing state organizations, particularly in the eyes of party officials, who viewed purely technical definitions of merit as suspect. Party loyalty and doctrinal correctness were viewed as paramount. Although the 1992 Constitution affirmed as a primary objective the ideal of a "state ruled by law," strongly implying the idea of a detached, rule-regarding officialdom, this did not mean the separation of state administration from party control. All aspects of state management remained formally under the direction and control of the Communist Party (Gillespie 2002, 180–186; Phong and Beresford 1998). At the top levels of the state apparatus, the party oversees official appointments and there is no clear division between political and non-political strata. The system resembles the Soviet model of cadre administration under which political training, adherence to party doctrine, and loyalty to the party line are key qualifications for senior positions. The hierarchy of Party Committees on Organization and Personnel exercise close oversight at all levels, ranging from direct monitoring and management of senior officials or careers to involvement in the affairs of agency personnel sections. At all levels, overlapping of state and party roles and personnel, along with confusion of legal status, blur the party–state distinction.

Thus, in Vietnam's evolving system of government, there were tensions and ambiguities in the role of the civil servant. However, during the reform era, a number of measures have been taken to regularize and standardize a civil service system for state employees, in particular a new Civil Service Ordinance of 1993 (subsequently revised and amended in 1998 and 2003). This granted civil servants continuing tenure unless dismissed for indiscipline under prescribed procedures. The ordinance set out detailed tables of employment categories and their ranks. Education or professional background determined one's class and rank and salary was provided on the "pay-in-person" principle according to individual qualification, rank, and length of service. Most government agencies did not develop detailed position descriptions based on job requirements. Departmental establishments consisted of hierarchies of positions in different work categories denoted primarily by grade (such as expert, principal expert, and superior expert). With length of service, officials climbed the steps on a scale to a stipulated maximum wage level in each grade. Only breaches of discipline prevented this steady progression in which the size of the increments was tiny. The movement up from one scale to another occurred according to two criteria: length of service and qualification for promotion through attending an official training program and passing an examination. Many promotions and appointments in practice breached these formal requirements.[4] In summary, the official system of advancement and promotion was formulaic and largely detached from considerations of job fitness or performance (RIAP 2001). The interpenetration of party and state and the "loyalty tests" implemented by leading officials sustained powerful central and local patronage systems (Abuza 1998; Gainsborough 2003, 53–58).

Public Sector Pay and Rewards

The introduction of the Soviet-style command economy to Vietnam had significant impacts on the nature of pay and rewards for public employees. Wages were increasingly paid partly in kind and through price subsidies. But faced with an economic crisis, bureaucratic controls over prices and subsidies on staples were removed in 1985 and, in 1986, the Sixth Party Congress officially launched *doi moi*. During this period, hyperinflation seriously eroded the value of salaries, while cutbacks in the state-owned sector of the economy severely reduced the level of in-kind rewards and other benefits available to families. Under the 1993 civil service reforms, a comprehensive salary reform package was instituted. First, most in-kind rewards for public employees (housing, healthcare, transportation, and education [except primary]) were formally "salarized" (GSC 2000d, 44); second, a uniform, nationwide set of salary scales was instituted; and third, public employee remuneration was aligned with a new national minimum wage, which was set at VND 120,000 per month.[5] Nineteen different work categories were defined for the purpose of wage determination, such as public administration, education, health, banking, and so on. Each work category had different salary tables setting out salary scales, with as many as 16 steps. Each step on a scale was allocated a wage coefficient, expressing the salary as a multiple of the minimum wage.

In describing the remuneration system that evolved post-1993, we shall adopt the following classification of the components of a civil servant's "total income": (1) basic wage; (2) gross wage—basic wage plus allowances; (3) gross payment—gross wage plus supplements, bonuses, and fees paid by the employer; and (4) total income—gross payment plus all other employment-related income including receipts from other public sector sources, second jobs, and self-employment, including the proceeds of corruption (Robinson 2002).[6] The key feature of the post-1993 pay and rewards system was not so much the basic wages set by the salary scales, as the nature of the "add-ons," some of which were unreported and unofficial.[7] On top of the basic salary, the system of allowances that made up the gross wage included responsibility (position), location, and hardship allowances. Position-related allowances formed the principal method by which rewards were linked to job descriptions rather than solely to the person's rank. Responsibility allowances for top officials were set at a ratio of up to 1.1 of the minimum basic salary. Other allowances stemmed from particular hardships or inconveniences associated

TABLE 2
Monthly Average Gross Wage of State Employees by Sector (000 VND)*

	1995	1999	2002
Total state sector	478.2	728.7	999.3
Agriculture and forestry	366.3	563.9	633.0
Mining and quarrying	809.2	1,221.1	1,759.4
Manufacturing	577.4	855.1	1,150.0
Electricity, gas, and water	853.8	1,416.8	1,853.4
Transport, storage, and communications	879.1	1,258.1	1,717.7
Finance and credit	807.1	1,141.5	1,827.9
Public administration and social security	356.7	468.5	716.3
Education and training	309.6	501.3	735.7
Health and social work	326.9	509.3	741.1
Cultural and sport	347.3	520.0	779.4
Party and mass organization	373.3	460.5	684.7

*includes state-owned enterprise employees (in manufacturing, mining, utilities, transport and finance sectors).
Source: Government of Vietnam General Statistics Office (2003).

with a job. On average, allowances comprised about one-third of the total salary across the whole public employment sector, but became a higher component the more demanding the position (Robinson 2002). The success enjoyed by some categories of employees (for example, teachers and lecturers) in winning access to higher allowances is one reason that there is considerable variation in gross wages across sectors of state employment (see Table 2).

However, the data in Table 2 do not reveal all the sources of variation in rewards across the public employment system—it reports gross wages, not gross payments. Figures supplied by the provincial authority in Ho Chi Minh City reported that sources of official remuneration other than basic pay and allowances (for example, bonuses for success in collecting fines; lunch and bicycle allowances; and fees for attending meetings) averaged 34% of gross payments, and was as high as 64% in the case of health sector employees (Robinson 2002). The ability of some employees to supplement income in this way depended in large part on the availability of local revenue, mostly from fees and charges levied for routine transactions and services. Thus, the capacity to supplement wages was highest in the so-called "public service production agencies," such as health and education. If we include these bonuses and supplements, health employees in Ho Chi Minh City matched SOE workers (in sectors such as transport and power) for take-home pay, contrary to the picture painted by the data in Table 2 (Robinson 2002). Employees in "administrative agencies" (where no product is either sold on the market or delivered to the public) fared poorly. The overall result was a high degree of disparity between pay for public officials of the same rank, or doing similar work, in different sectors of public employment.

TABLE 3
Minimum Wage Increases and Inflation Rates (1994–2003)

	Minimum Wage			Consumer Price Index	
Year	Per Month (000 VND)	Annual Increases %	Accumulated Increase %	Annual Increases %	Accumulated Increase %
1994	120	.0	.0	14.2	14.2
1995	120	.0	.0	12.9	28.9
1996	120	.0	.0	4.5	34.7
1997	144	20.0	20.0	3.6	39.6
1998	144	.0	20.0	9.2	52.4
1999	180	25.0	50.0	.1	52.6
2000	210	16.7	75.0	–.6	51.7
2001	210	.0	75.0	.8	52.9
2002	210	.0	75.0	4.0	59.0
2003	290	38.1	141.7	4.0	65.4

Source: Government of Vietnam General Statistics Office (2003).

The existence of these remuneration disparities across different agencies evolved in an ad hoc, bottom-up manner. Pressure from below for supplementing basic pay was intense in part because wage adjustments lagged behind the cost of living (Table 3). The 1994 Labour Code provided that the minimum wage would be adjusted in line with movements in the Consumer Price Index, but the increases came in periodic steps rather than incrementally. Pay increases were routinely delayed in the name of fiscal prudence.[8] Accentuated by emerging wage inequities, this added to the pressure for wage supplements. As each separate entity explored the opportunities to pay bonuses or fees to its employees, loopholes in the "official system" of rules for financing and setting pay and rewards grew out of what were originally a few "special cases" (for example, official sanction to allow some part of customs fees and fines collected in excess of agreed norms to be retained for bonuses). The size of the loopholes was limited only by the degree of ingenuity of local officials. The stratagems involved included shifting money from budget to off-budget accounts as well as charging additional fees. Most local administrative units as well as service delivery units found ways to generate at least some such funds so as to top up wages, a situation acknowledged by the center:

> Government cannot control all sources of income of public servants. Entities decide by themselves allowances for lunch, or additional income for public services taken from state budget or other sources of income generated by additional services. (GSC 2000d, 50)

This system of supplements and bonuses came to be partly institutionalized and collectivized. Within each agency, collective norms or understandings evolved about the entitlements of employees to the proceeds of extra-budget revenue.[9] The overall result was a public employment system that reinforced and institutionalized local particularism. Public officials depended at least as much on "unofficial" as on "official" sources of income. The development of these "local rules" about pay and rewards was made possible partly by the relatively lax central supervision of the routine details of personnel management, in a context of relatively basic and undemanding Treasury requirements for financial reporting and accounting (IMF and World Bank 1999). The self-reinforcing problems of an increasing incidence of off-budget funds and a decreasing capacity to monitor and discipline the activities of local bureaus emerged together. Personalism, patronage, and localism, rather than legal–rational norms, thus shaped key aspects of the evolving public employment system in the 1990s.

Privatization—Official and Unofficial—and the Status of Public Employment

The range and quantum of semi-official revenue in Vietnamese public administration cannot be accurately measured. There were two broad, but overlapping, categories. First, a segment of the state public finances developed that was "extra-budgetary"—that is, agencies gained access to officially sanctioned sources of revenue (such as various fees and charges or income from enterprises) that was not recorded in the consolidated state budget, but accounted for in special budgets and accounts. Measures have been taken to bring some of these funds—and the expenditure that result—"on-budget" by, for example, issuing ordinances that specify which fees can be collected by what agencies and stipulating that they must be reflected in the state budget (Socialist Republic of Vietnam and World Bank, 2005, 48). Second, there were funds that were strictly speaking illegal, that is, nonsanctioned revenues in special accounts, drawing on a variety of sources of "unofficial" income. Details of the extent and sources of these funds were (to say the least) hazy, and they operated on the fringes of the informal cash economy (Van Akardie and Mallon 2003, 196). It would suffice to say that many of the practices involved in their collection were widespread, routine, and more or less officially sanctioned by "turning a blind eye." One result was to create gray areas of public administration that were effectively but informally semiprivatized.

This situation closely parallels developments that occurred during the transition process in China, where data that are more extensive are publicly available. Extra-budgetary funds in China comprised a very significant proportion of legal local government revenue, by one report averaging 26% in 1995, while the illegal, off-budget revenue has been estimated to be equivalent to 16% of total local government spending (Wedeman 2000, 500–503). Some estimates put the amounts involved even higher (Mountfield and Wong 2005, 97–98). Off-budget revenue came from many sources, including fees and charges, transfers from locally owned SOEs or other state agencies, and capital raised by local governments on their own account (Sun 2001). These funds were aptly known in China as "the three arbitraries"—arbitrary taxation, arbitrary fines, and arbitrary expropriation or apportionment—and were held in ad hoc local bank accounts or "small treasuries" (Gong 2005; Wedeman 2000).

The origins of this "shadow system" of public finances lay to some degree in the overall problem of resource scarcity in a context of growing demands for public expenditure (e.g., the need for local governments to provide social services that were formerly provided by SOEs or agricultural collectives). Central government demands for service initiatives often outstripped the quantity of funds made available to agencies and combined with the yield of officially sanctioned local sources of revenue. To meet official targets and growing expectations, officials had recourse to unofficial means. As already described, in Vietnam, the deliberate suppression of official wages by the Government placed strong pressures on local managers to find alternative sources of funds to supplement salaries.[10] In China, protests against the "three arbitraries" from the rural poor led to periodic corrective campaigns and crackdowns against "illegal fees." However, the precise meaning of "illegal" and "legal" fees and fines was as much a matter of political expediency as being strictly legislated. Moreover, the practice of maintaining "off-budget" accounts was widely tolerated and only subject to sporadic, partly symbolic clampdowns.[11]

Moreover, in Vietnam (as in China) some elements in recent public discourse about the development of the state in a "market economy with socialist characteristics" would seem to lend growing legitimacy to the imposition of various forms of user fees and charges and, in parallel, a degree of semi-entrepreneurial fiscal decentralization. The semiprivatization of public services such as education and health at the local level has been encouraged by this discourse, and the public service status of employees in these sectors has thereby been rendered ambiguous. As the Vietnamese state emerged from the command and control economy, a conception of the new role of the state evolved as one of manager/funder, as distinct from provider/producer. A distinction was drawn between state management and production, the former being akin to a "control and steering" role while the provision or production activity was seen as purely commercial or technical. The distinction was applied with exactly the same meaning and consequences not only to the hiving off of SOEs as production units with commercial autonomy, but also to the separation in role and status of public service "production" or service delivery agencies, which were seen by analogy to require some degree of operational autonomy (GSC 2000c, 8). This autonomy was extended to many financial matters, including generation of revenue. As against the traditional style of "begging and giving" (or state subsidy), party leaders urged that enterprises should rely for their survival and expansion on profits, while—as a direct parallel—public service delivery agencies should seek to mobilize "people's resources" (GSC 2000a, 15). The term adopted for this cofinancing and coproduction of public services was *socialization*.

The stance and viewpoint of Vietnam is that socialization of some activities in the public sector, as well as equitization of a proportion of SOEs, can be by no means considered as privatization. Socialization will be conducted under the principle that "the work is shared between the State and the people," and the State will take the principal role, exercising State management functions . . . (GSC 2000b, 18).

Crucially for the argument being pursued here, the *people's resources* were defined in individual as well as in collective terms. Particularly at the local (commune or ward) level, a tradition of in-kind provision of household labor power and other resources for public works persisted into the era of *doi moi*. Alongside it, a growing expectation developed that each household would also contribute a portion of household income, in the form of fees, to fund public services.

The application of such a user-pays logic also flowed directly from the salarization of in-kind benefits (seen as just one part of the emergence of the monetized market economy), which signalled both the ending of free services and also (in principle if not in practice) the acquisition of the ability to pay for them. Simultaneously, the capacity of the general taxation system was slow to develop. Some 75% of Vietnamese workers pay no direct taxes while, at the same time (because of administrative weaknesses), there was a large gap between what should be collected from all taxation sources and what was actually received by the state (Socialist Republic of Vietnam and World Bank 2005, 17). Thus, by the end of the 1990s, a high proportion of the cost of public services such as education and health was being funded directly from household expenditures.[12] The official government policy by then was to encourage local service delivery units to become self-sufficient. In this climate, local stratagems by state officials to extract resources from clients and citizens were part of a process of de facto, officially encouraged commercialization. This development in local public finances also had an impact on the identity of public employment, such that private-regarding or informal group-centered norms began to compete strongly with public-regarding ones. This was because income depended increasingly on the work unit's effort under the leadership and patronage of local officials. The result was to encourage a view of the state as a shell for ensuring informal group survival or, increasingly, as a springboard from which to engage in various forms of private enterprise.

There is no shortage of anecdotal evidence of a multitude of forms of privatization of the asset of holding a public office, for the benefit of an individual, family, or group: tax officials who act as private consultants to advise clients how to minimize tax; district officials who use their position to leverage business opportunities, in the process spending more time on their private business than their public duties; doctors who contribute private income to invest in facilities on hospital premises with the agreement of management, and use them for private practice; cohorts of officials in government departments who share in the distribution of de facto land use rights over parcels of surplus property on the urban fringe, and subsequently make substantial windfall gains; and state enterprises that spawn business opportunities for family and friends, to the point where most of their profitable activities are effectively (although not legally) privatized. The result is a view on the part of public employees of the so-called public office as, in part, a private asset, in addition to being a repository of public service duties and obligations.

Salary Reform 2001–2004

In summing up the analysis to this point, in Vietnam, a combination of circumstances meant that the development of many of the fundamental components of civil service forms of public employment was severely undermined or truncated during the process of transition. Other forms of budgetary and managerial discipline and control within the state administrative hierarchy were also undermined. Monitoring and supervision were weak, leaving much to the devices of the local agency. As outlined above, official wages associated directly with rank and position comprised only a fraction of the total remuneration arising from public employment. Local systems of loyalty and dependency developed in competition with the centrally regulated, standardized system, resulting in a highly fragmented, localized system of remuneration. Moreover, standardized measures of performance and fitness for the job played little role in advancement and preferment. Finally, official positions and private interests were in several ways not clearly separated, such that the shifting and ambiguous sources of income of many public employees directly mirrored their uncertain status as public servants. Patronage networks sustained by state resources, along with personalistic forms of relationships with citizens and customers, combine to create normative ambiguity and a high potential for various forms of private appropriation of the role of the public sector employee. An unintended outcome may have been the clouding of a clear conception of the public service roles of the civil servant and other state employees, particularly in service delivery areas such as health (Lieberman, Capuno, and Minh 2005, 168).

The Government has acknowledged some of these developments, as we noted earlier. Indeed, in the process of salary reform, the fundamental problem was defined as one of control and discipline. In addressing this problem, the highest priorities were given to raising the basic pay for everyone and to finding the means to fund the increases. From 2003, the minimum wage was increased by 38.1% to VND290,000 a month, followed in October 2004 by a further increase of 30% (*Vietnam News* July 19, 2004). These were the third and fourth "big jumps" since 1999 (see Table 3) and flowed on to pensioners as "cost of living adjustments." Additional increases were foreshadowed for the coming years. In granting such increases, considerable strain was placed on the budget. Ministry of Finance officials estimated in 2001 that if the Government allocated

50% of its projected annual increase in revenue collection, it would only be able to finance a 12% increase in the minimum wage.[13]

The priority given to these substantial and seemingly unaffordable increases was justified on two main grounds: first, equity (one argument being that wages in other sectors, including the SOE sector, were outstripping those of public employees), and second, the fight against corruption. The linkage of pay rises with a need to correct relativities was in many ways a spurious one, given the large levels of unreported income of public employees (see also Bales and Rama 2001). However, the wage justice and anticorruption rationales were not a smokescreen. The crucial issues for the reformers were that official *basic wages* were perceived to be unjust and inadequate. The resulting income supplementation practices created substantial inequities and contributed to loss of discipline, including corruption. Substantial wage rises were viewed as a means of reestablishing the legitimacy of the official state employment system, providing a basis for trying to reassert control.

Given the strategy to offer substantial salary increases, the reform package had to address the funding issue. One solution was downsizing. In 2000, the Government announced a target of 15% across-the-board staff payroll reductions by the end of 2002. Agencies were instructed to submit individual downsizing plans. However, the process resulted in reductions of only about 3% (World Bank 2002, 94). The prevailing staff budgeting system was largely to blame for the shortfall. Under this system, central allocation formulae were based largely on the size of the unit's workforce. Local managers tended to "pad" their annual request for central budget allocations on the basis of an ever-growing establishment. As a consequence, most downsizing plans contained poor quality data, were highly tokenistic, and insisted upon the need for subsidy for the cost of redundancies. With the failure of mandated downsizing, the measures announced in 2003 to fund the pay increases were both ingenious and radical. They addressed not only the funding issue directly, but also signalled a new approach to downsizing. Half of the increases would be funded from the central state budget, while the rest would have to come from agency budgets, including savings made by local managers from both cost-cutting measures and also from renewed efforts to raise additional revenue. Separate measures applied to administrative agencies and to public service delivery units, respectively. As the former had fewer revenue-raising opportunities, the imperative cost cutting applied especially strictly to them.

The route taken to achieve this was via managerial and fiscal decentralization. Administrative bodies would now be funded from a lump sum allocation rather than by the existing funding formula based on year-to-year levels of employment and salaries. This new "block allocation" or one-line budget was first piloted in district administrations in Ho Chi Minh City, where it led to savings in administrative costs, stimulated restructuring and downsizing, and also allowed for local increases in salary (Bartholomew et al. 2005). The official justification for the replication of this experiment across the rest of the state sector followed a "managerialist" rationale:

> . . . bearing in mind the current practices, which reveal extreme wastefulness in using funds from the State budget, giving lump sums to State administrative agencies will help promote savings, prevent wastefulness and reserve a part of the sums to improve employees' wages. (Quy Hao 2003, 15)

The stipulation that cost savings could be retained and used for salary increases was the "carrot" in this scheme, but behind it was a heavy "stick," as without such savings, the agency would not be able to pay the compulsory wage increases to its employees.

Decree 10 of December 2002 granted public service delivery units (the so-called productive sector of the state) a considerable degree of formal budgetary autonomy, allowing them to: "(i) manage their own revenue accounts; (ii) adjust salary payments to reward performance; (iii) restructure their staffing to gain efficiency; (iv) set administrative spending norms that are different from those set by the government; and (v) carry forward funds unspent in the previous year" (Cuvillier and Hai 2002). In the course of implementing this so-called financial self-determination mechanism, each public service delivery agency would be classified according to its revenue generating capacities, and the amount of state budget funding (if any) would be calculated and fixed for a three-year period (with a "markup" factor to cover cost increases). An important element in this proposal was the discretion granted to managers to pay "above-award" rates to reward efficiency-improving performance, replicating a provision applying to SOEs. In 2003, a new Ordinance on Cadres and Civil Servants spelled out the differences in employment conditions for civil servants between the administrative and productive sectors, sanctioning greater flexibility in remuneration and other terms and conditions for the latter, including the use of contract staff (Joint Donors 2004, 50).

These changes attempted, under the guise of managerial devolution, to establish new sorts of controls between center and periphery and employer and employee. On the one hand, the greater wage discretion was simply an acknowledgment of the status quo—local agencies were already operating with high degrees of informal discretion in paying above-award gross payments; now they could do so officially. The measures also embodied a significant control agenda in aiming to force mangers to use "unofficial" revenue to pay the official salary or, to put it another way, to convert unofficial bonuses and supplements into official salary and allowances. It was hoped that this would also bring the extra- and off-budget revenue already used for the purpose into the consolidated state budget. At the same time, the new measures legitimized a more decentralized, nonuniform system of official pay and rewards for public servants.[14] The local rules already in operation were given the stamp of central authority, in a significant modification to the public employment provisions as set out in 1993.

The Decree 10 changes also greatly accelerated the commercialization of service production. The effects of the grant of greater autonomy included the following: a blossoming of fee-paying services, such as training courses and new kinds of on-demand health facilities; a rapid growth in revenues; and quite significant cost reductions and wage increases (Socialist Republic of Vietnam and World Bank 2005, 107–109). No direct information is available on whether these increases were accompanied by a decline in unofficial supplements, but this might be inferred. For example, a practice had for some years been permitted allowing Hanoi schools to enroll so-called "Grade B," fee-paying students who did not meet academic or residential entrance requirements (Socialist Republic of Vietnam and World Bank 2005, 110). All students paid some fees, but Grade B students could be charged a higher fee. These "extra-plan" and "extra-budget" students were a valuable source of income, as only a small proportion of the fee charged had to be remitted to the central department.[15] The surplus funds were allocated to the salary budget. When the wage increases of 2003 were announced, these funds would have been dipped into to pay for some of the increase. Other than by shifting other funds to make up the difference (or, more likely, by further fee increases), the result would have been simply to rebadge part of the existing gross payment received by teachers and other employees as official wage.

The package of fiscal decentralization measures also addressed the control and monitoring agenda. The center has retained some strict input controls, physical limits, and thresholds including the following: process of annual determination of the local agency contributions to the salary increases; limits to the amount of bonuses that can be paid; and regulations that will supposedly monitor and limit local fees and charges. However, the limits, caps, and norms are often "negotiated" between individual service delivery units and the parent provincial or national department, making the system somewhat arbitrary and open to political influence (something that has already been noted in the same situation in China, where the supervision of "official" or "legal" local fees was very lax). Moreover, in Vietnam, there is limited administrative capacity to develop and apply new forms of supervision of a systematic kind. The long-term modernization project of PAR involves establishing effective databases and information systems for personnel and financial transactions to facilitate improvements in such monitoring.

The issue of variable and arbitrary fees and access to services has become an increasingly sensitive issue. In China, it has led not only to periodic clampdowns on local officials but also to fiscal reforms aimed at lessening the burden of such fees, particularly impacts on the rural poor (Yep 2004). The issue is also a matter of continuing debate within the Vietnamese political elite, as well as being a subject of critical comments by central government experts and outsider advisers (Socialist Republic of Vietnam and World Bank 2005, 110–114).[16] For example, Nguyen Thi Hoai Thu, director of the National Assembly Social Affairs Committee, publicly questioned whether it was right that increased fees for services that the people "deserved" should be channeled into a pay increase for public servants (*Vietnam News Service* October 27, 2003). The response of the Government was to introduce fee exemptions for the poor and to encourage cross-subsidization. However, some of the exemptions involved cost sharing by local and provincial governments, which may be a heavy burden on poor jurisdictions.

In the long run, an important result of the new budgetary and management devolution seems to be to reformulate the basis on which administrative and fiscal discipline and control are exercised. Instead of a unified hierarchy with tight rules and close supervision, the control model is of a decentralized, entrepreneurially motivated set of agencies operating under heightened pressures to deliver "results." Local managers are thereby co-opted to embrace the modernization and rationalization agenda of PAR on their own initiative. The budgetary incentives and rewards for managers are now aimed at encouraging them to take a more "managerialist" stance vis-à-vis employees in pursuit of the center's service improvement, downsizing and efficiency goals, while at the same time providing the workforce with their salary increases and supplements.[17] In the process, they must learn even more thoroughly than before about the ways of the market and how to seek out and satisfy customers.

In sum, these reform measures arrived at an internationally familiar destination—a devolved, quasi-marketized system of personnel and financial management akin to that advocated in NPM models—by a purely local route. From the local perspective, one of the goals is to unleash resources for higher levels of service delivery; another is to increase revenue-raising capacity. Behind both of these is a third motive the need to fund substantial pay rises, which were seen necessary both to restore the center's legitimacy in the eyes of public employees and also to restore some control and discipline over local managers. In fact, the methods of funding, while seemingly radically devolutionary, were in part simply an acceptance of the informal status quo.[18] At the same time, they posed a challenge to the local rules and those who operated within them, in that the aim was also to restore the center's control by institutionalizing them in a standardized form.

In these measures, civil service reforms to improve efficiency and performance were evident as rationalizations, but this rhetoric was only loosely coupled with the adopted measures. "Bonuses for performance" were part of the reform talk, but precise mechanisms were not articulated, aside from encouraging managers to "reward efficiency." However, this simply meant that efficiency savings, or the products of greater revenue efforts, could be distributed as pay and supplements. The relatively low priority given to "performance" within the salary reform agenda was evident from the lack of immediate steps to restructure the pay scales, decompress salaries, or introduce a more transparent, merit-based system of advancement and reward (i.e., to press ahead with conventional efficiency-enhancing salary reform strategies). The first, limited steps in these directions were taken in 2004 with the announcement of a slight decompression of the salary scales from 1:8.5 to 1:10 (*Vietnam News*, July 19, 2004). It is clear, however, that the emerging pay reform strategy of the Vietnamese Government is not a standardized, civil service system but one that is decentralized, market driven, and dependent increasingly on the ingenuity and discretion of local managers.

Conclusions

Recent pay reform in Vietnam is not just connected with marketization but also, somewhat paradoxically, with a strategy to reassert state control and legitimacy through realigning official policy so as to corral local practices. In the transition process after 1986, the self-denial by the center of instruments of control that had been characteristic of the command economy left a vacuum. Local state officials devised a plethora of stratagems to expropriate resources both from the private sector (including households) and from the weakening state sector, in the process supplementing employees' rewards and building local loyalty and commitment. In this way, the pay and rewards system achieved legitimacy and shaped the identity of public-officeholders through its nonformal rather than its official components. Norms and conventions of public-office holding of the kind fostered by a civil service system, including elements as basic as developing efficient work habits, were as a consequence only imperfectly institutionalized.

In this context, domestic reformers have treated pay reform in Vietnam primarily as a matter of addressing (both indirectly and directly) the growth of indiscipline within the system. Crucially, however, the options open to reform have been shaped by the deep-seated nature of local practices, and the legitimacy they seem to have acquired. Thus, de facto decentralization has been given an official stamp; off-budget activities have been acknowledged and treated as a part of the solution; and an entrepreneurial, deregulated setting for pay and rewards has been given official sanction, in the hope that the resulting gains all round will mask the inequities. This meshes with a growing degree of tolerance of and encouragement to semiprivatized service delivery mechanisms. Whether out of conviction or necessity, the Vietnamese Government has, with typical ingenuity and pragmatism, erected on the foundation of a set of local coping strategies a series of NPM-style administrative reforms. Paradoxically, these reforms are being patched on to an administrative system that retains strong elements of patronage and has few if any of the characteristics associated with the development of a performance culture, despite the apparent commitment to see one develop. The driving issue in the solutions adopted is fundamentally the lack of resources in the state budget. The growing market economy (including the informal sector) is seen as a source of the finances necessary to sustain the personnel and infrastructure of service delivery systems, through increasingly self-sufficient administrative units engaging (with state permission) in various forms of entrepreneurial activity.

Thus, the emerging model of public finances and of civil service pay and conditions leapfrogs a whole century or more of public-sector development into a world of deregulated, decentralized, and market-driven forms of state management of a kind only a few advanced western states are prepared to envisage, even in the era of neoliberalism. Local managers are given high levels of autonomy; local systems of salary scales and bonuses are permitted; user charges are encouraged to fund these expenses; service delivery is semiprivatized; and so on. The "stages" model discussed in the introduction would suggest that the first step along the long road to such a destination should be to remove some of the post-*doi moi* irregularities observed in the pay and employment system, so as to set it back on course toward a rule-bound, uniformly managed system of pay and employment, with merit to the underlying principle. Nevertheless, the "problem" of pay reform in Vietnam as defined by Vietnamese policymakers is not the need to find remedies for a faltering bureaucratic rationalization project. Such a project was hardly begun. The trajectory of reform has been to leapfrog straight to a post-Weberian mode of public service organization. Instead of following the trajectory, the Government should first aim to perfect a classical, Weberian-style bureaucracy, and only then cautiously introduce measures like managerial autonomy and performance pay.

However, the reforms appear to be evolving in ways that leave unresolved ambiguities and contradictions of the kind that the analysis of the historical experience underlying the stages model might warn against. Here, in the spirit of those who argue for sequencing, we turn from trying to reconstruct and explain the logic of the strategies and measures that have been implemented, to pointing out some possible counterproductive consequences. For example, it is a high-risk strategy not only to give tacit acknowledgment to local revenue-raising practices (the "three arbitraries"), but also to attempt to sanitize and formalize them. In the absence of firm rules and effective supervision and monitoring, we might predict that the result will be more abuses by local officials at the expense of the most vulnerable. The checks against local patronage and other forms of particularism (such as revenue abuse) may get even weaker as a result of greater decentralization.

Although one of the long-term aims seems to be to substitute local patronage and personalism, with its accompanying informalities and irregularities, with a managerially inspired, administratively deconcentrated, and user-responsive public-service delivery system, whether or not the new rules of the game will result in genuine local efforts to promote and reward employees on the basis of performance and service delivery improvements (for example) is not clear. There are clear dangers under the incentive systems being put in place that a new set of central–local games will emerge in which so-called efficiency improvements will simply be paper exercises, successfully disguised as such from central inspection because the reporting and supervision mechanisms remain inadequate to probe behind the facade. Moreover, the practicalities of the reform measures described here are still being tested. One such practicalities is the extent to which the funding mechanism of local contributions to the salary bill is sustainable once initial, easy savings and quick revenue gains in new markets have been garnered, and as pressure mounts over any growth in unjust and arbitrary fees. These problems may yet to see the decentralization strategy fail, resulting in a search for alternative (perhaps more conventional) forms of bureaucratic control.

In conclusion, however, we should ask what the alternatives might have been. Unless the regime was interested in inviting its own self-destruction, it simply may not have been an option to ask public employees to undergo continuing wage suppression while at the same time clamping down on local fiscal and employment irregularities in the name of creating a more uniform, rule-bound public-sector personnel management system. Neither was it an option to rely on tax-funded service provision as distinct from user fees, when the latter were often the only direct and reliable sources of revenue for service delivery units. Given the "extra-plan, extra-budget" stratagems already embarked on, any clampdown would have been an unrealistic call on state capacity and legitimacy. Similarly, while a long-term, multi-pronged civil service reform strategy was spelled out in the PAR program, the urgent need for salary increases could not await its uncertain and distant achievement to ensure these increases were properly designed as performance-related efficiency incentives across the state employment sector. Indeed, parts of the longer-term program of creating a framework of such servicewide rules and policies may have been overtaken by the decentralization and commercialization strategies. But, just as it would not have been very helpful simply to warn against the consequences of not following the right steps in the right order in the first place, it would not be helpful now to ask for the clock to be put back—the question is what to do next to mitigate some of the more counterproductive consequences that might be predicted.

Acknowledgments

Research for this article was conducted with the support of City University of Hong Kong Project Grant 9030995. Thanks are due to three anonymous reviewers for helpful comments and suggestions. Staff at Mekong Economics, Hanoi, under the direction of Adam McCarty, provided invaluable research assistance.

Notes

1. While this is a prescriptive model, it is presumably based on historical analysis of the actual conditions under which such "second-stage" reforms have occurred with some degree of success.
2. John Gillespie (2002, 168–169) points out that international organizations pressed the need for Weberian-style civil service reform in Vietnam from the early 1990s.
3. These figures were drawn from World Bank World Development Indicators.
4. In 1993, existing state officials were allocated to ranks under the new civil service law without full, systematic assessment and often according to political or personal criteria. The legacy has retarded wider acceptance and application of a purely merit-based system.
5. The exchange rate is approximately VND15,800 to US$1 (October 2005). The unit of currency is the Vietnamese dong.
6. Derek Robinson (2002) added an additional category—(4) gross public sector income—which is gross pay from the official's employee plus income earned from other public agencies. This is collapsed into the final category here.
7. One study concluded that unreported income in public sector households in Vietnam accounted for no less than half of total income (Phan 2001 reported in Tenev et al. 2003, 16).
8. The minimum wage provides the basic index for social security payments, including pensions for veterans and retired civil servants, adding "hidden" fiscal costs to an across-the-board salary increase. Most state pensions are funded directly from the consolidated revenue, as the State Insurance Fund (a contributory scheme) was only set up in 1993.
9. A common instance of this collectivization process arises in the case of project officers engaged by international donors on higher rates than counterparts seconded from the host agency, who are paid at local rates. At least part of the "above award surplus" is commonly used to partially equalize individual rewards across the whole office.
10. It has been argued in the case of China that unofficial revenues of various kinds tend to be disproportionately devoted to administrative expenditures such as salary supplements (Wedeman 2000, 501–503).
11. In China, crackdowns on so-called local "arbitrary" fees revealed that, in fact, many were officially sanctioned (Wedeman 2000, 506).
12. Families accounted for about 80% of the total health budget, as against 20% from the state; in education, public subsidies provided 61% of primary, 42% of lower secondary, 33% of upper secondary, and 46% of higher and vocational education expenditure, respectively (World Bank 2001, 50–64).
13. Information was gained by personal communication.
14. The Ho Chi Minh decentralization initiative resulted in growing wage disparities between different Districts (Bartholomew et al. 2005, 346–349).
15. Hanoi education authorities set the fee at VND90,000 per month.
16. The basic thrust of the criticism are familiar. The system of devolved, entrepreneurial service delivery may have direct and indirect impacts on access to services by the poor and vulnerable, undermine the delivery of core services in favor of peripheral, income-generating ones, and lead to "price-gouging" in monopoly markets.
17. The response of some managers in HCMC, which was to "hide" the downsizing in various ways to protect employees from redundancy, does not suggest that this is likely to be a success (Bartholomew et al. 2005).
18. On "reform" more generally in Vietnam as a process of post hoc rationalization by a leadership responding to more bottom-up, spontaneous forms of change, see Gainsborough (2003, 104–109).

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