

# **Economic Governance and Development in Vietnam and Mozambique (‘FFU Project’)**

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## **Terms of Reference 2009**

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## **Activity 1: General Country Papers**

Vietnam is a populous Southeast Asian economy with a particular economic and political history on the brink of a dynamic Asian development experience. Despite its potential, this economy is at the moment poor, and inequalities are looming that are unlikely to be mitigated by market forces alone. Debate about the drivers behind Vietnam's success also continues.

Mozambique, on the other hand, is a thinly populated country in Southern Africa which has suffered from years of destruction caused by war, natural calamities and ill-conceived economic policies. Great strides have been made over the past decade to recover. Economic progress has been significant, and Mozambique now boasts a multi-party democracy. Yet, Mozambique continues to be one of the poorest countries in the world and will remain highly dependent on development assistance and other capital inflows for years to come.

Comparative studies of these two countries which are similar in some but very different in other dimensions are as laid out in the FFU project document potentially rewarding. This is so in both a more narrow sense and with a view to the bigger challenge of deepening our understanding of comparative development in Africa and Asia. This includes what the former region may potentially learn from the latter in formulating effective economic development policy.

In this, the first year of the FFU project, it is important to develop a common level of understanding among project researchers of the socioeconomic characteristics, trends and issues in both Vietnam and Mozambique.

Thus, the proposed framework for activity 1 is:

### **1. Basic country characteristics**

- a. History,
- b. Geography and natural resources,
- c. Demography,
- d. Political system, key institutions and governance,
- e. Economic policy and reform.

### **2. Economic structure and transformation**

- a. Economic growth, structural transformation, poverty reduction,
- b. Other socio-economic indicators,
- c. Decomposition of GDP (land, labour, capital, the role of technology),
- d. Key sectors,
- e. Savings and investment,
- f. Foreign trade and resource inflows (e.g. FDI, ODA, remittances etc).

### **3. Future development challenges**

- a. Key priorities (targets and objectives),
- b. Constraints and bottlenecks to growth and socioeconomic development,
- c. Development strategy and policy.

**Outputs**

1. Paper and presentation (November FFU workshop) on Vietnam.
2. Paper and presentation (November FFU workshop) on Mozambique.

**Study Team**

UoC: Simon McCoy  
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ILSSA: Nguyen Huyen Le  
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## **Activity 2: Overview Papers on Economic Governance and Policy-Making Process**

The *central thesis* for the research in the FFU project is that well-functioning economic governance systems are crucial for sustaining growth, economic transformation and development. Economic governance includes the process of information and data collection, analysis, dissemination, debate, and decision making; and “good” economic governance results in deliberate, knowledge-based choices, intended to serve the general, public rather than special interests. “Good” governance is challenging in significant measure because success is highly context specific.

One cannot expect to achieve prolonged periods of growth and poverty reduction without effective experimentation and informed adaptation of general policy guidelines to local circumstances. This requires capacity to recognize both success and failure and to adjust and channel resources accordingly on an ongoing basis. In turn, this process of continuous adaptation requires a regular flow of high quality information and analysis in order to permit constructive debate and timely policy analysis and decision making.

The FFU project is meant to provide inputs into understanding the broader framework for policy and decision making in Vietnam and Mozambique. Key questions include: How are policies made and by whom?; According to which criteria are government resources allocated?; How are government officials recruited?; Which data and information sources do various government bodies use?; What is the role of economic governance and what are its determinants in the development process?; and How does one evaluate the existing systems for economic governance (including the level of political accountability and the way in which political selection, i.e. recruitment to political offices, takes place)?

For both methodological and substantive reasons, activity 2 should include collecting information on *local government*. First, local governments are crucial agents in the implementation of most policies. Second, looking at local governments allows analysts to study variation between many different units of observations within each country, which in turn facilitates the use of statistical methods of analysis. The more specific outline for activity 2 can be set out as follows:

### **1. Existing governance structure and institutions**

- a. Historical context and overall structure of government
- b. Political institutions (political party(ies), parliament etc),
- c. Government institutions (central and local),
- d. Judicial system, property rights and contract enforcement,
- e. Other formal institutions (e.g. mass organisations, unions etc),
- f. Private sector, civil society, news media etc.

### **2. Local government**

- a. How are economic resources allocated from central to local governments? (i.e. what determines how many resources are allocated to each province, district and commune?)
- b. Can local governments appropriate economic resources by other means than via transfers from the centre? If so, how (e.g. by taxes, fees land sales etc.)?
- c. How are senior commune-, district and provincial officials recruited? Who makes the hiring decisions, and what are the most important criteria?

- d. How are decisions on projects at the local level made? For example, who decides whether to build or improve a small or medium sized road or irrigation canal in a commune or a district? What is the decision making procedure?
- e. How are benefits to individual households, e.g. pensions, veteran's benefits, subsidized water- or sanitation facilities, distributed? How do households apply for benefits? What is the procedure for processing applications? Who makes the decisions?
- f. How can ordinary people influence the decisions of commune-, district- and province authorities? How and how often do citizens organize themselves in groups, in order to push for desired policy decisions (for example, do people form groups to lobby for, or against, infrastructure projects?)

### **3. Data sources and generation processes (used for policy-making)**

- a. What are the key planning and policy documents and who are responsible for their preparation?
- b. Who are the key data-collecting institutions?
- c. What are the existing socioeconomic data sets (macroeconomic/SAM data, poverty and socioeconomic data, enterprise data, agricultural/industrial/ services data),
- d. How are data disseminated?
- e. How are data used in the planning and policy-making processes?

### **4. Assessment**

- a. Main recent achievements, in terms of public policy programmes.
- b. Key problems and constraints on good governance (including issues related to political accountability, political selection, collective action and decision making),
- c. Recommendations for future.

### **Outputs**

- 1. Paper and presentation (November FFU workshop) on Vietnam.
- 2. Paper and presentation (November FFU workshop) on Mozambique.

### **Study Team**

UoC:	Thomas Markussen
CIEM:	Vu Xuan Nguyet Hong
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DNEAP:	Claudio Massingarella & Fausto Mafambissa
INE:	Monica Magaua

## **Activity 3: International Financial Crisis**

The current financial turmoil has been described as the worst crisis to engulf world markets since at least World War II. September and October 2008 saw some of the largest falls for decades in financial markets across advanced economies, alongside historically unprecedented spikes in volatility and risk perceptions. Neither emerging nor developing economies are immune, and a number of countries already have turned to the IMF for emergency assistance in wake of these events. Despite some very recent glimmers of stabilization, a deep global recession is now a reality.

The financial crisis is still unfolding and substantial uncertainty exists. As such, its scope and implications for Vietnam and Mozambique cannot be determined with confidence. Further research is required.

The main risks to developing countries, and in particular Vietnam and Mozambique, from the crisis do not necessarily arise from immediate financial contagion. Rather, the medium-term implications of reduced access to external capital inflows and a slowdown in global growth will be critical to both countries.

Specific questions to answer in the FFU project would focus on identifying potential channels through which the international financial crisis can impact on Vietnam and Mozambique. In other words, what are/have been the vulnerabilities of the economy to the negative transmission effects of financial crisis?

Moreover, it is important to assess the extent to which the countries have already been impacted, and how?

Furthermore, consideration should be given to the mechanisms (policy instruments) that Vietnam and Mozambique could employ to negate such negative impacts.

### **Outputs**

1. Paper and presentation (November FFU workshop) on Vietnam.
2. Paper and presentation (November FFU workshop) on Mozambique.

### **Study Team**

UoC:	Finn Tarp
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## **Activity 4: Poverty and Vulnerability**

Much has been learnt over the years about the concept and measurement of poverty, which is a well established key priority aim of development policy and foreign aid. Nevertheless, measurement of a multi-dimensional phenomenon such as poverty remains a challenge. Moreover, understanding the causal factors behind the evolution of poverty is even more difficult. Poverty is intricately linked with vulnerability, which is not only multi-dimensional but also has a time-dimension associated with it. Consequently, there remains significant variation in the approaches to poverty analysis across countries, including Vietnam and Mozambique. This highlights the need for more standardised approaches and comparative analysis so as to come better to grips with similarities and differences that may influence our understanding of the underlying development processes.

One important issue is that the surveys and other data sets available for poverty analysis often differ both from one country to another and that quantitative and qualitative approaches vary in terms of purpose and focus. In quantitative methodologies key steps of the analysis (drawing increasingly on panel data) typically include:

- Estimation of household consumption, including checks for the basic data quality
- Adjustment of data for differences in prices faced by households over space and/or time
- Establishment of a poverty line, which may differ by location.

This kind of work typically does not address the multi-dimensional nature of poverty. In contrast, in qualitative studies more emphasis is placed on multi-dimensional aspects and life histories which capture descents into and exits out of poverty.

The overall aim of activity 3 is to compile the necessary information required to establish the basis for consistent comparisons of poverty developments between the two countries and critically evaluate both data and information sources.

### **Outputs**

1. Detailed review and assessment of the methodologies used in poverty and vulnerability measurement in Vietnam.
2. Detailed review and assessment of the methodologies used in poverty and vulnerability measurement in Mozambique.
3. Comparative study on poverty and vulnerability in Vietnam and Mozambique.
4. Presentations at FFU workshop in November.

### **Study Team**

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## **Activity 5: Rural Finance and Agricultural Productivity**

Poverty is predominantly a rural phenomenon in both Vietnam and Mozambique, and the large majority of rural households depend on agriculture as their major source of income. Improved agricultural productivity is well established as a major force for moving people out of poverty. Comparative work between Vietnam and Mozambique is particularly interesting in this area: Vietnam has experienced considerable success in raising agricultural productivity and in establishing markets, particularly export markets, for the increased production. There are numerous potential lessons for Mozambique where efforts to improve agricultural productivity are widely viewed as having achieved considerably less success.

One specific area of interest is rural credit. Theoretically, rural credit can potentially impact on agricultural productivity through three mechanisms/channels: By encouraging efficient resource allocation by overcoming constraints to purchasing inputs and using them optimally; by being used to purchase new (productivity-enhancing) technology (e.g. high yielding seed, machinery); and by increasing the use intensity of fixed inputs like land and family labour (higher consumption, improved nutrition).

However, most of the rural poor actually lack access to the range of financial services that they require. Rural financial services are relatively costly and rigid, whether from formal or informal financial providers, and many of the primary products of many (micro-)financial institutions (short-term working capital loans with frequent repayments for example), are not well-suited to agricultural activities. Furthermore, financial institutions seeking to work in rural areas face numerous constraints, such as poor infrastructure, high information and transaction costs, seasonality of many agricultural activities, and a lack of human resources.

With this in mind, an analysis of rural financial services in Mozambique and Vietnam will be undertaken consisting of an in-depth diagnosis of the rural financial system in the two countries using descriptive statistics and qualitative assessments. In particular, the study will make an informed judgement regarding the efficiency/value-add of rural finance through the lenses of outreach, sustainability, and, to the extent possible, impact on rural livelihoods. Given the markedly different institutional set-ups currently in existence in the two countries, the analysis will seek to identify areas in which the two countries can learn from each others' experiences in the area of rural financial service provision.

### **Outputs**

1. One paper and presentation (November FFU workshop) on Vietnam and Mozambique.

### **Study Team**

UoC:	Simon McCoy
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## **Activity 6: Demographic Trends and Population Growth (Education Transition Matrices)**

The education system creates human capital. Higher skilled people can undertake more complex tasks and generate greater value added. Skills upgrading is thus a source of economic growth in all economies and critical in light of WTO accession in Vietnam and in the future challenges faced by Mozambique. In order to start addressing the issues of skills upgrading, education system transition matrices have been estimated in both Vietnam and Mozambique.

These matrices consider how historically students have moved through the educational system. In the large majority of instances, one of three things happens to students within the educational system:

- a) they proceed to a higher level within the system,
- b) they repeat the same level within the system, or
- c) they exit the educational system altogether and presumably enter the labour force.

By assigning a probability to each principal outcome (plus potentially a trend in these probabilities), the estimated transition matrices provide a useful tool for forecasting future labour stocks by education level.

These levels can include technical school training and university, and the transition matrices also provide forecasts of enrolments at each education level and hence need for teachers at each level for a given pupil to teacher ratio.

Research in the FFU project will in 2009 focus on further developing and refining this work. In particular, additional and more up-to-date data sources will be explored and incorporated.

### **Outputs**

1. Comparative analysis of labour supply using education transition matrices, in Vietnam and Mozambique and a presentation at the November FFU workshop.

### **Study Team**

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## **Activity 7: Enterprise Development and the Private Sector**

Economic reform in both Vietnam and Mozambique has included a focus on privatisation and increased efficiency in SOEs, and international research is characterised by a variety of initiatives that have been taken over the past two decades in the area of the collection and analysis of enterprise surveys. A growing academic literature has emerged involving the use of these and other available data for policy relevant analysis.

With respect to Mozambique, various surveys have been conducted, including a panel survey of manufacturing firms. Despite these efforts, however, the potential and strategic significance of the enterprise sector stands in contrast with the relative dearth of in-depth understanding of the characteristics, dynamics and constraints facing the sector as a whole. So in order to come to grips with the very dynamic and fundamental changes which the private sector is undergoing, further analytical work is essential.

In contrast, the enterprise sector in Vietnam is at a more advanced stage of development, healthier and more adequately monitored. One aim of the FFU project will be to apply the lessons learned from the evolution of the sector in Vietnam to the Mozambican case. Moreover, the differences in the evolution of the enterprise sector between a dynamic Asian and a dynamic African economy will be of keen general interest.

In order to understand the evolution of the respective private sectors in Vietnam and Mozambique, in-depth reviews of the reform process is required, and a better understanding of firm-level productivity is critical.

More detailed questions about the SOE reform process include (and will be further detailed in due course):

- How has the process of privatisation of SOEs been undertaken in the context of reform programmes since 1986?
- Which concrete measures/policies have been used to try to achieve greater efficiency in resource use?
- Which socio-economic concerns (such as increasing unemployment) have played a role in decisions regarding the reform process?
- What can be said about the success of the reforms to date?

Turning to the manufacturing sector surveys more specifically, a key question within this, is how the different institutional frameworks influence productivity dispersion across sectors in the two countries. For this purpose, selected sectors will in 2009 be identified and studied based on available enterprise survey data, and subsequently compared with a view to establishing:

- (i) whether significant average efficiency differences exist,
- (ii) whether efficiency dispersion differs in the two economies, and
- (iii) what explains these potential differences in efficiency dispersion.

### **Output**

1. Overview study of the enterprise reform process in Mozambique.

2. Overview study of the enterprise reform process in Vietnam.
3. Comparative study of technical efficiency among a sample of Vietnamese and Mozambican manufacturing enterprises.
4. Summary presentation at FFU workshop in November.

**Study Team**

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## **Activity 8: Health and Burden of Disease**

The Global Burden of Disease (GBD) project has developed the Disability-Adjusted Life Years (DALYs) and Disability-Adjusted Life Expectancies (DALEs) measures. However, little is actually known about the social and economic appropriateness of using the DALY and DALE indicators. For example, are these measures appropriate in the context of a severe HIV/AIDS epidemic? And to which extent are these measures linked to welfare indicators such as income or consumption.

The FFU project was designed to contribute to methodological advance in this area of socio-economic enquiry and take advantage of detailed data availability in Mozambique and Vietnam to analyze the analytical foundations of these summary measures. Establishing a common framework for assessing the impact of (changes in) population health in developing countries was also identified in the FFU project document as a key activity.

As a first step in meeting project objectives, the FFU project will in 2009 focus on developing mutual understanding in the project team of the underlying concepts and methodologies in use. In addition, more detailed plans for future work will be developed based on 2009 findings and recommendations.

### **Outputs**

1. A comparative assessment of existing health measures and standard analytical methodologies with a view to identifying weaknesses and potential areas of improvement.
2. A summary presentation at the FFU November workshop.

### **Study Team**

UoC: Lars Peter Østerdal

## **Other potential topics (to be considered in due course)**

- Foreign aid and financing development,
- Commodity prices,
- Climate change.