

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

*Central Institute for Economic Management (CIEM), Vietnam  
Institute of Labour Studies and Social Affairs (ILSSA), Vietnam  
National Directorate for Studies and Policy Analysis (DNEAP), Mozambique  
National Institute of Statistics (INE), Mozambique  
Development Economics Research Group (DERG), University of Copenhagen*

## **Terms of Reference 2010**

**DFC Project Number 85-08-KU  
KU Project Number 27540**

These Terms of Reference (ToR) outline all activities to be undertaken by CIEM, ILSSA, DNEAP, INE and DERG in 2010 under the FFU Project. The total term of the FFU project is from January 2009 to July 2012, and 2010 therefore represents the second of three and a half years. The present ToR are written following the first FFU Workshop, which was held in Dalat, Vietnam from 9<sup>th</sup>-13<sup>th</sup> November 2009.

Activities in 2010 fall into three categories:

1. Finalise all 2009 studies (either as Dalat Conference Paper or as FFU Working Paper) and make them available on-line.
2. New studies in 2010 (either as a continuation of 2009 papers, or in a new area).
3. Finalise 'pipeline FFU Working Papers'.

**1. Finalise all 2009 studies and make them available on-line**

All studies conducted in 2009 (Activities 1 to 7) for both Vietnam and Mozambique were presented at the FFU Dalat Workshop. Numerous comments were received and suggestions made for improvements and further work.

2009 represented the first year of the project, and therefore many of the papers' topics and themes were intentionally broad. For any detailed comparative analysis to take place, a common base and level of understanding is clearly important. At the same time, certain papers did provide detailed analyses on specific topics that went much further.

As such, 2009 papers will be classified into one of two groups, namely *Dalat Conference Papers* or *FFU Working Papers*.

The matrix below summarises activities to be conducted in early 2010 for each paper. The deadline for completion for this work is agreed as **end-February 2010**.

	<b>Vietnam</b>	<b>Mozambique</b>
<b>Activity 1:</b> General Country Papers	Incorporate comments and publish as <u>Dalat Conference Paper</u> . Collaborate with Moz colleagues to produce a short (no more than 3 pages) comparative analysis of the two countries.	Incorporate comments and publish as <u>Dalat Conference Paper</u> . Collaborate with Vn colleagues to produce a short (no more than 3 pages) comparative analysis of the two countries.
<b>Activity 2:</b> Overview Papers on Economic Governance and Policy-Making Process	Incorporate comments and publish as <u>Dalat Conference Paper</u> .	Incorporate comments and publish as <u>Dalat Conference Paper</u> .

	Vietnam	Mozambique
<b>Activity 3:</b> International Financial Crisis I	Incorporate comments and publish as <u>Dalat Conference Paper</u> .	Incorporate comments and publish as a <u>FFU Working Paper</u> .
International Commodity and Financial Crisis II <sup>1</sup>	Publish as <u>FFU Working Paper</u> .	n/a
<b>Activity 4:</b> Poverty and Vulnerability	Incorporate comments and publish as <u>Dalat Conference Paper</u> .	Incorporate comments and publish as <u>Dalat Conference Paper</u> .
<b>Activity 5:</b> Rural Finance and Agricultural Productivity	Incorporate comments and complete fully the comparative analysis. Publish as a FFU Working Paper in 2010 (see 3. ' <u>Pipeline FFU Working Papers</u> ').	
<b>Activity 6:</b> Demographic Trends and Population Growth (Education Transition Matrices)	Incorporate comments and publish as <u>Dalat Conference Paper</u> .	Incorporate comments and publish as a <u>FFU Working Paper</u> .
<b>Activity 7:</b> Enterprise Development and the Private Sector	Incorporate comments and publish as a <u>FFU Working Paper</u> .	Incorporate comments and publish as a <u>FFU Working Paper</u> .

For 2009, there are therefore eight Dalat Conference Papers and five FFU Working Papers.

---

<sup>1</sup> This paper, written by various members of the FFU teams from DERG and CIEM as well as colleagues from IFPRI, was not presented at the 2009 Dalat Workshop.

## **2. New Studies in 2010**

During and following the FFU Workshop, a number of topics emerged as interesting areas for further exploration in the context of a Vietnam-Mozambique comparative analysis. Some of these represent a more focused continuation of a 2009 paper, while others are completely new areas as yet un-investigated within the FFU Project.

The studies outlined below should all be seen as a comparative analysis of Vietnam and Mozambique. Broad ToR are outlined for seven areas, but it must be emphasised that it is the responsibility of the study teams to define clearly a detailed structure and focus of their respective study. The ToR below are meant purely as a starting point to give some context and motivation.

The team coordinator for each study will be the DERG researcher. In cases where two Vietnamese or two Mozambican researchers are participating in the same study, a country team leader has been nominated.

The next FFU Workshop is provisionally scheduled for the end of 2010 (possibly November) in Mozambique. The deadline for completion of the studies should therefore be seen as **start-November 2010**.

## 1. Local Governance

In the 2009 FFU Workshop, a consensus developed that work should continue from Activity II (governance) in 2010 by focusing on the issue of local government. Since both of the papers prepared for the 2009 workshop focus to some extent on this issue, work in 2010 should continue from where these papers end. Three broad areas are suggested:

First, the allocation of resources from central to local government. The 2009 papers already describe in some detail the formal procedures for making these allocations. We should now proceed and investigate to what extent real allocations follow the official criteria, or whether they are also affected by other factors, such as political-economic forces, geography, or ethnicity. In the case of Mozambique, it might be interesting to compare data on allocation of resources to data on election results. We could check whether the government allocates resources preferentially to the most politically contested areas, or alternatively, to its core areas of support.

Second, we could take a closer look at the characteristics of local officials, and on the procedures for recruiting local leaders. Again, we already know a great deal about the formal procedures, from the 2009 papers, but we should now try to dig deeper, and find out who is in fact recruited. We could use both survey and administrative data to draw up a socio-economic profile of local leaders.

Third, we could investigate how local governments allocate resources across households, and across different purposes (roads vs. schools etc.). Again, we should use both administrative and survey data to investigate whether certain types of households are more likely to benefit from public transfers and services than others, and whether some kinds of projects are more likely to be implemented than others. For example, studies from other countries indicate that the gender of local leaders affect which types of public investment is undertaken (e.g. women prioritize access to water; men prioritize roads). We can check whether such patterns exist in Vietnam and Mozambique.

### Study Team

UoC:	Thomas Markussen
CIEM:	Dinh Van An / Nguyen Thi Kim Dung *
ILSSA:	Nguyen Huyen Le / (Le Huong Quynh)
DNEAP:	Cristina Matusse
INE:	n/a

\* Country team leader on Vietnamese side

## 2. Private Sector Productivity and Efficiency

Both the Vietnamese and Mozambican business environment have been subject to severe government regulation during the 1990s, and wide ranging policy reforms focused on private sector development have gradually taken centre stage in both countries. Using firm level data from Vietnam (surveys 2002, 2005, 2007 and 2009) and Mozambique (surveys from 1999 to 2006) we therefore seek to estimate total factor productivity, technical progress and the extent of technical inefficiency among a sample of Vietnamese and Mozambican manufacturing enterprises in order to study whether these policy initiatives have narrowed the efficiency dispersion. We specifically ask whether firms that went out of business and new entrants differ from incumbents in terms of efficiency and technological progress.

Previous results have shown that the efficiency dispersion in both countries is relatively high meaning that a large set of relatively inefficient firms are able to stay in business among highly efficient ones. These results question whether the current business environment provides an equal playing field for firms in the manufacturing sector and ensures that natural firm turnover mechanisms are allowed to take place. We therefore combine our firm level data with recent doing-business data to assess the association between a set of performance indicators and constraints to doing business, in order to identify the most binding constraints for the development of the manufacturing sector in Mozambique and Vietnam.

### Study Team

UoC:	John Rand
CIEM:	Nguyen Thi Tue Anh *
ILSSA:	Nguyen Thi Lan
DNEAP:	Sandra Bila
INE:	n/a

\* Country team leader on Vietnamese side

### 3. Multidimensional Poverty

It is generally recognized that unidimensional measures of child poverty fail to adequately describe the true extent of childrens' well-being. In particular in the areas of health (mortality rates), nutrition, education and child labour, there has been growing disparities between the poor and the non-poor, and between urban and rural populations.

The analysis will investigate whether child poverty – measured in multiple dimensions – has decreased in Mozambique and Vietnam. This will be done by performing multidimensional first order dominance comparisons between the periods. If such dominance relationships could be observed, it will provide robust (i.e. strong) evidence of improvements in well-being.

It is intended to construct seven poverty indicators from the MICS-2 and MICS-3 data (the so-called Bristol deprivation indicators, cf. Gorden et al. 2003). The indicators are: Severe Food Deprivation (0-5), Severe Water Deprivation (0-18), Severe Deprivation of Sanitation Facilities (0-18), Severe Health Deprivation (0-5), Severe Shelter Deprivation (0-18), Severe Education Deprivation (7-18), Severe Information Deprivation (3-18). For each child, one can thus get up to seven (or up to six – depending on the approach) binary variables. To compare the situation in 2000 with that in 2005, we compare relevant samples from 2000 with those in 2005.

The whole population of children in 2000 can be compared with the whole population of children in 2005. Comparisons depending on age can also be conducted.

#### **Study Team**

UoC:	Lars Østerdal
CIEM:	Pham Lan Huong *
ILSSA:	Nguyen Thi Lan Huong / Thai Phuc Thanh
DNEAP:	Maimuna Ibraimo
INE:	n/a

\* Country team leader on Vietnamese side

## 4. Green GDP

National income account systems do not properly take into account the impacts of economic activity on the environment. For example, while national accounts typically include the depreciation of physical capital overtime, the depletion of natural capital, on the other hand, is treated as income. Similarly, polluting activities and the cost of pollution clean up are also treated favorably in national income accounts. Over the last two decades, several methodological efforts to incorporate environmental benefits and costs into economic accounts have been undertaken.

The objective of integrated environmental and economic accounting, also known as “green accounting”, are to provide policy makers with more accurate information on whether development is on a sustainable development path. These accounting methods have been developed in line with the System of Integrated Environmental and Economic Accounting (SEEA), as tools to track natural resource depletion and environmental degradation. Several approaches to green accounting have been pursued and include:

- Natural resource asset accounts, which provide balances of the stock of natural resources
- Pollutant and material flow accounts, which track energy use and materials resource flows as inputs to production and final demand and estimate the generation of pollutants and solid wastes.
- Environmental protection and resource management expenditures, which identify expenditures incurred by industry, government, and households to protect the environment and manage resources.
- Environmentally adjusted macroeconomic aggregates, which include revisions to conventional macroeconomic indicators, such as GDP, savings, etc, to take into account aspects of sustainability.

Both Vietnam and Mozambique are countries rich in natural resources. And both are growing quickly in large part thanks to the exploitation of these resources. Green GDP, therefore, is an important concept for national Vietnamese and Mozambican statisticians and policy makers to understand. While some work in this area is already being conducted by the National Institute for Statistics (INE) of Mozambique, in Vietnam it remains a new relatively unexplored area.

### Study Team

UoC:	Simon McCoy
CIEM:	Vu Xuan Nguyet Hong
ILSSA:	n/a
DNEAP:	Claudio Massingarella
INE:	Monica Magaua *

\* Country team leader on Mozambican side



## 5. Demographics

It is evident from the papers written and presented in 2009 that population demographics have played, and will continue to play an important role shaping socioeconomic development in both Vietnam and Mozambique. This is true for the education system, but also for the labour market. Both countries also face population challenges and Vietnam especially has been proactive in using policy to influence population trends. In addition, there are notable differences in the population structures (see population pyramids) of both countries.

In both Vietnam and Mozambique, population censuses are carried out every ten years, and data from the most recent census (Mozambique 2008, Vietnam 2009) in both cases has recently become available.

It is proposed that 2010 is used by the study team to analyse and compare recent population trends, policies and their impacts on the education system and labour market. The study team should firstly work to clearly define and agree upon the most relevant issues to be examined in further depth, and write more detailed ToR accordingly.

### **Study Team**

UoC:	Channing Arndt
CIEM:	n/a
ILSSA:	Nguyen Trung Hung* / Luu Quang Tuan
DNEAP:	Virgulino Nhate *
INE:	Saide Dade

\* Country team leader on Vietnam / Mozambican side

## 6. Agricultural Policy

Worldwide, poverty is primarily a rural phenomenon; and the large majority of rural households depend on agriculture as their major source of income. The same is true in Vietnam and Mozambique. Improved agricultural productivity is well established as a major force for moving people out of poverty (World Bank, 2007). 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.

In addition, due to their shared socialist pasts, both Vietnam and Mozambique face the challenge of shifting from a system where the state owns and allocates land to a system whereby market forces channel land allocations to productive use. For example, for a host of reasons including equity considerations, neither country has opted to simply privatize land ownership.

In 2010, Vietnamese and Mozambican colleagues will work to analyse the agricultural policies that have been in place in the past, as well as those currently being implemented, and their impacts on the agricultural sector. What lessons can be learnt for Vietnam from Mozambique and vice versa?

The topic area is clearly very broad, and Vietnamese and Mozambican researchers should thus work to define a detailed and focus plan for this study.

### Study Team

UoC:	Channing Arndt
CIEM:	Nguyen Manh Hai *
ILSSA:	Pham Minh Thu
DNEAP:	Rafael Uaiene
INE:	n/a

\* Country team leader on Vietnamese side

## 7. Macroeconomic Management

Despite recent rapid economic growth, both Vietnam and Mozambique remain vulnerable to global (exogenous) macroeconomic shocks. This was clearly evidenced recently through the transmission of the impacts of the 'commodity crisis' of early 2008 and the 'financial crisis' of late 2008 and 2009 to the domestic economies of the two countries. And as both countries grow and become more integrated into the global economy, macroeconomic management will become increasingly important in the face of fluctuations in international economic variables.

The transmissions channels through which these shocks can impact on the domestic economy, and policies that have used been in the past, and could potentially be used in the future could be analysed. Within this, exchange rate policy plays an important role, and is one area in which the study might want to focus.

Exchange rate volatility may reduce productivity growth and hence deter economic growth. In countries with sophisticated financial sectors, economic agents have relatively easy access to financial instruments to hedge their exposure to currency fluctuations. In such cases, currency variability need not be a barrier to growth. In countries with under-developed financial systems, however, access to risk management instruments is limited or inexistent to all but the largest (usually foreign-owned) firms. Exchange rate volatility can incur severe costs to the real sector. Speculative runs can be particularly destabilizing in small LDCs with small foreign reserves and limited ability to borrow in international capital markets. As an alternative to fixing the exchange rate, which brings other costs, exchange rate target zones were (and still are) adopted with the aim of preventing such the exchange rate from fluctuating so much as to lead to destabilizing speculation. In this study we will investigate the Vietnamese and Mozambican exchange rate regimes, as flexible, fixed or target zones

### Study Team

UoC:	Finn Tarp
CIEM:	Vo Tri Thanh *
ILSSA:	n/a
DNEAP:	Fausto Mafambissa, Félix Simione
INE:	n/a

\* Country team leader on Vietnamese side

### **3. Finalise 2010 'pipeline FFU Working Papers'**

Three papers at various stages of completeness are listed here. They are papers that have been developed over the course of 2008 and 2009, and are identified as important in the context of a Vietnam-Mozambique comparative analysis.

#### **a. Education Transition Matrices in Mozambique and Vietnam: A Comparative Analysis**

In 2008/9, education system transition matrices were estimated in both Mozambique and Vietnam. These matrices considered how historically students have moved through the educational system. By assigning a probability to each possible outcome for a given pupil, the estimated transition matrices provide a useful tool for forecasting future labour stocks by education level. The 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.

In 2010 the study team will work to combine the two papers to create a joint Vietnam-Mozambique comparative paper. This analysis lends itself well to a comparative analysis given the common methodology used.

**Study Team:** Simon McCoy, Channing Arndt, Virgulino Nhate, Pham Lan Huong

#### **b. Poverty Reduction and Economic Structure: A Comparison between Vietnam and Mozambique (a structural path analysis)**

Mozambique and Vietnam have grown remarkably for the last ten years. Nonetheless, poverty remains a problem, with low-skilled households and people living in rural areas being the most vulnerable. While Vietnam and Mozambique share successful stories on consistent economic growth, Vietnam has made better progress on the achievement of Millennium Development Goals, with a tremendous reduction in poverty. Using multiplier and structural path analyses the two countries are compared and their economic structures. We find that Mozambique has on average much higher income and output multipliers. We also find that the low-skilled households in Vietnam are better connected to the economy. From the poverty reduction angle, the economical structure of the Vietnamese economy is doing a better job of transferring income to the poor. Direct interventions to reach the poor are still important for these two countries, but utmost importance in Mozambique.

In 2010, the study team will work to finalise the paper, and in particular the interpretation of results found.

**Study Team:** Finn Tarp, Channing Arndt, Andres Garcia

### **c. Rural Finance Services: A Comparative Study of Mozambique and Vietnam**

Among the numerous potential causes of agricultural productivity, the availability of credit, or more generally, rural financial services, is commonly found to be a key determinant. However, due to market imperfections (information asymmetries and moral hazard) most of the rural poor in many developing countries lack access to the range of financial services that they require. Rural financial services are often 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.

As a result, it is more often than not the case that commercial banks chose not to enter rural areas- and those that do enter do so only with incentives and often do not lend directly to agricultural producers. The rural community is thus commonly found to be underserved by the financial sector, and a role for the state and international donor community, to correct such market failures, is therefore potentially important. While the above is certainly true in both Vietnam and Mozambique, the approaches of the respective governments, and the resulting situation for credit in rural communities in both countries is markedly different.

With this in mind, an analysis of rural financial services in Mozambique and Vietnam has been undertaken consisting of an in-depth diagnosis of the rural financial system in the two countries using descriptive statistics and qualitative assessments.

In 2010, the study team will work to finalise the paper.

**Study Team:** Simon McCoy, Pham Minh Thu, Nguyen Manh Hai, Rafael Uaiene

**Summary of Study Teams for 2010:**

Institution	Name	2010 Activity	2010 Pipeline
CIEM	Dinh Van An	1	
	Vu Xuan Nguyet Hong	4	
	Vo Tri Thanh	7	
	Dang Thi Thu Hoai / Nguyen Thi Kim Dung	1	
	Nguyen Manh Hai	6	c
	Pham Lan Huong	3	a
	Nguyen Thi Tue Anh	2	
ILSSA	Nguyen Huyen Le	1	
	Nguyen Thi Lan	2	
	Luu Quang Tuan	7	
	Thai Phuc Thanh	3	
	Pham Minh Thu	6	c
	Nguyen Trung Hung	5	
	Le Huong Quynh	1	
	Nguyen Thi Lan Huong	3	
DNEAP	Fausto Mafambissa	7	
	Claudio Massingarella	4	
	Virgulino Nhate	5	a
	Sandra Bila	2	
	Felix Simione	7	
	Rafael Uaiene	6	c
	Cristina Matusse	1	
	Maimuna Ibraimo	3	
INE	Saïde Dade	5	
	Monica Magaua	4	
DERG	Simon McCoy	4	a, c
	Finn Tarp	7	b
	Channing Arndt	5,6	a, b
	John Rand	2	
	Thomas Markussen	1	
	Lars Østerdal	3	