Municipal Government in Vietnam: Case studies of Ho Chi Minh City and Da Nang
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By
Prof. PhD. Nguyen Thi Canh
Assoc. Prof. PhD. Nguyen Ngoc Dien
PhD. Do Phu Tran Tinh
PhD. Nguyen Tan Phat
MBA. Hoang Tho Phu
MBA. Pham Chi Khoa
MBA. Chau Quoc An
MBA. Huynh Hong Hieu
BSc. Nguyen Minh Tri
BSc. Ho Thi Hong Minh
BSc. Nguyen Quoc Tuan

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I. List of Abbreviations

DET: Department of Education and Training
DOIT: Department of Industry and Trade
DOC: Department of Construction
DOH: Department of Health
DOT: Department of Transportation
DPA: Department of Planning and Architecture
DPI: Department of Planning and Investment
DONRE: Department of Natural Resources and Environment
FDI: Foreign Direct Investment
GDP: Gross Domestic Product
HCMC: Ho Chi Minh City
ICOR: The Incremental Capital-Output Ratio
MoHA: Ministry of Home Affairs
PV: Present Value
VCP: Vietnam Communist Party
VFF: Vietnam Fatherland Front
VND: Vietnamese Dong

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3. Executive Summary

In the context of Vietnam’s move to revise the Constitution, and recent government policies to further pursue urban renewal efforts, we conducted this study on ‘Municipal government development in Vietnam’. This study is an independent and empirical piece of work, intended to contribute to the current discussion on how best to revise the Constitution, specifically how to empower urban governments to support development. This study received financial and intellectual support from The Asia Foundation.

The Study

Phase One of the study analyzed past debates on the effectiveness of the three layers of municipal government (city, district and ward) and the difficulties entailed in applying that generic organizational model to both municipal and rural governments. In conducting this analysis, we identified key points emanating from previous research and pinpointed areas where research has yet to fully address key issues relating to urban management and municipal government.

Based on the results of Phase One, in Phase Two we used both qualitative and quantitative approaches to evaluate the areas where past research had yet to shed light. The qualitative component was conducted using empirical surveys and in-depth interviews to collect views on the validity and effectiveness of current urban government structures in Ho Chi Minh City (HCMC) and Da Nang. Interviewees included managers at all levels, from the city to the ward levels, experts on urban government, representatives from monitoring bodies, including the city People’s Council and leaders of former People’s Councils at the districts and ward levels, the Vietnam Fatherland Front, individuals in selected districts and wards, and the local business community. Our questions sought to identify and evaluate the effectiveness and efficiency of the current structure of urban government -- including the pilot program to abolish the People’s Councils at district and ward level -- from the perspective of management agencies, supervisory authorities and the beneficiaries of public and urban services. In the quantitative component, we used secondary statistical data to evaluate the role of the municipalities in the socio-economic development of Vietnam. We also estimated the opportunity costs of current management methods for urban authorities.

The results show how important the four cities, HCMC, Ha Noi, Da Nang and Can Tho, are as economic drivers of GDP, sources of budget revenues, FDI inflows, export activities, supporting enterprises and employment. In 2011, the population of the four cities was 18.74% of the national population, but the cities contributed 33.52% of GDP, 61.13% of budget revenues, 40.51% of export turnover, 48.25% of all investment projects, 30.1% of registered FDI capital inflows, and 57.28% of the number of businesses operating in the country. These municipalities, along with Hai Phong (for which we were unable to collect adequate data), are the economic pillars of the country and deserve efficient local governance structures to ensure their on-going development. While the four municipalities differ in character, size and development path they are all centers for commerce, finance, scientific activity and human resource training establishing city wide social and technical infrastructure despite their administrative boundaries. As
cultural centers, the four cities have over 180 universities and colleges, accounting for 73.69% of Vietnam's students. Unsurprisingly, the living standards of urban residents are higher than in rural areas with better access to public services and social security. The research also identified large dissimilarities between urban and suburban districts within single municipalities. Socio-economic indicators are lower in suburban districts but resources and indicators of social welfare are more constrained. New industrial areas also contain higher proportions of immigrants.

Tellingly, the number of civil servants per 100 people in the four municipalities is much lower than the national average. Vietnam averages 0.44 civil servants and 2 officials per 100 people; but the scores are 0.27 and 1.7 respectively in Ha Noi, 0.26 and 1.8 in Da Nang, 0.22 and 1.6 in Can Tho, with HCMC having the lowest rate of 0.17 and 1.3.

The interviews in HCMC and Da Nang identified similarities and differences between the two cities. The similarities included the following. First, all the leaders interviewed said that the three levels of government stipulated in the 2003 Law on Organization of People's Councils and People's Committees are not consistent with the practicalities of urban administration. Secondly, existing laws do not clearly specify the powers and responsibilities of the heads of government at the three levels, resulting in unnecessary confusion and delays, overlapping, cross-cutting and vacant functions. Thirdly, all interviewees agreed that the regulations governing the activities of People's Committees at the district and ward levels are formalistic and divorced from reality. All the targets for socio-economic, budget and human resource of districts and wards are set by the City-level People's Committee. The district and ward level People's Councils meet twice annually simply to ratify ('rubber stamp') the approved targets. If People's Councils at the district and ward levels were dissolved, operating costs would decrease slightly, but more importantly it would bring about more efficient and effective state management. Decisions could be implemented faster, without waiting for the bi-annual meetings of the People's Council to formally approve and implement decisions that had already effectively been made.

Differences between Ho Chi Minh City and Da Nang

Our study also found important differences between the two municipalities. Firstly, there were differences between how HCMC and Da Nang approach urban management. In particular, HCMC has decentralized quite strongly at the district level, especially in the fields of planning, construction and land. This has resulted in overlapping, cross-cutting and vacant functions.

Secondly, quantitative estimations suggest that the management methods in Da Nang bring greater efficiency than those in HCMC. The first scenario evaluated the financial and economic efficiency of the “swap land for infrastructure” initiative in Da Nang. Da Nang applied a bidding method for construction on roadside land, along with a 10% discount on land use fees if they were paid up front (a policy that is not congruent with central government regulations). This 10% discount payment attracted large amounts of capital to invest in infrastructure. Further, in terms of financial efficiency, by comparing the present value (PV) of cash flow at the beginning of the period (with the price discount of 10%) and the conventional method (involving deferred payment of the full amount), providing the
discount resulted in a positive gain of VND 689 billion. Put simply, economic efficiency can be obtained through faster capital provision for investment in infrastructure, which then attracts private investment, and ultimately increases GDP, at a level that more than offsets the 10% discount. Conversely, our estimates suggest that if Da Nang applied the conventional late payment method, the city’s GDP would have been reduced by VND 275.88 billion each year in the period between 2003 and 2011. If HCMC were to adopt a similar approach to Da Nang, we estimate that the resulting increase in investment capital would increase the city’s GDP by up to 0.21% (calculated for the year 2005).

Thirdly, the level of satisfaction expressed by individuals and businesses for public and municipal services in Da Nang was higher than for HCMC. Those interviewed in HCMC said that administrative procedures are too complex. Individuals and businesses in Da Nang reported greater satisfaction than in HCMC, partly because infrastructure in Da Nang has developed rapidly in recent years and the duration of administrative procedures for certificates of land use rights and construction permits have been reduced recently. The procedure time for building projects for businesses in Da Nang is, for example, less than a quarter of the time in HCMC.

Recommendations

Besides the above findings, our research has some key recommendations. Based on the research results, we suggest the Constitutional amendment should clearly state that the apparatus of urban government for cities under the Central Government should be different from that of rural government. Urban areas only require a single government apparatus. However, large urban areas should adopt an “administrative extension unit” system at the district and ward levels where district and ward government are merely local administrative bodies, not an authority level with their own People’s Council and People’s Committee. In addition to amending the 1992 Constitution, the Law on the Organization of People’s Councils and People’s Committees of 2003, as well as other laws including the Land Law, the Law on Urban Planning and the Construction Law, as well as relevant implementing decrees and circulars also need revision to provide for the new model of municipal government. Cities under the Central Government need autonomy to empower them to attract resources for development. These cities should be given the right to decide on approaches to investment and urban finance (generating revenue for infrastructure and urban development), and urban land use management.

The details of our recommendations are as follows: Firstly, we concur with the proposal that municipal governments have only one level of government with a People’s Council and People’s Committee, whether the city is large or small scale. For large-scale cities, they should also have an “administrative extension unit” system at the district and ward level where units should act as local administrative bodies, without the authority wielded by People’s Councils and People’s Committees. They should not be regarded as a second level of intermediary government (as previously suggested in the schemes for Da Nang and HCMC.

Secondly, for the great urban centers such as HCMC and Ha Noi, the establishment of new towns, appropriate to the size of the urban area, urbanization and the capacity of urban management should be permitted.
Thirdly, even though there are many towns within a municipality, the territorial master plan must be approved at the city level. Accordingly, cities under the Central Government should have a Planning Council. Under each Planning Council there should be a research and advisory unit to assist in conceptualizing and designing an integrated plan for the municipality as a whole.

Fourthly, specialized agencies should be rearranged to suit the model of municipal government. General management services should be re-classified e.g. to finance, interior, planning, or justice. This will remove the need for City General Departments to have representative offices located in all residential areas. The specialized management agencies (e.g. construction and natural resources, environment, transport, education, health care) and the Department of Planning and Investment (managing and issuing business certifications, and investing for businesses and citizens) should have representative offices at the district and levels to replace the current specialized offices of district-level People’s Committees.

Fifthly, in order to apply the proposed model of municipal government, there needs to be, in addition to the legal revisions stated, adequate financial and human resources to ensure development. Because the municipalities under the Central Government play an important economic role and have special characteristics, the Government should grant them greater rights or decentralization in their own financial mechanisms (i.e. local budget revenues and expenditures), the mobilization of resources, and implementing of different models for development investment (with due regard for corruption risks).

Lastly, in order to introduce such a model of municipal government, it is necessary to conduct pilots to gain experience. We therefore suggest that for a grade 1 city under central government, Da Nang could serve as a pilot, as it has already taken some preparatory steps. For a special grade city under central government, HCMC could usefully serve as a pilot model. Like Da Nang, HCMC also has a scheme in preparation. However, because HCMC is so large in scale, and has significant decentralization of districts it will probably need to initially pilot the model in select urban districts and one new urban area. Lessons learned could then be applied across HCMC.
Section 1: Introduction and methodology

1.1. Context

Currently, Vietnam has 63 provinces and cities, including five central-level cities: Ha Noi and Ho Chi Minh City (‘special cities’), Hai Phong, Da Nang and Can Tho (rank-1 cities). As of 2012, these five cities contributed over 35% of national GDP, generated more than 37% of export turnover, and contributed more than 56% of gross national budget revenues, despite accounting for only around 20% of the population and just 2.9% of the land area.

Like all provinces of Vietnam, these cities are structured by the 2003 Law on Organization of People’s Councils (HDND) and People’s Committees (UBND). This law plays an important role in the organization and performance of local government at all levels. However, changing requirements over time have exposed limitations in the decade-old law. In particular, administrative management by the three layers of urban government, as stipulated in the law, results in functions being duplicated, and others being divided between city departments and districts. The organizational structure of urban government is the same as that for a rural province, even though their social and economic characteristics can be very different.

As a ‘special city’ with the largest population, HCMC spans an area of 2,095 km², 0.63% of the country’s total surface area, and is home to over 7.4 million people, or 8.6% of population. According to the development plan for HCMC beyond 2025, the population will reach 10 million people. According to 2011 data, HCMC generated 21.1% of the country’s GDP, accounted for 29.3% of total export turnover (excluding crude oil), and 23.8% of total retail sales, contributing 35.2% of the national budget. HCMC currently has 24 divisions, including 19 urban districts and 5 districts, with 322 communes and wards. In the past few years, HCMC has increased decentralization of its districts, especially in the field of planning, growing the size of state management organizations at the intermediate level.

In early July 2012, VCP General Secretary Nguyen Phu Trong, presided over a review meeting of Resolution 20-NQ/TW (IX) on HCMC’s development scheme beyond 2020. The Politburo agreed to let HCMC deal with the issues encountered during its process of growth, where current regulations are either unavailable or incompatible, on a pilot basis. This followed a National Assembly Resolution (No. 26/2008/QH12), issued in mid-November 2008, concerning a pilot programme to halt the use of People’s Councils in 67 districts, 32 urban districts, and 483 wards, across 10 provinces and central cities, including HCMC and Da Nang. This pilot is on-going and its impact is currently being assessed. In mid-2012, the government established a Central Steering Committee for the model of municipal governance, with the Ministry of Home Affairs as a standing member. The committee released a draft report on optional models of urban administration, placing greater emphasis on operational modalities. It is in this context, and recent discussions on amendments to the Constitution, that this independent study was undertaken, to contribute to the legal framework as it pertains to municipal government, to help promote the socio-economic development of Vietnam and her people.
Our research sought to answer the following five sets of questions:

- What have been the proposals on revising the organizational structure of urban area administration in HCMC and Da Nang over the last decade?

- In what ways do the large municipal areas form a part of, and impact on, the socio-economic development of Vietnam as a whole?

- How efficient and effective is the current three-layer (city, district and ward) governance structure? Could the pilot project to remove People’s Councils at the urban and rural district level improve efficiency and effectiveness?

- What reforms or changes would the municipal leaders of central cities, such as HCMC and Da Nang like to see, and what legal constraints and barriers stand in the way? If implemented what effectiveness improvements could we expect to see?

- What is needed to make changes in the organizational structure and management of municipal government, and what steps should be taken to have an effective model of urban government for Vietnam’s municipalities?

### 1.2. Methodology

In order to answer the first question we conducted a desk study of research on the development of urban government. This helped inform and identify issues for further study. For the second question, we applied a more quantitative approach to secondary statistical data collected from the four municipalities as well as national statistics. In addition, we sampled two districts in HCMC (Districts 10 and Thu Duc) in a bid to collect comparative data between urban and suburban districts in the process of urbanization.

For the third, fourth and fifth questions, we performed a series of in-depth empirical interviews with urban government experts, as well as current leaders of key departments, administrators at the city, department, district and ward levels, and former chairpersons of People’s Councils at district and ward levels, former Fatherland Front leaders at the city, district, ward levels, and resident businesses and citizens. These interviews were conducted in both HCMC and Da Nang. At the city level we managed to conduct in-depth interviews with most important departments related to urban planning, social economic development and the provision of services and licenses for residents and businesses. At the district and ward level, two districts -- one central district and one urbanized suburban district -- were sampled. In HCMC, we selected four wards and four residential clusters and business associations representing industries of all sizes (small, medium and large).

The interviews used a semi-structured questionnaire containing open-ended questions. The questions for the city administration and other departments included questions on the following issues: (1) the main managerial functions of departments, offices and services that they offer to residents or businesses; (2) the linkages and coordination between specialized departments and administrative offices of urban or suburban districts.
in providing urban services for residents; (3) challenges for all three city levels to comply with the 2003 Law on Organization of People's Committee and Councils, notably between specialized departments and/or between specialized departments and specialized divisions of districts, without overlaps or disruptions; (4) the problems, if any, that affect the work of specialized departments; (5) opinions about the pilot removal of People’s Councils at the district and ward levels; (6) whether departments find it necessary to have People’s Committees at the district and ward levels, as fully-authorized bodies of administration, as verified by the current law; and (7) proposals departments have to deal with current constraints and possible future transformation of municipal government.

The questions for the People’s Committees of districts and wards were similar to those for the city-level administration, but with greater emphasis aim on the relationship between districts, departments and wards, and between wards and residents. The questions for the City People's Councilors, and former councilors at the district and ward levels, as well as the Fatherland Front mainly focused on the effectiveness of the three-layer government structure including the Councils, as well as the Fatherland Front’s oversight function for local government – including ensuring political rights, social welfare, and business activities – now that there are no People’s Councils at the district and ward levels.

The questions posed to businesses and individual residents focused on administrative procedures for the application of business licenses, building permits and certificates of land use, and the general relationship between residents and local government in terms of their satisfaction in public services, administrative procedures and other concerns. The questions for local government experts’ focused on the effectiveness of the three layers of local government, the pilot project to remove People’s Councils at the district and ward levels, and suggestions for improvements in municipal government. Before these intensive one-on-one interviews took place, we conducted focus-group discussions to better tailor lines of enquiry.

On the basis of the results gained, we were able to analyse and assess the model of urban area government based on the current law, as well as the actual administration of urban areas based on other provisions of the laws on land, urban planning, construction, and so on, across both HCMC and Da Nang, and note the similarities and differences of the two municipal governments in actual implementation. Consequently, it has been possible to estimate and compare the opportunity cost of current regulations under certain scenarios, and measure the inefficiencies and losses caused by some regulations, and therefore merit some consideration of change.

During the research, we conducted two small seminars at mid-term to seek expert guidance on the proceedings, sampling, interview contents, and criteria of analysis. Finally, we held a dissemination workshop to report the research outcomes and conclusions. The whole process is summarized in Figure 1.1 below.
Hypothesis: low performance and effectiveness of the 3-layer municipality management model under current law in terms of legislation, administration, economics, and welfare services.

Findings from the research results and hypothesis test potency and efficiency of the organizational model of urban area government today

Proposals - recommendations

Quantitative data analysis to identify roles of central cities in socio-economic development and differences between urban and rural areas

Intensive sampled interviews on management model of 3-layer municipality:
- Survey research on functions and authority of each level from the municipal level, to district ward level with 2 samples from two cities (HCMC and Da Nang), interview People's Committee, former leaders of People's Councils of district and ward levels, and Fatherland Front at all levels when there are no more Councils at district and ward levels.
- In-depth interviews with leaders of specialized departments on relationship among departments, between departments and urban districts, the effectiveness and efficiency of the management of the current system;
- Interview 2 sample districts and 4 wards representing urban and suburban districts - sampling two districts (District 10 and Thu Duc District, HCMC);
- Interview residents and businesses about urban services, administrative procedures, and civic welfare and business environment
- Estimate opportunity costs, social costs due to decentralization of authority, and administrative procedures to get overlapped and intricate in some cases.
Section 2: Overview of research on urban management and municipal governance in Vietnam

2.1. Introduction

The primary aim of this section of the study was to identify the key points from previous research done on this topic, and pinpoint areas where research has yet to fully address key issues pertaining to urban management and municipal government in Vietnam. This process helped narrow the research scope and avoid duplication of past efforts. The study further informs our current understanding of urban management and municipal government in Vietnam, at a time when the optimal means of governing a city like Ho Chi Minh City (and other large cities) is being discussed, notably in the context of a revised national Constitution. Although the current structure of urban management and municipal government in Vietnam is a function of several laws and many sub-laws, its main basis is enshrined in the national Constitution. More specifically, the current Constitution’s Chapter IX (articles 118 to 125) set out the roles and responsibilities of People’s Councils and People’s Committees.

The key point is that this model of local government is applied uniformly across Vietnam, without any adjustments for the characteristics of different localities or communities, or the capacities of the governmental bodies. The local government structure used for HCMC is the same as for rural Son La province, even though Son La’s area is almost 14,200km², compared with HCMC’s 2,100km². Son La’s population is less than 1.1m with an average density of 76 citizens per km² compared with slightly over 7.1m in HCMC with an average density of over 3,400 citizens per km². Yet, despite these stark contrasts, the local government model in both locations is broadly the same. What is also apparent, particularly in the more densely packed municipalities, is that the functions and responsibilities of the various organizations and departments in the three tiers of local government – not to mention the additional tier of national government – tend to overlap (vertically and/or horizontally), with key decisions often requiring approval at each of the relevant city/province, district and ward/commune levels. This kind of complexity poses difficulties and confusion for citizens, as ‘consumers’ of local government services and administrative functions, as well as delays and additional costs for the organs of local government, as ‘service providers’.

2.2. Pilot schemes for different municipal government models

In 2007, HCMC authorities sought to design an alternative model for municipal government for submission to the national government. This scheme was not granted approval by the National Assembly and the Government. A couple of years later Da Nang city authorities conducted a similar exercise. This too has yet to gain approval from the central government in Ha Noi. The model proposed in 2012 for HCMC involves moving particular districts and wards in inner urban areas to a kind of ‘mezzanine’ structure, with fewer layers of local government structure under the upper-most municipal city level. For more rural districts, however, there would be two complete authority levels. This proposed model is depicted in Diagram 2.1, below.

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Diagram 2.1: Proposed Model of Municipal Government Structure for Ho Chi Minh City 2012

Each full authority level would: i) contain an elected body (ie. a People’s Council) and an administrative organ (ie. a People’s Committee); and ii) have a legal status, with separate budget, human resources and apparatus to implement assigned tasks. Conversely, each intermediary administrative level would not have a People’s Council, nor would it have legal status. Rather, it would be an administrative organ only, mandated to organize and implement tasks assigned to it. The model would mean HCMC would have both People’s Councils and People’s Committees at the city, town and commune levels, and all other levels would be intermediary administrative levels only. It is proposed that all thirteen inner city districts – Districts 1, 3, 4, 5, 6, 8, 10, 11, Binh Thanh, Phu Nhuan, Go Vap, Tan Binh and Tan Phu – have just intermediary administrative levels. The areas being urbanized include six districts/suburban district – Districts 2, 7, 9, 12, Thu Duc and Binh Tan – and two suburban districts of Hoc Mon and Nha Be. The rural areas include three suburban districts: Can Gio, Cu Chi and Binh Chanh.

For the thirteen inner city districts, HCMC’s municipal government would be structured in two levels: the city level, and the urban sub-city level (without People’s Councils). And below the district level, there would be ward-level People’s Committees. Civil servants working at the ward level would essentially be district-level civil servants working in the area of the wards. In the urbanized areas (six districts and two suburban districts), there would be a structure consisting of urban quarters with a single-level municipal sub-government, operating under the city-level municipal government. In those areas, four urban quarters are envisaged: East, West, North and South. Each quarter would have a
complete single level municipal sub-government under the city’s municipal government. These areas would therefore follow a structure similar to the five municipalities that come under direct central authority. Under this level, ward-level People’s Committees would be organized. The administrative level of urban quarters would be equal to the district level, but they would have a complete set of authorities under them.

In Da Nang, the proposed pilot municipal government structure consisted of two possible models. However, there was a single aim in the design; to achieve socio-economic and urban development in the city. More specifically, it was proposed each complete authority level would have the following characteristics: contain a complete people-elected body and administrative body; be a legal entity; have a separate budget; and have a system of institutions and human resources to implement assigned tasks. The intermediary administrative level would not have a people-elected body or be a legal entity. It would have administrative organs only to implement several management functions assigned by the upper level.

The Ministry of Home Affairs is responsible for overseeing this task, and coordinating with the Office of Government to engage ministries and agencies in developing a concrete scheme. In the end, after many seminars had been hosted to elicit ideas from specialists and leaders in all parts, a final report of the project concerning the organization model of municipal government was chaired by Ministry of Interior and presented at the seminar held on 24-25 December 2012.

Diagram 2.2: Proposed Model for Da Nang municipal government 2012 (without People’s Councils at the suburban, district and commune level)
According to the Ministry of Home Affairs report, the chairpersons suggested three choices to organize the municipal government:

**Option 1**: Removing the People’s Council at district, suburban district and ward levels nationwide; and instead have an administrative representative authority representing higher-level authorities placed in these areas. For suburban and sub-town locales, there would be no district-level organisation, but a commune and town level structure. Due to the scale of Ha Noi and HCMC, they will proceed with caution. Option 1a would be similar to Option 1 above. Option 1b seeks to meet the demand for future population and economic growth, whereby each city will not be a single separate municipality, but rather a cluster of cities with a larger core city and smaller surrounding cities.

**Option 2**: Organize a single layer of local government – including a People’s Council and administrative committees – in cities directly under central government, cities under provinces, and towns under provinces. There would be no organisations within administrative units inside cities, towns, and suburban and sub-town locales.

**Option 3**: This model envisages having a city mayor. A municipal administrative authority in cities directly under the central government would be founded in the form of a City Hall, headed by a mayor. Voting to elect a mayor could be through one of two possible means; either selected and dismissed by a People’s Council, or by popular vote of local residents. Of the latter two, the former is preferred as it is seen as being more commensurate with existing socio-political features in Vietnam.

**2.3. Key perspectives and weaknesses in the current literature**

Although the number of experts and scholars and published research on municipal government in Vietnam are relatively limited they contribute a number of important perspectives. Research on municipal government has mostly been conducted in one of two ways: i) as purely theoretical research, with learning from similar experiences in other countries, to suggest common principles for municipal government structures; or ii) reflecting and assessing the practice of urban and municipal government and service provision in sampled areas, and then suggesting alternative models. Regardless of the approach, all the research tends to converge on the following four common points.

- Local governments are structured and function according to a uniform legal regime, regardless of the conditions of the locale, from large municipalities to rural areas. The same form and function for People’s Councils and People’s Committees is currently applied to all administrative levels, without accounting for different characteristics, capacities and requirements of urban and rural administrative units, as well as the citizens they serve.

- Authorities have undertaken a number of important measures to reform local government institutions, such as the pilot removal of People’s Councils at suburban district and communal levels, and re-structuring administrative units in a bid to make them more streamlined. However, the positive impacts of these measures remain limited, due in large part to fundamental inconsistencies in the current legal framework.
Most experts agree that the allocation and demarcation of responsibilities and authorities between provincial/city, district/suburban district and ward/communal levels are not clearly delineated, and often overlap. Indeed, there has been a failure to implement directions laid out in various Party resolutions on greater decentralization of governmental responsibility from central to local levels. As a result, the decentralization process has largely failed to allocate clear responsibilities and accountabilities to specific individuals and agencies. In fact, numerous rules and regulations are actually hurdles in the promotion of ownership and pro-activeness of grass root authorities.

The pilot schemes for HCMC and Da Nang municipal government, as well as the draft ‘Proposal for a Municipal Government Model’ by the Central Steering Committee, have sought to address the issue of improving municipal government, suggesting detailed plans for organizing municipal government in HCMC and the other four cities under central authority. But there remains a need for a legal framework that would allow for an increase of authority at the city level, including moving towards self-management in both external and internal affairs. In addition, there is an increasingly pressing need for a legal basis for the government apparatus in satellite urban residential areas and towns, to give them greater authority than conventional suburban district and communal authorities.

The models of municipal government, as proposed above, would require deep and extensive changes in the Law on Organizations of People’s Councils and People’s Committees, particularly in reference to issues around the local government apparatus and the relationship between central and local powers. There are two means by which this could be approached. Option one would be to have a new Law on Municipal Government. This Law would be based on the principles of government organization in the law on local governments, and provide specific rules for municipal governments. Option two would be for a revision of the existing Law on Organizations of People’s Councils and People’s Committees, adding articles on municipal government that would allow eligible cities to move away from the uniform template that applies to most cities and provinces.

From the perspective of management efficiency, researchers have identified inconsistencies in the Law on the Organization of People’s Councils and People’s Committees, and constraints that the law’s application poses for effective municipal government. Beyond the consensus view that it is increasingly inappropriate to apply a uniform model of local government to an increasingly diverse range of urban and rural governments, there is also a growing opinion that there is a need to reduce the number of focal points and overlapping functions, and to increase the authority and autonomy of municipal governments. Nonetheless, the approaches proposed, and the extent to which authority should be decentralized, remain quite disparate. For example, HCMC wants large urban areas to manage smaller urban chains, while others emphasize the need to remove intermediary focal points, with suburban districts and communes being subordinate agents. Several studies have identified overlapping functions among departments, whether vertically between the three layers of local government, or horizontally between different districts. This hinders the implementation of decisions, limiting the efficiency and effectiveness of municipal governments to carry out their responsibilities and provide their citizens with an adequate standard of services. It is widely agreed that the delivery of public services managed by the State in urban areas is not optimal and that many activities are not sufficiently transparent.
From the perspective of administrative reform, all studies acknowledge a significant reduction in cumbersome procedural steps. However, administrative procedures as a whole remain complex, leading to a rise in acts of corruption in a bid to accelerate procedures and other inconveniences and frustrations for citizens. Results from recent surveys suggest citizens' levels of satisfaction in public and urban services remain low, even appearing to decline further as time passes.

Notwithstanding the important conclusions of the various studies cited above, there remain a number of weaknesses in this body of literature:

Firstly, they generally fail to provide methodologically robust and objective analyses of urban management practices under the current local government structure in municipalities, based on empirical evidence of issues such as the overlap and inefficiency of urban planning, public spending and investment, governance and budget allocation.

Secondly, several existing studies provide recommendations for vertical re-structuring and re-arrangement of departments, while functional units at the suburban district and communal levels would continue to report both vertically (to departments) and horizontally (to suburban district/communal people committees). As a consequence, the impact of such re-structuring in attaining more streamlined, efficient and effective procedures does not seem wholly convincing. All pilot projects for municipal government put forward the basic principle of re-arranging departments and reducing unnecessary intermediaries, but they tend to be short on detail when it comes to which and how departments should be merged. On issues such as this, often the 'devil is in the detail'.

Thirdly, some of the research studies proposed new models for municipal government structures that are different from those used at present. But they generally do not provide sufficient evidence or arguments to support why the particular model proposed is superior, relative to other options, or even the current model. Further, while new models have been proposed, the human and institutional capacity and other resources, needed to implement the new government apparatus have not been effectively assessed. Crucially, while most new models being proposed envisage a marked decentralization of authority, they barely touch on the issue of financial decentralization.

Finally, most of the research projects cited above were essentially desk studies. They did not attempt to identify quantifiable criteria to evaluate the various structures proposed, or currently operating. Nor did they seek to make international comparisons between the effectiveness of urban management and municipal government in Vietnam with other countries. It is for this reason, that we conducted a small number of studies intended to shed greater light on the issue. The study aims to provide useful inputs that can inform on-going policy discussions on how to improve municipal government in HCMC and other large cities in Vietnam.
Section 3: Characteristics of four municipalities under the central government

3.1. Socio-economic development of the four municipalities

3.1.1. As economic centres

Big cities play an important role as economic centers, as reflected in their contributions to GDP, state budget revenues, FDI inflows, and export performance. In Vietnam, there are five cities under the central government including two special grade cities (Ha Noi and Ho Chi Minh City), and three first-grade cities (Hai Phong, Da Nang, and Can Tho). However, due to data limitations for Hai Phong, our calculations were limited to HCMC, Ha Noi, Da Nang, and Can Tho.

Contribution to GDP: According to the data from the General Statistics Office (2011), the four cities had 16,461,314 citizens in total, making up 18.74% of the population, and an area of 8,110.33 km², just 2.45% of Vietnam's land area. Yet they contributed 33.52% to total GDP.

Figure 3.1. Combined GDP of the four municipalities compared with national GDP


The average GDP per capita of the four cities is higher than the average national GDP per capita (see Figure 3.2), and this disparity has widened markedly in recent years.
The average budget revenue per capita of the four municipalities is also consistently higher than the national state budget revenue per capita average (see Table 3.1).
Table 3.1. Average budget revenue per capita of the four municipalities compared (in thousand VND)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average national state budget revenue per capita</td>
<td>2,772</td>
<td>3,711</td>
<td>4,844</td>
<td>5,088</td>
<td>6,354</td>
</tr>
<tr>
<td>Average state budget revenue per capita in the four municipalities</td>
<td>7,107</td>
<td>13,904</td>
<td>15,194</td>
<td>18,324</td>
<td>20,727</td>
</tr>
<tr>
<td>Average budget revenue per capita of four municipalities, as a multiple of the national average.</td>
<td>2.61</td>
<td>3.74</td>
<td>3.14</td>
<td>3.6</td>
<td>3.26</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Vietnam

In terms of state budget expenditures, in 2011 the local budget expenditure of these four municipalities was VND 110,888.4 billion, representing 16.77% of national state budget expenditure. The four cities are net generators of revenues. Also, the budget expenditure per capita of the four municipalities is consistently lower than the national average budget expenditure per capita (see Table 3.2).

Figure 3.4. State budget expenditure of the four municipalities as a percentage of the national total, 2005-2011

Source: Statistical Yearbook of Vietnam 2011
Table 3.2. Budget expenditure per capita of the four municipalities compared with the national total (in thousand VND)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>State budget expenditure per capita for whole country</td>
<td>3,191</td>
<td>4,692</td>
<td>5,749</td>
<td>6,726</td>
<td>7,529</td>
</tr>
<tr>
<td>Budget expenditure per capita of the four municipalities</td>
<td>2,783</td>
<td>4,152</td>
<td>5,236</td>
<td>6,365</td>
<td>6,736</td>
</tr>
<tr>
<td>Average budget expenditure per capita of four municipalities, as a multiple of the national average.</td>
<td>0.87</td>
<td>0.88</td>
<td>0.91</td>
<td>0.95</td>
<td>0.90</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Vietnam 2011

The four municipalities’ proportion of total national export earnings are large, but have been trending down in recent years. In 2005, the combined exports of these cities was US$18,981.58 million, representing 58.5% of national exports, but by 2011 although their combined exports had more than doubled to US$39,254.86 million, they accounted for 40.5% of total national export revenues (see Figure 3.5).

Figure 3.5. Proportion of total exports from the four municipalities as a percentage of the national total, 2005-2011

Source: Statistical Yearbook of Vietnam 2011

With regard to FDI inflows, these four municipalities account for a significant proportion of the country’s total foreign investment activity. In 2011, for example, registered FDI inflows into these four cities accounted for almost a third of the national total (see Figure 3.6), albeit the percentage was markedly less in previous years.
Given their role as economic centres, it should not come as much surprise to learn that the four municipalities were host to 57% of all registered companies in Vietnam in 2010 (see Figure 3.7), up from 47% in 2005. This suggests that their positions as business hubs have been further consolidated in recent years.

Figure 3.7. Proportion of operational enterprises in the four municipalities, as a percentage of the national total, 2005 and 2010 compared


It also merits noting that the economic structures of these four cities has been shifting toward industrial activity and services, now accounting for more than 95% of all business activity (see table 3.3).
Table 3.3. Comparing the economic structural change across four municipalities and the national total, 2005-2011

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam (%)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Agriculture</td>
<td>20.97</td>
<td>22.21</td>
<td>20.91</td>
<td>20.58</td>
<td>22.02</td>
</tr>
<tr>
<td>Industry</td>
<td>41.53</td>
<td>40.35</td>
<td>40.79</td>
<td>41.64</td>
<td>40.79</td>
</tr>
<tr>
<td>Service</td>
<td>37.50</td>
<td>37.44</td>
<td>38.30</td>
<td>37.78</td>
<td>37.19</td>
</tr>
<tr>
<td>Four municipalities (%)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.15</td>
<td>4.34</td>
<td>3.77</td>
<td>3.37</td>
<td>3.38</td>
</tr>
<tr>
<td>Industry</td>
<td>45.16</td>
<td>45.29</td>
<td>43.27</td>
<td>43.88</td>
<td>43.41</td>
</tr>
<tr>
<td>Service</td>
<td>50.69</td>
<td>50.37</td>
<td>52.96</td>
<td>52.75</td>
<td>53.21</td>
</tr>
</tbody>
</table>


3.1.2. As centres for culture, science and human resources training

In 2011, the average percentage of trained and qualified employees working in the four cities was 26.53% compared with 15.4% of the whole country (figure 3.8).

Figure 3.8: Employee qualifications in the four municipalities compared with the national total, 2008-2011


In 2011, the four cities hosted over 180 universities and colleges, 42.9% of the national total (see figure 3.9).
Figure 3.9. Proportion of university and colleges in the four municipalities relative to the national total

![Bar chart showing the proportion of university and colleges in the four municipalities relative to the national total.]


The rate of poor households: In 2011, the average rate of poor households in the four cities was 3.72% (down from 4.97% in 2005), compared with 12.6% for the whole country (figure 3.10).

Figure 3.10. Rates of poverty in the four municipalities compared with national rates

![Line chart showing rates of poverty in the four municipalities and the country.]

3.2. Characteristics of the municipalities: similarities and differences

3.2.1. Characteristics in scale and level of development

The definition of an urban center in the Law on Urban Planning (2009) is as follows: “an area with a dense population mainly engaged in non-agricultural economic activities, which is a political, administrative, economic, cultural or specialized center playing the role of promoting the socio-economic development of a country, a territorial region or a locality, and consists of inner city and suburbs, for a city; inner town and outskirts, for a town; and townships”\(^2\). Municipalities directly under Central Government are clearly centers for economics, politics, culture, society, science and technology. They are the driving forces for the development of their regions. The municipalities have developed rapidly in recent years, not only in terms of inhabitants and population size, but also economically.

The population size and GDP of HCMC is higher than other provinces and cities, followed by Ha Noi, Can Tho and Da Nang (table -3.4 – 3.5).

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ho Chi Minh City</td>
<td>7.64</td>
<td>8.22</td>
<td>8.37</td>
<td>8.51</td>
<td>8.42</td>
</tr>
<tr>
<td>Ha Noi</td>
<td>7.18</td>
<td>7.46</td>
<td>7.53</td>
<td>7.61</td>
<td>7.72</td>
</tr>
<tr>
<td>Can Tho</td>
<td>1.40</td>
<td>1.39</td>
<td>1.38</td>
<td>1.38</td>
<td>1.38</td>
</tr>
<tr>
<td>Da Nang</td>
<td>0.98</td>
<td>1.02</td>
<td>1.04</td>
<td>1.07</td>
<td>1.08</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Vietnam 2011 and other sources.

\(^2\) Article 1, Term 3 of the Law on Urban Planning, 2009.
Municipal Government in Vietnam: Case studies of Ho Chi Minh City and Da Nang

Table 3.5. GDP contribution rate of the four municipalities under the Central Government

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th></th>
<th>2011</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed price</td>
<td>Current price</td>
<td>Fixed price</td>
<td>Current price</td>
</tr>
<tr>
<td></td>
<td>Value</td>
<td>Proportion</td>
<td>Value</td>
<td>Proportion</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>88,866.00</td>
<td>22.61%</td>
<td>165,297.00</td>
<td>19.70%</td>
</tr>
<tr>
<td>Ha Noi</td>
<td>44,130.00</td>
<td>11.23%</td>
<td>92,425.00</td>
<td>11.01%</td>
</tr>
<tr>
<td>Can Tho</td>
<td>8,546.00</td>
<td>2.17%</td>
<td>14,277.00</td>
<td>1.70%</td>
</tr>
<tr>
<td>Da Nang</td>
<td>6,236.31</td>
<td>1.59%</td>
<td>11,690.84</td>
<td>1.39%</td>
</tr>
<tr>
<td>The whole country</td>
<td>393,031.00</td>
<td>100.00%</td>
<td>839,211.00</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th></th>
<th>2011</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed price</td>
<td>Current price</td>
<td>Fixed price</td>
<td>Current price</td>
</tr>
<tr>
<td></td>
<td>Value</td>
<td>Proportion</td>
<td>Value</td>
<td>Proportion</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>166,423.00</td>
<td>28.49%</td>
<td>512,721.00</td>
<td>20.23%</td>
</tr>
<tr>
<td>Ha Noi</td>
<td>80,952.00</td>
<td>13.86%</td>
<td>283,767.00</td>
<td>11.19%</td>
</tr>
<tr>
<td>Can Tho</td>
<td>19,823.00</td>
<td>3.39%</td>
<td>59,158.00</td>
<td>2.33%</td>
</tr>
<tr>
<td>Da Nang</td>
<td>13,114.89</td>
<td>2.25%</td>
<td>39,021.72</td>
<td>1.54%</td>
</tr>
<tr>
<td>The whole country</td>
<td>584,073.00</td>
<td>100.00%</td>
<td>2,535,008.00</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Vietnam 2011 and other sources.

The average income per capita of the central cities is higher than the national average income per capita. HCMC has the highest rate of GDP per capita, of 2.9 to 3.4 times the national average calculated at constant prices. Ha Noi is between 1.6 to 1.8 times higher, Can Tho is 1.6 to 2.5 times and Da Nang is 1.6 to 2.1 times higher (- chart 3.11).
HCMC has the highest proportion of the country’s total exports, although it has been falling in recent years. In 2005, HCMC’s proportion of export value was above 47%, but declined to only 27.73% in 2011. Ha Noi’s proportion of total export value increased from 9.26% in 2005 to 10.64% in 2011. For Can Tho it was 1.15% in 2005, rising to 1.35% in 2011, and in Da Nang it fell slightly, from 1.1% in 2005, to 0.8% in 2011. The latter figure may be a consequence of Da Nang’s focus on tourism development, rather than production and processing. Regarding the attraction of foreign direct investment, HCMC has hosted 29.5% of total projects and 16.1% of capital. Ha Noi ranks second with 16.8% of projects and 11.9% of capital, and Da Nang third with 1.6% and 1.7% of projects and capital, respectively. Can Tho City has the lowest proportion of FDI, accounting for only 0.4% of projects and capital. HCMC also has the highest proportion of active businesses, followed by Ha Noi, Da Nang and Can Tho (see figure 3.12).

According to figures 3.13 and 3.14, the average budget revenue per capita in HCMC was between 1.5 and 2.7 times higher than the average for the whole country, during the period 2005-2011, while the average budget expenditure per capita was only 0.8 to 1 times the national average. In Ha Noi, the average budget revenue per capita was also higher than the national rate by between 3.5 to 4.8 times in the same period, while average local budget expenditure per capita was only 0.7 to 0.9 of the national average.

Figure 3.13. Coefficient of budget revenue per location / per capita / per year of the four municipalities, as compared with national rates

![Figure 3.13](image1)

Source: Statistical yearbook of the four cities and the whole country

By the end of 2011, the number of commercial banks operating in Vietnam was 49, including five state-owned banks (Agribank, BIDV, Vietcombank, VietinBank and MHB), five banks with 100% of foreign capital (ANZ, HSBC, Standard Chartered Bank, Hong Leong and Shinhan).

Figure 3.14. Coefficient of budget expenditure per location / per capita / per year of the four municipalities, as compared with national rates

![Figure 3.14](image2)

Source: Statistical yearbook of the four cities and the whole country
four joint venture banks (VID Public Bank, Indovina, and VinaSiam, Vietnam – Russia Joint Venture Bank) and 35 private commercial banks. The bank headquarters are split between Ha Noi and HCMC. There are nearly 300 bank branches in HCMC, and a similar number for Ha Noi. There are over 50 branches in Da Nang.

Nearly 44% of Vietnam’s supermarkets are concentrated in the four municipalities, including 152 supermarkets in HCMC alone. Ha Noi has 88 supermarkets while Da Nang has 29 and Can Tho has 9. The four figures below depict a number of social development measures, in terms of training, university education and hospital care.

Figure 3.15. Rate of employees with training

![Figure 3.15](image)

Source: Statistical yearbook of the four cities and the whole country

Figure 3.16. National distribution of university and college students, 2011

![Figure 3.16](image)

Source: Statistical yearbook of the four cities and the whole country
Figure 3.17. Density of university and college students (number of students per ten thousand people) in the four municipalities compared with national rates


The ratio of hospital beds per 1,000 people in the four municipalities is higher than for the country as a whole. Da Nang and HCMC have the highest number of hospital beds per 1,000 people, followed by Can Tho and Ha Noi (see figure 3.18, below).

Figure 3.18. Number of hospital beds, per ten thousand people, of the four municipalities compared with national - ratio


In terms of population density, HCMC has the highest population density at 3,590 people per km², followed by Ha Noi with 2,036 people per km²; and 863 people per km² in Can Tho. Da Nang has the lowest population density, at 740 people per km², but it is still three times greater than the average population density of the country as a whole -- 265 people per km² (see figure 3.19).
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Figure 3.19: Population density of the four municipalities and nation-wide

According to Ministry of Home Affairs and the four municipalities, in 2011 the whole country had 384,048 civil servants, and 1.8 million officials. Ha Noi had 18,600 civil servants and 112,000 officials, HCMC had 12,487 civil servants and 97,731 officials, Da Nang had 2,300 civil servants and 17,000 officials, while Can Tho had 2,700 civil servants and 19,000 officials. However, the number of civil servants per 100 people in the four cities is much lower than the national average. There is an average of 0.44 civil servants and 2 officials per 100 people in the whole country, but these figures are 0.27 and 1.7 respectively in Ha Noi, 0.26 and 1.8 in Da Nang, 0.22 and 1.6 respectively in Can Tho, and HCMC has the lowest rate, of 0.17 and 1.3 respectively (see figure 3.20).

Figure 3.20. Number of civil servants and officials, per hundred people, of the four municipalities compared with national totals


Source: Ministry of Home Affairs, 2012
Common characteristics of the municipalities include: (1) the central cities have high population density, a high percentage of migrants (with different customs, traditions and lifestyles) and a higher level of academic and technical training among their populations than in rural areas; (2) the urban economy is largely based on the industrial and service sectors, and they have developed into centers for commerce, finance, scientific services and human resource training; (3) technical and social infrastructure is more developed in the cities, regardless of administrative boundaries. Hospital and school networks cover all districts and wards, and public services tend to be more available than in rural areas; (4) the living standards of urban residents are generally higher than in rural areas, and they have better access to social security; and (5) the laying of administrative border lines within urban areas have administrative meanings but no socio-economic significance, unlike in rural areas where social and economic activities typically occur within the administrative border line of each rural area.

However, there are also some key differences between the four municipalities. HCMC and Ha Noi are key centers in developing service industries, such as finance and banking, supermarkets, commercial centers, higher education and scientific research. HCMC is the leading urban area in terms of population size, population density, generating over one fifth of Vietnam’s total GDP, and contributing nearly one third of the national budget. However, HCMC’s proportion of national exports and FDI inflows has begun to trend down. Although Da Nang is smaller in scale, it has tended to place greater emphasis on investment and development with a higher calibre of human resources than the other large cities.

The above characteristics illustrate that the nature of urban management is different from rural management. Government needs to adapt to the urban environment, to ensure the management and provision of public services in urban areas is done in a responsive, transparent and coordinated way, minimizing intermediary steps that lead to confusion, delays and inefficiencies.

### 3.2.2. Differences between an urban district and a suburban district

The urban management of big cities must also consider differences between urban districts and suburban districts, because of the differences in population density, economic development, resource distribution and quality of education, health, etc. In this report, we compare the District 10 (an urban area) and Thu Duc district (a suburban area) in HCMC.

Thu Duc has a rising population density, while District 10 is moving in the opposite direction. However, the population density of District 10 is still higher than it is in Thu Duc, by a factor of four (see figure 3.21)
Figure 3.21. Population density of District 10 and Thu Duc District

Source: Statistical yearbook of Thu Duc District and District 10, 2012

District 10’s budget revenues per capita are higher than Thu Duc district’s (see figure 3.22), which suggests that the income and living standards of inhabitants in the urban district (i.e. District 10) is higher than for suburban districts like Thu Duc district. However, if the budget revenues of the three industrial parks and export processing zones in Thu Duc district are included in the calculation, then the budget revenues of Thu Duc district are much higher.

Figure 3.22. Budget revenue per capita of District 10 and Thu Duc District compared

Source: Statistical yearbook of Thu Duc District and District 10, 2012

Turning to budget expenditure per capita, this has increased in both districts, but District 10’s budget expenditure per capita is higher than that of Thu Duc district (see figure 3.23).
Figure 3.23. Budget expenditure per capita of District 10 and Thu Duc District compared

![Bar chart showing budget expenditure per capita for District 10 and Thu Duc District from 2005 to 2011.]

Source: Statistical yearbook of Thu Duc District and District 10, 2012

An urban district’s operating expenses are much higher than a suburban district’s (Thu Duc), although District 10’s population and economic size is less than that of Thu Duc district (see figure 3.24).

Figure 3.24. Average operating expense, per district and ward government official, in District 10 and Thu Duc District (millions VND per capita)

![Bar chart showing average operating expense per official for District 10 and Thu Duc District from 2005 to 2011.]

Source: Statistical yearbook of Thu Duc District and District 10, 2012

The ward official per district official ratio in district 10 is higher than for Thu Duc district, which suggests that the labor efficiency of Thu Duc is better than District 10 (see figure 3.25).
Figure 3.25: Ward official per district official ratio, District 10 and Thu Duc compared

Source: Statistical yearbook of Thu Duc District and District 10, 2012

Table 3.6. Local government officials per 1,000 - people, District 10 and Thu Duc compared (2011)

<table>
<thead>
<tr>
<th></th>
<th>Total number of officials at ward and district levels</th>
<th>Population</th>
<th>Number of officials per 1,000 -people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thu Duc district</td>
<td>873</td>
<td>476,801</td>
<td>18</td>
</tr>
<tr>
<td>District 10</td>
<td>641</td>
<td>234,399</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: District 10 and Thu Duc district statistics

The number of district officials with a college degree or higher qualification is numerous, but those with a qualification below university degree are more apparent at the ward level (see figures 3.26 and 3.27).
The number of hospital beds per ten thousand inhabitants is higher in District 10 than in Thu Duc district (figure 3.28). This suggests marked disparities in the quality and investment in health between suburban district and urban districts.
Although the poverty rate is not high in either district, there is still some variance between Thu Duc district and District 10, with the former slightly higher. This suggests that urban areas tend to have lower poverty rates than suburban areas.
In conclusion, the statistical comparison between District 10 and Thu Duc shows some significant differences in the properties of urban districts and suburban districts. Such characteristics and differences between urban and suburban areas should therefore be taken into account when modeling municipal government.
Section 4: Assessing the efficiency of urban management and municipal governance in Vietnam: a qualitative case study approach for Ho Chi Minh City and Da Nang

4.1. The organizational structure according to the Law on Organization of People’s Councils and People’s Committees (2003)

Chart 4.1: Organizational structure of local government according to the Law on Organization of People’s Councils and People’s Committees (2003)

<table>
<thead>
<tr>
<th>People's Council is the authority in a local area elected by citizens</th>
<th>People's Committees are executive local government elected by People's Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>President/Vice-President</td>
<td>Standing Committee</td>
</tr>
<tr>
<td>Department</td>
<td>Standing Committee</td>
</tr>
</tbody>
</table>

The various functions of the People’s Committee under the Law on Organization of People’s Councils and People’s Committees can be summarized by the following matrix.
Table 4.1. Matrix of major functions of People’s Councils at various levels, as stipulated by law

<table>
<thead>
<tr>
<th>Functions</th>
<th>Provincial People’s Committees under the central government</th>
<th>District People’s Committees</th>
<th>Ward People’s Committees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Socio-economic development</td>
<td>Build master plans (Clause 82.1)</td>
<td>Build annual development plan (Clause 97.1)</td>
<td>Build annual development plan (Clause 111.1)</td>
</tr>
<tr>
<td>Budget balance</td>
<td>Build local budget balance and allocation blueprint (Article 82.3)</td>
<td>As at the provincial level (Clause 97.2)</td>
<td>As at the provincial level (Clause 111.2)</td>
</tr>
<tr>
<td>Agriculture, forestry and fishery sector</td>
<td>Direct and supervise the realization of provincial projects and plans (Clause 83.1)</td>
<td>Build promotional programs for development, policies of allocation, leasing and revoking of land for individuals and households, and adoption of land projects by the People’s Committee at commune level (Article 98)</td>
<td>Guide to realize and motivate development and construction of small irrigation projects, management of water resources (Clause 112.1,2,3)</td>
</tr>
<tr>
<td>Industry sector</td>
<td>Build projects and plans of development, and administer projects and plans of development (Article 84)</td>
<td>Work with the People’s Committee at provincial level to build projects, plans of traditional-trade village development (Article 99)</td>
<td>Guide how to venture and develop traditional-trade villages (Clause 112.4)</td>
</tr>
<tr>
<td>Transportation sector</td>
<td>Direct and supervise the realization of transport projects, public-work management, vehicle safety (Article 85)</td>
<td>Oversee use of transport projects and infrastructure in the area (Clause 100.2)</td>
<td>Build and maintain communal roads, mobilize people to contribute to construction of roads, bridges, culverts in communes (Clause 113.1,4)</td>
</tr>
<tr>
<td>Functions</td>
<td>Provincial People's Committees under the central government</td>
<td>District People's Committees</td>
<td>Ward People's Committees</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>------------------------------------------------------------</td>
<td>------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td><strong>Construction, management and development of urban areas</strong></td>
<td>Set up, submit for approval of construction projects in areas, management of architectural construction and licensing (Clause 86.1)</td>
<td>Set up, submit for approval of town and village in districts, management of construction and construction permits (Clause 100.1,3)</td>
<td>Management of construction and building permits for private houses in rural areas (Clause 113.2)</td>
</tr>
<tr>
<td><strong>Trade, services and tourism sector</strong></td>
<td>Build up projects, plans of business development; grant and revoke business licenses, sanitation safety (Article 87)</td>
<td>Build up and develop service network, supervise sanitation safety (Article 101)</td>
<td>Nil.</td>
</tr>
<tr>
<td><strong>Education and training sector</strong></td>
<td>State management of schools in the area, supervision of teachers standards, regulations, qualifications (Article 88)</td>
<td>Build up programs for development, develop and supervise realization in the area (Article 102)</td>
<td>Mobilize children to attend class 1 at the right age, adult literacy and continuing education, nursery management (Clause 114.1,2)</td>
</tr>
<tr>
<td><strong>Information and culture sector</strong></td>
<td>State management of the sector, trade exhibitions; maintenance and restoration historical vestiges Article 89)</td>
<td>Management of public works in areas, maintenance and promotion of vestiges and landscapes (Clause 102.3)</td>
<td>Nil.</td>
</tr>
<tr>
<td><strong>Health care sector</strong></td>
<td>Management of provincial public health facilities; granting work permit to private healthcare facilities (Article 90)</td>
<td>Management of healthcare centers, clinics, disease prevention (Clause 102.4)</td>
<td>Implementing grassroots healthcare programs (Clause 114.3)</td>
</tr>
<tr>
<td>Functions</td>
<td>Provinical People's Committees under the central government</td>
<td>District People's Committees</td>
<td>Ward People's Committees</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>------------------------------------------------------------</td>
<td>------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Science, technology, natural resources, environment</td>
<td>Direct and inspect adopted missions and plans (Article 91)</td>
<td>Implement measures to apply science and technology to production (Clause 103.1)</td>
<td>Nil.</td>
</tr>
<tr>
<td>Defense and security</td>
<td>To ensure security, reinforce people’s security forces, direct to fight and prevent crimes, management of household and residence administration (Article 92)</td>
<td>Organize mass movements, build up defensive zones in districts, manage forces of reserve troops; organize check-up registration for military service candidates, finalize listings of recruited troops (Article 104)</td>
<td>Propagandize, develop national defense education; recruit troops on military service duties, manage reserve troops, management of household and permanent and temporary residence administration (Article 115)</td>
</tr>
</tbody>
</table>
4.2. Organizational models of urban government in Ho Chi Minh City and Da Nang, and their performance

4.2.1. The organizational model of three-layer government in Ho Chi Minh City and Da Nang

Resolution No. 724/2009/UBTVQH12 of 16th January 2009 of the National Assembly Standing Committee, sanctioned urban governance pilots, removing the People’s Councils in select urban and suburban districts and wards. Both HCMC and Da Nang have participated in this programme since 2009. The organizational models of local government under this pilot programme are depicted in diagram 4.2.

Diagram 4.2. Current Municipal Government Structure in Ho Chi Minh City and Da Nang, with removal of People’s Councils at the District and Ward Levels

- Full/complete level, with both People’s Council and People’s Committee
- Intermediary administrative level, without a People’s Council
4.2.2. Efficiency of the three layers of government in Ho Chi Minh City and Da Nang

4.2.2.1. The view from City Departments in Ho Chi Minh City

In HCMC we conducted interviews with the city-level People’s Committee (Interior Department), 10 specialized departments, and 4 former presidents or vice presidents of departments and institutions within the HCMC municipal government. The questions focused on: (1) the main management functions of departments and branches; and which services for residents and enterprise associations could be transferred to privately-owned bodies; (2) the relationship between specialized departments and functional offices in districts, and how they collaborate to supply urban services for residents; (3) whether the 3-layer city government leads to overlapping functions or gaps between specialized departments, and between departments and offices; and (4) in those cases, the kinds of managerial difficulties departments encounter. Further: (5) the viewpoints of departments on the removal of People’s Councils in districts and wards; (6) whether it is necessary that the People’s Committee at the district and ward levels exist as a full level of government, as stated in the current law; and (7) proposals for reforms of urban administration.

According to the Interior Department of the HCMC People’s Committee, the problem of overlapping mandates is primarily due to lack of unified functions in the duties of departments. For instance, the Department of Transport used to be in charge of urban transport infrastructure, and the Department of Natural Resources and Environment managed general environmental matters. But Resolution 13/2008/ND-CP transferred these functions to the Department of Construction. This was seen as illogical, as transport management overlaps with infrastructure on projects such as bridges, sewers and underground water pipes, etc. In addition, a single road cannot be run by numerous departments. Similar problems exist with environmental management and waste treatment.

Investment, permits and urban planning

Interviews with Department of Planning and Investment (DPI) officials reveal that, based on its scale, an investment project can be approved by the Ministry of Planning at the department level or district level. Business-related investment is approved at the department level, by the district if it concerns smaller businesses, and by the place of registration if it involves cooperatives. Post-approval inspection is also organized at the district level, but this is beyond the DPI’s capabilities due to the huge number (over 200,000) of enterprises in the city. Thus, all such management is done by districts, where human resources are restricted. This often leads to performance failures. Permits for sensitive businesses can be even more elusive. Regulations require DPI to answer enterprises within 10 to 15 days. But it can take much longer, even up to a year, if guidance from ministries and other central government branches is required. This can lead to a failure to keep their commitments to foreign investors, sometimes leading to relocation of investment to other regions.

Within the Department of Industry and Trade (DOIT), there is a vertical relationship between departments and districts. District offices manage small enterprises while the DOIT oversees large business organizations. Industrial Zone Management Boards
(Hepza) manage all companies within industrial zones. The DOIT also has responsibility for industrial planning, but in some cases Hepzas do not follow DOIT instructions, and are effectively supervised by no one.

The Department of Planning and Architecture’s (DPA) functions include urban planning, performing 1/2000 scale planning, acting as advisors to the city’s People’s Committee on planning and architecture issues, signature rights on agreements on planning to ensure compliance with the law on planning, and consulting with districts on 1/500 scale planning issues. Before the existence of the municipal law, in HCMC 1/2000 scale plans were evaluated by the DPA and then signed by the chairman of the District People’s Committee. Districts are permitted to not follow DPA recommendations. Today, overall planning is done at the city level, with detail addressed at the district level. In principle, lower levels of local government must conform to the instructions of upper levels, but this is not always the case in reality.

Under the Construction Law and Resolution 64/2012/ND-CP (which replaced Resolution 12/ND-CP on building permits), HCMC empowers districts on construction issues. The certificate of housing ownership for building projects issued by the construction department is now issued at the district, the level of government which is also in charge of allocating housing numbers. The Department of Construction (DoC) is responsible for professional instruction and performance check-ups. At the end of each year, inspectors from the DoC will conduct a pre-arranged inspection of district activities. However, there are still many reports of projects that are still not complete even after 10-years.

Carrying out a building project involves numerous departments and branches. Certificates of ownership are issued by the Department of Natural Resources and Environment; planning applications are managed by the Department of Architecture and Planning; fire safety issues are handled by the fire authority; resident-related issues by the district People’s Committees; and finally the issuing of the permit is done by the Department of Construction (the final stage after the approval of all other departments).

The Department of Transport is in charge of large roads and arteries. Inner-district streets and roads below 12 metres in width are run by the relevant district People’s Committee, and alleys by wards. The road budget is insufficient for all the needs, so residents are expected to contribute financially. Overlaps and gaps in road planning are apparent here too. Each department has a different viewpoint. They do not conduct regular joint discussions, undermining comprehensive planning and co-ordination.

The Department of Natural Resources and Environment (DONRE) supervises state-owned and foreign-related land. Districts administer the land of individuals and households. DONRE is responsible for imparting professional knowledge to districts, conducting inspections and handling offences, a division of responsibilities based on the land law. However, if individuals with a certificate of land ownership granted by the relevant district subsequently want to sell the land to an enterprise, the new certificate will have to be issued by the DONRE at the city-level. In such cases, all the documents stored in the district must be moved to the city for verification. This is time consuming. The role of the ward is to gather relevant documents and then transfer them to districts. Public officials in the wards are transferred, appointed or dismissed by districts. So land officials in the wards are managed by the relevant People’s Committee, not the DONRE.
Education and health

The Department of Education and Training (DET) directly administers senior high schools and their educational programs. In addition, it supervises primary and junior high schools managed by the district-level Office of Education. The DET has the right to require a district-level People’s Committee to withdraw a school license if it violates regulations. It can also grant permits for the establishment of schools, from elementary to high school level. Districts grant permits for the establishment of kindergartens. Wards are in charge of running private education and under-3-year-old groups. The DET and district-level Office of Education cooperate, but wards are responsible for monitoring, but with no professional education inspectors on the payroll. Resolution 115 does not make clear the division of management of education and training between the DET and district. While the DET manages educational programs and planning of education, the district-level Office of Education takes care of personnel, and administers human resources, finance and educational programs. This creates an overlap. Educational services for residents are distributed differently from district to district, depending on the number of students in that particular district or ward. Thus, when the allocation of students to schools goes ahead and a student wishes to attend a nearby school which is in another ward, that decision will be made by the district-level Office of Education. Vocational training is managed by the Department of Labour, Invalids and Social Affairs, not the DET, further undermining planning and coordination efforts.

The model of health management in HCMC varies from other locales. Though it is stipulated that health establishments under districts, standby health centers and hospitals under districts, wards and communes all come under the Department of Health (DoH), in reality they are run by districts in HCMC. Personnel and budget issues are all decided by the district-level People’s Committee, but professional issues are decided by the DoH. However, the DoH has no right to replace managers in districts, even if they are incompetent. If they wish to do so they have to negotiate with the district-level People’s Committee is possible.

Most departments indicated that the People’s Councils only exist nominally, because their operations all depend on the budget allocated, without which they can do nothing. Thus, their removal at the district and ward levels did not have an adverse impact. Delegates of the city-level People’s Council can still come to talk with and listen to voters in their relevant locales. City-level People’s Councils have specialist delegates acting as not only a connecting bridge between citizens and the local government, but also as advisors for districts. This role was praised.

4.2.2.2. The view from City Departments in Da Nang City

Da Nang has about one eighth, one quarter, and one third of HCMC’s population, area and administrative units, respectively. As a result, Da Nang’s urban management is less complex. Unlike HCMC, which has pursued strong decentralization to urban and suburban districts, Da Nang has tended to centralize the management of key areas such as planning and land. In the areas of planning and construction, Da Nang does not have two separate departments for construction and architecture and planning, like in HCMC. But like
HCMC, Da Nang does have a planning institute for research and consultancy. However, all planning functions in Da Nang are kept at the city-level, unlike HCMC where planning on a scale of 1/2000 scale is decided by the city, and that of 1/500 scale by districts.

In Da Nang, all projects are decided by the city-level People’s Committee, which has set up an urban management office to provide feedback on urban planning and serve as an information hub. This office synthesizes information from the various departments and gives advice to the City People’s Committee. Staff in the office include architects, civil engineers, electrical engineers, and transport officials. This office does not overlap with the Planning Institute nor the Department of Construction, as the Planning Institute conducts surveys before a proposed project proceeds, while the Department of Construction evaluates the project. It is the city-level People’s Committee Office that finalizes the ultimate document to be submitted for approval.

For land-use management, Da Nang also decentralized its administration of land management to the district level, like HCMC (where household or private property land is managed and administered at the district level, and all other land by the city-level department). However, Da Nang found decentralization led to many shortcomings, delays and inefficiencies. The city has recentralized with the city-level DONRE is responsible for the certification and management of land use rights for all applicants. The application process for land use right certificates is much faster and more streamlined. Indeed, Da Nang has completed certification of nearly 95% of all land use rights. In addition, the city-level DONRE seconds specialized teams for granting land use certificates of to work in each district, helping district officials with investigations, inspections, and verification, among other administrative services.

### 4.2.2.3. The view from District and Ward People’s Committees and Citizen Groups

The survey results show significant differences in the organisation and operation of local authorities in HCMC and Da Nang. The results seem to suggest Da Nang has overcome a number of the shortcomings faced by HCMC, restructuring local government toward a more streamlined model by: i) reducing the number of entities; ii) defining functions, powers and responsibilities of specialized agencies and People’s Committees at all levels more clearly; and iii) promoting effectiveness and efficiency to satisfy the increasing demands of citizens.

This contrasts with the overlapping and fragmented management functions associated with the current three-tiered local government model. In District 10 of HCMC, for example, the district-level Office of Urban management is under the supervision of several city-level departments including the Department of Planning and Architecture and the Department of Construction. There are a significant number of disparate actors at different administrative levels participating in the same activities, without clear assignment of responsibilities and functions. Citizens in Linh Chieu ward (Thu Duc) complain the number of local government procedures make it too burdensome to pursue a Homeowner’s Certification. Firstly, they are required to obtain technical plans of the house and residential land. Then the ward-level People’s Committee is responsible for drawing up plans of the same house, and defining land boundaries based on administrative maps. Various actors, agencies
and entities take part in the process of producing administrative maps. Inspection and supervision of those actors is variable and often poor. This situation has been identified as a major source of dissatisfaction, worsening citizens’ trust in government, as well as increasing land-related complaints.

In HCMC, the ward-level People’s Committees are overloaded by a wide variety of formal functions. In addition to taking responsibility for organising and managing general administrative affairs within its area, the ward level must also perform a series of duties and functions authorised by the ward-level People’s Council and other higher levels of local government. This workload is out of step with their capacities and budgets.

**Box 1: Opinions of citizens living in Block 4, Hiep Binh Chanh (Thu Duc) and Block 2, Ward 7 (District 10).**

- On average, people spend approximately two years completing administrative procedures for housing ownership certificates and other land-related formalities.

- Completing tax payments takes at least three months because people are required to fulfill numerous administrative procedures. The method of calculating tax contains its own obstacles. For example, concreting some parts of the same road may entail higher costs than others. So, when local people are told to contribute funds for road concreting, they are no longer incentivized to contribute money to up-grade low quality roads, leading to problems such as regular road flooding.

There are not enough staff to shoulder the heavy burden placed on ward-level officials. And yet, the organizational structure of the ward-level People’s Committee includes one president and two vice-presidents. Ward staff find themselves unable to deliver public services adequately and serve residents’ needs.

**Box 2: The number of commune or ward level officials**

Pursuant to Article 3 of Decree No. 92/2009/ND-CP, the quantity of ward or commune level officials is prescribed as follows:

1. The titles of commune level cadres: (a) Party Committee Secretary, Deputy Party Committee Secretary; (b) President and Vice-President of People’s Council; (c) President and Vice-President of People’s Committee; (d) President of Fatherland Front Committee; (e) Secretary of Ho Chi Minh Communist Youth Union; (f) President of Women’s Union; (h) President of War Veterans’ Association.

2. The titles of commune level officials: (a) Police chief; (b) Divisional Commander; (c) Officer for statistics; (d) Cadastral work-Construction-Urban and Environment (ward level), or Cadastral work-Agriculture-Construction and Environment (commune level); (e) Finance-Accounting; (g) Legal Consultant-Registrar; and (h) Culture-Society.
Ward-level local government is facing a number of challenges, including lack of financial resources, a shortage of facilities, and too few qualified personnel. As the President of Hiep Binh Chanh ward (Thu Duc district) says: “Improving the quality of human resources is very important. There are about 100 ward members are responsible for managing over 72,000 inhabitants going through a profound urban transition process. However, the qualification and competence of officials and public employees cannot satisfy the requirements of administrative affairs. Only 30% of our members have got a Bachelor’s degree. The majority must rely on in-service training programmes. Often their expertise is not in line with the increasing demands of their duties and functions. Furthermore, good students who have just graduated from the university do not want to work for the ward-level People’s Committee because of the poor average income”.

Views on the abolishment of People’s Councils at the district and ward levels: There continues to be weak performance in providing public services and administrative services. Does the existence of People’s Councils at intermediate levels (district and ward/commune) help explain fragmented and overlapping urban management? This opinion was expressed by the Ward People’s Committees at Hiep Binh Chanh – HCMC and the District People’s Committees at Cam Le – Da Nang. They said the worsening operation of representative and supervision functions of People’s Councils at the intermediate level contributes to the problems.

One additional point of interest from the survey on citizens’ views in Block 3, Ward 7, District 10 and Block 9, Linh Chieu, Thu Duc was the conclusion that there is plenty of opportunity and multiple “public-hearing” channels for citizens to express opinions, reflect their own obstacles and give feedback on the quality of public services.

Views of the services which could be passed on to private or business sector: According to interviews with citizen groups in Ward 7, District 10 and Hiep Binh Chanh ward, Thu Duc district, people struggle to access public services, having to go to multiple service providers. When they do track down the correct service giver they are not treated as “customers”. Administrative government offices have appropriated multiple functions and public services increasing bureaucracy and leading to an authoritarian attitude in providing public services. That is why most people in HCMC like to use public services delivered by the private sector and why people are not satisfied with public services provided by the government. This is also congruent with the results of a previous survey (PAPI 2012).

4.2.2.4. The view from People’s Councils at City, District and Ward levels and the Fatherland Front

In-depth interviews at the district and ward level highlighted similarities between public perceptions of the overlapping functions in the three-tiered local government system in HCMC and Da Nang. The interviewees included 10 individuals, representatives of People’s Councils, and the Fatherland Front at the district and ward level. Some interviewees were former Presidents of district or ward People’s Councils and are now Fatherland Front officials at the same level. In Da Nang, units and individuals interviewed included the City People’s Council, Former Presidents of the district people’s councils at Son Tra and Cam Le, Director of the Department of Home Affairs and the research leader of the “Development of Municipal Government in Da Nang” proposal.

Key findings from those interviews include:
**Structure of organization and operation of local government:** The majority of interviewees accepted that the existence of People's Councils at the intermediate levels (district and ward/commune) as the highest state authority in those localities, determining long-term and annual plans for local development, is mere formality.

**Public expenditures:** There is no convincing evidence to conclude that the abolition of People's Councils at the district and ward level reduces public expenditures. In practice, the majority of members at the district and ward level are not specialists and take up positions at other agencies. People's Councils are cheap to operate, costing only an additional third in operating costs above the salary of their staff.

**Effectiveness and efficiency:** Without the existence of People’s Councils at the same level, People’s Committees are able to take the initiative to deal with issues such as overlapping functions, shortages of human and financial resources, weak performance at grassroots level in providing public services. The new structure of the local government system saves administrative costs and help to maintain professional staffs.

**Lessons from implementing pilots to promote democratic rights of the people in Da Nang:** Da Nang is a successful example of building the effectiveness and efficiency of the City People’s Council. The “Party’s Committee Secretary CUM President of People’s Council” organization model contributes to promoting the overall strength of the Party, the government and the people. Accordingly, the City People’s Council has actually coordinated the Party’s political will and the people’s aspirations for a better mechanism of representation and supervision of the performance of the local administrative system in dealing with burgeoning public demands as well as developing people’s justice and democracy.

**Research results from Leaders of Fatherland Front:** The responses suggest there are plenty of opportunities or “public-hearing” channels for citizens to contribute feedback. These mechanisms include People’s Committees, People’s Councils at different levels, complaint letters, hotlines and frequent feedback sessions. However, the effectiveness of these channels is limited. Furthermore, respondents also suggested that inefficiency of the Fatherland Front at the district and ward levels might be due to (1) Lack of sufficient budget. There is a degree of financial dependence on the People’s Committee (2) Lack of specialised representatives at these levels (3) Horizontal operation of Fatherland Front at all levels: the operations of the Fatherland Front at district or ward level is managed by officials at the same level not a higher level. The Fatherland Front operates in a top-down manner. Its advice to administrative bodies comes separately from that from their direct superiors and can lead to inconsistencies.
Box 3: Opinions of the People's Councils in Da Nang

Do the primary public complaints relate to land use and housing?
That is correct. Because Da Nang has conducted site clearances affecting over 95,000 households, the numbers of people involved are large. Many complaints were made, concentrating on inaccuracy in the compensation price. There were some cases in which the Board of Management did not perform calculations correctly.

What are the public problems and disputes addressed in the monthly meeting between the People's Councils and People's Committees?
People's Councils only play a supervision role while decision-making rights belong to the People's Committee or lower levels including Boards of Management and district-level Chairman (who are responsible for managing site clearance). The monthly meeting between the People's Council and People's Committee discusses people' issues or complaints related to the implementation of site clearance with the Board of Management, the Chairman and specialised divisions at the district. If there are any individual complaints, the chairman of the People's Committee is required to go to the area to solve the problems. Also, the President of the People's Councils is also required to listen to people's reflections of the results of the solution. These two meetings are held separately and are generally effective in reaching a satisfactory answer.

In your view, what are the factors important in the success of the municipal government pilot in Da Nang?
Firstly, differentiating between municipal and rural government. Secondly, building mechanisms for improving the “real” power of delegated organs. Furthermore, increasing the number of specialised delegators and the number of meetings of the People’s Committee. Da Nang People’s Committee has only 48 delegates with just 3 full time members: 1 President and 2 Vice-presidents.

What are the advantages and disadvantages of removing People’s Councils at the intermediate level?
If there are no People's Councils at the same level under the “top-down” mechanism of direct appointment, relief and replacement, People’s Committees can take the initiative to deal with issues such as overlapping functions, shortages of human and financial resources, weak performance of the grassroots level in providing public services. The new structure of the local government system will save the administrative costs and help to maintain professional staff.

There is no convincing evidence to conclude that the abolition of People’s Councils at the district and ward level reduces public expenditures. In practice, the majority of members at the district and ward level are employed primarily by other state agencies, not full time with the People’s Council. The burden of their salary is therefore not on the People's Council's budget. Operating costs are low, only an additional third on the salary costs of the members.
Box 3: Opinions of the People’s Councils in Da Nang

The Fatherland Front is not engaged effectively in ensuring the transparency and equity of appointment, dismissal and replacement of Chairmen and Vice-Chairmen of People’s Committees at the district and ward level. Consequently, before removing the district and ward People’s Councils, there was controversy over the appointed leader because collection of grassroots opinion was limited. Therefore, under the new mechanism of “top-down” direct appointment of People’s Committees, interviewees considered that leaders, who were directly appointed by the higher level, just make efforts to satisfy the higher people’s committees instead of serving the local people.

How to deal with the complaints of People?

From the point of view of People’s Committees, these efforts have been concretized by regular extensive consultative dialogues among the leaders of People’s Councils, People’s Committees, specialised agencies and sectors at different levels, investors, enterprises and citizens. These monthly meetings provide a valuable opportunity for participants to share opinions, ideas and vision on key issues for the whole city. They are also a chance for engaging enterprises and citizens to contribute their demands and create consensus among the leaders and citizens on “long-term public interest” issues.

4.2.2.5. The view from the business community

Interviewees were 50% from large enterprises and 50% from small and medium enterprises. Those sampled were businesses that had applied for business and construction licenses, including some who had become involved in procedures for large-scale projects. Virtually all enterprises reported few obstacles for certificates of business registration at any level of government.

Interviewees were divided between those that were operating businesses but were unlikely to expand rapidly or get involved with large projects, primarily small and medium enterprises and a second group of big firms that might engage with large investment schemes, mainly in construction, real estate, and transport infrastructure.

They all stated that they had worked with ward and district-level local authorities in their localities since they were established. They had engaged with local authorities on issues including public order, social security, pledges of environmental protection, applications for business-related licenses and notarising papers and taxes. For larger organizations they also engaged on district social insurance. In some areas, local government worked with enterprises to understand their challenges. Beside tax payments and job provision for the locals, most companies finance social security and local poor funds.

Enterprises in both HCMC and Da Nang both said they were largely satisfied with the administrative system but some complained of long delays in notarization of papers.
A construction permit requires three kinds of papers; an application letter for a building license, certificate of ownership and a design. Companies must also comply with steps related to land, planning, project scale, and business characteristics. One enterprise that assists businesses to get construction permits in HCMC estimates it takes a resident around 20 working days (about 30 continuous days) to be granted a building license if he does it by himself. Normally the procedures are as follows: (1) Housing regularization (2) Transfer of purpose of use (3) obtaining a land-use right certificate (4) Land combination or separation, taking 4-6 months for the formalities. If during the process, errors are found, the papers will be returned to the resident for correction. This is often immensely time-consuming. Generally the department does not indicate which errors require correction or what missing papers need to be provided. In principle, the whole process takes 4 months but if the papers are returned then a period of 8 months or 1 year is inevitable. According to business associations in HCMC, house building projects procedures consist of 9 steps. For new construction plans, it takes companies in HCMC 2 to 3 years to reach completion (80% of projects). Other projects take over 3 years with examples such as the construction of the University of Economics and Law taking over 10 years. Each step takes 1 to 2 years. Getting the 1/500 plan approved is considered the longest and most complicated. It takes several months from when the district sends papers to the department. 24 months is regarded as the fastest possible so long as no obstacles arise during inspection. In principle, if a licensing process takes more than one year it will be recalled, so everyone requires extensions. Procedures for construction permits and land ownership are enormously complex. In practice, a large proportion of interviewed business organizations depended on external services to process formalities and to reduce waiting and opportunity costs for projects.

Interviews with business associations in Da Nang reveal easier procedures there. Large scale land and planning projects take 3-6 months to receive construction licenses. If there are complications around clearance or compensation, it takes a maximum of one year. Thanks to the one stop shop mechanism Da Nang residents and companies can go through the process by themselves without the ‘spiral of procedures’ experienced in HCMC. The units receiving papers demonstrate a commitment to getting the job done. Moreover, the guidelines provided with every document from Da Nang People’s Committee helps minimize complications that may arise during the application process. As a result, outside services are used relatively infrequently due to low transaction costs and the efficiency of the local authority in solving difficulties.

HCMC businesses interviewed stated that the current city-district-ward three level government model triggered higher costs in time, energy and money. In some cases they were unclear which organ they should contact for help. They advised a reduction in the number of agencies with the city or district becoming the centre for dealing with these issues. Companies stated that they wanted smaller but more effective administration, leading to better assistance and cost reductions for businesses.
Section 5: Assessing the financial and economic efficiency of urban management and municipal governance: a quantitative approach

5.1. Judging the efficiency of organizational structure of local government and urban management in Ho Chi Minh City and Da Nang

To quantitatively measure the efficiency of current urban management, we selected comparable scenarios in HCMC and Da Nang, and used them to calculate the opportunity costs or economic losses due to inefficiency as a result of the different local government structures. The striking difference between HCMC and Da Nang lies in the functional management structures. In HCMC, decentralization has led to functional overlaps, while in Da Nang those functions are centralized (moving toward a model of municipal government). While HCMC abides by the regulations issued by central government Da Nang “breaks barriers” to mobilize resources for development. With limited information available we can only provide basic estimates of financial and economic efficiency. Before undertaking the quantitative estimation, we compare the decentralized administration in HCMC and the centralized one in Da Nang to see whether Da Nang’s configuration leads to shortened project durations. If there is indeed a reduction in time to get project permits there will be a reduction of opportunity and financial costs, and an increase in economic efficiency.
### Matrix of functional hierarchy levels in Da Nang and Ho Chi Minh City

<table>
<thead>
<tr>
<th>Functions</th>
<th>Ho Chi Minh City</th>
<th>Da Nang</th>
<th>Judgement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Urban Planning, Socio-economic Development</strong></td>
<td>Decentralized among city-level departments and districts, with wards' assistance</td>
<td>Centralized. City-level Departments provide information through a City Planning and Architecture Council, which ensure consistency and integration in planning</td>
<td>Centralized urban planning is more efficient than decentralized, as the latter results in overlaps and reduces transparency</td>
</tr>
<tr>
<td><strong>Issuing certificates of land use rights</strong></td>
<td>Decentralized among city departments and districts with assistance from the wards. City-level department of Natural Resources and Environment issues certificates for organizations, while Districts issue them for households.</td>
<td>Danang has focused this responsibility in a single department, the Department of Natural Resources and Environment - which has a facilitating agent or branch in each district area.</td>
<td>Centralizing in one department has streamlined procedures and reduced the need for intermediaries, increased the speed of decisions, and citizens do not have to wait for a long time.</td>
</tr>
<tr>
<td><strong>Issuing building permit</strong></td>
<td>Decentralized among city departments, districts and wards. City-level Department of Construction issues permits for large projects; district for small projects, and wards for house repairs. The Department of Planning and Architectural gives opinions in some cases.</td>
<td>The same as in HCMC, but it is more flexible. The city-level Department of Construction can issue a permit for small projects if districts cannot do this promptly. The city-level Department of Construction is in charge of all construction and planning (unlike HCMC, where two departments are involved).</td>
<td>Time required to get a project building permit in Danang is 4-5 times shorter than that of HCMC.</td>
</tr>
<tr>
<td>Functions</td>
<td>Ho Chi Minh City</td>
<td>Da Nang</td>
<td>Judgement</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>------------------</td>
<td>---------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Issuing investment licenses, appraisal and approval of projects</strong></td>
<td>Decentralized among city departments, districts and the management boards of industrial zones, with ward assistance when required.</td>
<td>Formally the same as HCMC. However, the assessment process through city departments takes less time.</td>
<td>Time for getting project building permit in Danang is shorter than that of HCMC. Because of its large size, monitoring in HCMC may lead to some cases being ‘forgotten’.</td>
</tr>
<tr>
<td><strong>Fiscal:</strong> Dividing the percentage (%) of local revenues to the city's budget, according to the Budget Law the Government provisions</td>
<td>People's Committees of district and wards have autonomy in allocating the distributed budget. A reward is given if the revenues to the national Budget exceed target estimates. The city is awarded 30% of the amount exceeded, but this amount may not be any greater than the reward issued in the previous year.</td>
<td>The same as Ho Chi Minh City, but without the reward mechanism.</td>
<td>Distributed revenue from the national Budget is not sufficient for urban infrastructure development and major projects in the city. Cities under central government have no authority in fiscal policy. They have the same rights as rural local governments.</td>
</tr>
<tr>
<td><strong>Mobilizing resources for urban infrastructure development</strong></td>
<td>Issues urban bonds, with approval from central government. Established the HCMC State Financial Company and the Ho Chi Minh City Infrastructure Fund.</td>
<td>Danang develops its infrastructure through such initiatives as the ‘exchange of land for infrastructure’ and ‘using land fund for infrastructure development’. If full payment is provided up front, buyers are entitled to a fee discount of 10%.</td>
<td>Danang has had robust urban infrastructure development, while in HCMC such urban growth is constrained by a lack of financial resources in HCMC.</td>
</tr>
<tr>
<td>Functions</td>
<td>Ho Chi Minh City</td>
<td>Da Nang</td>
<td>Judgement</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Attracting qualified human resources</strong></td>
<td>Scholarship for training programs of 300 Masters and PhD students.</td>
<td>Financing for best students to go abroad to study, along with other incentive policies, such as awarding housing and higher incomes for qualified cadres.</td>
<td>The qualifications of civil servants in Danang are generally higher than those in HCMC.</td>
</tr>
<tr>
<td><strong>Measures for monitoring and resolving citizen’s requests, so as to ensure protection of their interests when People’s Councils at the district and ward levels are removed</strong></td>
<td>Increasing channels for citizens to convey their interests and concerns, through people’s dialogues with National Assembly representatives, and monitoring by the Fatherland Front</td>
<td>The same as in HCMC, but Danang resolves problems more efficiently because monitoring team leaders are given more responsibility, including identifying who should be present at meetings with citizens to answer their queries directly.</td>
<td>Citizens and the business community in Danang have a higher level of satisfaction with public services than citizens and businesses in HCMC.</td>
</tr>
<tr>
<td><strong>Proposed new municipal government models</strong></td>
<td>Since HCMC is so large, it is proposed that 13 existing districts shift to a one-tier municipal government structure, with four new urban areas to have two-tier municipal government.</td>
<td>Danang has been gradually shifting to a one-tier municipal government structure, even though the city’s formal proposal on this has not yet been accepted by national government.</td>
<td>Ho Chi Minh City has submitted proposals, but no action has been implemented in practice, for want of approval by the national government.</td>
</tr>
</tbody>
</table>
5.2. Quantitative estimation of current urban governance

5.2.1 Estimating the impact of Da Nang attracting capital for infrastructure investment using a policy of ‘exchanging land for infrastructure’

Da Nang has a “using land funds for infrastructure development” or “exchanging land for infrastructure” approach for infrastructure development. Government inspectors have said that in implementing the initiative Da Nang has infringed central government regulations. To examine whether “breaking barriers” related to central government regulations has been effective or not, we conducted a quantitative analysis to estimate the impact on financial performance and economic efficiency of a case published in a newspaper (see below). If such “breaking barriers” is more efficient, without leading to corruption or other adverse side effects, it suggests that central government could grant greater flexibility to local government.

“Da Nang has had a policy of land use fee exemption for a long time. Decision 122/2003/QD-UBND, dated 24th July 2003, regulated compensation and resettlement. Decision 9757/QD-UBND of 19 December 2005 put in place a 10% discount for organizations or individual investors who pay the relevant fees fully up-front. The newest Decision – 6644/QD-UBND of 28th August 2009 – allows investors who pay the land use fee in full within 60 days of contract signature to get a 10% reduction in land use fees. However, in the opinion of the Government Inspectorate, the decision by the Da Nang People’s Committee to offer a 10% reduction in the land use … is not correct. More specifically, it is contrary to the provisions of Articles 13 and 15 of Decree No. 198/2004/ND-CP of the Government, and Section III, Part C, Circular No. 117/2004 / TT-BTC of the Ministry of Finance. The Da Nang decision caused budget losses of VND 446,229,756,243 (for resettled households) and VND 867,455,055,921 (for organizations and individuals who obtain a permit to transfer land use rights)3.

Using this data we examined whether Da Nang’s policy indeed led to an effective financial performance, or not. Da Nang had reduced the land use fee payable, and government inspectors calculated the cash value of the losses due to the discount offered. However, the discount offered for early payment, to collect money used for investing in infrastructure, might be more efficient if the financial value of time and the impact on economic development is calculated. While it may seem obvious that a 10% discount in fees – given to those able to pay in full upon contract signing, versus those who pay in increments over an extended period – will result in less revenue for the government, this is not necessarily the case when one considers ‘present value’ (PV)4, particularly in an economy where interest rates can be quite high. Put most simply, the 10% discount may be more than offset for by receiving the fees in full earlier, rather than waiting four years for incremental fee payments. The essential question is whether breaking the regulation led to improved

3 Lao Dong newspaper, 5th March, 2013.
4 Present value can be defined thus: “Present value is a future amount of money that has been discounted to reflect its current value, as if it existed today. The present value is always less than or equal to the future value because money has interest-earning potential, a characteristic referred to as the time value of money. A dollar today is worth more than a dollar tomorrow because the dollar can be invested and earn a day’s worth of interest, making the total accumulate to a value more than a dollar by tomorrow.”
efficiency for Da Nang? Survey information shows that the slowest time from signing a contract to the allocation of land use rights and completion of all procedures in Da Nang was about one year, compared with about 2 years in HCMC for companies and more than four years for households.

Assumption: First, we developed two scenarios. Scenario 1: for investors and individuals who paid the full land use fee in the specified time and received a discount of 10%, the actual amount received was around VND 11,823 billion (see line 5 in Table 5.1). Scenario 2: for investors and individuals who did not have enough money to pay the full fee in the prescribed time and therefore did not receive the 10% discount (see line 4 Table 5.1), the total amount received was around VND 13,136 billion.

Those in scenario 2 are split into companies and resettled households. For companies, the payment extends over at least two years, split equally between each year and the payment due at the end of the year. For resettled households, the payment will extend over 4 years, split equally between each year with payment due at the end of the year. Between 2003 and 2011, there were five potential four-year periods (ie. 2003-2007, 2004-2008, 2005-2009, 2006-2010, and 2007-2011). Therefore, we divided the collected money from resettled households into 5 equal parts in the two scenarios, and in scenario 2 we divided into 4 equal parts – one for each of the 4 years – the payment being due at the end of the each year.

Table 5.1. Calculation of land use fees collected by Da Nang city government, with and without 10% discount

<table>
<thead>
<tr>
<th>Time: 2003 - 2011</th>
<th>Unit: VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Revenue loss from land relocation</td>
<td>446,229,756,243 (1)</td>
</tr>
<tr>
<td>2. Revenue loss from transfer of land use rights</td>
<td>867,455,055,921 (2)</td>
</tr>
<tr>
<td>3. Total loss from the 10% discount in land use fees</td>
<td>1,313,684,812,164 (3) = (1) + (2)</td>
</tr>
<tr>
<td>4. Total amount paid with no 10% discount</td>
<td>13,136,848,121,640 (4) = (3) / 10%</td>
</tr>
<tr>
<td>4.1. Companies and organizations</td>
<td>8.674.550.559.210 = (2) / 10%</td>
</tr>
<tr>
<td>4.2. Resettled households</td>
<td>4.462.297.562.430 = (1) / 10%</td>
</tr>
<tr>
<td>5. Total amount paid with 10% discount</td>
<td>11,823,163,309,476 (5) = (4) x (1-10%)</td>
</tr>
<tr>
<td>5.1. Companies and organizations</td>
<td>7,807,095,503,289 = (1-10%) x [(2)/10%]</td>
</tr>
<tr>
<td>5.2. Resettled Households</td>
<td>4,016,067,806,187 = (1-10%) x [(1)/10%]</td>
</tr>
</tbody>
</table>
We then used the average government bond interest rate, plus the issuing fee, in calculating the time value (i.e. 12% for the period 2003-2011) of the revenues received by the local government, across the two scenarios. Thus, the average amount paid in each year for the two scenarios is shown in Table 5.2 below.

Table 5.2. Annual payment of each case for companies and resettled households

<table>
<thead>
<tr>
<th>Companies:</th>
<th>Unit: VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Annual payment for scenario 1 – discount of 10% (Row 5.1, Table 5.1/9)</td>
<td>867,455,055,921</td>
</tr>
<tr>
<td>- Annual payment for scenario 2 – no discount of 10% (Row 4.1, Table 5.1/9)</td>
<td>963,838,951,023</td>
</tr>
</tbody>
</table>

Resettled households:

| - Amount paid per period of 4-year cycle in scenario 1 – discount of 10% (Row 5.2, Table 5.1/5) | 803,213,561,237 |
| - Amount paid per period of 4-year cycle in scenario 2 – no discount of 10% (Row 4.2, Table 5.1/5) | 892,459,512,486 |
| + Annual payment of scenario 2 with no discount of 10% (VND 892,459,512,486 / 4 years) | 223,114,878,122 |

Using Table 5.2, and the assumption above, we made a calculation for both companies and resettled households. First, we calculated the annual present value (PV), under Scenario 2, for companies, with annual cash flow discounted to the beginning of the year, compared with the annual cash flow under Scenario 1 (where payments were calculated to be due at the end of the year). The results were as follows:

<table>
<thead>
<tr>
<th>Year 2003 - 2011 (i =12%)</th>
<th>Unit: VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Scenario 2 without discounting 10%:</td>
<td></td>
</tr>
<tr>
<td>Present value (PV) each year from 2003 to 2011:</td>
<td>860,570,491,985</td>
</tr>
<tr>
<td>(2) Scenario 1 with discount of 10%:</td>
<td></td>
</tr>
<tr>
<td>PV each year from 2003 to 2011:</td>
<td>867,455,055,921</td>
</tr>
<tr>
<td>Average difference of PV for each year from 2003 to 2011 (2)-(1)</td>
<td>6,884,563,936</td>
</tr>
</tbody>
</table>
Secondly, we made a calculation for resettled households. According to Table 5.2, we calculated the present value (PV) of the discounted cash flow back to the beginning of each 4-year period using the following formulas.
Under Scenario 1: Cash flow in 4-year period is VND 803,213,561,237

Under Scenario 2: Cash flow in each 4-year period is calculated by the formula

\[ PV = C \times \frac{1 - (1+i)^{-n}}{i} \]

\( i \): average discount rate in each 4-year period
\( C \): the amount paid per period = VND 223,114,878,122.

The results of the cash flow calculation are as follows (whereby in Scenario 1 the fee is collected in full at the beginning of the period, and in Scenario 2 the fee collection is in installments over a four year period):

<table>
<thead>
<tr>
<th>Period: 2003 - 2007 (with i = 12%)</th>
<th>Unit: VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) PV of Scenario 2 - no 10% reduction, with fee collection over 4 years</td>
<td>677,677,829,285</td>
</tr>
<tr>
<td>(2) PV of Scenario 1 - 10% reduction, with fee collected at the beginning of the period</td>
<td>803,213,561,237</td>
</tr>
<tr>
<td>Average difference of PV (2)-(1)</td>
<td>125,535,731,952</td>
</tr>
<tr>
<td>PV each year from 2003 to 2011:</td>
<td>867,455,055,921</td>
</tr>
</tbody>
</table>

For the other periods (ie. 2004-2008, 2005-2009, 2006-2010, and 2007-2011) the result of the calculation is similar to that of 2003-2007 above. From the results above, we can see that the provision of a 10% discount for early collection of the full payment (ie. Scenario 1) is more beneficial. The total PV difference is more than VND 689 billion for the 2003-2011 period. In addition to the financial benefit stated above, rapid collection of land use fees has supported infrastructure investment in Da Nang, thereby bringing other associated socio-economic benefits.

In terms of economic efficiency, following government regulations and not discounting land use fees would likely lead to a delay of at least one year from signing the contract to obtaining the land use rights. Thus, infrastructure investment is slower. Our model assumes that Da Nang would use all the proceeds to invest in infrastructure, and then considers the impact on private investment, public investment and GDP growth.

First, let us look at land use fees collected from companies. If Da Nang’s government collects land use fees without a discount offered, it would have to wait at least a year to receive the full fee. For example, in 2003, if the fee was collected at the beginning of the year (with 10% discounted), Da Nang would have VND 867.5 billion. But if Da Nang followed regulations and collected the fee without the discount, it would receive the higher amount of VND 963.8 billion, but this amount would only come in 2004.
Using the Incremental Capital-Output Ratio (ICOR) formula and Da Nang’s statistical data, Da Nang had an average ICOR for the period 2003-2011 of approximately 3.5. Collecting the land use fee without the 10% discount in 2003 would lose Da Nang VND 867.5 billion in land use fees (although the city would receive VND 963.8 billion in 2004). So, Da Nang’s GDP in 2003 would be reduced by VND 867.5 billion / 3.5 = VND 247.84 billion, but then increased in 2004 by (VND 963.8 – 867.5)/3.5 = VND 27.5 billion. Using Scenario 2 (ie. no discount on land fees) the total reduction in annual GDP is: VND 247.8 billion – VND 27.5 billion = VND 220.3 billion. And it is the same calculation for each subsequent year in the 2003-2011 period.

Now let us look at land use fees collected from resettled households. If Da Nang collects land use fees without a 10% discount it is likely that the municipality will have to wait four years longer to receive the full fee. For example, in 2003, if the fee is collected at the beginning of the year, with the 10% discount of scenario 1, Da Nang would collect VND 803.2 billion in fees. But if Da Nang follows the regulations, and collects fees without any discount offered, it would receive VND 892.5 billion, but this amount would only become available over a four year period (i.e. an average of VND 223.1 billion annually). Using the same calculation we used for companies, if Da Nang does not discount land use fees for early payment, and so collects VND 223.1 billion every year from 2003-2007, its GDP between 2003 and 2007 would be reduced by an average annual amount of VND 55.6 billion. And the calculation would be similar for each of the next four periods.

The total average decrease for both land use for companies and resettled households, each year, without discounting 10% for prompt payment (scenario 1) would be VND 275.9 billion. This reduction represents the opportunity cost of these measures. These calculations are only approximate, but demonstrate the effectiveness of Da Nang’s management approach, as enabled by the autonomy of senior local government in urban management.

5.2.2. Estimating the opportunity cost of construction licensing in Ho Chi Minh City and Da Nang

Section 4 of this report presents the results of in-depth interviews with city-level departments, districts, wards, former People’s Councils, residents and enterprises in HCMC and Da Nang. According to interviews with representatives of business associations in Da Nang, it takes 3-6 months to apply for a new construction permit, depending on the project’s compensation price agreement. Representatives of business associations in HCMC, on the other hand, estimated that a housing building project procedure takes on average 2-3 years.

Taking a conservative approach of the fastest licensing procedure in HCMC (2 years) and the slowest in Da Nang (6 months), we can estimate that the opportunity costs

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5 The principle of the Incremental Capital-Output Ratio (ICOR) can be defined thus: “ICOR is the ratio of investment to growth, which is equal to 1 divided by the marginal product of capital. The higher the ICOR, the lower the productivity of capital. ICOR can be thought of as a measure of the efficiency with which capital is used. In most countries the ICOR is around 3.”
of construction project procedures in HCMC are four times those of Da Nang. That impacts on the attainable economic growth rates of the two cities. To illustrate this, we simulated the impact of infrastructure investment on HCMC’s growth, from 1996 to 2000, to consider how the 1.5 year slower issuance of construction project permits impacts on the overall economic growth of the city. To do this, we assumed that if HCMC cut down the time to enact construction project permit procedures, it could reduce the opportunity cost by a factor of four, meaning that the relevant projects could be in operation 1.5 to 2 years earlier, and thereby creating new jobs and revenues more promptly. The data on infrastructure investment and capital construction investment in HCMC is given in the table below:

Table 5.3: Investment in construction in Ho Chi Minh City 2005-2010 (Unit: Billions VND)

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of capital investment</td>
<td>46.645,7</td>
<td>79.670,4</td>
<td>99.407,4</td>
<td>117.548,4</td>
<td>142.100,5</td>
</tr>
<tr>
<td>Capital investment in the construction industry</td>
<td>840,8</td>
<td>1.085,3</td>
<td>1.136,4</td>
<td>2.369,6</td>
<td>3.234,5</td>
</tr>
</tbody>
</table>

Source: Statistical yearbook of HCMC 2010

As we can see from table 5.3, there was an increase in capital invested in the construction industry of VND 244.5 billion between 2005 and 2007. But if the licensing process in HCMC was as fast as in Da Nang (i.e. only six months), then the amount cited for 2007 could have been invested in 2005, not delayed until 2007. There is therefore an opportunity cost of VND 244.5 billion for capital invested in the construction industry in 2005, with an equivalent impact on the city’s economic growth in that year.

Using calculations on HCMC’s Input-Output Table (I/O) of 2000, it is estimated that if there was an increase of 1 VND in capital investment in the construction industry, then it will promote direct input attraction for other industries of 2.3 VND. Thus, 1 VND invested in the construction industry will lead to a total investment of 3.3 VND in the city. Thus, if a HCMC building permit in 2005 were issued as fast as in Da Nang, HCMC would have an additional VND 244.5 billion of investment in construction, leading to investment in other industries of an estimated VND 568.8 billion. This would lead to a total investment of VND 244.5 + VND 568.8 = VND 813.3 billion. According to HCMC statistics, capital construction investment can only take up to 80% of any total investment. Thus, the total investment capital increase, following a shortened project licensing process, would be VND 813.3 billion / 80% = VND 1,016.6 billion. HCMC’s ICOR in 2005 was approximately 3. Given these estimations, the increased capital invested in the economy because of the simplification of procedures in the construction industry would increase the city’s GDP by around VND 1,016.6 / 3 = VND 338.9 billion. According to the 2010 HCMC statistical yearbook, the city’s GDP in 2005 was VND 165,297 billion. Thus, in percentage terms, an increase of VND 338.9 billion would increase the GDP of HCMC by (338.9 / 165,297) x 100% = 0.21%.
Chart 5.1. Project formalities in Ho Chi Minh City

**STEP 1 Investor selection**
- Decree 90/2006/ND-CP: expired (only applicable for projects in progress that applied this decree)
- Decree 71/2005/ND-CP: replace 90/2006/ND-CP and valid since 08/08/2010
- Classification: Project with < 500 flats: profile submitted at District, 500-2500: submitted to Department, > 2500 or >25 hectares: submitted to Prime Minister
- Project profile is submitted to Environment and Natural resources Department and a related Department
- Project is submitted to Department of construction. When approved, it is submitted to the people’s committee to select an investor
- One step planning (below 2 hectares): if the land had 1/2000, process it in accordance with that planning. If not, submitted the planning to the city People’s Committee (VN currently hasn’t completed planning 1/2000. This is part of duty of the Planning department, which causes many bribery issues as a result.)
- Two-step planning (above 2 hectares): request for self-planning (The Department will issue particular planning criteria for us to do the mapping). If it works, it will be approved. In the second step, we carry out the detailed 1/1500
- Request Department of Urban Planning and Architecture for license => will be given certain criteria for self-planning
- Self-approve of the planning duty => the detailed 1/1500 planning will be approved by district
- If 1/2000 is available, request District for planning certificate, after that, carry out 1/5000 for their approval. It must be publicly announced before any approval. In this step, only District and Department are involved (two levels), Ward is not involved. If the project is of the ordinary people, Ward and district will be involved (no involvement from Department)

**STEP 2 Request for 1/500 approval**
- Former regulations
- Latest regulations

**STEP 3 Certificate Verification**
- Classification: Project with <500 flats: advise the District, 500-2500: advise the Department. If it > 2500 or 25 hectares: advise the Prime Minister
- The majority develop 500-2500 flats in their project. They would be in contact with Construction department and complete the formality so that their project would be approved
- Carried out at Environmental Protection Agency, Environment and Natural Resources Department

**STEP 4 Assessing environmental effects**
- The construction department is involved. A very detailed mapping must be ready for the assessment

**STEP 5 Assess the basic design**
- It is carried out at Environment and Natural Resources Department then submitted to the city

**STEP 6 Handing over land/ Purpose change**
- The estimation is done by HCM Government Department of Tax. Since land price is calculated based on market price, it is the Finance Department that does the calculation (Companies can hire valuation services but then disapproved by the Finance Department, which many frustratingly take years.)

**STEP 7 Estimate land use right**
- After 4 times of requesting permits, the process is only carried out Construction department (step 1,5,8) (3 out of 4 is done by different offices of the Construction Department (Official group, Valuation office and Permits issuance office) => reforms must be done to save time.

**STEP 8 Request for Construction permits**
- In charge of the construction and process land use right for the people.
Section 6: Conclusions

6.1. Summary of key findings

The results showed the importance of Ho Chi Minh City (HCMC), Ha Noi, Da Nang and Can Tho as economic and business centres, sources of budget revenue, FDI attraction, export activities and investment. These central cities are also vital centers for culture, science and education, as reflected in the number of students, universities, the proportion of trained workers, the number of hospitals, and income levels. In 2011, the four cities made up 18.74% of Vietnam’s population but contributed 33.52% of GDP, 61.13% of budget revenues, 40.51% of total export turnover, 48.25% of all investment projects, 30.1% of the total registered FDI capital, and 57.28% of the total number of businesses operating in the country. They have over 180 universities and colleges containing 73.69% of Vietnam’s students. Living standards of urban residents are better than in rural areas, as is their access to public services and social security.

The results showed key differences between the cities, in size, industry profile and research. HCMC is the country’s leading urban area contributing over one fifth of GDP but is trending down in terms of economic growth, the proportion of total exports produced and inward FDI attracted. Although Da Nang is a smaller scale city, it has sought to increase public investment and development, and has higher quality human resources than the large cities. The number of civil servants per 100 people in the four cities is much lower than the national average. While the country averages 0.46 civil servants and 2 officials per 100 people Ha Noi has 0.27 and 1.7, Da Nang and Can Tho are similar and HCMC is lowest rate with 0.17 and 1.3. There are large differences between urban districts and suburban districts within the same municipality. For example, the socio-economic indicators of suburban districts are lower than urban districts with new industrial areas.

The interviews in HCMC and Da Nang revealed similarities and differences. The key similarities include: Firstly, all the leaders interviewed in both cities said that the three-tier local government structure, stipulated in the Law on Organization of People’s Councils and People’s Committees (2003), is not consistent with the realities of urban administration. Urban areas with large and concentrated populations and high immigration are very different from rural areas, so the organizational structure of urban government should not be the same as rural areas.

Secondly, the provisions of existing laws do not specify the powers and responsibilities of the heads of government at each level. The heads of state management agencies at all levels in the central cities all requested clarification of the roles, rights and personal responsibilities of the heads in promulgating and implementing decisions. The City People’s Council and former leaders of the People’s Councils in districts and wards, as well as the Fatherland Front at all levels, also agreed on the importance of enhancing the role and personal responsibility of the heads in promulgating and implementing decisions, in order to raise the level and personal responsibility of public officials.
Thirdly, the provisions of the current laws are not clear. This causes overlapping and vacant functions. The managers of metropolitan government at all three levels also said that the current provisions in the laws, decrees and circulars of relevant ministries, central agencies can sometimes cause conflicts. Decentralization between the central government and local municipalities has created obstacles for the central cities in mobilizing resources for urban development.

Fourthly, all interviewees agreed that the regulations for activities of People’s Councils of districts and wards are purely formality because all targets of districts and wards are approved by the City People’s Committee. The People’s Councils have two meetings annually just to ratify the approved targets. Therefore, if the People’s Councils in districts and wards are dissolved, operating costs will decrease, albeit slightly, improving the effectiveness of state management. Agreeing with this conclusion, they said that if the People’s Councils in districts and wards were dissolved, management effectiveness would increase, as decisions can be implemented faster without waiting for the meetings of the People’s Council to formally approve and implement decisions. However, some individuals expressed the opinion that the human resources of People’s Councils and the Vietnam Fatherland Front (VFF), and the supervision mechanism must be improved if People’s Councils of districts and wards are to be dissolved. Moreover, the VFF suggested that legal documents, regulations and mechanisms should be closely coordinated in a vertical manner, for the organization of human resource, specialized activities, citizen supervision and social criticism.

Finally, there was a general opinion in the two cities, HCMC and Da Nang, that the model of municipalities proposed five or six years ago should be approved by the National Assembly. This would allow the Government to develop urban areas towards modern and civilized cities, ensuring an effective model of municipal management in supplying public services and urban services for residents, the business community, and thereby contributing to the socio-economic development of the country as a whole.

Our study found key differences between the two cities: Firstly, in urban management mechanisms. HCMC has decentralized strongly in its districts, especially in the fields of planning, construction and land. This has resulted in some overlapping and vacant functions. Planning, architecture and construction activities must be coordinated, but HCMC divides responsibilities among the Department of Planning and Architecture and the Department of Construction, followed by district responsibilities. In contrast, Da Nang tends to focus management functions to unify key areas such as land management, planning, construction and architecture. Da Nang’s system is based on the general points of relevant laws, but does not comply with the detailed instructions and circulars of the central ministries and branches. Thanks to these centralized functions, especially the Council of Planning and Architecture, Da Nang has been able to achieve integrated municipal planning, unlike HCMC.

Secondly, quantitative estimates have shown that Da Nang’s approach leads to greater efficiency. The research evaluated the financial and economic efficiency of the “swap land for infrastructure” initiative in Da Nang. Da Nang provided for a discount of 10% (out of step with Central Government Regulations) on land use fee payments if they were paid up front. This approach attracted large amounts of capital to invest in infrastructure. By
comparing the present value of cash flow (PV) from up front payments with a 10% discount versus deferred payment approaches, the financial effectiveness (PV) of the former generates an additional 689 billion VND. Economic efficiency can be obtained through speedier capital inflows for investment in infrastructure, attracting private investment and ultimately increasing GDP. Our results suggest that if Da Nang applied the normal payment method, without discount, as prescribed by the Government, Da Nang’s GDP would have been 275.88 billion VND lower each year between 2003 and 2011. The research also compared procedure times for construction projects in HCMC and Da Nang. If procedures in HCMC had been as short as in Da Nang, the opportunity cost of the projects would reduce, attracting more capital to the city’s economy, and increasing the GDP of HCMC by up to 0.21% (calculated for 2005).

Thirdly, Da Nang has been creative in municipal management, implementing measures that are moving gradually toward a new model of urban government, unifying management functions and consolidating advisory bodies and administrative agencies. The monitoring agency is the Provincial People’s Council, working to ensure the rights of citizens and the business community. Some policies to attract talent to Da Nang (such as allotting land and bonuses for high flyers) appear to have been effective in increasing the spirit and working attitude, professionalism and job performance of civil servants. All officials working in the departments of Da Nang that we approached had a clear understanding of the model of municipal government, unlike their contemporaries in HCMC, where most have heard of the issues only through incomplete information in the media.

Fourthly, the level of satisfaction of citizens and the business community for public and municipal services provided in Da Nang is higher than that in HCMC. Individuals from the business community and public interviewed in HCMC said that administrative procedures are too complex. Those in Da Nang tended to say they were more satisfied pointing to the rapid development of infrastructure such as roads and bridges in recent years, social security guarantees, and the reduction in the lengths of time for administrative procedures for certificates of land use rights and construction permits. Procedures for the building projects in Da Nang are markedly shorter than in HCMC. These conclusions are echoed in the survey results on satisfaction with public services from the Provincial Governance and Public Administration Performance Index (PAPI) 2012, undertaken by the Vietnam Fatherland Front. In the PAPI survey, the average score for provinces/cities in Vietnam for the quality of administrative procedures was 6.88 points. Da Nang got the highest score with 7.43 points.

Finally, while most leaders at every level in Da Nang are embracing municipal government, officials in departments, districts and wards in HCMC are more apprehensive about applying municipal models. Many expressed caution suggesting piloting models in a district to gain experience. They also expressed differing opinions about the set up of four satellite cities or the forming of a chain of urban areas in HCMC.
6.2. Recommendations for urban government

6.2.1. Recommendations on the legal framework

The organizational model of urban government and management mechanisms of the cities cannot be the same as for rural government. To maintain their role as centers for economics, culture and science in the country, these cities must change their organizational model to promote managerial efficiency and effectiveness, untying resources for development. Urban government and management mechanism innovations to suit urban characteristics are an inevitable trend. However, so to apply a model different from the three level organizational model set out in the 1992 Constitution and the Law on Organization of People’s Councils and People’s Committees in 2003, firstly it is necessary to change the Constitution and the relevant legal frameworks.

Our research has shown that the three level government model with decentralization of functions as regulated by the existing legal framework is not effective. Therefore, the 1992 Constitution should be amended to clearly state that the apparatus of urban government of the central cities (city-district-ward) is different from the apparatus of rural government (province-district-commune). Urban structure is unique, requiring a single government apparatus. If the urban area is large there should be an “administrative extension unit” relationship with districts and wards where districts and wards are merely local administrative bodies, not full levels of authority with People’s Councils and People’s Committees. Even larger cities might require organization as metropolitan cities (like the model of urban government proposed by HCMC). International experiences show that the majority of urban government takes place at city level with the Mayor and City Hall, underneath which sits the administration. However, Ha Noi’s merger with Ha Tay and Ha Dong provinces means it has towns. The rural and suburban areas around HCMC have become urban areas as the city has modernized. The formation of a chain of urban areas in the two cities is now reality. The provisions of the Constitution and the Law on Organization of Local Government need to reflect these realities.

In addition to changing articles relating to the organization of local government and urban government, the Constitution, the Law on Organization of People’s Councils and People’s Committees should regulate the power and personal responsibility of the heads of local government, especially urban government. The constitutional amendment should stipulate a fixed percentage of the deputies for People’s Councils, representatives for the rights of the people, in a particular electoral area, supervising the activities of the government for the sake of electors and promptly reporting complaints and opinions of the people to the government.

In addition to amending the 1992 Constitution and the Law on the Organization of People’s Councils and People’s Committees, other laws like the Land Law, the Law on Urban Planning and Construction Law as well as pertinent decrees and circulars need adapting to the model of decentralized municipal government. To attract resources for development urban areas and the cities under the central government need to be empowered. These cities should be given the right to decide investment and urban finance (generating revenue for infrastructure and urban development), and how to effectively manage urban land use.
6.2.2. Recommendations for the model of urban government

The cities under Central Government are large cities that require an “administrative extension unit” approach to their districts and wards. Districts and wards are local administrative bodies not levels of authority that require People’s Councils and People’s Committees. Vietnam currently has two ‘special cities’ (Ha Noi and HCMC), spanning a large area with a high population density. They are developing new urban clusters and should be able to organize new towns. The proposed schemes for the two cities proposed by the Ministry of Home Affairs, partly reflects this organizational principle of urban government. However, these schemes have not yet clarified the function of the district and ward, the People’s Committee or Representative Board of Administration, or the level of the intermediary government. In the proposed scheme for HCMC and Da Nang, the urban district or suburban district is a level of intermediary government without a People’s Council. For the HCMC proposal there is also a debate over whether the towns being formed are ‘new towns’ or ‘satellite towns’? Crucially, these schemes have not clarified the relationship of specialized functions between city departments, districts, and wards. Much of the inefficiency in urban government comes from decentralization and the division of management functions. If strategic plans do not unify functions the mis-match in coordination between city departments and districts will persist.

It is in this context that we offer six policy recommendations:

Firstly, we concur with the proposal that municipalities have only one level of government with a People’s Council and People’s Committee whether the city is large or small scale. Large-scale municipalities should have an “administrative extension unit” approach at the district and ward levels. District and Ward bodies should merely be administrative bodies, not full authority levels, or be a level of intermediary government (as mentioned in the schemes for Da Nang and HCMC). The local administrative body should be called the district administrative agency or the ward administrative agency. District administrative agencies should be appointed by the city administrative committee or the city People’s Committee, while district administrative agencies appoint ward administrative agencies to perform functions such as local security, social order, judicial functions and other relevant administrative procedures. The agencies should have power as well as responsibility in determining their assigned tasks.

Secondly, for HCMC and Ha Noi, it is reasonable to establish new towns. However, they need to be given a title aligned with their status. To be called satellite towns, they need to have certain independence in socio-economic development. International experience in cities like Moscow and Paris are organized with satellite towns. These satellite towns and main cities are located in the same region, but the satellite towns develop independently. Ha Noi and HCMC could be called regions with satellite towns.

Thirdly, even though there may be multiple towns within a single city, the master plan must be approved by the municipalities under Central Government. Accordingly, all cities under the Central Government should have a Planning Council, with an advisory-cum-research unit to support the development of an integrated plan for the whole area.
Fourthly, specialized agencies should be rearranged to suit the model of municipal government. Despite managing the same issues around planning (such as architecture, construction, land and infrastructure), HCMC has four separate city departments, with overlapping or ambiguous responsibilities. The City Department of Planning and Architecture and the Department of Construction should be merged. Next, there is a need to classify general management services (eg. finance, interior, planning and justice). It is unnecessary for City General Departments to have representative offices located in all residential areas. But city departments with specialized management agencies (eg. construction and natural resources, environment, transport, education, health care, etc.) and the Department of Planning and Investment should have representative offices in district and ward areas, replacing the specialized offices of the district People’s Committee. Da Nang has centralized basic functions for some departments and it has brought more efficient results.

Fifthly, to apply the proposed model of municipal government, in addition to the legal changes, adequate financial resources and human resources are needed, as well as a mechanism to generate resources for development. As mentioned in section 3, cities under the Central Government are very important for the socio-economic development of the country. However, current policies and mechanisms constrain their resources for development. The experiences of HCMC and Da Nang show there have been numerous initiatives aimed at mobilizing more resources for development. But the Central Government’s assessment has been that those initiatives were in violation of current laws and regulations. The cities should have greater rights and decentralization in areas such as local budget revenue and expenditure, and mobilization of resources. This will allow efficient models such as the ‘swapping land for infrastructure’ in Da Nang. Human resources for municipal government management must be trained to international standards, so that civil servants have relevant expertise, a professional attitude, responsibility and professional ethics. Currently, the professional level of civil servants is not high enough, particularly in wards, communes and districts. This human resource deficiency is partly due to low wages and inadequate policies. Municipal government would be more efficient if local urban government had adequate authority and its leadership appropriate decision-making power.

Finally, there is a need to pilot approaches to gain experiences. For grade 1 cities under the central government, Da Nang could be the pilot, as Da Nang has already taken some preparatory steps and has implemented some aspects of municipal government. For a special grade city under central government, HCMC would be an appropriate pilot model. However, because HCMC is so large scale, and decentralization for districts occurred some time ago, a pilot in selected urban districts and one new urban area would be appropriate. Lessons learned could then be applied to full municipal government.

Based on the summary of schemes and proposals cited above, we propose the following general model of organizing urban government for Vietnam’s municipalities under Central Government (see chart 6.1 below).
Chart 6.1: Proposed Model of Municipal Government for Municipalities under the Central Government

Note: The agency to elect and monitor
- The agency to elect and monitor
- Directly conduct and manage
- Specialized guidance
- Supporting documents, administrative procedures; verifying documents
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