

**Competition, Service Delivery, and Poverty Alleviation in Viet Nam:
The Role of the Ministry of Education and the Vietnam Bank of Agriculture**

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Note: This paper is excerpted from a longer study that is currently being prepared for Oxfam Great Britain and Novib.

Part 1: Introduction

In recent years, Vietnam has experienced a dramatic decline in poverty in most regions of the country, and people's health, job opportunities, and overall well-being have improved. Rates of enrollment in school have risen, farmers have expanded their production, and credit markets have opened up new opportunities for many people. Yet while local services available to rural people have improved, the costs of these services has increased dramatically, and the quality remains very uneven.

This paper is an effort to explain these different outcomes in rural banking and education by examining the work of the Ministry of Education and Training (MOET) and the Vietnam Bank of Agriculture (VBA) in two provinces. One province is Ha Tay, in the Red River Delta, and the other is Tra Vinh, in the Mekong Delta. Ha Tay is a relatively well off province, while Tra Vinh is somewhat poorer and more physically isolated.

The theme that underlies the theses presented in this paper is that the provision of appropriate incentives to individuals providing services, either internally by the organization, or through external competition, is one key factor underlying differing outcomes in Tra Vinh and Ha Tay. Our goal is to assess the impact that differing underlying incentive structures in Ha Tay and Tra Vinh have upon staff members' behavior. Outcomes will be linked to staff members' behavior through the use of simple game theoretic models, and by altering assumptions in these models, we will identify key variables that impact upon VBA and MOET performance in these two provinces.

1.1 Background

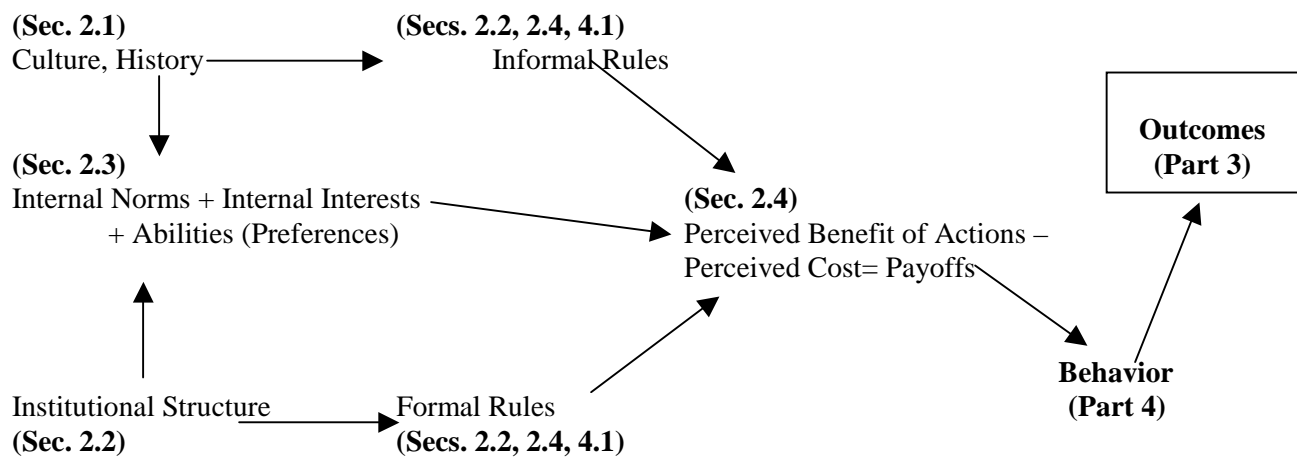
1.1.1 Problem Statement:

Although there have been generally rapid improvements in social service delivery outcomes in Vietnam in recent years, educational and banking services vary significantly between different regions of the country, specific organizations in different regions, and different types of service delivery organizations.

1.1.2 Approach

The approach taken in this study is to look at the factors that influence the decisions and behavior of individual actors within MOET and VBA. This will involve an analysis of the environment in which they live, historic and cultural factors that have influenced the development of this environment, and their personal preferences and abilities, which shape decisions and behavior. We will then examine the current organizational incentive structure, and explore how that influences individuals' internal decision making processes and behavior. Finally, we shall explore the links between behavior and outcome through the use of simple game theoretic models. This approach is illustrated in Table 1 below.

Table 1: Outline of Approach



This approach will inform the way in which we address our research question and the specific theses presented below (1.2). Part One describes the approach, theses, data collection and analysis. Part Two outlines the primary factors which influence the thinking and behavior of individuals in MOET and the VBA, including key historic and cultural factors, elements of the current socio-economic structure, the institutional structure of incentives in the two organizations and a personal configuration of preferences. Part Three presents and examines key outcomes in the banking and education sectors in Tra Vinh and Hay Tay. This will provide the empirical data with which we will test models that explain service outcomes in the two provinces.

Part Four explores and tests our theses through the use of simple game theoretic models. We first summarize assumptions made regarding the institutional environment, individual preferences and the current incentive structure, and then test the three theses. The conclusion briefly analyzes the implications of the findings for current education and banking policy in Vietnam.

1.1.3 Data

This study relies on information from the following sources:

- Interviews and background information collected by field research teams in two provinces of Vietnam: Ha Tay, in the Red River Delta near Hanoi, and Tra Vinh, in the Mekong Delta. The teams made two visits of approximately one week each to each of the sites,

meeting with approximately 100 bankers, teachers, administrators, and service beneficiaries.

- Interviews with 4-5 MOET and VBA staff in Hanoi.
- Background data provided by the two Vietnam Living Standards Surveys of 1993 and 1998.
- Other background data included in NGO, World Bank, and other documents.
- Qualitative data regarding attitudes of bankers, educators, and clients, largely taken from NGO field reports.
- Qualitative data was organized and analyzed by checking and comparing responses to specific questions between Ha Tay and Tra Vinh respondents and between educators and bankers.

1.2 Theses

Our primary assumption is that behavior, and ultimately outcome, is a function of a number of factors, and among these, access to incentives is key. We argue that institutional environments characterized by lower material and non-material incentives as well as limited competition will demonstrate worse overall outcomes. Our specific theses are stated below.

1. Though both VBA and MOET have succeeded in rapidly expanding their services in recent years, their staff appears to have difficulty providing both high-quality and low-cost services to most rural inhabitants in Vietnam. The provision of strong internal incentives and/or competition will promote implementation of sustainable, equitable, pro-poor policies mandated by central authorities
2. The Ministry of Education and the Vietnam Bank of Agriculture implement policies selectively, according to the interests of both central leaders and of service providers in the field.
3. It appears that central-level Vietnamese policymakers have not provided appropriate incentives and/or competition in banking and education delivery policies. There are two possible reasons: First, VBA and MOET leaders face serious fiscal constraints making it difficult to provide improved financial incentives. Second, leaders are reluctant to alter accepted systems within the organizations because of the high personal risks involved.

Part 2: Factors of Influence

2.1 Culture and History

The issues listed below constitute some key cultural attributes of Vietnamese society. While it is impossible to “prove” that these attributes did, or do, exist, examples are offered in support of these arguments in the longer paper upon which this work is based.

- 1 Throughout history, Vietnam has been ruled by strong centralized regimes, kings, colonial administrations, and Soviet-inspired socialist leadership.
- 2 Citizens have had very limited experience with democratic structures and norms.

- 3 Social capital has not appreciably strengthened in the past 100 years, as the ability of independent groups to organize and act has been limited by state power and controls.
- 4 Traders and business people have received less respect than people in other occupations have.
- 5 Education and knowledge, while not widely available until recently, have been highly respected and sought after.
- 6 Maintaining dignity in public, or “not losing face,” is very important.

We argue that these factors have had and continue to have a primary influence on Vietnamese society. It is not our assertion that history is determined to replicate itself throughout time, but that change is heavily influence by past structures and culture.¹ French colonial structures, for example, were implemented within the context of an existing imperial system. In turn, the post-colonial period has been heavily influenced by both the old imperial system and French bureaucratic systems.

2.2 The Institutional Environment

Findings from interviews and other background documents suggest that these issues manifest themselves in a number of ways that link to the current institutional environment.

Table 2: The Institutional Environment

Issue	Institutional Issues for Service Providers
Centralism	-Being held strictly accountable for numerical targets (such as meeting UPE ² goals or lending to households) or other tasks.
Limited Democracy	-Limited feedback between cadres and leaders, and between service providers and citizens. -Following orders from superiors, and disagreeing indirectly (by not acting). -Lack of transparency regarding promotions. -Relatively few formal mechanisms for articulating and resolving differences of opinion between superior and subordinates.
Low Social Capital	-Cadres trust only small number of close allies. -Poor information flows among cadres and between higher and lower echelons. -Keeping true ideas/opinions hidden.
Low Regard for Commerce	-Reduce focus on making profits, and increase focus on completing tasks. -Borrowers (from VBA) viewed as recipients of “gift”, not as deserving applicants.
High Regard for Education	-Shortfalls in school funding are expected to be made up by local parents or local government units. -Heavy emphasis on timely completion of curriculum.
Maintaining “Face”	-Unpleasant truths and topics avoided in normal conversation. -Bad news frequently not reported.

These aspects of the historical experience continue to strongly influence both individual and group behavior, and play a strong role in influencing individual preferences. The following section summarizes group preferences, and includes many preferences that are strongly

¹ North, 1990.

² Universalization of Primary Education.

influenced by the current institutional environment, as well as organic preferences that arise from individual desires (not related to any particular environment).

2.3 Preferences

Preferences of VBA and MOET staff, including those at the central, provincial/district, and school level, have three levels:³

Interests: The individual's interest for self-preservation, autonomy, and growth.

Norms: The normative expectations addressed to occupants of given positions.

Identities: The idiosyncratic interests and self-defined rules of individuals.

Attitudinal surveys and background information have been used to identify the key preferences of VBA and MOET staff in Ha Tay and Tra Vinh, as well as in Hanoi. Preferences are divided into three general levels: a) service providers, who work directly with clients, b) administrators at district and province level, and c) central-level bureaucrats based in Hanoi.

Table 3: Preferences of Education Department Staff

	Central MOET	Provincial/ District MOET	Teacher
Interests	Salary Other benefits Security Advancement Recognition		

³ Typology and definitions borrowed from Scharpf, pp. 64-5.

Norms	<ul style="list-style-type: none"> -Achievement of tasks assigned to department -Cultivation of smooth relationship with superior and with colleagues -Higher budget allotment for department -Respect and obedience from underlings -Higher academic qualifications -Being viewed as an education expert by peers and outsiders 	<ul style="list-style-type: none"> -Higher budget allotment for department -Improved infrastructure -Achievement of tasks assigned to department -Cultivation of smooth relationship with superior and with colleagues -More teaching positions in local schools -Respect and obedience from underlings -Higher academic qualifications -Being viewed as an education expert by peers and outsiders 	<ul style="list-style-type: none"> -Teaching at a “desirable” school, either in terms of location (near home or in a town) -Good teaching conditions, including high quality housing -Teaching the curriculum on schedule -Cultivation of smooth relationship with head teacher and with colleagues -Improved pass rate for pupils -Respect and obedience from children -Higher academic qualifications
Identities	<ul style="list-style-type: none"> -Department completes high-quality plans -Learning new skills on the job -High quality curriculum for children -Study overseas 	<ul style="list-style-type: none"> -Department completes high-quality work -Learning new skills on the job -High quality curriculum for children 	<ul style="list-style-type: none"> -High-quality lessons -Close contact with parents of pupils -Learning new skills on the job -Children happy and healthy

Table 4: Preferences of VBA Staff

	Central VBA	Provincial District VBA	VBA Field Officer
Interests	<ul style="list-style-type: none"> Salary Other benefits Security Advancement Recognition 		
Norms	<ul style="list-style-type: none"> -Achievement of tasks assigned to department -Cultivation of smooth relationship with superior and with colleagues -Respect and obedience from underlings -Implementing social policies of VBA and SBV⁴ -Making a profit -Performing better than competing banks or other financial institutions 	<ul style="list-style-type: none"> -Higher budget allotment from Central VBA. -Achievement of tasks assigned to department. -Timely reports to superiors. -Cultivation of smooth relationship with superior and with colleagues -Implementing social policies of VBA and SBV -Respect and obedience from underlings -High repayment rate -Savings mobilization -Making a profit 	<ul style="list-style-type: none"> -Working in a desirable area, preferably with minimum of travel -Maintaining high repayment rates and meeting other targets set by boss -Cultivation of smooth relationship with supervisor and with colleagues -Implementing social policies of VBA and SBV -Respect and appreciation from borrowers -Higher budget allotment for bank branch -Savings mobilization

⁴ State Bank of Vietnam.

Identities	-Department completes high-quality work -Learning new skills on the job -Respect of peers -Study overseas	-Bank gains market share -Learning new skills on the job -Bank enables borrowers to improve life -Respect of peers	-High quality loan appraisal -Higher budget allotment for bank branch -Learning new skills on the job -Borrowers have better life -Respect of peers
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Common areas of interest between VBA and MOET staff include:

- *Interests:* In both institutions, interests are strongly focused on material benefits and recognition.
- *Norms:* In both institutions, the achievement of tasks and the establishment of a good working relationship with superiors and colleagues are well accepted norms. Following policies enunciated by central MOET and the State Bank deemed very important by most respondents.
- *Identities:* Special identity preferences for staffers in both organizations focused around improving both individual skills and services to clients.

Below, a short summary of current incentive structures is detailed. This section will examine how formal and informal incentives are linked with individual preferences.

2.4 Incentives and Principal-Agent Issue

Incentives, or the lack of incentives, play a central role in the thought processes and behavior of MOET and VBA staff. An examination of the specific incentive structure of the two organizations will help our understanding of staff behavior and ultimately, program outcome.

Direct, material incentives for MOET staff in terms of salary or other financial gain are quite small, and in the case of district education staff, the formal material benefit of promotion is actually negative as the salary of district staff is a bit lower than that of teachers. Administrative staff, however, may benefit from increased access to informal benefits such as cars, motorcycles or travel in addition to any incremental increase in salary associated with a promotion or reward.

VBA staff incentives are somewhat larger, and positive in all cases. However, the members of staff interviewed for this study indicated that there are significant informal incentives that go with higher position such as access to bank resources, cars, and travel. Specific incentives for MOET and VBA are described in Table 5 and Table 6 below.

Table 5: MOET Staff Incentives

Incentive	Teacher	District	Central
Salary	Fixed by age and qualification (average of	Fixed by age and qualification (about	Fixed by age and qualification (about 600,000 VND)

	about 400,000 VND/month) ⁵	400,000 VND). A bit lower than teachers' wage	
Extra material reward for good work	-Small: up to 100,000 VND/year for "excellent teacher" -Good teachers in schools can be paid to teach extra classes	Small, up to 100,000 VND per year	Small, up to 200,000 VND per year
Promotion	Possible for those with "excellent teacher" awards and/or good connections	Possible, but unclear how decisions made	Possible, but unclear how decisions made
Recognition	Yes, high respect from pupils, parents, and colleagues	Some, for campaigns (UPE) ⁶	From superiors
Other	-Teachers in remote areas receive a 40% extra pay -Teachers in towns can earn extra money tutoring pupils	Access to private use of district/provincial property (cars, etc.)	Access to extra money/benefits (based on position and contacts)
	-Poor quality housing normally provided to rural teachers -Some in-service training available, but teachers receive very low per-diem	-Possible access to department funds -Access to extra money for attending meetings ("envelopes")	-Access to private use of MOET property (cars, etc), if in high position -Access to extra money for attending meetings ("envelopes")

As can be seen above, the material rewards for MOET staff are extremely limited, though there is some incentive to move up in the system in order to gain access to more resources. In addition, it appears that the strong cultural value placed on education helps compensate for low funding and weak incentives. Principals, teachers, parents, and pupils are well aware of the possibilities related to encouraging strong parental contributions to support local schools.

Table 6: VBA Staff Incentives

Incentive	Field Worker	District/Provincial Staff	Central VBA staff
Salary	Fixed by age and qualification. About 700,000/month	Fixed by age and qualification	Fixed by age and qualification
Extra material reward for good work	Monthly, biannual, and annual "excellent worker" awards (50-100,000 VND)	Similar to field workers.	Small official rewards.
Promotion	Unclear if field workers normally promoted.	Possible, but unclear how decisions made.	Possible, but unclear how decisions made

⁵ Note: 14,000 VND = 1 US Dollar as of March 2000.

⁶ Universalization of Primary Education Campaign. An ongoing campaign to raise primary school enrollment rates in each province to at least 90%.

Recognition	Yes, from borrowers, and as a result of “excellent worker” awards	None, unless from superiors.	None, unless from superiors.
Other	Possibility of getting extra fees from borrowers	Access to private use of district/provincial property (cars, etc.)	Access to extra money/benefits (based on position and contacts)
		Access to money for attending meetings (“envelopes”)	Access to money for attending meetings (“envelopes”)
		Possible access to VBA funds	Access to private use of VBA property (cars, etc), if in high position

Building upon the incentive structure outlined above is the principal-client issue-- fundamentally, how do principals, higher-level officials, use incentives or other monitoring techniques to ensure that lower-level officials, teachers or VBA field workers, are doing the tasks that are assigned to them. Four key issues are relevant regarding the behavior of cadres.

Table 7: Key Principal Agent Issues

Issue	Field Level	Administrator	Central Bureaucrat
Asymmetric information	Have most info. regarding client services	Know limited amount of second-hand info.	Know from reports and occasional field visits
Risk	Averse	Averse	Strongly averse
Control mechanisms	After the fact—small rewards, small sanctions -Periodic monitoring by superiors	After the fact—through achievement of work norms	Control exercised after the fact, through reports and norm achievement at lower levels
Salary and benefits	Most feel inadequate to promote excellent performance	Few benefits for hard work or ingenuity	Few benefits for hard work or ingenuity

In the case of both VBA and MOET, control of outcomes is not accomplished primarily through the provision of material incentives, as these are fairly small. Rather, the main control mechanism is the use of the strong emphasis on task achievement within both organizations.

Part 3: Outcomes⁷

This section explores socio-economic, education, and banking outcomes in both Ha Tay and Tra Vinh, and will lay the foundation for the modeling of individual behavior in Part Four. As of 1996, Ha Tay had a population of 2,330,000, while Tra Vinh's population was 990,000.

3.1 Socio-Economic Outcomes

As seen on the right, absolute poverty rates have declined dramatically in the past five years, and both the Southeast, including Ho Chi Minh City, and the Red River Delta (containing Hanoi) have seen poverty rates drop the most rapidly. Poverty rates have dropped relatively faster in the Red River Delta than in the Mekong Delta, so that their respective "poverty rank" switched over the five year period. The Red River Delta moved up two notches from 4th to 2nd, while the Mekong Delta declined two notches, from 2nd to 4th. As we will see later on, this

Table 8: Poverty Rates by Region ⁸				
Region	1993	1998	% Decline	Rank 1993/1998
Northern Uplands	79	59	25	7/7
Red River Delta (includes Ha Tay and Hanoi)	63	29	54	4/2
North Central	75	48	36	6/5
Central Coast	50	35	30	3/3
Central Highlands	70	52	26	5/6
Southeast (includes HCM City)	33	8	76	1/1
Mekong Delta (includes Tra Vinh)	47	37	21	2/4
Total	58	37	36	NA

⁷ Unless noted otherwise, source for data in this section are the two Vietnam Living Standards Survey of 1993 and 1998.

⁸ Poverty is defined according to World Bank poverty line used in Vietnam Living Standards Survey.

appears to bear a strong positive correlation to the education and banking outcomes as well—Ha Tay appears to be outpacing Tra Vinh in both of these areas.

Table 9: Percentage of rural households without allocated or swidden land			
	1993	1998	Average farm size (m²)
Red River Delta	3.2	4.5	6,491
Mekong Delta	16.9	21.3	10,650
Total for Country	8.2	10.1	8,148

Landlessness is also a much more serious problem in the Mekong Delta than in the Red River Delta, as Table 8 demonstrates. While only 1 out of 20 rural dwellers in the Red River Delta is landless, more than 1 out of 5 rural Mekong Delta residents has no land. At the same time, since the average size of land holdings is almost twice as large in the Mekong Delta, those who do have land often have a lot more land than their counterparts in the Red River Delta.

Table 10: Number of Enterprises and Total Employment (1995)		
	Enterprises	Employment
Ha Tay	80,455	225,292
Tra Vinh	17,949	48,998
Source: World Bank socio-economic data tables (from GSO).		

In addition, there are significantly more off-farm employment opportunities in Ha Tay. As of 1995, though Ha Tay's population was about 2.3 times as large as Tra Vinh's, there were about 4.5 times as many people employed in the off-farm formal sector in Ha Tay. Table 10 probably underestimates the employment differences between the two provinces, however, as many Ha Tay people are employed in Hanoi, which is very close by. In Tra Vinh, there are no major cities near the province.

3.2 Education Outcomes

Table 11: Primary Education Net Enrollment		
	1993	1998
Total	86%	93%
Red River Delta	91%	96%
Mekong Delta	79%	88%
Rural	85%	92%

Education outcomes have also improved significantly in recent years, as shown in Table 11. Primary school net enrollment rates have increased nationally by 7 percentage points in the past five years, and by 1998, Vietnam had already achieved universalized primary education (defined as 90% net enrollment rate), though this had not been achieved in every province. In the Red River Delta, education outcomes have traditionally been better than the average for the country, but there was still significant improvement in enrollment rates, from 91% to 96% in the past 5 years.

Table 12 demonstrates one of the problems of the education system, the relatively low number of students who continue on to lower secondary school after completing primary school. This problem is much more pronounced in Tra Vinh, where lower secondary school enrollment rates in 1996 were only about 24% of primary school rates. In Ha Tay, students in lower secondary school totaled about 61% of those in primary school. Most striking is the fact that the percentage of pupils moving on to lower or upper secondary school is increasing at roughly the same rate in Ha Tay as in Tra Vinh, but since

Table 12: Primary and Lower Secondary School Enrollments				
	1993		1996	
	Ha Tay	Tra Vinh	Ha Tay	Tra Vinh
Primary	310,816	142,559	299,577	152,415
Lower Secondary	117,027	27,526	182,339	42,997
Upper Secondary	23,901	4,145	50,558	9,297
Source: World Bank Education Data				

qualifications. Ha Tay teachers are, on average, better qualified than Tra Vinh teachers.

Relative costs of education have risen faster in the Red River Delta, probably a sign that the local economy is better developed, combined with a high value placed on education. Savings and assets figures for the two regions however, indicate that the situation is somewhat more

Table 14: Educational Expenditure Per Pupil for Primary School (Thousands VND)		
	1993	1998
Total	73	249
Red River Delta	48	240
Mekong Delta	102	300

complex (see Table 18). It appears that education expenditures as a percentage of savings and assets has actually increased more rapidly in the Mekong Delta, as increased income lowers the relative cost of education, leading to greater affordability of education in the Red River Delta (compared to the Mekong Delta).

Part of the explanation for the relatively faster progress in the Red River Delta may be found in the higher education achievement levels found there. As new opportunities appear, more highly educated people are in an improved position to take advantage of these opportunities. Thus, overall education outcomes have improved everywhere, but the Red River Delta began at a higher base level five years ago, and appears to be maintaining its lead over most other regions of the country. Increasing returns to education generate more resources to support a better education system, which in turn bring increasing returns to the region.

Ha Tay started out so far ahead; the absolute number of pupils enrolled at higher levels is increasing much faster in Ha Tay.

Well-qualified teachers play a key role in educational achievement,⁹ and Table 13 shows the percentage of primary school teachers who meet minimum MOET primary school teacher

Table 13: Primary School Teachers Meeting MOET Qualifications	
	1997
Average	73%
Ha Tay	86%
Tra Vinh	73%
Source: CPCC Child Statistics Yearbook, 1998.	

⁹ See Laying the Foundation of Reform for Education for a statistical analysis of factors impacting upon educational achievement in Vietnam. In the classroom, the most significant factor was found to be teaching practice, including exercises used and use of teaching time.

3.3 Banking Outcomes

Average interest rates for informal credit have dropped significantly in the past five years, as indicated by Table 7, but informal rates in the Red River Delta are less than half of those in the Mekong Delta, indicating that formal banking sources are meeting a higher percentage of lending demand in the Red River Delta. This may be partly due to increased competition in the Red River Delta, as more public and private sources of capital spring up near Hanoi to meet borrowers' demands for capital.

Table 15: Monthly Interest Rates for Informal Loans		
	1993	1998
Total	9.3%	3.11%
Red River Delta	No data	2.03%
Mekong Delta	available	5.01%

Overall access to formal borrowing sources has improved, from about 30% of the rural population in 1993¹⁰ to approximately 50% today.¹¹ Thus, an increase in availability of formal credit, combined with a marked decline in informal interest rates, strongly implies that more liquidity has been brought into the financial system.

It appears that the Ha Tay VBA faces more competition than the Tra Vinh VBA. While there is no empirical evidence regarding market shares of the two banks, respondents in the Ha Tay VBA consistently answered that their bank controlled a smaller share of the provincial banking services¹² market than did respondents in the Tra Vinh VBA. Estimates by respondents indicated that the Ha Tay VBA is reported to control somewhat more than 50% of the banking market in the province, while the Tra Vinh VBA controls perhaps 75-85% of its provincial market. A recent assessment undertaken in one district of Tra Vinh, Duyen Hai, found that the VBA accounted for about 72 billion out of 82 billion VND in formal sector lending.¹³

Table 16: Average loans outstanding, by province (billion VND) in 1998	
Ha Tay	501
Tra Vinh	373
Sources: Dao Hung et al and Gainsborough	

Table 17: Average VBA savings mobilization, by province (billion VND) in 1998	
Ha Tay	728
Tra Vinh	77
Source: Dao Hung et al.	

Both Ha Tay and Tra Vinh VBAs have rapidly increased loan disbursal in recent years. However, Ha Tay VBA's ability to mobilize a much larger percentage of its lending funds from local savings indicates that its banking practices may be superior to that of the Tra Vinh VBA. The Ha Tay VBA has among the highest amounts of savings mobilized out of any provincial VBA in the country, while the Tra Vinh VBA has among the lowest.

¹⁰ VLSS, 1993, Table 8.2.1

¹¹ Dao Hung et al., p. 8.

¹² Note, it appears that most respondents were not including VBA's lending in the provincial capital when they calculated market share. VBA has a relatively lower market share in provincial capitals. Estimates include market shares for district towns and rural areas.

¹³ Pairaudeau, p. 23.

Research teams who visited VBAs in both regions felt strongly that the leadership of the Ha Tay VBA was both dynamic and open, and this in a banking environment that is significantly more competitive than the one in Tra Vinh, where there are few other sources of formal credit than the VBA.

Finally, Table 18 demonstrates that overall savings and assets have grown much more quickly in the Red River Delta than the Mekong Delta. Growth in the former has been about 78%, while in the latter, only about 33%.

Table 18: Average total savings and other assets (Thousands VND)		
	1993	1998
Total	3,689	4,413
RRD	2,802	5,002
MD	3,022	4,089

In the case of Ha Tay and Tra Vinh, therefore, it appears that changes in VBA performance reflect in part overall economic changes, but also reflect organizational capabilities, the prevailing institutional environment, and the skills and educational level of the client base. This could account for the more rapid accumulation of assets by the Ha Tay VBA.

3.4 Key Conclusions

There are a number of key conclusions that can be drawn from this section and from qualitative interview information. In the table below, key differences between Ha Tay and Tra Vinh are identified and summarized. The left-hand column indicates where the information will be used in support of the models presented in Part Four of this paper.

Table 19: Key Differences Between Ha Tay and Tra Vinh

	Issue	Source	Ha Tay	Tra Vinh
Thesis #1, Education Model	Teacher Quality	Table 12	86% of Ha Tay primary school teachers meet MOET standards.	73% of Tra Vinh primary school teachers meet MOET standards.
	Pass Rates	Table 11	Lower secondary school enrollment about 2/3 that of primary school enrollment.	Lower secondary school enrollment about 2/9 that of primary school enrollment
	Off-farm job opportunities	Table 9	As of 1995, about 225,000 people employed in formal enterprises.	As of 1995, about 48,000 people employed in formal enterprises.
	Tutoring Opportunities ¹⁴	Table 11 Table 9	Teachers have more opportunities because of stronger economy and greater demand from pupils who want to attend lower secondary school.	Teachers have relatively fewer opportunities, as the economy is weaker, and relatively fewer children attempt to enter lower secondary school.

¹⁴Tutoring affords teachers a chance to earn more money, as pupils must pay for individual lessons.

Thesis #1, VBA Model	Loan Repayment	-Interviews -Table 8	Statistics unclear, but rapid increase in savings mobilization, low percentage of landless households, and interviews indicate that repayment better than national average.	Statistics unclear, but very low rate of savings mobilization, high rates of landlessness, and background research indicate that default rates higher than average. ¹⁵
	Competition	-Interviews -Other Research ¹⁶	-Competition is somewhat more intense, with the entry of many PCFs ¹⁷ , and some joint-stock banks.	-Competition limited, as number of PCFs still small, and private banking sector very limited in Tra Vinh.
	Social Pressure	-Interviews	-Mass organizations have deep roots, help enforce repayment.	-Mass organizations much weaker, and anecdotal evidence ¹⁸ indicates that some people are not repaying loans because nobody is asking them to.
Thesis #2	Risk	Table 8 Table 9	-Agriculture is more diversified in recent years, and most people have land.	-Agriculture is less diversified, and much riskier, as many people try the risky occupations of shrimp or duck raising. High levels of landlessness.
	Landlessness	Table 8	-Low levels of landlessness.	-Very high levels of landlessness.
	Savings Mobilization	Table 16	-Very large amount of savings mobilized by VBA.	-VBA savings mobilization among the lowest of any province in the country.
Thesis #3	Economic Activity	Table 7 Table 9 Table 17	-Diversified economy, with rapid poverty reduction, and rapidly increasing levels of personal assets.	-Monoculture economy (rice or shrimp, in most cases), little off-farm employment. Poverty reduction lagging behind most other regions of country during past 5 years.
	Leadership	-Interviews	-Unclear if leadership differs significantly or not. Interview teams felt it to be one possible reason for above-average performance of Ha Tay VBA.	

Part 4: Behavior

Now we will attempt to explain individual behavior that contributes to the outcomes outlined above. Simple game theoretic models will be used, using both empirical data and information gathered in interviews, to demonstrate how individual behavior is both shaped by and contributes to the prevailing institutional environment.

4.1 Bounded Rationality

¹⁵ For more discussion of this, see Pairaudeau, pp. 26-7, and *Tra Vinh PPA*, pp. 41-45.

¹⁶ See Pairaudeau, Gainsborough, and Dao Hung et al.

¹⁷ People's Credit Funds.

¹⁸ See *Tra Vinh PPA*, p. 39.

The method used to approach this issue will be a form of bounded rationality, in which we assume that local actors have preferences that are strongly influenced by the local environment, and at times inconsistent, as human beings are emotional and imperfect.

Bounded rationality means that “decision makers are not omniscient and have real difficulties in processing information.”¹⁹ Essentially, this means that none of us know everything, and even if we were given access to ALL information, we would have a great deal of difficulty processing it. Thus, we possess bounded rationality—we are not able to foresee every possible event, nor are we able to make sense of complex and often contradictory information.

Empirical Findings

4.1.1 History

Weak democratic structures and strong central rule mean that citizens have limited rights of participation, and they play a limited role in agenda setting. The party takes the “leading role” in society. This has meant that other Vietnamese institutions, especially the judiciary and legislative branches of government, have taken secondary roles. Formal rules are at times substituted by informal understandings between individuals.²⁰ Therefore, individuals working in MOET or VBA experience a relatively high degree of uncertainty, as disputes are solved through informal negotiation at least part of the time. This means that the individual worker cannot know which disputes will be solved according to the rules, and which issues will be solved according to personal choices of supervisors or through the use of power relations.

4.1.2 Information and Feedback

Information is a relatively scarce commodity, and most people lack key pieces of information necessary to make good decisions.²¹ This means that central bureaucrats, for example, face the classic principal-agent problem of having a weak understanding of service outcomes in the field. At the same time, local teachers usually lack an understanding of MOET beyond the local level, and have very little knowledge of national directives.

The attitudes expressed by local service providers appear to be more positive in some cases than the attitudes expressed by service recipients in the same area.²² For example, in Tra Vinh, almost all VBA staff responded that they were confident that local people were largely satisfied with their services. Yet, two recent studies in Tra Vinh²³ indicate that clients have more mixed views of the bank. It is possible that local service providers do not receive particularly accurate feedback, as clients may well be afraid of offending them.

¹⁹ Furbotn and Richter, p. 4.

²⁰ Note the role of negotiations between provincial People’s Committees and the central government in the DFID report on education financing (by Peter Brooke).

²¹ For example, a recent MPDF report on private manufacturers found that most of them had no idea how much their exported goods sold for in the destination country.

²² One must always be aware of strategic responses (essentially, telling the interviewer whatever you think will work to your advantage) in interviews. It is possible that some VBA staff do not have such a positive view of how clients view their services.

²³ Who Wins? Who Loses? Microfinance in Duyen Hai District, Tra Vinh Province, and Tra Vinh: A Participatory Poverty Assessment.

4.1.3 Rewards and Sanctions

Formal rewards and sanctions bear, it appears, weak and unspecific relationship to performance. This means that over time, staff will use these less often as criteria for deciding how to act on the job. Respondents answered again and again that material rewards are very small, and that recognition is in many cases so widespread that the value of the reward may be diluted (that is, if 70% of the staff earn “excellent worker” awards, what is an excellent worker?).

Informal rewards and peer pressure replace formal awards as equally important determinants of behavior. For example, promotion to a district education position results in a lower formal salary, but can result in access to other rewards such as access to cars and motorbikes, or shares of government or donor funds. In addition, respondents and others have spoken extensively of the informal structure based around one’s “umbrella” (higher placed allies), and the importance of this umbrella in advancement.

4.1.4 Direction and Supervision

Central level directives are sometimes vague and contradictory, so local cadres interpret and enforce rules and decrees selectively and “make do.” Many provincial, district and local cadres complained that they were given responsibility to undertake unrealistic or confusing directives.

While virtually all staff place strong value on following formal rules and laws, they are sometimes unsure HOW to follow the rules. In addition, both staff and clients are often unsure regarding who will enforce rules, and how they will be enforced.

4.1.5 Organizational Culture

Most staff expressed strong pride in their organizations, and are proud to be teachers or bankers. This feeling was more strongly evidenced in MOET, and most strongly expressed by teachers, but somewhat less strongly felt by administrators. Individuals within VBA and MOET are task oriented. Most staff are trained in and required to undertake fairly narrow tasks, but are held tightly to these tasks. Quantity or achievement of targets appears to be more highly valued than quality (which is difficult to measure in most cases).

There is a strong culture of conforming to group norms. In most cases, staff will do what other staff do; this is both safer and more comfortable. In addition, “saving face,” or not being embarrassed in public, plays a significant role in interpersonal communications. Indirect communication of information, or communicating information through third parties, is normal. Reporting bad news to somebody is considered impolite if this news will make them “lose face.”

4.2 Thesis One: Incentives and Competition

Though both VBA and MOET have succeeded in rapidly expanding service coverage in recent years, staff experience difficulty providing both high-quality and low-cost services to most rural

inhabitants in Vietnam. The provision of strong internal incentives and/or competition will promote implementation of sustainable, equitable, pro-poor policies mandated by central authorities.

A Teacher Allocates Her Time

Background

A teacher teaching in a local commune-based primary school must make choices regarding how to allocate her time. She currently earns 300,000 VND per month. To make things simple, she has two choices—to work hard, or to do the minimum necessary to keep her job.

She knows that if more of her students pass, she may get an “excellent teacher” award, and possibly be eligible for promotion to a school in the district town. On the other hand, most of her pupils are the children of farmers, and they do not have much money to offer for unofficial tutoring. If the teacher works a second job (small trading), she can make an additional 400,000 VND per month, but it is likely that her pupils will not do as well. What should she do? Assume that the teacher does NOT have a good idea of what her chances for promotion are, but that they are fair in the medium term, worth an extra 2-400,000 VND/month if her pupils do well.

Students value an education, as they do not want to be farmers (confirmed in surveys given to parents for this study), though the value they place on this is partly dependent upon future job prospects.

Ha Tay Payoffs

Teacher Action	Payoff	Pupils Action	Payoff
Teaching (salary)	3 (300,000 salary)	Study Hard	Minimum of 8 (80% pass)
Trading	4 (400,000)	Don't Study Hard	Maximum 6 (60% pass)
Tutoring (Ha Tay only)	3(300,000)		
Good Student Perf.	2-4 (2-400,000 in earnings and/or recognition)		

Tra Vinh Payoffs

Teacher Action	Payoff	Pupils Action	Payoff
Teaching (salary)	3 (300,000 salary)	Study Hard	Minimum of 5 (50% pass)
Trading	4 (400,000)	Don't Study Hard	Maximum 4 (40% pass)
Tutoring	0		
Good Student Perf.	1 (100,000 in earning and/or recognition)		

Dominant Strategies

A dominant strategy is one that you would follow no matter what the other player might do. In the examples below, the teacher does NOT have a dominant strategy in the Ha Tay example, but does have a dominant strategy in the Tra Vinh example. Dominant strategies are important because it means that actions become more predictable over time.

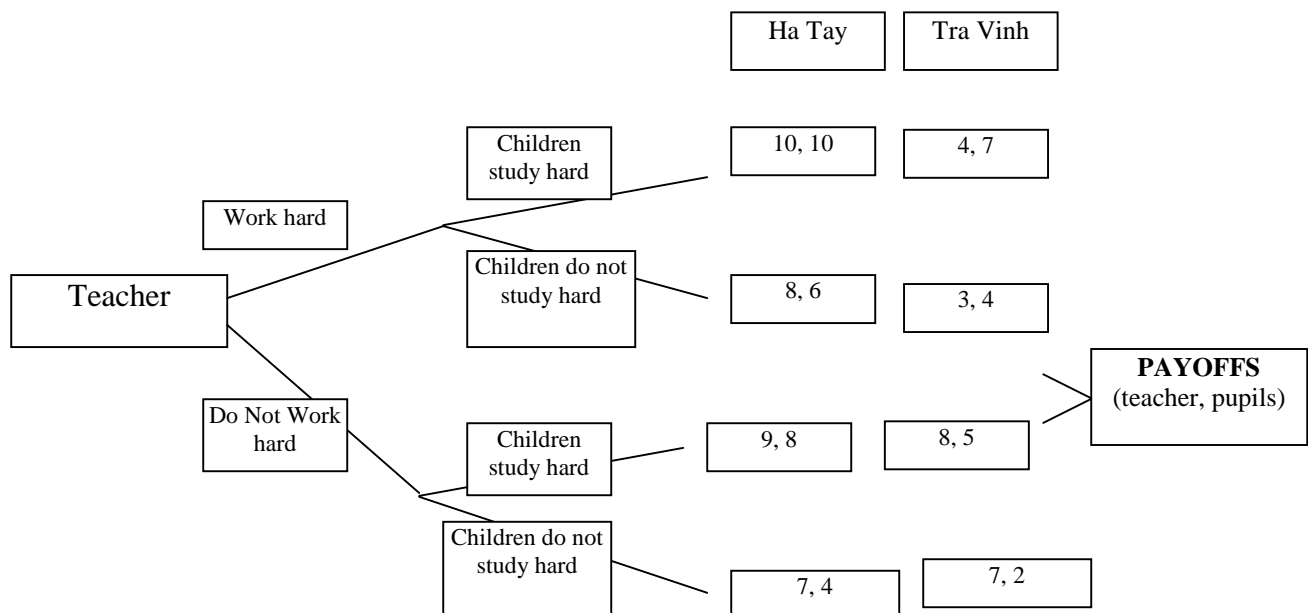
Comparing Tra Vinh and Ha Tay

The example above offers some clues (with realistic assumptions) regarding how teachers might act in the real world, faced with the decision of how to allocate their time. But how would differing local conditions affect this matrix?

Differences Between Tra Vinh and Ha Tay

1. Ha Tay teachers are, on average, more highly qualified and skilled than Tra Vinh teachers.
2. Ha Tay pupils have higher pass rates, and continue on to lower secondary school in greater numbers than Tra Vinh pupils.
3. There are more off-farm job opportunities in Ha Tay, leading to greater rewards for studying hard.
4. Ha Tay teachers can make a bit of extra money (up to 300,000 VND/month) tutoring pupils of wealthy families IF they are known as hard working.

Suppose we look at Tra Vinh and Ha Tay, and specify four conditions, specified in the box above. If the game is repeated many times, as it would be in real life, the teacher and pupils could very well face payoffs as specified below.²⁴



Case #1: Ha Tay

Keeping in mind the above conditions, in this case the teacher does not have a dominant strategy, but the pupils do—whatever the teacher does, it always pays for the pupils to study hard. If the

²⁴ Note: payoff numbers listed in this and subsequent models are meaningful only when compared with each other. The numbers in isolation have no intrinsic value. Payoffs in subsequent games cannot be directly compared with payoffs in this game. Calculations for payoffs are explained after presentation of each model.

pupils study hard, the teacher should work hard, but if the pupils do not study hard, it makes sense for the teacher not to work hard, and to focus on her private work. Why?

- If the teacher works hard and the pupils study hard, the teacher gains 10 (3 + 3 for tutoring + 4 for advancement, as both she and her pupils have good skills). Her pupils will gain a 10, as most/all of them will go on to the next grade with high test scores.
- If the teacher works hard, but her pupils do not study hard, then the teacher gains 8 (3 + 3 for tutoring + 2 for some pupils who do well, they are smart, but lazy).
- If the teacher does not work hard, and pupils study hard, the teacher gains 9 (3 + 4 for business + 2 for some pupils who do well). Pupils gain 8, not as good as if the teacher worked hard, but better than if they do not study hard.
- If both the teacher and the pupils do not work hard, then the teacher gets only a 7 (3 + 4), while the pupils get a 4 (better than Tra Vinh, as they on average advance further). In comparison to her colleagues, the teacher has done very badly.

What should the teacher do if she has no dominant strategy. She should reason backward, and since it is clear that the pupils will study hard in either case, the teacher should choose the higher payoff, which is to work hard.

Case #2: Tra Vinh

In Tra Vinh, the dominant strategy for teachers is not to work hard, while the pupils have a dominant strategy of studying hard. They will always do better by not working hard, since they can make extra money trading and because their skills and their pupils' skills are not very strong, so the relative returns to studying hard are quite low.

- If the teacher works hard, and children study hard, the teacher will get 4 (3 + 1 as a smaller chance for advancement), while pupils will get 7, as they do much better than any other option.
- If the teacher works hard, but the pupils do not study hard, then the teacher gets only her salary (3), while the pupils get a collective 4, with a few of them doing well and advancing to the next grade.
- If the teacher does not work hard, but the children study hard, she gets an 8 (3 + 4 + 1 for pupils' advancement) while pupils get a five.
- If both the teacher and the pupils do not work very hard, then the teacher gets a 7 (3 + 4), while the pupils get a 2, most will not go on to the next grade.

Conclusions

1. The lowest a teacher in Ha Tay can get is 7, no matter how badly she teaches. The bottom is quite high, as there are not many effective sanctions, and there are more opportunities to advance and make extra money by tutoring.
2. In Tra Vinh, because of local circumstances, the rewards for working hard or studying hard are considerably lower than they are in Ha Tay, which has better prepared pupils and teachers, as well as a more dynamic job market.

3. Ha Tay rewards teachers' hard work more, primarily because pupils are better prepared for school and are willing and able to spend extra money for tutoring, as their families imagine that it will pay off in the long run.
4. Teachers have a dominant strategy in Tra Vinh, which is to not work hard, but no dominant strategy in Ha Tay. However, teachers in Ha Tay can reason backward²⁵ and deduce that working hard is likely to bring them greater benefits than not working hard.
5. An area with high educational achievement has a mutually reinforcing "virtuous circle", whereby high levels of achievement result in greater potential benefits for both pupils and teachers. The payoffs are, on average, higher in Ha Tay than in Tra Vinh.

A VBA Credit Officer Allocates His Time

Background

VBA field workers must also make choices regarding how hard to work. However, they face a different environment than their counterparts in the education system.

First, VBA staff make more money, an average of 700,000 VND per month (including salary and allowances), and second they have a slightly stronger reward system, and slightly more competition from PCFs²⁶, mass organizations²⁷, and other lending schemes, so they cannot assume that they will keep all their clients in the future. Third party enforcement of agreements is minimal.

Staff are not assessed according to profitability or on savings mobilization, only on loan collection, and VBA staff get 7 as a base salary.

Differences Between Ha Tay and Tra Vinh

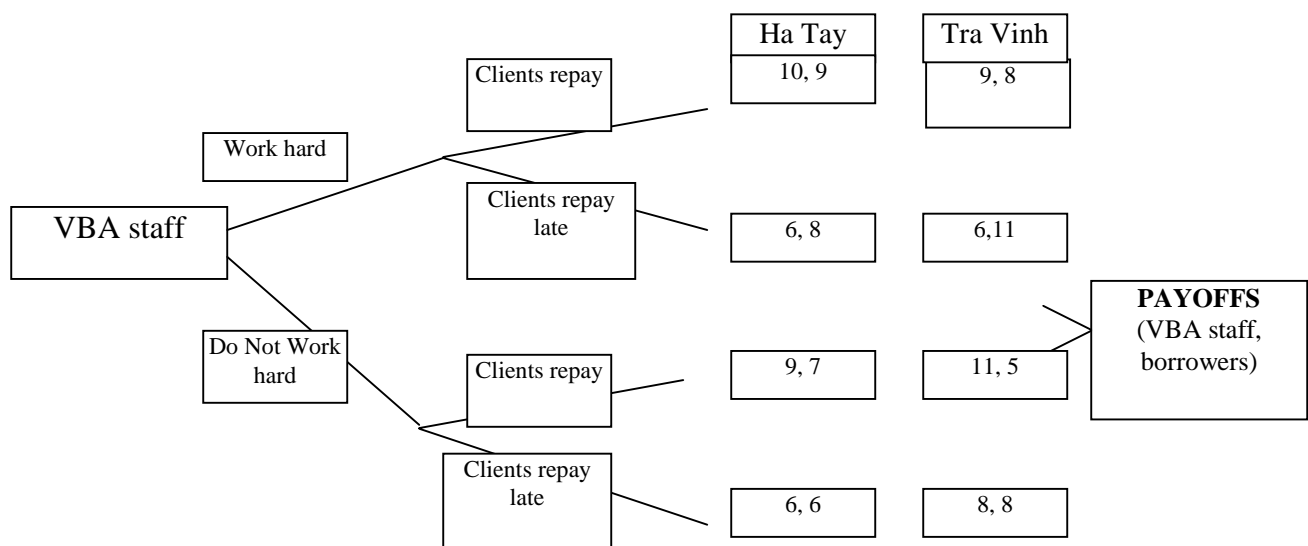
1. Ha Tay borrowers are more likely to repay loans on time, as there is stronger social pressure, and agriculture is more stable.
2. The VBA in Ha Tay faces more competition, so the benefits of loan repayment are a bit higher and the punishment (or disapproval of peers) for late repayment is a bit more severe. Also, clients are less willing to tip VBA staff, as they have other borrowing options.
3. Bank staff are also under more social pressure to perform well, as the leadership has a large pool of well-qualified applicants, and can replace a field officer without great difficulty.

²⁵ Though we assume bounded rationality, we also assume that these games will be repeated many times, as they would be in real life, so players will "learn" and gain the power to reason backward over time.

²⁶ People's Credit Funds; local savings-driven funds organized by the State Bank of Vietnam.

²⁷ Like the Women's Union or the Farmers Association.

VBA Field Worker Action	Payoff	Client Action	Payoff
Not work hard	Likely to demand extra fees from client	Repay on time	Higher social esteem, but lower economic return
Not work hard	More difficult time encouraging loan repayment from clients	Do not repay on time	Usually better, can continue to use borrowed funds for longer period of time
Work hard	More likely to gain market share, and gain future rewards (2 points)	If VBA field worker works hard	Client saves time, does not have to go to the bank as often
Work hard	Clients more likely to repay on time (2 points)	If VBA field worker does not work hard	Client has to pay extra tips.



Case #1: Tra Vinh

In the example above both parties have a strong incentive to “defect”, in essence, double-cross the other person. The client always has a dominant strategy, and that is to repay late. However, the banker does not have a dominant strategy. So what will happen? Reasoning backward, if the VBA staff member works hard, the client will repay late, and the staff member gets a 6. If the staff member decides to work less, the client will also decide to repay late, giving the staff member an 8. In this case, the VBA staff member will decide not to work hard, and the client will try to repay late.

Note that each person could do better than this solution, which means that unless there is a strong enforcement mechanism at work, either a court system or shared sense of values or peer pressure, each person will have a strong incentive to follow his/her own self-interest.

- If the VBA staff member works hard, and clients repay, he gets 9 (7 for salary + 2 for reward), while the client gets 7 (use of loan and profit) + 1 for not having to travel to the bank (the VBA staff member works hard).

- If the VBA staff member works hard, but the client does not repay on time, the staff member gets his salary of 7 minus 1, a small reduction for a poor result. The client gets 11, 7 for use of the money + 3 for being able to keep the money and use it for a longer than expected period of time + 1 for not having to go to the bank.
- If the VBA staff member does not work hard, but the client repays on time, then the staff member gets 11 (7 for salary +2 for a good result + 2 for “tips”), while the client gets only 5 (7 minus payment of 2 for tips to the field worker).
- If the VBA staff member does not work hard, and the client repays late, then he gets 8 (7 – 1 for bad work + 2 for extra tips). The client also gets 8 (7 for use of funds – 2 for tip + 3 for extra use of money).

Case #2: Ha Tay

For the Ha Tay example, we make four changes, as detailed in the box above. Differences in outcomes are in **bold**.

- If the VBA staff member works hard and the client repays on time, the staff member will get a 10 (7 + 2 for reward + **1 in increased market share**). The client will get a 9 (7 + 1 for good service from VBA staff member + **1 for social approval**).
- If the VBA staff member works hard and the client does not repay on time, then the staff member gets a 6 only (7 for salary minus 1 for a bad outcome). However, the client in this case gets only an 8, (7 for the loan + 3 for keeping the money for a longer period of time + 1 for not going to the bank, **MINUS 3 for disapproval by his peers**).
- If the bank staff member does not work hard, but the client repays on time, he will get 9 (7 + **only 1 for tips** + 2 for increased market share, **MINUS 1 for disapproval of his peers**). The client gets 7 (7 – 1 for tips + 1 for social approval)
- If the bank staff member does not work hard and the client does not repay, then the staff member gets a 6 (7 + **1 for tips** – **1 for peer disapproval** – **1 for bad outcome**). The client gets 6 (7 for the **loan** – **3 for peer disapproval** – **1 for tips** + **3 for keeping the money extra time**).

What will the VBA staff member do? In this case, both VBA staff member and client have an equilibrium in which they both maximize their payoffs; the VBA staff member works hard and the client repays on time. Here, the role of peer pressure within VBA, social disapproval in the community and competition from other banks raise the payoffs for “good” behavior. This also generates positive social externalities²⁸ for doing good work, the client and banker help others by making more lending funds available in the future and by building positive social capital.

²⁸ By repaying on time and working hard, the client and banker ensure that more lending funds will be available to other prospective borrowers in the area.

Conclusion

Changing social conditions and incentives changes payoffs, and will presumably change behavior as well. In the cases above, assumptions gleaned from research data and qualitative information have been used in simple game theoretic models, applied to staff in Ha Tay and Tra Vinh. Key conclusions from this include:

- In Tra Vinh, overall payoffs are generally lower, as there appears to be lower returns to both labor and education, and a more poorly skilled workforce.
- Changing a few key assumptions can dramatically change the payoff matrix for both parties.
- There are generally low incentives for good behavior, but also relatively mild sanctions for misbehavior. This is a “muddy” environment, in which decisions are not firm, and could easily change.
- To some extent, “All good things go together.” Because Ha Tay has a higher payoffs for “positive” activities, people there benefit twice from activities—once for themselves, and then a second time by the positive externalities that they generate.

4.3 Thesis Two: Interests

The Ministry of Education and the Vietnam Bank of Agriculture impact upon policy implementation by selectively implementing policies, according to the interests of both central leaders and of service providers in the field.

4.3.1 Approach to Directives and Rules

Central cadres decide how to approach rules based upon two criteria:

- Level of priority of the directive.
- Interest that policymakers have in monitoring and implementing the directive.

Central level cadres, since they are normally evaluated primarily upon task completion, probably look to their superiors for some definition of the importance of the task. If the superior defines the task as important, then it becomes important. Tasks could be important because they are part of a national program (for example, UPE²⁹), or because they are of special interest to the director.

Central level cadres also have a mixed interest in monitoring field level activities. Staff members do what they are told, but they can monitor with differing levels of intensity. In most cases, it can be inferred that central cadres know in advance what findings are expected of them, and will focus on finding information that supports these findings.

Provincial cadres use three criteria when deciding how to enforce regulations:

²⁹ Universalization of Primary Education campaign.

- Value that central level cadres place on enforcing the directive.
- Ease of implementation.
- Impact that implementation will have on key work outcomes.

Local cadres use two criteria in deciding how to enforce regulations:

- Personal/work interest they have in monitoring and implementing the directive as written.
- Effect that local conditions have upon their ability to implement directives.

Since local cadres value money, promotion, and recognition, it would be sensible to ask if the directive would assist them in achieving any of these. For example, Universalization of Primary Education (UPE) is a good example of a decree whose successful implementation will reflect well upon provincial leaders. Successful implementation of this decree may also lead to improved outcomes for the local people,³⁰ and could thus be considered a win-win game.

However, there are many decrees that have been implemented with less enthusiasm, for example the rule requiring that potential borrowers do not have to post collateral for loans of up to 10 million VND. This decree has been widely ignored at the local level for two distinct reasons. First, it contradicts the VBA's internal rating policy of evaluating field officers largely on the basis of their repayment rates, as non-collateralized loans are seen to be harder to collect. Second, it violates the common sense felt by many people who feel that the rule simply does not make sense. In a recent report from Tra Vinh, these concerns (regarding VBP³¹ lending) are summarized by the author:

Authorities claim that they were 'fast and loose' with their lending in the early years of this programme. Low rates of repayment have alarmed them somewhat and they now carefully distinguish between the 'poor who can repay' and those who are 'too poor to take loans.' They are now focusing lending increasingly on the first group.³²

The report goes on to list concerns felt by local agents who are charged with lending to the poor, including pressure felt from above to disburse loans, lack of local management capacity, being burdened with programs that return no income to the organization, and the involvement of numerous local organizations, with no controlling body to coordinate lending.³³

³⁰ Though, for UPE, it has also been found that many localities have pushed kids through 3 years of school in 2 years (compromising on quality) in order to meet UPE targets.

³¹ Vietnam Bank for the Poor, a poverty lending bank affiliated with VBA.

³² Pairaudeau, p. 20.

³³ Ibid, p. 28.

4.3.2 An Illustration of Decision-Making Options:

Central VBA issues a decree giving clients the right to borrow up to 10 million VND without collateral

Differences Between Tra Vinh and Ha Tay

1. Tra Vinh agriculture is more risky, so farmers are more likely to default on loans.
2. There are more landless people in Tra Vinh, so more people demand non-collateralized loans. However, people with land have bigger average holdings than in Ha Tay, and are good risks.
3. VBA in Tra Vinh mobilizes less savings than in Ha Tay, and is more dependent upon central VBA for providing extra lending funds.

Provincial bankers have to decide:

Whether or not to enforce the decree.

Local field officers have to decide:

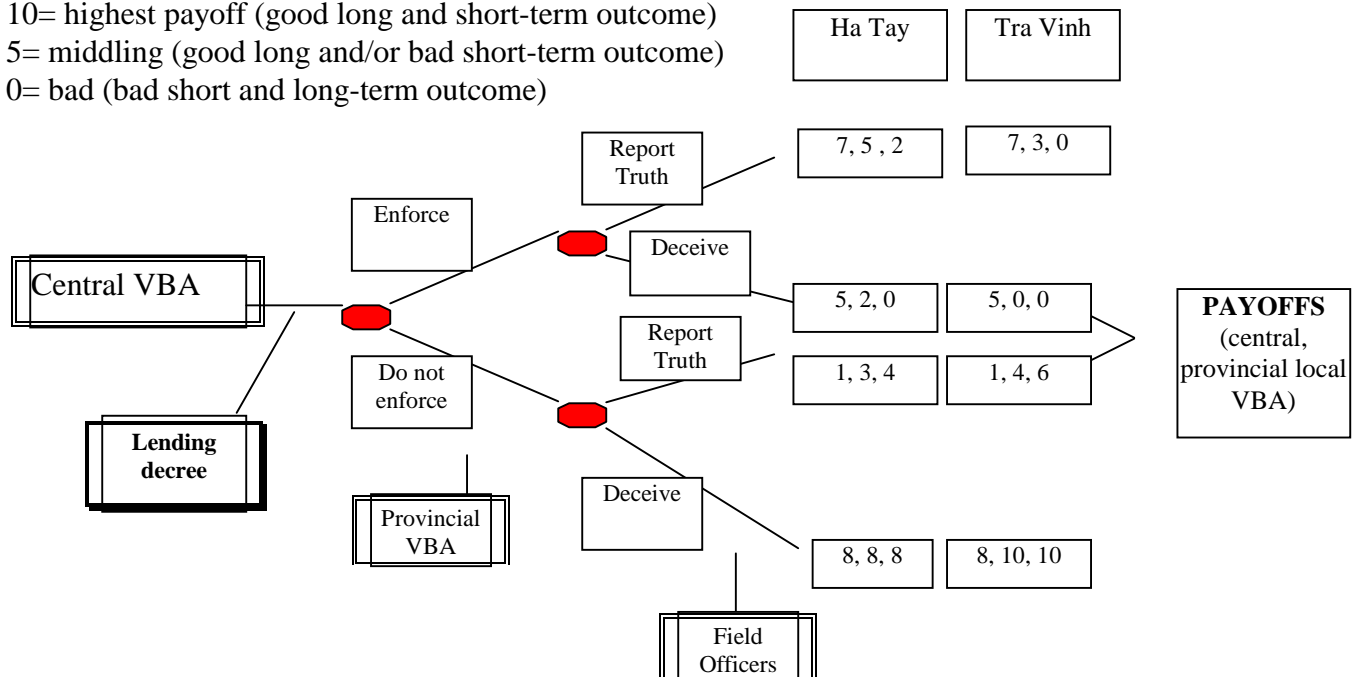
Whether or not to report the truth to their superiors.

Payoff Possibilities:³⁴

10= highest payoff (good long and short-term outcome)

5= middling (good long and/or bad short-term outcome)

0= bad (bad short and long-term outcome)



³⁴ Note: payoffs in this example are only meaningful when compared with each other. For example, a payoff of 10 does not have any intrinsic value outside of this game.

Case #1: Ha Tay Payoffs

In this case, Ha Tay provincial staff do not have a dominant strategy, but if they understand the potential payoffs for field officers, they can deduce that they should not enforce the rule, and then field officers will deceive them, leading to high payoffs for all parties.

- If the order is enforced and the local cadres report the truth, the central VBA will receive a 7 for successfully implementing orders. Provincial cadres get a 5, they win by enforcing the center's order, but lose because they may have a future repayment problem. Local cadres will be praised for following orders, but they may have large future loan liabilities.
- If the order is enforced and local cadres lie about it, saying that they are not enforcing the order (perhaps in order to wring out other concessions), then both parties will lose—the center will lose face and have to negotiate, while the provincial cadres might have to face an investigation. Local cadres pay a higher price than central level, as they will be stuck with more bad loans and will have problems with the center and province.
- If the order is not enforced, and local cadres tell the truth, then provincial cadres will lose, as they pay the price of a local investigation, though they will save the cost of future bad loans. Central cadres will lose a lot, as they will have to negotiate with local level cadres and/or punish selected local leaders. Local cadres will not face as much scrutiny, and will save the cost of future bad loans.
- If the lending decree is not enforced, but local cadres deceive the center, then all parties will be satisfied. The center has completed its task, and will not hear about future repayment problems. Provincial and local cadres will be rewarded in two ways. First, they will not have the problem of bad loans in the future. Second, they will be applauded by the center for their good work in enforcing this decree.

Case #2: Tra Vinh Payoffs

Tra Vinh provincial bankers have a dominant strategy, to not enforce the decree. If they enforce the decree, the best they can do is 3, while if they do not enforce the decree, the worst they can do is 4. Therefore, field workers will only have to choose between reporting the truth and deception. In this case, they will deceive, as it yields a higher payoff (10, as opposed to 6 for reporting the truth).

- If the order is enforced and the local cadres report the truth, the central VBA will receive a 7 - they have successfully carried out their orders, though there may be a problem with future repayments. Provincial cadres get a 3, they win by enforcing the center's order, but lose because they may have a large repayment problem in the future. Local cadres will almost certainly have dramatically larger future loan liabilities.
- If the order is enforced and local cadres lie about it, saying that they are not enforcing the order (perhaps in order to wring out other concessions), then both parties will lose—the center will lose face and have to negotiate, while the provincial cadres might have to face an investigation. Local cadres also pay a high price in terms of more bad loans in the future and problems with the province.

- If the order is not enforced, and local cadres tell the truth, then provincial cadres will lose, as they pay the price of a local investigation, but they will save the cost of future bad loans. Central cadres will lose a lot, as they will have to negotiate with provincial cadres. Local cadres will not face as much scrutiny, and will save the cost of future bad loans.
- If the lending decree is not enforced, but local cadres deceive the center, then all parties will be satisfied. The center will be satisfied, since it has completed its task. Provincial and local cadres will be rewarded in two ways—they will not have the problem of bad loans in the future AND they will be applauded by the center for their good work in enforcing this decree. Their outcomes will be relatively better than those in Ha Tay because they will avoid the danger of massive default and they can focus on viable (rich) farmers who have lots of land and are good repayment risks.

Conclusion

In both cases, relative payoffs are highest for VBA field workers when they do not have to enforce the regulation, and this guides their behavior strongly. Provincial cadres in Tra Vinh have a dominant strategy to not enforce the regulation, while Ha Tay cadres do not have a dominant strategy, though backward reasoning would lead them also not to enforce the decree.

Central level cadres have the same payoffs in both examples, as outcomes in Tra Vinh and Ha Tay do not concern them in the short run, implementation of the regulation is more important. Thus, they receive higher payoffs for being told that the regulation is being enforced, whether or not this is true, and they receive a slightly higher payoff for being deceived since this will save them the trouble of having to indirectly address future repayment problems by transferring more central funds to provincial VBA branches.

4.4 Thesis Three

It appears that central-level Vietnamese policymakers have not promoted appropriate incentives and/or competition into banking and education delivery policies. Two possible reasons are: a) VBA and MOET leaders face serious fiscal constraints in offering improved financial incentives; and b) leaders are reluctant to alter “the rules of the game” because it carries high risks-- staff use various coping strategies, and changing the rules could endanger the security provided by these strategies.

a) Leaders Face Fiscal Constraints

Fiscal constraints inhibit the latitude of leaders in offering direct material incentives to education and banking staff, but this is a more serious problem for education staff, who have relatively lower overall earnings. In fact, the education portion of the budget has been maintained by the state, even though all expenditures are under severe pressure in light of the slowdown in economic growth in the past two years. According to indicative figures for 1999, all education and training figures will account for about 12.5% of the total budget.³⁵ (This has increased from

³⁵ Data on Revenue and Expenditure, p. 6.

about 11.5% of the budget in 1997, and is especially notable in light of the severe pressure that the state budget is currently under, as foreign financing of the budget increased from 5.5% in 1997 to about 9% in 1999).³⁶ Therefore, education spending overall is respectable, and this implies that the government prioritizes the sector.

It is estimated that approximately 90% of the education budget is allocated for salaries,³⁷ and this is not unusual for developing countries.³⁸ In addition, the state relies heavily upon private contributions to pay for a range of capital and current costs—these fees account for up to 50% of education budgeting in local areas³⁹, which is high by international standards.⁴⁰ In other words, funds are stretched to the limit, and policymakers almost certainly feel that they have little prospect of radically improving the situation in the near future.

VBA expenditures are more difficult to identify, as they are not a separate item on the state budget. Total state grants to VBA are probably limited. Losses from VBA are also difficult to trace, as they may be folded into State Bank of Vietnam losses. Furthermore, the bank is structured as an SOE, and is able to generate most of its income through interest rate charges, and most of its lending capital through savings mobilization.

However, most VBA managers feel that their hands are tied regarding personnel issues, as all staff are graded according to a national salary structure, and have little discretion in deciding how to allocate salaries. Central level VBA staff also feel that they have limited options for improving salaries, as they face severe income restrictions, which are the result of interest rate caps.

Other factors also contribute to the inability of the both organizations to offer strong material incentives to staff. Organizational culture is biased against having high salary differentials among staff. Formal salary structures are still very flat in both organizations. In addition, the lack of competition from other providers in most areas means that leaders have relatively limited “push” to try to use improved incentives to encourage stronger staff performance. There is a de-facto arrangement between senior staff and local agents whereby all members of the organization are, to some extent, expected to take care of themselves. This means that senior staff understand that local staff must take measures to gain extra income, and that in most cases this will be overlooked.

Like teachers, local VBA officers use other methods, such as charging small amounts of money for loan applications and receiving gifts to mark the approval of loans, in order to compensate for the lack of official material incentives currently in existence. We argue, in fact, that loan officer and client, or principal and agent, have a symbiotic relationship, meaning that they need and depend upon each other.

³⁶ Ibid.

³⁷ Conversation with Chris Shaw, World Bank Education Advisor in Vietnam, January 2000.

³⁸ Lockheed and Vespoor, pp 103, 349-54.

³⁹ Vietnam: Trends in Education Sector 1993-98, pp. 10-11.

⁴⁰ Bray, p. 32.

To explain the differences in behavior and outcomes between VBA in Ha Tay and Tra Vinh, we may need to consider other factors including general economic activity and leadership both within the bank and in the People's Committee.

Monitoring and Pro-Poor Policies

Monitoring and policies were partly addressed in the previous thesis, in which it was argued that principals and agents have a more complex relationship than is commonly acknowledged. Now we will expand upon this idea to include a more specific look at what might be considered by agents and principals in deciding how much effort to put into their jobs, and whether it is worthwhile to seek informal earnings. The key points in this analysis are:

- Very few people are terminated from the VBA or MOET for fraud or corruption, as far as can be ascertained.⁴¹
- Principals have very poor information about agent activities, in many cases.
- There appears to be an informal understanding and acceptance that agents will engage in extra-formal activities to earn extra income.

Possible Explanations for Improved Outcomes by the Ha Tay VBA

1. There is more economic activity in Ha Tay than in most places, so they are simply part of a larger market.
2. The leaders of the Ha Tay VBA and/or People's Committee are unusually good and/or enlightened.

Below is an example, based upon estimates provided by a range of interested Vietnamese, of whether or not VBA and MOET staff members have an incentive to follow the rules and work only for their official wage, or if they could benefit more by breaking the rules and trying to generate informal earnings for themselves.

Wages	Legal Incentives	Informal/illegal Incentives
W=current wage to agent	I=incentive or bonus	V=reward to the agent for fraud and corruption
W*=next month's wage to agent	# = chance of receiving a bonus	W**=reward to agent for private employment
		^ = chance that fraud is discovered

Suppose that the reward for complying with all rules is current wage plus the wage in the next time period (next month) plus the possibility of a formal incentive payment for following all rules.⁴²

$$W + w^* + \#(i) \quad (1)$$

⁴¹ In fact, in a discussion with the director of a provincial VBA last year, the author ascertained that nobody in memory had been terminated from the VBA in that province.

⁴² This mathematical model adapted from work done by Horn. See Appendix 1 of his book for an example of this model.

However, suppose the agent engages in some extra types of behavior—for example—tutoring a few kids, and perhaps getting a small share of extra fees that parents are persuaded to pay the school. In this case—the reward structure looks different, it is:

- The chance of getting caught times the sum of current wages and incentives, informal earnings, and private earnings PLUS
- The chance of not getting caught times the sum of current wages and incentives, informal earnings, and wages in the next month.

This can be represented as:

$$w + \#(i) + v + w^{**} + (1 - \#)(w + \#(i) + v + w^*) \quad (2)$$

Simply put, the expected wage for compliance (the merit wage) must exceed the expected wage for noncompliance: #1 should be larger than #2. If not, it is less likely that compliance can be obtained.

Comparing Across professions

In the table below, we will demonstrate, based upon the formulas presented above, the current incentive structure facing VBA and MOET staff regarding official and unofficial wage earnings.⁴³

Table 20: Compliance and Non-Compliance Earnings⁴⁴

Position	Wage ⁴⁵	Next Month's Wage	Informal earnings	Chance of getting caught	Private wage available	Incentive	Chance of earning incentive	Merit Wage	Non-Compliance Wage
Ha Tay Teacher	450,000	450,000	200,000	2%	300,000	30,000	70%	460,500	559,000
TV Teacher	450,000	450,000	100,000	2%	200,000	30,000	70%	460,500	508,000
Ha Tay Banker	700,000	700,000	150,000	5%	500,000	50,000	60%	715,000	785,250
TV Banker	600,000	600,000	100,000	3%	500,000	40,000	60%	612,000	660,500
Central	800,000	800,000	600,000	5%	800,000	40,000	60%	812,000	1,112,000

⁴³ In this exercise, relatively high estimates were made of formal salaries and incentives, while relatively modest estimates were made of informal benefits. This was done to ensure that the potential benefits of receiving informal benefits was not exaggerated in the model.

⁴⁴ Note, figures from this table gathered from a combination of official sources, interviews with VBA and MOET staff, and estimates by Vietnamese development workers.

⁴⁵ All figures in Vietnam Dong. 1 USD = 14,000 VND.

VBA									
Central MOET	600,000	600,000	400,000	4%	400,000	25,000	70%	608,750	804,750
Provincial VBA	700,000	700,000	400,000	3%	500,000	50,000	70%	772,500	967,850
Prov. MOET	600,000	600,000	300,000	3%	300,000	20,000	80%	608,000	753,500

In this case, it appears that the main difference between Ha Tay and Tra Vinh staff members are the relatively larger informal and private sector earnings opportunities in Ha Tay, which arise from a more developed local economy. However, this does not explain the apparent difference in organizational performance. It is possible that other factors mentioned above, leadership or the economy, play a role in shaping attitudes within Ha Tay VBA.

The incentive to seek informal earnings appears to be strongest in Hanoi, where there appear to be more informal earnings opportunities. The most we can conclude, however, is that all staff members face a fairly strong incentive to pursue informal earnings.

Findings from the table above highlight the relatively low chance of getting caught for informal activities, as well as relatively low formal incentives for good work. As private sector earnings potential is also low, it is fair to assume that most staff members would prefer to keep their current positions, as they have the potential to gain some additional income from access to informal earning opportunities⁴⁶. However, low private sector earnings should act as a disincentive to pursuing informal earnings, as staff members will have relatively limited options in the private sector should they lose their public sector positions.

The chances of getting caught are viewed as very small because we know that informal earnings are widespread, and the number of people terminated from MOET or VBA appears to be very small. Finally, given a relatively “low trust” environment, there is an strong propensity to take care of oneself and one’s family. Thus, the chance of getting caught must increase significantly, or official wages must increase in relation to unofficial earnings, before the non-compliance wage is lower than the merit wage, that is, until it pays to work for only the official wage. For example, in the case of the Tra Vinh teacher, the chance of getting caught would have to increase to 23% before it paid to take the merit wage only. For a central MOET staff member, chances of getting caught would have to increase to 50% before it would pay to take the merit wage only.

Conclusion

Not all teachers and loan officers have informal earnings, nor are all bureaucrats uninterested in their jobs. There are, however, strong incentives for staff members at MOET and VBA to try to focus, at least partly, on earning extra money through informal means.

⁴⁶ Informal earnings are estimates only, and of course vary widely among individuals within organizations. It should not be assumed that all individuals have informal earnings, only that there are strong incentives to do so.

In all examples cited above, the non-compliance wage is above the compliance wage. Perhaps most interesting is the fact that for more senior positions, the difference between compliance and non-compliance wages increases significantly. Of course these are only estimates, but it does indicate that there are strong incentives to do work outside the formal scope of the job, and relatively weak sanctions applied to those who break the rules.

At the same time, relatively low private sector wages offer policymakers and leaders potential leverage in addressing informal earnings, as MOET and VBA staff members would appear to have limited, poorly paid, options in the private sector at present. The threat of punishment or dismissal for malfeasance has the potential to serve as a strong deterrent in the current socio-economic environment.

Part 5: Conclusion

Findings from this study indicate that cadres within MOET and VBA face underlying incentives that promote task achievement and the achievement of quantitative targets. However, staff members do not, in most cases, find that there are significant formal, material benefits to working exceptionally hard. The difference between formal rewards offered for adequate work and for superior work is small.

These key factors appear to create an environment in which staff are encouraged to behave in certain predictable ways. They work to achieve quantitative targets, and to enforce decrees selectively, according to the personal impact upon them that enforcement would bring. At the same time, they report good news to central authorities as often as possible, since central authorities are relatively less concerned with outcomes than with following rules, as this is what they are evaluated on. In addition, it is clear that local, provincial, and central staff have reasonably strong incentives to seek out additional sources of income, devoting part of their time and efforts to this, which subtracts from time and effort that could be put into working for the organization. Leaders, however, do not have strong incentives to dramatically alter existing arrangements, as changing them would carry significant personal risk.

Better education and banking outcomes in Ha Tay are a product of differing environmental and organizational incentives, created in part by higher levels of socio-economic development in Ha Tay, and in part by higher levels of social capital and lower levels of landlessness in Ha Tay. In general, this leads to greater rewards for hard work, and greater opportunities for informal earnings, in Ha Tay than in Tra Vinh, and this harder work yields greater rewards, fostering a mutually reinforcing cycle. However, in both Ha Tay and Tra Vinh, there is a strong incentive for local cadres to report mostly good news to central authorities.

The Future

Future changes in civil service and SOE employment policies to spur improved performance, especially in disadvantaged areas, will have to focus on fostering increased dedication by civil

servants to their jobs⁴⁷ and a stronger focus on good outcomes; this will mean changing the underlying incentive structure that civil servants currently face. Stronger, positive, rewards⁴⁸ for good performance, combined with fairly applied sanctions for unacceptable work, would foster improved on the job performance. However, it is relatively easy to articulate these goals, but quite difficult to achieve them, partly because there are strong institutional barriers to changing rules, some of which have been outlined in this study.

The first step towards reaching this vision is to make the civil service a more attractive place to work, both by increasing standards and by making the recruitment process more transparent. In addition, the civil service could promote secondments of skilled private sector managers to its ranks. Second, managers must be given wider authority, responsibility, and support, while being held more tightly accountable for outcomes, not only for achievement of specified tasks. Particularly helpful for many managers would be a system of ongoing in-service trainings, job rotations, and coaching or mentoring arrangements to provide them with regular, practical support. Third, staff members must be held more tightly accountable for job outcomes, but this must be based upon realistic expectations; it is often impossible for staff members to implement vague or unrealistic decrees. Finally, and perhaps most importantly, an atmosphere of excellence must be created, in which the best staff members are admired and copied by others, and one in which mediocrity is simply not tolerated by leaders, colleagues, or clients. Improved feedback mechanisms and more internal and external competition could help promote this change.

⁴⁷ See Tendler for in-depth discussion of dedication and its importance to organizational performance.

⁴⁸ Both material and non-material.

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