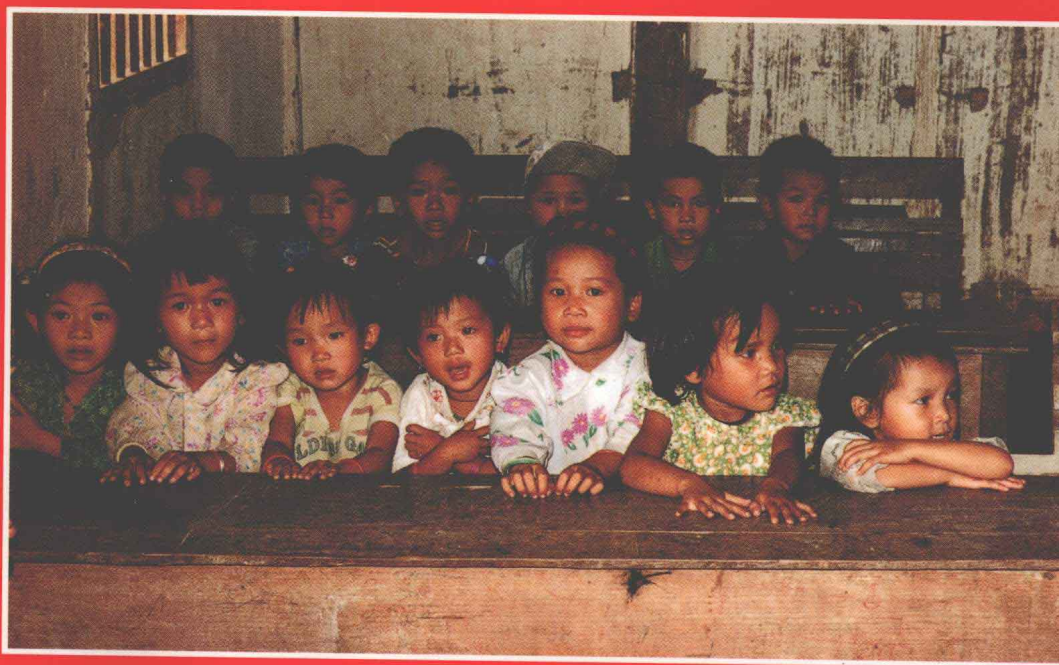




A WORLD BANK COUNTRY STUDY

Vietnam

Education Financing



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*The World Bank
Washington, D.C.*

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First printing September 1997

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Cover photo: Vietnamese school children by Christopher Shaw.

ISSN: 0253-2123

Library of Congress Cataloging-in-Publication Data

Vietnam : education financing

p. cm. — (A World Bank country study)

Includes bibliographical references.

ISBN 0-8213-4023-9

1. Education—Vietnam—Finance—Statistics. 2. Education—
Economic aspects—Vietnam—Statistics. 3. Education and state—
Vietnam. I. World Bank. II. Series.

LB2826.6.V5V54 1997

379.597—dc21

97-30279
CIP

ACKNOWLEDGMENTS

The VEFSS report was prepared by a team co-managed by the Government of Vietnam and the World Bank and comprising staff and consultants provided by the following funding agencies: Swiss Development Cooperation, the East Asia Multidisciplinary Advisory Team of the International Labour Office, the Australian Department of Employment, Education, Training and Youth Affairs, the Australian Bureau of Statistics and L'Institut Français de Recherche Scientifique pour le Développement en Coopération, as well as the World Bank. The research team was led, on the Vietnamese side, by *Phan Thu Huong* (Chairperson of the Government Steering Committee that guided the VEFSS study) and, on the donors' side, by *Peter R. Moock* (World Bank Task Manager and author of the report). Major contributors to the research and report drafting included *Ta Ngoc Chau*, *Rapti Goonesekere*, *Harry Anthony Patrinos* and *Nicholas Prescott*. VEFSS Steering Committee members included *Pham Kim Cung*, *Do Minh Cuong*, *Quan Ngoc Duong*, *Tran Thi Thu Ha*, *Nguyen Quang Kinh*, *Nguyen Le Minh*, *Nguyen Van Phuc*, *Pham Thanh Tam*, *Pham Van Thuan*, *Pham Trung San*, and *Nguyen Van Tien*. Other contributors to the study included *Michel Carton*, *Paul Glewwe*, *Jean-Yves Martin*, *Jean-Luc Maurer*, *Ivan Neville*, *Pham Thanh Nghi*, *Nguyen X. Nguyen*, *Xavier Oudin*, *Richard Phillips*, *Trevor Riordan*, *Christos Sakellariou*, *Christopher Shaw*, *Shobhana Sosale* and *Maureen Woodhall*. Special thanks are given to the Asian Development Bank and James Knowles, ADB consultant, for sharing preliminary information from the Vietnam Social Sector Survey and tailoring special data runs to the needs of VEFSS. Peer reviewers in the World Bank were Elizabeth King, George Psacharopoulos and James Socknat. The document was processed by Emily Mwai and Denise West.

The VEFSS Steering Committee comprised the following members: Mrs. *Phan Thu Huong* (Director, Department of Science, Education and Environment, MPI); Mr. *Pham Kim Cung* (Deputy Director, Department of Science, Education and Environment, MPI); Mr. *Nguyen Van Phuc* (Vice Director, Foreign Economic Relations Department, MPI); Mrs. *Pham Thanh Tam* (Expert, Department of Science, Education and Environment, MPI); Mrs. *Tran Thi Thu Ha* (Deputy Director, Social Cultural Department, MOF); Mr. *Nguyen Van Tien* (Director, Department of Social and Environment Statistics, GSO); Mr. *Nguyen Le Minh* (Vice Director, Managing Board of the National Programme for Employment Promotion, MOLISA); Mr. *Nguyen Quang Kinh* (Director, Department of Planning and Finance, MOET); as well as the chairpersons of the four VEFSS Working Groups, Mr. *Quan Ngoc Duong* (MOET -- Education Statistics); Mr. *Pham Van Thuan* (MOF -- Public Finance); Mr. *Do Minh Cuong* (MOLISA -- Labor Market Linkages); and Mr. *Pham Trung San* (MOET -- Private Sector Development). Mr. *Phan Quang Trung*, Vice Minister in the Office of Government, also lent valuable support to the study from its inception.

ABBREVIATIONS AND ACRONYMS

ABS	Australian Bureau of Statistics
ADB	Asian Development Bank
COV	Coefficient of variation (standard deviation divided by arithmetic mean)
CPHRS	MOLISA Center for Population and Human Resources Studies
DEETYA	Department of Employment, Education, Training and Youth Affairs (Australia)
E&T	Education and training
EASMAT	East Asia Multidisciplinary Advisory Team
FTE	Full-time equivalent (student)
GDP	Gross domestic product
GER	Gross enrollment rate (GPER, GSER and GTER for primary, secondary and tertiary, respectively)
GFS	Government Finance Statistics
GSO	Government Statistics Office
HCEF	Human capital earnings function
HECRP	Higher Education Consolidation and Reform Project
HEGTS	Higher Education Graduate Tracer Study (1995-96 VEFSS survey implemented by ILSSA)
HEI	Higher education institution
HEIFS	Higher Education Institutional Finance Survey (1995 VEFSS survey implemented by MOET)
HPAE	High performing Asian economy
IEA	International Association for the Evaluation of Educational Achievement
ILO	International Labor Office
ILSSA	MOLISA Institute of Labor Sciences and Social Affairs
KEDI	Korean Education Development Institute
IMF	International Monetary Fund
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOLISA	Ministry of Labor, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
NER	Net enrollment ratio (NPER, NSER and NTER for primary, secondary and tertiary, respectively)
NIE	Newly industrializing economy
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development
OLS	Ordinary least squares (regression analysis)
ORSTOM	French Research Institute for Development in Cooperation (<i>L'Institut Français de Recherche Scientifique pour le Développement en Coopération</i>)

RLMVT	Rural Labor Markets and Vocational Training Study (1996 VEFSS survey implemented by CPHRS)
RMSM	Revised Minimum Standards Model
SDC	Swiss Development Cooperation
SDLMS	Skill Development and Labor Market Study (three inter-related 1996 surveys implemented by GSO under VEFSS auspices)
S&T	Science and technology
UNDP	United Nations Development Fund
UNESCO	United Nations Educational, Scientific and Cultural Organization
UPE	Universal Primary Education
VEFSS	Vietnam Education Financing Sector Study
VLSS	Vietnam Living Standards Survey (1992-93 national household survey financed by UNDP and implemented by GSO)
VOTECH	Vocational and technical education and training
VSSS	Vietnam Social Sector Survey (GSO survey financed by ADB)
VTC	Vocational training center

CURRENCY EQUIVALENTS

Currency Unit = Dong
US\$1.00 = VND 11,013 (June 1996)

US\$1.00 = VND 11,022 (1995)
US\$1.00 = VND 10,955 (1994)
US\$1.00 = VND 10,640 (1993)
US\$1.00 = VND 11,150 (1992)
US\$1.00 = VND 9,274 (1991)

GOVERNMENT FISCAL YEAR

January 1 to December 31

GOVERNMENT SCHOOL YEAR

September to June

VIETNAMESE PHRASES

<i>Ban Công</i>	Semi-public (educational institution)
<i>Bộ Giáo Dục và Đào Tạo</i>	Ministry of Education and Training (MOET)
<i>Đào Tạo</i>	Training (includes higher education)
<i>Dân Lập</i>	People-founded (educational institution)
<i>Đổi Mới</i>	Renovation, new life
<i>Giáo Dục</i>	Education
<i>Pho Tiên Sĩ</i>	Candidate's degree
<i>Thạc Sĩ</i>	Master's degree
<i>Tiến Sĩ</i>	Doctorate degree
<i>Trung Tâm Day Nghề</i>	Vocational training center (VTC)
<i>Trung Tâm Đào Tạo và Bao Dưỡng Nghề</i>	Vocational center for training and upgrading skills
<i>Trung Tâm Day Nghề Cho Học Sinh Phổ Thông</i>	VTC for upper secondary students
<i>Trung Tâm Xúc Tiến Việc Làm</i>	Center for employment promotion
<i>Trường Day Nghề</i>	Secondary vocational school
<i>Trường Trung Học Chuyên Nghề</i>	Secondary technical school
<i>Trường Trung Học Day Nghề</i>	Secondary vocational school
<i>Trường Trung Học Phổ Thông</i>	General (academic) upper secondary school
<i>Tư Lập</i>	Private (educational institution)

ABSTRACT

This study looks at the system of education and training in Vietnam and poses the question: What changes in educational policies will ensure that students who pass through the system today will acquire the knowledge, skills and attitudes needed for Vietnam to complete the transition successfully from a planned to a market economy? The report analyzes the present structure of educational costs and estimates the increase in public expenditure implied by enrollment targets set by Government and the Party. As a starting point, the analysis assumes that the relative shares of government and private beneficiaries in financing education's costs will not change, nor will the technology by which education is produced -- in other words, no policies would be introduced to reduce the cost per graduate, and none to enhance the quality of what is learned in Vietnam's schools, training centers, colleges and universities. These assumptions are then relaxed. The report reviews the experience since 1950 of eight "East Asian miracle" countries (Japan, Hong Kong, the Republic of Korea, Singapore, Taipei-China, Indonesia, Malaysia and Thailand) and draws lessons for Vietnam's education and training system. The report then discusses a number of "promising policy options." Some of these address issues of quality, others are intended to reduce unit costs, and still others would shift some of the costs from the State Budget to private beneficiaries. The report considers the trade-offs among conflicting objectives for Vietnam's education and training system -- namely, higher enrollments, improved quality and increased equity.

EXECUTIVE SUMMARY

Although Vietnam is a poor country with only \$250 of gross domestic product per person in 1996, its recent economic growth record has been robust, especially since 1986 when the Government launched a macroeconomic program of renovation and reform. With 91 percent of children between the ages of 5 and 10 enrolled in school and 88 percent of the working-age population reported to be literate, Vietnam can also point to an impressive educational record, even in comparison with many economies at higher income levels. However, as the global community bids farewell to the twentieth century and enters a new millennium, emerging market forces within Vietnam, as well as examples and competition from other economies, especially Vietnam's successful East Asian neighbors, raise important new challenges for the country's system of education and training (E&T).

The Government of Vietnam has set ambitious targets for increasing enrollments in E&T institutions. The question is posed: What policies are required to ensure that the outputs of an expanded E&T system will possess the knowledge, skills and attitudes demanded by private sector employers and critical to the smooth functioning of a leaner public sector in the future? This Study, referred to in the text of the report as the Vietnam Education Financing Sector Study (VEFSS), was undertaken as a collaborative effort of Government, the World Bank and other funding agencies to address this question.

More E&T implies incremental recurrent costs. This report analyzes the present structure of costs so as to estimate the rise in public expenditure implied by an expansion of the E&T system. The report assumes, as a starting point, that the shares of government and private beneficiaries in financing E&T will remain the same as they were when this study was conducted, and also that production technology will not change (that is, no policies will be introduced to reduce either the cost per student-year or cost per graduate, and none to enhance the quality of E&T's outputs). These assumptions are then relaxed, each in turn. Based on VEFSS' review of present financing patterns, the report discusses the possibilities and advantages of shifting the financial burden of meeting E&T's full economic costs, with government's share either rising or falling at different levels of the system in relation to that of private beneficiaries. Finally, the study considers alternative production technologies amenable to policy change and designed to enhance E&T's internal and external efficiency.

Key Policy Instruments.

From the perspective of public policy, the study distinguishes three key policy instruments. The Government of Vietnam has used a mix of all three in recent years in pursuit of its policy objectives for the sector:

- (a) **Subsidies.** Government can finance a higher or lower proportion of the total costs of the nation's E&T activities out of the State Budget. It can also re-direct public subsidies, to finance more at one level and less at another. Finally, government

can put its financing into public-sector institutions directly, or it can channel all or some of it to individual students, who can then use the subsidies to attend institutions and programs of their own choosing, whether in the public sector or in the private. The former approach (the norm seen in most countries including Vietnam) is called *supply-side financing*. The latter (which some economists recommend in the interest of enhancing efficiency in the provision of E&T, by making institutions compete for student clients, and also as a way of targeting subsidies more effectively) is called *demand-side financing*.

- (b) **Cost-recovery.** Whatever part of E&T's full costs that government does *not* subsidize must usually be covered by the users themselves, i.e., by the individuals enrolled as students, or by their families.¹ The earnings foregone by those who are studying and not working are high, especially at the upper levels of the E&T system. In Vietnam and elsewhere, most such indirect costs are financed privately, the exception being the indirect costs of students in tertiary education who are given scholarships, or receive student loans at below-market interest rates; these subsidies can be viewed as off-setting a part of the students' foregone earnings. To help finance the direct costs of E&T, government policy in Vietnam now permits public institutions to charge fees at all levels of E&T except at the primary level. In addition, informal charges and incidental costs must be met by individuals enrolled at all levels including primary. The net result is that Vietnam has reached quite a high level of cost-recovery in E&T. Private financing is estimated here to be above 40 percent of the total direct costs of E&T across all levels. It is highest in pre-school and secondary education (around 60 percent), nearly as high in primary (just under 50 percent) but relatively low in tertiary (19 percent) and in vocational and technical education and training (VOTECH -- 12 percent).²
- (c) **Private sector development.** The third policy instrument at government's disposal are incentives (including the removal of legal constraints) that may encourage non-government providers to play a larger role in the E&T sector.

¹ In some instances, a part of the costs of an E&T program may be subsidized by some other munificent entity -- such as an educational foundation, or by the education institution itself out of private contributions that it receives from those who graduated in the past, but in Vietnam, it would appear that these contributions do not yet play a major role in education finance.

² Specifying cost-recovery as a *separate* policy instrument and defining it as the difference between E&T's full costs and government subsidies may seem redundant. Whatever government does not pay, individuals must pay. In this sense, as soon as the one policy is set, the other is set as well. This would indeed be the case if E&T's full costs were a given. At least some of the costs covered by individual households are, however, *optional*. Textbooks, for example, are in Vietnam the responsibility of families to buy. A poor family might decide to send its child to school but lack the income needed to buy all of the recommended textbooks. In this sense, cost-recovery can vary even after the government's policy in regard to subsidies is set. If a family's income rises, or if its perception of the value of discretionary educational outlays rises, then E&T's full costs will also rise, as will the proportion of full costs "recovered."

Private provision relieves the burden on the public administration, which then does not have to carry the full load of provision, and it also relieves the public financial burden to the extent that students in private institutions do not usually receive public subsidies.

Structure of the Report.

Following Chapter 1, which sets the general context for a consideration of E&T costs and financing in Vietnam, Chapter 2 explains how the system is presently organized and managed. Chapter 2 also portrays sectoral achievements in terms of student enrollments, both absolute and in relation to population numbers. The achievements are impressive given Vietnam's present income level and how little time has passed since the war's end and political reunification of the country. Progress is quite uneven, however, with education participation rates in some regions and in some districts of the country much higher than in others. The differences reflect a combination of income differences, geography (it is, for example, logistically difficult for government to deliver and for people to access educational services in the high mountain areas or on remote islands) and factors that would be expected to affect the returns to investment in E&T. Chapter 2 continues by describing those who teach in Vietnam's E&T institutions, and how much they get paid relative to other workers with comparable education and experience. The chapter concludes by describing the extent to which "non-public" institutions have emerged in recent years and helped to increase enrollments, while imposing low or zero costs on the public budget.³ The role of the non-public sector has been concentrated to date in pre-school and upper secondary education, although by 1996 there were also 11 semi-public and people-founded tertiary institutions, all of them small and located in just three cities (Hanoi, Ho Chi Minh City and Da Nang).

Chapter 3 provides an assessment of the current financing system, distinguishing first the allocations in the central and provincial components of the State Budget. The chapter then looks at off-budget sources of public finance. These, which include Official Development Assistance and spending incurred by the lowest level of local government (Vietnam's 10,320 communes), were not, in the past, included in the budget figures of MOET and MOF. The chapter continues by examining private sources of funding for E&T. Private funding is the backbone of support to the small but growing non-public sector, but it has also become a significant factor in supporting public sector institutions (in which over 90 percent of Vietnam's students are currently enrolled).

Chapter 4 combines the information on enrollments and on flows of funds from public and private sources to calculate unit costs in Vietnamese E&T -- with "unit cost"

³ Vietnam distinguishes three categories of non-public E&T. "Semi-public" institutions are owned by the state and managed by public authorities; "people-founded" institutions are owned and managed by non-government organizations; "private" institutions, which at this time are permitted only in pre-school education and VOTECH, are owned and managed by private individuals. In all three, operating costs are financed largely, if not entirely, out of student fees.

defined first as the economic *cost per student-year* and then as the economic *cost per graduate* at each level. Chapter 4 continues by analyzing some of the anomalies in unit costs across levels and between different regions of the country. Various ways are suggested by which costs could be reduced, flow-through efficiency increased and student learning enhanced.

Chapter 5 turns to issues of external efficiency and equity. To assess E&T's external efficiency, the information on unit costs is merged with information from other sources on the labor market returns to investments in the sector. The study concludes that "social rates of return" to investments in E&T⁴ are at or above 10 percent in the case of primary education, but, at this time, lower in the case of VOTECH, general secondary and tertiary education. The study surmises, based on patterns observed in other transition economies and on signs in Vietnam that earnings differentials across education levels are becoming less compressed, that rates of return have increased since the late 1980s and will continue to increase as the market reforms take stronger hold. The study also shows that private rates of return are high in the case of primary education (between 10 and 20 percent depending on who gets the education and in which sector -- public or private -- he or she finds employment), and they are nearly as high in the case of tertiary education. They are lower at this time in the case of VOTECH and general secondary education.

Chapter 5 concludes with a focus on equity issues, examining how much different groups in Vietnam spend to receive whatever E&T they actually get, and assessing the relative burden of this expenditure in light of differences in their incomes. The findings here, and in related analysis presented in Chapter 3, suggest that there is considerable scope to use all three policy instruments outlined above to achieve a more equitable system of E&T in Vietnam.

Finally, in Chapter 6 the perspective of the report shifts from one that is essentially retrospective and inward-looking, focusing on Vietnam itself, to one that looks ahead to the next decade and draws lessons, where possible, from other countries outside Vietnam. The chapter begins with a review of the experience of eight countries in the region identified in a recent study as "high performing Asian economies" (HPAEs) -- Japan, Hong Kong, the Republic of Korea, Singapore, Taipei-China, Indonesia, Malaysia and Thailand (World Bank 1993a). Although the HPAEs are all well ahead of Vietnam in terms of GDP per capita today, some of the HPAEs had income levels comparable to Vietnam's present level as recently as the 1950s (Thailand) or 1960s (Indonesia). Quite reasonably, Vietnam may look to these countries as models to emulate in choosing their own economic and educational policies over this decade and the next. Although the HPAEs did not follow all of the same policies in the same sequence, the development of their E&T systems did have many things in common -- an emphasis on

⁴ As estimated in this study, and elsewhere in the literature, the "social rate of return" reflects the *full economic costs* of an education investment but reflects the *private returns only* -- because *external benefits*, while easy to think about and discuss, are very difficult if not impossible to measure, given present estimation techniques.

primary education coverage and quality; a system of user charges kept quite low in primary education but increasing with successively higher levels of education; attention given to VOTECH, especially in the early years, but declining over time; and relatively high student-teacher ratios (to keep educational costs under control), and generous remuneration for teachers (to attract and retain qualified and dedicated individuals in the profession).

By comparison with the HPAEs, when they had income levels in the past equal to Vietnam's today, Vietnam has made very good *quantitative progress* in its system of E&T. Enrollment rates are at least as high in Vietnam today as they were in the HPAEs when their incomes measured \$250 per capita in today's dollars. Despite this, Vietnam's plan for expansion of the system over the next decade calls for rapid enrollment increases, which exceed the projected growth of the relevant population groups for all levels and types of E&T. The largest increases are planned for lower secondary education and for vocational education and training. Chapter 6 costs the Government's planned enrollment increases and concludes that the Government's targets are affordable from the point of view of the State Budget given the following assumptions: (a) Government-World Bank projections of economic growth and growth of the State Budget are both met; (b) E&T's share of the budget remains at 13.3 percent,⁵ its level in 1994; (c) unit costs and the level of cost recovery in E&T do not change (though changes may, in fact, be warranted to address issues of quality and equity).

Promising Policy Options.

Adequate financing, however, is only one of several factors that must be considered in evaluating an education sector strategy and investment plan. The final section of Chapter 6 draws on findings in the first five chapters and addresses the trade-offs involved among conflicting objectives for the sector, namely, higher enrollments, enhanced quality and increased equity. The discussion considers current policies for the sector and suggests alternatives that seem especially promising in light of the report's findings and Vietnam's broad social and economic goals. Certain policies are suggested that would lower the unit costs of E&T. Other policies would shift some of the costs of E&T from the State Budget to private beneficiaries, and still others would be cost-neutral in fiscal terms. All such measures deserve careful consideration.

Several of the policies discussed in Chapter 6, however, especially those directed at enhancing the quality of E&T in Vietnam, will require additional government spending. Costing all of the suggested policies in detail is beyond the scope of this study, although it should be undertaken by Government as a next step. One expensive quality-enhancing option (increasing instructional hours, by extending the school year from 165 days to 185 days and by extending the school day from four hours to five hours) is costed in Chapter 6, to demonstrate the considerable expense of this single reform and to draw policymakers' attention to the fact that serious trade-offs will need to be faced in any

⁵ This is E&T's share of the "discretionary" (i.e., net of interest payments) *recurrent* budget.

major future reform program. Only some of the desirable quality-enhancing measures will be affordable given the study's budget projections for the next decade. To implement more policy options will require the identification and tapping of new sources of revenue, or the reallocation of the State Budget so that a higher share goes to E&T.

Allocation of Subsidies in General Education.

A key finding of VEFSS has been that public expenditure per student in primary education is low -- in two different senses: (a) *relative to other levels/types of E&T* (public expenditure per student is 13 times higher in technical and tertiary education than it is in primary education), and (b) *relative to private spending on E&T*. On average, across all Vietnamese households, for every VND 100 of government spending on primary education, households spend VND 80. In secondary and in vocational E&T, the ratio is as high or even higher than this. However, in technical education, for every VND 100 of government spending, households spend only VND 47, and in tertiary education VND 44. This pattern suggests an inequitable distribution of public subsidies for education, a conclusion that is reinforced when one looks at the consumption levels of households with family members enrolled at different levels.

Net enrollments rates (NERs) are correlated with income at all levels of E&T, but much less so at the primary level. The NPER of Vietnamese households in the poorest consumption quintile was 68 percent in 1992-93, when the Vietnam Living Standards Survey (VLSS) was carried out; it was 86 percent in the richest quintile. In tertiary education, however, the situation is dramatically different. In 1992-93, families in the poorest quintile had virtually no representation in higher education institutions. Participation was marginally higher in the middle three quintiles; the NTER reached 1.9 percent for those in the fourth quintile. The NTER was 7.0 percent, however, for those in the top quintile. These figures suggest that participation in college and university education is a privilege reserved almost exclusively for high income families, a finding that is all too common in many countries.

The high private costs of education certainly contribute to the high dropout rates at the primary level and also explain much of the inter-regional and inter-provincial variation in participation rates. The high participation rates across the board in Grade 1 of primary school reflect government campaigns to encourage enrollment and demonstrate the high value that Vietnamese families place on education, but some poor families soon find that they are unable to afford the "voluntary contributions" and other education-related costs. They are forced as a result to withdraw their children from school. To provide opportunities for poor children to remain in school, Government should consider a program of *targeted subsidies*, directed at poor families who cannot afford the private costs (direct plus indirect) of primary education. Of course, it is difficult to distinguish families who are truly poor from other families who may be less poor but quite happy, nevertheless, to substitute public financing for their own. To minimize the "free-rider" problem, the special subsidies for primary education will need

to be targeted, not at individual families, but at communities identified by sample survey methods to have high concentrations of poverty.

Cost Recovery in Tertiary Education.

The shares of public spending allocated to higher and technical education are each about 15 percent of the E&T budget. However, together these two levels account for fewer than 3 percent of all of Vietnam's students. The fact that students at the top end of the E&T system tend to come from wealthier families has already been noted. Not so much for the savings generated, but for reasons of equity, Government is encouraged to consider policies that would increase cost recovery at the upper levels. A VEFSS higher education survey concluded that student fees actually declined between 1993 and 1995 in the 100 higher education institutions (HEIs) included in the survey, from 44 percent to 24 percent of expenditures. This may have been an accident of the particular three years covered in the survey. The percentage could revert to the 1993 level when the fee structure is next revised. Revising it soon and regularly, however, should be a priority of government policy, as there is virtually no justification for private costs to be higher as a percentage of full economic costs at the basic level than at the highest levels.

Another reason to aim for high levels of cost recovery is that the private rate of return to family investments in tertiary education is high (especially in relation to the measured social rate of return, which is low when compared with the social rate of return to investment in primary education). Students who attend colleges and universities should be expected to share significantly in the burden of the costs of their education, *both* because they come from wealthy homes to begin with, *and* because they will earn more in later life as a result of having received tertiary training. A final reason for wanting to see more cost recovery in higher education is to guide the HEIs in deciding which programs to expand and which ones to contract or eliminate. Many higher education administrators at this early stage in Vietnam's transition to a market economy are waiting for instructions to be given by the government ministry which has responsibility for the particular HEI. Such signals should now come from the students themselves and from a much broader range of employers in the marketplace, including private sector employers. In a market economy, HEIs should be given substantial autonomy to set their own programs and also to raise and then retain revenues that can be used to enhance the quality of the programs offered and research produced. Greater cost recovery ensures that the outputs of higher education are demand-driven and socially useful.

Whereas achieving a greater degree of cost recovery should be an objective of government policy, complementary measures will need to be adopted to ensure that students from poor homes are not financially constrained from attending higher education courses for which they are academically qualified. Again, a program of targeted subsidies is a possible solution. At this top level of education, unlike in general education, the special subsidies should be granted based on evidence supplied by the individual family of its inability to bear a full load of the private costs of tertiary

education. The cost of verifying this information is probably worthwhile at this level, because of the larger subsidies and fewer families involved. An alternative is to expand the student loan program now being piloted in Hanoi, but this program should be modified so that interest paid on student loans is at the full market rate and not subsidized. A mixed program that provides "social scholarships" for needy students and access to loans at market rates for others who do not qualify for scholarship but want assistance would appear to be the most efficient way of achieving a higher level of cost recovery in higher education while, at the same time, expanding opportunities for the poor.

Vocational Education.

The two programs that will increase substantially given the Government's medium-term targets for the sector are lower secondary education and vocational education and training. To give priority to the expansion of lower secondary education is understandable, given that UPE has already, or nearly, been achieved. There is a big gap between the NER in primary education (91 percent) and that in lower secondary (45 percent), and there is now pressure to expand enrollments at the higher of the two levels. To do so is also consistent with the goals declared by world leaders at the inter-agency UN Conference on Basic Education for All, in Jomtien, Thailand, in 1990 (UNDP, UNESCO, UNICEF and World Bank 1990).

Prudence suggests greater caution, however, in implementing the Government's plans for expanding vocational education and training. Implementation should be on a step-by-step basis only, with continuous monitoring and evaluation along the way. The evidence available when this report was prepared suggests that the labor market returns to investment in VOTECH are not adequate to justify VOTECH's high costs, although the data used to address this issue (VLSS 1992-93) are somewhat dated, and they confound two quite different programs -- technical education, on the one hand, and vocational education and training, on the other, combining the two as VOTECH; the general finding could be masking large differences between some programs that are cost-effective and others that are not at all so. Also, vocational training is an area where the private sector could play a much larger role. Finally, as with other levels and types of education, the labor market returns to VOTECH may improve as the labor market continues to evolve, but it would be wrong to assume that high returns to VOTECH investments are automatic.

Cost Reductions.

Even when budget is not a constraint, Government should always be vigilant in identifying and eliminating wastage in the E&T system. The VEFSS survey of 100 public-sector higher education institutions (HEIs) identified scope for lowering unit costs at the tertiary level in Vietnam through a carefully considered and fully implemented program of institutional consolidation. Consolidation is one way to address, *inter alia*, the high staff-student ratios now found in Vietnam's HEIs. Also, the system of narrowly

focused HEIs, each under the control of a different government ministry or specialized agency, should give way to an integrated system of higher education, with broad coordination coming from a single umbrella “commission” or “council,” but with considerable autonomy left to individual HEIs in regard to programs and financing.

At the general education level, the principal source of savings will come, not from raising student-teacher ratios, which are already high on average (although much lower in some sparsely populated parts of Vietnam), but from lowering dropout and repetition, which inflate the cost of producing graduates. Dropout rates, as already noted, are likely to fall in response to a program of targeted subsidies that would provide poor students with the financial means to remain in school. Both dropout and repetition are likely to respond to a different set of measures intended to raise the quality of education, i.e., *to raise student learning*. Improvements in quality will ensure that fewer students are forced out of the system, or back in the system, for reasons of academic failure. Improvements in quality will also result in higher labor market returns to the knowledge, skills and attitudes acquired while studying and, thereby, raise the incentive to continue to the next level of schooling, while also raising the costs of repeating, since to repeat grades in school is to delay labor market entry.

Quality Enhancement.

Several quality enhancing options are reviewed in the report. However, all of the evidence on the scope for quality enhancement in Vietnamese E&T is *indirect evidence* focusing on the inputs that produce educational outcomes rather than on the outcomes themselves. The VEFSS team was unable to locate direct evidence on the learning outcomes of Vietnamese students and, especially, on measures that would allow comparisons to be made with students in other countries according to internationally agreed definitions of quality. There is a need to put in place mechanisms for setting standards in Vietnamese E&T and for monitoring learning outcomes in relation to these standards and in relation to international norms. Such measures can be used, not only to assess the performance of the E&T system, but also, if linked with proper incentives, to drive the system toward higher levels of performance.

On the input side, one policy option judged here to be important is to raise the number of hours in the Vietnamese school year to a level that approximates international standards. This will be expensive, as it involves extending the school year (from 165 days to at least 185 days) and extending the school day (from four hours on average to at least five hours, if not more, especially in the upper grades). The longer school day will make it difficult to maintain the system of double- and triple-shifts that many Vietnamese communities use to achieve fuller utilization of limited physical facilities. This implies civil works, to build new schools and expand/upgrade existing schools. Teachers will also need to be compensated for the additional hours required by reform of the school calendar. If instructional hours in the year go up by 40 percent, annual teachers' salaries should go up by this percentage -- if not by a greater percentage because of other measures taken to upgrade teacher qualifications and teacher effectiveness.