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Local governance role in provincial development in Vietnam

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Abstract: Improving public governance efficiency and effectiveness plays an important role in economic development. But research shows this relationship to be highly dependent on the country context. This paper analyzes the role of local governance on provincial economic development in Vietnam. Results show that the good governance has a positive relationship with the economic size of provinces andper capita income and contributes to poverty reduction. If the local governace index increases by 10%, the per capita income will increase by 4.38% and the poverty rate will decrease by 8%. Analysis also shows that control of corruption, grassroot citizen participation, accountability and transparency, and improvement of public administrative procedures impact poverty reduction, with corruption control having a negative correlation coefficient. Thus, effectiveness of local governance correlates with provincial economic developmentin Vietnam.

Keywords: *Local governance, PAPI, Public governance, GRDP, Poverty reduction, Income per capita, Public services, Economic development.*

1. Introduction

In recent years, the relationship between local governance and economic development has always been a topic that attracts the attention of experts, researchers and leaders (Schiavo và Sundaram, 2003; Khan, 2007; Acemoglu và Robinson, 2012; Su et. al., 2022; Perugini, 2024;) [1-5]. However, this relationship still has many different research results. With the view that economic growth will contribute to improving governance, Friedman [6] has demonstrated that a higher standard of living leads to more open society, increased accountability, and good governance. Most studies find that good governance promotes a country's economic growth. Using the rule of law, institutional quality and corruption control, Chong and Calderon [7] found that good governance is positively correlated with economic growth. Other studies have shown that institutional reform and governance promote economic growth [5, 8]. Thus, different research results show that the topic on the relationship between public governance and development depends on each country's context and the data used in measuring governance.

Therefore, this study contributes to the literature on the relationship between local governance and economic development using a country-wide annual survey of citizens in all 63 provincial/city governments in Vietnam. It uses the Provincial Public Administration and Governance Performance Index (PAPI), launched in 2009, as measure local governance, to answers the question: Does level of local governance improve economic development? The paper contributes to the overview of the relationship between governance and development with many different results based on the context at the local level in Vietnam.

With the aspiration of becoming a developed country by 2045, Vietnam has been promoting industrial development associated with attracting foreign direct investment (FDI) to overcome the middle-income trap, moving towards becoming a country mastering high technology [9]. Vietnam also

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emphasized the role of improving the quality of local governance like PAPI to contribute to local development [8]. PAPI is a research program on governance, measuring and comparing people's experiences and perceptions about the effectiveness and quality of policy implementation and public service provision of local governments. The Center for Research and Development and Community Support (CECODES) implemented PAPI under the Vietnam Union of Science and Technology Associations, the Center for Staff Training and Scientific Research of the Vietnam Fatherland Front, and United Nations Development Program (UNDP) in Vietnam. After completing the pilot period 2009 - 2010, since 2011, PAPI has officially been deployed in all 63 provinces and cities in Vietnam. PAPI is considered a reliable index to analyze institutions and state governance effectiveness in Vietnam in general and each province and city in particular1. PAPI fosterscompetition among provinces and cities across the country [10].

Although there have been studies on the role of PAPI in economic growth in Vietnamn (Nguyen et al., 2020 and Pham, 2017) [11, 12], these studies have not clarified the role of each component of local governance such as openness, transparency, accountability to the people, the control of corruption in the public sector, reform of public administrative procedures, citizen participation at the grassroots, for hunger eradication and poverty reduction, and improvement of living standards of people. Whether the results for improving local governance really impact the development of provinces is still an empirical question that needs to be answered. To meet the objective, the paper is organized as follows. Section 2 introduces theory and literature review. Section 3 lays out the research model and methods. Research results and discussion will be focused on in the next part of the paper. The final section concludes.

2. Literature Review

Research on the role of public governance in economic development is quite complicated by many factors through many socio-economic aspects. The term public governance has been used since the 1990s when countries around the world carried out public sector reform and applied new management models (Pham, 2017; UNDP, 1997; Glaeser et al. 2004; Fukuyama, 2011) [12-15]. Huther and Shah [16] define public governance as "the aspects of exercising power through formal or informal institutions to governance all resources assigned to the state". Kaufmann (1997 and 2009) [17, 18] asserts that public governance is the institutions that exercise power in a country including how to choose the country's leaders, monitor and replace them, the role of the government in the process of building and implementing policies and providing public services, respect of the people and the state for economic regulatory institutions.

Citizen participation, high transparency in [national why switch to national, when paper is about local] policies, public services and governance, as well as the accountability of public officials play a major role in economic growth (Huther, 1996; Stromberg, 2004; Lassen, 2005; Nguyen et al., 2015) [16, 19-21]. Under clear tax policies and transparent legal frameworks, the economy and markets operate more efficiently (Stglitz, 2002) [22].

On the other hand, good governance requires effective anti-corruption initiatives. Gupta et al. (2002) [23] find that higher levels of corruption are inversely related to lower levels of growth. According to this study, if corruption increases by 10%, income inequality will increase by 11 percentage points and income growth of the poor decreased by about 5 percentage points per year. Corruption distorts markets, discouraging private and foreign direct investment. Without corruption, public investment will be more efficient and better meet the needs of citizens. The World Bank finds that public corruption imposes additional taxes on citizens consuming public services.

However, Rock and Bennett (2004) [24] argue that on a large scale, emerging industrial economies such as China, Indonesia, South Korea, and Thailand, controlling the level of corruption has a positive

1 See more information about PAPI: https://papi.org.vn/

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impact for economic growth. Good governance also results in better public investment and enhanced public services, especially education and health. Efficient public administration can reduce the cost of implementing public services, increasing local benefits and promoting economic activity (Khan, 2007) [2]

In the process of studying the relationship between public governance and economic development, many researches have used different factors to measure this relationship empirically. Kaufmann et al. [18] measure governance quality using six factors including "voice and quality of accountability", "level of political stability and absence of violence and terrorism", "government effectiveness", " policy quality ", "rule of law", and "corruption control". To obtain these composite indices, researchers gathered data from more than 400 factors from 35 different sources around the world, thereby finding a positive relationship between good governance and economic growth. However, good governance is not always the determining factor in the linear relationship with economic growth. According to Barro (2000) [25], a good level of governance leads to a greater level of investment in social programs, reducing investment and production resources. World Bank (2016) [10] points out that there exists a positive relationship between country governance index (WGI) and economic development.

Regarding the impact of public governance on economic growth and income inequality through PAPI, Nguyen Thanh Hung (2017) [11] shows that the more effective public administration is, the more it promotes economic growth and reduces inequality between provinces. On the other hand, economic growth can improve the efficiency of public administration but increases inequality between localities. Pham Chi Hieu (2017) [12] studies the correlation of PAPI governance and public administration quality with economic growth in provinces. Through analyzing the relationship between economic growth of provinces and cities with PAPI data from 2011 to 2015 using the growth model of Pham Chi Hieu (2015) [12], the author concludes that local growth depends mainly on capital and labor, while the composite PAPI index has absolutely no correlation with economic growth.

Thus, although there has been research on the role of PAPI in economic growth in Vietnam, there is no evidence on the role of each component of local governance such as openness, transparency, and accountability to the public, controlling corruption in the public sector, reforming public administrative procedures, citizen participation at the grassroots level, for hunger eradication and poverty reduction, and improving people's living standards. This is the goal that this article aims to provide evidence of this relationship.

3. Research Methodology

Measuring the quality of local governance is analyzed in detail to clarify the impact of each variable (such as assessing corruption control on development results; the role of improving accountability on process of reducing the risk of inequality and poverty; transparency towards improving poverty). Specific models are as follows:

$$\text{Ln}\,(Y_{i,t}) = \alpha + \beta \ln(\text{Governance}_{i,t-1}) + \alpha year_t X_{i,t}\pi + u_1 + v_{i,t}$$

In which:

(1) Variables representing economic development Y_i include:

- Y_1: GRDP at constant prices of province *i* in year *t (billion VND)*; Variables are used in logarithm form.
- Y_2: Rate of poor households in province *i* in year *t*;
- Y_3: Average income per capita at constant prices of province *i* in year *t (thousand VND)*; Variables are used in logarithm form.
- (2) Variables measuring the quality of local governance (G_i) include:
- G_1: Index of "people's participation at the grassroots level" of province *i* in year *t*;
- G_2: "openness and transparency" index of province *i* in year *t*;

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- G_3: Index of "accountability to the people" of province *i* in year *t*;
- G_4: Index of "corruption control in the public sector" of province *i* in year *t*;
- G_5: Index of "improvement in efficiency of public administrative procedures" of province *i* in year *t*;
- G_6: Index of "quality of public service provision" of province *i* in year *t*.

These variables are measured using the weighted PAPI index from 2013 to 2021 considering a lag level of *t-1* (explained as the lag of public management policies on growth). Why? The survey is conducted from June to December each year while other data published in the previous year's statistics are usually published in the first quarter of the following year due to the Provincial Statistics Department publishes it annually (CECODES, 2019) [26]. Then it is possible to minimize the problem of causality and endogeneity of the PAPI variable in the empirical model. Updating, editing, adding questionnaire content or new indicators and fields of PAPI do not affect the analysis results. Particularly "Environmental Governance" and "E-Governance" are two new components introduced since 2018, which are not enough to evaluate the changing trend in the entire period 2011-2018, so they are not included in the analysis.

(3) Controling variables X_i include:

- X_1: Population density of province *i* in year *t (people/km²)*;
- X_2: Percentage of population living in urban areas of province *i* in year *t*;
- X_3: The investment capital at constant prices of province *i* in year *t (billions Vietnam Dong)*;
- Regional variables to control for differences between the Northeast, Northwest, North Central, South Central, Southeast and Mekong Delta regions when compared with the Red River Delta region.
- Variables controlling time in years.

The research uses panel data regression analysis methods including: fixed effect model (Fixed Effect Model - FEM) and random effect model (Random Effect Model - REM). Based on the proposed analytical model, u_1 represents the time-invariant and unobservable individual effects of each province *i*. If individual effects are correlated with independent variables, FEM is chosen. In contrast, the individual effects are not correlated with the selected independent, REM variables. Use of the Hausman test to evaluate which model is optimal, then synthesize and analyze the results based on the test. The Hausman test is performed with the hypothesis H_0 that the differences in the regressional coefficients of FEM and REM are not systematic (Wooldridge, 2019) [27].

4. Data and Descriptive Analysis

4.1. Data Sources

The study focuses on using provincial-level data from 2013 to 2021, with a 9-year time series corresponding to 63 provinces and cities, creating a panel data system with 567 observations. Panel data brings advantages such as: Providing more reliable estimation results; (ii) Overcoming limitations of cross-sectional and temporal data; (iii) Allowing use of methods to eliminate unobservable factors that do not change over time and are correlated with the PAPI index in the empirical model. Provincial-level data is collected through the PAPI index and Statistical.

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Table 1.
Summary of statistics.

Variable	Mean	Standard deviation	Min.	Max.
GRDP, billion VND (Y_1)	87888.6	154100.2	5139	1338179
Poverty rate (%) (Y_2)	11.4	9.9	0.0	53.9
Average income (thousand VND) (Y_3)	2731	1131.6	758	7433
Composite PAPI index (G)	37.2	3.1	31.7	47.1
Grassroots people's participation (G_1)	5.2	0.5	3.8	6.8
The level of transparency of the government (G_2)	5,6	0.5	4.4	7.2
Accountability to the people (G_3)	5.4	0.6	4.1	7.5
Level of corruption control (G_4)	6.0	0.6	4.1	7.6
Improvement in the efficiency of administrative procedures (G_5)	7.0	0.3	5.9	7.9
Quality of public service delivery (G_6)	6.9	0.4	5.7	8.0
Population density of the province (people/km^2) (X_1)	489.5	608	43.8	4385
Proportion of population living in urban areas (%) (X_2)	0.3	0.2	0.1	0.9
Implemented investment capital (billion VND) (X_3)	33581.7	55093.7	3229	470120
Percentage of workers aged 15 years and older (%) (X_4)	58.6	3.7	49.7	71.3

Source: **www.papi.org.vn** and Statistical Yearbook of 63 provinces and cities.

Table 1 provides information about the summary statistics of the variables used in the model. The poverty rate is used according to the poverty standards of the Ministry of Labor, Invalids and Social Affairs in the period 2013 - 2021 with an average of 11.38%. Average income per capita is calculated on average for the whole period, not each year, and is collected from the Statistical Yearbook of provinces and cities for the period 2013 - 2021. In addition, the quality of public governance is calculated as an average over the entire period with 06 content indicators based on a scale of 10 being the highest according to the measurement method in PAPI reports and 01 being the lowest in a province.

4.2. Descriptive Analysis

The results show a positive correlation between improving the PAPI index and reducing poverty and per capita income (see Figure 1). The improvement in PAPI contributes to a reduction in the poverty rate for the entire time series of study data. Besides, corruption control2 is always important in the state governance system and local governance. Figure 1 also shows a positive correlation between control of corruption and per capita income. Specifically, if localities control corruption well, it will promote economic growth through more efficient use of resources, attract talented people into the system and minimize unofficial costs for businesses when carring out investment and business projects.

2Corruption control in PAPI includes aspects such as controlling corruption in the process of carrying out tasks at all levels of government; control corruption in the process of providing public services to the people; fairness in recruiting civil servants and public employees to work in state agencies and the level of determination to fight corruption.

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Besides, controlling corruption also contributes to improving the efficiency of public investment projects (Pham, 2017) [12].

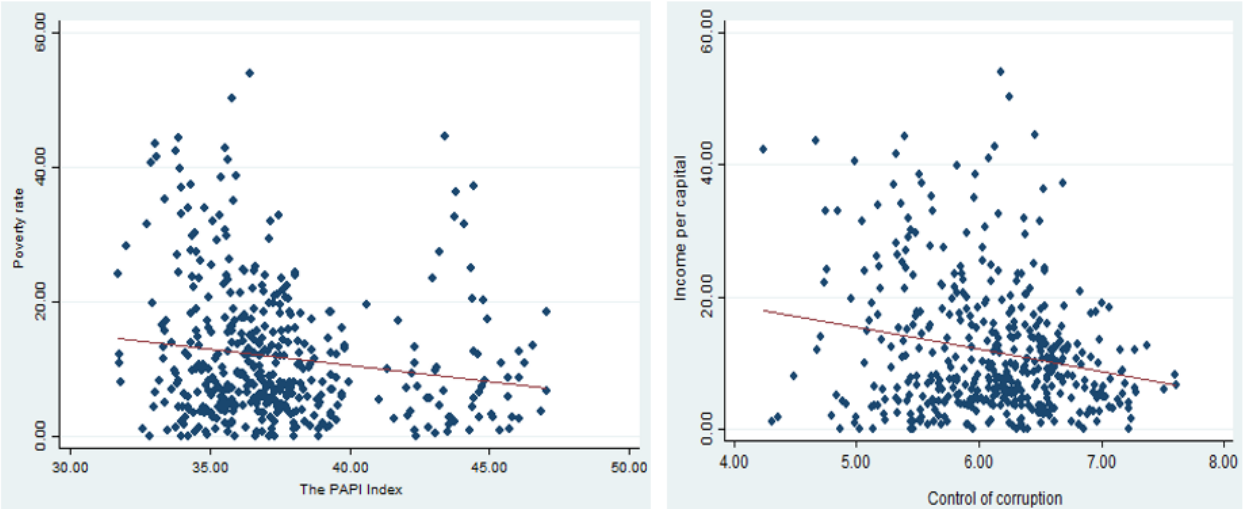

Figure 1.
Relationship between PAPI and income per capita and poverty rate.

5. Empirical results and Discussion

5.1. Impact of the Composite PAPI Index

The regression results of the composite PAPI index are shown in the tables below with three dependent variables including: GRDP, poverty rate and per capita income. The composite PAPI index is calculated in log form as arehe independent variables controlled. Regional variables are measured as dummy variables and compared with the Red River Delta region. The results of the Hausman test are as follows:

Table 2.
Model selection results for the composite PAPI index

Dependent variable	Hausman test: H_0 is that the differences in the regression coefficients of FEM and REM are not systematic	Decision
GRDP	Chi2(5) = 132.76; Prob>chi2=0.000	FEM
Proportion of poor households	Chi2(5) = 8.43; Prob>chi2=0.134	REM
Per capita income	Chi2(5) = 336.96; Prob>chi2=0.000	FEM

Table 3.
Results of the impact of the composite index on the dependent variables

	GRDP	The rate of poor households	Average income
	FEM	REM	FEM
Independent variables	Coefficient	Coefficient	Coefficient
Log of lagged G	0.352***	-0.800***	0.438***
Log of X_1	0.825***	-0.519***	0.071***
Log of X_2	0.329**	-0.459***	0.533***

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	GRDP	The rate of poor households	Average income
	FEM	REM	FEM
Independent variables	Coefficient	Coefficient	Coefficient
Log of X_3	0.401***	-0.292***	0.390***
Log of X_4	-0.205***	0.275	-0.271
Mekong Delta region		-0.022	
South East		0.148	
Northeast		0.242	
Northwest		-0.159	
North Central		-0.190***	
South Central region		-0.003	
_cons	-10,810	9,125***	-13,245***
Sigma_u	3,510	0.307	3.119
Sigma _e	0.132	0.282	0.129
Rho	0.998	0.543	0.998
F_statistics	44.21	700.91	10.65
R^2	0.742	0.224	0.741

Note: *p<0.1; **p<0.05; ***p<0.01..

The main coefficients of the [interested?] PAPI composite index are all statistically significant (see Table 3). If the PAPI index increases by 10%, the GRDP of provinces and cities will increase by about 3.52 %. That means the effectiveness of provincial [public administration] has a positive influence on the GRDP of the provinces. With the current method of calculating GRDP according to the production method, a province with good governance capacity will help improve the effectiveness and efficiency of all levels of government in the process of operating and managing society. Based on the results of the PAPI survey of the previous year, provinces and cities will research and review existing limitations, thereby developing plans to overcome them in the following year, with the goal of promoting local economic development .

Governance and public administration efficiency have the greatest impact on the poverty rate (see Table 3). Accordingly, if PAPI increases by 10%, the poverty rate will decrease by about 8%. In addition, PAPI also has a proportional relationship with per capita income. If PAPI increases by 10%, per capita income will improve by 4.38%. Results of governance and public administration impact the economy, contribute to reducing poverty and improve people's lives. Policies on poverty reduction are developed and implemented increasingly synchronously, achieving many positive results. The results of poverty reduction, accordingly, show the efforts and high determination of the entire political system, including consolidating and improving the effectiveness of governance and public administration. An effective, people-oriented public administration will help people access more information and social resources, creating conditions to live, work and develop, thereby helping people improve their living standard.

5.2. Testing the Impact Model Selection Of PAPI Component Indices

This section will explore the relationship between the component indices and dependent variables. Control variables remain unchanged. The main variables of interest include3:

- Grassroots people's participation (G1);

3The component variables of the PAPI index (from G1 to G6) are measured and estimated in the form of log of lagged G1 to log of lagged G6. This approach applies to all models that use component indices.

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- Level of transparency of the province (G2);
- Accountability to the people (G3);
- Level of corruption control (G4);
- Improve the efficiency of public administrative procedures (G5);
- Quality of public service provision (G6).

Table 4.
Model selection results for the component PAPI index

Dependent variable	Hausman test: H $_0$ is that the differences in the regression coefficients of FEM and REM are not systematic	Decision
GRDP	Chi2(5) = 81.49; Prob>chi2=0.000	FEM
The rate of poor households	Chi2(5) = 14.24; Prob>chi2=0.1139	REM
Per capita income	Chi2(5) = 154.12; Prob>chi2 = 0.000	FEM

Regarding the impact of the component indices in the Provincial Governance and Public Administration Performance index, Table 4 provides the final results of the tests. As a result, there are different impacts of component indices on the dependent variables of the proposed research model.

Table 5.
Results of the impact of the component index on the dependent variables.

	GRDP	The rate of poor households	Average income
	FEM	REM	FEM
Independent variables	Coefficient	Coefficient	Coefficient
Log of lagged G_1	0.019	-0.662***	0.267***
Log of lagged G_2	0.220**	-0.690***	0.187
Log of lagged G_3	0.447***	-0.084	0.462***
Log of lagged G_4	0.248***	-0.840***	0.249**
Log of lagged G_5	0.553***	-0.656*	0.080***
Log of lagged G_6	0.683***	-0.784***	0.788***
Log of X_1	0.373***	-0.558***	0.663***
Log of X_2	0.252**	-0.455***	0.454***
Log of X_3	0.345***	-0.263***	0.327***
Log of X_4	-0.691**	0.142	0.258
Mekong Delta region		-0.002	
South East		0.183	
Northeast		0.181	
Northwest		-0.076	
South Central region		-0.110***	
North Central		0.223	
_cons	-8,980***	7,012***	-12,019***
Sigma _u	3,008	0.293	2,649
Sigma _e	0.125	0.276	0.119
Rho	0.998	0.529	0.998
F_statistics	46.85	776.71	9.83
R^2	0.77	0.258	0.784

Note: *p<0.1; **p<0.05; ***p<0.01.

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The level of corruption control (G_4) has the greatest impact on reducing the poverty rate. If the effectiveness of corruption control increases by 10%, the poverty rate will decrease by 8.4%. Except for the level of people's accountability, the remaining component indexes all have a significant negative impact on poverty reduction, specifically people's participation at the grassroots level, the level of openness and transparency of government. province, improving the efficiency of public administrative procedures and the quality of public service provision. Improving governance and public administration efficiency plays a very important role in reducing local poverty. The province's public and transparent responsibility and people's participation have demonstrated the growing role of the people in participating in state governance. Regarding the quality of public services, when this index increased by 10%, the poverty rate decreased by 7.84%, showing the improvement of the quality of essential services for the people such as public health care and primary education. Public access helps people have better access to healthcare and education, thereby improving people's living conditions.

Regarding improving per capita income, improving factors that support human resource development through health and education and strengthening accountability to the people and to the outside will contribute to improving income. The estimated coefficient of accountability has a [given number] high position in the estimated coefficients, showing the importance of this index for improving per capita income, in addition to improving the quality of service delivery. Increasing accountability will promote better improvement in resource use efficiency, ensure openness, transparency and prevent group interests. Ensuring accountability also helps prevent monopoly in public spending decisions and thereby contributes to promoting the effectiveness of local public spending programs.

6. Conclusions

Instudying the relationship between [governance and public administration distinguish these] efficiency with economic development, the paper uses a regression analysis model with panel data. Results show that the PAPI index has a positive relationship with GRDP, per capita income and inversely proportional with the rate of poor households. Accordingly, if the PAPI index increases by 10%, the GRDP of provinces increases by 3.52%, the average income per capita increases by 4.38% and the poverty rate decreases by 8%. This shows the positive influence of local governance and public administration efficiency, which is correlated with economic development. When a locality improves public governance efficiency, it will help increase the GRDP of provinces, people's income and contribute significantly to poverty reduction. On the contrary, if a locality has poor governance quality and the effectiveness and efficiency of the government apparatus is not high, it will cause many barriers for businesses in the production and business, affecting people's income and lives, thereby hindering the local socio-economic development process.

The component indexes also show the relationship with economic development through the three criteria GRDP, poverty rate and per capita income. It is worth noting that the "quality of public service provision" index has a great impact on all three variables representing economic development. When the quality of public services of a province or city increases by 10%, that local GRDP increases by 6.83% , per capita income increases by 7.88% and the poverty rate decreases by 7.84%. Meanwhile, the results of "controlling corruption", "participation of people at the grassroots level", "level of transparency in the province" and "improving public administrative procedures" have a great impact on poverty reduction of localities, in which the corruption control has the largest negative correlation coefficient with 8.4%.

The effective public governance results of provinces and cities have a correlation with the economic development. Provinces need to build develop plans to increase people's participation at the grassroots level and implement regulations on publicity and transparency for people seriously and practically. They also find solutions to improve accountability between levels of government and between levels of government and the people, continuing to promote the effectiveness of anti-corruption work in all fields,

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at all levels according to the viewpoint of "no exceptions, no prohibited areas". In addition, local governments need to enhance the efficiency of providing public administrative procedures and public services to individuals and businesses, with a focus on popular and essential administrative procedures and public services.

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