

Public Administration Reform and Anti-Corruption:

Public Financial Management: How to Deliver Better Value-for-Money from Viet Nam's Public Administration System

One of the goals for Viet Nam, as it becomes a middle-income country, is to define what kind of public administration and public finance arrangements it will require in order to sustain the income level, ensure that the public sector is affordable and cost effective, and improve coordination capacities. In this transition, a key question regarding the public administration reform process is **“How to deliver better value-for-money from Viet Nam's Public Administration System (PAS)?”**

The policy paper provides an initial analysis which compares Viet Nam with regional countries in the early to mid-1990s based on two commonly used indicators: general government employment as a percentage of the population and average central government wages (excluding staff of state-owned enterprises, police and military) as a multiple of per capita GDP. The data indicates that while the employment size was relatively large, average wages were the lowest in the region as a percentage of GDP. Next, looking at the period up to 2001, Viet Nam saw a sharp fall in government employment as a percentage of the population, perhaps stemming from the reduced role of government in a market economy. There was also a significant increase in average wages as a percentage of GDP, perhaps stemming in part from increased competition from private businesses for skills.

Over the 2001-2006 period, there was a 37 percent overall increase in size, with the largest category increase of 45 percent for public service delivery officers. Yet, the employment size relative to the population is in line with regional comparators like Indonesia and the Philippines. There was also notable improvement in wages and salaries, with an increase in average wages of more than 3.5 times, and more than double as a multiple of per capita GDP. Wages as a percentage of GDP per capita are now higher in Viet Nam than in regional comparators.

In addition, Viet Nam has been successful in reducing previous revenue decline, boosting revenue and grants as a share of GDP from less than 22 percent to over 27 percent and reducing the deficit from five percent of GDP to less than four percent. About two-fifths of the revenue increase came from oil revenues.

Changes brought about by the 2002 State Budget Law include enhanced fiscal decentralization, strengthened transparency and accountability, streamlined administration, and denationalization of services and functions formerly provided by state agencies.

While **progress has been made in Public Financial Management (PFM) and related components of the PAR Master Plan Viet Nam** should now work to consolidate the progress made in each area, and make additional improvements, including:

- **Improving PFM for administrative agencies:** Revisions in the 2002 State Budget Law are underway in 2009, and need to address issues such as: (i) increasing predictability of investment flows to districts and communes, (ii) making recurrent expenditure assignments more clear, (iii) mainstreaming Medium-Term Expenditure Framework beyond pilot sectors and provinces, and (iv) expanding budget coverage with respect to fees, contributions, debt and bonds to comply with internationally-accepted norms.

Other priority reforms include fully implementing the 2003 Accounting Law and related legislation and decrees, the new chart of accounts and ICT system (TABMIS), strengthening internal controls for payroll, establishing the Debt Office, clarifying and classifying revenue according to international practice, and carrying out a Public Expenditure and Financial Accountability (PEFA)

assessment. A clear legal basis is needed for introducing internal auditing, which should be transferred from the State Audit of Viet Nam to the Ministry of Finance (MoF). To address staffing constraints, MoF may wish to consider designing, in cooperation with the Ministry of Home Affairs (MoHA) and the National Academy of Public Administration (NAPA), a post-graduate scholarship programme for key MoF staff.

- **Improving planning:** Recent improvements in planning include the five-year Socio-Economic Development Plan (SEDP) for twenty provinces, donor harmonization around improved country systems and simplified procedures and common arrangements for planning. Building on this, the ongoing effort to develop a new regulatory framework for planning is of vital importance. The framework is expected to encourage citizen participation, modernize planning procedures, align plans with budgets, strengthen monitoring of plan implementation, and clearly define the roles of government and the private sector.
- **Fiscal flexibility for administrative and service delivery agencies:** Despite the results achieved, implementation of Decree No. 130/2005/ND-CP on autonomy and self-responsibility for the use of administrative management payrolls and funds by state agencies, has raised a number of issues which need thorough study. Expenditure savings has become the main theme of this new policy, at the expense of functional efficiency and performance in the delivery of public services. Delegation of different functions and authorities to spending units is not systematic. Heads of spending units have discretionary powers over budget but not yet over recruitment, promotion and staff dismissal. Without such controls, it is hard to expect agency heads to be accountable for improving agency performance.

The recently approved Law No. 22/2008/QH12 on Public Officials and Civil Servants may present an opportunity in this regard, providing a legal basis for performance appraisal of civil servants and sanctions for poor performance.

- **Appropriate and competitive salaries for PAS:** Government staff earn 11 percent less overall than non-government workers, with professionals earning 20 percent less, and administrators 41 percent less, adjusted for differences in education and place of work. Yet, measured by living standards, government staff

are slightly better off than non-government workers. Professionals and administrators are still worse off, but the difference is less than five percent, much less than the difference in earnings alone. This data needs to be regularly updated through surveys of salaries and household expenditure.

- **Streamlining tax administration:** There have been significant steps forward in modernizing tax administration, particularly with the adoption of the 2007 Tax Administration Law, and additional work is ongoing to modernize both corporate income tax (CIT) and personal income tax (PIT). Next steps should include proper analysis of the efficiency of tax collection and administration in general (for all taxes) and for different taxes. This should be done by a research entity which is independent of both tax administration and tax policy-making bodies. Both quantitative and qualitative assessment is needed, allowing for evidence-based decisions on policy adjustments or reforms for different types of taxation and taking into consideration lessons learned from the field.
- **Enhancing monitoring and evaluation of PFM reforms:** Although much useful information and analysis has been presented in this study, more in-depth monitoring and evaluation work is needed in at least two areas: achieving a more comprehensive understanding of PFM performance in relation to international benchmarks such as Public Expenditure and Financial Accountability (PEFA) assessment, and better understanding of the link between progress on PFM systems, and improved development outcomes. This work should be supported by strengthening relevant think tanks such as the Institute of Financial Research under MoF.

For further details, please see:

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