



The United Nations Development Programme Viet Nam

**Public Administration Reform and Anti-Corruption  
A Series of Policy Discussion Papers**

**Public Financial Management:  
How to delivery better value for  
money in Viet Nam's Public  
Administration System?**

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The series of *Policy Discussion Papers on Public Administration Reform and Anti-Corruption* is lead and edited by Jairo Acuña-Alfaro, Policy Advisor on Public Administration Reform and Anti-Corruption at UNDP Viet Nam.

The series aims to analyze trends in Viet Nam regarding the implementation processes and options in specific public administration reform areas. In order to confront the social, economic, political and environmental challenges facing Viet Nam, policy makers need to be informed by evidence. These policy papers aim to contribute to current policy debate by providing discussion inputs on policy reforms – thereby helping to improve Viet Nam's development efforts.

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## Acronyms

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BTA	Bilateral Trade Agreement
BTC	Belgium Technical Cooperation
CFAA	Country Fiduciary and Accountability Assessment
CIEM	Central Institute for Economic Management
CIT	Corporate Income Tax
COA	Chart of Accounts
CP	Communist Party
DPI	Departments of Planning and Investment
EU	European Union
FIE	Foreign Investment Enterprise
GDP	Gross Domestic Product
GDT	General Department of Taxation
GFS	Government Finance Statistics
GNP	Gross National Product
GSO	Government Statistics Office
HCMC	Ho Chi Minh City
HDI	Human Development Index
ICT	Information and Communication Technology
IELTS	International English Language Testing System
ILSSA	Institute of Labour Studies and Social Affairs
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standard
LIDF	Local Infrastructure Development Fund
M&E	Monitoring and Evaluation
MARD	Ministry of Agriculture and Rural Development
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MOL	Ministry of Labor
MOT	Ministry of Transport
MPI	Ministry of Planning and Investment
MTEF	Medium-term Expenditure Framework
NA	National Assembly
NAPA	National Academy of Public Administration

ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OSS	One Stop Shop
PAA	Public Administrative Agencies
PAR MP	Public Administration Reform Master Program
PAS	Public Administration Service
PC	People's Committee
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PIT	Personal Income Tax
PPC	Provincial People's Council
PSD	Public Service Delivery
SAV	State Audit of Viet Nam
SBL	State Budget Law
SBV	State Bank of Viet Nam
SEDP	Socio-economic Development Plan
SOE	state-owned enterprise
TABMIS	Treasury and Budget Management Information System
UNDP	United Nations Development Programme
VAMESP II	Viet Nam Australia Monitoring and Evaluation Strengthening Project (Phase II)
VASS	Viet Nam Academy of Social Sciences
VAT	Value-added tax
VHLSS	Viet Nam Household Living Standards Survey
VNCI	Viet Nam Competitiveness Initiative

## Executive summary

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

An examination of debates on the theory and practice of public financial management in developed and developing countries in recent years suggest they may have influenced thinking and practice on reform in Viet Nam. Yet, this influence needs to be understood in light of the system of budgeting and financial management in Viet Nam along with aspects the Public Administrative Reform Master Plan (PAR MP) proposed to improve and assess change that have taken place since the PAR MP went into effect in 2001.

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

Over the period 2001-6, there was a 37% overall increase in size, with the largest category increase of 45% for public service delivery officers; yet employment size relative to population is in line with regional comparators Indonesia and Philippines. There was also notable improvement in wages and salaries, with an increase in average wage 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 the regional comparators.

Changes in the overall size and structure of revenue are also examined, including progress in modernizing tax administration, and emerging issues of ODA management over the period. Viet Nam was successful in reducing the previous revenue decline, boosting revenue and grants as a share of GDP from less than 22% to over 27%, reducing the deficit from 5% of GDP to less than 4%. About two fifths of the revenue increase came from oil revenues.

Changes brought about by the 2002 State Budget Law are analyzed, including enhanced fiscal decentralization, strengthened transparency and accountability, and streamlined administration, and denationalization of services and functions formerly provided by state agencies. Reforms to increase autonomy and flexibility of administrative and public service delivery (PSD) agencies are analyzed, along with other PFM reforms to improve budget formulation, reporting, accounting and audit.

Findings on Viet Nam suggest that **considerable progress has been made in PFM and related components of the PAR MP**. Viet Nam should now work to consolidate the progress made in each area. Details for a desirable road ahead include: improved PFM for administrative agencies, improved planning, fiscal flexibility for administrative and service delivery agencies, an appropriate size for the PAS with competitive salaries, and streamlined tax administration, and enhanced monitoring and evaluation of PFM reforms.



## I. Overview

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The key research question to be addressed by this policy discussion paper is: How to deliver better value-for-money from Viet Nam's public administration system (PAS)? The goal for Viet Nam, as it graduates to become a middle income country, is to set out what kind of public administration and public finance arrangements it will require to sustain that income level, how to ensure that the costs of the public sector are affordable, and how to improve coordination capacities.

Three sub-questions follow from this:

- What was Viet Nam's situation in terms of its PAS and PFM systems in 2001 at the onset of the Public Administration Reform Master Program (PAR MP), and what did international theory and practice suggest as the path for improvement?
- What have been the trends and progress since 2001 in size and cost of the PAS, public financial management (PFM) systems, revenue, service delivery, and accountability?
- What next steps should Viet Nam take to improve its PFM to support its graduation to middle income status?

The paper's strategy combines quantitative analysis of budgetary and financial data and other available indicators, with a qualitative assessment of the performance of key systems and likely trends. A literature review looks at debates on theory and practice of public financial management in developed and developing countries, drawing from indicative literature mainly since 1990 from scholars and practitioners. It goes on to review recent research on PFM reform in Viet Nam, and looks key issues, crucial questions and gaps.

The paper will mainly draw on primary, qualitative data sources, including structured interviews, observation of administrative practices, and laws, decrees, and other official documents. It will also draw on quantitative data sources from Government and development partner databases, spreadsheets and accounts.

The research team will use the action research approach as developed by Karl Lewin (1946) and others, i.e. there will be an effort to better understand the PFM system with a view to achieving improvement in the way the system functions. The difference with other kinds of research is that action research emphasizes involving stakeholders in helping to define the problem, analyzing it, and agreeing on a way forward. Stakeholders have been involved through structured interviews<sup>1</sup>, a November 4, 2008 consultative workshop at the Ministry of Home Affairs (MoHA), UNDP's review of the draft final report, and comments from two peer reviewers at a March workshop convened in Ha Noi by the Viet Nam Fatherland Front (VFF).

## II. Recent directions in international PFM research and practice

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Public financial management addresses the taxing and spending of government<sup>2</sup>. The former begins with legislation, tax administration, and other measures to instill voluntary compliance, reduce evasion, and ensure that tax collection and incentives are consistent with legislation. Another key task is revenue estimation to provide a framework for budget planning. The spending portion covers the budget cycle, including budget preparation, internal controls, accounting, internal and external audit, procurement, and monitoring and reporting arrangements (Rosen, 2002)<sup>3</sup>.

Starting in the 1970s and 1980s, many developed countries began to carry out financial management reforms first to cut spending and reduce fiscal deficits, and second to facilitate performance improvement through greater efficiency, effectiveness, and quality of public services. With many variations depending on country and political context, the main features of reforms included tighter central controls to achieve budget savings, greater flexibility to spending units for reallocating funds within budget line items, reduced off budget expenditures and increased use of performance information to facilitate accountability, results monitoring and evaluation, multi-year fiscal and revenue frameworks, shifts toward accrual accounting and performance auditing, expansion of computerized financial information systems, and greater use of devolved budget management, and market mechanisms such as user and capital charges, market testing, outsourcing, and performance agreements. These reforms built on theories of public choice, institutions, and principal-agent, along with private sector models such as “total quality management” and “managing for results”, and adaptations to the public sector such as “new public management” and “reinventing government” (OECD 1995, OECD/World Bank 2003, Pollitt and Bouckaert 2004, Diamond and Khemani 2006, Brumby 1999, Rubin and Kelly 2005, World Bank 2000a: Annex 3, Buchanan 1986, Coase, 1937, Williamson, 1988, North 1990, Eisenhardt 1989, Deming 1986, Drucker 1954, 2001, Peters 1986, Hood 1991, Osborne and Gabler 1992, Mintzberg 1996, Hatry 1999, Moynihan and Ingraham 2003, and Foltin 2005).

These reform ideas started to gain prominence in many developing countries in the 1980s following the oil price shocks of the 1970s, pushing fiscal deficits of developing countries from 3.5 percent to 6.3 percent of GNP during 1972-85. The initial response was tighter controls on spending, but many countries subsequently sought to better link spending with policy priorities and opportunities by giving more flexibility to spending units within agreed allocations. Development agencies also came to realize that aid projects freed up government resources, and if fiscal policies and systems were deficient, the results achieved from these resources would be less than desired. Yet there was also a broad consensus that there are important differences between developing and developed countries requiring that public financial management tools be used selectively, and adapted to local conditions. These differences include the fact that many developing countries have much deeper fiscal crises and sharper weaknesses in public service than developed countries, and suffer from chronic institutional shortfalls that hinder reform effectiveness, and from common patterns that formal practices and systems may be undermined by informal and innovative practices pursued by key actors to protect their perceived interests. There are also very different interpretations of words like

public management, efficiency and transparency when translated into different languages, even among countries with common historical and cultural traditions. These differences apply in full measure to Viet Nam. (Premchand, 1990: 31-7, Allen et al., 2004: 4-5, Hagen, 2005, Krafchik, 2003; Lienert, 2005; Robinson, 2006, DfID et al, 2007, Filc and Scartascini, 2004, Wildavsky, 1986, Stevens, 2004, Jabbra and Dwivedi, 2005, Fukuyama, 2004, Nwagwu, 1992, Cheung 2005: 274-7, Batley and Larvi, 2004: 5-6, 29-30, Nunberg, 1992). In addition, international assistance can weaken administrative effectiveness through high transaction costs, the fragmentation and weak coordination of donor projects, the lack of integration in the budget process, moral hazard, soft budget constraints, and unrestrained future claims on recurrent budgets to maintain donor investments; it can also weaken accountability because governments can raise significant financing without having to rely on increasing taxes; thus they have less need to provide a conducive business climate, and to provide accountability to their citizens<sup>4</sup>, though they may be held accountable by international donors (Brautigam 1992, Craig and Porter 2003, Knack 2001; Godfrey et al 2002, Brautigam and Knack 2004, World Bank 2000b: 20, Moss et al, 2006, Ear, 2007).

Capacity issues are particular challenges for developing countries in adopting the highly technical macroeconomic, budgeting, accounting, auditing, procurement and ICT practices that are key for PFM reforms. These can stem from aspects of leadership and values, human capacity and performance, technological capacity, ICT, and quality processes. There may also be issues in the operating environment, including in managing relations with the legislature, other parts of the executive, and subnational jurisdictions, and in establishing coordination mechanisms and managing fragmentation and redundancies (Brumby and Dressel, 2008). Different capacities have higher salience depending on the PFM reform issue at hand. For example, Schick (1993) finds that governments with single party dominance for extended periods have greater ability to set and maintain priorities, and in turn, to reduce fiscal deficits (see also Haggard, 1997). In Slovenia, the fragmented parties of the governing coalition limited the ability of government to make hard choices in some instances; yet the considerable formal and informal powers of Finance Ministry allowed it to adjust outlays late in the year by up to 10 per cent to achieve a balanced budget (Leloup, Ferfila and Herzog, 2000). The fusing of bureaucratic and political elites can also reduce the prospects for reform, as has been the case in Thailand and Mexico (Schneider and Heredia, 2003). Performance budgeting reforms in Australia starting in the mid-1980s gained traction because of fiscal stress stemming from a deep recession, combined with the political desire to reign in the bureaucracy; the same reforms had much less success starting in the late 1980s in Malaysia, despite the support of reform-minded treasury top management, because there was neither fiscal stress nor economic decline to drive political will (Xavier, 1998). Yet fiscal crises don't always translate into successful reform efforts if vested interests are strong enough to block them (Boin, 'T Hart and Stern, 2005). Control systems, performance indicators, and other modern tools have been put in place in Lithuania, Roumania and Bulgaria to meet criteria for European Union (EU) accession, yet full implementation of these tools hasn't happened due to hard-to-change legacy systems and behaviors from the Soviet era; reporting systems do not measure activity costs, or the link between resources and objectives, and only serve as the basis for a cash-based financial report (Vagnoni, 2005). Finally, analysis of PFM assessment reports for a sample of 31 African countries indicates greater

progress in budget formulation and reporting than in budget execution, greater progress in adopting new laws and processes than in implementing them, and greater progress when implementation is concentrated in a small group of actors (e.g. Budget Department, Tax Office) than when multiple agencies are involved (Andrews, 2008, World Bank, 2008c: 51).

Human capacity challenges also come in many forms. PFM reforms faced initial challenges in the Czech Republic: "There is a lack of experienced professional staff in central and local government, as well as among those in parliament and among local representatives capable of coping with the quickly changing and unstable circumstances. There has been a huge array of new legislation. In this situation the technical ability and adaptability of new local leaders is one of the key factors leading to variations in local development experience." (Strassman, 1994: 88). An analysis of PFM in Lithuania found a mixed legacy from the Soviet era: on the one hand, dysfunctions such as perpetual rebudgeting, cash rationing, and delays in releasing funds by the Finance Ministry until they make sure that they can meet pressing obligations; on the other hand, positive features including econometric and accounting numeracy, understanding of planning and programming, and experience with hierarchical, bureaucratic organizations (Vanagunas, 1995).

Finally, there are many factors making it difficult to evaluate PFM reforms in both developed and developing countries. First, governments' reform claims are often far ahead of actual implementation, since announcing that reforms are underway is far easier than actually carrying them out. Second, despite reform announcements seeming to call for a coherent strategy of interlocking reforms, actual implementation is more often incremental, based on targets of opportunity, and formal systems may be undermined by informal practices that are not well documented or accessible to evaluators. Third, while there has been considerable work done on budgeting and financial management improvement, and there is evidence that some aspects such as the tracking of inputs and outputs have improved, there is little evidence of improved outcomes that could justify the considerable cost of the reforms. Among the reasons for this may be that reforms have not been properly implemented, or that causal links between reforms and outcomes are difficult to establish. Other factors include various public sector rules, regulations and processes instituted for diverse reasons including control, accountability, transparency, affirmative action, regional balance and the politics of compromise among elected leaders, often work against achievement of efficiency and effectiveness in transforming inputs into results (Pollitt and Bouckaert 2004: 103-142, 194-196; Jones and Thompson 1999).

### III. Findings

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#### Baseline Data on Viet Nam, 2001

This section will give a brief overview of the system of budgeting and financial management in Viet Nam in 2001, and what the PAR MP proposed to improve. Given the importance of the size and cost of the PAS to public finance, this will also be estimated for 2001, along with PAR MP proposals for changes. Finally, carrying out budgeting and financial management requires technical skills in areas such as revenue forecasting, accounting, information and communication technology (ICT) and audit, along with ICT and other infrastructure. The state of such skills and infrastructure in 2001 will be discussed, along with PAR MP proposals for changes.

The socialist accounting system in Viet Nam wasn't focused on public accountability, but rather prepared a record of financial transactions for statistical and revenue purposes. As in other parts of the soviet system, accountants were given the same status as bookkeepers, and regulation and law determined accountability, not efficiency and effectiveness. This began to change with the adoption of a new State Budget Law in 1996. Subsequent improvements achieved by 2001 included, *inter alia*, adoption of a Government Finance Statistics (GFS)-consistent format for fiscal information, distribution of a uniform budget manual for use starting with the 1998 budget, adoption of prudential regulations on capital adequacy, related-party lending, foreign exchange operations, bank inspection, collaterals and deposit insurance, issuance of accounting and audit standards, budget publication starting with the 1998 state budget, and a request that communes post budgets outside commune offices. Yet many challenges remained, including the need for more reliable and timely information on spending, improvements in prioritizing expenditures, reallocating spending within sectors to improve outcomes, reversing declines in revenue and expenditure since 1998 by around 4 per cent of GDP, and developing a medium-term fiscal outlook (Painter, 2003, Vagnoni, 2005: 92-3, World Bank, 2000, 2001).

The decline in revenue was among the issues leading to concerns over the size and cost of the PAS. In 2001, the PAS was about 1.3 million, with about 200,000 working for the central government, and 1.1 million at the provincial and district levels. This excluded the police, the army, commune level officials, state-owned enterprise (SOE) staff, and members of the Fatherland Front, war veterans, and others receiving stipends from the government. The cost of wages and salaries for the PAS, including all cash payments, but not in kind payments, and excluding pensions, was an estimated 3.8 per cent of GDP, contributing to an overall fiscal deficit of 5 per cent of GDP. (ADB, 2001; IMF, 2003, 2007)

The PAR MP on renovation of financial management mechanisms for administrative and public service delivery agencies had three components to be completed by 2005. The Ministry of Finance was designated as lead agency:

- “Establish new criteria for formulating and allocating budget for administrative agencies based on their outputs, quality of activities, and level of performance.

- Implement the mechanism of allocating a lump-sum for operation costs of administrative agencies.
- Establish financial management mechanisms suitable to public service delivery agencies to ensure their relative independence and autonomy in making decisions for their operations in order to gradually reduce their expenditures from the state budget and make them self-financing.”

The PAR MP did not include measures for improving revenue administration, which were covered by other decisions. Concerning size and cost of the PAS, the PAR MP set the following objectives to be completed by 2005, with the Government Committee on Organization and Personnel (which later became the Ministry of Home Affairs [MOHA]) as lead agency:

- "The salary system for cadres and civil servants will be reformed fundamentally according to the Resolution of the IX Congress of the Party.
- By the end of 2002, the project on salary reform will have been completed so that its implementation can be started in 2003.
- Ministries, central agencies, and provincial People’s Committees will continue to review their functions and tasks, define organizational structure, and implement staff downsizing according to the Prime Minister’s Decision No 207/1999/QĐ – TTg of 25 October 1999 and the Resolution of the Government No 16/2000/NQ-CP 18 October 2000.
- Policies to handle the redundancy will be developed and put in place."

This paper will not address the salary reforms in any detail, but will look at the progress in increasing salaries, and the implications for expenditure and revenue policy.

### International comparisons

This section compares the size and cost of the PAS in Viet Nam with regional countries. It then draws from the research sketched out above to suggest what Viet Nam can learn from international experience.

Figure 1 shows how Viet Nam compared with regional countries in the early to mid-1990s based on two commonly used indicators: general government employment as a percent of population, and average central government wages as a multiple of per capita GDP. The data indicate that while employment size was relatively large, average wages were the lowest in the region as a percent of GDP<sup>5</sup>.

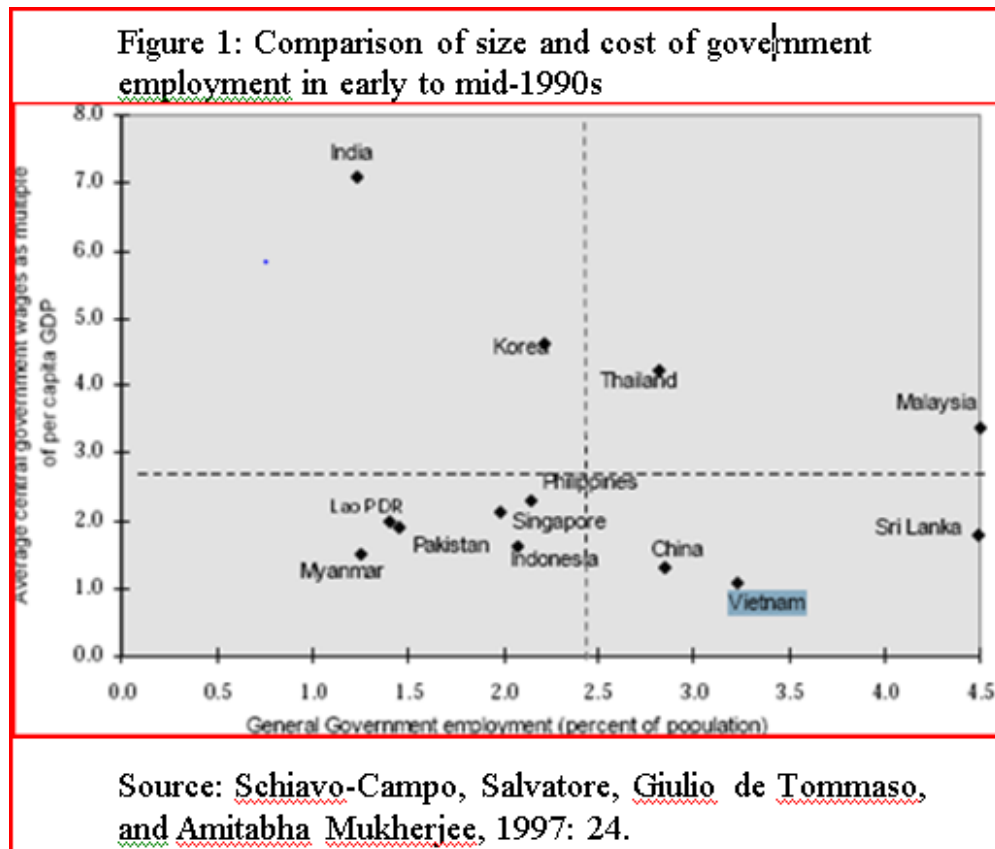


Figure 2 shows the changes in Viet Nam and selected regional countries by 2001. Viet Nam saw a sharp fall in government employment as a percent of population, perhaps stemming from the reduced role of government in a market economy. There was also a significant increase in wages as a per cent of GDP, perhaps stemming in part from increased competition from private businesses for skills. There were broadly similar trends in the Philippines and Indonesia, except that government employment increased in Indonesia. The PFM reforms outlined in the PAR MP: performance budgeting, lump-sum allocations for administrative agencies, and mechanisms for self-financing of service delivery agencies, are closely aligned with international PFM reform models discussed above. International experience suggests that Viet Nam's stable, single party dominance should give the country considerable ability to set and maintain priorities, and in turn, to reduce fiscal deficits. On the other hand, the fusing of bureaucratic and political elites in Viet Nam (i.e. senior government staff are all members of the Communist Party (CP), and the CP is accepted as the guiding force for reform) may reduce reform prospects, since there is no independent power outside of the CP and Government to push for reform. Likewise, experience of other countries suggests that performance budgeting reforms would prove difficult to implement because of the fast growing economy and related lack of serious fiscal stress to drive political will. We will now turn to an analysis of PAR implementation of PFM reforms to date to see how these predictions have played out.

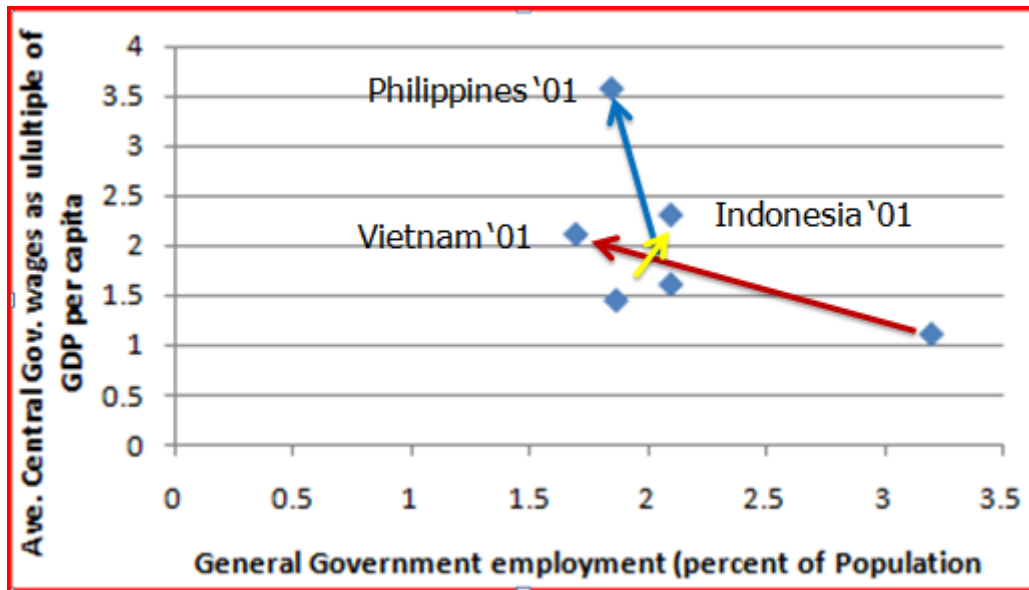
### Progress to date

This section will look at how far and encompassing has been the PFM reform process. This will include analyzing the performance and implementation of the State Budget Law in relation to PAR and PAS, and assessing evidence that PFM



improvements have led to improvement in PAS performance and service delivery. It will also look at what the mid-term internal review said and what is the actual progress.

**Figure 2: Trends in size and cost of government employment in Viet Nam, Philippines and Indonesia, early 1990s and 2001**



Source: IMF, 2004a, Rohdewohld, Rainer, 2004. IMF, 2004b. Senate Economic Planning Office, 2005, MoHA data on Viet Nam, adjusted by adding estimated number of Commune officials for comparability.

### Trends in size and cost of PAS, and in Government revenue, since 2001

The first step is to look at changes in the size and cost of the civil service since 2001. The PAR MP adopted the target of a 15 per cent reduction in the size of the civil service, based on a Prime Minister's decree and a Resolution of the 7th meeting of Party Central Committee. It also called for improving and rationalizing salaries. Although the PAR MP did not state whether these two reforms would lead to a net change in the cost of the PAS, the PER released just before it states the objective of increasing revenue share as a per cent of GDP (World Bank, 2000: i). The results on the size of the PAS from 2001-2006 are presented in Figure 3.



**Figure 3: Size of PAS, 2001-2006**

Category	2001	2006	% Change
Total (excluding commune officials)	1,300,000	1,778,734	37%
Of which:			
Public service delivery officers	990,000	1,434,660	45%
Public officials and Civil servants in state administrative agencies (from district level up to central level)	240,000	344,074	43%
- in government agencies		237,654	
- in National Assembly office		467	
- in President's office		86	
- in People's Court		12,024	
- in People's Procuracy		11,840	
- in Party and unions – who are under the management of Central Organizational Committee	70,000	82,003	17%
Commune officials		192,438	

Source: ADB, 2001 and data provided by MOHA for 2006. Commune officials weren't considered part of the PAS in 2001, and thus size data not available.

There was an overall increase in size of 37% over the period, with the largest category increase of 45% for public service delivery officers. Thus, the 15% downsizing target was not met. Data on wages and salaries are given in Figure 4. Here there is notable improvement, with an increase in average wage of more than 3 ½ times, and more than double as a multiple of per capita GDP.

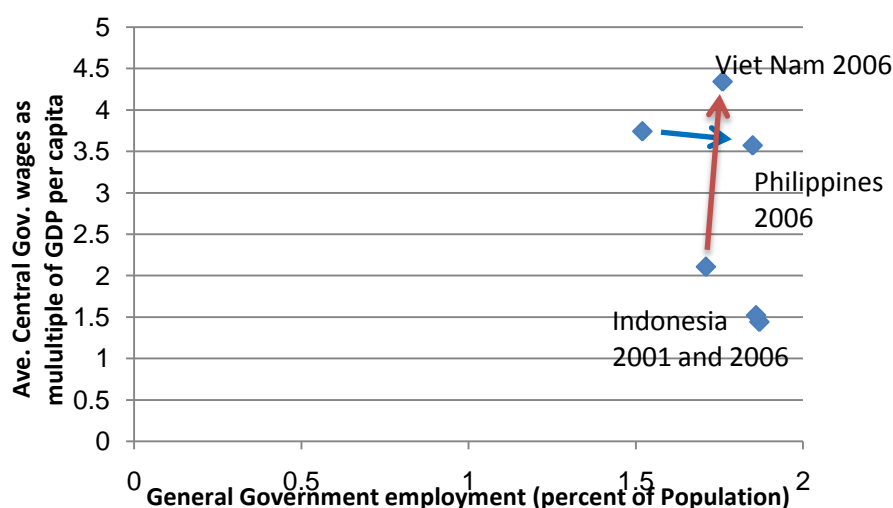
**Figure 4: Average Government wages in Viet Nam, 2001-2006**

Category	2001	2006	% Change
Average Wage \$	863	3172	368%
Per capita GDP \$	410	731	178%
Wages as multiple of per capita GDP	2.105	4.339	206%

Source: IMF Article IV reports

Figure 5 looks at the trend in size and cost of the PAS over the period, along with two regional comparators. Here, it is evident that in respect to population, the size of the PAS has not changed significantly, putting it now slightly less than in Philippines (which increased proportionately) and Indonesia (which stayed the same)<sup>6</sup>. Wages as a per cent of GDP per capita are now higher in Viet Nam than in the other two countries<sup>7</sup>.

**Figure 5: Trends in size and cost of government employment in Viet Nam, Philippines and Indonesia, early 2001 and 2006**



Source: IMF, 2003, 2004a, 2004b, 2007a, 2007b, 2007c, Rohdewohld, Rainer, 2004,. Senate Economic Planning Office, 2005.

Figure 6 shows overall budget trends since 2001. Viet Nam was successful in reducing the previous revenue decline, boosting revenue and grants as a share of GDP from less than 22 per cent to over 27 percent, reducing the deficit from 5 percent of GDP to less than 4 per cent. About 2/5 of the revenue increase came from oil revenues.

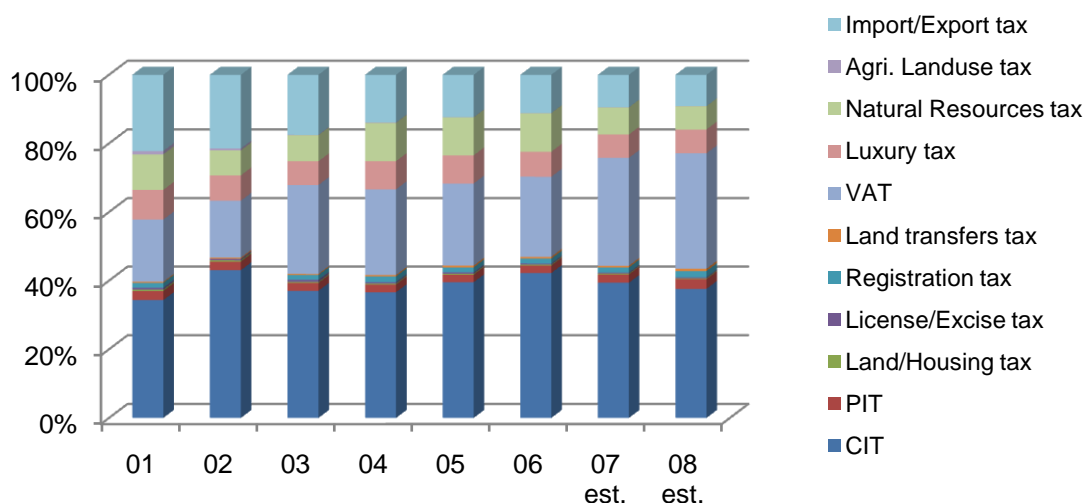
**Figure 6: The structure of the Budget**

	2001	2002	2003	2004	2005	2006 Prel
	In percent of GDP					
<b>Total Revenue and grants</b>	21.6	22.7	24.9	26.7	25.9	27.1
Oil revenues	7.4	6.8	7	7.9	8.7	9.7
Nonoil revenue	13.8	15.5	17.4	18.4	16.8	17.1
<b>Total expenditure</b>	24.4	24.2	26.1	25.8	27	27.4
Current expenditure	16	15.7	16.7	16.9	18.5	18.6
Wages and salaries	3.6	3.4	3.7	4.8	7.7	7.8
Other current expenditure	11.5	11.3	11.9	11.1	9.9	10.8
Capital Expenditure	8.4	8.4	9.4	8.9	8.6	8.8
<b>Official budget balance</b>	-2.8	-1.4	-1.2	0.9	-1.2	-0.3
<b>Off-budget spending</b>	2.2	3.3	5.2	3.7	4.7	3.5
Net lending (incl. VDB)	2.2	2.4	3.2	2.4	2.7	2.1
Off-budget investment expenditure	0	0.9	2	1.3	2	1.3
<b>Overall fiscal balance</b>	-5	-4.7	-6.4	-2.8	-5.9	-3.8
<b>Non-oil fiscal balance</b>	-12.4	-11.5	-13.5	-10.7	-14.6	-13.5

Source: MOF and Fund staff estimates, from Lee, 2007

Figure 7 shows revenue trends in more detail, indicating a big increase in the share of value-added tax (VAT) and corporate income tax (driven by oil revenues), rising from 52 to 71 percent of total taxes over the period 2001-2008. There was also a reduction in the share of trade taxes over the period, largely because of WTO and Bilateral Trade Agreement (BTA) commitments.

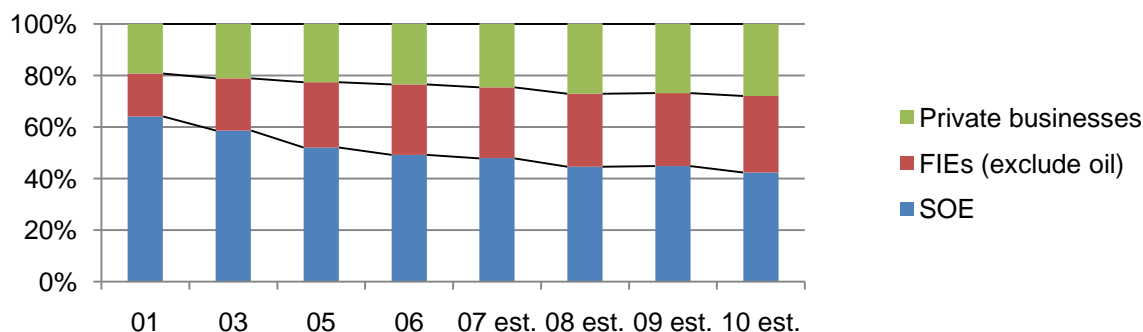
**Figure 7: Trends in Government Revenues, 2001-2008**



Sources: Ministry of Finance (MOF) Budget Disclosure Data 2001-2008.

The breakdown of revenue from tax by ownership sectors shows a clear trend of reducing contribution from SOEs while the contribution from non-SOEs is on the rise. Accordingly in a decade, the tax collectible from SOEs reduces by 20% (from 64% in 2001 to 44% in 2010) while in the same period, the foreign investment enterprises (FIEs) (excluding revenue from oil) and private sector enterprises increase from 16% and 19% to 28% and 27% respectively (see figure 8).

**Figure 8: Structure of revenue by sectors**



Source: MOF Budget Disclosure Data 2001-2008. 2009-10 estimates from Medium-term Expenditure Framework (MTEF) Publication

While VAT and corporate income tax (CIT) accounted for a rising portion of the total taxation revenue, it is noted that the procedures for collecting these taxes are still cumbersome. A medium-size company in Viet Nam must spend 650 hours per annum to pay.

**Figure 9: Poll by Ho Chi Minh City (HCMC) Taxation Department on perception of tax declaration procedures**

**Poll**

Undertaken on 26/11/2007

What do you think of the admin. procedures on tax declaration?

1. Reasonable		53%	10,673
2. Sophisticated		45%	9,210
3. No comments		1%	207
		<b>Total</b>	<b>20,090</b>

Source: HCMC Tax Department Web Site

VAT and CIT – ranking 128 out of 178 countries. Although a slight majority of taxpayers in Ho Chi Minh City feel that tax declaration procedures are reasonable, 45 percent believe the procedures are “sophisticated” (presumably unreasonable), as depicted in Figure 9. On the other hand, a side of progress is that only 45% of firms say they need to negotiate with local tax administrators, down from 75% in 2005 (VNCI, 2007).




The Tax Administration Law, in effect from July 1, 2007, is an important reform in modernising taxation administration in Viet Nam. The law has ‘clarified the roles and responsibilities of the taxpayers and tax and collection agencies, including general laws on tax declaration, payment, refund, tax payees’ information management, inspection and complains handling mechanism’. Indeed, even before the promulgation of the law, other reforms have led to improvement in the way taxation is handled and managed. Among other things, the tax self assessment mechanism and one-stop-shop model have been applied nation-wide since 1 July 2007 after pilots were carried out in a number of localities. This has reflected in the positive perception of the businesses as reported in World Bank (2008d).

While it is accepted that implementation of reforms like OSS in tax administration would simplify the process and hence reduce the time costs and opportunity costs for tax payees (and also tax payers), the actual results, as measured by perception of respondents in polls done by the General Department of Taxation (GDT) suggest that there is a long way to go, with 51% of respondents stating that the one-stop-shop (OSS) application has led to no change in tax administration (See figure 10). Interestingly the similar poll done by HCMC Tax Dept shows a much more positive perception with only 11% respondents indicating that the situation was unchanged (See figure 11).

**Figure 10: Poll by GDT on perception of OSS on tax administration**

**Poll**

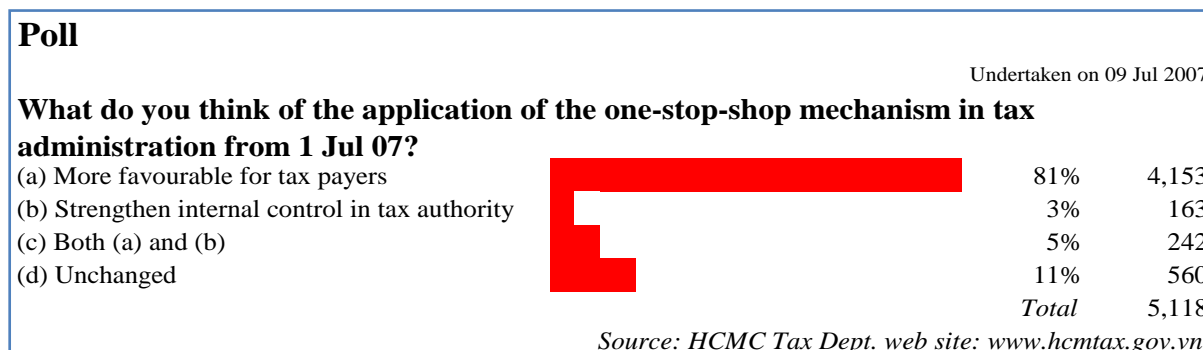
**What do you think of the application of the one-stop-shop mechanism in tax administration from 1 Jul 07?**

Remarkably more favourable for tax payers		32%	3,941
Slightly more favourable for tax payers		17%	2,055
Unchanged		51%	6,279
		<b>Total</b>	<b>12,275</b>

Source: GDT web site: [www.gdt.gov.vn](http://www.gdt.gov.vn)

There are significant and systemic weaknesses in revenue administration. Although there is a tax reform strategy, there is an absence of a long-term vision with clear strategic goal for Viet Nam Customs. The customs are still “unresponsive, inconsistent and vulnerable to corruption”. The tax administration is assessed as “low compliance and vulnerability towards corruption”.

**Figure 11: Poll by HCMC Tax Dept. on perception of OSS on tax administration**



This can be explained by the fact that the business environment is becoming more enabling, with less protection for SOEs and a more competitive environment for non-state business sectors. A cornerstone reform contributing to this was the Enterprise law in 2000, subsequently revised to become the Uniform Enterprise and Investment Law in 2005.

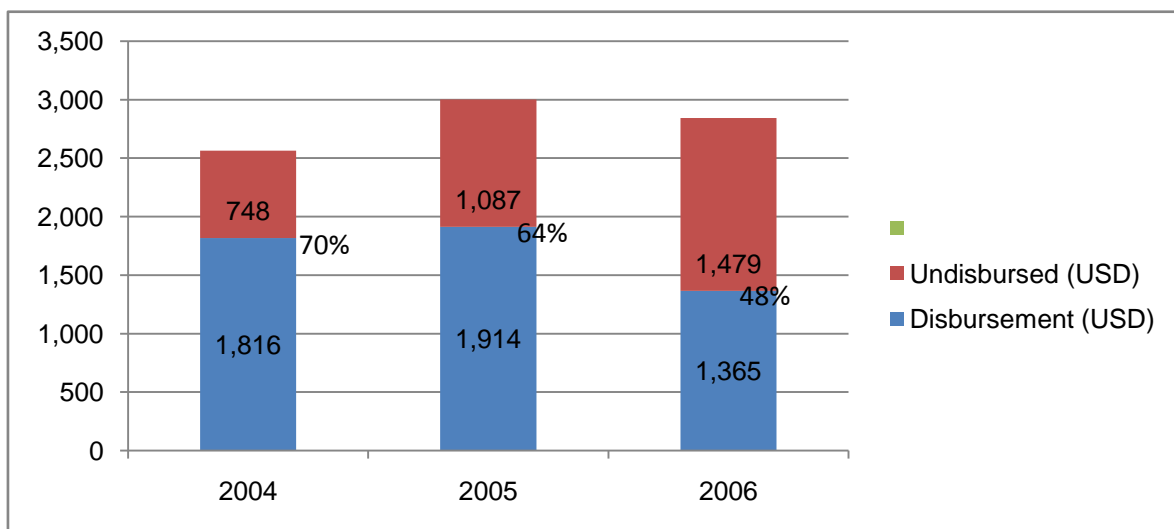
As a developing country, Viet Nam enjoys considerable support from the international community. Official Development Assistance (ODA) plays an important role in Viet Nam’s development, especially on poverty reduction. ODA commitments and disbursements have been increased steadily and constitute an important portion of the national budget, reaching US\$ 4.5 and 1.8 billion in 2006 from US\$ 3.4 and 1.65 billion in 2004 respectively (but reduced as a percentage of the overall national budget – from 27% down to 25% in term of commitments and from 13% down to 10% in term of disbursement - between 2004 and 2006<sup>8</sup>). Lots of efforts have been made with a view to reform the ways ODA is being provided, received, disbursed and managed. Concrete actions in localising the Paris Declaration on Aid Effectiveness in the form of Hanoi Core Statement have achieved initial but important results, while there are still many challenges ahead in harmonising government and donor practices.

The available data indicates that the disbursement ratio has not increased as expected; indeed, it is reduced from 70% in 2004 to 48% in 2006 (See Figure 12) resulting in a large amount of money undisbursed including concessional loans from other nations and international financial institutions that Viet Nam has to pay interest on. Sophisticated and cumbersome public administrative procedures especially in investment, land clearance and acquisitions associate with the low disbursement ratio.

Given the fact that Viet Nam is expected to reach middle income country status in 2009 with a forecast GDP per capita of US\$1,080, the window of opportunity for receiving ODA in the form of grant and concessional loans is closing. The main PFM challenge posed by this will be that as concessional borrowings and grants start to decline, government will need to seek alternative sources of financing for

infrastructure development and other priorities. Viet Nam will need to engage more with non-traditional financial sources including private capital markets, public private partnership, and non-concessional borrowings. This process will not happen automatically after Vietnam reaches MIC status; a recent survey indicated that “in spite of Vietnam’s access to middle income status, donor support may still increase in the coming years” and “the volume of grants will remain stable in the foreseeable future, but the volume of loans may increase, before returning to its current level in the first half of the next decade” Thus, maximising the effectiveness of aid is important, and increasing the disbursement ratio constitutes a priority. There appears to be high level of political commitment in reforming and simplifying procedures, but results to date have been limited.

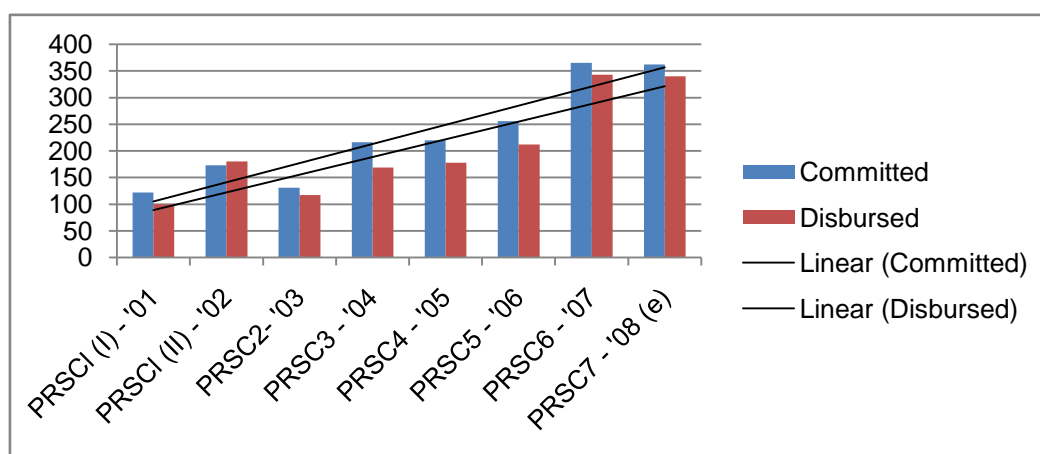
**Figure 12: ODA commitments vs. disbursement.**



Source: World Bank 2008a

In recent years, development partners have tried a number of new aid modalities. Budget support, programmatic-based and sector-wide approaches are among key concrete initiatives that development partners and government of Viet Nam have been implementing. These approaches mean moving away from traditional projectised approach, with parallel systems and procedures which undermine the ownership and sustainability of support. Using and building on the existing systems and processes, especially in the form of budgetary support (where donor financial contribution is directly channelled through the government budgetary systems) increase significantly the disbursement rates as the figure below illustrates. Accordingly in the period 2004-2006, the average disbursement rate for the Poverty Reduction Strategy Credit (PRSC) was 81% while that of the overall ODA was 60%<sup>9</sup>. Efforts should be made to consolidate different forms of budget support (targeted for education and for programme 135, and general for PRSC) with a view to learn from practical experiences, informing the designing of interventions and technical assistance initiative to further strengthening government systems including but not limited to, budgetary and administrative systems.

**Figure 12a: PRSC commitments vs. disbursement**



Source: World Bank, 2008e

## The State Budget Law, 2002

A cornerstone in PFM reform in Viet Nam was the revision of the State Budget Law (SBL) approved by the National Assembly in December 2002 and coming into force in January 2004. This legislation has put in place for the first time an overall comprehensive and integrated framework for managing the state budget, taking into account lessons learned in implementing the 1996 Budget Law, and emerging needs to have a sound state budget management in conformity with the market economy.

This revised budget law, supported by other legislation and regulations issued by the National Assembly<sup>10</sup>, the Government and central ministries, further strengthens the legal platform for state budget management which has implications on the way spending units, including those who have administrative functions, deliver their duties and services. Four dimensions appear to be the most important instruments and platforms enabled by the SBL: promoting decentralization, strengthening transparency and accountability, promoting administrative rationalization and streamlining, and denationalisation of services and functions that have been traditionally provided by state agencies.

### Promoting decentralization

The SBL makes a bold step in promoting fiscal decentralization to local executive and legislative authorities. Provincial People's Councils (PPCs) were given much greater budgetary autonomy than was the case with the 1996 Law, and accountability to elected bodies was strengthened at the national and sub-national levels. Viet Nam budgetary system is characterized by a four-tier state budget architecture whereas lower level budget nested in the superior budgets -the 'matrouchka doll model whereby communes report to districts, districts to provinces and provinces to the center. The revised law provides much clearer assignments and divisions of roles and responsibilities for both central and sub-national government in relation to state budget management. The locally elected bodies have been given more authority and voice in managing local budgets, including authority over local revenues. Local authorities are also allowed to mobilize resources for socio-economic development driven by the local demand. The increased powers stemming from the SBL were augmented by the amended Law on Organization of the People's



Councils and People's Committees approved in 2003, which provides greater functional clarity, and increased the budgetary role of the PPCs in preparing budget proposals for approval by the respective People's Council.

Together with other policy areas (planning and development investment, land, natural resources, State owned enterprises, organizational structure and staffing), state budget and governmental/administrative activities and public services have enjoyed the benefit of decentralization. Local People Councils have better discretionary power over the usage local budget including allocation and the rights to borrow in respond to the local development needs. Whereas local schools and hospitals have better control over the assigned operating budget without having to get permission from superior agencies.

### **Strengthening transparency and accountability**

Building on the initiatives to promote transparency and accountability of spending units, the SBL and guiding regulations paved the way for further strengthening these aspects. National aggregated budget data is made public on the MOF's website. Communal budget is also made public through posting on the Commune Office notice board. However, provincial and district level budgets have made less progress in this regard. The transfer of reporting line of the State Audit of Viet Nam (SAV) from the government to the National Assembly (NA) is a positive development in strengthening checks and balances.

The implementation of reform initiatives with a view to make the spending units (including both state administration agencies and service-delivery units) more transparent and accountable has led to important results. The right to budgetary information has been recognized, albeit not explicitly, which enables the people and the public to have access to information about operation and financial situations of state agencies. This in principle puts pressure on these agencies to perform. In fact the full recognition, and more importantly the exercise of this legitimate right, are not yet the case, partly because of the lack of awareness of the citizen, and the lack of capacity to exercise this right effectively. This is compounded by the fact that the civil environment whereby citizens are empowered to realise their rights is relatively weak in Viet Nam. The government, especially local governments, seems to hoard rather than share budgetary information proactively. This is evidenced by the publication of highly aggregated budget data at the central level, while at the provincial and district levels even such limited publication is less available.

### **Promoting administrative rationalization and streamlining**

The SBL takes steps to further rationalize administrative functions between central agencies involved in the management of state budget, notably MOF, the Ministry of Planning and Investment (MPI) and the State Bank of Viet Nam (SBV). There is a clear financial and budgetary calendar with deadlines for accomplishment of tasks in the budgeting process. MOF is leading on budgeting for recurrent expenditure with the subordinate state treasury system responsible for budget execution, taxation and customs agency responsible for revenue collection at the central level. MPI is leading on capital budgeting and public investment projects.

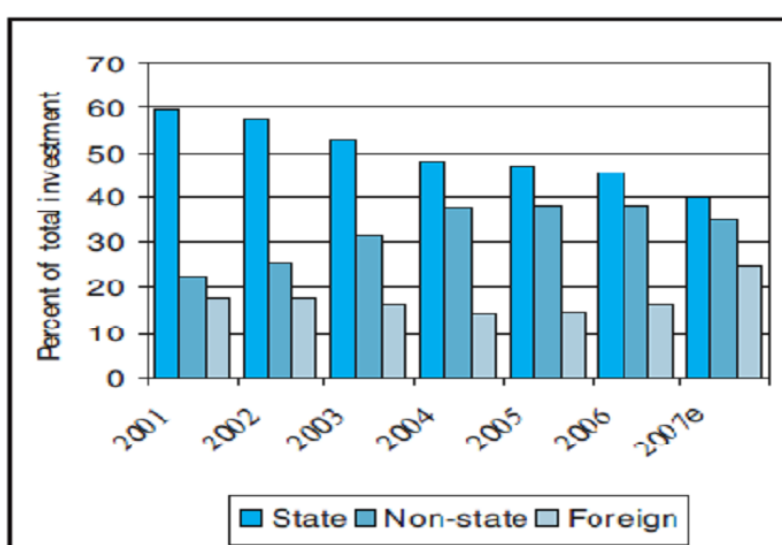


## Denationalisation of services and functions that have been traditionally provided by state agencies

Through the so-called socialization scheme, supported by the budgetary framework, resources from non-state actors have been mobilized for the capital-intensive development process, reducing the burden for the state budget. Some provinces (e.g. Ho Chi Minh City) have established Local Infrastructure Development Fund (LIDF) to mobilise resources for developing local infrastructure. Figure 12b indicates the increased contribution from non-state sources. Accordingly the ratio of non-state contributions to investment increases from about 39% in 2001 to about 60% in 2007.

Implementation of the SBL through the four instruments and platforms discussed above has achieved some initial but important results which contributed to the overall implementation of the PAR MP. The SBL with its fiscal discipline and budgetary and financial incentives have helped move the civil service reform forwards with pay policies for civil servant closer to market alternatives. Better pay, albeit far from perfect, help to motivate staff which in turn increases the performance of PFM reforms programmes.

**Figure 12b: Key investment ratios**



Source: GSO as quoted in World Bank, 2008f.

## Increased flexibility to administrative and PSD agencies

As far as PAR and SBL is concerned, two important policy instruments being implemented have significant impacts on the performance of the PAS: the first targeting public administrative agencies (PAA) in the form of Decree 130/2005, and the second targeting public service delivery (PSD) units in the form of Decree 43/2006. These decrees aim to increase financial autonomy and financial accountability for budget spending units and separate the functional divisions – purely administrative functions from service delivery functions. This is certainly the right direction to take following careful approach of piloting and experimenting in some localities and units.

Concerning the PAA, after four years of successful pilots, block grants have been expanded to 60 provinces, to three central ministries (Ministry of Labor (MOL), Ministry of Transport (MOT) and MOF), and over 1200 local level agencies, comprising over ½ of the total. Some jurisdictions/agencies have achieved savings that are commonly, though not always, applied to increase salaries. However, because salary and other norms aren't adjusted enough across jurisdictions to take into account differing cost structures, the benefits from this reform are uneven. The three-year funding cycle is also reportedly a problem during high inflation, which makes savings difficult to achieve.

Building on the results of the Decree 10/2002, Decree 43/2006 further clarifies and separates the PSD units from other functions in the PAS. This decree has delegated authorities and granted autonomy for PSD units in the field of staffing, delivery of assigned tasks, financial management. PSD units are now allowed to budget for, borrow from other sources (with limits and conditions), and make use of resources available. It is noted that allowing PSD units to mobilize from other sources puts them in a much more autonomous position in flexibly planning for the delivery of assigned tasks. In 2008, all 43 central agencies have delegated financial autonomy to spending units. 23,399 PSD units at the local level have been granted this mechanism – mainly at the provincial level with lower rate at the district level.

Decree 43 creates a strong incentive for PSD units to be more responsible in every spending decision, because the savings from recurrent expenditure can help staff to increase their income. Tightening recurrent expenditure can have impacts on the behavior of staff as they become more cautionary in using public facilities (eg. Electricity, telephone). Management of PSD units become more aware of how to reduce inefficiencies (e.g structure of staff and organization)

PSD Units can and are now motivated to structure their organization in a way that maximises effectiveness and efficiency. Non-performing organizational units are now being threatened with closure, which creates room for rearrangement with a view to increase operational effectiveness and efficiency including removal of duplicative functions and tasks between different organizational units. PSD units are more active in looking for alternative ways to do business with reduced costs, e.g, make more use of computer and Internet for communication and research.

The decree also creates strong incentives for PSD units to legitimately diversify their revenue-generating activities so they have a more relaxed budget which they can exercise the right to use in conformity with regulations; for example, in-service training courses for education institutions, on-demand health checks by hospital.

Decree 130/2005 grants government agencies discretionary power to adapt their structure and frame human resource in such a way that meet their needs and roles without depending too much on permission from superior agencies.. By 2008, at the central level, 22 out of 23 agencies reported to MOF that they have delegated financial autonomy to spending units. At the provincial level, 44 out of 55 provinces reported to MOF that they have granted this mechanism to spending units at the provincial level while some provinces like HCMC and Binh Duong have delegated to the communal level<sup>11</sup>.

Spending units have more autonomy in exercising their legitimate rights over the assigned recurrent budget. The mechanism allows spending units to be flexible in prioritizing important tasks in delivering their functions. Treasury expenditure controls have been facilitated with the mechanism. Spending units do not necessarily have to wait for permission from superior agencies while superior agencies do not have to 'intervene' to the business of their subordinate, which might have reduced rent-seeking opportunities.

There appears to be high percentage of spending units having internal expenditure control regulations creating a platform for internal staff to monitor the usage of public expenditure. The internal expenditure control regulations make spending units and staff more attentive to the usage of facilities (e.g. electricity, telephone) financed by recurrent expenditure.

Despite the results achieved, implementation of Decree 130/2005 has raised a number of issues which need to be studied thoroughly to inform more robust revision and adjustments to the instrument in order to make full use of its potential on public administrative agencies.

Saving of expenditure is only a side-objective of Decree 130/2005, however, this seems to become the main theme of its implementation. Persons interviewed by the Mission focused more on the financial savings that public administrative agencies have managed to make rather than on the improvement of the public services delivery.

There appears to be a mismatch between autonomy in financial and personnel management. It is not easy for heads of public administrative agencies to dismiss public officials for poor or non-performance because staff dismissal requires a complicated process and procedure involving other external stakeholders including local instances of MOHA. This issue has been discussed by the government, which is working on resolutions to address it systematically

## **Other PFM and related reforms**

Understanding of PFM systems and reform priorities has been greatly heightened by detailed assessments and recommendations made (World Bank, 1996, 2001, 2002, 2005, 2008a, Martinez-Vazquez, 2004, Bartholomew, Leurs, and McCarty, 2006, 2AC, 2004 and EC, 2004), which entailed extensive participation from government, business, and other parts of society. The 2004 PER-IFA received a global award from the World Bank's Independent Evaluation Group for best practice in participatory diagnostic work. Analysts agree that Viet Nam is able to implement its approved budget, has strong aggregate expenditure control, can clearly identify national targeted programs focusing on poverty reduction, and regularly exceeds revenue collection estimates (average of 17%, 1999-2003 (Bartholomew, Leurs, and McCarty, 2006: 179)). Starting in 2005<sup>12</sup>, Medium-term Expenditure Frameworks (MTEFs) were piloted in 4 ministries (Ministry of Education and Training (MOET), MOH, MOT and Ministry of Agriculture and Rural Development [MARD]) and four local governments (Ha Noi, Ha Tai, Binh Duong and Vinh Long); MOF is committed to expanding these pilots once the next phase of the multi-donor PFM trust fund is underway. Budget coverage is being expanded to cover all government debt; this and other issues will be addressed in the revision of the State Budget Law, planned

for 2009. A new chart of accounts is being prepared using GFS standards, and with the capability of including ODA projects in the government's budget and accounting system. The Treasury and Budget Management Information System (TABMIS) is being rolled out, with access planned starting in 2009 for MPI and 4 Ha Noi based Ministries out of a total of 26. Transparency of budget and expenditure data has been heightened through Decision 192/QĐ-TTg dated 16th Nov. 2004 and related implementation circulars in 2005 and 2006. State budget estimates and final accounts are now published on the MOF website (Ministry of Finance, 2008). Transparency has also improved through live television broadcasts of state budget discussions by the NA, and by the HCMC PPC.

The State Audit Law has been effective from January 1, 2006, establishing SAV under the independent supervision of the National Assembly. State Audit Decision 03/2007/QĐ-KTNN of July 26, 2007, mandates disclosure of SAV audit findings, including Annual audit reports, reports on implementation of audit recommendations, and audits of individual entities. In addition, a roadmap has been issued<sup>13</sup> to move towards adopting International Public Sector Accounting Standards (IPSAS) and International Auditing Standards.

These reforms have been supported by extensive PFM capacity development. For example, the number of officials and civil servants working in PFM at the MOF total 64,912 (2006)- an increase of 8% from 2005 and 24% from 1995. The number of staff attending training courses up nearly 30% pa from 2004-6. Supervision capability of the NA has also been heightened through establishment of the Finance and Budgetary Committee. "Budget Supervision Manual of National Assembly and Peoples Committees (PCs) in all levels" has been published, and representatives of NA and PCs are using it, in conjunction with extensive training, to heighten supervision of budget implementation.

## IV. Conclusions and Policy Recommendations

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We began with a brief overview of debates on theory and practice of public financial management in developed and developing countries in recent years that may have influenced thinking and practice on reform in Viet Nam. A series of PFM reforms to cut spending, reduce fiscal deficits, and facilitate performance improvement of public services was first rolled out starting in the 1970s and 1980s in developed, and then developing countries. The main features of these reforms included tighter central controls to achieve budget savings, greater flexibility to spending units for reallocating funds within budget line items, reduced off budget expenditures and increased use of performance information to facilitate accountability, results monitoring and evaluation, multi-year fiscal and revenue frameworks, shifts toward accrual accounting and performance auditing, expansion of computerized financial information systems, and greater use of devolved budget management, and market mechanisms such as user and capital charges, market testing, outsourcing, and performance agreements. Also starting in the 1980s and 1990s, international donors increasingly came to realize the limitations of projectized aid. Although aid procurement and spending may have been subject to adequate controls, the government's own procurement and spending was not, thus limiting the achievement of development results. Increasing amounts of donor support since then have tried to help government efforts to improve their PFM and procurement systems. The results have been rapid improvements in basic tools for budget formulation and reporting, including better budget transparency and control of inputs, and greater predictability of cash-flow for government salaries and other essentials, and better transparency and competitiveness in procurement. However, in trying to adopt the more sophisticated, performance oriented tools being rolled out in developed countries, there has been less success in developing countries. Indeed, there is little evidence from either developed or developing countries that such reforms have led to improved performance outcomes that could justify the considerable cost of the reforms.

In Viet Nam, PFM basics started to improve with the 1996 State Budget Law, including adoption of key international standards, and the publication of national and commune budgets. Since then, our findings suggest that considerable progress has been made in PFM and related components of the PAR MP. Viet Nam should now work to consolidate the progress made in each area, and make improvements as possible. The following will sketch out details for a desirable road ahead in each of the PFM components of the PAR MP and in related areas: improved budgeting for administrative agencies, improved planning, fiscal flexibility for administrative and service delivery agencies, competitive salaries, an appropriate size for the PAS, and streamlined tax administration. Options will also be presented for enhancing monitoring and evaluation of these PFM reforms. Many of our proposals have been made by others, and some are embodied in government decisions and decrees already being implemented; in such cases, we will be proposing additional strategies and/or resources to ensure that implementation is effective.

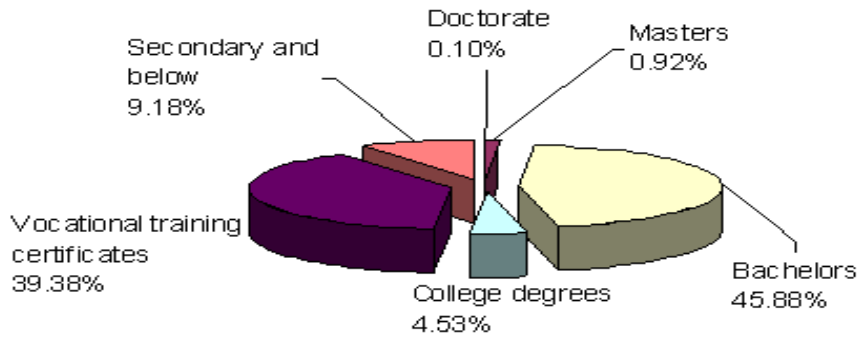
### Improved budgeting for administrative agencies

Viet Nam's plan to revise and update the Budget Law in 2009 is of utmost importance, *inter alia*, to achieve clearer allocation of responsibilities among different levels of government. The 2002 SBL gave provinces the freedom to direct

expenditures, revenue assignments and transfers for districts and communes. Although this greatly increased autonomy of provinces relative to the centre, it took away predictability of investment flows from districts and communes, making their budgeting and planning less efficient. In addition, vague recurrent expenditure assignments have led to weak accountability, and the risk that certain functions may not be addressed (or could be duplicated). These and other related issues will be addressed in the revised SBL.

SBL Revisions are also needed to scale up MTEF pilots to other sectors and provinces with a view to mainstreaming the approach, and to improve the budget structure, including expanded coverage with respect to fees, contributions, debt, and bonds to comply with internationally-accepted norms. Many other recommendations from the recent CFAA deserve careful consideration (World Bank, 2008a). For example, the 2003 Accounting Law and related legislation and decrees need to be fully implemented regarding the publication of financial statements and audit reports of relevant entities. This body of legislation also needs updating to better define responsibilities, and to replace current provisions with more modern, comprehensive provisions supporting TABMIS and other PFM reform implementation including IPSAS, the new unified COA, and enhancing quality control and oversight of accounting professional services in Viet Nam. The nature of revenue should be clarified and classified according to international practice. Expenditure systems and controls should be improved by regular and effective reconciliation between budget execution records of Treasury and spending units, and by commitment controls as part of TABMIS and strengthened internal controls for payroll. A clear legal basis is needed for introducing internal auditing, which should be transferred from the SAV to the MOF. The Law on State Asset Management needs to be effectively implemented so that state assets, budget and human resources are managed in an integrated way. A Debt Management Office should be established in the MOF in line with international practice. Pilots for integrating selected ODA projects in the new COA and TABMIS should be carried out, along with enhanced auditing arrangements with initial roles for project owners, MOF and the SAV. Final accounts should comply with the requirements of Decision 14/2007 to enhance relevance for effective oversight and accountability. Better mechanisms are needed to increase participation by sector agencies and subnational units in budget formulation, executing and reporting. Better coordination is needed to ensure capital budgets are consistent with MTEFs where available, and with annual budget estimates. The work of the SAV needs to be expanded to cover annual budget settlement reports, and for carrying out compliance and performance audits covering all areas, in part through a risk based approach in line with international standards. A new law on independent auditing should be promulgated, clarifying responsibilities of state authorities, professional associations, auditing companies and audited ministries and other entities. Finally, a PEFA assessment should be carried out to better inform MOF and its partners on the current performance of PFM systems and processes, and to provide a baseline from which to measure future reform progress.

**Figure 13: MOF Personnel by Qualifications and Professional Skills, 2006**



Source: World Bank, CFAA March 2008 draft, figure 15.2

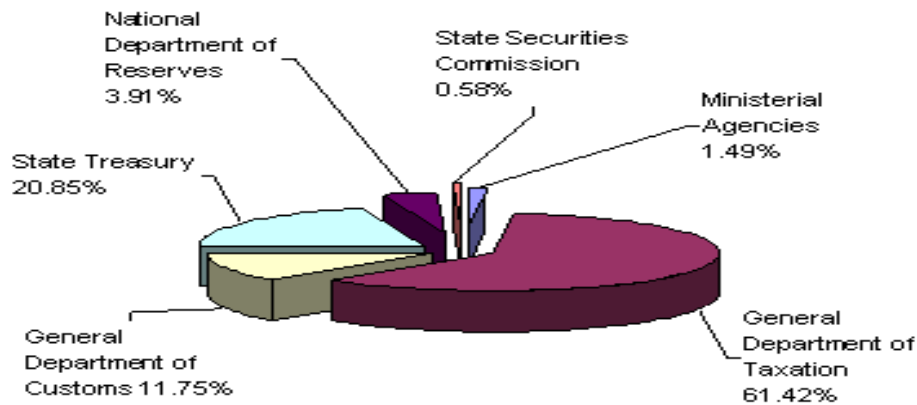
The next step is to analyze this ambitious agenda for PFM reform in the light of reform conditions in Viet Nam. The piloting approach (e.g. MTEF, integrating ODA projects in the new Chart of Accounts [COA] and TABMIS) builds on a tradition of “fence breaking” experiments starting with pilots, monitoring results, and scaling up once a consensus exists on their merits, that has been successfully followed in Viet Nam (Rama, 2008). Viet Nam’s situation with a single, dominant party over a long period should, based on international experience, give an advantage in setting and maintaining budget priorities and helping to control fiscal deficits. On the other hand, the cautious approach to consensus building, discussed above, mitigates part of this advantage. The fusing of bureaucratic and political elites in Viet Nam could also add to the challenge of reform by reducing the chance that a powerful, independent group can effectively hold MOF and other bodies to account for implementing PFM reforms. One would also expect that, following the example of other developing countries, Viet Nam would make greater progress in budget formulation and reporting than in budget execution, greater progress in adopting new laws and processes than in implementing them, and greater progress when implementation is concentrated in a small group of actors.

Taking these considerations into account, it is reasonable to predict that the reforms that can move ahead with greatest ease are the ones mainly under control of MOF, including the new COA and TABMIS, strengthened internal controls for payroll, establishment of the Debt Office, clarifying and classifying revenue according to international practice, and carrying out a Public Expenditure and Financial Accountability (PEFA) assessment.

Progress on these reforms would be further enhanced by a deepening of capacity strengthening at MOF. Despite the increases in staffing and attendance at training courses reported earlier, qualification levels are still very low. Figure 13 indicates that only 1 percent of MOF staff have post-graduate degrees, and nearly half lack any tertiary degree. This has the effect of putting undue burden on a small number of staff to assure quality implementation of increasingly more advanced PFM reforms.



**Figure 14: MOF Personnel by Administrative Agency, 2006**



Source: World Bank, CFAA March 2008 draft, figure 15.1

To address this constraint, The Law 22/2008/QH12 on Public Officials and Civil Servants approved November 13, 2008 by the National Assembly, provides an opportunity to consider recruiting highly-qualified applicants for specific positions. In addition, MOF may wish to consider designing, in cooperation with MOHA and the National Academy of Public Administration (NAPA), a post-graduate scholarship programme for key, MOF staff. Steps would include an analysis of existing tertiary/professional qualification initiatives in Viet Nam, preparation of a shortlist of prequalified tertiary institutions in Viet Nam and abroad with degree programs covering planning, economics, public management, budgeting, taxation, procurement and accounting suitable for MOF scholarship students, advice on the application and selection process, procedures to help maintain dialogue with students while studying to assure good progress, and assistance in reintegrating and mentoring returning students to make sure the work environment is attractive and supportive (cf. Wescott and Coupland, 2008). The specific skill needs of different agencies within the MOF (cf. Figure 14) would also have to be taken into account.

Students with an International English Language Testing System (IELTS) score meeting admission requirements could be sent to English language universities abroad, while others would be placed in Viet Nam. Such scholarships might be supplemented with temporary work placement programs in countries with more advanced PFM systems, such as Malaysia and South Korea, to learn from working in a well-functioning work setting, to become part of a performance-oriented work culture, and to work with systems and procedures that are planned for adoption by MOF in the near future. Gaps created by sending staff for post-graduate scholarships and temporary work assignments would be filled by recruiting temporary PFM consultants, drawing from both the local and international market as necessary.

In addition to the post-graduate scholarship program, MOF will need to continue the skills training program already underway (cf. Figure 15). However, this program on its own is unlikely to build up the critical mass needed of high-level technical skills to assure successful implementation of the recommended measures.



**Figure 15: Staff Training Profile 2004-2006**

Training in:	# of Staff Trained
Political Training	2,522
Administrative Management	5,072
IT Knowledge	10,660
Foreign Language	4,307
Professional Technical Knowledge (e.g., accounting, tax)	52,915
Leadership	344
Other	10,595

Source: World Bank, CFAA March 2008 draft, table 15.1.

These high level skills will also be in demand for implementing the more difficult reforms requiring cooperation from other agencies in addition to MOF. Revising and updating the Budget Law in 2009, and the Accounting Law and Independent Auditing Law at a later stage, along with a clear legal basis for introducing internal auditing, will require close coordination with the National Assembly and its Finance and Budgetary Committee, the Office of Government, and other bodies. Ensuring capital budgets are consistent with MTEFs and annual budget estimates will require close coordination with MPI<sup>14</sup> and other spending units, as would implementing proposals for improving the preparation of final accounts, and increasing participation of agencies in budget formulation, executing and reporting. Integrating selected ODA projects in the new COA and TABMIS will require close coordination with international partner officials, most of whom have post-graduate qualifications themselves. International experience suggests that all reforms requiring support from multiple actors are more demanding to carry out successfully than those concentrated in a small group. The qualification levels at MOF will need to rise to meet the demands of these reforms.

To summarize, the team fully supports the ongoing revision and updating of the Budget Law in 2009. The Government should also prioritize PFM reforms mainly under control of MOF (e.g. the new COA and TABMIS, strengthened internal controls for payroll, establishment of the Debt Office, clarifying and classifying revenue according to international practice, and carrying out a PEFA assessment), and deepen capacity strengthening at MOF.

### Improved planning

The proposed budgeting and other PFM improvements discussed above can only be effective with corresponding improvements in the planning function<sup>15</sup>. There have been major improvements in this area in recent years. The Socio-economic Development Plan (SEDP) included a monitoring framework with measurable, quantifiable indicators to measure results, and was compiled through a more participatory process than previous plans. ODA project monitoring practice by government staff is set to improve building on a system of learning contracts, training and competency testing, use of a new monitoring and evaluation manual, and supported by monitoring champions in 4 ministries and 7 provinces (MPI, 2007; VAMESP II, 2006a, 2006b). Donors have also agreed to use the SEDP and related plans for aligning their assistance, and to use

improved country systems, simplified procedures and common arrangements for planning, design, implementation and reporting on ODA.

However, much work remains to be done. Plans are mainly of low quality, tending to be project-focused lists. Plans focus on economic and production targets reflecting the legacy of the past, rather than focusing on the delivery of public services, and qualitative targets for economic and social development. Setting and meeting these targets can involve gaming strategies found in other target-based systems, including ratchet effect (performance is restricted well below production possibility-frontier knowing that next year's target will be an incremental advance over what is achieved in present year), threshold effect (targets based on standard norms may lead top performers to reduce performance to just what the target requires), and manipulation of reported results (Hood, 2006).

Priorities aren't linked to budgets, nor to other capacities needed to achieve them. There is no explicit link connecting annual budgets with goals in the SEDP, and no connections in annual plans with plans and budgets of previous years. Cost-estimating tools are weak. Timeframes are unrealistic, for example, with only one month from the time planning guidelines are sent from provincial departments of planning and investment (DPI) to district and commune governments, and the time completed plans need to reach DPI. Roles of officials from different sectors and levels are not as clear as they should be, creating overlaps and uncovered areas. These challenges are being addressed by international partners through various PAR initiatives including planning components, but these efforts are patchy and fragmented, and there has been no systematic pulling together of lessons learned from these different efforts (BTC, 2007).

In this context, 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, strengthen monitoring of plan implementation, and clearly define the roles of government and the private sector. It would move away from the current focus on economic and production targets, towards a new focus on delivery of public services, supported by robust methodologies for estimating costs. At the subnational level, it would clarify the roles of each jurisdiction, and increase the time between providing planning guidelines to subnational agencies and jurisdictions, and the deadline for submission of plans to the provincial departments of planning and investment. It is hoped that once this new framework is in place, donors will use it to support their own ODA planning, rather than bypassing the formal system as has often been the case in the past. One mechanism for donors to align to the new platform is through the implementation of Hanoi Core Statement on Aid Effectiveness whereby concrete indicators on alignment with the new planning framework is defined, agreed upon and followed through (*Ibid.*).

### **Improved fiscal flexibility for administrative agencies**

Despite the results achieved, implementation of Decree 130/2005 has raised a number of issues which need to be studied thoroughly to inform more robust revision and adjustments to the instrument in order to make full use of its potential on public administrative agencies.

As discussed earlier, saving of expenditure seems to become the main theme of the instrument 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 the discretionary powers over budget but not yet over staffing issues including recruitment, promotion and dismissal, as discussed above. Without such controls, it is hard to expect agency heads to be accountable for improving agency performance. The Law 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. More in depth analysis of how this might be carried out should be a priority as part of work underway in preparing the implementation decree for the Law.

One promising step already underway towards addressing these shortcomings is the Master Plan for Simplification of Administrative Procedures in the Fields of State Governance for the period 2007-2010 (Decision No.30/QD-TTg, January 10, 2007, Decision No. 07/QD-TTg, January 4, 2008), being implemented under the leadership of the Office of the Government. This initiative promises a sharp reduction in the present 20,000 – 40,000 procedures presently being enforced in Viet Nam.

### Improved fiscal flexibility for PSD agencies

Although improved fiscal flexibility for PSD agencies is widely thought to have improved performance in some cases, more extensive oversight is needed. For example, NA capacity needs to be strengthened for assessing the outcomes of budget decisions for PSD agencies, and the Government's implementation capacity. Spending disclosure needs to improve for PSD agencies, ensuring compliance with disclosure policies.

### An appropriate size for the PAS with Competitive salaries

Data in Figures 2 and 5, indicate that general government employment has been reduced sharply as a per cent of population since the early 90s, so that it is now in line with regional market economies such as Philippines and Indonesia. This suggests that further reductions in size need not be reform priorities for the medium term, although some downsizing may be desirable to make way for better qualified staff in key positions.

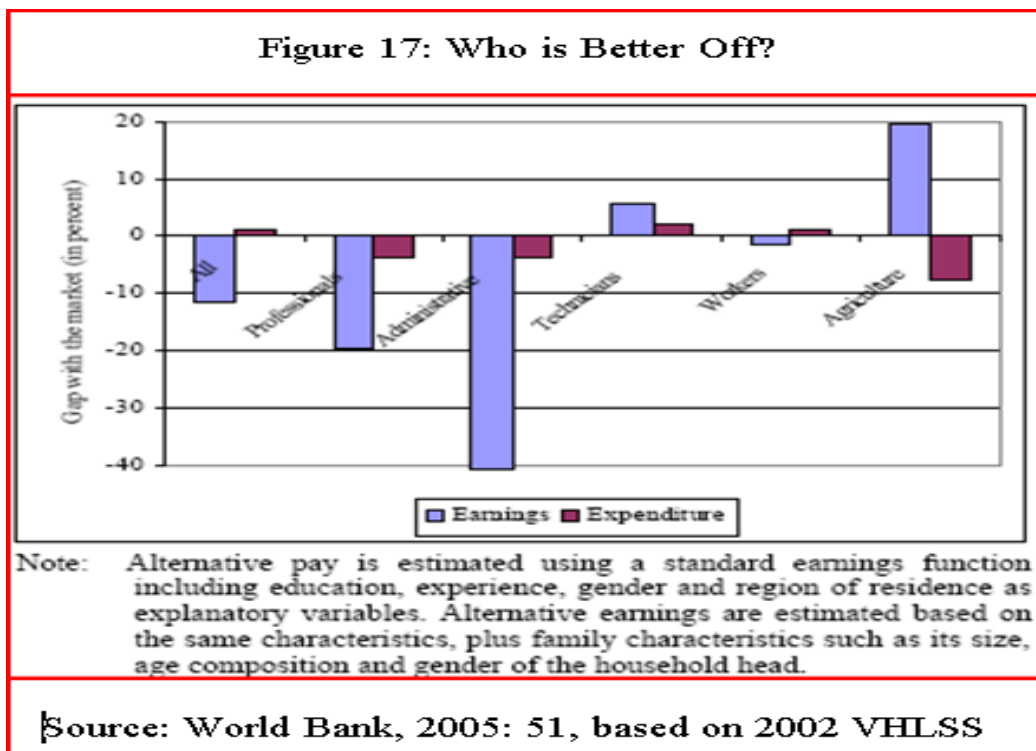
**Figure 16: Pay in the PAS and elsewhere**

	In Government	Out of Government	SOEs	Private Firms	Foreign Enterprises	Self-employed
All	9,568	3,099	10,572	5,143	11,993	1,788
Professionals	10,107	13,539	13,713	14,581	21,201	4,532
Administrative	5,971	11,515	10,016	9,025	13,770	12,088
Technicians	9,574	6,483	10,244	6,457	10,099	4,864
Workers	6,095	2,206	6,915	4,013	9,853	1,598
Agriculture	7,230	3,981	8,173	5,767	6,000	3,412
Employment share (%)	5.8	94.2	4.7	22.2	0.7	66.5

Note: Figures include wages and cash benefits, and are expressed in thousand VND per year. Farmers and unpaid family workers are excluded from the analysis. Source: World Bank, 2005: 50, based on 2002 VHLSS.

The issue of priorities for salary reform is more complicated to unravel. Data in Figures 2 and 5 indicate sharp increases in average central government wage as a multiple of GDP per capita in both periods, with Viet Nam now leading both Philippines and Indonesia in this regard. As all three countries arguably need a comparable skill level in key positions to design and carry effective policies, it could be that this is a justifiable premium Viet Nam has to pay to attract appropriate skills from its relatively less educated population. But does the premium need to be still higher?

Figure 16 indicates that average government pay in 2002 was higher than pay outside of government as a whole, but lower than pay in SOEs and foreign enterprises. When broken down by employment sub-category, government professionals and administrative staff were underpaid relative to employees out of government as a whole, and more so again with respect to SOEs and foreign enterprises, while technicians, workers and agricultural staff in government were better paid.



However, these data don't take into account the ways that government staff are different from workers out of government, including education (13 years of formal education vs. seven years), and place of work (1/2 in urban areas vs. 1/5 for staff out of government). Taking these factors into account changes the relative pay picture presented in figure 17. Based on these adjusted figures, government staff earn overall eleven percent less than non-government workers, with professionals earning 20 per cent less, and administrators 41 percent less.

Yet a further adjustment is needed to look not just at wages, but at actual living standards. Government staff have many advantages over non-government workers, including old-age pensions, more stable earnings, greater benefits in kind (e.g. housing, overseas training) and opportunities for additional income, such as teachers working after hours as tutors, and opportunities for many staff to receive unauthorized

payments or corruption. One would assume that when these earnings differences are factored in, the gap in living standards between government and non-government staff would be reduced, and that is in fact the case, as seen in Figure 17.

Measured by living standards, government staff are slightly better off overall than non-government workers. Professionals and administrators are still worse off, but the difference is less than five per cent, much less than the difference in earnings alone. These data are from 2002, before the large salary increases in 2003-5.

To summarize, given the sharp reduction in government employment relative to population since the early 90s, further downsizing may not need to be a reform priority for the medium term. However, some reductions of existing staff may be called for to make way for better qualified staff in key positions. This could be done as part of the move towards a position-based PAS, as called for in the Law on Public Officials and Civil Servants. Salary reform also needs continuing study as the PAS seeks to attract and retain technical staff in short supply in the local market. However, the salary and living standard data need to be carefully reviewed and updated through regular surveys of salaries and household expenditures, before any conclusion can be drawn as to whether particular salaries need to be adjusted, and if so, in what respect.

### **Streamlined 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 CIT and personal income tax (PIT)<sup>16</sup>. According to the new CIT law (approved by NA on June 3rd, 2008 and coming into effect January 1st, 2009), all enterprises will be treated equally for tax purposes regardless of economic sector and ownership; the market should determine which enterprises prosper, not the tax code. Taxable income will include all types, including gains from transfer of land use right and land lease right. Cost deduction rules will be simplified, such as the cost for bonuses. Tax incentives will be streamlined, with clearly defined time limits. The CIT will be reduced from the current 28 per cent to 25 per cent, to be more aligned with regional countries.

According to the new PIT law coming into effect January 1st, 2009, personal income taxes will be adjusted so as not to favour one particular activity over another. The tax base will be expanded to cover income of both nationals and foreigners, applying a lower and equal threshold. Taxable income will include all kinds of income, including salary, business revenue, interest, dividends, and capital gains. The highest progressive tax rate has been reduced from 40% to 35%. While there are differences in the amount collectable for different taxes, it is however difficult to attribute the level of effort, both from the payers and the payees side, needed to collect and manage each tax. This suggests the need to have 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 under MOF (e.g the Financial Policy and Strategy Institute – coming into operation with Decree 118/2008/ND-CP dated November 27, 2008), which is independent of both tax administration body and tax policy making department, in order to ensure the objectiveness of the result. Both quantitative and qualitative assessment is needed, allowing evidence-based decisions on policy adjustments or reforms for different types of taxation, taking into consideration emerging lessons learned from the field.



## Enhancing monitoring and evaluation of PFM reforms

This research started from the premise that information is a right. That is, (i) to confront national social, economic, political and environmental challenges, policy makers are required to be informed, in order to have constructive capacities; (ii) a citizen with information is an empowered citizen, and (iii) an informed/empowered citizen is a citizen with greater responsibility towards his/her community and country. The initial condition in Viet Nam is that policy makers / citizens do not have access to general, easy and timely information, making it difficult a lucid knowledge of the country's PAR situation. There is a need for instruments that provide a detailed image of the PAR process and its evolution, especially considering that PAR in Viet Nam has provided mixed results and proven to be a tension-ridden process. It has proven to be an ambitious programme of government reform, a political strategy by the Party and State officials and an unavoidable high-risk key area for donor support. Such an ambitious programme requires extensive monitoring and evaluation to keep it on track. This is particularly the case because international research shows that much of the PFM reform underway proceeds largely on the basis of ideology, with little evidence underpinning many of the key tenets. To avoid this in Viet Nam, there is a need both to improve substantive understanding of the causes of PFM challenges, incentives and policy directions towards improvement, and to address organizational challenges so that this understanding will be used to improve PFM processes.

Weaknesses in data quality and availability in Viet Nam seriously limits the country's ability to know whether reforms are on track or not. For example, information flows are out of phase, with the Government Statistics Office (GSO) submitting its data to DPIs in December, while the key period for planning is July and August; to cope, DPIs rely on their own projections and reports from line departments, rather than the more rigorous data from GSO. There is also not a suitable framework for monitoring and evaluation at subnational levels. Plans are formulated without being structured so as to be evaluable – objectives, outputs, activities and inputs are typically mixed up, making it next to impossible to determine how or whether plan implementation is on target or not. Provinces have not been provided with coherent guidelines on how to establish robust monitoring and evaluation (M&E) systems for tracking infrastructure and service delivery – and, in the absence of such support, have not developed ways of tracking their activities, let alone outcomes (Belgium Technical Cooperation (BTC), 2007). This paper is one of a number of PFM studies carried out since 1996 by international partners in close cooperation with Vietnamese experts and the Government. Although much useful information and analysis has been put forward, more intensive monitoring and evaluation work is needed in at least two areas: achieving a more comprehensive understanding of PFM performance in relation to international benchmarks, and better understanding of the link between progress on PFM systems, and improved development outcomes. This work will require strengthening relevant think tanks in Viet Nam.

In addition, and as in other jurisdictions, organizational changes are needed so that improved data and analysis is translated by Vietnamese authorities into effective action. New organizational structures and routines, new information cultures, and new interpersonal processes concerning information use will be needed. It is the combination of improved information quality and availability, with improved organizational and interpersonal dynamics in using information and organizational

and personal beliefs about information, that will translate into improved performance (Van de Walle and Boviard, 2008). Comprehensive monitoring of PFM performance

To understand the need in this area, it is helpful to go back for a moment to PFM theory<sup>17</sup>. Campos and Pradhan (1996) set out three ideal outcomes of a public expenditure management system: fiscal discipline, allocation of resources consistent with policy priorities, and good operational management. Fiscal discipline means expenditure control and careful management of deficits. It's a challenge even for developed countries to achieve, because of a number of "tragedies of the commons", such as politicians focused on staying in power by keeping stakeholders content, and often tempted to finance spending through deficits, which are paid back by future generations. This challenge is greater in developing countries where political support of politicians and top officials is often gained through providing patronage. In addition to deficit spending, some countries show lack of fiscal discipline by using windfalls from high resource prices such as oil to finance consumption, rather than to invest in productive assets for future generations. Fiscal discipline is based on good revenue forecasts, systems for accurately planning and monitoring expenditures, and for allocating them to priority areas to achieve goals of sustainable development. Strategic allocation means that resources are allocated based on the government's key policy priorities. It is only possible with good arrangements at the centre of government, and with sound, intergovernmental coordination. Good operational management means economy (quality inputs at the best price), efficiency (outputs at the lowest possible cost), and effectiveness (achieving the intended result).

Campos and Pradhan go on to indicate institutional incentives and other arrangements that seem to affect these outcomes (e.g. the "tragedy of commons" encourages spending units to use public resources at little cost to them; electoral cycles can hinder strategic prioritization; information asymmetry can impede efficient allocation and use of resources), and posit that success will come if there are binding constraints to tie politicians and officials to the three outcomes. For example, they show that increasing transparency and accountability in certain ways (e.g. through opening financial markets) can act as such a constraint, exacting a high cost to officials if they violate the arrangements (Wescott, 2008).

To determine Viet Nam's position with respect to the three ideal PFM outcomes, a systematic assessment is needed based on international standards. The MOF's reported decision to proceed with a PEFA performance assessment in 2010, and again in 2012-13, is welcome in this context. This assessment tool is being implemented through a partnership of eight cooperating development partners. 40 countries have completed (PEFA Secretariat, 2007: Table 1) one or more PEFA assessments. PEFA's Framework includes a set of 28 indicators for measuring performance, and a framework for reporting. Building on the three budgetary outcomes discussed above, the indicators measure six dimensions: budget credibility, comprehensiveness and transparency, alignment with policy, predictability and control, accounting and reporting, and external scrutiny and audit. Although there is not a PEFA indicator for corruption, improvements in the 28 areas can help reduce opportunities for corruption. PEFA and other related indicators are useful because they measure actual practice, rather than perception or reputation, and they look at actions that would be the immediate objectives of reform (Wescott, 2008). PERs, CFAs and other tools cover some of these aspects, but all, and not in a way that can

allow Viet Nam to meaningfully track its PFM performance with respect to comparable countries. An abbreviated PEFA was carried out in Viet Nam in 2005 (Bartholomew, Leurs and McCarty 2006: Annex 4), and a PEFA-like assessment was carried out of three provincial governments in 2008 (Mekong Economics, 2008b).

### **Evaluating how progress on PFM systems leads to improved development outcomes**

Once the above performance monitoring system is in place, Viet Nam will have a better understanding of the link between PFM technical processes followed and PFM outputs achieved, and will have enhanced organizational processes to use this understanding to promote better PFM outputs. The international theoretical and empirical PFM research cited earlier suggests that following such processes and achieving such outputs will lead to policy outcomes desired by governments, including more responsive and accountable service delivery to the poor, contributing to pro-poor growth, poverty reduction, empowerment and social inclusion of poor. However, these claims are based on normative assumptions drawn from experiences in developed countries, that may not always apply in developing countries where formal practices and systems may be undermined by informal and innovative practices pursued by key actors to protect their perceived interests.

The level 1 PFM inputs supported by international partners have contributed to level 2 intermediate effects/activities, which in turn have likely contributed to level 3 outputs (a claim that needs confirmation from the PEFA assessment discussed above). Moving to level 4 outcomes is where the evidence grows thin. Outcomes 4.1, 4.2, 4.2 and 4.6 refer to improvements in the regulatory regime and investment climate. Recent assessments such as World Bank (2008b) and Viet Nam Competitiveness Initiative (VNCI 2007) confirm progress in these areas, with, of course, much more work still needed. However, there has been little research on a possible causal link between PFM outputs and these outcomes. Concerning outcomes 4.3 and 4.7, a public expenditure tracking survey was carried out for 6 provinces participating in the National Targeted Programme for Education, and the final report is being prepared (Mekong Economics, 2008: 6). More work of this type is needed, covering additional provinces and services. Concerning outcome 4.5, the MPI Household and Living Survey is expected to provide useful citizen feedback on their confidence in administrative and budgetary procedures. Once better evidence is available on the link between PFM improvements and level 4 outcomes, further evaluative work can work to establish links between them and the level 5 impacts.

For example, over the next few years, Viet Nam is set to carry out level 2 activities such as expand budget coverage, implement a new COA and TABMIS, strengthen internal controls, implement more comprehensive accounting based on the International Public Sector Accounting Standard (IPSAS), and expand audits and legislative oversight. These are expected to lead to level 3 outputs, including fiscal discipline, improved operational efficiency, improved allocative efficiency, and strengthened accountability. These outputs could all be monitored as part of an M&E effort to ensure the reforms are on track. With careful research, it may also be possible to determine the extent to which the observed level 3 outputs were caused by the level 2 PFM activities undertaken. In turn, the level 3 outputs are expected to lead to level 4 outcomes such as an improved investment climate and improved service delivery, and these can also be monitored, and research undertaken to



determine the extent to which these outcomes were caused by the level 3 outputs. Finally, level 5 impacts of poverty reduction and empowerment can be monitored, and research undertaken on the causal link with level 4 outcomes. Much of the level 4 and 5 monitoring is already underway as part of SEDP processes, but what is needed is to make the link with the PFM reforms.

## Strengthening think tanks

Viet Nam has a long tradition of using local think tanks for policy advice. An early example was a unit set up by Võ Văn Kiệt in 1976 to bring together intellectual resources from the former regime in the South, and to draw out the best ideas. In 1984, General Secretary Mr. Trường Chinh set up a group led by Mr. Hà Nghiệp and Mr. Trần Nhâm that helped prepare the contents of the 6th Party Congress. In 1989, the Institute for International Relations translated books and documents into Vietnamese, including Paul Samuelson's economics textbook. Other think tanks making important contributions included the Central Institute for Economic Management (CIEM) (legal framework for enterprise registration, corporate governance and investment approvals, and evaluations of SOE equitizations), Viet Nam Academy of Social Sciences (VASS) (sectoral studies needed to support WTO accession, and poverty analysis), the Institute of Labour Studies and Social Affairs (ILSSA) (labour policies and social insurance), and institutes at the Ministry of Health (health insurance), and Ministry of Industry and Trade (power sector reform). Some of the organizations set up in earlier years such as CIEM, VASS, and the national universities started becoming more effective than they had been as their mandate expanded to provide independent views, and as key advisors and researchers were selected based on technical skills, and not just political loyalty. The analytical work done by these institutes increasingly requires better data. This requirement was supported by the first official estimate of GDP (1989), the first nationally representative household survey (1993), annual GSO enterprise surveys (since 2000), and MOF budget and expenditure data increasingly available since 1999 (Rama, 2008: 35-8).

One pattern evident from the evolution of policy relevant advice is that a key to its success was effectively persuading the Politburo to accept it. For example, VASS relied on its chairman, Dr. Đỗ Hoài Nam to deliver its advice directly to the Prime Minister prior to the 8th round of negotiations in 2004. Similarly, the Economic Commission of the Party relied on its former Vice-chairman, Dr. Cao Sỹ Kiêm, to deliver advice to the Politburo on banking reform (Ibid.).

A key think tank focusing on PFM issues is the Institute of Financial Research, MOF. Yet it presently has only 7 PFM researchers, with 3 on study leave. This and other relevant think tanks need to be strengthened both with additional, technically-qualified staff, and be deeper ties with suitable universities and private consultants mainly in Viet Nam, with support from international partners as available.

## Next Steps

This research paper has demonstrated a number of options for authorities to consider to deliver better value-for-money from Viet Nam's PAS, to support its graduation to middle income status. These include, *inter alia*, (i) revising and updating the Budget Law in 2009, (ii) prioritizing reforms mainly under control of

MOF (e.g. the new COA and TABMIS, strengthened internal controls for payroll, establishment of the Debt Office, clarifying and classifying revenue according to international practice, and carrying out periodic, PEFA assessments), (iii) deepening of capacity strengthening at MOF, (iv) implementation of Hanoi Core Statement on Aid Effectiveness according to the agreed timetable, (v) taking advantage of the recently approved Law on Public Officials and Civil Servants to improve performance appraisal, tighten sanctions for poor performance, and to fill positions requiring high-level technical skills, (vi) strengthening the capacity of the National Assembly for assessing the outcomes of budget decisions, and compliance for PSD agencies with disclosure policies, (vii) carrying out regular surveys of salaries and household expenditures to ensure competitive compensation for officials, (ix) heightening quantitative analysis of the efficiency of tax collection, (x) enhanced monitoring and evaluation of PFM reforms to enable more informed and evidence-based policy adjustments, and (xi) strengthening relevant think tanks.

Many of these proposed actions are already on the government's agenda in some form, but successful implementation will require enhanced management and technical capacity, and additional financial resources. The next stage is to engage extensively with authorities to determine the feasibility of these reforms, a reasonable timeframe, and the support needed from international partners during the next phase of PAR, from 2011-2020.

Successfully implementing these enhanced public administration and public finance measures will help to improve coordination capacities, to ensure that the costs of the public sector are affordable, and to build a strong administrative foundation for Viet Nam's expected middle income status that can sustain it in the decades ahead.

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## Endnotes

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- 1 List of interviewees include Mr. Đoàn Cường, Director Salary & Wages Dept, MoHA; Mr. Nguyễn Hoà Bình, Dep. Dir, PAR Dept, MoHA; Mr. Dương Hồng Loan - PFM specialist, AusAID; Mr. Trần Anh Tuấn, Head, ISOS, MoHA; Mr. Nguyễn Quang Ngọc, SIDA; Mr. Đỗ Việt Đức, State Budget Dept, MoF; Mr. Nguyễn Việt Hồng, Director, Public Expenditure Management Dept, MOF; Mr. Nguyễn Văn Hà, Deputy Dir, Finance Dept, MARD; Mr. Trịnh Tiến Dũng - Head of Governance Cluster, UNDP; Putu Kamayana, Deputy Country Director, ADB; Mr. Đào Việt Dũng, Economist / Governance Officer, ADB; Mr. Trần Hữu Huỳnh, Head Legal Dept, VCCI; Mr. Jago Penrose, PAG; Mr. Nguyễn Thành Tài, Vice Chairman, HCMC PPC, Mr. Thông, Dep Dir, UNDP PAR proj. SPAR-HCMC; Ms. Trần Thị Bình Minh / Head of Business Registration Division - DPI; Mr. Jonathan Pincus, Dean, Fulbright University; Ms. Phạm Thị Kim Lệ/ Vice Director, DOF, HCMC PPC, Mr. Tuấn/Deputy head Admin, Mr. Phước, Mr. Đức, Mr. Liêm, Ms. Yến, DOF; Ms. Trần Thị Nhung / Vice Chief of the Home Affairs Division, Mr. Mẫn / PAR Division, Ms. Tuyết / Finance Division, Cu Chi; Mr. Đặng Văn Thanh, former Dep Dir, Finance Committee, National Assembly; Ms. Jacqueline Delima Baril, CIDA; Susanne Frederiksen, Counsellor, Denmark Embassy; Ms. Maria Delfina Alcaide Garrido - Governance Specialist, World Bank Mrs. Keiko Kubota - Senior Economist, World Bank Mr. Nguyễn Văn Minh - Senior Economist, World Bank Mr. James H. Anderson - Senior Governance Officer, World Bank; Mr. Khánh Dep.Dir, DOF, Hoa Binh; Mr.Khang, Dep Dir, DPI, Hoa Binh; Officials in Tan Lac District and commune, Hoa Binh. There were also two debriefing meetings, one with donors and the other with MoHA (Mr. Tuấn, Dep Dir, Dept Finance and Planning, MoHA; Mr. Phú, Dep. Dir, PAR, MoHA; Mr. Vũ Quốc Thịnh, DG, International Cooperation Division, MoHA; Mrs. Hằng, ICD; Mr. Hong Su, Dep Dir, ICD; Mr. Trần Việt Hùng, Dep Chief, Local Budget Division, State Budget Dept, MoF; Mr. Trần Anh Tuấn, Head ISOS Nguyễn Hoà Bình, Dep. Dir, PAR Dept, MoHA.).
- 2 The following section draws from Wescott, 2008, 2009, along with other sources cited.
- 3 This section draws from Wescott, 2008.
- 4 Resource-rich countries face similar challenges (Collier, 2007)
- 5 These findings are subject to methodological problems inherent in gathering and using such data, inter alia: some countries include contractual and seasonal workers, and others don't; staff may be paid out of the central budget, but not listed as central personnel; and different benefits in kind across countries make wage comparisons problematic (Schiavo-Campo, Tommaso, and Mukherjee, 1997).
- 6 Of the countries in Figure 1, based on estimated 2009 population size and GDP per capita, Philippines (population 94m, GDP PC \$1690) and Indonesia (population 240m, GDP PC \$2130) are considered the best comparators to Viet Nam (population 88m, GDP PC \$1080) (Economist, 2008: 117-118)
- 7 Source: International Monetary Fund (IMF) Article IV reports, MOHA data, and other sources. 2001 Viet Nam data adjusted by adding estimated number of Commune officials for comparability.
- 8 CFAA 2007
- 9 See Figure 12a. Data from World Bank, 2008a and World Bank, 2008e.
- 10 Notably the Laws on Accounting (2005), State Audit (2005), Anti Corruption (2005), Anti Wastefulness (2005), Public Assets Management (2008)
- 11 Report #154/BC-CP dated 9 October 2008 of the Government to the National Assembly on the Implementation and Result of the Law on Anti Wastefulness.
- 12 The following draws from World Bank, 2008a: Annex 1.
- 13 MOF Decision 3915/QĐ-BTC dated 18 December 2007 on Decision on Approval of Contents and Roadmap on Development and Issue of Standards on Public Accounting in Viet Nam, cited in World Bank (2008a: 22)
- 14 Although there is a proposal to merge the capital budgeting function of MPI with MOF to improve coordination with the recurrent budgeting function, as is the case in many countries, MOF has resisted this to date, reportedly because of concerns of overloading its present capacity.
- 15 This section draws, inter alia, from BTC, 2007.
- 16 This section draws from Lee, 2007.

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17 This section draws on Wescott, 2008.

18 Others are mentioned in text.