



UNIVERSITY OF TAMPERE

Faculty of Management

**IMPROVING THE EFFECTIVENESS OF STATE BUDGET
EXPENDITURE MANAGEMENT IN HOA BINH PROVINCE
OF VIETNAM**

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Abbreviations and acronyms

SBEM	State budget expenditure management
SBE	State budget expenditure.
ADB	Asian Development Bank.
DAC	Development Assistance Committee.
GDP	Gross Domestic Product.
NAPA	National Academy of Public Administration.
UN	United Nations.
UNDP	United Nations Development Programme.
VNA	Vietnamese National Assembly.
VND	Vietnamese Dong.
VAT	Value Added Tax.
MTEF	Medium-Term Expenditure Framework.
PIP	Project Implementation Plan.
SOCBs	State- Owned Commercial Banks.
SOEs	State-Owned Enterprises.
ISO	International Organization for standardization.
NGO	Non-Governmental Organization.
PPC	Provincial People's Committee.

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Abstract

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The effective management of state budget expenditure (*SBEM*) has made significant contributions to development of social-economical aspects of Vietnam over the past years. It has contributed to increase the production as well as the consumption in different economic sectors, exploiting the potential competence of the cities and provinces, boosting production and service, providing jobs, ensuring justice in social security, and, maintaining political and social stability throughout the countries.

First issued in 1996 and amended in 2002, the Law on State Budget provides a quite comprehensive legal framework for budgeting and management of public expenditure. Especially, it has contributed to the significant improvements in the budget-related decision-making process as well as the supervisory effectiveness of elected bodies. The law has provided the National Assembly with more authority over the management of state budget. In more specific, National Assembly is now highly involved in the task of estimating budget as well as budget allocation to the provinces and provincial-level cities. In addition, the provincial People's Council has been given the authority to determine the allocation of revenues and expenditure to each government level within the province, and to district and commune-level governments.

Interestingly, this research is conducted at the same time as Hoa Binh Province is assessing the effectiveness of budget expenditure management and its role in the public sector. Hence, this master's thesis aims to provide Hoa Binh Province with solutions based on systematic research and analysis, which, to improve the effectiveness of the province's budget expenditure management. The research has been both secondary (*the use of secondary academic sources*) and primary (*interviewing both the personnel of budget expenditure management and relevant financial experts through survey questionnaires*).

The main findings of the thesis show that there is a need to improve the effectiveness of budget expenditure management of Hoa Binh Province. One of the conclusions suggests that effective management of socio-economic development is an indispensable activity to improve the transparency and accountability of effective budget expenditure management.

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Chapter 1: INTRODUCTION

1.1. Research background

The state budget (*government budget*) is an annual financial statement presenting the government's financial budgeting for a fiscal year. It is passed through the legislature, approved by the chief executive or president and then presented to the Congress by the Minister of financial department. The state budget is also known as the Annual Financial Statement of the country. This document anticipates the government revenues and expenditures for a financial year⁽¹⁾.

State budget expenditure (SBE) is the process of redistributing financial resources in the state budget to ensure the performance of state functions in accordance with certain principles. Thus, SBE are specific tasks that are not limited to simply setting orientations for state activities, however the budget must be allocated to each objective, activity and task of the state (*Le Chi Mai, 2011, p87*).

In many countries in the world, the local agency that takes responsibilities for managing SBE is the Provincial People's Committee (*PPC*). Each PPC has certain roles and undertakes specific responsibilities to contribute to efficiency of state budget management. However, all of them have one thing in common, that is, the People's Committees of provinces and cities are the units that help the government to manage the state budget in the provincial or local scale. All these provincial and city units have significant contributions to the effective management of state budget, specifically revenues and expenditures. The purpose is to help public sectors to operate effectively; and ensure transparency of the economy and efficiency in the process of budget allocation, management and the use of government resources (*Vuong, 2009*).

In Vietnam, the state budget plays an important role in the whole economy, society, security, national defense and foreign affairs of the country. Regarding to managing the market economy, the state budget is a macro-economic adjustment tool, setting orientation for national production, regulating the market, stabilizing prices and changing social life. In the recent years, Vietnam has paid deliberate attention to the importance of SBE, especially Vietnam redistributes financial resources of state budget and to bring them to use to implement national objectives⁽²⁾.

Hoa Binh is a mountainous province in the northwest of Vietnam; Hoa Binh has an underdeveloped economy. The economic and social activities of the province mainly depend on the allocated budget from the government. The province has made great efforts to overcome all difficulties and obtained significant socio-economic achievements over the past years. Now, Hoa

¹ https://en.wikipedia.org/wiki/Government_budget.

² https://vi.wikipedia.org/wiki/Ng%C3%A2n_s%C3%A1ch_nh%C3%A0_n%C6%B0%E1%BB%9Bc

Binh is growing up day by day.

After implementing the State Budget Law for more than 15 years, the state budget balance has been increasingly stable with a continuous increase in revenue. The national budget is sufficient and solid enough not only to cover the basic expenditures for management activities, economic development, socio-cultural affairs, defense and security, but also to make investments in variety of another projects as well as to support the development of the country. Yet, its SBEM remains somewhat limited with many shortcomings, for example, the process of allocating state financial resources lacks of selectivity, short listing and priority for SBEM outputs; state treasury controls SBE is not tight; especially, managing recurrent expenditure and allocation to development investment in socio-economic development is not well. Therefore, in order to improve the efficiency of SBEM, it is necessary to focus on the systematic development of management factors to ensure the efficiency and effectiveness of the provision of public goods and services.

Therefore, each province is required to make further adjustments and improvements to SBEM to overcome the above-mentioned shortcomings in order to stabilize and support the local socio-economic development in particular and that of the country's development in general. Similar to other provinces, these shortcomings mentioned above are the facing issues of Hoa Binh province that has drawn attention of both local authorities and researchers in Hoa Binh.

This study discusses the SBEM in Hoa Binh Province of Vietnam as the case study. The research is largely based upon published literatures and also data collected from the interviews to support the analysis, thus to come up with research findings and solutions.

1.2. Research problem and objectives

In a country's financial system, state budget is a decisive part, a fundamental part that reflects the financial status of the country. The state budget includes total budgeted government's revenues and expenditures for one financial year, which is prepared and reviewed by competent state agencies to ensure the operation of national activities, fulfilling state missions and objectives. Transparency and efficiency in using state budget are essentially prerequisite for increasing national budget for spending on state activities such as industrialization and modernization, meeting the requirements of socio-economic development, raising people's living standards, ensuring security, defense and external relations.

In order to use the state budget effectively, managing state budget is an important task. The general public administration reform program for period 2011-2020 mentions about the reforming system of state budget management, ensuring the key role of the Central Committee of Vietnam, along with enhancing the active manner, flexibility, creativity and responsibility of local and sectors in budget management. The trend to increase decentralization is emphasized in process of public financial

reform during recent years. Particularly, since the State Budget Law was supplemented and amended in 2002, there has been a significant shift in the focus of state budget management that pays attentions to a narrower scale, that is, the provincial people's council. Since then, the reform of state budget management has made important progress, initially creating deeply change from the theoretical to practical application and perception, contributing to the achievement of important results: eliminating subsidies through state budgets, increasing revenues, saving, and limiting state budget overspending; pushing back and curb inflation, abolish the "asking-giving" mechanism. Gradually, the management of state budget through the positive improvements with necessary adjustments has resulted in effective state budget management (*National Assembly of Vietnam, 2015*).

However, apart from the achievements, in the process of managing state budget in general and managing SBE in Hoa Binh in particular, there are many shortcomings, which are being present. For example, the process of allocating state financial resources lacks of selectivity, short listing and priority for SBEM outputs. Moreover, state treasury controls SBE is not tight, especially, managing recurrent expenditures and resources allocation to support development and investment activities, in socio-economic development is not sufficient (*PPC, 2015*). With this situation, there is a necessity for improving and upgrading the current system of state budget management to improve the effectiveness of state budget management in Hoa Binh. So the author selects the subject **“Improving the effectiveness of state budget expenditure management in Hoa Binh Province of Vietnam”** as the research topic for my graduation thesis. The author believes in the necessity of this thesis for Hoa Binh People's Committee in order to better understanding about SBEM in Hoa Binh and giving directions and solutions for the renovation and efficient management of SBE, supporting the process of reforming public financial system in the future.

Research on SBEM in Vietnam in recent years has become the domain of attention that attracts many scientists, the central agencies and provinces. For example, there have been studies about using fiscal policies to develop the economy in the process of integration ⁽³⁾ or improving the accounting system of state budget revenue and expenditure in Vietnam ⁽⁴⁾. So far, there is no public research on improving the effectiveness of SBEM in Hoa Binh Province. There were only some articles, but these articles have not deeply researched the above topic. This shows that, the research on this topic is a new, difficult problem that requires further attention and learning experiences to improve the effectiveness of SBEM in Hoa Binh province in the future.

The research problem can be formulated into following research questions. The key research

³ Researched by Le Cong Toan, National Economics University, 2010

⁴ Researched by Pham Quang Huy, Ho Chi Minh Economics University, 2014

question is *what is the effectiveness of SBEM?* Sub questions are 1) *what was the status of effectiveness and efficiency of SBEM in Hoa Binh during period 2011-2015?* and 2) *Based on the status of effectiveness, how to enhance the effectiveness of SBEM in Hoa Binh?*

1.3. Research scope and limitation

The thesis only focuses on studying basic issues on SBEM in general and SBEM in Hoa Binh province in particular from 2011 to 2015. Because, to the author will research, review, analyze and evaluate the achievements and operation of SBEM in Hoa Binh only from 2011 to 2015. Then, the author evaluates the strengths and weaknesses presenting in its operation. Based on the collected data and analysis on the activities or operation of budget expenditure management in Hoa Binh province, the author will come up with proposals and recommendations as well as solutions to improve the effectiveness of SBEM in Hoa Binh province in the coming time.

1.4. Research methodology research data

1.4.1. Research methodology

The research method used for this thesis is qualitative research. The applied theoretical framework comes from relevant research literature, which is relevant to empirical data in public sectors. Besides, SBEM evaluation is also discussed with the use of socio-economic reports in Hoa Binh.

Silverman (2010) distinguishes three different types of dissertations, in which each of them implying the use of certain methods, which are theoretical (*systematic analysis for theory development*), methodological (*development of a new method and empirical analysis of a specific body of data related to real world problems*). The present thesis is primarily characterized as an empirical piece of work since it searches for empirical evidence from primary data sources in order to answer questions posed on a real and contemporary phenomenon.

Another aspect influencing the research method selection is the nature of the collected data. The data helps to evaluate the operation of the PPC in implementing SBEM. The data used through the research can be considered alternative to legal documents, research papers and articles.

Creswell (2005) presents some key factors that need to be considered in the process of selecting qualitative approach. The first factor relates to the nature of the research problem, the qualitative approach will help to understand the problem through exploration rather than seeking a specific trend or explanation like quantitative methods. It helps to achieve the research objectives as it helps to understand and explore the complex process.

Creswell (*ibid*) stresses that the selected research method must be known and familiar to the targeted audience. As this research aims to shed light on a topic that is relevant to some people such

as finance professionals, managers in government funding agencies and policy makers, it is important to clarify to the readers the basic characteristics and limitations of the study. The qualitative approach requires the acquisition of data through the observing or interviewing of individuals as well as the interpretation of the collected data and relevant research materials.

Based on research questions posed for this study and the reasons explained above, a qualitative study is considered an appropriate approach. This study undertakes exploratory research as a way to clarify the current situation. The reason is that it allows closer exploration of a determined factor that may have different effects depending on the circumstances of all analyzed factors.

1.4.2. Research instruments

The research is carried out in two stages. Stage 1 identifies the relevant literatures on SBEM. Stage 2 studies SBEM using qualitative analysis of the collected data from the documents and reports. In addition, a qualitative research approach focuses on in-depth interviews with the selected interviewee (*managers*) to study the financial management practices that affect SBEM. It is believed that the research design can help to collect the data needed to answer the research questions and to come up with relevant solutions, conclusions. With these stages, it allows a deeper understanding of the current context of SBEM with particular emphasis on managing coordination. In-depth interview approach will be adopted with 50 people who are experts working in Financial Department, State Treasury and Provincial People's Committee to gain understanding of the core issues that help to come up with solutions and recommendations on "*How to improve the effectiveness of SBEM*". The choice of semi-structured format is reasonable because interviews are not as structured as in the case of closed-end questions nor are they completely unstructured in the risk of distracting interest. The selection of semi-structured approach is considered the most appropriate approach as it allows respondents to respond in an open manner that allows the author to easily interpret the views and opinions of different participants on the same issues. It seems more effective as it identifies the problems in a structured manner thus allows researchers to analyze and explore the problems with the flexibility of using different models. It also allows the interviewer (*the researcher*) to respond promptly to emerging issues. In order to obtain the desired information, an interview guide containing open-ended questions, the theory is used in the same interview format (*Maxwell, 1996*). The selection of respondents is based primarily on the in-depth understanding of the respondents on financial management and SBEM. These criteria naturally led to the need to interview the leaders and experts in Department of Taxation, Department of Statistic, Department of Planning and investment, Department of Finance and People's Committee of Hoa Binh, Thanh Hoa and Thai Nguyen province.

As another technique for empirical research, content analysis is widely used in this study; content analysis can be used as a part of archival research. Content analysis involves breaking down research materials and data into categories or units decided by the researcher. The used method is one part of the research. A case study is an empirical investigation, which investigates a contemporary phenomenon in a context where the phenomenon arises and happens (*Silverman, 2010*). The nature of the case study in the research is considered as a tool that helps the researchers to gain greater insight into a specific issue. In this particular situation, the case study is expected to contribute to a greater understanding of a topic of interest. The subject of the case itself is of secondary interest; examining the case improves understanding of the phenomenon, not the case (*Creswell, 2005*).

Content analysis is perhaps the most effective technique in quantitative research. Content analysis may be briefly defined as the systematic, objective, quantitative analysis of research materials (*Kimberly, 2002, p.1*). *Berelson (1952, p.18)* says that content analysis is a research technique, which is objective, systematic and quantitative describing the content of information exchange. *Weber (1990, p.9)* points out that content analysis is a research method that uses a set of procedures to draw valid conclusions from the data. Content is also a research technique based on the measurement of the amount of something (*violence, negative depiction of women or whatever*) by samples represent some common art form through mass mediated (*Berger 1991, p.25*).

Carney (1971, p.52): General-purpose technology raises the issue of "*communication*" to obtain findings that can be substantiated. "*Communication*" can be anything: A novel, some paintings, a movie, or a music score - this technique applies to all the same and not just to the analysis of literary material.

In summary, content analysis is a quantitative, the analysis of data and past literatures based on the scientific method (*including attention to objectivity, priority design, reliability, validity, generality, replicability, and hypothesis testing*) and not limited to the types of variables that can be measured or the context in which the messages are generated or presented. (*Kimberly, 2002, p. 10*).

This thesis focuses on analyzing the theory and practice of SBEM in Hoa Binh from 2011 to 2015. The main focus of this research is to improve SBEM in Hoa Binh province. Theoretical background to the specific problems mentioned in section 2: Theoretical Framework. Research activities include the learning process, review of past literatures and materials or data related to Hoa Binh province, the details are SBEM of some countries in the world, some provinces in Vietnam.

Questionnaire has listed main contents that are required to collect. 68 questionnaires were sent to agencies and leaders, experts in Department of Taxation; Department of Statistic, Department of Planning and investment, Department of Finance and People's Committee of Hoa

Binh, Thanh Hoa and Thai Nguyen province, etc, with purpose is to get information about SBEM. As a result, 50 questionnaires were collected.

Interviews are an important part of obtaining needed information about the topic to implement the research. They provided additional relevant information for document analysis, especially at the local level, where these resources are scarce. Fifty individuals participated in the interview pool (*face to face, about fifteen minutes*) about SBEM included:

2 leaders of the Tax Department; 2 leaders of Department of Statistics; 3 leaders and 05 managers of Department of Planning and Investment; 2 leaders and 10 experts of Department of Finance; 3 leaders and 09 managers of the People's Committee of Hoa Binh; 3 leaders and 5 specialists of the State Treasury; 3 leaders of Thanh Hoa People's Committee; 3 leaders of Thai Nguyen People's Committee. (*in Appendix 8*).

1.5. The new scientific contributions of the thesis

The research problems of the thesis contribute to clarify the rationale for SBEM, supplementing the practical review of SBEM in Hoa Binh. Through this, the provincial authority can see the weaknesses presenting in the management system, thus propose solutions and mechanisms of budget expenditure management to adjust the management mechanism in order to strengthen the task of management and effective use of the funding from the budget, supporting the socio-economic development in Hoa Binh.

The thesis can serve as a reference document for local state management agencies in leading and managing state budget revenue and expenditure, contributing to boosting the socio-economic development in Hoa Binh.

1.6. Organization of the study

This study is divided into 5 chapters. Each chapter includes an entity that builds theoretical and empirical knowledge of management in a next section. Chapter 1 introduces the purposes of the development of this thesis. Chapter 2 discusses the theories and research frameworks through reviewing relevant past literatures, which are used for the analysis. It pays particular attention to identifying factors contributing to the efficient SBEM and the role of the state, provinces and cities in SBEM for socio-economic development. Chapter 3 is about SBEM learning experiences from some countries in the world and in some other provinces in Vietnam. Chapter 4 describes SBEM in Hoa Binh province; advantages, disadvantages, successes, limitations and weaknesses of Hoa Binh province on SBEM for socio-economic development period 2011-2015. Chapter 5 shows the solutions and recommendations to enhance SBEM in Hoa Binh in the coming time, especially strengthening the organizational structure, improving the competence of managers, improving the

quality of budget control by the State Treasury, strengthen the financial inspection and supervision and strictly implement financial publicity at all levels. Chapter 5 also summarizes the contents of the research on SBEM and draws conclusions on SBEM in public sectors in Hoa Binh in particular and Vietnam in general with the purpose to manage SBE more effectively in the coming years.

Chapter 2: BASIC CONCEPTS OF STATE BUDGET EXPENDITURE MANAGEMENT

2.1. The state budget

The word "*budget*" (as "*budjet*" in Middle English) meant King's wallet (Shah, 2007, p.57). Under the feudal regime, the king's expenditure for public purposes such as embankment to prevent floods, building roads and spending within the royal family were not separated. As the bourgeoisie grew, it stepped up the parliament and demanded a separation of these two expenditures, resulting in the notion of a state budget. In practice, the budget concept generally refers to the total revenues and expenditures of a unit over a given period. A table calculates the costs of implementing a plan, or a program, for a certain purpose of a certain subject. If the subject is the State is called the state budget ⁽⁵⁾. Separately, state budgets can also be defined as the reports or entry of income and expenditures of the government, which belong to a definite period (Shah and Von Hagen, 2007, p.28).

The state budget of a country reflects the situation/status of that country. A good running state requires sufficient or abundant-economic resources; especially the financial resources needed to implement national plans and running economic and social activities, to cover the cost of the management and operation of the government operation and to support the activities of the society and economy. With its responsibility, the state is responsible for the distribution of social products in various forms (*Taxation is the most important*) to create a centralized financial fund called the State Budget (Duong and Pham, 2005).

Every country (*developed or developing, rich or poor, small or big*) needs financial resources for its operation. All governments have to collect resources from the economy, in a sufficient and appropriate manner; and allocate and use those resources responsibly, efficiently and effectively. The national budget is the main tool through which these transactions are planned and carried out (Jadranka Djurović-Todorović, Marina Djordjević, 2009, p282).

A government budget is a legal document that is often passed by the legislature, and approved by the chief executive or the President. For example, only certain types of revenue may be imposed and collected. Property tax is frequently the basis used as for municipal and county revenues, while sales tax and/or income tax are the basis for state revenues, and income tax and corporate tax are the basis for national revenues (Duong and Pham, 2005).

⁵ Financial Academy, Public financial management textbook, Finance publisher, Hanoi.2009, p.7.

In the case of the government, revenues are derived primarily from taxes. Government expenses include spending on current goods and services, which economists call government consumption; government investment expenditures such as infrastructure investment or research expenditure; and transfer payments like unemployment or retirement benefits (*Syllabus of public financial management-Hanoi, 2007*).

Budgets have an economic, political and technical basis. Unlike a pure economic budget, they are not entirely designed to allocate scarce resources for the best economic use. They also have a political basis wherein different interests push and pull in an attempt to obtain benefits and avoid burdens. The technical element is the forecast of the likely levels of revenues and expenses (*Duong and Pham, 2005*).

The state budget is a list of cash receipts and expenditures in a given period ⁽⁶⁾. Or: the state budget is a set of financial expenditures and incomes of the state over a certain period, usually one year ⁽⁷⁾. The state budget is the state central financial resource of a country ⁽⁸⁾. The state budget is the economic transactions that arise in the process of mobilizing and utilizing different sources of finance ⁹.

The above concepts may not appear as similar to each other. However, all of them are a part of the national financial plan, which covers the budgeted revenues and expenditures of the state for a certain period and Central governments use money from the national budget in order to cover their expenditures.

Marina Djordjević (2009) indicates that: “*State budget is every government revenue and expenditure which has already been determined by the relevant authority and is realized within a year to ensure implementation of the state’s duties and functions*”. In this study, the author fully agrees with this concept.

The spending and using of state budget funds are always associated with the economic and political power of the state and implemented by basing on a certain principle. The state budget has a special financial law, because in state budget, the subjects are established based on the system of relevant laws, such as constitution, tax laws, etc. On the other hand, Congress closely supervises and reviews the activities of state budget every year.

The state budget includes the budgeted revenues and expenditures. The involved parties will participate in the process of managing the state budget with the use of important parameters, the concerning relevant policies in next fiscal year. The state budget revenue and expenditure are based

⁶ Research Institute of Encyclopedic Knowledge, 1998, Dictionary of Market Economy, Hanoi Youth Publishing House.

⁷ United Nations Development Program - Ministry of Finance, Institute of Financial Sciences, Innovation Management of Public Expenditure in Vietnam, 2003.

⁸ M.Ivoncop (1987) Dictionary of Political Economy, Moscow Progressive Publishing House.

⁹ PGS, Dr. Duong Dang Chinh, Dr. Pham Van Khoan, Public Finance Management Textbook, Financial Publishing House 2010.

on government policy implementation. No policy that does not appear as a part of the state budget planning will be implemented. Because of this, the financial planning of using the state budget is an important political event, which represents a consensus within the National Assembly on the policies of the State. If the Congress does not agree on the financial planning of the state budget, which reflects the failure of the government to propose the policy, and may cause political controversy.

The state budget is a key component of the national financial system. The national financial system includes public finance, corporate finance, financial intermediation and personal or household finance. State finance is the foundation of the national financial system. State finance affects the operation and development of the entire economy - society. State finance mobilizes and raises a significant portion of financial resources from other financial institutions primarily through taxes and levies. Based on mobilizing resources, the Government allocates state funding to economic organizations and units of the public sector to carry out the tasks of socio-economic development.

The state budgeting is a plan of what government intends to do in a fiscal year, which involves an identification of the available resources and a plan to use them for specific purposes. State budget is the most potent tool, which enables government to implement its policies. The allocation of state budget to support national economic and social activities is a difficult task due to competing needs to meet the social benefits of society. The budget fully reflects government priorities (*Le Chi Mai, 2011, p102*).

2.2. The State Budget Expenditure (SBE) and effective SBE management

The governments collect revenues through taxes, fees and charges, royalties on natural resources, and the sale of goods and services. They also receive incomes from investments and often from borrowings. These revenues are used to make transfer payments to individuals and businesses, pay interest on accumulated debts, and general expenditures. Both spending and revenue-raising activities of governments tend to alter the relative economic position of individuals and families often by design, because income redistribution is one of the main functions of government activity (*Ruggeri, 2005*).

SBE is the distribution and use of state budget funds to ensure implementation of state activities according to certain principles. SBE is the allocation of financial resources that are available on the state budget and put them to use. Therefore, the SBE must be specific on the allocation for each objective, each activity and each job that follow function of the state (*Bouvier, 2005*).

In order to achieving its preferred outcomes, a government must manage public expenditures to implement the declared policies in achieving the objectives and targets. It must create an institutional framework that enhances the probability that actual outcomes will conform to the targeted objectives (*Allen Shick, 1998, p139*).

SBE is always associated with the State operation and the economic, political and social tasks performed by the State. SBE will be undertaken by state administration at all levels according to the contents already described in the decentralized-management of state budget. These expenditures are aimed at ensuring that the authorities at all levels fulfill their missions in undertaking the tasks of managing and developing the society and economy. Along with that, all the involved levels in the system are the key factor, which determine the structure, content and level of SBE to fulfill the national economic, political and social objectives and tasks (*Le Chi Mai, 2011, p243*).

The abovementioned stipulation clearly points out the basic expenses of the state budget. It is, in nature, a process of allocating financial sources, previously earned by the state, for actual purposes provided by the law. Therefore, budget expenditure involves specific allocation to every target and activity of the government function.

As a result, it can be defined that SBE refers to distribution and use of state budget in accordance with the budgeted plan, which is determined by relevant authorities in order to maintain activities of the state machinery and implement government functions with the law.

Aman Khan and W.Bartley Hildreth (2004) said that, the budget expenditure process involves coordination of the budget allocation and utilization – in the beginning, allocating the state budget to serve different purposes before use while the latter involves direct use of the allocated funds. It also provides state funds to support state projects such as investment in infrastructure constructions, defense and social order protection, etc. State budget is also used to pay necessary expenses, expenditure for employees, services and goods to meet public consumption needs of all classes of the population.

The scope of state budget spending is very broad, covering all aspects of life, directly or indirectly involving all the population at all levels. From the concept of state budget spending above shows: The authority to make decision on SBE should belong to the State (*the National Assembly, the Government or the competent State bodies*); SBE is not to individual or a particular group's purposes. However, it focuses on community benefits, socio-economic benefits; a good state-spending-management system should be build based upon three criteria - publicity, transparency to public as well as the participation of the public.

One of the noticeable features of SBE is that it serves the common interest of the population in the nation. This comes from the duty of the state to run and manage the society and economy. Moreover, in the process of performing the duty, the State has provided a huge amount of public goods to economy. SBE is aimed to realize the state's duties and functions because the task of monitoring state budget is under responsibility of the state-administrative system. Expenditure is determined basing on annual state budgeting, relevant legal stipulations and norms or standards. While state incomes increase the cash flow in the state budget, budget expenditure is the process of

allocating and making use of state's financial resource. Because budget revenue is precondition and budget expenditure basis, the latter scale and scope depends largely on the result of the former.

In short, SBE play a role as a tool for the state to run its economy for its own operation and activities, contributing to economic growth, solving social problems and addressing the problems of the economy.

Summary of effective SBE management approaches in literatures

In theory, there are many approaches to increase the effectiveness of SBE management and use of the state budget (*state budget*) from different points of view. There are many theories and frameworks have been developed by researchers and experts in the past. A Hall (2004) state that, effective SBE can be achieved by increasing the efficiency and effectiveness of using budget resource for optimal results (*limited budgets - effective economic theory*). For example, a government must manage public expenditures to implement the declared policies in achieving the objectives and targets. It must create an institutional framework that enhances the probability that actual outcomes will conform to the targeted objectives (Allen Shick, 1998, p139). The authority to make decision on SBE should belong to the State (*the National Assembly, the Government or the competent State bodies*); SBE is not to individual or a particular group's purposes. However, it focuses on community benefits, socio-economic benefits; a good state-spending-management system should be build based upon three criteria - publicity, transparency to public as well as the participation of the public (Crespo, 2005). Furthermore, Bergmann (2009) indicates that an effective project evaluation and measurement will help the state to determine which projects are suitable and which provinces, cities are really in need for financial distribution from state budget, thus minimizing the risks of over-spending but optimizing the use of state resource. The next approach is based on public policy theory, which discusses the role of fiscal decentralization the system of managing state budget to local authorities to increase the flexibility, efficiency, transparency and accountability (Montesinos, 2000). In addition, Bourn (2007) suggested another approach of effective SBE management. The approach looks at the process of managing state budget. The approach put emphasis on the effective management of the state budget by effectively managing the spending or the budget outflows (*such as allocating resources according to objectives, output priority rather than spending and inputs*). Specifically, Bourn's approach mentions that the planning of budget spending should be determined based on the medium-term framework, which will increase the effectiveness of management and use of the state budget.

2.3. The effectiveness of State Budget Expenditure Management (SBEM)

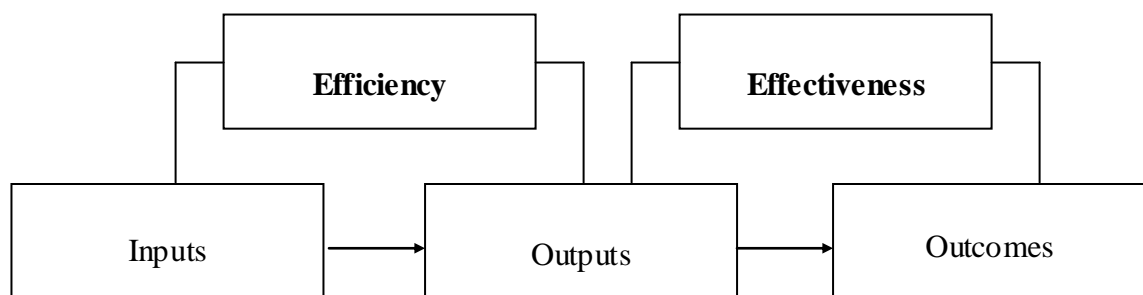
According to Oxford dictionary, the term “*Effectiveness has meaning: The degree to which something is successful in producing a desired result; success*”.

According to Cambridge dictionary: “*Effectiveness is the ability to be successful and produce the intended results*”.

The business dictionary supposes that: Effectiveness is the degree to which objectives are achieved and the extent to which targeted problems are solved. In contrast to efficiency, effectiveness is determined without reference to costs and, whereas efficiency means “*doing the thing right,*” *effectiveness means “doing the right thing.*”

The term of effectiveness is widely used in several sectors, fields in both macro and micro levels.

Within the framework of state financial management effectiveness, this term should be placed in dialectical relation with other terms, as in the following diagram:



Inputs are everything we need to accomplish a task. This could be in terms of finance, human resources, infrastructure etc.

Outputs can be immediate and intermediate. These are the direct products and services generated through processes or activities without specific reference to their ultimate purpose.

Outcomes refer to a changed state of being. They describe the effects, benefits or consequences that occur due to the outputs of programmes, processes or activities. The realisation of the outcomes has a time factor and can be in either the medium or long-term¹⁰

Efficiency is used to look at the ratio of input to output. To be efficient is to maximize output for a given input or minimize input whilst maintaining a specified output (*Christopher Pollitt, J. B. and P. Keith, 1998, p.10*).

¹⁰ <http://oldgov.gcis.gov.za/issues/outcomes/index.html>.

Effectiveness often refers to the relationship between outputs and outcomes; how the outputs affected the outcomes that we expect to achieve; a public sector's operation can ensure economic and efficiency but it may not be as effectiveness (*Le Chi Mai, 2011, p263*).

Effectiveness relates the input or the output to the final objectives to be achieved, i.e. the outcome. The outcome is often linked to welfare or growth objectives and therefore may be influenced by multiple factors (*including outputs but also exogenous 'environment' factors*). The effectiveness shows the success of the resources used in achieving the objectives set. (*Ulrike Mandl-Weber, 2008, p3*).

When dealing with management control, three basic principles (*the so-called "three E's"*) are usually mentioned: effectiveness, efficiency and economy. All these principles are integrated in the doctrine of control and, either totally or partly, recognized in law; they are not always given the same meaning. The effectiveness control ascertains the degree of achievement of objectives and the relation between established objectives and results (*effectiveness in relation to objectives*). Efficiency control (*also known as performance or productivity control*) checks the relation between provided goods and services and resources employed to do this. Finally, economy control examines cost minimization of acquired or allocated resources in terms of quality, quantity, price and opportunity of its acquisition (*Moukheibir and Barzelay, 1995*).

The main objectives of economic policy are generally defined as growth, equity and stability. It is well understood that these three goals are complementary in the long-term. Economic growth provides the resources needed to reduce poverty but cannot be sustainable unless it is accompanied by adequate stability and fairness. The economic and financial turmoil is not mandatory for growth, and typically hurts the poorest (*ADB mission statement, 1999*).

But stability in the context of stagnant economy and poverty can hardly be a desirable outcome. However, in the short - term, these goals may be contradictory, and require a solution (*and therefore a strong institutional mechanism*), putting all three policies into a tight policy package. (*ADB mission statement, 1999*).

There is a link between the three main objectives of the SBEM, their respective function and the level of government that they are operating. Financial discipline requires total control; Strategic resource allocation requires good programming, leading to internal levels and proper alignment. However, it should be emphasized that financial discipline and operational management are improved "technically" more important than the strategic allocation of resources.

In return, good performance management requires both efficiency (*minimizing cost per unit of output*) and effectiveness (achieving the outcome for which the output is intended). Management consultants and institutional theorists have popularized "Three Es" in economics, efficiency and effectiveness, in which the economy is defined as minimizing input costs. Economics has

administrative benefits because it is tied to procurement functions and is therefore a great potential source of waste and corruption. However, it is not economically viable for economics or policy-making, as it is effectively introduced, leading to the minimum cost per unit of output (*Bergmann, 2009, pp. 54-55*).

Our focus on SBEM should not lead us to forget the essential link between revenue and expenditure. The SBEM trilogy can easily be expanded into a trio of financial goals. Financial discipline results from good forecasts of revenue as well as expenditure; strategic allocation has a tax partner for different sectors; and tax management, of course, is the revenue side of the operation of good expenditure management. SBEM system is responsible for both the use of wages and its results.

Although there may be high internal accountability between the budgetary and staff, SBEM activities (*such as policy advice, macroeconomic projections, etc.*) are responsible. The main task of providing services to the public.

For later external accountability is necessary. With significant improvements in information and communication, technologies (see below), now can receive feedback from service users and citizens at low cost and for a variety of activities and is an essential addition to improve the efficiency and effectiveness of service delivery. Strengthening external accountability is particularly needed in the context of decentralized or autonomous management initiatives, when new checks and balances need to be made to ensure that access and quality are improved. Public services are not compromised (A Hall, 2004).

Playing a central role in determining the policy, SBEM must pursue all three overall economic policies, which are financial stability, economic growth and justice. They are pursued partly through allocation of public money to the various sectors. All three goals require efficient and effective use of resources in practice. Hence, the three goals of overall policy are to ensure the achievement of the key objectives of good public expenditure management: fiscal discipline; allocation of resources suitable with the priority of policies and good operational management. The latter two objectives are easily found in the traditional economic as efficient allocation and utilization (*A Hall, 2004*).

Effective SBEM allows localities to spend actively in line with the current economic situation. Under the condition of economic recession, effective SBEM will give priority to spend state budget for stimulus. Due to the specific nature of the state budget, the expenditures from the State budget are increasing at a rapid rate while the financial capability is limited. Therefore, strengthening SBEM at all levels for economical and efficient spending is essentially important to contribute to the balance of revenues and expenditures in order to ensure the good performance of economic, political, and social tasks of the localities (*Dr. Pham Van Khoan, 2010, p86*).

Effective SBE management at regional level, especially making investments on development and promoting investing activities allows local authorities to sustain the stability and development of key industries, key economic sectors in the area. As the result, effective SBE management speeds up the economic growth, supports and encourages the development of enterprises (*through subsidies, capital support, tax incentives, etc.*) to create a favorable environment for production and business development, ensuring social and political stability (*Tran Xuan Hai, 2012*).

Managing SBE through effective management of investment capital flows will shorten the gap of economic and social development between rural and urban areas, between plain and mountainous, between the developed and remote areas. Thus, the gap between rich and poor will be reduced between regions, regions and population classes, contributing to promoting sustainable development. Budget management at a local level is the management of the regional incomes to cover the expenses. It is a necessity to strengthen and improve the management of budget expenditures, which will result in the sufficient public spending of the whole country and stabilizing inflation. (*Pham Quang Huy, 2014*).

Transparency of SBEM is necessary for an informed executive, legislature, and the public at large (*normally through the filter of competent legislative staff and capable and independent public media*). It is essential not only that information must be provided, which is relevant and in understandable. Dumping on the public immense amounts of raw budgetary material does nothing to improve fiscal transparency. Moreover, “*this principle requires clarity, not complexity, in regulation, so that people understand the problem being regulated and how the regulation solves the problem*” (*Bourn, 2007*).

The tasks that the government is responsible for in managing public expenditure are: (1) Reducing risks associated with public spending, (2) increasing the capital solidity to meet increasing demands for financial support for socio-economic development, (3) stimulating economic growth while ensuring social security, and (4) maintaining balance of income and expenses. In order to fulfil these tasks, the government needs to establish a system of managing public expenditure management that ensures clarification, accountability, positive socio-economic performance and supervision of social stability (*Vuong, 2009*).

The effective management of SBE will lead to the efficiency of the use of budget capital, ensuring efficient and economical state budget utilization. Effective allocation of SBE will have different impacts on socio-economic life, especially solving the facing problems of society such as improving poverty, creating jobs for people. Effective management of spending of the state budget will stimulate market demands when the economy is down or cutting government spending to stabilize prices, boosting production, establishing a reserve fund in the state budget to cope with market volatility. (*Pham Duc Hong, 2003, p17*).

SBEM has the role of regulating prices, fighting recession and fighting inflation. As the inflation rises and the state economy experiences a downturn, the state must use the national budget as tool to overcome this situation. The imbalance between supply and demand will affect inflation. To ensure the benefits of consumers, the state adjusts the state monetary policy, using state budget as tool to regulate, intervene in the market by cutting spending, cutting investment or increasing investment, increasing spending for the ministry. In the process of regulating the market, SBEM plays a very important role in the fight against inflation and economic recession. When inflation rises, the state reduces the amount of spending, tightening monetary policy to limit the total money supply on the market, restrict the budget for investment in the society to stabilize the price. When the economy experiences recession, the state uses state budget to increase supply, increase demand, create jobs, stimulate demand to fight against economic recession (*Nguyen Ngoc Hai, 2008, p32*).

Chapter 3: EXPERIENCES ON SBEM IN CHINA, SOUTH KOREA AND IN VIETNAM

3.1. SBEM experience of Guangdong Province, China

Guangdong Province is in the southwest of China, bordering Quang Ninh Province of Vietnam. It has the landmass of 480,000 km², a population of 80 million, and is composed of 21 cities and 105 districts. This province is budget self-balancing, in addition to its contribution to the central government for support to the western provinces of China.

China's state budget is non-integral and divided into five levels (*i.e. the central, the provincial, the city, the district and the commune levels*). Before China's economic reform, state budgeting was mainly based on the data of the previous year, going through a simple process using predictions and estimations. Budget users were very passive in proposing their spending needs while revenue-generating public service organizations had the right to spend their self-generating revenue, which were left out of the budget and uncontrolled by the state. Budget expenditures were made through direct withdrawal from the People's Bank of China.

Since the year 2005, China's budget management has been reformed in three aspects: budgeting, SBEM staff training and retraining, and, treasury affairs.

Regarding to the method used in budgeting, the state budget authority requires the budget users to make annual estimation for three- or five-year as the basis for budget stabilization. The National Assembly or the People's Councils must participate in the process of budgeting, making approvals for planning of using the budget, and the implementation of budgeting is carried at each level.

The estimating process occurs in the form of two-times proposals and two times approvals: Every June, the financial management body will give instructions on estimating the budget for the coming year, to the involved agencies and these agencies, based on those instructions, will make and submit their first general budgeting plan. After receiving the budgeting plan, the financial authority by every September or October will issue a document asking for re-estimate the budget, based on the budget balance. The responsible agencies will submit their readjusted general budgeting to the financial authority by 15, December. The financial authority will consult the People's Committee and finally submit the general estimate to the People's Council for approval. Within one month after such approval, the financial authority will approve the official estimates of the agencies and give the additional figure to lower budget spending (*it does not discuss or work directly with the estimating agencies or the lower budget level, nor does it verify detailed allocation of the budget*).

The amount of budget for allocation is assigned in accordance with the different services and is framed for specific identification by local authorities. The allocation of budget expenditure clearly defines that the central budget covers expenditures for defenses, security, foreign affairs, environment and activities of central agencies; and, the local government's budget covers expenditures of the same level and those assigned by the upper-level budget.

There are two types of additional subsidy from the budget that varies from lower to higher level of governmental system: The balancing subsidies are to support to the local activities, depending on its amount of fund; the target-based subsidies are assigned based upon specific proposals for local constructions and projects.

Regarding expenditures for education and training: The law on education provides tuition-free regulation for the nine-year compulsory education (*from the 1st to the 9th grade*). Private and semi-state schools are self-established and exempt from tax and land lease. Universities, colleges and professional high schools may take loans for purchase of training equipment, and use money collected from tuition-fees to pay those debts. Those agencies and organizations established by the government must be self-sufficient and partially supported by the central government only in need. The government provides subsidies for all if necessary.

Regarding expenditures for agriculture: After the Law on Agriculture took effect, government policies supports farmers, improves farming techniques, increases farming outputs, alleviate rural hunger and poverty through increasing employment opportunities, investing in the infrastructure to improve the standard of living, and, promoting culture in the countryside. Financial policies are specified; for example, exemption or reduction of farming taxes, investment in development of irrigation systems, building agriculturally-specialized zones, provision of farming information to farmers, supporting farmers with houses, and provision of privileged production loans to poor farmers whose income is less than Chinese 850 Yuan.

3.2. SBEM experience from Seoul and Gyeonggi Provinces, South Korea

South Korea's budget is divided into three levels: the central, the centrally run city and the provincially run district/city while the commune-level budget is self-managed without having People's Council. The budgeting, implementation and balancing of the two provinces' budget are performed as following:

By 31st March, estimation must be sent to the Ministry of the Interior. By the end of May, the Ministry checks the investment projects to see which projects are aligned with the targeted objectives of the state. If the projects serve to implement the objectives, this is the requirement to receive budget allocation for the coming year.

By 31st July, the Ministry of the Interior sends its instructions on the budgeting for the coming

year to the local governments on the principle of autonomy for the latter. By August, the Ministry sends the estimating agencies the confirmed figures, which include specification of every necessary item such as expenditure for salary, for holidays, etc.

By the end of December, the local financial authority makes, allocates and reports its estimates to PPC, which will submit it to the People's Council for making decisions. By the end of the year, 232 administrative units of the two provinces have to submit their final accounts to the Ministry of the Interior, which the latter will be analyzing, based on relevant regulations. Each province has its own division for auditing final accounts. The activity is random, depending on the year, and lasts 20 days.

Regarding medium-term planning, PPC has to provide its medium-term financial and expenditure plan, along with its annual budget estimate, which will be sent to the People's Council, as the basis for the latter's consideration and determination of the former's annual budget estimate. The goal is to enhance effectiveness in budget allocation and to associate the annual plans with the medium-term one.

In terms of allocation state budget to local government, the local budget covers the remaining spending tasks on the principle of local autonomy in such scopes as expenditure for local administration, social welfare, health, social affairs, agricultural development, commerce, urban planning, construction of plumbing systems, and, payment of local budget loans.

South Korea's budget expenditure pays special attention to education and human resource development, which relatively accounts for some 13% of the overall local budget expenditure. The budget expenditure for education comprises 87% for general education and the rest 13% for post school and preschool education. The salary accounts for 70% of the budget expenditure for general education.

Budget allocation from the central budget to the local level is divided into three following types:

The first type of funding is to supplement the local budget deficiency so that the local government has the minimal fund for realization of its decentralized expenditure tasks. This balancing supplement is identified based on the balance of the local government's revenue and expenditure and accounts for 15% of the overall domestic revenue, which is determined by the overall national tax collection subtracted by the taxes on transportation, education, special tax for rural development, and customs. However, the supplement is also subtracted by the taxes on alcoholic drinks and telephone charges because these two are completely transferred to the local government in the following type of grant. The second type of funding is bid-based packages targeted at local governments that focus on five development priorities with corresponding rates for each type - 48% of roads, 25% of water and sewage, 17% of regional development, 8.3% of rural

development, 0.7% of teens . The source for the second type of grant comes from the overall revenue from telephone charges and excise tax on alcoholic drinks. The third type of grant is based on a certain percentage. It covers categories the central budget is originally responsible for (*e.g. cultural and sports centers, construction of the underground system, etc.*) but is assigned to the local government for implementation because those projects are closely connected with the local people. The degree of grant for each category is specified in percentage to each local government, depending on its respective budget size.

3.3. SBEM experience of Thanh Hoa province in Vietnam

2015 is the fifth year, Thanh Hoa has tested the medium-term financial planning and medium-term expenditure plans as decided by the Prime Minister. Especially, Thanh Hoa province in 2014, the second year of receiving state budget allocation to districts and town of which, Thanh Hoa has use the allocated budget for capital construction for districts and towns for the first time (*except for lottery*). It is the first year in implementing financial reforms in the field of taxation (*the application of the Law on VAT, revised corporate income tax, personal income tax, etc*) and continuing to implement WTO commitments in the field of taxation. The budget expenditure continue to be supervised to ensure the compliance with current policies to tighten expense, stabilize inflation along with sustaining the economic development; implementing social security issues, stabilize security, social order and politics. In the context of many changes in revenue and expenditure, however, there will be little adjustments between the central and provincial levels until 2020. The medium-term expenditure plan of Thanh Hoa province was developed with the main objective of providing materials to further refine the Pilot Plan for Financial Planning and medium-term expenditure plan under the framework of the "Public Financial Management Reform Project". At the same time, provide information to all levels, sectors, organizations a relatively comprehensive picture of the budget to implement policies and guidelines of the Party and the State.

The policy of distributing finance in medium-term aims to promote sustainable and stable economic growth; effectively transforming the economic structure; effectively distributing and using the economic structure; implementing distribution and effective use of financial resources. Link the distribution of state budget with the mobilization of social resources to meet the requirements of socio-economic targets, as well as of each branch, field and each district, etc. In the fiscal framework, early putting construction works into use to create economic growth. Focus on investing in social security, minimizing environmental pollution, overcoming and improving the quality of the environment; increasing accountability in the use of state funds by units, etc. Within the MTEF, Thanh Hoa province has policies and forecasts, such as:

Continuing to implement measures to control inflation rate of the Government and stop

provide travel organizations with funding to buy expensive properties. Reserving resources to make investment in areas and implement tasks of socio-economic infrastructure development, early putting new constructions into use to create economic growth. Furthermore, the province focuses on the training and educating human resources. There is a reasonable increase in the spending for health-care sector than the other sectors. In addition, the province also speeds up the implementation of national targeted programs, programs and projects and social security measures, supporting the development of production, stabilizing the lives of the poor, developing the economy in remote and isolated areas, especially for ethnic minorities. Ensuring the implementation of the regimes for policy beneficiaries, people with meritorious services, hunger elimination and poverty alleviation and job creation; allocating enough funds to accelerate the measurement and cadastral database and to grant certificates of registration right's land use according to the provisions of the Land Law and the National Assembly's resolutions, etc. Promoting the implementation of socialization, mobilize resources outside the society to meet development requirements.

The province also focused on maintaining and increasing the financial independence of for public-service *organizations (education, health, culture, etc, based on Decree No.43/2006/NĐ-CP of the Prime Minister)*, implementing the regime of autonomy and self-responsibility for the use of payrolls and paying administrative expenses for state administrative agencies according to Decree No.130/2005/NĐ-CP of the Prime Minister. In addition, the province shifted the attention from manufacturing and production towards implementing and improving social aspects (*Increase investment for training of talented people, for the poor, for policy beneficiaries, etc*), which to support the development of the economy and society.

Budgeting allocation according to socio-economic development objectives: Modifying regulations on hospital fee, tuition, etc, in accordance with the principle of correctness, on the basis, to ensure all or a part of the social policy beneficiaries, to promote non-business units capable of self-accounting for development.

3.4. SBEM experience of Thai Nguyen province in Vietnam

In the period 2011-2015, Thai Nguyen province has decentralized to the maximum revenue and expenditure and widens the proportion (*percentage*) of revenue sharing among budget levels stably for four years. As a result, it has contributed to encouraging and creating favorable conditions for local authorities to strengthen the management and exploitation of revenue sources, to create resources for development investment, ensuring the assigned tasks, step by step to meet local spending, to enhance the autonomy in managing the budget and be responsible for the administration at all levels.

The policy of financial distribution in the medium term in the direction of promoting rapid

economic growth, stable stability, to effectively transform the economic structure, effect the distribution and make efficient use of state financial resources. PPC should allocate the state budget to go with the mobilization of social resources to meet the requirements of the provincial socio-economic objectives set out in the medium term. PPC needs to concentrate state resources on investment in the areas of socio-economic infrastructure development, education and training, industry, services and tourism, especially the promotion of socialization and mobilization of social resources to meet the development requirements of the province. In the management of recurrent expenditure, Thai Nguyen People's Committee has issued norms of allocation of recurrent expenditure estimates for each budget level according to each criterion. For example, allocations to education are based on the number of students; Allowances for training shall be calculated according to the number of training quotas assigned; Bed-based health care benefits; Administrative expenses shall be calculated on the payroll, especially for non-business, non-business, scientific-technological activities. Environmental resources are allocated based on Government expenditure estimates and local budget balance. Thai Nguyen has also assigned state administrative agencies self-responsibility for the use of payroll and administrative management costs in accordance with Decree No 130/2005/ND-CP dated 17 October 2005 of the Government. The autonomy and self-responsibility for the performance of tasks, organizational structure, staffing and finance for public non-business units under Decree No.43/2006/ND-CP dated April 25 2006. As a result, administrative agencies and public non-profit agencies have taken the initiative in using payroll, organizing and carrying out their assigned tasks; to make the fullest use of the prescribed revenue sources, strictly manage and use thriftily and effectively the budget allocated by the budget and funds are spent on revenue left. From there, to rationalize the apparatus, ensure the fulfillment of tasks and increase the incomes of cadres and civil servants.

According to the report of local budget expenditure in 2014 of Thai Nguyen province, total local budget expenditure reached 4,803 billion VND, accounting for 167% of the central budget estimate, of which: Expenditure for investment and development: 1,050 billion VND, accounting for 124% of the central budget estimate and accounting for 23% of total local budget expenditure. Recurrent expenses: 2,515 billion VND, accounting for 130% of the central estimation assigned or accounted for 52.3% of total local budget expenditures. Expenditure transferred to next year: 783 billion VND, accounting for 16% of total local budget expenditure. Expenditure for management through the state budget 438 billion VND, accounting for 9% of total local budget expenditure.

2015 is the last year of the budget stabilization period 2011-2015, so there is no change in recurrent expenditure norms. Managing and administrating the budget of units and localities in the province stick to the assigned estimates, there are no significant exceptions to the estimates (*except for supplementary resources from disaster preparedness and social security issues*). PPC regularly

directs the localities and functional branches to intensify the inspection and supervision work, promptly correct and seriously handle cases of wrong, expenditure in excess of the regime and norms of the current financial expenditure regime. PPC continues to implement the autonomy regime for 100% state management agencies in accordance with Decree 130/2005 / ND-CP of the Government. To exercise autonomy for 100% public non-business units implementing autonomy and self-responsibility mechanism under the Government's Decree No. 43/2006 / ND-CP. The result: it has created a very active and high responsibility for the heads of the agencies and units in arranging the contents related to the professional tasks, so it is necessary to timely pay for the correct apparatus. The deadline, in accordance with the budget allocated; continuing to decentralize budgets for school units so that units can actively manage and use the budget. Expenditures on capital construction will be concentrated in the fields of health, education and social security. Strict implementation of public budgets at all levels, especially the people's fund contributions to build infrastructure. By boldly implementing the decentralization of expenditures for local budgets, Thai Nguyen province has obtained encouraging results, the local economy is growing and social and political stability. One of the decisive factors for Thai Nguyen to develop strongly over the years is the proper attention and scientifically conducted activities of SBEM in the province. The outstanding achievements of Thai Nguyen in SBEM, especially management of construction investment can be seen in some aspects, such as planning and implementing management according to planning, breakthrough in infrastructure construction, and land conversion for infrastructure, compensation policies to attract and develop talents.

Chapter 4: THE STATE BUDGET EXPENDITURE MANAGEMENT IN HOA BINH

4.1. Hoa Binh's natural condition and socio-economic situation

Hoa Binh is a mountainous province, located at the Motherland's Northwest gateway within 20⁰19' - 21⁰08' Northern latitude, 104⁰48' - 105⁰50' Eastern meridian. Hoa Binh province's natural area covers 4,595 km², making up 1.4% of the whole nation's natural area. Located in the east of Hanoi, northern of Phu Tho province; west of Thanh Hoa and Son La province, southeast of Ninh Binh province, Hoa Binh has an important role in the defense strategy regionally and nationally.

The natural area in Hoa Binh province is 468,309.81 hectares, most of which is the forest with 250,198.73 hectares, making up over 53.42% of the natural area; of which is the protective forest and specialized forestland with 157,100.84 hectares, making up 62.79% of the forestland and the rest is the forestland for production. The land for agricultural production is 56,088.22 hectares, making up over 11.97% of the natural area, of which 29,253.64, making up 52.15% of the land is the area for agricultural production. Due to little land for production while household economics here mainly rely on incomings from agricultural, forestry and aquaculture production, the people's life still meets many difficulties (*Chu, 2005*).

In recent years, Hoa Binh has created the best conditions within the State and province's legal framework and regulations for investors that invest and conduct business in the province, such as exemption of land rent for 11 - 15 years, exemption and maximum reduction of enterprise income tax to 50%... As well as focusing on solving problems for the ones that are running their business in Hoa Binh. Hoa Binh has always respected and paid attention to foreign affairs such as politics, economy, culture and people, etc. That aims to strengthen solidarity, friendship, and taking advantage of the international community's support. In the upcoming time, the province will endeavor to improve further the effectiveness of public relations, addressing an impressive image of the province to international friends, stressing to consolidate and develop the traditional friendship. At the same time extending relations with new partners and areas in hope to attract investment and contribute to socio-economic development of the province (*Le Chi, 2015*).

The average annual economic growth rate is estimated at 9%, GDP per capita in 2015 is 17.7 million VND. The industry and handicrafts continue to grow rapidly, creating the foundation for industrialization and modernization, promoting the development of services and urban areas and labor migration in rural areas. Industrial production has made positive changes in the economic structure as well as production structure in the industry; production value increased by 19.3% on average. Product quality is improved; share of mining industry is about 19.5%, electricity and water processing and distribution

reached 78.3%. Service sector share is relatively stable; fluctuating around 16.45%, while growth in value at an average rate of 10%¹¹ (in Appendix 1).

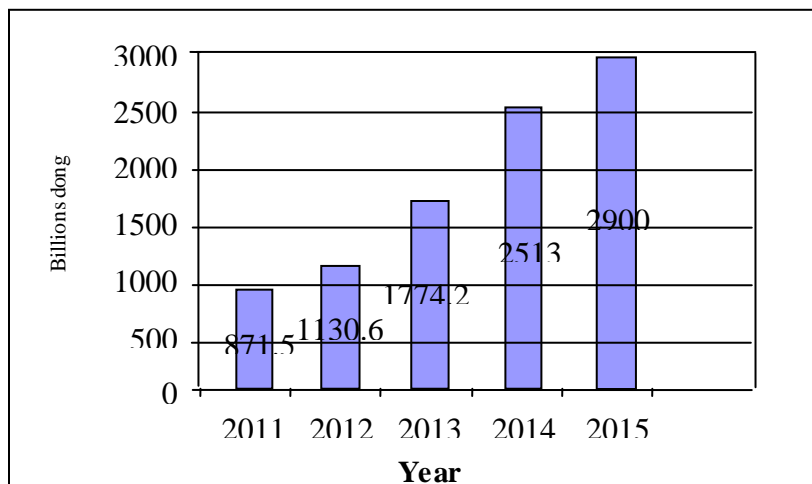


Chart 1: Domestic budget revenue in the period 2011 - 2015

Source: Hoa Binh Finance Department

Trade and service activities are expanded; raising the quality and meeting the needs of production and consumption; domestic trade changed positively; the annual growth rate of the service sector is 9%, contributing over 29% of GDP growth. Total annual retail sales of goods and social service revenue increased over 29%. To meet the demand for goods exchange and consumption of products for producers better. Total retail sales of goods and services in 2015 reached 23,459 billion, up 28.1% over 2014, up 7.26% of the plan.

It has focused on mobilizing many sources of investment, to meet the demand for building socio-economic infrastructure step by step, to make changes in urban development, investment in key projects and construction of industrial parks. Total investment from the state budget in this period reached over 59,736 billion. In which, 2013 will be 10,465 billion, in 2014 it will reach 8,905,000 billion and in 2015 it will reach 5,460 billion. Attracting foreign direct investment in Hoa Binh in the period 2011-2015 is 38 projects with a total registered capital of over \$9 billion, of which the capital has reached nearly \$498 million, accounting for over 27% of the total social investment capital in the province. The structure of investment capital from the annual budget decreased gradually, from 70.12% to 34%; capital investment from businesses and residents increased, accounting for 24% of total social investment in 2013. The agricultural, rural infrastructure, urban, economy, industry, transport and electricity is to increase investment.

Along with the economic achievements in 2011-2015, Hoa Binh has achieved many social objectives. In general, the province has made significant strides in poverty reduction, education, and

¹¹ Hoa Binh People's Committee Report, 2015.

health care. These achievements are due to the protection and maintenance of a healthy environment and limiting pollution from industrial development.

Implementing the national poverty reduction program effectively, strive to reduce 2.16% of the poverty rate in 2015. Party committees at all levels, the government has paid close attention to the drastic and direct implementation of all political system. The propaganda and dissemination of the policy on poverty reduction has always been concerned by various levels of committees, authorities, mass organizations and associations. Through propaganda, local authorities have helped poor households to grasp the guidelines and policies of the Party and the State and help them apply technological advances into production to get out of poverty. Result: The poverty rate of the whole province decreased from 18.70% in 2013 to 15.46% in 2014 and to 13.3% in 2015. Implementing good health insurance for the people; reaching the rate of participation in 82% health insurance.

4.2. Reality of recurrent expenditure management in Hoa Binh

Recurrent expenditure associated with provincial social management functions; include diversified expenditures, recurrent expenditure is used for a variety of purposes, from the settlement of the social system to the economic development. In that sense, recurrent expenditure accounts for a significant share of total SBE in Hoa Binh. (*The share of recurrent expenditures relative to total SBE and GDP in Appendix 2*).

From 2011 to 2013, the total recurrent expenditure was 1069.318 billion, accounting for 43.85% of the provincial budget, accounting for 16.07% of the provincial GDP. The period from 2013 - 2015, serving the guidelines of the Party and State such as renovation of wage policy, increased spending on education and training, science and technology, etc. The size of recurrent expenditures of the provincial budget has increased dramatically in absolute numbers; in 2012, the budget expenditure was 2,032.16 billion, increased to the level of 5509.1 billion increased 2.65 times.

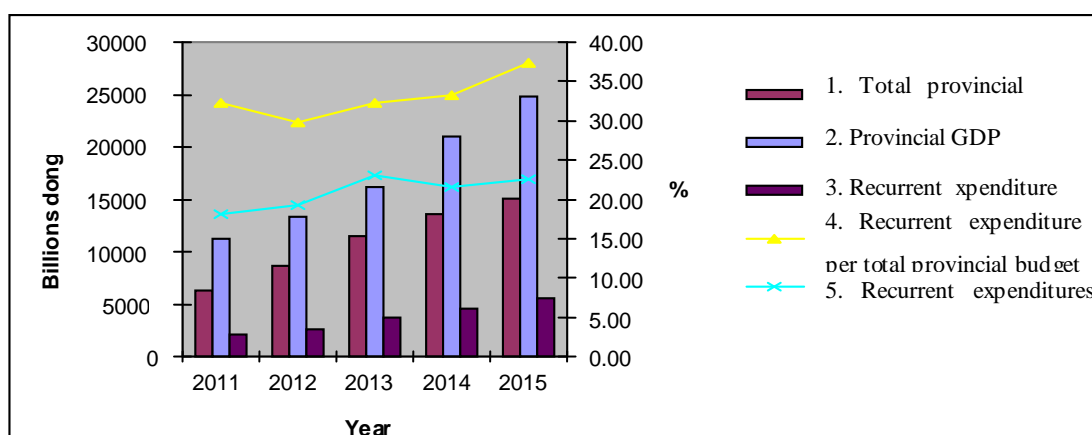


Chart 2: Structure of recurrent expenditure in total budget expenditure and provincial GDP

Source: Hoa Binh Finance Department

Recurrent expenditure management of the budget in Hoa Binh follows SBEM cycle, which

includes the following stages: budgeting, executing, implementing budget expenditure and final budget expenditure.

4.2.1. Recurrent expenditure estimates management of the budget

Regular state budget allocations to state budget beneficiaries in Hoa Binh province are made according to government regulations¹²; these regulations came into effect in 2006 and have been disseminated in Hoa Binh since 2008.

The above decree paves the way for the application of state budget management in terms of outputs. However, the reality in Hoa Binh, SBEM method according to application output is not popular. This management method is closely linked to a market economy, only in developed countries and can only be applied in countries with high management level, full information and transparency, along with technical support facilities and a synchronized policy system. These factors are the basis for determining the specific outputs, which measure the quantity, time and cost, etc. This allows us to evaluate the effectiveness of budget use, optimum options, considering that the supply of goods and services is equal to that of private goods. It can be said that this is the requisite and indispensable tendency of the country to have a market economy.

Now, Hoa Binh lacks the conditions to apply the new method, because, Hoa Binh wants to implement public service management according to the output, it takes time to prepare the necessary elements, in particular, there must be appropriate solutions to perform each step. This situation was gradually overcome by signing contracts with employees, self-control and self-responsibility with the units using the budget under Decree No. 130 and Decree No. 43 of the Government in 2005 and 2006. In Hoa Binh, the implementation of the autonomy and self-responsibility regime on the use of staffing and administrative management funds for state agencies (*Decree No.130*). Moreover, autonomy and self-responsibility for the performance of tasks, organizational structure, staffing and finance for public service delivery agencies (*Decree No.43*) at the provincial level units are basically good (*Commune budget level has not been implemented yet*). Units are self-employed and payers. By allocating the budget at the beginning of the year, the provincial People's Committee gives autonomy and self-responsibility to its administrative authorities and its public service delivery agencies. A new approach to managing budget expenditure is of particular interest to some countries in the world: fiscal management within MTEF, this method can be said to have many advantages; it is considered as a sliding plan, rolling plan for many years (*From three to five years*). After each year based on the

¹² Budget Law, 2002; Decree No. 130/2005/ND-CP dated 17/10/2005 of the Government providing for the regime of autonomy and self-responsibility on the use of staffing and administrative management expenditure for state agencies; Decree No. 43/2006/ND-CP dated 25/4/2006 regulating autonomy and self-responsibility for performance of tasks, organizational structure, staffing and finance for public service delivery units.

macroeconomic forecast changes, adjusted the plan for the next year, add another year, therefore, there is always a medium-term plan, and always updated to suit the reality.

4.2.2. Managing recurrent expenditure estimates and budget implementation

Implementing recurrent expenditure estimates of the budget at this stage in Hoa Binh is managed according to the budget cycle which also known as annual budget expenditure management. Include the stages: Allocating recurrent expenditure; recurrent expenditure control; adjusting recurrent expenditure estimates.

The recurrent management of the budget under the annual plan allows for accurate evaluation of financial resources, this will help to allocate the spending corresponding to the actual capacity. This task is easy to carry, normally with little adjustments, and if so, the adjustment is very small compared to the construction budget. However, the difficulty comes from the management of the budget, as there are many years of work, but at the end of each year, the expenditure must be settled while the work is not over. On the other hand, it is not possible to calculate resources accurately in the medium term because they are not based on macroeconomic forecasts; this makes it difficult to formulate a medium-term expenditure policy. Managing implementation of the recurrent expenditure estimates shall be carried out according to spending contents, associated with the functions and duties of the beneficiary budget. In the implementation process, units may adjust contents and groups of expenditure items in the expenditure estimates assigned by competent authorities to suit the actual situation of their units, beside, to send to the superior managing agency and the State Treasury where the unit opens its account for monitoring, management, payment and settlement. At the end of the budget year, the budget is spent on regular activities and the non-used non-business revenues, which are transferred to using in the next year.

The decentralized system of management has given authorities to 57 administrative units 57/171 units, of which, the provincial level is 46 units, reaching 81.8%, at district level, 99 units have not given autonomy due to lack of attention by districts, towns and cities. Public service delivery units were given autonomy of 240/922 units, of which, the provincial level reached 181/187 units, reaching 87%, the district has delivered 49 units, etc. Units perform autonomy mode have implemented measures to practice thriftiness and combat wastefulness in the use of funds, management and use of assets such as: Promulgating the Regulation on the management and use of automobiles, the norms for allocation and use of stationery, etc. Since then, it has saved money and increased income for cadres and civil servants. *(Increased savings and income from implementing the autonomy regime of the provincial units in Appendix 3).*

Through implementing the autonomy mechanism, units are more proactive in using funds, assets and human resources effectively to perform their tasks; the management and use of funds are strictly implemented, open, democratic, contribute to increase revenue, save money to supplement

operating funds, make funds, invest in equipment, improve the quality of public services, increase income for laborers. Specifically, the process of recurrent expenditure of budget in Hoa Binh province in some typical areas, as follows:

* *The education and training management:* Hoa Binh's education system over the years has shown that a small budget is distribute to kindergartens to colleges. The budget spending is relatively high, reaching an average of 6.78% per year, 14.97% of total SBE, and 40.32% of total recurrent expenditure; this figure is high compared to other provinces in the country and much higher than the national average of over 21% of total state budget recurrent expenditure. However, from a relative perspective, the budget expenditure for education in Hoa Binh province have the tendency to decrease in the current period. The period 2011 – 2015, budget spending for education in Hoa Binh will be reduced to 11.99% of state budget; and 37.72% per recurrent expenditures. The main reason is that annual provincial budget revenues increase, stable package financing has led to a declining proportion of SBE on education and training. (*Expenditure situation in Hoa Binh education and training in Appendix 4*)

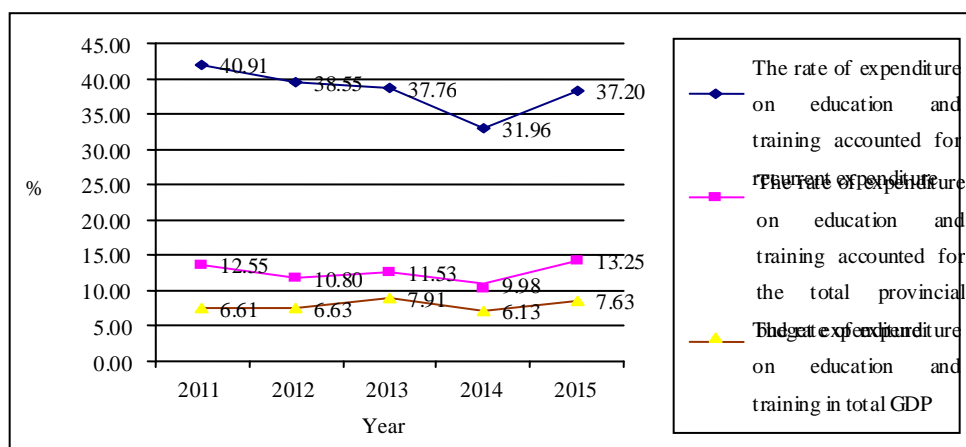


Chart 3: Structure of expenditure on education and training

Source: Hoa Binh Finance Department

In the past time, the policy of promoting education for all social classes has been implemented strongly in order to build a responsible community of all classes of people, expand the sources of investment, and exploit the potential of economic resources in society to develop education. This policy, in a certain sense, has contributed to reducing the pressure on the shoulder of education and training organizations. This will create conditions for the State to implement key programs of the education sector such as eliminating illiteracy, popularize primary education to all social classes, improving the education system of mountainous areas, etc., increasing the spending on training teachers and staffs of schools, reform salary policy, etc. At present, Hoa Binh has a high literacy rate (98%) and primary and the number of people finished secondary education is much higher than national and regional averages - over 97.13% of high school students graduated in 2015, compared

to the national average of less than 93.48%. High quality high schools of the province have been recognized in the top 22 of Vietnam in recent years. However, the province has some challenges related to higher education and labor training. First, only 33.1% of young Hoa Binh's population (19 - 22 years) goes to college / university, compared with 36% nationwide average. Moreover, in this 33.1%, more than 68% go to school outside the province. The main reasons for these are lack of qualified teachers, poor facilities, having limited ability to attract or retain talent. Despite the positive changes and contributions to the development of education and training in recent years, however, the current situation of management of education and training has some problems to be solved, such as: budget allocation for education and training is not reasonable; the current salary system has not met the objective of improving the material life of teachers.

* *The health care expenditures management:* Under the subsidy mechanism, all financial needs of health organizations are covered by the State budget, however, this funding is only able to deliver about 60% -70% of the demand. In the context of the abolishing state budget subsidy for health care, in addition to the hospital fee collected from patients, the State has implemented the social insurance scheme. This is a form of mobilizing insurance premiums of individuals and groups to form social insurance funds. Health insurance is one of the basic occupations of social insurance.

In recent years, state budget expenses on health have been used in the following key activities: Allocate funds for disease prevention, food safety, and implementation of key programs in the health sector. Expenses for medical examination and treatment for special subjects, implementation of measures to support the poor, ethnic minority people in mountainous and difficult areas such as free medical examination and treatment and health insurance cards, etc. The cost of medical examination and treatment for clinics, hospitals, clinics ... (*Details in Appendix 5*)

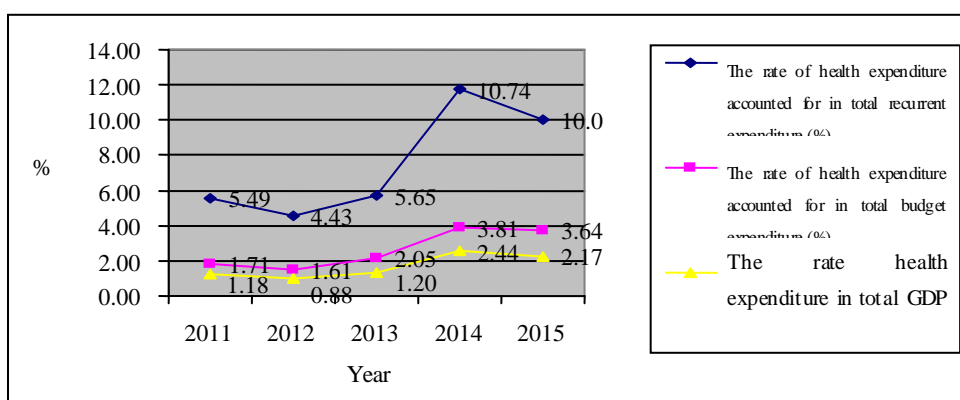


Chart 4: Structure of health expenditures

Source: Hoa Binh Finance Department

Today, with the social policy of career activities, this includes the activities of the health sector not only to improve the quality of medical examination and treatment and the productivity of health workers, improve facilities and equipment for a modern medicine and especially to facilitate

the expansion of the medical network. Over the past years, Hoa Binh province has continued to invest in facilities and medical equipment at all 2 levels; to concentrate investment in the construction and upgrading of provincial general hospitals and general hospitals in districts, cities and towns. Socialization in the health sector has seen positive changes. Two hospitals have been established, many private clinics and deploy joint ventures, equipment procurement links, contributing to improve diagnostic and therapeutic capabilities. However, current budget spending on health is still low, it only accounts for about 30% of spending on education. Although there have been certain contributions to the development of medical activity in social life, however, management of health care in Hoa Binh Province still has some problems: *Firstly*, the branch is unfocused, since then, the efficiency is not high, especially the expenses for upgrading health stations and clinics in remote areas. This has led to overcrowding in provincial hospitals, as people lack confidence in the quality of service provided by the district health facilities. *Secondly*, the current bed-level allocation has some shortcomings. In many cases, overloading or underutilization of the bed capacity is difficult for the budget adjustment made during the year. In addition, the low bed-level allocation has caused difficulties in activities especially for district hospitals. Deducting wages and allowances under the regime accounted for 80 to 85 percent of the budget allocation, leading to many hospitals paying only salaries and allowances for health workers who do not have enough funds to cover professional activities. Meanwhile, in these hospitals other sources of income from health insurance, revenues from the provision of health services are very low. This has caused great difficulties in ensuring and improving the quality of hospital operations. Thus, this allocation mechanism only focuses on the inputs rather than the quality of output, not close and linked to the performance of each health care unit. This approach is not consistent with the policy of renovation in the current state-budget allocation policy but only supports directly to the service provider, not granted to beneficiaries using the service. This form of allocation is still subsidized, not really promoting the reform of the operation of public hospitals towards efficiency and relevance to the market mechanism, it is not encouraging the hospitals to operate effectively and improve service quality. In fact, the current allocation of health budgets is still largely allocated in line with the fact that the budget does not really cover the demand for the health sector and not really in line with the market mechanism. The main reason is due to the limited state budget, no effective allocation mechanism and the focus of budgeting for key tasks. With the mechanism of spreading budget expenditures from commune to district level, there should be no source for improving health quality. We can replace the widespread spread by increasing investment in preventive and preventive care. To invest in modern facilities for medical examination and treatment and high salaries for physicians qualified for a number of key hospitals such as provincial hospitals and some district hospitals, which may be distributed in Central districts such as Luong Son, Lac Son, Kim Boi. The state will support through the health

insurance system and regulating through user fees, raise hospital fees in hospitals that are better invested for some non-priority groups in the province.

* *Economic expenditure management*: Starting from the purpose of operating non-profit economic units is not profitable business operations; therefore, the allocation mode is applied as a unit of estimation. The scale of economic service expenditure increased sharply. In the period 2011 - 2015, provincial budget expenditure for the economy was 292.66 billion VND. Since then, actively contribute to the strengthening of agricultural, forestry and plant protection, research and application of new varieties for agriculture. In addition, a number of programs have been studied such as promoting trade promotion, finding out markets for agricultural products, the program of planting 3 million hectares of new forest, especially the sharp increase in expenditures to upgrade infrastructure, restoration of dyke, embankment, traffic, irrigation works, etc. As completed and put into use along the two sides of the Da River with a total value of nearly 900 billion. Besides that, after nearly 2 years of implementation of the program of building new rural areas, all 210 communes and towns in Hoa Binh province have made clear changes and many important criteria have been achieved. The new rural program in Hoa Binh has been supported by the people both their material and spiritual, such as Luong Son, Lac Son, Kim Boi and Ky Son districts. As a result, the whole province has mobilized over VND 1,200billion, of which VND 128billion is from the people. Up to now, Hoa Binh has been one of the provinces receiving interest rate subsidy of 4% per year for farmers in agriculture. The support period lasts until the end of 2020. However, because the process of managing and controlling spending is not strict, the loss of state capital is wasted; there is still a significant amount of remediation of infrastructure over time at present.

* *The state administrative expenditure management*: It is expenditure to ensure the operation of the system of State management agencies from central to local. Meeting the innovating requirements of the economy to market mechanism, aiming to build a compact and effective administrative system, in recent years the administrative reform program has been implemented. Particularly in the financial sector, Hoa Binh carried out a thorough review of the administrative expenditure strictly in the spirit of the Ordinance on Savings - Accordingly, the costs of conferences, receptions and expenses related to the regime of using public assets are limited and economical. Especially, in 2015 due to the process of administrative reform is strictly implemented, as a result, the proportion of administrative expenditure in total recurrent expenditure decreased significantly (*down by 4.12% compared to the previous year*).

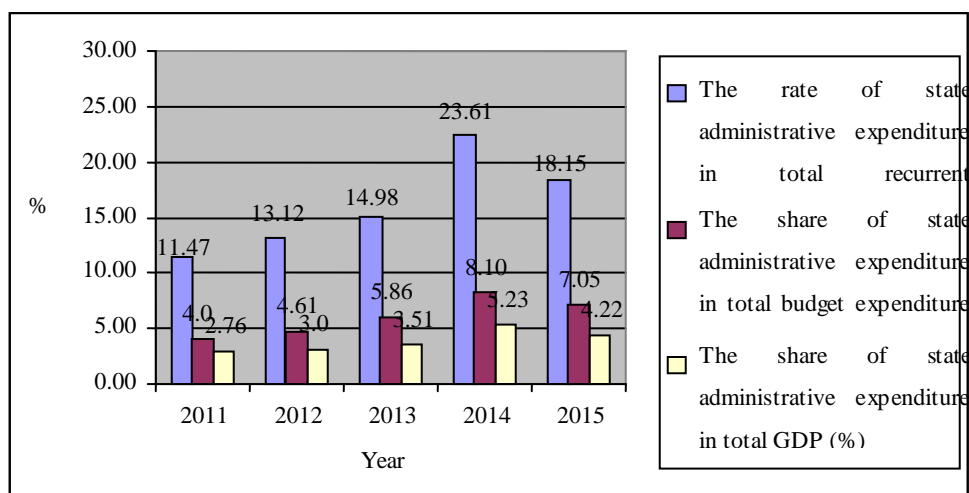


Chart 5: Structure of State Administrative Expenditures

Source: Hoa Binh Finance Department

Regarding the state administrative management, the Prime Minister issued Directive No. 09/2005/CT-TTg on April 5, 2004, continuing to accelerate the public administration reform. This document was issued in addition to Decree No.136/2001/NDTG on the approval of the State administrative reform program with four main contents: Institutional reform, organizational reform, public finance reform and staff quality improvement that the specific program of action is the implementation of block grants in administrative agencies. This gives the basic effect: The abolition of the average for budget allocation, in other words, the abolition of the "begging- giving" mechanism has existed for a long time in the subsidy mechanism. We need budgeting to be small, light, especially not to distinguish between the package and non-package. Since then, it has contributed positively to the monitoring; management and settlement, the allocation of annual plan estimates are stable. However, compared with the requirements and objectives, the public administration reform in Hoa Binh still has many shortcomings, weaknesses, and low effectiveness, not synchronized. Status of regulations and implementation of administrative procedures in many fields, especially in the relationship with people and enterprises are still complicated, troublesome, and slow to be overcome basic. The decentralization of specific sectors, areas and socialization is still weak. The requirements for adjusting the organizational structure towards streamlining, efficiency and efficiency have not been strictly followed; the number of affiliated units has increased. Renovation of public finance management has not kept pace with reforms in other areas.

In summary, over the past years, administrative management has contributed to the management of the State, ensuring the successful implementation of political tasks, maintaining macro stability and the role of economic management of the State. However, due to limited financial capacity, the wage reform policy has not met the target, on the other hand, due to lack of quality control, the loss, waste and corruption, bureaucratic bureaucracy still exists and there should

be positive solutions to solve.

* *The cultural - sports and tourism management*: The expenditure is aimed at improving the spiritual life and the aesthetic level of the public, thus creating favorable conditions for the full development of politics, thought, morals and health for each citizen. In recent years, with the increase in SBE, the expenditure on cultural, sport and tourist activities have also been constantly improved, with an average increase of 10.5% per year has contributed to the cause of culture, sports and tourism in Hoa Binh. Sports and cultural activities are also guaranteed by the state's financial autonomy in the spirit of Government Decree No. 43/2006/ND-CP. This activity has facilitated self-confidence in financial planning and facilitated healthy competition with private facilities to improve the quality of service to meet the increasing needs of the public.

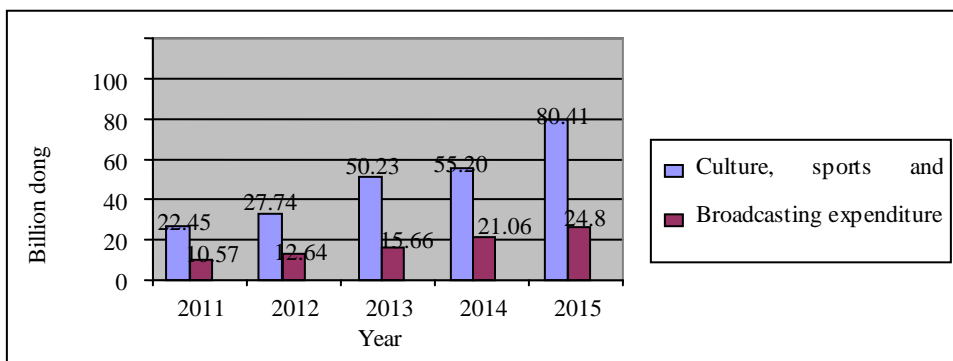


Chart 6: Expenditure for cultural information and broadcasting

Source: Hoa Binh Finance Department

Besides the achievements, the expenditure for culture and sport in recent years has some limitations such as: Many large-scale projects, with low efficiency, cultural and art programs, extension programs, dissemination of knowledge in socio-economic life, etc, have not been invested properly to improve the spiritual life of local people. The distribution of expenditures spreading along with insecure control has led to the loss of funds. The norms to foster and take care of the health of athletes, especially the national athletes who have won awards in the international arena, etc, not commensurate with their contribution to the sport of the province.

4.2.3. Managing recurrent expenditures settlement

Managing recurrent expenditure settlement includes two processes: Organizing the final settlement report and approving the recurrent expenditure settlement. State budget settlements at all levels in Hoa Binh province have been strengthened; budget revenue and expenditure are reflected in the budget through the state treasury. The provincial People's Council, ensuring time and quality as stipulated by the budget law, approves Hoa Binh annual budget statement.

However, through the budget statement shows that a shortcoming is that the annual budget is always the difference compared with the budget at the beginning of the year. (*Comparison of the*

implementing recurrent expenditure with the budget allocated at the beginning of the year in Appendix 6).

Appendix 6 shows that, most of expenditures in the field of implementation increased compared with the estimate. This generally shows that the forecasting is not accurate. Almost every year, it is not only the number of expenditures but the revenue also increases than expected, budget revenue in the period 2011 - 2015 increased on average more than expected to reach over 120%, making the cost increase also. In some specific sectors, the increase in expenditure against estimates is due to some objective and subjective reasons within these sectors, such as: (1) For education, additional expenditures at the level of the budget due to wage reform, preferential allowances for disadvantaged educational institutions. Salary increases, scholarships for ethnic minority students, Scholarships for poor households, increased kindergarten teachers outside the payroll. Private schools become public schools, so training of grassroots cadres, collaborators, bachelor training and talent funding is required. (2) For health care, the expenditure increase because of central budget supplement to implement health insurance premium for children under six, and implementing wage reform and the regime of preferential allowances of the Government, and increasing the staffing costs of the health sector during the year.

Administrative management costs and other tasks: Annually, due to supplemental salary increase for the estimating units at all levels and implementation of regimes and policies issued by the Central. In addition, other tasks, such as conferences, abstracts, commemorations, Party congresses at all levels, delegations, supporting associations, associations, purchase, repair equipment, perform unexpected jobs.

Other budget expenditures: Due to the annual budget allocations from the sources of fines in the following areas: Confiscation of smuggled goods, counterfeit goods, prohibited state goods; Legal aid (*People's Procuracy, People's Court*) and some unexpected tasks are allocated from the budget reserve.

4.3. Managing investment and development expenditure

Hoa Binh's investment in development accounts for a modest proportion of total SBE in the province. The province's investment expenditure structure was maintained at an average of 21.6% in 2011-2015, lower than the country's average spending structure with 29%.

State expenses for development and investment include capital construction investment; support economic development; investing in the development of other economic programs (*national target programs, information technology programs, etc.*). In particular, the major part is the capital construction investment, so the analysis focus of state investment expenditure is to analyze investment in capital construction (*Describing in Appendix 7*). Investing in capital construction field plays an

important role in the province's development and investment expenditure. The importance of this investment has shaped the work that underpins structural change, promotes economic development, and fundamentally improves living standards. This investment type is less attractive to other economic actors for a variety of reasons, either because the capital is too large for investment by private investors, because either the repayment period is too long, even impossible to recover capital directly, or for political reasons - security - defense that private investors are not allowed to invest.

In recent years, the investment expenditure structure in Hoa Binh has been fluctuating strongly. In 2011, capital expenditure accounted for 98.61% of total development and investment expenditure. In the following years, this proportion will decrease, in 2012, as the world economy and domestic economy downturn; expenditure on capital construction has increased in total development and investment expenditure in order to invest in building infrastructure to stimulate economic growth. However, this trend in the years 2013-2015 tends to decrease; the reason is that Hoa Binh focuses on expenditure to invest in supporting businesses, repaying loans to the Ministry of Finance and other development and investment expenditure.

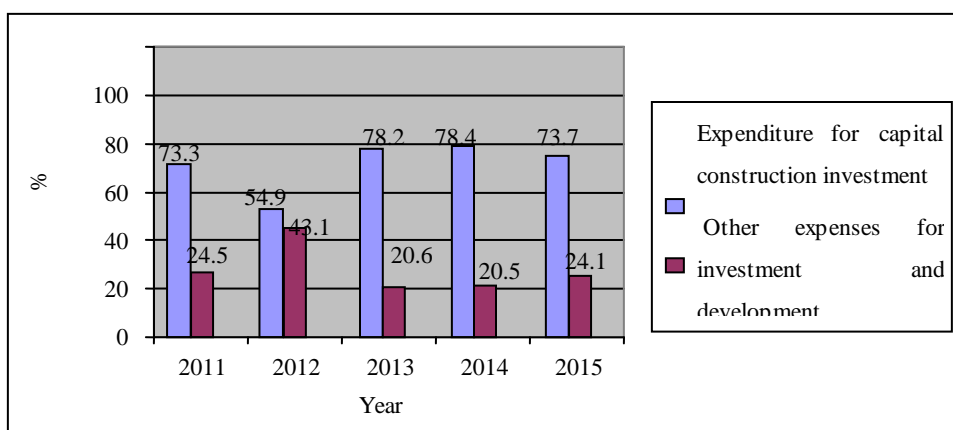


Chart 7: Structure of investment and development expenditure the period 2011 - 2015

Source: Hoa Binh Finance Department

In the investment capital structure for development investment expenditure mainly concentrated in the Hoa Binh city. Investment capital increases over the years, because Hoa Binh needs to concentrate on building the city's infrastructure. Hoa Binh also pays attention to developing and investing Luong Son district - this is considered as a key district with many industrial zones.

Expenses for development and investment in 2011 - 2014 increased gradually, however, in 2015, the trend is going down, the cause of the national economy in general and Hoa Binh in particular has difficulty, the state budget is cut so that development and investment expenditure in 2015 in most districts will decrease compared to 2014. In principle, capital construction investment management in particular and of development and investment expenditure management in general is detailed and strictly regulated, Hoa Binh's development and investment expenditure management is also based mainly on regulations from these legal documents, in the period from 2011 to 2015.

The process and time for elaboration, submission, approval and allocation of capital construction investment capital plans for investment projects funded by state budget capital shall comply with the provisions of the State Budget Law, include the following steps: Instructions for making and informing the examination number; Synthesize and submit for approval; Allocate, verify and announce plans. SBEM for the following development investment expenditures will mainly cover capital construction investment, which is also the largest source of capital for development investment in Hoa Binh.

Annually implement the Resolution of the Provincial People Council on the allocation of budget revenues and expenditures and arranges annual development investment capital, PPC has issued decisions on the allocation of annual investment capital targets. Capital for investment is formed from many different sources. Capital capacity can influence the size and progress of the project. Therefore, carefully review this possibility in the preparation phase of investment to help the state choose the investment plan with appropriate scale and schedule. Moreover, capital construction investment is a large amount of capital, which affects the capital allocated to other needs of the state. It is essential to consider this possibility to confirm the feasibility and completion of the construction works for a certain period.

Investment capital in Hoa Binh province, the state economic area occupies a relatively high level and gradually increase each year, among the sources of capital mobilized from the state sector more prominent than the source of mobilization from the state budget (*always accounting for high percentage on average about 70% of the total investment of the State*). State budget funds include central budget subsidies to provincial budgets in annual budget estimates.

Provincial budget capital includes concentrated capital construction and non-business capital. In addition, a large amount of capital of central ministries and branches is invested in a number of projects in the area, including large infrastructure projects and works of central administrative and non-business agencies.

One characteristic of state budget funding in Hoa Binh is the relatively large Central State subsidy, accounting for over 60% of total state budget capital. One of the main sources of support from the central budget for the province is the targeted support program, including national target programs, such as poverty reduction, water and sanitation, program 135, education and training, etc. This is a great support to economic development and solves social problems, contributing to poverty reduction for Hoa Binh.

Every year, from October to December, the Department of Finance and the Department of Planning and Investment review progress of implementation and investment targets of projects in the year to adjust the investment plan. In the period from 2011 to 2015, the actual investment

disbursed through the provincial state treasury was adjusted up (+), down (-) against the plan according to the Resolution of the Provincial People's Council (*Describing in Appendix 8*).

The annual settlement of investment capital and the settlement of investment capital upon the completion of the project shall comply with the guidance of the Ministry of Finance on the regime of investment capital settlement. PPC, Finance Departments and State Treasuries periodically or extraordinarily inspect investors and contractors participating in projects on the use of advance capital, payment for completed volumes and the observance of the State's developing investment finance policies and regimes.

In final settlement process of capital construction investment, these agencies perform their functions and tasks to manage the effective use of capital. The capital investment is multiple processes, but a few first an unknown the final solution of the project, quality of the low reports reports, must be modified to many times. Multiple project for complete to use many years to determine the accounting or not perform the first capital. Through investing settlement in the period 2011 - 2015 in Hoa Binh shows that some investors have not timely and drastically directed the Project Management Board and contractors to speed up the construction, disbursement, advance payment and settlement. Not only the management of contractors in the process of construction is not tight enough but also the personnel, equipment and finance are not in line with the bids and signed contracts. State regime and wage policy have fluctuations that lead to many adjustments and additions. The prices of materials and raw materials accelerated rapidly, while the investment capital did not meet the payment schedule, making it difficult to speed up the construction progress, especially the key projects.

4.4. Controlling the SBE through state treasury

The State Treasury inspects and controls SBE on the principle that all expenditures, which must be included in the State budget estimates, are assigned in strict accordance with the prescribed regimes, criteria and norms set by competent authorities and used by the heads of the budget units or the person authorized to make the decision. The payment of SBE through the State Treasury must be made directly from the State Treasury for salaried employees, social allowances and suppliers of goods and services (*In cases where the direct payment is not yet made, the State Treasury shall effect the payment via the State budget-using units*). In the course of control, payment and settlement of expenditures, wrong expenses must be recovered, reduced or paid into the budget.

In the control and payment of recurrent expenditures in the province, Hoa Binh State Treasury has made the payment when the following conditions are met: Expenses already included in the assigned SBE estimates; correct the regimes, criteria and norms set by competent state agencies. It

has been decided by the head of the budget-using unit or the authorized person; having full dossiers and payment vouchers as prescribed.

Regarding project evaluation, bidding: The project elaboration and appraisal has seen positive changes and the quality of project dossiers has been improved; the coordination between sectors and localities from the policy of investment, organization and evaluation of the project quite closely. As a result, the evaluation work will be upgraded, shortening the investment preparation time of the project.

For project appraisal: Documentation is received through the one-stop shop of the Department of Planning and Investment, after receiving full dossiers, one copy shall be transferred to the project management and capital construction investment sections (*now the project appraisal section*) for consultancy to assume the prime responsibility for appraisal. After that, they send the dossier to the specialized management office for joint appraisal. After considering the dossiers, the Planning and Investment Services shall assume the prime responsibility and coordinate with the concerned departments and branches in conducting the actual inspection of the projects. Then hold an appraisal meeting to discuss the scale, unnecessary projects to scale down investments, cut down unnecessary investments to select the right solution to achieve the investment objectives with the most economic and technical plan. After reaching a basic agreement on the scale and contents of the project, the Planning and Investment Service shall send a written reply to the specialized construction service giving its opinion on the basic design, and send to the concerned agencies for their opinions on the project. After commenting on the basic design, opinions of the relevant agencies, the Project Appraisal Department shall coordinate with the specialized section in revising the norms and unit prices, determining the total investment level and report to the provincial leaders for decision.

Implementing the Law on Bidding, the bidding has been made more openly and transparently. Most bidding packages are open to public bidding; only a limited number of tender packages or contractor designations are made in accordance with PPC's documents. Information on bidding packages, bidding invitations and bidding results shall be publicized on the bidding paper, the bidding website of the Ministry of Planning and Investment and other mass media. Bidding documents shall be made up to at least 15 days prior to closing of tenders. Bid opening is open to the public, witnessed by agencies, organizations and contractors, etc.

Regarding the disbursement of investment capital, the situation of capital disbursement of capital construction investment through State Treasury as of 30/10/2015, and central budget disbursement was 315.586 billion, reaching 63% of the plan; local budgets were 2.115,2 billion, accounting for 73% of the plan. The main reason for slow disbursement of funds is due to: The central government has announced a slow funding plan. Due to the investment advance mechanism,

30% of the allocation plan should affect the disbursement rate. The progress of handing over the ground construction is slow. Some design dossiers are not high cost estimates, so slow project progress; some investors have not promptly urged contractors to collect the works, etc. Every year, Hoa Binh State Treasury has only disbursed 65-70%, so the disbursement rate in the last months of the year usually accounts for 35-40% of the year plan. It means that the disbursement is mainly concentrated in the last 3 months of the year, causing the payment control of the State Treasury to be overloaded, which affects the quality of control work. This causes the state of capital waiting for works - investment capital plan, in the process of waiting for capital, effective investment capital is low, because a number of provisions in the regulation on management of investment and construction and the regulation on bidding, the control of payment of investment capital are incomplete. The notification of investment plans by ministries, central agencies and localities is still slow.

In summary, controlling expenses for development and investment of Hoa Binh State Treasury has the following advantages and disadvantages:

Advantages: In general, state budget law, regulations on management of investment capital and construction as well as the documents related to the field of management of investment capital have been continuously improved, creating conditions for the control of spending through the State Treasury to promote positive effects. The province's state treasury apparatus has made great efforts in fulfilling its mandate. In particular, the process of payment of investment capital is very clear, specific and generally reasonable, which facilitates the control of payment of investment capital in the whole system of state treasury to be implemented uniformly and avoid causing troubles to customers.

Disadvantages: Although SBEM has been implemented according to state budget law, the policy mechanism has been modified to suit the reality. However, the system of policy mechanism has not been synchronized so far; there is a lack of coordination mechanism, the scope and level of control between the State Treasury and functional agencies has not been clearly defined as well as accountability, and specific sanctions to run the budget according to estimates. The method of managing and withdrawing capital has not been agreed on a focal point, some expenditures actually paid from the budget are still beyond the control of the State Treasury. The quality of State Treasury officials in particular, the staff in charge of financial management in general - especially in districts, communes and wards - has not really met the actual requirements. Now, Hoa Binh is still implementing budgets by input, thus controlling SBE in general and controlling SBE through State Treasury in particular is also based on input. This greatly affects the efficiency of SBE. Monitoring and evaluation of investment projects and settlement of investment capital have not been paid due

attention by investors. The inspection and examination of the state management agencies have not met the requirements.

4.5. Assessing SBEM in Hoa Binh - Research findings

4.5.1. Achievements

Over the past few years, Hoa Binh Province has accomplished many tasks and solutions to improve the efficiency of SBEM. This is seen by the development of a legal framework for budget expenditure management; the increase of transparency in public budget expenditure; improving the techniques used for allocating state financial resources to the local authorities.

Hoa Binh's report on evaluation in performance of the Finance-Budget tasks for 2010-2015 indicates that: "The estimated SBE in Hoa Binh is basically ensured to comply with the provisions of the State Budget Law, the compliance with the instructions from the Prime Minister, the resolutions of the People's Council at all levels and the socio-economic situation of the locality. The state budgeting in Hoa Binh is prepared considering the important factors such as the orientation of socio-economic development of the province, the implementation of the budget of previous years, especially of the reporting year, the regime of policies, criteria and norms on the State budget revenues and expenditures"; "Capital construction implemented in accordance with the decentralization of the province. The project portfolio is based on the decentralized investment fund of the locality, with priority given to key projects that align with the state policies and objectives, socio-economic characteristics of each year. The process of approving and distributing capital for investments in construction projects is implemented following an order and procedures according to Construction Law and documents guiding the implementation of the Law, from stage of evaluating feasibility to examining economic and technical report, bidding, construction, pre-acceptance test, final settlement, appraisal of final accounts of the project".

In the report on implementing socio-economic plan of Hoa Binh province in 2010-2015 also supposed that, the process of recurrent expenditure took place within the framework of early estimate, limiting the adjustment and supplementation of recurrent expenditure, except for the implementation of the State's new regime and policies. The expense contents are regulated by the State. In 11 districts (100%) in the province, the autonomy and self-responsibility for expenses associated with human resource and managing expenditure of non-production organization was clearly specified in the Decree No. 43/2006./ND-CP dated on 25/4/2006 by the Government. The decentralization of the management system to local units increase the independence on the budget management of responsible agencies according to the Government's Decree No.130, ND-CP dated October 17, 2005. To create the right to take initiative while raising the sense of responsibility of account holders, officials and employees in the use of SBE and assets, to help agencies and units

save expenses to increase incomes in order to increase the spending for officials, public servants and employees according to regulations. Recurrent expenditure settlement was carried out in accordance with the order and regulations.

Three leaders of PPC were interviewed on the SBE inspection and examination, they said, annually, finance agencies at all levels shall conduct the evaluation of budget settlements of estimating units, communes, wards and townships and to monitor the management and use of public assets at the same time. As a result, SBEM agency has promptly adjusted and proposed the issuance of accounts for violations of financial management principles. The State Inspectorates at all levels also periodically inspect the implementation of the budget at a number of typical units. The control of SBE by the State Treasury in recent years, in general, the effect has been quite good in controlling actual use of state budget. Many contents were not in accordance with the regime, wrong financial principles were detected in time before going through the budget. As a result, the state budget spending system has reduced errors in state budget accounting, offloading for the financial budget appraisal of the financial agency as well as the inspection and audit work.

4.5.2. Disadvantages

In two reports (*report on implementing socio-economic plan of Hoa Binh province in 2010-2015 and Report on evaluation in performance of the Finance-Budget tasks for 2010-2015*) were also evaluated about disadvantages in SBEM, such as:

Making short-term budget estimates, mainly annual budgets, therefore, it is not possible to assess the allocation of resources associated with annual socio-economic development programs according to the resolution of the provincial People's Council; there are no specific criteria for determining the priority of budget expenditure. Allocation of funds by inputs has created a fundamental weakness that discourages units from saving on budget expenditure; it does not set a strict binding requirement between the amount of funds allocated and the results achieved in using that budget.

Firstly, some budget allocation norms have not yet been concretized and still have a qualitative nature (*in percentages*); it has not been close to the actual situation, causing difficulties in the decision to assign budget estimates and affect the objectivity, publicity and equity in SBE.

Secondly, the local SBE plan only develops the short-term budget plan according to each year according to the annual instructions of the provincial People's Council. The medium and long-term plans have not been formulated, so it is not linked to the plan and program of socio-economic development in locality and has not generated the efficiency in the task of allocating resources.

Thirdly, the method of estimating and allocating the budget is not based the outcomes or the actual value created by the use of the budget, while the goal of SBEM is to improve the efficiency

and output (*quantity, quality*) of SBE activities. The method of estimating and allocating budget is not based on the desired targets, but on the cost norms of the inputs. Therefore, SBEM has not been linked to the target, the user is not encouraged to save state budget.

Fourthly, the establishment, allocation, execution and settlement of SBE at all levels are mixed and integrated, thus losing the autonomy of the management system, or the independence of the lower management levels. Moreover, the system of policies and the limits in term of spending ceiling has not been promulgated fully and promptly, some are not aligned, rather different compared to actual changes but slow modifications to make it difficult to implement. Spending ceiling level for education, health care, training, administrative management are low, they are not associated with local characteristics (*population structure, educational level, pupil ratio ...*). The spending account on domestic and international guests, conference mode, working expenses, telephone, gasoline, low public asset norms, incomplete and delayed amendments and supplements cause waste and difficulties in the management of budgetary finance. Now, most expenditure has excesses the ceiling level and are not in compliance with the standards to fulfill the planned socio-economic tasks. This weakness makes the SBEM fail to reflect the real situation.

Fifthly, the agencies, units and localities have not yet fully complied with the regime of financial publicity regarding to financial contents and time as prescribed. The financial team who are responsible for financing and budgets are incompetent and inexperienced.

Sixthly, managing SBE for development has many shortcomings, especially the failure to supply the demand for huge investments due to the balance of local budgets. Therefore, the ability to allocate capital for investment on construction plans is still remaining limited, failed to response to demand; leading to the progress of project implementation and investment efficiency is not high. This issue is seen most clearly through the allocation of capital at the beginning of the year. Due to the method of classifying and prioritizing projects still poor, the allocating budget is scattered to follow multiple targets, so when allocated, the allocation of capital is equally divided among projects, as a result, the investment from the state budget is distributed unfocused and inefficient, many projects are only allocated capital below the actual needs. Due to the limited capital, the allocation of capital for compensation to people due to construction clearance is also passive (*at the time of planning, many localities have not yet identified the budget for site clearance*), the duration of investment is extended, and the expenses increase.

On the other hand, provincial budgets do not proactively allocate resources to carry out projects under the program, the People's Council Resolution. While many projects are still under construction and have not been fully disbursed for completion to be put into use, there are new projects demanding to be funded. Those projects that are more urgent usually put the authorities under high pressure. This also reflects the inefficiency of the weak management system.

Due to the fact that the traditional SBEM does not associate the allocation of financial resources with the political objectives, it has led to accountability in the management and in transparent use of budgets, and failed to demonstrate how the allocation and use of resources has yielded tangible results and outcomes for the society and economy. From a political point of view, the management and control of public finance should be in the traditional way. From planning and ending dates are not specified, do not indicate a quantitative link between the funds allocated for the implementation (*level, results and effectiveness*) of socio-economic and political tasks. The recipient will be finalized. As a result, sectoral levels are only able to announce discrete amounts of SBE that cannot be linked to the targeted objectives regard to economic and social development. At all levels and sectors it is impossible to make it clear that in each year, how much resources have been used and how the condition of the province has been improved regarding to the standards of living, income of households etc. The headache questions remain such as how much has been spent in increasing labor productivity? How much has been used to improve the quality of people's lives? This is one of the major shortcomings that Hoa Binh must reform SBEM to promote socio-economic development in Hoa Binh.

Regarding the management of investment capital, there are regulations that show that the state has created a clear and specific legal framework. Managing the investment capital from the first stage is to prepare the investment; to the final stage is payment and settlement of investment capital. In general, current regulations are sufficient to manage legal spending and not waste. However, in practice, these regulations are not always strictly implemented. From the stage of planning, the stage of project appraisal, determination of investment demand and investment ability, etc., to the construction, and payment and settlement are all wrong, making the investment results are not as expected. These offenses are in many cases out of the control of the regulators.

4.5.3. The causes of disadvantages

The indirect reasons are primarily derived from the lack of tightness of the legal documents, lack of the guiding from the higher governmental levels, including: There are no regulations on MTEF or for medium-and-long term budget spending; the scope of the budget spending is not specific. The guidelines on pre-assessment, during and after spending are loose; the regulations on budget inspection, examination and settlement are not complete timely.

The regulation on the scope of public financial resources is not comprehensive, and there is a restriction in effective management of the use of public resources. These are not appropriate solutions theoretically and practically such as good learning experiences from other countries. Public resources are dispersed in many activities, many accounts and only a certain amount of budget is taken into account. The responsible staffs have limited ability to evaluate and select the

projects, or due to limited resource available, even potential projects are sorted out, those projects cannot be implemented. Meanwhile, it is likely that un-potential projects tend to be financed by public resources due to inefficient management; the spending accounts are often not reported and incompatible with the collected data. Distributing public resources to multiple funds and accounts significantly reduces the efficiency and effectiveness of using public resources. The state policies and regimes on distributing capital for construction projects still have many inadequacies; some guiding documents are issued slowly, not synchronously, unrealistic, so implementation is still difficult. The responsibility for appraising construction designs is not clearly described; some ceiling level on budget allocation issued by the state are not in line with reality; the cost of design consultancy is calculated and measured by percentage of total expense is inadequate, consultants often choose the largest cost option should cause waste, etc.

This problem appears due to the separation between capital expenditure and recurrent expenditure. Specifically, the State Budget Law regulates regular expenditures and guiding documents of State Budget Law; meanwhile, investment expenditures are managed by a system of legal documents on investment expenditure. That means, there is no uniform framework for evaluating the total expenses and total value of the funded projects, those are supplied with the budget. The problem at the micro level is more fundamental than the lack of specific regulations on what is considered as a benefit, what is considered cost. These issues are particularly important for SBE because they are spread over, often widespread and sometimes difficult to pinpoint benefits. It is only when these costs and benefits are appropriately determined that a uniform evaluation framework can be used to compare projects and proposals to select the best solution. Neither the evaluation scheme during and after implementation have been specified nor taken seriously as regular reports. Compensation policy or penalties for compliance or non-compliance are also unclear.

State Budget Law empowers the province to formulate and decide the budget allocation norms in the area, it is expected that the province will be in a better position to identify local conditions, capabilities, goals and priorities for socio-economic development. On that basis, more appropriate, more realistic budget allocation decisions will be made. However, the province simulates the central allocation system and determines the norms of budget allocation more appropriate, more realistic. However, the province simulates the central allocation norms system and determines the norms of budget allocation mainly based on actual spending of previous sectors and areas and the possibility of future revenue increase. In other words, budget allocation is not tied to goals and tasks set for each sector or sector in each period. Budget allocation has not been associated with certain changes in mechanisms and policies such as socialization, the State and the people, etc. The current budget allocation is seen as a method of allocating additional budgets, each period, each year, in essence, it

is incremental for each sector over a period, without the need to assess how the tasks, objectives and budget needs for each sector change.

Capacity, level of management and administration of state budget from the administrative management agencies to the units using the state budget remains inadequate and limited. The state management staff on investment and construction has not met the requirements of the increasingly higher management of the implementation of procedures and quality management as well as the progress of project implementation in terms of the rapid increase of capital investment scale. The capacity of some investors, Project Management Board is inadequate and do not meet the requirements, especially the investors who do not have professional project management.

Some agencies and units using the state budget have not properly complied with the provisions of the Law and have not raised the sense of managing the use of savings and efficiency. The implementation of the financial management mechanism, management of state budget expenditure in contravention of regulations is the cause of waste in some stages, some expenses. Some leaders, civil servants in agencies, units and localities have not raised awareness of saving in budget spending. Some units and localities have not paid much attention to instructing investors and project management units to urge construction units to accelerate the implementation of projects, especially the projects to overcome the consequences of storms and floods. The coordination between departments, departments and districts, town and city in the investment management process at some time, has not been in a harmonious way. As assigned, decentralized, design approval, construction drawing, total cost estimate and the investor decides contractor selection. However, the reporting and supervision of investment sent to the functional agencies have not ensured the quality and requirements. The inspection, supervision and inspection have not been paid proper attention, when detecting errors of clarifying the responsibility of organizations and individuals and handling them seriously. Monitoring and evaluation of investment, the monitoring and evaluation of project efficiency is still slight.

4.5.4. Research findings and interviewing

Selecting, deciding the list and priority order of outputs in SBEM

Fifty persons were asked about this content, forty-five persons argued that: The selection and decision of the list and order of priority of the province's socio-economic development objectives are very necessary; eight persons answered, it is necessary (*In Appendix 8*). Because, the state budget should play the best role in the implementation of socio-economic development in the area, Hoa Binh needs to select, decide and prioritize the outputs, targeted plans and corresponding activities.

Management of recurrent expenditure and development-investment expenditure in the socio-economic development

Fifty persons were asked about the role of recurrent expenditure and development and investment expenditure in the socio-economic development of Hoa Binh, forty-six persons argued that, they are very important; four persons answered, they are important (*In Appendix 8*). Because, recurrent expenditure is to ensure the expenditure needs associated with the performance of the functions of the state legislative, executive and judicial or public service functions. Development and investment expenditure aims to stabilize macro growth and promote socio-economic development.

The state controlled SBE through the state treasury

Fifty people were asked about the role of the State controls SBE through the state treasury: Fifty people said that: The state treasury plays an important role in managing budget expenditures (*In Appendix 8*). Because the state treasury is the last control station assigned by the state to control before the state capital leaves the state budget. This is an important task because the state treasury manages the limit accounts of the budgeting units and the State Treasury is the agency that directly allocates and pays all SBE. In addition, the state treasury also checks and controls accounting elements, ensuring the implementation of the state budget index; to check the seal and signature of the person making the expenditure decision, the chief accountant, ensuring that it matches the seal and signature already registered at the State Treasury. The control of budget expenditures of the state treasury is carried out in three steps: control before expenditure, control during expenditure and control after expenditure.

Perfecting the system of allocation norms and SBE norms

According to interviews, fifty persons were asked about the system of allocation norm and SBE norms, thirty-three argued that, it is very suitable in the reality; twelve persons answered, it is suitable (*In Appendix 8*) Because, budget allocation norms are issued as a basis for budgeting and allocation to central and local agencies. While still using the allocation system as a basis for identifying budget needs for agencies, organizations, industries, levels of government, in order to focus budgets on socio-economic development priorities, budget allocations should be adjusted. Prioritized areas of this phase need to receive more budgets, conversely, non-priority sectors of this stage should remain at the old level, or increase less than the general rate of increase of the sectors. When revenue fluctuates, it is necessary to consider increasing the allocation of funds to priority areas before other sectors. Conversely, in case of fluctuations in revenue reduction, it is necessary to consider and adjust the budget allocation for sectors not prioritized. It is necessary to ensure consistency between priorities for budget allocation and socio-economic development priorities and to ensure consistency in budget allocations over the years.

Consolidating the apparatus raise the capacity and qualifications of budgetary and financial management officials

Fifty persons were asked about this content, all of them answered that: Budget expenditure managers play an especially important role in the effectiveness of SBEM (*In Appendix 8*). Because qualified managers will minimize the variance in the information provided by the beneficiaries of the state budget, they can control the whole expenditure contents, expenditure principles and comply with regulations on SBEM in accordance with the set budget. Therefore, Hoa Binh should train and foster its budget management staff to improve the quality of management and administration of SBE to exploit and use effectively budgetary resources for socio-economic development, raise the quality of the supervision and quality of budget management.

Strictly implementing the financial publicity at all levels

Fifty persons were asked about implementing the financial publicity, fifty persons argued that, (*in Appendix 8*). This is very necessary, because, carry out financial publicity to promote people's mastery about economic and facilitate the examination and supervision of the people in using the budget. In particular, the financial publicity contributes to good implementation of savings policies, prevention of corruption and wastefulness in the public sectors, to make financial health, create trust in the community and ensure effective use of state budget. Therefore, in public sectors in Hoa Binh should strictly implement the financial publicity.

Intensifying to check and inspecting SBE of public sectors

Fifty people were interviewed about the necessary to check and inspect SBE in the public sectors. All of them argued that: Checking and inspecting SBE in public sectors is very necessary and important (*in Appendix 8*), because according to the Budget Law, all SBE must be checked, controlled before, during, and after budget is allocated. This activity will help government to implement SBEM effectively from the public sectors. In addition, they replied that, the expenditure must be included in the state budget estimates and in accordance with the prescribed regime, standards and norms. The head of the budget-using unit shall be responsible for the expenditures of his/her unit, if they make wrong decision; they have to repay the public fund.

In conclusion, in the period 2011 - 2015, SBE in Hoa Binh province is increasing in order to meet the needs of socio-economic development in Hoa Binh, SBEM in province is also getting better: Developing a legal framework for managing budget expenditure, improving the efficiency of resource allocation, improving fiscal transparency, and improving the allocation of resources under the poverty reduction strategy. However, SBEM in Hoa Binh still has some shortcomings such as: Hoa Binh has no selection, short listing and prioritizing of SBEM outputs; recurrent expenditure management and allocation of development investment are still spread out; the system of allocation norms and SBE norms are not tight; the capacity of state-budget management staff has not met the

work requirement; the state budget control of state treasury is not tight; SBEM inspection in the public sector has not been properly conducted, etc. Therefore, in this chapter, the reality in each management stage from estimating, implementing budget estimates to the final settlement of SBE in Hoa Binh is analyzed and demonstrated by specific data, from that, assess the strengths and weaknesses in each management stage. Major reviews have been made in the following respects:

Results: Developing a legal framework for managing budget expenditure. Improving the efficiency of resource allocation. Effective implementation of the decree on autonomy and self-responsibility of payroll and finance for state agencies and the public sectors. Improving budget transparency.

Shortcomings: The process of allocating public financial resources is ineffective. Local budget expenditure still occurs outside the plan. Clearly, identifying sources of investment expenditure with recurrent expenditure of some sectors is unclear; investment is spread out; the use of budget in some units is wasted.

This thesis also found some causes of shortcomings include: objective causes and subjective causes. The objective causes stem from the provisions of the legal documents, the executive and the direct from central. The subjective causes include: Hoa Binh has not allocated resources to the public sector, rigidly adopting the traditional budgeting model. The system of norms on the basis of budget division for the sectors and fields is not appropriate.

Thus, in Chapter 4, SBEM in Hoa Binh in the period 2011-2015 has been evaluated and analyzed in detail, especially, about achievements, disadvantages and the causes of disadvantages in SBEM in order to provide good solutions to improve the effectiveness of SBEM in Hoa Binh in Chapter 5.

Chapter 5: CONCLUSIONS AND SOLUTIONS TO IMPROVE SBEM IN HOA BINH IN THE FUTURE

SBEM is an effective tool for effective implementation of fiscal policy, especially the allocation of financial resources to carry out socio-economic development tasks. Under Hoa Binh's conditions, financial resources for socio-economic development are limited, the issue of effective allocation and management of SBE are particularly important. The rigorous and rational management mechanism prevents delinquency, as well as the enforcement of public authorities and state budget-using units respect the revenue and expenditure tasks approved by the National Assembly. In order to implement this issue well, SBEM in the coming time should be directed towards developing a comprehensive budget, detailed budget in accordance with current state budget index, to ensure financial resources for ministries, branches and localities to perform tasks in line with development orientations in the fiscal year. Managing and administering the state budget according to estimates, which is the legal basis that determines the responsibilities of ministries, sectors, localities, organizations and individuals for effective use of the state budget. All State budget processes must always comply with the principles and legal order, ensure effective monitoring and control of the actors involved in SBEM.

In this study, the first research question was "what is the effectiveness of SBEM?" From the theoretical and analytical study on SBEM shows that: The effective SBEM is government manages SBE to implement the declared policies in achieving the objectives and targets. (1) It helps government manage and use state budget efficiently and economically. Effective allocation of SBE will have different impacts on socio-economic life, especially solving the facing problems of society such as improving poverty, creating jobs for people. Effective management of spending of the state budget will stimulate market demands when the economy is down or cutting government spending to stabilize prices, boosting production, establishing a reserve fund in the state budget to cope with market volatility. (2) It helps to speed up the economic growth, supports and encourages the development of enterprises to create a favorable environment for production and business development, ensuring social and political stability. (3) It helps government manage investment capital effectively and shorten the gap of economic and social development between rural and urban areas, between plain and mountainous, between the developed and remote areas. Thus, the gap between rich and poor will be reduced between regions, regions and population classes, contributing to promoting sustainable development.

The second research question of this study was "What was the state of effectiveness of SBEM in Hoa Binh during period 2011-2015?" From studying about the status of SBEM in Hoa Binh and in Report on the implementation of the socio-economic development plan of Hoa Binh

province in period 2010 - 2015 showed that: During the period 2011-2015, Hoa Binh implemented to manage SBE effectively, especially in the fields of education and training, health care, economic development, culture, sports and tourism. This was reflected in the development of a legal framework for SBEM; increasing transparency in budget expenditure; improving the techniques used to allocate state funding to local governments and the public sectors.

Firstly, the budgeting work of public sectors generally met the basic requirements and implemented according to the province's socio-economic development plan. In the process of budgeting estimation, public sectors based on the direction of socio-economic development tasks in plan year and following years to develop and implement.

Secondly, for capital construction expenditure: The construction works had relatively good progress of capital construction procedures under construction law. The stages from feasibility planning, cost estimation, contracting, acceptance and paying works were well implemented in regulations. The capital payment ensured according to plan and purpose. The expenditure process was carried out under the control of the State Treasury. The allocation of investment capital was made according to the extent practicable and within the approved budget.

Thirdly, recurrent expenditure: Recurrent expenditure plan was based on socio-economic development targets, especially indicators related directly to the allocation of funds, recurrent expenditure of state budget planning period. The verification about the correctness and effectiveness of expenditure in the socio-economic development plan was carried out. The settlement and audit of recurrent expenditure was well done. The types of financial statements were fully prepared and reported on time; reported data were truthful and accurate. The contents of the financial reports conform to the contents stated in the approved estimates in the prescribed state budget index.

Fourthly, Hoa Binh assigned state budget management to districts, city and public sectors. As a result, they created active ownership in the state budget spending of the units, while raising the sense of responsibility of account holders, officials and employees in using SBE. Recurrent expenditure payments were made in accordance with order and regulations.

Fifthly, Hoa Binh annually assesses and finalizes the unit's budget and inspect SBE management in the public sectors, the state treasury controls SBE in general very effectively. Therefore, it has prevented and eliminated the expenditures not in accordance with the prescribed regime, not in compliance with the standard norms, ensuring the efficient use of capital, the fight against wastefulness and loss of state capital.

The third research question of the study was "How to improve the effectiveness of SBEM in Hoa Binh?" With results of evaluating achievements and shortcomings of SBEM in Hoa Binh, in

order to improve the effectiveness of SBEM in Hoa Binh in the future, Hoa Binh should implement the following solutions:

5.1. Selecting, deciding the list and priority order of outputs in SBEM

Hoa Binh needs to select, decide and prioritize the outputs, targeted plans and corresponding activities.

Using state budget effectively, it means raising output value from activities using state budget as well as saving in using state budget. Using the state budget for the right purpose, not because of large SBE but arbitrarily chosen areas and projects funded by state budget. In particular, it is necessary to control so that the main objectives that the state expects are to benefit the society, economic development and support for the disadvantaged. Reduce state management costs by stimulating and encouraging economic operators to use capital effectively and economically, prioritizing the methods already tested in practice.

On the other hand, to support the selection of priorities, it is important to assess the impact of reducing the scale of activities and develop proposals to cope with any negative impact; it is also important to identify high priorities for allocating sufficient capital. The total cost estimate for all activities is likely to be much greater than the ceiling set by the Ministry of Finance. The first step in reducing the budget to the ceiling level is to arrange the outputs and activities in order of priority. Therefore, prioritized activities will maintain the estimation level, while lower priority activities will need to reduce the stoppage time. When prioritizing outputs and activities, consider the factors described in the "Assess and test the feasibility of activities" and review the projects.

Firstly, outputs and activities directly contribute to the achievement of defined objectives. Direct actions that address the problem or improve the situation must be given greater priority. Outputs and activities that address only part of the problem or depend on activities or expenditures from other agencies will be given less priority.

Secondly, outputs and operations can solve problem as quickly as possible and lasting impact will be given more priority. Thirdly, outputs and activities can be targeted at the lowest spend level need to be given more priority. Fourthly, the capacity of cost centers should be considered as an important element in prioritizing the outputs and activities. Cost centers with higher enforcement capacity or outputs and operations with lower capital requirements need to be given more priority. The last one, some activities may have higher capital needs even if they are less priority activities than upgrading existing roads, but the demand for capital to build will be much higher than the repair of that road. Many prioritized activities may not require additional resources.

In order to achieve the highest efficiency in the use of state budget, Hoa Binh should make a wise choice of development path and focus on some key areas. In the coming time, Hoa Binh needs to transform its economy into a factor that is the driving force for the first investment-driven economy and finally, the economy is driven by innovation that drives industry and services largely. This requires Hoa Binh to identify, eliminate or reduce the scale of activities in some areas of non-urgent expenditures, changing priorities, building and developing clusters that can promote and support this transition. These clusters in the future will determine the status of the province. In order to select the right order of priority for the clusters to invest, the following issues should be noted: Using the province's maximum potential strengths (*Hydropower, Tourism ...*). Having ability to build downstream clusters based on available resources and advantages to ensure growth and sustainability in the future. We must take advantage of international and national trends, helping Hoa Binh access to domestic and international markets.

5.2. Completing management of recurrent expenditure and development-investment expenditure in the socio-economic development

Because recurrent expenditure is to ensure the expenditure needs associated with the performance of the functions of the state legislative, executive and judicial or public service functions. Development and investment expenditure aims to stabilize macro growth and promote socio-economic development. Therefore, Hoa Binh should perform the following tasks:

** For recurrent expenditure*

Firstly, Hoa Binh should improve the quality of its budgeting, decision-making and budget allocation. Under the condition that the State Budget Law has not been amended, the state budget estimation units shall have to elaborate estimates close to the actual needs of the localities, so that the provincial level may seek to allocate budgets within the competence and limit the state budget medium term stabilization. Hoa Binh can prioritize the optimal allocation of decentralized financial resources to key local objectives and tasks. In addition, budget levels should restructure regular expenditures according to empirical results of recurrent administrative expenditures and block expenditures, to avoid the need to cover the other budget expenditures.

Secondly, to continue reviewing and perfecting the system of current allocation and use norms. Now, the system of budget allocation norm in Hoa Binh in the period of 2011 - 2015 has revealed limitations, many indicators are no longer suitable to the socio-economic development of the local. In order to ensure for the period of budget stability (2015-2020), Hoa Binh needs to supplement and refine the norm allocation system in line with the state of the economy as well as the new policy of the state. PPC reviews the current system of allocation and use of state budget. In the process of reviewing, it is necessary to remove the old regime-promulgated legal documents

that are out of date. Addition and modification of the allocation system is not yet appropriate. This system must ensure spending tasks, perform socio-economic development tasks in each locality in the province, and not reduce the total budget of the local. They must meet the requirements of the State Budget Law. Criteria for setting norms must be specific, clear, easy to calculate and easy to check. Adding norms for norm development to suit characteristics of each locality and each region, to step by step transfer budget-based management to output-based budget management.

Thirdly, Hoa Binh should change the mode of implementation and management of some large recurrent expenditure, especially for economic development. Strictly implement anti-corruption law, practice thrift and fight against waste. To educate actively, propagandize and criticize in this field so that a clear change in the perception of each unit is created, every cadre and civil servant of the city and encourage and pressure them to use State budget savings. Since this is a difficult task, the province should pay attention to the direction and take some units to sample before. PPC instructs the units to abide strictly by the state's regulations on procurement of equipment and means of working in administrative agencies. PPC should study and promulgate regulations related to this field in order to strengthen the decentralization of the units in parallel with increasing the responsibility. It is necessary to associate the performance of individuals and units with the improvement of the use of recurrent SBE and the thrifty use of public assets. In addition, attach the responsibilities of the heads of agencies and units to the effectiveness, efficiency of management and use of the regular budget. If the leaders of the organization use the wrong purpose to cause waste or commit negative behavior, PPC shall have to be punished appropriately, from administrative sanctions to prosecution before law. Annually, PPC needs to summarize the activities to improve the efficiency of using recurrent expenditures to take measures to encourage and develop a regular model of effective expenditure management.

Fourthly, PPC continues to improve the quality of implementation of autonomy and self-responsibility for public service delivery agencies. Enable the units to take the initiative in implementing the assigned tasks, striving to increase the employees' incomes.

** For development and investment expenditure*

Firstly, PPC seriously and effectively implements the public reinvestment program under the direction of the Prime Minister. Requesting investors, People's Committees of districts, towns and cities to seriously execute and allocate investment capital for works strictly according to the direction of the Government. PPC directs the units annually to comply strictly with the State regulations on investment and construction management. Procedures for arranging lists of investment preparation projects, planning projects, preparation for implementation, investment implementation must strictly comply with the conditions for being recorded capital.

Secondly, PPC should review and evaluate the effectiveness of investment in the recent

period, especially, the assessment of the works of the socio-economic programs of the province, such as new rural program, rural transport program, canal solidification program, school consolidation, etc. To timely detect inappropriate points, and take measures to adjust, overcome the shortcomings in the implementation of these programs; eliminate projects and works that find ineffective investment to avoid waste. PPC must improve the quality of appraisal and supervision in all stages of project formulation, technical-economic report preparation, cost estimation, appraisal and supervision of construction techniques. Improving the quality of appraisal and approval of projects, improve the capacity of project management boards and investors.

Thirdly, accelerating the pace of administrative reform in investment procedures; promulgating and implementing closely supervising the work-handling procedures of professional agencies under the People's Committees at all levels, such as: In the appraisal of economic and technical reports, appraisal of construction drawing designs, bidding, contractor appointment, payment control and settlement.

Fourthly, the PPC directs the units to comply strictly with the Bidding Law. For works valued at over 1 billion VND open bidding should be conducted. Improving the quality control of the state treasury through the close inspection of payment records of investors, compliance with the prescribed regimes and cost norms of the State, particularly paying attention to the payment of investment preparation expenses, construction and installation expenses and other expenses. Enhancing the work of finalization of investment capital by the finance agency, resolutely reject the expenditures, which are not in accordance with the prescribed regime, incomplete records and procedures in the final settlement

Fifthly, PPC directs the organizations to seriously disclose information on the capital construction sector according to regulations, with attention paid to the form and contents of publicity, especially the publicity of the works, the mobilization of people to contribute in the localities. This will create favorable conditions for the supervision of organizations as well as the people in the implementation of basic construction works in the area. PPC instructed the units to comply strictly with the Government regulations on investment monitoring and evaluation. PPC strengthens the supervision of the units to ensure that the investment complies with the approved planning and socio-economic development objectives. Detecting, prevent and promptly handle investment activities in contravention of planning or regulations, causing waste and loss of State capital and assets, adversely affect the quality of the works and harm the community.

5.3. Perfecting the system of allocation norms and SBE norms

While still using the allocation system as a basis for identifying budget needs for agencies, organizations, industries, levels of government, to focus budgets on socio-economic development

priorities, budget allocations should be adjusted. Prioritized areas of this phase need to receive more budgets, conversely, non-priority sectors of this stage should remain at the old level, or increase less than the general rate of increase of the sectors. When revenue fluctuates, it is necessary to consider increasing the allocation of funds to priority areas before other sectors. Conversely, in case of fluctuations in revenue reduction, it is necessary to consider and adjust the budget allocation for sectors not prioritized. It is necessary to ensure consistency between priorities for budget allocation and socio-economic development priorities and to ensure consistency in budget allocations over the years.

When allocating and managing budgets under some expenditure categories, regimes and cost norms, to limit the abuse and use of indiscriminate budget, it is necessary to promulgate adequate policies and spending regimes. However, the issue of monitoring and surveillance is often not easy, so it is necessary to increase the direct participation of the population. The reality is that for projects and projects with people's contributions and direct participation of people, the efficiency of the project is often higher. For other projects, it is necessary to strengthen the supervision of the people. However, for people to participate in supervision should be open, transparent, strengthen democracy at grassroots. It is necessary to simplify and change the role of the system of cost norms. The cost norms system should be oriented (*guide*), so that budget users can make their own decisions in spending, as long as they are effective, effective in allocating and using resources do not violate the overall financial discipline. Accordingly, it is necessary to develop indicators of efficiency, equity, interoperability within the limits of resources that can be met. Defining clearly the contents and scope of SBE, this focuses resources on performing private sector tasks that are impossible or less motivational to participate. Even for the construction of infrastructure, for some stages, some stages may be considered, creating mechanisms for the private sector to participate in the form of PPP (*public-private-partner*); thoroughly remove direct subsidy and limit indirect subsidies from the state budget; restructure SBE with administrative reform to suit the functions and tasks of local public agencies. The expenditure norms system should also be based on comprehensive financial resources, irrespective of source in budget and off budget, etc.

It is necessary to change the norm of administrative expenditure in the distribution of financial resources among administrative and non-business sectors. Administrative expenditure norms need to be further elaborated to add practical value to the budgeting process. Accordingly, administrative expenditure norms not only include "wages, salaries, operation, and maintenance" which it should include: On the salary item, it should be considered based on two common norms; it is the tendency to develop the number of civil servants and employment policies. Other recurrent expenditures, the determination of allocation norms should be based on the following criteria:

Expenses related to administrative offices and rented offices; expenses for procurement of equipment and supplies; expenses on office operations; other expenses related to regular activities of the unit (*scientific research, training ...*). Regarding the norms of allocation and transfer of financial resources between central and local levels, the criteria should be based on: (1) Large enough to achieve economies of scale and small enough to not be economically inefficient; being ready to provide affordable and quality alternative services; adjust pricing policies for services when needed. (2) Large enough to generate benefits in the execution of functions and tasks or can compensate for other areas when there are external factors; having sufficient financial resources to cover the task of providing services and are ready to take measures to achieve fiscal equity between the authorities during the implementation of functions and duties. (3) Appropriate functions and tasks should be assigned to different levels of government and may regulate conflicts of interest, including geographic areas, to perform functions and tasks effectively. Clearly define the objectives and methods of service delivery and periodically evaluate the objectives set out in the performance standards. Promote cooperation to reduce conflicts of interest and obligations among localities. Have legal capacity to perform functions and duties within the authority, apply grants and transfer budgets to the output budget (*outcomes and impact assessments*).

5.4. Consolidating the apparatus raise the capacity and qualifications of budgetary and financial management officials

Local authorities should attach great importance to the implementation of streamlining apparatus and staff. Correctly redefining functions and tasks of each unit and unit performing state budget management in order to avoid overlapping functions and tasks as well as to reduce troubles and cumbersome administrative procedures for businesses and people. Firmly remove from the state apparatus the incompetent and qualified cadres who are not physically fit and qualified, do not leave gaps apparatus and prolonged staff damage the credibility of state agencies and the socio-economic impact of the locality.

The State should standardize and specialize the contingent of state budget expenditure managers. Requiring those officials to have high professional competence, good training and fostering, understanding and mastering the socio-economic situation as well as the State's mechanisms and policies and have good moral qualities, responsibility and dedication to the work assigned. In order to meet the above requirements, agencies must annually review and classify officials according to their criteria, ethical standards, professional qualifications, management capacity, etc, and based on the results of the review, to formulate and implement plans on training, reorganization and assignment of work according to the capacity and qualifications of each person.

5.5. Improving the quality of SBE control by the State Treasury

In the current trend of fiscal management, the role of expenditure control of the State Treasury holds a very important position as the gatekeeper of budget expenditures. To improve the quality of expenditure control of the agency, state treasury should focus on implementing the following measures: Speeding up the reform of administrative procedures in budget expenditure control, ensuring strict but non-rigid to creating favorable conditions for units in dealing with state treasury. The State should develop and issue-working procedures for regular expenditure control as well as investment expenditure, which should clearly specify the dossiers and procedures required when dealing. In addition, specify the time limit for processing these procedures, publicly post these procedures at the place of transaction and must strictly comply. Improving the professional skills of expenditure control by state treasury staff through the implementation of the sector strategy in the training and retraining of staff. Closely coordinate with the finance agency in managing the budget expenditures; strictly implement the information and reporting regime with financial agencies and relevant agencies as well as with the city leaders.

Units strictly follow the process of controlling state budget expenditure through treasury. Check before, during and after the state budget, this is a very important step because the pre-payment control will prevent and eliminate expenses that are not in accordance with the prescribed regime, not up to the standard norms, ensuring effective use of capital, fighting wastefulness and losing money from the State.

5.6. Intensifying to check and inspecting SBE of public sectors

Financial check and inspection are very important in the management of the state budget, which is an essential function of the State Finance. Good financial inspection and budget expenditure control will contribute to prevention of errors, losses and waste in spending, using budget, focusing fully and timely budget revenue of the State, increase financial resources for development investment, and promote economic growth. Therefore, it is necessary to strengthen the supervision, inspection and financial inspection of the management and use of the state budget, especially in the field of capital construction.

Carry out step-by-step annual financial inspection and audit work for all budget levels and units using the State's capital and assets. To intensify the inspection of the observance of the Accounting Law, accounting regime, invoices and vouchers, the fulfillment of the obligation to collect and remit budgets at enterprises. To attach importance to the discipline of financial and budgetary disciplines and propose the handling of responsibilities towards heads of units which violate the legislation on budgetary finance. Inspecting and examining proposed contents and measures to improve the financial management policies and regimes. To intensify the revision and

inspection of the implementation of the conclusions and proposals for handling after each inspection in order to recover the State budget capital; to consolidate the financial discipline and sense of law observance of the State in all enterprises, organizations and individuals.

Improve the quality and efficiency of monitoring activities of the People's Council at all levels for the state budget in general and the local budget in particular. It is necessary to increase the proportion of deputies in the State budget, assist the People's Councils in professional activities to assist the People's Councils at all levels in supervising and deciding exactly the budget-related issues. Strengthening the supervision of staff and employees to promote spending savings, combat waste and corruption in the financial sector; to comply strictly with regulations on financial disclosure of public organizations; to publicize finance and administrative reform procedures so as to create maximum conditions for information provision. Understand basic information about funds and outcomes of public financial use.

5.7. Strictly implementing the financial publicity at all levels

Financial disclosure is a measure to promote the mastery of officials, employees, collectives of laborers and people in inspecting and supervising the management and use of state capital and assets. To supervise the management and use of people's contributions according to the provisions of law; to detect and promptly stop acts of violating the financial management regime; to ensure the efficient use of state budget, practice thrift and combat waste. Promote the financial publicity of budget levels to implement the following solutions:

Units need to define the content and scope of data to be publicized according to regulations. To choose the form of publicity suited to each locality or unit so that the people, cadres and civil servants can understand the contents of publicity and supervise these contents. In addition to public forms as long ago, provincial or district budgets can be publicized on the provincial website. For communes and wards, special attention should be paid to publicizing the mobilization of people to contribute to the construction of infrastructure, because this is content that in practice often omission should cause many questions in the citizens.

PPC should strengthen monitoring and supervision of budget disclosure in localities and units and promptly handle units violating the regime of financial publicity. It is necessary to strengthen the coordination relationship between the finance and tax agencies, the State Treasury and concerned agencies in monitoring and managing SBE. These agencies must coordinate to provide sufficient information on revenues, expenditures, use of budgets, management and control of budget expenditures, as well as the annual budget revenue and expenditure settlement report for PPC so that PPC can lead and manage the SBE in the local area in a timely and effective manner.

Strengthen the work of checking and reconciling data between agencies within the financial sector to ensure data matching, serving the leadership of the province.

5.8. Recommend the conditions for implementing the solution

5.8.1. The Government and the Ministry of Finance

Firstly, the Government should study and revise the State Budget Law in the direction of further strengthening the decentralization of revenues - tasks spent on local governments, to ensure synchronism with the decentralization of State administrative management between branches and territories. Studying and amending the regulations on tasks and powers of People's Councils at all levels in an active. Do not rely too much on higher management agencies, because according to the provisions of Article 25, 26 of the State Budget Law, the People's Councils at all levels must base themselves on the budget estimates assigned by the higher levels to decide their budgets or the higher authorities have the right to inspect and request the subordinate budget adjustment.

Secondly, the research on innovating the method of estimating the state budget according to the current input into the state budget estimates according to the output. Managing the state budget by output will be a tool for the State to concentrate public resources for activities that bring the highest benefit to the society, helping improve public financial policy and contribute to improve the efficiency of SBEM.

Thirdly, soon promulgation mechanism incentives for localities that contribute large state budget revenue to the central budget or specific localities, etc. The Government shall formulate budget norms for budget expenditures with different coefficients to suit the characteristics and budget capability of each level of government; consistent with the geographical characteristics and conditions of each region; It is suitable with the scale and characteristics of state management agencies, to apply the cost norms of work expenditure brackets instead of the payroll norms. Issuing a standard system of equipment and working facilities suitable to each type of title of public servants and employees for uniform application in state agencies. Based on the system of standards and norms, it allows the units and units to make adjustments in the course of implementation and suit the work requirements and budget of the units.

5.8.2. Recommend the People's Council and People's Committee of Hoa Binh

Firstly, the provincial People's Committee soon petitioned the central government to promulgate a number of specific mechanisms and policies for Hoa Binh province to invest more in production, aiming to become a centrally run city in 2025

Secondly, continuing to decentralize the tasks of the subordinate budget, particularly, the decentralization of investment decision-making authority and the management of investment capital

from the state budget to the district level are strengthened to enhance the initiative, creativity and the responsibility of the local government.

Thirdly, the provincial People's Committee shall review and submit to the provincial People's Council for amendment or replacement the documents promulgated on the decentralization and management of provincial capital construction investment capital already issued are no longer in line with the current regulations.

Fourthly, the provincial People's Committee needs to study adjustment of compensation unit for site clearance to suit the actual conditions, avoid damages to the citizen; they must also implement the policies and unit prices for land clearance and compensation in order to speed up the investment in infrastructure construction in the area.

Fifthly, the provincial People's Committee should be more determined in allocating capital construction investment, priority should be given to allocating funds for final disposal of completed and put into use works.

CONCLUSIONS

The nature of this study was to understand how SBEM plays an important role in the state-budget management. With results are studied and analyzed, evaluated through the situation of SBEM in Hoa Binh during period 2011-2015. This understanding would allow me to have six solutions to improve and enhance the effectiveness of SBEM in Hoa Binh in the coming periods.

Effective SBEM is not only a concern of all government levels in Viet Nam but also the important issue of many countries around the world. In fact, many governments in both developed and developing countries have been implementing strongly public finance reforms focusing on short listing and prioritizing of SBEM outputs; strengthening control and inspection of SBEM in the public sectors, etc, in order to help the government manage, allocate, and utilize effective and efficient public resources in line with socio-economic development priorities.

Therefore, improving the effectiveness of SBEM in particular and state budget management in general is therefore an urgent requirement in the current period. SBEM is an activity exercised by a relevant state authority using specialized methods and instruments to make the SBE process, its expenditures get in line with the state policies, and best serve state functions and tasks in a given period. The SBEM carried out by Hoa Binh Province between 2011 and 2015 has obtained certain achievements and made positive contributions to promotion of the provincial socio-economic development. Through proper distribution of resources, timely allocation to important sectors, effective management of the state budget resources, and flexible budget management in different periods, the SBEM performed by Hoa Binh Province has contributed to release of the productivity of every economic sector, promoted the local advantages and internal strengths, and effectively attracted external resources. It has promoted sustainable economic development, changed the appearance of the rural areas, and created a strong shift within the economic structure that provide employment and improve the living standard, and, at the same time, ensure social justice and security, social order and political security. However, the provincial SBEM still has shortcomings that need to be overcome for further perfection in the near future.

Based on the study and application of the SBEM theory and practice in general and the results from the assessment of the reality of SBEM in Hoa Binh Province in particular, this MA thesis has proposed a number of solutions. They include selection, short listing and prioritizing of SBEM outputs. perfection of management of recurrent expenditures and allocation to development investment in socio-economic development; perfection of the system of allocation norms and SBE norms; strengthening the machinery; capacity building for state-budget management staff; improving the quality of SBE control by the State Treasury; and, strengthening control and inspection of SBEM in the public sector. These solutions will help Hoa Binh to implement SBEM effectively and socio-economic development in the coming years.

The thesis also has provided some recommendations to the Central Government, the Ministry of Finance, the Provincial People's Council and the Provincial People's Committee. These recommendations are for further completion of the mechanism for decentralization of expenditure tasks, issuance of standards and norms of budget expenditure in line with the local characteristics.

The proposed recommendations and solutions can be implemented effectively only when they are conducted consistently and comprehensively under active direction by local governments and along with positive changes in the perception of state-budget beneficiaries.

The author believes this thesis could be helpful for Hoa Binh People's Committee in understanding better about SBEM in Hoa Binh and giving directions, solutions for renovation and management of SBE, satisfying process of public financial reform in the coming periods.

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APPENDICES

Appendix 1: Gross Domestic Product

(Calculation unit: Billions dong, %)

Contents	2011	2012	2013	2014	2015	Average growth
GDP	11244,86	13389,91	16129,83	20938,16	24823,57	1,22
Industry and construction (billions dong)	3320,51	4376,538	5132,99	6505,54	9403,74	1,30
Agriculture, Forestry and fishery (billions dong)	4390,98	4897,14	4658,2	6177,61	6416,34	1,11
Services (billions dong)	3533,37	4116,23	6113,21	7418,21	8153,38	1,24
Import Tax			198,43	836,8	850,12	2,62
GDP structure	100	100	100	100	100	
Industry and construction (%)	29,53	32,69	31,82	31,07	37,88	1,07
Agriculture, Forestry and fishery (%)	39,05	36,57	29,05	29,5	25,85	0,91
Services (%)	31,42	30,74	37,9	35,43	32,85	1,02
Import Tax			1,23	4	3,42	2,05

Source: Hoa Binh Statistical Yearbook, 2011-2015

Appendix 2: the share of recurrent expenditures relative to total SBE and GDP

Calculation Unit: VND billion

Criteria	Year					
	2011	2012	2013	2014	2015	
1. Total provincial budget expenditure	6214,7	8555,8	10466,2	12594,6	14034,8	
2. Provincial GDP	10244,9	12389,9	15129,8	20838,2	23823,6	
3. Recurrent expenditure	2032,16	2482,9	3605,7	4330,3	5509,1	
4. Recurrent expenditure per total provincial budget expenditure (%)	31,34	28,84	31,32	32,32	36,31	

5. Recurrent expenditures per provincial GDP (%)	17,16	18,29	21,97	20,64	21,60
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Source: Hoa Binh Finance Department

Appendix 3: Increased savings and income from implementing the autonomy regime of the provincial units

(Calculation Unit: 1000 dong)

Year	Administrative units		Business units	
	Budget Savings	Average income increase (/person)	Budget Savings	Average income increase (/person)
2011	2.014.000	1300	3.322.000	2.472
2012	4.595.000	1924	2.365.000	3.314
2013	6.844.000	2000	2.860.000	5.192
2014	7.250.000	2300	3.100000	5.500
2015	8.724.000	2.600	3.920.000	5.825

Source: Hoa Binh Finance Department

Appendix 4: Expenditure situation in Hoa Binh education and training

Year	2011	2012	2013	2014	2015
Total expenditure on education and training (VND billion)	845,89	1011,59	1336,4	1393,21	2042,5
The rate of expenditure on education and training accounted for recurrent expenditure (%)	40,91	38,55	37,76	31,96	37,20
The rate of expenditure on education and training accounted for the total provincial budget expenditure (%)	12,55	10,80	11,53	9,98	13,25
The rate of expenditure on education and training in total GDP (%)	6,61	6,63	7,91	6,13	7,63

Source: Hoa Binh Finance Department

Appendix 5: Health care expenditure

Year	2011	2012	2013	2014	2015
Total health expenditure (VND billion)	206,047	204,315	312,732	521,685	552,662
The rate of health expenditure accounted for in total recurrent expenditure (%)	5,49	4,43	5,65	10,74	10,0
The rate of health expenditure accounted for in total budget expenditure (%)	1,71	1,61	2,05	3,81	3,64
The rate health expenditure in total GDP (%)	1,18	0,88	1,20	2,44	2,17

Source: Hoa Binh Finance Department

Appendix 6: Comparison of the implementing recurrent expenditure with the budget allocated at the beginning of the year

(Calculation Unit:%)

Expenditure sector and field	2011	2012	2013	2014	2015
Economic expenditure	136	125	142	123	100
Education and training expenditure	114	107	128	100	103
Health expenditure	121	113	151	115	108
Cultural, sports and tourism expenditure	113	114	132	139	101
Broadcasting-television expenditure	104	101	105	102	100
IT and communication expenditure			187	102	103
Science and technology expenditure	100	101	96	103	100
National defense expenditure	125	117	115	139	140
Security expenditure	131	143	157	205	132
Expenditure for Administrative management	156	147	166	130	103
Other budget expenditures	117	130	132	157	122

Source: Hoa Binh Finance Department

Appendix 7: Structure of budget expenditure in Hoa Binh province 2011 - 2015

(Unit: billion, %)

Year	Total		Total expenses on investment and development		Total recurrent expenditure		Other expenses	
	Amount of money	Density (%)	Amount of money	Density (%)	Amount of money	Density (%)	Amount of money	Density (%)
2011	6.314	100	1.173	18,5	2.042	32,3	3.098	49,0
2012	8.655	100	1.736	20,0	2.582	29,8	4.336	50,0
2013	11.466	100	1.841	16,0	3.705	32,3	5.918	51,6
2014	13.594	100	2.879	21,1	4.530	33,3	6.184	45,4
2015	15.034	100	4.182	27,8	5.609	37,3	5.243	34,8

Source: Hoa Binh Finance Department

Appendix 8: Interviewing result on SBEM (50 persons was interviewed)

Order	The questions	Results of 50 interviewees answer the questions			
		<i>Very important/effective/ necessary/suitable/difficult</i>	<i>Important/effective/ necessary/suitable/difficult</i>	<i>Not important/not effective/ not necessary/not suitable/ not difficult</i>	<i>Other comments</i>
1	What is your opinion about the importance of SBEM in public sector?	50	0	0	0
2	What is your opinion about the importance of recurrent expenditure and development and investment expenditure in the socio-economic development of Hoa Binh?	46	4	0	0
3	Has The State controlled SBE through the state treasury effectively?	50	0	0	0
4	Is it necessary to select and decide the list and priority order of the province's socio-economic development objectives?	42	8	0	0
5	Is system of allocation norm and SBE norm in Hoa Binh suitable with the reality?	33	12	05	0
6	Is it necessary to implement the financial publicity at all levels?	50	0	0	0

7	Do we need to consolidate the apparatus raise the capacity and qualifications of budgetary and financial management officials?	50	0	0	0
8	Is it necessary to improve the effectiveness of SBEM in Hoa Binh?	50	0	0	0
9	Is it necessary to check and inspect SBE of public sectors ?	50	0	0	0
10	Do you have any difficulties in implementing SBEM?	0	07	43	

QUESTIONNAIRE

On state budget expenditure management

To have more practical basis for researching thesis: *“Improving the effectiveness of state budget expenditure management in Hoa Binh Province of Vietnam”*. I would like to express my gratitude for your comments on the following questions (All your survey data and responses are only for research and kept secret). Please give your opinion and circle the answer you choose:

I. Private information

- Full name:
- Position (assigned tasks):
- Office:
- Age:
- Education level:
- Qualification (masters, PhD...):
- How many years to work in the financial agency:

II. Evaluating the state budget expenditure management (SBEM):

1. What is your opinion about the importance of SBEM in public sector?

- A. Very important
- B. Important
- C. Not important
- D. Other comments:

2. What is your opinion about the importance of recurrent expenditure and development and investment expenditure in the socio-economic development of Hoa Binh?

- A. Very important
- B. Important
- C. Not important
- D. Other comments:

3. Today, has State controlled SBE through the state treasury effectively?

- A. Very effective
- B. Effective.
- C. Not effective
- D. Other comments:

4. Is it necessary to select and decide the list and priority order of the province's socio-economic development objectives?

- A. Very necessary

- B. Necessary
- C. Not necessary
- D. Other comments:

5. Is system of allocation norm and SBE norm in Hoa Binh suitable with the reality?

- A. Very suitable
- B. Suitable
- C. Not yet
- D. Other comments:

6. Is it necessary to implement the financial publicity at all levels?

- A. Very necessary
- B. Necessary
- C. Not necessary
- D. Other comments:

7. Do we need to consolidate the apparatus raise the capacity and qualifications of budgetary and financial management officials?

- A. Very important
- B. Important
- C. Not important
- D. Other comments:

8. Is it necessary to improve the effectiveness of SBEM in Hoa Binh?

- A. Very necessary
- B. Necessary.
- C. Not necessary
- D. Other comments:

9. Is it necessary to check and inspecting SBE of public sectors ?

- A. Very necessary
- B. Necessary.
- C. Not necessary
- D. Other comments:

10. Do you have any difficulties in implementing SBEM?

- A. Very difficult
- B. Difficult
- C. Not difficult
- D. Other comments:

Thank you very much !

List of interviews and personal communications

I. Hoa Binh Tax Department

1. Mr Hoang Tien Duc - Director
2. Mr Pham Van Dung - Deputy Director

II. Hoa Binh Statistics Department

1. Mr Nguyen Tuan Dat - Director of Hoa Binh Statistics
2. Mr Le Van Tien - Deputy Director of Hoa Binh Statistics

III. Hoa Binh Department of Planning and Investment

1. Ms Nguyen Thu Huong - Director
2. Mr Dang Van Huu- Deputy Director
3. Mr Nguyen Van An- Deputy Director
4. Mr Nguyen Van Khuyen - Chief of planning office
5. Mr Nguyen Van Tuan - Chief of General Department-Planning office
6. Ms Le Thi Trinh - Chief of Economic office
7. Mr Phung Van Quan - Deputy Director of Inspection office
8. Mr Nguyen Xuan Hung - Chief of Business Registration Office

IV. Hoa Binh Financial Department

1. Mr Nguyen Van Dien - Director
2. Ms Trinh Thi Hai - Deputy Director
3. Mr Nguyen Van Huan - Chief of Budget Management office
4. Ten specialists of Hoa Binh Financial Department: Mr Nguyen Van Long; Hoang Xuan Ty; Nguyen Quoc Hung; Bui Van Khuyen; Nguyen Van Khoa; Bui Van Phuc; Ms Nguyen Thi Hanh; Nguyen Thi Thanh Hai; Tran Thi Diep; Nguyen Thi Huong.

V. Hoa Binh People's Committee

1. Mr Nguyen Van Quang - Chairman
2. Mr Nguyen Van Cuu - Vice Chairman
3. Mr Bui Van Khanh - Vice Chairman
4. Mr Nguyen Tuan Anh, Head of Industry and Trade - Construction office
5. Ms Nguyen Thi Tam, Head of Agriculture-Resources office
6. Mr Nguyen Van Hien, Deputy Head of Education - Literature office
7. Mr Nguyen Van Tuan, Head of Finance - Trade office
8. Ms Tran Thi Ha - Deputy Head of Administrative organization office
9. Ms Nguyen Thi My - Head of Governance - Finance office
10. Three specialists of Hoa Binh People's Committee.

VI. Hoa Binh State Treasury

1. Mr Nguyen Van Tung - Director
2. Mr Tran Xuan Trien- Deputy Director
3. Mr Nguyen Van Hoa- Deputy Director
4. Five specialists of Hoa Binh State Treasury: Mr Nguyen Van Long; Dang Xuan Cai; Ms Nguyen Thi Hoa; Nguyen Thi Trang; Dang Thi Nhai

VII. Thanh Hoa People's Committee

1. Mr Nguyen Dinh Xung - Chairman
2. Ms Le Thi Thin - Vice Chairman
3. Mr Pham Van Tuan - Vice Chairman

VIII. Thai Nguyen People's Committee

1. Mr Vu Hong Bac - Chairman
2. Ms Nhu Van Tam - Vice Chairman
3. Mr Doan Van Tuan - Vice Chairman