

**MINISTRY OF EDUCATION  
AND TRAINING**

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**MINISTRY OF HOME AFFAIRS**

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**NATIONAL ACADEMY OF PUBLIC ADMINISTRATION**



**TRAN VIET DUNG**

**MANAGEMENT OF STATE BUDGET EXPENDITURE  
IN NAM DINH PROVINCE**

**MASTER THESIS OF PUBLIC POLICIES  
AND PUBLIC FINANCIAL MANAGEMENT**

**HA NOI, 2018**

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IN NAM DINH PROVINCE**

*Major:* Public polices and Public financial management

**MASTER THESIS**

*Advisors:* Dr. Tomi Rajala

HA NOI, 2018

## **GUARANTEE**

I hereby guarantee that this Thesis is my own works conducted under the scientific instruction of Dr. Tomi Rajala

The data and research results in this thesis are true and not overlap with other topics. I hereby guarantee to take full responsibility for this Thesis.

*Hanoi, 2018*

**THE AUTHOR**

**TRAN VIET DUNG**

## **ACKNOWLEDGEMENT**

To complete the Master's program in Public Policy and Public Financial Management at the National Academy of Public Administration, in addition to my own efforts, I have received encouragement, instruction, and help so much from my teachers, my family, my friends and colleagues throughout the course as well as performing this thesis. By the way, I would like to express my sincere thanks to the leaders board of the National academy of Public Administration and lecturers of the Graduate School- Faculty of Public Finance.

I am extremely grateful for the support and assistance in all aspects of Nam Dinh Department of Finance.

Especially I would like to send my deepest gratitude to Dr. Tomi Rajala. Without his help and instruction, I am certainly not able to complete this Thesis.

Although I have spent a lot of time and resources as well as tried my best to perform this thesis but it is inevitable that the thesis may still have shortcomings. I hope to receive your empathy and contribution.

Thank you very much!

*Hanoi, 2018*

**THE AUTHOR**

**TRAN VIET DUNG**

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## INTRODUCTION

### 1. Significance

The strategy of industrialization and modernization of the country is very promising for the localities to successfully implement the transformation process from the administrative mechanism to the socialist-oriented market mechanism under State management. This development requires the State to implement a reform changing the national finances, especially public finance reform. Exploiting the revenue sources while improving the efficiency of expenditures is one of the cornerstones of public financial reform with State in general and Nam Dinh province in particular.

In the recent years, budget expenditure management in the province has seen positive changes, the structure of expenditure is relatively reasonable to ensure the uniform development. However, there are still many limitations, the efficiency of budget expenditures is still low, the investments are still spread out, lack of concentration leads to ineffective investment and wastefulness. Therefore, the requirements of state budget expenditure management to ensure the correct strategy and gain important targets as well as use effectively of resources to meet the development needs of Nam Dinh province is a very urgent issue. The systematic and comprehensive study of the practices in state budget expenditure management to improve the expenditure management in order to meet the public administration reform roadmap is in line with the socio-economic development trend of locality is extremely important. It is an urgent issue for Nam Dinh provincial government.

Therefore, after studying and researching the master course in Finance and Banking at the National Academy of Public Administration, as a local financial officer, I decided to choose: "***State Budget Expenditure Management in Nam Dinh Province***" as the topic of my master thesis.

## **2. Research objectives and research tasks**

### ***a) Research objectives***

Based on the theoretical and practical research on state budget expenditure management, the thesis proposes some improvements in the management of state budget expenditure in Nam Dinh province in the future to contribute to socio-economic development of the locality.

### ***b) Research tasks***

To achieve the research objectives, the thesis focuses on the following research tasks:

- Seeking the theoretical and practical basis on state budget expenditure management;
- Surveying current situation on state budget expenditure management in Nam Dinh province;
- Proposing solutions and directions to improve the effectiveness of state budget expenditure management in Nam Dinh province in the coming time.

## **3. Research object and research scope**

### ***a) Research object***

The thesis studies state budget expenditure management in provincial level: a case study at Nam Dinh province.

### ***b) Research scope***

- The thesis studies the activities on state budget expenditure management in the area of Nam Dinh province.
- The thesis is conducted in 2015. Relevant data are selected and used mainly recent years (from 2011 to 2014), the proposed solutions for the next periods and farther.
- The contents of the thesis is in the field of state budget management, public financial management, public administration. The direct content of the thesis is research on state budget expenditure management. However, this is also a fairly broad field so the thesis will limit the scope of research in two aspects of the main contents are: development investment expenditure management and recurrent expenditure management.

#### **4. Research methods**

**Methodology:** The thesis uses *dialectical materialism method* and *historical materialism method* of Marxism-Leninism to clarify the nature of the research problems. In there, dialectical materialist method will interpret the relationship between state budget expenditure management with socio-economic development of locality. Historical materialist method will explain the issue of state budget expenditure management in Nam Dinh in the past, in the present and in the future.

**Specific Methods:** Based on the dialectical materialist method and historical materialism method, the thesis also uses the following specific research methods:

- *Documentary study method:* Used to collect information through primary documents and secondary documents related to thesis from: doctoral dissertations, master theses, books, newspapers, journals, proceedings of scientific conferences, internet, etc...
- *Statistical method:* Statistics of data, material, events related to research problems.
- *Analysis and synthesis methods:* To solve the research problems, we need approach from many different perspectives. Using analysis and synthesis methods to link problems in an event or sequence of different events to clarify the research problems.
- *Comparison method:* Compare and contrast the situation of state budget expenditure management between Nam Dinh with other localities.

#### **5. Key research questions**

**Main question:**

How to improve the effectiveness of state budget expenditure management in Nam Dinh province?

**Sub-questions:**

- (1). What are the theoretical and practical basis for state budget expenditure management?
- (2). How does the situation of state budget expenditure management in Nam Dinh take place during the past time?

(3). What are the achievements and limitations of state budget expenditure management in Nam Dinh in the past time?

(4). What needs to be changed to improve state budget expenditure management in Nam Dinh province?

## **6. The new contributions of the thesis**

\*) Theoretical contributions:

- On the basis of generalizing, systematizing the basic theories of state budget management in general and state budget expenditure in particular, the thesis contributes to supplement and perfect the following basic theory issues: Clarifying of concepts and terminology on state budget expenditure management; showing the roles of state budget expenditure management; specifying the requirements and principles of state budget expenditure management; identifying the basic contents of state budget expenditure management; Identifying methods and tools for state budget expenditures management; indicating the factors influence the to state budget expenditure management.

- The research results of the thesis, especially the solutions and recommendations proposed by the thesis will be an important theoretical basis for the reference of Nam Dinh provincial government in the management decisions and Implement specific actions with state budget expenditure management.

\*) Practical contributions:

- Based on the results of survey, analysis and evaluation of the state budget management in Nam Dinh province, the thesis has pointed out the advantages, limitations and causes of those advantages and limitations. These will be an important practical basis for Nam Dinh provincial government to implement solutions to promote the advantages and overcome the limitations in the state budget expenditure management.

- The results of the thesis are significant and contribute directly to the practice of state budget expenditure management in Nam Dinh province.

## **7. The thesis structure**

In the introduction, the thesis presented the significance of the research, research objectives and research tasks, research object and research scope, research methods, key research questions and the new contributions of the thesis. The main contents of the thesis are expressed in four chapters, namely: “Chapter 1. Literature review”: The thesis has reviewed the literature in the country and in the world on issues related to thesis topic. “Chapter 2. The scientific basis of state budget expenditure management”: In this chapter, the thesis has explored some basic theories of state budget expenditure management such as: concepts, objectives, roles, requirements, principles, tools, methods, .. of the state budget expenditure management. At the same time, the thesis also studied the experiences of state budget expenditure management in some localities of some countries in the world and drawn lessons for Nam Dinh province. “Chapter 3. The current situation of state budget expenditure management in Nam Dinh province” has analyzed situation of the state budget expenditure management in Nam Dinh province in the past years. From the aggregated data, the thesis focused on analysis of state budget expenditure management in Nam Dinh province on two main aspects: development investment expenditure and recurrent expenditure. At the end of chapter 3, the thesis conducted evaluations on the achievements and limitations of state budget expenditure management in Nam Dinh province and its causes. “Chapter 4. The solutions system for improving the efficiency of state budget expenditure management in Nam Dinh province” has proposed measures to strengthen the management of state budget expenditure in Nam Dinh province, including 4 main solutions and other sub-solutions. Solutions arranged in order of importance should be prioritized in connection with major constraints in each stage of state budget management in Nam Dinh province.

## **Chapter 1. LITERATURE RIVIEW**

### **The literature review in the world**

State budget expenditure has become the discussed subject of many scientists. It's often associate with the development of the economy and the development of state power. Along with that development, it requires a consistent and comprehensive reason for the effectiveness of state budget expenditure management. State budget spending plays a very important role in stabilization and growth of economy as well as addressing social issues. However, it also poses many problems if the state budget expenditure management is not good, overspending will make budget deficit, resulting in economic and social instability. At present, there is a lot of research on state budget expenditure management. Within a certain limittation, the thesis seeks the literature review as following:

Waker (1930) gave an overview of the state budget expenditure and defining the determinative reasoning and propensity to allocate state budget expenditure. Key (1940) also pointed out issues without budgetary theory and analyzes its importance in macroeconomic management as well as the increase in efficiency the budget allocation of the government.

When studying the evolution of the state budget theories over the past period, such as the budget for the item, the budget for the work done, the budget for the program, budget method based on outputs, Matin, Lawrence, and Kettner (1996) have compared and pointed to the evolution of these budgetary theories in their study about measuring the performance of human service progams and budget management according to outputs. The output-based budget answers the question that public finance managers must always put in place: "How should you decide to allocate X dollars for activity A instead of activity B?" Therefore, the output-based budget approach is being studied for widespread use in current state budget spending management.

Concerned about the efficient allocation of public investment, especially the investment in infrastructure, Fuente (2003) pointed out the role of redistribution of

public investment, giving a model of effective distribution in infrastructure investment, specific application in Spain can increase the efficiency of investment in mechanical regional infrastructure by increasing spending on the rich, less for the poor. At the same time, the author also maintains that his analysis can not be inferred entirely for the EU because of its particular characteristics.

Referring to the structure of public investment in limited budgetary terms, Streeck and Merten (2011) surveyed public investment practices in the United States, Germany and Sweden from 1981 to 2007, concluding that the three countries have tended to increase investment in education, research and development, family support and labor market policies. In this study, the authors also show the relationship between public investment and investment in social policies. Under limited financial conditions, public investment should be made to achieve high levels of efficiency, public debt restriction and state budget deficit.

Rajaram, Le, Biletska and Brumby (2010) have written the article "*A Diagnostic Framework for Assessing Public Investment Management*" to evaluate of public investment management to find weaknesses in management to improve the effectiveness of state budget spending.

### **The literature review in the Vietnam**

Duong Thi Binh Minh (2005) conducted a study on public expenditure management in Vietnam. Besides commenting on issues related to public expenditure management, such as concepts, characteristics, content, etc., the author analyzed the situation of public expenditure management in Vietnam in the period 1991 - 2004 to evaluate the state budget control procedures through the State Treasury and evaluate the management of state budget expenditures in Vietnam, thereby finding limitations, inadequacies and its causes. However, the study only mentions the general problem of Vietnam, not related to the actual situation in each specific locality.

The research "Finalization of state budget expenditure mechanism for public goods supply in Vietnam" has systematized and clarified the theory of public goods; the role of the State in the provision of public goods and the mode of supply; the

inevitability of using state budget spending tools to provide public goods; system of state budget expenditure management mechanism for the provision of public goods. The study also presents the general situation of state budget spending and the mechanism for managing public expenditure in the process of economic transition in Vietnam in recent years. This is an important practical basis for proposing solutions to improve the state budget spending management mechanism for the provision of public goods (Nguyen Ngoc Hai, 2008). However, in terms of macro-management of public expenditures for public goods, this research did not point to the root cause of the inadequacies in operating the mechanism, due to the wide scope of research, the solution is lacking in specific and unclear directions.

Discussing on the innovation of state budget management in a market economy in Vietnam, Nguyen Thi Minh (2008) clarified take theoretical issues on state budget, expenditures and management of state budget expenditure in market economy; the decentralization of economic management and budget decentralization, the mechanism for managing state budget expenditures, the need for reform of the spending mechanism; the role of state budget spending in the market economy by regulating the macro economy. The author also presented the current status of Vietnam's expenditure management in recent years, especially since the coming into force of the Budget Law, the price has been amended and supplemented, contributing to enhancing the national financial potential. Based on the presentation of the orientation for socio-economic development and the financial and budgetary objectives of Vietnam for 2010 and subsequent years, together with the views on the reform of the state budget, the author proposed 5 groups of solutions to renovate state budget expenditure management. Especially the solution to accelerate the implementation of state budget-based management of output with the conditions and applicability is necessary and suitable with the renovation of state budget expenditure management. If the thesis clearly addresses the difficulties and obstacles faced by Vietnam when implementing the new state budget expenditure management model as proposed in the thesis, the persuasiveness of the solutions will be higher.

Studying on management of state budget expenditure to promote the socio-economic development in a specific province, Tran Van Lam (2009) presented the general situation of budget expenditure management to promote the socio-economic development of Quang Ninh province (Vietnam) about the system of mechanisms and policies related to budget management in the fields of socio-economic infrastructure improvement; social balance. From that, the research draws on the achievements and difficulties associated with the management of state budget expenditure in Quang Ninh province in recent years. Through out studying the state budget expenditure management experience in OECD countries, the author draws on five lessons that can be applied to improve the effectiveness of state budget expenditure management in current conditions in Vietnam in general and Quang Ninh province in particular. The author also proposed six solutions to improve the management of local budget spending. Specifically, the solution applies the budgeting process based on the medium-term and output-based cost framework. However, the thesis has not clarified the specific characteristics of Quang Ninh province when applying new management methods as well as the management mode and procedures of state budget expenditure management to promote socio-economic development.

The similar studies in Vietnam have related to the state budget expenditure management, such as: "Reform of state budget expenditure contributes to industrial implementation chemistry - modernization in Vietnam" (Bui Duong Nghieu, 2003); "Apply Budgeting Method Based on Outcome in Vietnam's State Budget Expenditure Management" (Dinh Thanh Thanh, 2005); "Reform of local budget expenditure management in Red River Delta provinces" (Tran Quoc Vinh, 2009); "State Budget Classification in Vietnam - Current Situation and Solutions" (Le Chi Mai, 2006); "Managing Output Budget and Applicability in Vietnam" (Hoang Thuy Nguyet, 2008); "Managing State Budget Expenditures on Capital Construction in Binh Dinh Province" (Trinh Thi Thuy Hong, 2012).

In addition, there are some articles in the specialized journals refer to the management of state budget expenditure, such as: "Doing Innovation budget

estimation according to the MTEF" (Hoang Thi Thuy Nguyet, 2009), Journal of Finance and Accounting, No. 12 (77); "Strengthening State Budget Expenditure Management by Output in Vietnam" (Nguyen Xuan Thu, 2010), Financial Markets Journal, No. 14 (311); "Enhancing Public Investment Effectiveness in Vietnam", (Nguyen Dinh Tai, 2010), Finance Magazine; "Finalization of capital construction investment - perspective from Financial agency", (Nguyen Trong Than, 2011), Financial Research Journal, No.10 (99); "Developing a Result-Based Monitoring and Evaluation System for State Budgets in Vietnam", (Bui Thi Mai Hoai, 2012), Journal of Economic Development, No. 258. These articles have analyzed the current status of state budget expenditure management in particular and the state budget expenditure management in general and proposed solutions to solve the backlog.

The scientific conferences held in Hanoi such as "Controlling and improving the efficiency of state budget spending" (2009), "State management mechanism - Current situation and solutions" (2012). The reports at these conferences discuss the general theoretical issues of state budget management, state budget expenditure management, state budget overspending and public debt. At the same time, the reports also analyzed the control and effectiveness of state budget spending, highlighting shortcomings in state budget control and management, particularly the emphasis on "state budget expenditure is more difficult to control, overspending, corruption and loss still occur in practice". However, within certain limits of a report at a scientific conference, the reports only discussed to addressing the general theoretical and practical issues of Viet Nam, not yet pointed out the case studies at the localities.

### **General assesement and gaps of the research**

In general, these studies laid the groundwork for theories of state budget expenditure, which is essentially state budget expenditure and has provided theoretical and practical basis for the analysis and evaluation of state budget expenditure management, It contributes to the important theoretical basis for state budget management for current and future states. However, the research to enhance

the roles and responsibilities of the parties involving in State Budget Expenditure Management has still few mentioned works, especially there has not any research on the case such as in Nam Dinh. And since the introduction of state budget, there have been many scientific researches both at home and abroad, discussing state budget at different levels and perspectives. But these works only study each area of expertise according to the content of state budget, not suitable for each specific locality. Particularly, research on comprehensive management of state budget expenditures has not been carried out comprehensively, especially in Nam Dinh province. For that reason, the author has selected the topic of "State Budget Expenditure Management in Nam Dinh Province". This is a new topic and there is no overlap with the published works and is considered as the first project to systematically and comprehensively address the state budget expenditure management in Nam Dinh province.

## **Chapter 2. SCIENTIFIC BASIS OF STATE BUDGET EXPENDITURE MANAGEMENT**

### **2.1. Overview of state budget expenditure**

#### ***2.1.1. Concept of state budget expenditure***

The term “state budget” originated in England and had its literal meaning as “wallet”. However, in economy, the term is understood in another meaning.

The state budget, or government budget, is an economic category and a historical category; is a component in the financial system. The term "state budget" is widely used in the economic and social life of every countries. However, the concept of state budget is not uniform. Many definitions of state budgets have been made differently, depending on fields of study. The state budget is usually understood in three ways (Wikipedia.org, 2017): (1). The state budget is a set of financial receipts and expenditures of the state over a given period of time, usually one year. (2). The state budget is the centralized monetary fund of the state, is the basic financial plan of the state. (3). The state budget is the economic relationship that arises in the process of mobilizing and using different sources of finance.

According to classical economists, the state budget is a financial concept describing revenues and expenditures of the government, which is established annually.

In Vietnam, state budget is understood as all revenues and expenditures of the State approved by competent authorities and is implemented for one year to ensure the performance of the functions and duties of the State (The Law on State Budget, 2002).

State budget expenditures include expenditures on socio-economic development, defense and security maintenance, and operation of the State apparatus; Repayment of the State; Expenditure and other expenses as prescribed by law (The Law on State Budget, 2002).

Thus, the state budget can be defined as the distribution and use of state budget funds according to budget estimates previously decided by competent authorities to

maintain the operation of the State apparatus and ensure the performance of the functions of the state in accordance with the provisions of law.

### ***2.1.2. Characteristics of state budget expenditure***

#### *\*) General characteristics of state budget expenditure*

State budget expenditures have 5 following general characteristics:

- State budget expenditures in association with the State apparatus and economic, political and social tasks undertaken by the State in each period;
- State budget expenditure associated with power of state, there is high legal value;
- State budget expenditures are considered effectively at the macro level;
- State budget expenditures are mainly non-refundable
- State budget expenditures are closely linked to the movement of other value categories such as price, interest rate, exchange rate, salary, credit, etc. (Wikipedia.org, 2017).

In general, state budget expenditures shall comply with the provisions of law, always attached to the State apparatus and economic, political and social tasks performed by the State in each period. The basic tasks of state budget expenditure are to meet the financial needs of the state apparatus and allow the State to perform its assigned functions and tasks. The scale, structure and decentralization of state budget expenditures depend on the size, functions, tasks, structure and decentralization of the state management apparatus.

#### *\*) Characteristics of state budget expenditure in Vietnam*

According to the law of Vietnam:

- The National Assembly is the highest authority to decide on the scale, contents, structure and allocation of state budget expenditure for the most important purposes;
- The government is the governing body responsible for managing and deciding specific state budget expenditure as well as approving the limits of local budgets.

However, local state agencies are not allowed to use local budgets for their own purposes but use the state budget to serve national and local interests. Moreover, state budget expenditure is to maintain stability and development of the country and locality in the long run. For the benefit of the people and the whole society, the state

budget must be strictly controlled to avoid abuse. In addition, the efficiency of state budget expenditure is measured at the macro level and comprehensively both socio-economic and political and diplomatic. People often evaluate the effectiveness of using state budget expenditures on market economy such as controlling inflation, supporting production, low income, building socio-economic infrastructure and establishing relations diplomatic. State budget expenditures related to the movement of other values such as wages, prices, interest rates, exchange rates, credit ... combine financial policy into monetary policy and income in the process of implementing macroeconomic objectives.<sup>1</sup>

### ***2.1.3. Structure of state budget expenditure***

The structure of state budget expenditure in Vietnam includes development investment expenditures, recurrent expenditures, repayment of loans borrowed by the State, additional financial reserve funds, etc. In the scope and subject of this topic, the thesis only explores the study of recurrent expenditure and development investment.

#### *\*) Development investment expenditure*

Development investment expenditure is the expenditure task of the state budget, including basic construction investment expenditure and a number of other investment expenditure tasks as provided for by law. (The Law on State budget, 2015).

Development investment expenditure means the process of using a part of the monetary capital in the state budget for investment in the construction of socio-economic infrastructure, development of production and storage of goods and supplies in order to stabilize the growth of the economy.

Development investment expenditure is a large expense of state budget but it is not stable. Development investment expenditure from the state budget is an indispensable requirement to ensure the socio-economic development of each country. The scale, density, structure and priority order of state budget expenditure for development investment depend on the policy and guidelines of socio-economic

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<sup>1</sup> The curriculum on management of state budget expenditures, Academy of Finance, 2010

development of the State and the capacity of state budget. According to the socio-economic purpose, the development investment expenditure of the state budget is cumulative. Expenditures on development investment are expenditures aimed at creating material and technical bases and production capacity to serve and increase the accumulation of assets of the national economy. On the other hand, the material and technical basis and production capacity of service created through the development investment expenditures of the state budget is the material foundation for economic growth and social development to increase the gross domestic product. In that sense, expenditure on development investment of the state budget is accumulative.

The scope and level of expenditures for development investment of the state budget is always associated with the implementation of the objectives of the State's socio-economic development plan in each period. The socio-economic development plan is the foundation and basis for developing the development investment expenditure plan so it is decisive to the level and priority order of expenditure of state budget for development investment. Investment expenditure must be closely linked to recurrent expenditure in order to improve the effectiveness of budget expenditures, which is a combination of investment and the use of investment results to respect widespread and ineffective investment.

*\*) Recurrent expenditures*

Recurrent expenditure is task of the state budget to ensure the operation of the State apparatus, political organizations, socio-political organizations, support the activities of other organizations and perform the state's regular tasks in socio-economic development, defense and security maintenance. (The Law on State budget, 2015)

Recurrent expenditures are part of state budget expenditure, reflecting the process of distribution and use of state budget funds to carry out recurrent state administration tasks, including expenditures such as: recurrent salaries and allowances and expenditures on goods and services of the State for economic,

educational, medical, social and cultural purposes; Administrative management expenses, etc...

Recurrent expenditures are relatively stable, stemming from the requirements of existence, development and implementation of the social management function of the State bureaucracy. Recurrent expenditures is of a consumer nature. Recurrent expenditures are mainly for the needs of State administrative management, national defense and security, non-business activities and other social activities organized by the State and the scope and level of recurrent expenditures of the state budget is closely tied to the organizational structure of the State apparatus and the scale of public goods supply by the State. The expenditures are often directed towards ensuring the normal operation of the State apparatus, so if the state management apparatus is concise and effective, the recurrent expenditure will be reduced and vice versa.

#### ***2.1.4. The role of state budget expenditure***

State budget expenditure is the coordination between the two processes of distribution and use of state budget funds. State budget expenditure is one of the macro-economic tools of the State. However, the State can only successfully regulate when financial resources are secured, i.e when the budget tool is used effectively.

*In terms of economy:* To overcome the inherent defects of the market economy such as unbalanced development, wasteful use of resources, etc. By state budget expenditure, the State shall form the structure of sustainable economic development, anti-monopoly, improve the efficiency of resource use and other resources, balance the ecological environment; prioritize the state budget investment in the development of transport and irrigation infrastructure, thus creating conditions for enterprises of all economic sectors to emerge and develop.

*In terms of society:* By state budget expenditure, the State redistributes income to ensure social justice, such as the implementation of employment policies, income policies, social protection policies, population and environment policies.

*In terms of market:* the State uses state budget expenditure as a tool to achieve price stabilization, anti-inflation and deflation; promote economic growth.

State budget expenditure plays such an important role in the economy, society and the market, and requires state budget expenditure management to be rigorous, scientific and rational to ensure that the state budget is used for the right purpose in an economic and effective way.

## **2.2. Overview of state budget expenditure management**

### ***2.2.1. Concept of state budget expenditure management***

State budget expenditure management is part of state budget management and also a part of general management. In the broadest sense, state budget expenditure management is the use of state budget as a tool for managing the social system through inherent functions; In a narrow sense, state budget expenditure management is managing the outputs of the state budget through specific instruments and regulations.

State budget expenditure management is understood to be a combination of all methods and measures to be applied to manage budget expenditures in a uniform process to achieve the budget expenditure targets set out.

The author finds that: *state budget expenditure management is the process by which the State uses objective rules, the system of management methods and tools to control state budget expenditure activities to serve the performance of functions and tasks of the State to achieve the objectives of promoting socio-economic development.*

Essentially, budget expenditure management is the systematic implementation of centralized monetary distribution and use measures to serve the expenditure of the State apparatus and to perform the functions of the State. The important issue in state budget expenditure management is to organize the management and supervision of expenditures in an economic and effective manner, attention should be paid to the following aspects:

- Ensuring the requirements of economy and efficiency in the arrangement and management of state budget expenditures;

- Expenditure management must be closely linked to the allocation of expenditure as a basis for the management of the development of inspection and control regulations.
- Expenditure management must take comprehensive measures, before, during and after the expenditure;
- Budget management must combine the management of State budget expenditures with capital expenditures of various economic sectors in order to create synergy and raise the efficiency of expenditures;
- Decentralize the management of expenditures to the local authorities and organizations on the basis of clearly distinguishing the socio-economic development tasks of all levels in order to allocate expenditures appropriately.

### ***2.2.2. The role of state budget expenditure management***

In state management in general, state budget expenditure management is very important, expressed in the following aspects:

*State budget expenditure management contributes to supply finance promptly for the operations of the State and the needs of society.* In the context of limited public finance, timely and appropriate financing is a prerequisite for the operation of the financial resources to achieve its stated objectives. Through strict state budget expenditure management, state budget expenditure management affects socio-economic life, maintains socio-political stability, and contributes to solving urgent problems of society.

*State budget expenditure management contributes to improving the efficiency of state budget expenditures.* With the estimation tool, state budget expenditure management makes planning process more state-of-the-art, more proactive and more scientific; thereby provides better control the spending process of the spenders. Based on the cost analysis in comparison with the actual situation, state agencies have basis for the reasonable adjustment. In addition, the state budget expenditure management tool has created a legal framework that allows the spenders state budget to operate autonomously in their activities without exceeding the limits set out.

*Effective state budget expenditure management will support macro stability and allow State to actively spend in line with the current state of the economy.* Under conditions of economic recession, effective state budget expenditure management will give priority to spending state budget for demand stimulus. When the economy with high inflation, effective state budget expenditure management will allow the State to cut government spending to stabilize prices, etc. In addition, effective state budget management will contribute to the accumulation of state budget. The State aims to support the development of production and the formation of a reserve fund of the State to cope with the fluctuations of markets and natural disasters.

*Effective state budget expenditure management will create favorable conditions for State to support economic restructuring, regulate people's income, create social justice and socio-economic development in the locality.*

Good budget expenditures, especially development investment expenditures, also allows the government to support the formation of key industries and key economic sectors in the area, thereby encouraging economic growth (through subsidies, capital support, tax incentives, etc.), creating favorable conditions and environment for business development, ensure social and political stability, etc.

*Effective state budget expenditure management, especially development investment expenditures, also will allow the government to support the formation of key industries and key economic sectors in the locality. Thereby encouraging economic growth, creating the favorable conditions and environment for business development, ensure social and political stability, etc.*

Through investment and management of investment capital from the state budget, state budget expenditure management will facilitate for the shortening distance between regions and areas, thereby reducing the wealth gap between regions, areas and classes population, contributing to overcome the shortcomings of the market economy. It can be said that effective state budget expenditure management is also a factor contributing to sustainable development.

### ***2.2.3. Objectives, requirements of state budget expenditure management***

The objectives of state budget expenditure management are strictly expenditure management, ensuring state budget expenditures in accordance with the provisions of law, being controlled before, during and after disbursements. Budget expenditures must be right with purposes, in accordance with the expenditure norms and approved by the head of the spenders.

To achieve this objective, state budget expenditure management must be governed by law and detailed cost estimates of each item of expenditure; budget expenditure management uses a combination of measures, but the most important measure is administrative measures. Administrative organization measures affect the object of management in two directions: (i) The managing bodies issue legal documents, stipulates the nature, objectives, scale, organizational structure, conditions for establishment, operation rules, relationships within and outside the organization; (ii) The managing bodies make management decisions to cause their subordinates or agencies under their management to perform certain tasks.

### ***2.2.4. Principles of state budget expenditure management***

*Principle of consistency:* Under this principle, all revenues and expenditures of an administrative level shall be included in a uniform budget plan. The consistency management is the adherence to a general framework from the formation, use, inspection, examination, payment and settlement of problems encountered in the implementation process. Implementing this principle of management will ensure equality, fairness and effectiveness, limit negative factors and risks, especially subjective risks when deciding on expenditures.

*Principle of democracy:* A good policy is a policy that reflects the interests of all the classes, sections, and communities people in budget expenditure management operations. Social and public participation is carried out throughout the budget process, from budget planning, execution to budget settlement, demonstrating the principle of democracy in budget management. Participation of the people will make the budget more transparent, budget information more accurate.

*Principle of budget balancing:* Budget planning, collecting and spending must be balanced. All expenses must be compensated by corresponding revenue.

*Principle of publicity and transparency:* The budget is a program that reflect the activities of the Government by data. Implementing publicity and transparency in management will enable the community to monitor and control financial decisions, limit losses and ensure efficiency. The principle of publicity and transparency should be implemented throughout the budget cycle.

*Principle of accountability:* The state is a public authority, using the resources of the people to achieve the objectives set out. This is the principle that requires the responsibility of individual units in the budget management process, including: Accountability for budgetary activities; responsibility for budget decisions; Responsibility to upper management and the public and society.

#### ***2.2.5. Basic contents of state budget expenditure management***

State budget expenditure management includes a lot of contents. However, in order to deepen the analysis, the thesis only focuses on two main contents are development investment expenditure management and recurrent expenditure management.

##### ***\*) Development investment expenditure management***

Management of development investment expenditure is a very broad topic. In this thesis, the author focuses on investment expenditure management of capital construction which accounts for the largest share of development investment expenditure. It contains the following basic contents:

##### ***Planning, arranging and announcing annual capital construction investment:***

State budget-funded projects shall only be recorded in capital plans when all the conditions prescribed by the State's current management regulations are met. During the time of making annual budget estimates, the investor shall, depending on the progress and objectives of the project, make investment capital plans and send the same to the superior managing agencies for incorporation into the budget estimates according to regulations of law on State budget.

After the State budget estimates is approved by the National Assembly, at the proposal of the Ministry of Planning and Investment, the Ministry of Finance, the Prime Minister shall assign the People's Committee of the province or city directly under the Central Government to work out a plan for allocation of investment capital and submit the same to the standing People's Council of the same level for decision. The implementation of resolutions of People's Councils and People's Committees to allocate and decide on assignment of investment capital plans for each project, which has satisfied the investment procedures under its management, must match the assigned quotas of the total investment amount, capital structure and economic structure, etc. Department of Finance is responsible for coordinating with Department of Planning and Investment about the projected allocation of investment capital to projects managed by the province before reporting to People's Committees of province for decision. For districts, towns and provincial cities, the Finance and Planning Division shall assume the prime responsibility and coordinate with district functional agencies in advising district-level People's Committees in allocating investment capital to each project managed by the district. After allocating the District People's Committee shall send the investment capital plan to the Department of Finance. For projects managed by provinces, cities or districts, the Finance Department or the Finance and Planning Department to notify the plan on payment of investment capital to the State Treasury of the same level as well as branches as a basis for payment of capital for Project management and monitoring.

***Allocation of capital construction investment:*** To be allocated capital construction investment, an investment project must satisfy the following conditions:

- (i) The investment project must be included in State's annual investment plan
- (ii) The investment project must be informed of the annual investment capital plan by state budget. The allocation of capital construction investment can only be made when the investment projects have adequate secured investment capital. Once the Investment plans have been announced investment capital payment plan, it proves that the project has enough capital to meet the necessary conditions to proceed with the allocation of the project payment in the plan year. Investment plans from the

state budget can only be paid when the State Treasury receives the plan to pay annual investment capital of the financial agency;

(iii) The investment project must have all the necessary documents to serve as basis for allocation of investment capital to the State Treasury. The necessary documents to serve as a basis for the allocation of investment capital is a legal basis for evidence that the project is eligible for capital allocation to determine the volume, the amount of capital allocated for each work of the project, the responsibility of the organization and the individual in charge of the management and use of allocated investment capital.

***The settlement of capital construction investment:*** All investment projects funded with state budget capital shall have to make the final settlement of investment capital for the construction of works immediately after the works are completed and handed over for operation and use. The investment capital settlement report must:

- Determining fully and accurately the total investment cost already arose;
- Identifying clearly the source of investment capital;
- The permitted investment costs are not included in the value of assets formed through project investment;
- Fixed assets, current assets;
- Ensuring the contents, time of preparation, verification and approval according to regulations.

The time for preparation of the final settlement report of a completed project shall be counted from the date of signing the handover certificate for putting into use. The time for auditing shall be counted from the date of receipt of complete audit dossiers as prescribed. The time for examination and approval of the settlement shall be counted from the date of receipt of complete settlement dossiers according to regulations. Prior to the approval of the investment capital settlement, all final settlement reports must be verified.

The person authorized to approve the settlement shall decide to organize the settlement examination or hire an independent auditing organization operating in Vietnam to audit the settlement report. The Minister of Finance shall approve the

settlement of investment capital of projects for investment decided by the Prime Minister and Group A projects funded by state budget. For the remaining projects, the person authorized to decide the investment shall also be the person approving the final settlement of investment capital.

*\*) Recurrent expenditure management*

➤ Estimates management:

- *Bases for estimates:* Recurrent expenditure estimates are a very important part of the state budget expenditure. Therefore, when making recurrent expenditure estimates, it must be based on the following: The indicators of socio-economic development, ensuring national security, etc. especially the indicators directly related to the allocation of recurrent expenditure; The State's undertakings and policies on the operation of the State management apparatus, professional activities, security and defense activities and other activities from time to time; Decentralization of revenue sources, spending tasks of the state budget; The regimes, criteria and norms set by competent agencies.

The budget allocation norms are issued by the Prime Minister, Provincial People's Council. Directive of the Prime Minister on socio-economic development planning and state budget estimates. Circulars guiding the preparation of budget estimates of the Ministry of Finance and guiding documents of agencies of all levels. The check number of the budget estimate announced by the competent agency, the situation of the implementation of the budget estimates for the reporting year and the following years. Capacity to balance funds to meet the demand for recurrent expenditure. This capacity is forecasted on the basis of the reporting period revenue structure and the growth of revenues.

- *Construction of recurrent expenditure norms:*

The expenditure norms include: allocation norms and budget usage norms.

Budget allocation norms: These types of norms have the following forms: administrative expenditure norms on a payroll; general expenditure norm for a student at all levels; expenditure norm for a hospital bed; expenditure norm for

culture and information, radio and television, sports and physical education per capital, etc.

Budget usage norms: These norms include those in salary, wage allowances, working-trip allowance and conferences. These norms are diversified as recurrent expenditures cover many domains. This is the legal basis for the budget spenders to comply with budget expenditures and is also a legal basis for the State Treasury to control expenditures.

- *The sequence of recurrent expenditure estimates:* The preparation of annual budget estimates is usually conducted at the end of the second quarter and the beginning of the third quarter of the reporting year. The estimation procedure is carried out in the following basic steps:

(i) Estimating units and units funded by the state budget at all levels in the locality, when making the revenue and expenditure estimates, must enclose detailed explanations explaining the basis for calculating each revenue and expense, in the prescribed format, content and time.

(ii) The superior agencies, when considering the budget estimates of their subordinate units, may request they to revise the estimates in the following cases: The estimates exceed the budget balance, failure to conform to the standard norm, works and format.

(iii) The superior agencies, when considering the estimates of their subordinate units, shall send the estimates of the central and local level-I units making budget revenue and expenditure estimates under their direct management, consider the estimates of the subordinate units, to check and estimate the revenues and expenditures within the scope of their management and send the estimates to the finance agencies, the investment planning agencies and the target program-managing agencies of the same level.

(iv) Pursuant to the Resolution of the National Assembly on state budget estimates, the Government and the Ministry of Finance shall be responsible for allocating and assigning estimates to central agencies and provinces and cities under central authority.

(v) People's committees at all levels, on the basis of the assigned budgets, submit to the People's Councils for decision the revenue-expenditure estimates and budget allocation plans for their subordinate units and committees for further allocation.

➤ To comply with the recurrent expenditure estimates:

In this stage, the inspection and supervision of financial agencies at all levels should be strengthened, the expenditure control of the State Treasury, and above all, must use efficiently and economically the allocated funding sources of budget spenders.

➤ Recurrent expenditure settlement:

This is the end of the recurrent budget expenditure management cycle. Recurrent budget expenditure settlements are also prepared from the base, from the bottom to the top through the system of budget levels. Recurrent budget expenditure process should pay attention to the followings: Complete all types of settlement reports and timely submit these types of reports to the competent authorities for appraisal, approval in accordance with the provisions of law on State budget; The data in the settlement reports must be accurate, truthful and in line with the State budget index; The annual settlement reports of the budgeting units and the budgets of all levels must be certified by the State Treasury of the total amount and details before submitting them to the competent authorities for consideration and approval.

The recurrent expenditure settlement process will help the management agencies will analyze and evaluate the budget execution process and comply with the norms set by the budget beneficiaries as well as by the different budget levels accurately, transparently and objectively; At the same time, increasing the responsibility of units in the process of using the budget; serving as a basis for setting and adjusting norms of budget allocation, budgeting for the following years.

#### ***2.2.6. Methods and tools for state budget expenditure management***

*\*) Methods for state budget expenditure management*

➤ *State budget expenditure management method by input factor*

Expenditure management is mainly based on the total available resources of the state budget, the experience of allocation the previous years and actual demand. Accordingly, the management mechanism, expenditure norms, use of budget, even

the viewpoints of financial management regulations are set up to control the expenditure as strict as possible.

Financial management is based on input factors which are heavily subjective, imposed by the allocated units and has some drawbacks:

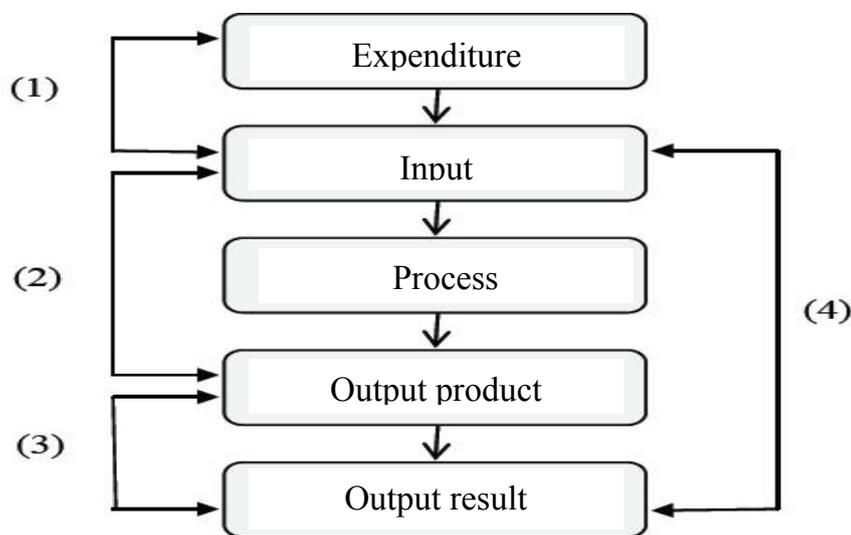
(i) The efficiency of management is low, the budget is not linked with the target to be achieved, and the vision is short and passive;

(ii) The preparation of estimates is inadequate, when subordinate units are always in shortage, the superior level is always under pressure of the limits in the approval and allocation of budget to subordinates;

(iii) The budget allocation is scattered, lack of focus and inefficient.

➤ *State budget expenditure management by output factor*

State budget expenditure management by output factor is a management approach that focuses on the effectiveness of budget expenditures, the outcome of the process after the state budget expenditures, and the effectiveness of the budget. The process of budget expenditure management by output factor, efficiency and effectiveness of state budget expenditure is assessed according to the overall as Figure 2.1.



**Figure 2.1. Diagram: Management based on output results**

In which:

(1): Economic calculations, determine the total expenditure estimate.

(2): Efficiency comparison: The relationship between the input and output? Or what inputs are needed to achieve the desired outputs?

(3): The degree of success: It means that whether the output products have a positive or negative impact on the socio-economy.

(4) Resource efficiency: Assess the impact of using inputs on the socio-economic background.

State budget expenditure management by output is the right direction. However, it is not easy to implement this method, currently, it is necessary to link the renewal of the allocation process, budget allocation of outputs with budget allocation in the medium term expenditure framework, which is more feasible. It is possible to generalize the process of budgeting and allocating budgets based on the output linked to the medium-term vision in a three-phase roadmap as follows:

***Phase 1:*** Develop and decide on a medium-term financial-economic framework based on the establishment of macro-economic strategies, policies, indicators and forecasts.

***Phase 2:*** Develop and decide on the medium-term budget framework, set macro-financial indicators, and overall financial limits discipline.

***Phase 3:*** Establish and decide the medium-term expenditure framework.

*Advantages of State budget expenditure management by output:*

Contributing to the renewal of public sector resource management policy which aims to establish three fundamental issues: respect for overall financial discipline, effective allocation of financial resources to priority strategic objectives and improve performance of public service delivery. Strengthen the public financial management principles with the aim of improving the distribution and management of resources as well as enhancing the transparency of State accountability.

State budget expenditure management by output allows budget managers to obtain useful information as follows: Determining the output that allows state budget managers to produce and to be produced in which quantity and quality; The source of assurance needed to ensure the production of outputs. Check the relationship between the outputs and the contribution of outputs and expected results.

State budget expenditure management by output always places the Government and agencies in place to ensure that: Outputs required for funding must determine what will be added to the outcome; the outputs must specify the volume, quality and price; Outputs are targeted and delivered within the required time frame.

State budget expenditure management by output allows the monitoring, control and evaluation of budget expenditures to be open, where every investor can easily check and control and assess the function and performance of government agencies based on defined objectives and criteria.

*\*) Tools for state budget expenditure management*

**Legal tool:** This is the earliest and most common tool to serve State management in every country. Over the past years, the State has issued many legal documents related to state budget expenditure such as law on State budget and guiding documents, during the implementation of the additional documents in accordance with the requirements. The development of society, so it becomes the most effective tool for State management of State budget.

**The State Budget Index:** is the list of state budget revenues and expenditures which help the state budget accounting process to be fast and accurate. The state budget index has become a very important tool in State budget management. In State management practices in all countries in the world, each country has established its own State Budget Index system. At the stage of budgeting: State budget index is a tool for financial agencies to make plans to allocate financial resources both in general and in detail, and financial resources of the state are distributed according to a strict revenue structure and fit with socio-economic development in each period. In the state budget execution stage: The financial agencies, the State Treasury will guide the budget spenders to strictly comply with the financial regime as prescribed and it will serve as technical basis for the financial agencies to supervise and inspect the performance of the State budget expenditure. State budget settlement: The State budget index helps the financial agencies and the State Treasury to synthesize the state budget expenditures of the budget spenders quickly.

On the other hand, by the form of expenditure by budget index, it's possible to monitor the implementation responsibilities of organizations and individuals managing the state budget and the responsibilities of organizations and individuals implementing state budget expenditures. .

**Planning:** Planning is also an important tool that the state must use in managing the economy. When implementing state budget management using the planning tool, State agencies should:

(i) Based on the indicators of the socio-economic development plan to examine and assess the appropriateness of the revenue and expenditure targets in the State budget estimates. At the same time, it is also necessary to base on the level of expenditure norms established in the State Budget estimates and adjust the level of indicators of the Socio-economic development plan;

(ii) In the course of state budget spending, carry out the competition between the level of state budget expenditure execution and the level of implementation of socio-economic development targets. The expenditure must necessarily be associated with the performance of tasks identified in the Socio-economic development plan and

(iii) When approving the budget for one year, it is necessary to review the real results of the socio-economic development of that year. These are the results expected by the society. The achievements or weaknesses in the management of the State are most clearly revealed through the data of state budget settlement and results of implementation of the socio-economic development plan of the same period.

**Audit:** State budget expenditure management is only considered public and transparent when evaluated by external organizations and individuals (not directly involved in state budget management). One of the bases for those who need information on state budget management is the reports of auditing organizations; especially the State Audit. In our country, the annual audit of state budget is the responsibility of the State Audit Agency which has been officially institutionalized in the Law on State Budget. As a result, the state budget at all levels and the budget

spenders shall be audited by State Audit. The State Audit shall have to accurately assess and certify the validity, legality and particularly the effectiveness and efficiency of state budget management. Reports from State audit is the most reliable source of information for state agencies at all levels and organizations and individuals wishing to use budget information for their activities.

***Tabmis system*** is a modern technology-based management information system used as a tool to gather, process and provide information about the process of allocation, execution, accounting and decision making regarding to State budget and professional activities of the State Treasury. This is a software system designed in accordance with the best standards and practices in financial management and public accounting in the world. It is a good opportunity for Vietnam to reform its financial management and public accounting in the direction of international and regional integration, modernization and improve the efficiency of public financial management. At the same time, this is also a useful tool to help MOF, State Treasury manage the state budget in a systematic and consistent way from budget management to budget implementation and budgeting, meeting the Public finance reform roadmap of our country in the current period.

#### ***2.2.7. Organization of the state budget management apparatus in the locality***

According to the Constitution, the highest financial management agencies in the locality are People's Council and People's Committee at all levels; the management of financial operations is the responsibility of the Financial agencies at all levels, the State Treasury at all levels, and the overall management of public finance in general and state budget expenditure management. Specifically, the functions of each component of the state budget expenditure management apparatus in locality are as follows:

\* *People's Councils*: Decide on budget estimates and allocation; approve local budget settlement; decide on undertakings and measures to implement the State budget; decide on the adjustment of the budget estimates in case of necessity; monitor the implementation of the budget decided by the People's Council;

*\* People's committees at all levels:* make budget estimates and plans for allocating local budgets, budget estimates adjustment of local budgets in cases where it is necessary to submit them to the People's Councils of the same level for decision and report the same to the higher-level finance agencies; decide on assignment of budget revenue and expenditure tasks to each subordinate agency or unit; revenue and expenditure tasks and levels for subordinate budgets; implement State budget; prepare local budget settlements for submission to the People's Council of the same level for approval and reporting to the State administrative agency and the higher level financial agency; coordinate with higher state agencies in state budget management in the area; report on the state budget in accordance with the law;

*\* Financial agencies at all levels:* To ensure capital sources as prescribed by the Ministry of Finance for State Treasury to allocate and pay; to make final settlement of State budget expenditures according to the provisions of the Law on State Budget; coordinate with functional agencies in guiding and inspecting the observance of financial regimes and policies, the management and use of funding sources, payment situation and final settlement of funding sources for solution. to handle cases of violation, to issue decisions to recover amounts and contents of expenditure in contravention of regulations; to be entitled to request units receiving budgetary funds to provide necessary documents and information for the state management of public finance.

*\* State Treasury at all levels:* To control and pay timely and sufficient funds to the beneficiaries when they have satisfied the prescribed conditions and requirements; to urge the unit to pay the debt upon completion of the project; to implement the regime of information, reporting and settlement of the use of investment capital and non-business capital belonging to the State budget capital sources according to the State Budget Law and the Finance Ministry's guidance.

#### **2.2.8. Factors affecting state budget expenditure management**

*\*) Objective factors*

**The legal system:** The law is the means by which the State governs the economy. Only on the basis of a uniform and strong legal system, the State can promote the

effectiveness of socio-economic management. Actually, the law has become the most important tool in the management and administration of state budget such as law on State budget, plans, cost norms system, budget allocation, etc. Thus, this is extremely important factor. It is important to decide the content and effectiveness of the budgetary management process in general, budget in particular in order to achieve the objectives set out.

***The social system is the key factor influencing the composition of state budget expenditure.*** The social system determines the nature and the socio-economic tasks of the state. The state is the subject of state budget expenditure, so it is natural that the state budget expenditure structure is subject to social constraints.

*\*) Subjective factors*

***The decentralization of state budget management:*** State budget decentralization is the determination of the scope of responsibilities and powers of the State administration at all levels in the management and administration of budget revenue and expenditure tasks. Decentralization of state budget management is the best way to link the activities of the state budget with specific socio-economic activities in each locality in order to create autonomy and increase the autonomy of each locality with the aim of full sufficient, timely and proper concentration and in line with the regime of national financial sources, and to distribute and use budget equitably, reasonably, economically and efficiently for the objectives set out.

Under the Law, regardless of budget decentralization budgets at local government levels are never allowed to be overspending. Therefore, in order to ensure fairness and balanced development among regions, localities the higher-level budgets shall make additional budget allocations to lower-level budgets.

Proper decentralization of local budget management will increase the autonomy of localities, ensure financial means for the maintenance and development of activities of local administrations and create conditions to promote the multi-faceted advantages of each region and each locality throughout the country; It facilitates better management and planning and regulates relationships between levels of government as well as the relationship between budgets better. At the same time,

decentralization of budget management promote more decentralized socio-economic management.

***Organizational structure of apparatus and staff:*** When it comes to the organizational structure of a budgetary management apparatus, people often refer to the size of their personnel and it consists of structure of the apparatus, budget expenditure managers and relationships between superiors and subordinates, and between departments in the implementation of this function. Defining the functions and tasks of the management apparatus and managers according to the function of responsibilities and powers between this department and other sections and between the superiors and the subordinates in the process of decentralization. If the defining of the functions, tasks and powers of the local level authorities at different levels is unclear, it is likely that there is a situation of irresponsibility or abuse of powers in performing the task of managing budget expenditures. Low qualification of apparatus and staff will affect the efficiency of budget expenditure management. Therefore, the organizational structure and staff are very important factors in the organization of budget expenditure management.

***The level of economic development and income level:*** High economic development level and higher average income of people will not only facilitate the mobilization of funds and effective use, but also requires policies, regimes, economic and financial norms, the level of budget expenditures to change in accordance with economic development and income levels, living standards of people . Therefore, in our country as well as in other countries in the world, attention is always paid to this factor, in the process of managing state budget expenditure planning. When the level of economic development and the average income level in the area is low as well as the responsibility in using expenditure and the reliance on the State will affect the efficiency of state budget expenditure management.

In addition to the above factors, the content of the state budget expenditure of each country in each period is influenced by many other factors such as economic, political and social changes, including fluctuations of price, exchange rate, etc.

## **2.3. Experiences on state budget expenditure management in locality at some countries in the world and the lessons drawn for Nam Dinh province.**

### ***2.3.1. Experiences of state budget expenditure management in Guangdong province - China***

In China, state budget is not integrated and divided into 5 levels: central, provincial, city, district and commune levels. From 2000 up to now, budget management in China has been strongly reformed on three aspects: budget estimates, training and retraining of state budget managers, reform of treasury operations.

*For budget estimates and estimates approval:* The State budget management agency shall assign budget spenders to make annual budget estimates and at the same time prepare 3 - 5 year budgetary plans to serve as basis for budget stability. The estimates must be passed by the National Assembly or the People's Council at all levels. The establishment and determination of budget estimates at each level shall be made on a yearly basis.

The expenditure estimation process is carried out in the form of 2 up – 2 down: In June of each year, the finance agency issues guidelines for estimating for the next year, on the basis of which the estimating units send the budget estimates to the financial agency for the first time. After receiving such estimates, from September to October every year, the financial agency shall request the units to re-estimate the budget on the basis of the balance of the budget. The estimating units shall adjust the estimates and send them back to the second financial agency before December 15 every year. Then the general financial agency asked the People's Committee, then submitted to the People's Council for approval of the estimate. After the People's Council approves within 1 month the financial agency approves the official estimate for the units, allocates the additional amount to the lower level budget.

Budget expenditure norms are allocated to each specific sector and set the level of limits for each level of local administration to decide. The decentralization of budget expenditures is clearly regulated, in which the central budget guarantees security, defense, diplomacy, environment and activities of central state agencies; The local governments at all levels are responsible for the implementation of the

expenditure tasks managed by that level, in addition to the tasks assigned by the upper level budget.

The addition of budget from higher level budgets to subordinates falls into two categories: Balanced addition is the support based on the wealth level of each locality; Targeted addition is proposed by the managing entities of works and projects in the locality. Investment policies are applied in the following areas: For Education and training expenditure: The Law on Education stipulates that the tuition for 9 years of compulsory education from grade 1 to grade 9 is exempted. Private and semi-public schools are free of tax and land rental. Universities, colleges and vocational schools are allowed to borrow credit capital to invest in teaching equipment and at the same time use the tuition revenue and the proceeds from the use of teach materials to repay debts when they become due. And for agricultural expenditures: After the promulgation of the Law on Agriculture, the Government's policies are promulgated in the direction of supporting and raising agricultural awareness for farmers and creating conditions for agricultural products, addressing rural poverty by creating more jobs, investing in infrastructure to improve livelihoods, and promoting rural development. Financial policies are concretized including agricultural tax exemption, investment in developing irrigation systems, construction of specialized farming areas, providing information on agriculture.

### ***2.3.2. Experiences of state budget expenditure management in Seoul - Korea***

In Korea the budget is divided into three levels: central level; municipal level, cities under central, provincial level; districts and cities under provincial level. The commune and town level is self-governing, there is no People's Council (this level has no budget).

*The estimation, execution and settlement for local budget in these two provinces are as follows:*

On March 31 every year, the units must make cost estimates to send to the Ministry of Home Affairs. At the end of May, the Ministry of Home Affairs inspects the investment projects for the purpose of reconsider whether the investment is in

accordance with the original project, if the project is implemented in accordance with the progress, this is the basis of arrangement for next year.

By July 31, the Ministry of Home Affairs sent guidelines for the construction of the next year estimates for localities on the principle of giving active control to the locality. In August, the Ministry of Home Affairs promulgated the inspection number to the units, detailing each item as needed, such as payroll expenses, festival expenses, etc.

By the end of December, local financial agencies make and allocate budget estimates to People's Councils for decision. By the end of the year, 232 provincial, municipal and district units must submit the settlement to the Ministry of Home Affairs. Based on the prescribed standards, the Ministry of Home Affairs shall make an analysis of settlement, each locality has its own specialized department checking the settlement. The settlement audit is not done regularly but depends on corresponding year and the audit time is 20 days.

*For medium-term planning:* Together with the annual budgeting the People's Committee at all levels must develop medium-term financing and expenditure plans. Those plans shall be sent to the People's Council, but the People's Council shall not approve those plans but use the same as a basis for considering and determining annual budget estimates.

*Decentralization of local budget expenditure:* Local budgets shall perform the remaining expenditure tasks according to the principle of giving autonomy to the localities such as administrative management, welfare, social health, agricultural development, city planning and construction of water supply system, repayment of loans by local budget.

Korean budget expenditure is particularly concerned with education and human resources development. In relative terms, this sector accounts for about 13% of total spending, of which 87% is for general education, 13% for pre-school (Expenditure on salaries in general education accounts for 70% of total expenditure on education).

*Additions from central budget to local budget:* Addition from the central budget to local budget is divided into 3 types:

+ Type 1 is a balanced subsidy to cover the budget deficit to ensure that localities have the minimum financial resources to carry out decentralized expenditure tasks. Balanced subsidies are determined on the principle of income and expenditure difference. The balanced subsidies from the central budget to the local budget is 15% of the total domestic revenue. Total domestic revenue is determined by the gross national tax revenue minus traffic taxes, educational taxes, special taxes for rural development and customs duties. However, when calculating the subsidy the tax on alcohol, beer and telephone taxes are also deducted because these two taxes are 100% transferred to the localities in subsidies level 2.

+ Type 2 is targeted and package subsidy for localities to focus on five priority areas for development such as roads, drainage, rural development, local economic development and youth education. In these five areas of investment, the percentage (%) for each area is clearly stated. Specifically, 48% is for road construction, 25% is for water supply, drainage, 17% is for regional development, 8.3% is for rural development, and 0.7% is for youth education. The source for subsidies type 2 is determined on the basis of the total of 100% of the telephone usage and special consumption tax on beer and wine.

+ Type 3 is pro-rate subsidies, which are used for areas under the jurisdiction of central government, however, as these projects are essential to the local people, the State has assigned the same to localities. The level of budget support for each sector is specified. The rate of support for each locality depends on the budget of each province.

### ***2.3.3. Experiences of state budget expenditure management in New Zealand***

In the late 1980s, New Zealand focused on the performance of organizations with greater clarity of responsibility for expenditure and as a result, New Zealand's financial management system considered the goals of the Government as the gift. The strategic development process was developed in the 1990s and by the beginning of the 21st century public finance management has gone deep into the

management of the private sector, although they are not competitive in the market, such as corporations, public organizations having assets of exceptional value such as employee skills, knowledge or power or reputation of the organization. Public organizations can use these assets to create public value, strategic analysis of their "*strengths*" and "*weaknesses*" will help them identify such assets and find ways to develop and use the same more effectively.

To date, New Zealand has allocated budget to output types with six different types of subjects of the same level:

*One*, Output types: policy advice, contract management, policy development and detention services.

*Two*, Subsidies: unemployment benefits, housing subsidies, scholarships.

*Three*, the borrowing costs such as interest, loan commission and other financial expenses.

*Four*, Other costs such as restructuring costs, lawsuits, losses from the sale of fixed assets

*Five*, capital contribution, for example increasing the level of investment for an agency to increase output capacity.

*Six*, Buy and develop fixed assets, for example, investments in highway systems, national parks, and the Houses of Parliament.

*Seven*, payment of debt, including repayment of domestic and foreign debt.

The criteria for determining the output are well defined:

*One*, Outputs of the same type must be of the same nature.

*Two*, information on the quality, quantity, time and cost of all outputs must be available for decision making and for the public to monitor.

*Three*, the information should be detailed, complete, to bind the responsibility between the supplier to the manager, and between the manager with the buyer and the agencies and all people responsible for supervision.

The National Assembly approves the budget according to a process: before issuing a budget, the government declares a policy that includes targets for the next budget year and at least 3 following years. This is the basis for the ministries to develop budget programs in which new programs are considered and adopted, and

announced in the fiscal and fiscal update report. The report provides an overall revenue and expenditure plan for implementation of the strategy, and concurrently with the budget, the government must announce its fiscal strategy, reporting on the consistency of budget decisions. With the policy strategy, the fiscal strategy report also has to make fiscal forecasts on budget revenues and expenditures over the next 10 years.

#### ***2.3.4. The lessons are drawn for Nam Dinh province***

Based on studying the experiences of state budget expenditure management in locality at some countries in the world, lessons can be drawn for Nam Dinh province as follows:

- Regardless of the budgetary regime of each country and based on the legal basis at different levels (legal document or an Act), on the basis of the constitution, depending on the specific model and level of development, each State has its own regulations about state budget management and is strictly regulated.
- The different countries have different levels of socio-economic development, different budgeting methods. However, they place great priority on administrative reform in the field of budget management, especially institutional reform, the mechanism of managing budget expenditures in line with the practical development; improve administrative procedures and processes and streamlining the budgetary management apparatus at all levels;
- Establish and allocate budgets in the framework of the medium-term expenditure framework linking outputs with budgeting policies and plans. Many countries focus on economic analysis and forecasting for macroeconomic policy planning and policies related to budget expenditures in order to develop the socio-economy in a comprehensive and stable manner.
- Most countries put emphasis in directing and decentralizing economic management in parallel with the decentralization of budgetary management to lower levels on the basis of unifying policies, regimes and creating conditions for subordinates to promote their autonomy and self-responsibility in accordance with the law, financial management and flexible use of financial resources, enabling the

implementation of specific financial measures, consistent with the actual local situation.

- The implementation of local budget expenditure management activities must be based on socio-economic conditions in the locality and must continuously improve the mechanism and policy of budget management according to the level of local socio-economic development. By specific mechanisms, local governments can decide on their own issues, providing the financial support needed for businesses to encourage and regulate development in line with general development plan of the locality.

- Managing budget expenditures on output is a new management approach adopted by several countries. It comes from the development requirements of each country is always higher budget resources are scarce and limited. Therefore, the budget needs to be effectively used and transparent, public and budget-driven, in line with key outputs, to address that need, by quantifying the effective use of public funds. Through specific outputs so that all people can evaluate and monitor.

The experiences of localities in some countries in the world are very precious. However, due to the difference of political institution, socio-economic characteristics, natural conditions and development policies,... so, when applying the experiences of these provinces to the province Nam Dinh should be innovative, reasonable and flexible, should not be rigid application in a certain pattern.

## **Summary of Chapter 2**

The thesis has systematized the scientific basis of state budget expenditure and state budget expenditure management as well as the conceptual interpretation of state budget expenditure management in particular. At the same time, the thesis clarifies the role, purpose, content, principle and mode of state budget expenditure management and present the experience of some countries in the world and lesson learned for Nam Dinh province. This chapter serves as a theoretical basis for analyzing the situation and proposing a system of solutions to improve state budget expenditure management in the locality as presented in the following chapters.

### **Chapter 3. THE CURRENT SITUATION OF STATE BUDGET EXPENDITURE MANAGEMENT IN NAM DINH PROVINCE**

#### **3.1. An overview of socio-economic development of Nam Dinh province**

Nam Dinh Province is located in the south of the Red River Delta, with the coordinates of 19°54'- 20°40'N, 105°55'to 106°45E; Nam Dinh is bordered to the northwest by Ha Nam, Thai Binh province to the north-west, Ninh Binh province to the south-west, and the South China Sea to the south-east. Nam Dinh city is 85 km to the south of Hanoi; 90 km from Hai Phong city; About 30 km from Thai Binh, Ninh Binh, Ha Nam.

The National Highway 10, National Road 21 and National Railroad routes pass through the province. Total length of the coast of Nam Dinh is 72 km. Nam Dinh has large rivers such as Red River, Day River, Ninh Co River that flow through the province to the sea.

According to statistical yearbook of 2014, Nam Dinh has a natural area of 1,652.5 km<sup>2</sup>, the population is 1,833,000 with a population density of 1,110 people / km<sup>2</sup>, of which the population living in rural areas accounts for 80%.

Nam Dinh has 10 administrative units district level: Nam Dinh City, My Loc District, Nam Truc District, Truc Ninh District, Hai Hau District, Xuan Thuy District, Nghia Hung District, Y Yen District. You; There are 229 communes, wards and towns with 3,699 hamlets and population groups.

In general, the geography of Nam Dinh province is favorable but the advantages are not great for socio-economic development and trade. Nam Dinh is located only in the vicinity, the affected area of the Northern Growth Triangle; Nam Dinh is relatively far from the national economic-technical route and major traffic hubs, which restricts the exchange and attraction of external investment. The system of rivers and seas require a great investment to prevent floods and storms to protect production and people's life. Nam Dinh is a province with an underdeveloped economy, poor infrastructure, however, education, culture and sports are growing rapidly. Geographic location and basic characteristics mentioned above have largely

influenced revenue and expenditure situation and budget management mechanism in Nam Dinh province.

*The socio-economic development of Nam Dinh province in the period of 2011-2014*

Implementing the policies of the Party and the State, together with the development of the country, in 4 years from 2011-2014 with the spirit of determination and initiative, Nam Dinh province has promoted the tradition, inherited achievements and experience, focused on leadership, organized comprehensive implementation of socio-economic tasks. Specific results are as follows:

**Table 3.1. Results of implementation of socioeconomic targets for 2011-2014**

NO	Year	Unit	Results			
	Indicators		Year	Year	Year	Year
			2011	2012	2013	2014
1	Gross Domestic Product(GDP) (comparative price of 1994)					
	- Annual GDP growth rate	%	12.1	11.7	12	12.4
	- GDP per capita (current price)	Million dong	18.2	20.9	24.4	28.5
2	Economic structure					
	- Agriculture, forestry, seafood	%	28.8	27.2	25.5	24.5
	- Industry and construction	%	37.2	38.6	40	40.5
	- Services	%	34	34.2	34.5	35
3	The growth rate of agricultural, forestry and fishery production value	%	3.1	2.9	2.8	3
	- The annual growth rate of aquaculture and seafood	%	6.8	3.1	6.5	8.8
	- Annual food production	Thousand of tons	953	954	932	930
	- Production of live hogs	Thousand of tons	115	121	125	131
	- Total fishery production	Thousand of tons	93.4	94.2	101	110
	- Product value per cultivated hectare	Million dong	78	95	100	100

NO	Indicators	Year	Unit	Results			
				Year	Year	Year	Year
				2011	2012	2013	2014
4	Average growth rate of industrial production value (1994 constant price)	%	21.5	22	21.5	22.3	
	Industrial production index (IPI)	%	15.5	16	13.8	14	
5	Average growth rate of production value of services (comparative of 1994 price)	%	11.1	11.4	11.5	12.3	
6	Total value of exports	Million USD	322	383	414	436	
7	Growth rate the total investment capital of the whole society	%	25	18.6	16	15.2	
8	Rate of birth reduction every year	‰	0.21	-2.5	0.2	0.2	
9	Rate of trained workers	%	48	51	54	57	
10	The rate of poor households	%	8.3	6.72	5.33	4.3	
11	Rate of new jobs creation	Thousand of people	30.1	30.8	30.5	31	
12	Rate of malnutrition children under 5	%	14.9	14.7	14.3	13.1	
13	Rate of Health insurance coverage	%	40	48	60.2	67	
14	Percentage of rural population using clean water	%	85	90.4	92	93	
15	Percentage of urban population using clean water	%	95	98	98	100	
16	The rate of urban solid waste collected	%	83	85	87	90	
17	The percentage of currently operating industrial parks having a concentrated waste water treatment system meeting environmental standards	%	33	33	67	67	

(Source: Department of Planning and Investment of Nam Dinh province.)

\* The province's economy has taken new steps in terms of scale and efficiency.

By 2014 gross domestic product (GDP) of the province increased by 12.4%; The average growth rate is 12% / year. The economic structure continues to shift positively, the proportion of industry and construction increased from 37.2% in 2011 to 40.5%; Proportion of service increased by 35%; The proportion of

agriculture decreased from 28.8% in 2011 to 24.5% in 2014. The size of the economy was expanded, compared to the period 2007-2010: the total GDP increased more than 1.63 times; GDP per capita reached over 28.5 million, up nearly 2 times compared to 2010.

*\* The socio-cultural fields are paid attention and continue to achieve many new achievements, especially education, health and employment.*

Education and training: to continue to develop comprehensively in terms of scale and quality. In 2014, Nam Dinh continues to lead the country in the rate of high school graduates; the rate of excellent students winning national prizes and high scores on college and university entrance exams is high, many schools meet national standards. The system of universities, colleges, and vocational schools continues to be expanded rationally. To date, there have been 4 universities, 5 colleges, 15 vocational schools; all districts have vocational training centers.

Health, population and family planning: The health care system has expanded. There are 248 public health facilities (19 of which are provincial and district hospitals, 229 commune and ward health stations); 1,514 public health facilities and private health services; The quality of medical examination and treatment has been improved step by step.

*In summary*, the natural characteristics and socio-economic development level are very important factors directly affecting budget expenditure in the locality and are also one of the determinants of policies and guidelines on local budget management. Only suitable budget management mechanisms, associated with local characteristics, will promote efficiency and socio-economic development.

### **3.2. Actual state budget expenditure of Nam Dinh province from 2011-2014**

#### ***3.2.1. Overview of state budget revenue in Nam Dinh province for the period of 2011-2014***

The world economic situation show signs of recovery, but there are still many challenges; With the spirit of determination and initiative of the provincial Party Committee, the provincial People's Committee, the efforts of the authorities and

other units in the financial sector, the provincial budget revenue in 2011-2014 period is encouraging, specifically through the following data:

**Table 3.2. Revenue Nam Dinh Provincial People's Committee for the period of 2011-2014**

*Unit: million VND*

NO	ITEM	Year	Year	Year	Year
		2011	2012	2013	2014
	LOCAL STATE BUDGET REVENUE	<b>1.924.801</b>	<b>2.028.142</b>	<b>2.256.823</b>	<b>2.547.204</b>
<b>I</b>	Domestic revenue balance budget	<b>1.804.913</b>	<b>1.852.812</b>	<b>2.064.216</b>	<b>2.319.835</b>
1	Revenue from the state-owned economy	324.827	357.320	343.370	346.290
2	Revenue from foreign invested enterprises	21.641	31.229	48.728	88.631
3	Revenues from the non-state sector	399.887	600.064	644.321	692.229
4	Personal income tax	62.080	76.784	69.872	69.180
5	Registration fee	97.548	99.420	114.239	124.465
6	Environmental Protection tax	119.394	117.962	108.307	103.887
7	Charge and fee	30.023	33.149	41.401	44.883
8	Revenue from houses and land	570.760	377.659	491.108	661.086
-	Tax on use of non-agricultural land	25.507	16.920	18.266	19.602
-	Land, water surface rent	26.467	30.010	24.637	25.448
-	Collection of land use fees	516.437	325.119	445.349	612.727
-	Collection of rent and sale of state-owned houses	2.349	5.610	2.856	3.308
9	Revenue in the commune	124.683	100.507	107.436	101.180
10	Other revenue	54.070	58.718	95.434	88.004
<b>II</b>	Revenue from Lottery to manage over state budget	<b>14.126</b>	<b>21.160</b>	<b>22.422</b>	<b>24.662</b>
<b>III</b>	Import and export tax	<b>105.762</b>	<b>154.170</b>	<b>170.185</b>	<b>202.707</b>

*(Source: Department of Finance of Nam Dinh province)*

According to Table 3.2, the situation of local revenue collection has seen remarkable growth. The state budget revenue in the area has a positive growth rate:

In 2011, total state budget revenue reached 1,924,801 million VND; By 2014, total state budget revenue was 2,547,204 million VND, an increase of 13% compared to 2013. The annual domestic revenue exceeded the plan and the domestic revenue for the four years 2011-2014 was 8,041,776 million VND, accounting for 92% of the total budget revenue, in 2014 it will increase by 12% compared to 2013. However, the total revenue generated in the area is still limited, local budgets still depend on subsidies of the Central.

In general, in the past years, the budget revenue in the area exceeded the plan set out in the Resolution of the Provincial People's Council<sup>1</sup>, contributing to the achievement of the provincial socio-economic objectives and tasks in 2011-2015. Such positive result is due to provincial Party Committee, People's Council and People's Committee have regularly directed the administration at all levels, departments and branches in exploiting revenue sources, combating budget deficits and promulgating various policies and measures on promotion mechanisms and policies. Investing, promoting production and business development to facilitate mobilization and raising of budget revenue; "Taxes are a major source of state budget revenue," which is an important source of finance to meet local spending and partly to local government spending on development investment. The policy of decentralization of revenue sources, spending tasks of the province is appropriate, combining revenue tasks with the right to spend of basic governments, thus encouraging the local authorities to pay attention to exploit revenue to develop production and business; Tax offices has closely coordinated with police, customs, market management in addressing tax evasion, trade frauds and business management in order to deliver efficient and resolute control the acts of violation of tax policy; The Law on Tax Administration and the Law on Personal Income Tax are promulgated to create an important legal framework in the management of tax collection and adjustment of taxpayers' duties towards equity, transparency in

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<sup>1</sup> Financial report of Nam Dinh province, Department of Financial, 2014

accordance with international practice and create favorable conditions for taxpayers to increase the ability to accumulate capital, reproduce and expand the state budget. However, revenue management still reveals the limitations that need to be overcome: The annual budget revenue has increased in proportion, but the absolute revenue increase is low, the structure of budget collection is not reasonable, the revenue from land use fees also account for about 20% of the total revenue; Enterprises in the area are mainly small and medium enterprises, small revenue, low budget, the province has no large and stable budget revenue; The budget revenue of communes, wards and towns is still LOW. Commune budget debt is large, which shows instability in rural security.

### ***3.2.2. State budget expenditure in Nam Dinh province for the period of 2011-2014***

In 2011-2014, the size of budget expenditure in Nam Dinh province is constantly increasing. Particularly, the province has paid much attention to capital construction, education, health care, economic and administrative management, which account for a large proportion in total recurrent expenditure, specifically in Tables 3.3 and 3.4:

***Table 3.3. Structure of revenue and expenditure of Nam Dinh Provincial People's Committee for the period of 2011-2014***

*Unit: million VND*

<b>Item</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
A. Total state budget revenue in the province	<b>1.924.801</b>	<b>2.028.142</b>	<b>2.256.823</b>	<b>2.547.204</b>
In which: Inland revenue	1.804.913	1.852.812	2.064.216	2.319.835
<i>Growth rate</i>		<i>103%</i>	<i>111%</i>	<i>112%</i>
B. Total local budget expenditure in balance	<b>7.716.088</b>	<b>8.729.142</b>	<b>9.293.829</b>	<b>9.958.481</b>
In which: Expenditure on development investment	1.982.221	2.258.771	2.405.909	2.504.289
- Expenditures on capital construction investment	1.822.821	2.155.271	2.283.429	2.327.289
<i>Growth rate</i>		<i>118%</i>	<i>106%</i>	<i>102%</i>
- Recurrent expenditure	4.072.883	4.885.001	5.797.981	6.327.240

Item	2011	2012	2013	2014
Growth rate		120%	119%	109%

(Source:.....)

**Table 3.4. Structure of expenditure in Nam Dinh for the period of 2011-2014**

Unit: million VND

Year	Total local budget expenditure	Total local budget expenditure in balance	Expenditure on development investment		Recurrent expenditure	
			Amount	Proportion (%)	Amount	Proportion (%)
2011	8.132.993	7.716.088	1.982.221	26%	4.072.883	53%
2012	9.247.001	8.729.142	2.258.771	26%	4.885.001	56%
2013	9.890.814	9.293.829	2.405.909	26%	5.797.981	62%
2014	10.191.001	9.958.481	2.504.289	25%	6.327.240	64%

(Source: Department of Finance of Nam Dinh province)

Expenditure of local budgets has been increasing. In 2011, the expenditure of local budget was VND 7,716,088; In 2014 the expenditure of the State budget in the balance increased to VND 9,958,481 million (+ 1.3 times). Of which, development investment expenditure accounts for a moderate share of total state budget expenditure in the province; In this period, development investment expenditure accounted for 26% of the total budget expenditure in the balance, close to the average level of investment expenditure of the whole country (about 30%), 2014 increased more than 26% Meanwhile, the proportion of current expenditures accounted for 64% of total expenditures in 2014, an increase of 55% compared to 2011.

The growth rate of development investment expenditure is relatively low compared to the rate of regular expenditure increase, because Nam Dinh is a poor province. The revenue is limited, not fully exploited, the local budget cannot cover regular expenditures. Therefore, the source of development investment from the self-

balancing budget is inevitably low, the majority of investment expenditure is supported by the central budget.

In general, local budget expenditure has met the requirements of socio-economic development in the area and reached the plan of the provincial People's Council. However, the structure of recurrent and development expenditure of the province has not been appropriately arranged, the proportion of spending on development investment is still lower than the recurrent expenditure, which should be rearranged.

*Regarding to the structure of development investment expenditure by sectors:*

In the period 2011-2014, in the condition that the self-balancing local budget is limited, addition from the central government budget is essential, the province has adopted investment policies focusing on key projects on the basis of socio-economic development planning and economic restructuring of the locality.

**Table 3.5. Expenditure on development investment from the state budget by Nam Dinh province for the period of 2011-2014**

*Unit: million VND*

ITEM	2011		2012		2013		2014	
	Estimates	Proportion (%)						
<b>Expenditure on development investment</b>	<b>1 206 200</b>	<b>100</b>	<b>1 193 500</b>	<b>100</b>	<b>1 379 625</b>	<b>100</b>	<b>1 351 910</b>	<b>100</b>
In which: exp. on capital construction	1 110 100	92	1 066 500	89	1 232 225	89	1 212 910	90
-exp. on centralized capital construction	257 900	23	250 000	23	234 000	19	250 000	21
-Exp. from revenue from granting land use right	203 000	18	287 000	27	334 600	27	315 000	26
-Exp. from addition sources from central budget	644 200	58	523 000	49	657 125	53	647 910	53
-Exp. from others	5 000	0	6 500	1	6 500	1		0

*(Source: Department of Finance of Nam Dinh province)*

According to the annual revenue and expenditure settlement report of Nam Dinh province in the period of 2011-2014, expenditure on development investment has made remarkable progress. The investment environment in the area has been improved, the investment capital of the local budget is increased over years is presented below (Table 3.5).

In 2011, development investment expenditure reached 1,982,221 million VND; in 2014 development investment reached 2,504,289 million VND; Most of the years spent on development investment of local budgets have been achieved in comparison with the beginning of the year. It can be seen that the province has tried to mobilize a lot of capital for development investment, concentrating on large projects, key works, vital traffic works, and essential infrastructure for socio-economic development in the province, such as new road section of My Loc - Phu Ly, road 489, provincial road 490C Thinh Long bridge to Dong Binh town, 37B Highway Loi Ong - Highway 488C, Highway 38B, Multi-purpose sports house, swimming pool with roof for the 7th National Sport Festival, embankment works to prevent floods and storms, etc.

Over the years many works have been completed and put into use. It is thanks to the efforts of the local authorities that actively mobilized and arranged investment in the past, created new prosperity and prospects for the socio-economy of Nam Dinh province, the rural appearance has changed. The people's living standard has improved significantly and poor households have significantly reduced.

*Regarding to the structure of recurrent expenditure by sectors:* The expenditure on education, health care and administrative management expenditures have been allocated, gradually contributing to the development of education in terms of scale, quantity and quality. The health care network, facilities and medical equipment are invested and the the quality of medical examination and treatment for the people gradually improved; Preventive health care is effective. The cultural life and spirit of the people of all levels has been constantly improved. In addition,

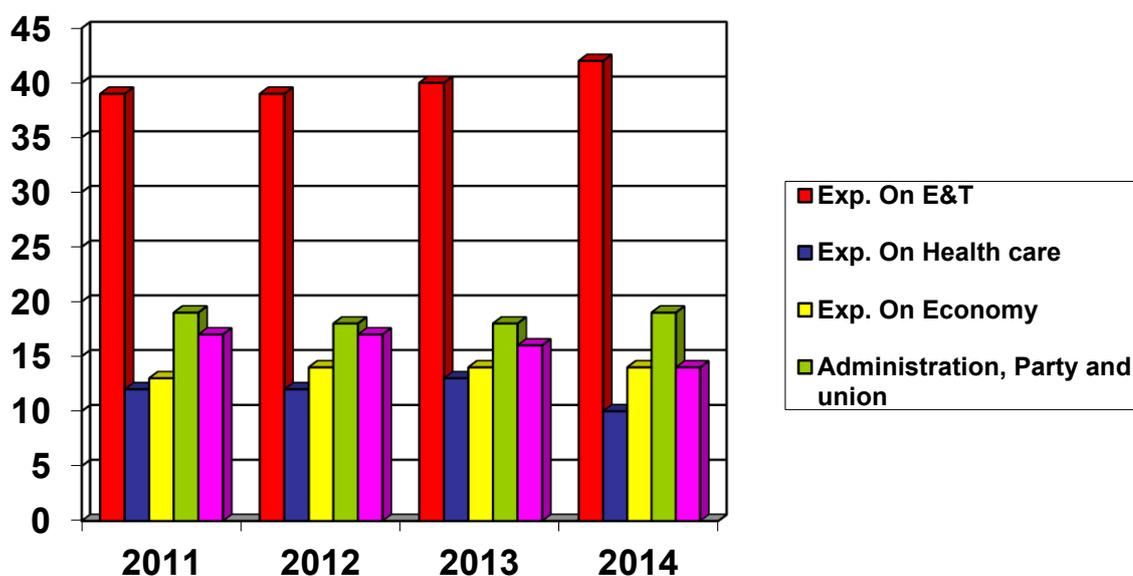
funding for the national security and defense is also increasing, creating conditions on facilities to maintain the political situation, social order and safety.

**Table 3.6. Recurrent expenditure from the state budget in Nam Dinh province for the period of 2011-2014**

*Unit: million VND*

ITEM	2011		2012		2013		2014	
	Expenditure	Compared to estimates(%)						
<b>Recurrent expenditure</b>	<b>4.072.883</b>	<b>110</b>	<b>4.885.001</b>	<b>108</b>	<b>5.797.981</b>	<b>103</b>	<b>6.327.240</b>	<b>106</b>
Exp. on national defense	112.913	147	138.514	144	148.681	113	152.272	123
Exp. on education and training	1.577.815	106	1.924.373	105	2.300.615	98	2.685.415	109
Exp. on health care	485.167	114	598.905	113	747.011	118	662.712	99
Exp. on science and technology	15.208	79	20.235	93	20.266	89	18.292	79
Exp. on culture and sports	50.211	100	54.978	89	57.414	87	60.882	84
Exp. on high school	19.435	98	24.349	109	30.247	121	29.558	99
Exp. on sports	21.228	115	24.343	112	28.853	119	34.464	141
Exp. on social security	293.146	110	363.415	98	413.871	97	399.328	92
Exp. on economy	527.112	97	678.519	107	810.981	101	906.816	105
Exp. on environment	108.503	94	139.113	110	160.848	120	139.725	103
Administration, party and union	785.939	119	868.906	115	1.028.751	104	1.187.102	109
Price subsidiaries	6.940	99	7.000	100	8.000	100	8.070	82
Exp. on others	69.267	381	42.351	233	42.444	234	42.606	234

*(Source: Department of Finance of Nam Dinh province)*



**Figure 3.1. Recurrent expenditure from state budget in Nam Dinh province for the period of 2011-2014**

*(Source: Department of Finance of Nam Dinh province)*

In the expenditure structure, the province has focused budget for education and training; This expenditure has accounted for 40% of total recurrent expenditure over the past four years, fully implemented the benefits for teachers, spent considerable funds for improving the facilities and school investment of school all educational levels. Up to now, the system of schools in the province has basically been upgraded in the direction of solidification and standardization: The rate of national standard schools: pre-school 37%, primary school 100%, secondary school 31%, high school 21.4%. The learning conditions of the students are guaranteed to contribute to the overall achievement of the education sector in Nam Dinh.

Health care is paid attention, accounting for 12-13% of recurrent expenditure. The health care sector has step by step met the need for prevention, treatment and care of the people's health and social welfare such as the poor, children under 6, social protection, etc. and part of expenditures goes to purchasing medical equipment to strengthen medical examination and treatment. Up to now, there are 248 public health centers in the province, of which 19 are provincial and district hospitals and 229 commune and ward medical stations having met the standards. The quality of

treatment has been improved gradually. Preventive health care has been strengthened and active in preventing and fighting dangerous epidemics.

**Expenditure on economic development:** This is an important contribution to the economic development of the locality and, in addition, it has the effect of nurturing and developing revenue sources for the state budget. These are expenditures on agriculture, forestry, irrigation, land administration, transport and urban construction. In addition to ensuring the operation of the above-mentioned services, these expenditures directly support target programs to develop the local economy such as n agricultural, forestry, fishery, fisheries resource protection, disease control, local dyke, canals dredging, cadastral files preparation, maintaining and repairing roads, restoring traditional handicraft villages and trades, supporting investment incentives. In 2011, expenditure on economic development reached 527 billion; By 2014 it was 907 billion, accounting for 14% of recurrent expenditures and 1.7 times higher than that 2011. In addition to investment in capital construction for socio-economic development, expenditure on economic development is also a significant part to socio-economic development in the area.

**Expenditure on administrative management** guarantees the operation of administrative management mechanism. Expenditure on administrative management include expenditure on human resources (salaries, salary nature and contributions), the rest of which are expenditure on operation, including professional expenses, conferences, procurement, capacity building for administrative authorities.

In 2011, administrative expenditure reached 786 billion dong, 1,187 billion dong in 2014, accounting for 19% of recurrent expenditure and 1.51 times higher than that of 2011. This expenditure is likely to increase due to salary reform and in addition, in Nam Dinh, benefits available to non-specialized cadres in communes, hamlets and population groups have increased. According to Resolution No. 10-NQ / TU of the provincial Party Committee and the decision of the provincial People's Committee, apart from the non-specialized cadres prescribed by the central government, Nam Dinh also stipulates that members of the Standing Committee of

the Front The motherland and the public organizations in the commune; The heads of the public organizations in the hamlet, the total number of the whole province is 21,170 people receive allowances from local budget, with the annual budget of nearly 30 billion, making administrative expenditure high and difficult for local residents.

In general, the local budget has arranged recurrent expenditure reasonably, giving priority to the education, ensuring expenses for medical care, economic development in the area, and implementation of social policies, take initiative in implementing salary reforms and allocating appropriate administrative expenses in line with budget capability.

### **3.3. Management of development investment expenditure**

#### ***3.3.1. Management of investment plan and arrangement***

In general, the preparation and approval of the investment plan from local budget in Nam Dinh province has made positive changes in accordance with the socio-economic development plan of the province and the structure and regulation of State; Strongly decentralize the management of the investment budget; integrate investment capital sources in the localities, raise the efficiency of the use of state budget capital, minimize losses and waste and gradually overcome the spread use of investment; gradually reduce the amount of capital construction in the area; The planning process is fast, tight, clear, and transparent.

According to the annual State budget revenues and expenditures estimates, the allocation of capital expenditure for capital construction investment increased over the years, the proportion of investment capital was only moderate in total state budget expenditure in the locality. The province's investment expenditure structure is maintained at an average of 20% in 2011-2014, lower than the average expenditure structure of the country by 30%. With capital from the central budget, mobilized capital in the classes of people (concentrated capital), land use rights, credit loans and other sources, however, investment in development investment has contributed to the upgrading of the infrastructure system, uniform development and gradual modernization to meet the provincial socio-economic development

requirements, in which, the expenditure is directed to improve socio-economic infrastructure in the area. The concentrated capital sources is used for repayment of advance amounts; loan repayment to consolidate canals and rural roads; repayment of completed works when settlement thereof has been approved; preparation of investment; allocation for science and technology, science and in accordance with resolution of the National Assembly; allocation to the provincial and district levels for management shall be in accordance with the principles, criteria and norms for allocation of development investment capital from the state budget for the period 2011-2015 in the spirit of Decision No. 60/2010 / QD-TTg dated September 30, 2010 of the Prime Minister and the Resolution of the Provincial People's Council. The province has caused the budgetary levels to prioritize the allocation of investment preparation, education and training and science and technology tasks according to the central regulations.

In particular, the Resolution of the Provincial People's Council clearly shows the decentralization of investment management to lower levels of local administration from land use revenues; Specifically: provincial budget 30% (addition for land development under Decree 69/2009 / ND-CP of the Government), district budget 20%, commune budget 50%; For the land in the ward area: the provincial budget 30%, the city budget 70%.

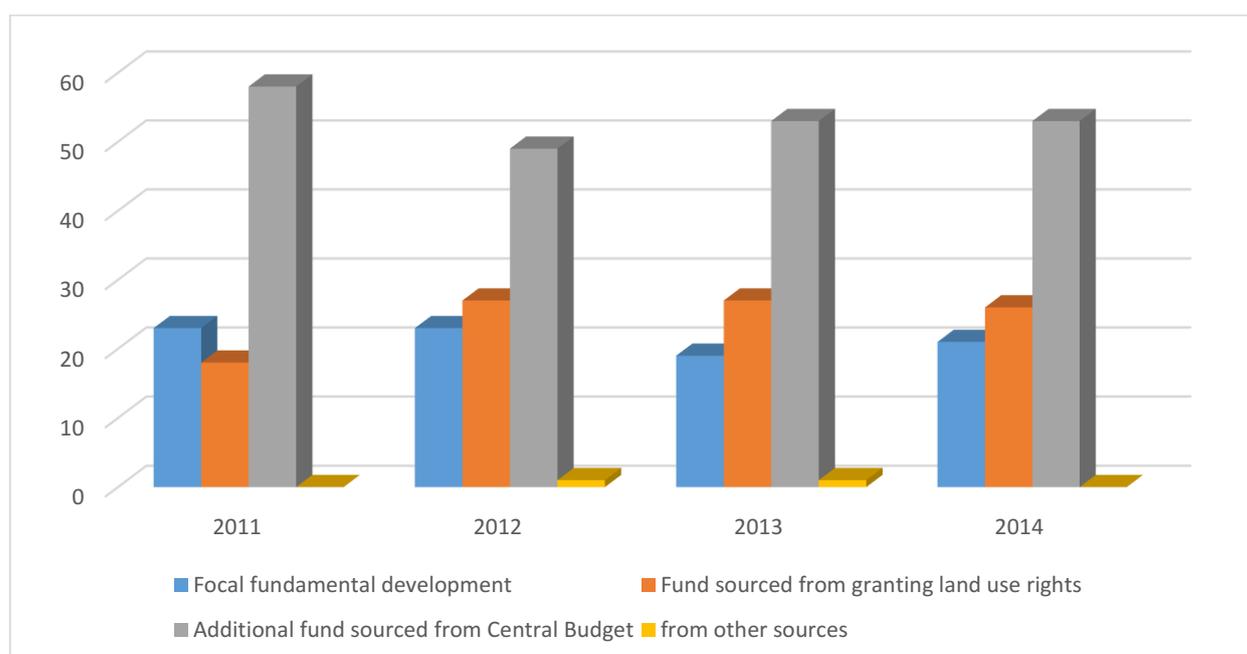
This indicates that province has partially decentralized and authorized the management of investment capital at all levels, creating favorable conditions for each unit to take initiative in the process of managing capital investment and the same time, give responsibility for each level and department assigned at each stage of investment capital management. Budget allocation for capital construction investment in the past years is shown in Table 2.6 as follows:

***Table 3.7. Allocation development investment expenditure in Nam Dinh province for the period of 2011-2014***

ITEM	2011		2012		2013		2014	
	Estimates	Proportion (%)						

<b>Expenditure on development investment</b>	<b>1 206 200</b>	<b>100</b>	<b>1 193 500</b>	<b>100</b>	<b>1 379 625</b>	<b>100</b>	<b>1 351 910</b>	<b>100</b>
In which: exp. on capital construction	1 110 100	92	1 066 500	89	1 232 225	89	1 212 910	90
-exp. on centralized capital construction	257 900	23	250 000	23	234 000	19	250 000	21
-Exp. from revenue from granting land use right	203 000	18	287 000	27	334 600	27	315 000	26
-Exp. from addition sources from central budget	644 200	58	523 000	49	657 125	53	647 910	53
-Exp. from others	5 000	0	6 500	1	6 500	1		0

(Source: Department of Finance of Nam Dinh province)



**Figure 3.2. Allocation of development investment expenditure in Nam Dinh province for the period of 2011-2014**

(Source: Department of Finance of Nam Dinh province)

Table 3.7 and Figure 3.2 show that expenditure on development investment, mainly capital construction, increases over years. In 2011, the capital expenditure estimate is 1,110,100 million dong, in which the expenditure construction investment from the addition from the central budget was 644,200 million VND, accounting for 58%

of the province's capital construction expenditure; Expenditure from land use and other sources was 465,900 million dong, accounting for 42% of the provincial capital construction expenditure. By 2014, the estimated expenditure for capital construction is 1,212,910 million dong, in which the capital construction investment from the addition from the central budget is 647,910 million, accounting for 53% of capital construction expenditure of the province; Central construction expenditure, from land use right and other sources is 565,000 million, accounting for 47% of capital construction expenditure of the province.

In terms of budget revenue, only about 30% of the expenditures spent on annual expenditure. The province has made the most use of capital from the central budget (accounting for over 50% of capital expenditure in the province annually) to implement national target programs, new rural construction programs, consolidation and upgrading of sea dykes from Quang Ninh to Kien Giang and upgrading of river dykes. As allocation of capital from the supplementary capital of the central budget must be carried out in accordance with the provisions of the higher level authority on the list of works, the level of capital allocated annually, the preparation and allocation of capital of local government is sometimes only a formal procedure. For other local capital sources, although the allocation of investment capital has been in line with the State's regulations, the province's socio-economic development planning orientation, due to limited investment capital, in adequate infrastructure, the allocation of capital has specific shortcomings: the allocated capital for each project is spread out, there are not many big projects that are key projects for economic development in the area; Decentralization is only applied in investment capital from land use fee for district and commune budgets; The criteria and norms for strong decentralization of investment capital for district and commune budgets have not yet been developed.

### ***3.3.2. Current situation of management of allocation of investment capital from the state budget of Nam Dinh province***

Over the past years, capital construction investment in the area has been constantly increasing, the issue of speeding up the implementation and

disbursement becomes an urgent requirement. The province has concentrated on directing the drastic implementation with many solutions, focusing on regularly organizing the progress of the meeting, on-site briefings, timely detecting and dealing with difficulties and problems, especially land issues, land clearance, procedures and documents; at the same time, intensify the inspection and urge for investors and strictly implement regulations on transfer of capital for delayed works and projects. Disbursement information through specific years is presented below (Table 2.4):

In 2011, disbursement of capital construction expenditure: 1,822,821 million VND, reaching 164% of the yearly estimate; in which: concentrated capital construction: 258,634 million, reaching 100% compared to the year's budget; Expenditures from land use: 447,635 million dong, 221% compared to the beginning of the year; Expenditures from additional sources from the Ministry of Agriculture and Rural Development: 926,052 million, reaching 144% of the yearly budget; Expenditure from credit and other sources: VND 190,500 million.

In 2012, the situation of management of capital construction expenditures in the province has been better, disbursement of capital construction expenditure: VND 2,155,271 million, reaching 202% of the yearly estimate; Of which: concentrated capital construction: 267,788 million, reaching 107% of the year's budget; Expenditure from land use: 489,498 million VND, gaining 171% of the yearly estimate; Expenditure from additional sources from the Ministry of Agriculture and Rural Development: 1,184,485, equivalent to 226% of the yearly budget; Expenses from credit and other sources: 213,501 million dong.

In 2013, disbursement of capital construction expenditure: 2,283,429 million dong, reaching 185% of the yearly budget; in which: centralized capital construction: 282,498 million dong, accounting for 121% of the yearly budget; expenditure from land use: 487,950 million dong, reaching 146% of the yearly budget; Expenditures from additional sources from the Ministry of Agriculture and Rural Development: 1,107,981 reaching 169% of the yearly budget; Expenditures from credit and other sources: 405,000 million dong.

In 2014, disbursement of capital construction expenditure: 2,327,289 million dong, equivalent to 192% of the yearly budget; in which: concentrated capital construction capital: 287,482 million, reaching 115% of the yearly estimates; Expenditures from land use: 643,576 million dong, reaching 204% of the yearly estimates; Expenditures from additional sources from the central budget: 1,046,231, reaching 161% of the yearly budget; Expenditures from credit and other sources: 350,000 million dong.

During this period, to overcome difficulties in disbursement in the context of tightening public investment and to curb inflation, the Provincial People's Committee has directed the establishment of Site clearance Steering Committee for districts and cities; Organize the signing of commitments on the quality and progress of implementation of works and projects which have been allocated annual plan capital; Organization of capital construction meetings quarterly; Direct the provincial State Treasuries to fully recover the investment capital advances but not implement capital advances which have been overdue.

*Regarding to the control of investment capital through the State Treasury in the locality:* In general, the control over investment capital through the State Treasury was done relatively effectively, during the process of control, favorable conditions have been created to Investors from the budget and, in particular, partially reduce capital outflows in capital construction expenditure.

According to the assessment report on control and payment of capital construction investment capital of Nam Dinh State Treasury, since the implementation of the public administration reform program, Nam Dinh State Treasury has coordinated with local authorities, Department Finance, Department of Planning and Investment (to effectively implement the state budget expenditure control in the province, especially in the payment of investment capital. Payment procedures and processes have been transparent, every unit has been guided and required to comply with the State's regimes and norms. Proactively coordinate with other departments, advise the provincial People's Committee on measures to accelerate the disbursement of capital construction investment. At the same time,

reduce administrative procedures for distributing, disbursing, saving time and costs of agencies and organizations. The capital accumulation and capital expenditure at the end of the year has been basically eliminated. Contribute effectively to practice of thrift, combating wastefulness and fulfilling socio-economic targets in the area.

Currently, the procedures and processes for payment of capital construction investment capital have been more and more complete, simple and clear and at the same time attach specific responsibilities to each unit in the management of investment capital. Especially, there is strong administrative reform in the management mechanism. The State Treasury controls payment according to the process of control and payment of investment capital, which has been revised from pre-inspection to post-inspection in order to create favorable conditions for investors in accordance with the State's regulations.

However, in the process of controlling the payment of capital construction investment capital, there are still many inadequacies. Due to the change in capital management mechanism, many investors do not have time to get familiar such change. On the other hand, the completion of the legal dossier sent to the State Treasury of some investors still have problems due to low qualifications and capacity of some investors, thus, the dossiers must be regularly amended and supplemented. Response time for a project regardless of scale is 7 days, though travelling for communication between the client and the staff of the State Treasury is significantly reduced, this is a large work pressure for cadres to receive applications for large projects, easily lead to the lack of responsibility in the process of receiving dossiers and the inspection of the control of capital construction investment of the state budget.

Current situation of advance capital plan in Nam Dinh province is still in place. Currently, according to the Ministry of Finance's Circular 86/2011 / TT-BTC dated 17 June 2011, the maximum level of advances for works is 50% of the contract value, which is quite high. High rate of advance will lead to the holding of capital under other forms to make profits; or using capital for other business purposes; As a result, the construction progress is delayed, capital is stagnant and

especially budget capital is taken advantage of, thus making the budget capital ineffective (in 2013, the capital advances are up to more than 110 billion dong). At the same time the advance capital so high that the control department faced many difficulties in the process of urging investors to settle the project.

### ***3.3.3. Current situation of management of development investment expenditure settlement***

The preparation of reports on settlement of investment capital of completed projects and construction works has not been paid enough attention by investors, so the reports are often submitted late and contained errors. The number of completed capital construction works that delay the submission of settlement documents to the financial agency for examination and for approval remains high. As reported by the Department of Finance of Nam Dinh, by December 31, 2014 359 completed works have not submitted settlement documents, with a total paid capital of more than 1,507 billion. These are the reasons that delay the balance of capital investment.

According to the time limit for preparation of the investment capital settlement report: Within 12 months after the project is put into operation (for important projects); 9 months (for group A projects); 3 months (for Group B and C projects), the investor shall have to complete the investment capital settlement report and submit the same to the competent person for approval. However, the fact that the investment capital settlement in the area is still slower in accordance with the regulation (Circular 19/2011 / TT-BTC dated 13/02/2011 of the Ministry of Finance). In particular, many works have been completed, but have not been settled. Works remain "hanging" from year to year on account, making the management of the State Treasury as well as related departments very difficult.

## **3.4. Current situation of recurrent expenditure management**

### ***3.4.1. Current situation of recurrent expenditure estimates***

In order to analyze the current situation of the management of the recurrent expenditure estimation in Nam Dinh, we assess the estimation work on two aspects: the basis for estimation; Preparation and allocation of recurrent expenditure estimates for the period of 2011-2014.

***The basis for recurrent expenditure estimates:*** The province has made recurrent expenditure estimates based on the following bases: Law on State Budget 2002 and guiding documents; Decisions on the allocation of annual revenue and expenditure estimates of the Ministry of Finance; Resolution on annual socio-economic development tasks in the provincial People's Council; Resolution No. 145/2010 / NQ-HDND dated 10/12/2010 of the provincial People's Council on the allocation norm of the local budget; Decisions by the PPC on the organization of implementation of annual budget estimates from 2011 to 2014; Recurrent expenditure norms have the following major advantages: The allocation norms are formulated with specific, clear and simple allocation criteria and ensure fairness and rationality among localities and units; Priority is given to units with few payrolls; Increase publicity and transparency of state budget expenditure; eliminate the "ask-give" situation in management work; The budget allocations for the districts are differentiated by region: plain district, coastal district; urban district and rural district; particularly allocation is based on population criteria and may be adjusted for difficult localities or population. Thanks to the discriminatory mechanism, the areas with many difficulties are considered and given more priority of investment and key economic areas are encouraged to increase the state budget; Norms of recurrent allocation is considered for adjustment by the province when the State promulgates supplementary policies and regimes (such as raising wages, paying special allowances, etc.). The norm specifies the level of allocation of expenditure on administration, Party and union; expenditure on education and training; Science and technology; social security, etc. Based on the norms of recurrent expenditures issued by the province, the localities and the budget spenders have divided the estimates into 2 groups: self-control expenditure, non-self-control expenditure and disseminate the same to the entire staff of the unit to monitor the unit's detailed operation.

In general, the budget allocation norms for the 2011-2014 period have gradually been completed, publicized and transparent, in line with the local balance, contributing to socio-economic development. However, the development of

expenditure norms also revealed some limitations such as lack of sound scientific basis, there is no specific expenditure level, failure to set norms for specialized expenditure of agencies and units; Although priority is given to units with a small number of staffing levels, such priority is not high, leading to difficulties in the course of implementing the budget execution for budget spenders. Norms of allocation is stable in the first year, but in the next years when the socio-economic situation fluctuates, the norm is not forecast, failing to take price inflation into account. Adequate mechanisms are not given out so many additional criteria must be added, restricting the proactivity of the budget spenders. In addition, allocation criteria by relationship between salaries and operating expenditures are fixed at the first year of the stabilization period, annual operating expenditure do not increase despite wage changes. Therefore, they cannot meet the demand for expenditures to meet the requirements of socio-economic development and population.

**Table 3.8. Norms of administrative management expenditure in 2011**

<b>Criteria</b>	<b>Norms of allocation in 2011</b>	<b>Unit</b>
<b>Provincial level</b>		
- Over 70 employees	65	Million dong/employee/year
- From 61 to 70 employees	66	Million dong/employee/year
- From 51 to 60 employees	68	Million dong/employee/year
- From 41 to 50 employees	70	Million dong/employee/year
- From 31 to 40 employees	72	Million dong/employee/year
- Less than 31 employees	75	Million dong/employee/year
<b>District level</b>		
- District and city	70	Million dong/employee/year
<b>Commune level</b>		
- Communes and towns (Employees 22)	1.000	Million dong/commune, town/year
- Wards (19-20 employees, no People's Council)	900	Million dong/ward/year

*(Source: Resolution No. 145/2010 / NQ-HDND dated 10/12/2010 of the Provincial People's Council)*

Some expenditure items have not yet set up in the allocation norms such as procurement and overhaul of fixed assets. The allocation for these expenditures is mainly based on the experience and negotiation skills of the estimating unit with the financial agencies. It is unclear which items are included in the norm, which items are not regular and calculated outside the norm. In addition, the norms are slowly amended, leading to additional expenditure outside the norms, including additions to recurrent expenditures every year. For the construction of budget use norms: Article 25 of the 2002 Law on State Budget stipulates that provincial-level People's Councils shall have the tasks and powers as follows: *"To decide in detail a number of budget allocation norms and regimes, standards and norms of expenditures prescribed by the Government."* However, up to now, the central government has not issued detailed guiding documents for localities to issue norms, criteria and standards.

***The current situation of recurrent expenditure estimates and allocation***

In fact, in the past few years, the process of regular expenditure estimates in Nam Dinh province has fully complied with the standards and norms, based on the regulations of the Ministry of Finance, the provincial People's Committee, annual budget estimates guiding documents.

***Table 3.9. Allocation of recurrent expenditure in Nam Dinh province for the period of 2011-2014***

*Unit: Billion dong*

ITEMS	2011		2012		2013		2014	
	Estimates	Prop. (%)	Estimates	Prop. (%)	Estimates	Prop. (%)	Estimates	Prop. (%)
<b>Total local budget exp.</b>	<b>5.073.037</b>	<b>100</b>	<b>5.974.472</b>	<b>100</b>	<b>7.570.916</b>	<b>100</b>	<b>7.717.662</b>	<b>100</b>
<b>Recurrent expenditure</b>	<b>3.710.587</b>	<b>73</b>	<b>4.507.464</b>	<b>75,4</b>	<b>5.625.452</b>	<b>74,3</b>	<b>5.954.897</b>	<b>77,2</b>
Exp. on national defense	76.823	1,5	95.863	1,6	131.075	1,7	124.215	1,6
Exp. On education	1.494.862	29,5	1.841.270	30,8	2.346.936	31,0	2.459.698	31,9

ITEMS	2011		2012		2013		2014	
	Estimates	Prop. (%)						
and training								
Exp. On health care	424.833	8,4	529.056	8,9	634.476	8,4	669.755	8,7
Exp. on science and technology	19.240	0,4	21.694	0,4	22.660	0,3	23.169	0,3
Exp. on culture and sport	50.151	1,0	61.697	1,0	66.077	0,9	72.839	0,9
Exp. on high school	19.805	0,4	22.270	0,4	24.999	0,3	29.864	0,4
Exp. on sport	18.451	0,4	21.693	0,4	24.216	0,3	24.449	0,3
Exp. on social security	266.083	5,2	369.236	6,2	426.216	5,6	433.645	5,6
Exp. on economy	540.714	10,7	635.351	10,6	804.054	10,6	866.298	11,2
Exp. on environment	115.410	2,3	126.950	2,1	134.000	1,8	135.340	1,8
Administration, Party, union	659.045	13,0	757.214	12,7	984.573	13,0	1.087.598	14,1
Exp. on subsidy	7.000	0,1	7.000	0,1	8.000	0,1	9.857	0,1
Other expenditures	18.170	0,4	18.170	0,3	18.170	0,2	18.170	0,2

(Source: Department of Finance of Nam Dinh province)

From the actual structure of budget allocation (Table 3.9), recurrent expenditure estimates account for a large proportion, on average, of over 75% of total local budget expenditure. The annual recurrent expenditure estimates tend to increase: in 2011, recurrent expenditure estimates are VND 3,710,587 million, accounting for 73% of the total budget expenditure; In 2014, it increased to VND5,954,897 million (1.6 times as much as in 2011) equaling to 77% of the total expenditure. In particular, estimates of expenditures for economy, education and training, health care, social security and administration in 2014 increased by 1.2 - 1.6 times compared with that of 2011. Increased expenditure estimates are due to the fact that at this stage the State has issued many new policies (*wages, allowances, per diem, technical norms, etc.*).

In terms of recurrent expenditures, expenditure on education and training is high, in 2011 it was VND1,494,862 million, by 2014 it reached VND2,459,698 million

(about 1.6 times higher than that of 2011), accounting for about 30.7% of total expenditures of local budgets and about 40% of total recurrent expenditure. Administration expenditure in 2011 was VND 659,045 million, by 2014 it reached VND 1,087,598 million (1.65 times higher than that of 2011), accounting for 13.1% of local budget balance and 17% of total recurrent expenditure, in line with Circular No. 99 / TT-BTC dated 19 June 2012 of the Ministry of Finance guiding the formulation of 2014 budget by the Ministry of Finance Education and vocational training. However, some expenditures remained at low level such as for science and technology: in 2011 it was VND 19,240 million, accounting for 0.4% of total state budget expenditure, by 2014 is VND 23,169 million, accounting for only 0.3% of total budget expenditure.

In general, the process budget estimates, allocation and deliver complies with the norms of the State, in line with socio-economic development orientation in the locality, ensuring the order in estimation stages. However, there are still some shortcomings:

The time for estimating and allocating budget is not suitable and the inspecting agencies fail to study and comment, thus affecting the quality of budget estimates. In fact, many units do not synthesize estimates from subordinate units to take the initiative and ensure the right time, so the process of estimating the subordinate units is only formal. The Law on State Budget 2002 has not yet agreed on a regime for synthesizing budget estimates, linking the estimates of recurrent expenditure with investment expenditures; The State Budget Law No. 01/2002 / QH11 stipulates that the preparation and allocation of state budget expenditure estimates must be determined on the basis of socio-economic development objectives, ensuring national security. For recurrent expenditure, the estimation must be based on the revenues from taxes, charges and fees (*these are the sources ensuring recurrent expenditure*) and comply with the prescribed regimes and standards and norms set by the competent State authorities. For repayment of debts, the repayment obligation of the estimation year must be taken into account. Recurrent budget estimates are organized and synthesized from different localities, agencies and

organizations. But the quality of estimation of local agencies and units is not satisfactory due to: (i) The qualification of preparation of estimates of the budget spenders is weak, as many professional staff in the budget units are not trained properly, they are often part-time staff, when estimating they do not apply the financial regime and the norms of expenditures, as a results, estimates of many units are not sufficient for the provincial / municipal financial department to synthesize. In reality, in Nam Dinh, the preparation and discussion of estimation is superficial, not democratic, with a one-way down mechanism; (ii) Some agencies and budget spenders also have the idea of coping with the risk of being "cut" expenditures by estimating much higher than the norms and the actual expenditure; (iii) The locality has failed to formulate medium-term and long-term budget plans, and the budget plan has not been coordinated with socio-economic development orientation in the future. The five-year development plans of the industries and the locality are not tied to the resources that can be mobilized or the policy and organizational changes necessary to implement them have not been made. Therefore, it is difficult to determine the priority order, structure and content of recurrent budgets when preparing estimates; (iv) The budget allocation plan at provincial level is totally dependent on the budget decentralization, the regulation rate (%) between the central budget and local budgets, the budget allocation norms of the superiors are often rigid, passive, causing difficulty to balance local budgets, easily leading to the situation where high revenue results in high expenditure, and low revenue results in no source of expenditure.

#### ***3.4.2. Current situation of recurrent expenditure estimates execution***

In general, the implementation of the budget estimates at all levels and units in the local area in the field of recurrent expenditure in recent years is quite adequate, specifically:

The aggregated data in Table 3.6 show that recurrent expenditure for 2011-2014 tended to increase over the years and exceeded the budget allocated at the beginning of the year, is balanced and ensured the reasonable expenditure level, in particular in 2011: The expenditure was VND 4,072,883 million, equaling 110% of the

estimate; in which, expenditure on economy reached VND 527,112 million, accounting for 13% of total recurrent expenditure; Expenditure on education and training reached VND 1,577,815 million, accounting for 39% of total recurrent expenditure; Expenditure on administration reached VND 785,939 million, accounting for 19% of total recurrent expenditure. In 2012: The expenditure was VND 4,885,001 million, equaling to 108% of estimate; in which expenditure on economy reached VND 678,519 million, accounting for 14% of total recurrent expenditure; Expenditure on education and training reached VND 1,924,373 million, accounting for 39% of total recurrent expenditure; Expenditure on administration reached 868,906 million, accounting for 18% of total recurrent expenditure. In 2013: The expenditure was VND 5,797,981 million, accounting for 103% of the estimate; in which expenditure on economy reached 810,981 million, accounting for 14% of total recurrent expenditure; Expenditure on education and training reached VND 2,300,615 million, accounting for 40% of total recurrent expenditure; Expenditure on administration reached VND 1,028,751 million, accounting for 18% of total recurrent expenditure. In 2014: The expenditure was VND 6,327,240 million, equaling 106% of the estimate; in which expenditure on economy reached VND 906,816 million, accounting for 14% of total recurrent expenditure; Expenditure on education and training reached VND 2,685,415 million, accounting for 42% of total recurrent expenditure; Expenditure on administration reached VND 1,187,102 million, accounting for 19% of total recurrent expenditure. Based on the above analysis, it can be seen that the recurrent expenditure of Nam Dinh province over the years 2011-2014 is higher than the plan. There are many reasons leading to the increase of recurrent budget expenditure, including objective reasons of changes in salary policy for government officials, increasing subsidy for social protection beneficiaries, allowances for non-specialized staff at commune and village levels, etc. The subjective reasons leading to increased budget expenditure include the increase in administrative management: The actual situation in the locality is that it is impossible to grasp all the spending tasks to be done in the year leading to the unequal allocation of expenditures among sectors.

In recurrent expenditures, expenditure on education and training accounts for the highest proportion in the recurrent expenditure structure of local budgets, which proves that the province has been actively investing in education and training to constantly upgrade its scientific level, to attract talents to develop the economy of the province. Ranking second highest is the expenditure on administration: this expenditure increases every year compared to the estimate and its proportion in total recurrent expenditure does increase. This proves that the province has no specific solution to limit the expenditure on this field. Although there are subjective and objective reasons to explain, in the coming period, there should be a plan to restructure the cadres and officers and better implement the reform of the administrative apparatus, especially employees streamlining, thoroughly implement budgetary savings for administrative management, especially expenses for guests, conferences, etc.

In reality, it can be seen that recurrent expenditure management through the State Treasury in Nam Dinh in recent years has been relatively systematic and effective. Nam Dinh State Treasury based on State Budget Law 2002, Decree 60/2003 / ND-CP dated 6 June 2003 by the Government detailing and guiding the implementation of the State Budget Law; Circular No. 08/2013 / TT-BTC dated 10/01/2013 of the Ministry of Finance guiding the implementation of state accounting for TABMIS. All budget expenditures from the state budget are implemented through the State Treasury to ensure the principle of implementation in the approved budget complies with current regulations. Especially after the State Treasury has implemented the Tabmis system, recurrent expenditure estimates of units are assigned to the financial agencies for budgeting and management, the State Treasury shall only base on the budget estimate notice checked against the Tabmis system to make payment of expenditure to units quickly and scientifically in accordance with the current regime.

According to the report on the implementation of annual state budget expenditure management in the province, the State Treasury of Nam Dinh has strict and effective management over the state budget expenditure, contributing positively to

curbing inflation, ensuring social security to fully and promptly meet the demand for payment of state budget expenditures and payment of treasury bonds, receipt, counting and transportation of cash according to the process and absolute safety.

However, there are some shortcomings in the execution process as follows: (i) during most of the years estimates for decentralization is slow, while state budget law stipulates that units may only have advance estimates in January and for payment of salaries and allowances. Units that are difficult in the beginning of the year as expenditures such as expenses for procurement, professional expenses are not eligible for advance estimates. Payment is only made when official budget is available, causing difficulties for the units to timely deploy their tasks; (ii) at the time of budgeting, the expenditures did not cover all expenditures. Therefore, in the process of implementation, most of the budget spenders had to adjust budgets and add estimates. Many units had to adjust budget estimates 02-03 times per year, while currently there are about 1,275 budget spenders in the area. This makes the financial control and management of the Treasury as well as the State Treasury more complicated. Especially, expenditures which are not in line with the budget have been prepared and submitted to the State Treasury at the beginning of the year, therefore, quarterly and at the end of the year, the units shall have to adjust expenditures contents and cost estimates, including the disbursed estimates, making it difficult for staff to directly control and at the same time creating a large volume of work for the State Treasury and financial agencies to adjust the budget at the beginning of the year to meet the needs arising later; (iii) the promulgation of regimes, policies and norms of expenditure is not appropriate, especially in recent years, inflation and price escalate but there are no timely amendments and supplements. Therefore, in the process of implementation, the units cannot pay the actual bill (as the norm is lower than the market price), resulting in the fact that some units increase the amount in the bill to compensate for the slippage of the price, but in terms of procedural control, documents processed by the State Treasury still remain full, legitimate, so State Treasury finds it hard to detect and refuse

payment such a money for bed, per diem, stationary. This will create a gap in the effective management of the use of state budget.

### ***3.4.3. Management of recurrent expenditure settlement***

Recurrent expenditure settlement in recent years in Nam Dinh province has seen many positive and prosperous changes, especially since the Ministry of Finance issued Circular 108/2008 / TT-BTC dated 18/11/2008 of the Minister of Finance, guiding the handling of budget at the end of the year, preparing and reporting the annual budget settlement, changing the time of adjustment of the budget settlement. According to this Circular, the adjustment time for all levels of budget shall be uniformly applied by 31 January of the following year.

However, the annual budget report of the agencies and budget spenders still has the following shortcomings: Failing to meet requirement of report time and the quality of reports is not high. In many cases details doesn't match with synthesized data. This problem is mainly due to incompetent financial staff and the sense of complying with the budget remains low; The quality of the valuation and approval of settlement reports is not high, and are sometimes superficial, delayed, and fail to handle unspecified expenses ruthlessly. The valuation of final settlement reports is usually done by determining revenue and expenditure figures in the year rather than carrying out analysis and assessment of such settlement as a basis for setting the allocation norms and budget norms of financial agencies. Lessons have not yet been drawn for the implementation of budget estimates to improve the quality of budget management and use; There is a lack of inspection in the use budget and emphasis is only placed on the approval process; Currently, the situation of recording revenue and expenditure from and on tuition fees and hospital fees is still inadequate. The balance of payments recorded over the years is much larger than the estimates. In addition, these are often implemented very slowly, though the prescribed regime stipulates that all accounts must be completed by the 28 January of the following year, most units using this source are often late in completing. Procedures for recording revenue and expenditure, affecting the final settlement work for Department of Finance as well as Nam Dinh State Treasury; Source transfers are

also a growing problem in the local area. In reality, there are no specific regulations on the items illegible for source transfer, which results in large expenditures in the province at different levels each year (items of source transfer are subject to Decision of competent agencies). Specifically, according to the Resolution of the Provincial People's Council Resolution: Transfer from 2011 to 2012 was 1,636,291 million dong; Transfer from 2012 to 2013 was 1,440,169 million; Transfer from 2013 to 2014 was 905,049 million VND, making it difficult for regulators to monitor and inspect.

### **3.5. Assessment of current situation of state budget expenditure management in Nam Dinh province**

#### ***3.5.1. The achievements***

Over the past few years, with the drastic and timely direction of the Party Committee and local authorities, the efforts of the local people, Nam Dinh Province have overcome the most difficult period, successfully stopping the momentum of economic decline, implementation, achieving many socio-economic development targets set out. The results of state budget expenditure management in recent years have contributed significantly to the recovery and development of production, business and export activities, stabilizing the macro economy and ensuring social security, the economic structure shifted in the right direction in line with the general trend of the country, with the tendency to gradually increase the proportion of investment to the industry - construction and services, gradually reduce the proportion of Agriculture - Forestry - Fishery (Table 2.1). Industry was rapidly increasing its share in the economic structure and playing an increasingly important role. The share of the industry-construction sector increased from 37.2% in 2011 to 40.5% in 2014; Agriculture, forestry and fisheries decreased from 28.8% in 2011 to 24.5% in 2014; The economic structure has been shifted positively in the direction of gradually increasing the proportion of industry, gradually decreasing the proportion of agriculture, forestry and fishery, with priority given to key projects such as industrial parks, main transport routes, tourism, etc. to develop socio-economic development in the area.

Besides, the estimation the state budget expenditures basically followed the order in accordance with the Law on State Budget, closely followed the directives and directions of the Party Committee, the resolutions of the People's Council at all levels and on the socio-economic situation of the locality. Basically, the state budget expenditure estimate in the locality is based on the socio-economic development orientation of the province; The performance of the budget of previous years, especially the year of the report; Specific regimes, policies, norms and norms on State budget revenues and expenditures, in line with the roadmap for public finance reform and were closely linked to the implementation of national socio-economic development plans and strategies in the current stage. The period of 2011-2014 is the first 4 years of the third stable period since the Law on State Budget came into force. Therefore, the budget management mechanism and the budget allocation system are based on a number of mechanisms and policies with supplement and amendment meeting requirements of the tasks set out. The decentralization of budget expenditure management has also been significantly improved by clearly defining the budgetary relationship and management authority among the local authorities, giving more autonomy to local authorities during the implementation process and next, the process of management of capital construction investment has been gradually improved, enhancing the efficiency of investment management. The management of capital construction investment capital has become more and more routine, from the stage of preparation of economic and technical reports, investment reports, accounting account to settlement of construction works. Decentralization in expenditure on capital construction in the area has seen positive changes, with priority given to key projects under the Party's guidelines and orientations, in line with the socio-economic characteristics of the locality. Capital construction investment is uniformly managed payment through the state treasury system in the plan assigned by the provincial People's Council. Inter-department of Planning and Investment has strengthened coordination with relevant agencies in supervising, setting up, appraising investment projects, reducing

expenses not in accordance with cost estimates, investment norm, contributing to save millions of dong in state budget.

Although the government has implemented a tight fiscal policy, cutting public investment, the provincial People's Committee has made great efforts to capitalize on a substantial amount of capital to supplement its social and economic development, contributing to the goal of economic growth, ensuring social security in the area. The sense of compliance of fiscal discipline, compliance with regulations on capital arrangements, capital payment has been corrected and gradually goes into routine. The direction and management of the implementation of the plan has been drawn much experience and implemented more drastically and strongly. Timely propose flexible solutions to seriously implement the Government's policy of reviewing, arranging and adjusting capital plans to improve the efficiency of public investment and solving the local practical problems.

The process of recurrent expenditure management takes place within the framework of estimates. Expenditures are mostly in the norms and standards set by the State, especially the province has invested in education and health care, contributing to the goal of illiteracy elimination and universalization of primary school in the area. Health care for people improved significantly. At the provincial level and in 10 districts and cities, autonomy and self-responsibility have been given to staffing and administrative management expenditure for non-business units and administrative units under Decree No. 43 / 2006 / ND-CP and Decree 130/2005 / ND-CP of the Government. The heads of the units have decentralized the right to decide on expenditures within the employee norms and the assigned budget, assign the initiative to the budget spenders, and raise the sense of responsibility of the budget spenders, staff and officers in the use of state budget money and assets. The implementation of the package mechanism according to the Decree of the Government has helped the units save some recurrent expenditures and increase income for staff in the area.

The management of budget expenditure through Nam Dinh State Treasury has gained some outstanding achievements, especially from the implementation of the

public finance reform roadmap of the Government. The state treasury system implemented the program of Tabmis and gained many positive results. State budget expenditure management has been unified from budget estimation to budget implementation and budgeting among departments, finance agencies and state treasury, and budget estimates and budget implementation were updated promptly (*Previously, the finance agency has to wait for reports of disbursement data from the State Treasury in the locality and then analyze and evaluate reports to People's Councils, People's Councils and related agencies, and in some case, inaccurate reporting data between the departments led to the management and budget management in the area become loose and delayed*). Since the implementation of the Tabmis system, the budget spenders have been more active in managing their budgets, while the State Treasury has made significant progress in reforming administrative procedures, publicizing the process to create favorable conditions for budget spenders to perform their tasks in accordance with the State's regimes and policies, minimizing the expenditures not in accordance with the regime and financial principles, and directing the units to achieve the objectives and strategies of the province set out. The work of settlement, inspection, auditing and publishing of budget has been paid attention, step by step raising the financial discipline. The inspection and examination of budget revenues and expenditures continued to be strengthened and made positive changes, which made the committees, administrations at all levels and organizations and individuals raise their sense of responsibility in management of budget revenue and expenditures, see results clearly, have better understanding of policy regimes, improvement of sense of observance of the provisions of law; At the same time, detecting the shortcomings and mistakes in the management of budgetary management to rectify, adjust and propose handling according to their competence in order to raise the discipline and put the management of local budgets in order.

### **3.5.2. Limitations and its causes**

#### **3.5.2.1. The limitations**

In addition to the achieved results, the management of budget expenditures in the province still has some outstanding problems as follows:

*\* Effectiveness of management of investment capital from the state budget is not high*

Capital allocated from local budget for investment is too modest, not enough to create socio-economic development motive in the locality, and largely depends on the support from the central. In addition, the allocation of investment capital is fragmented, lack of focus and inconsistent, incomplete between the master plan and details. No uniform coordination between specialized agencies in the construction also causes a lot of waste in capital construction investment from state budget. While budget is limited, the expenditures are high so the level of spending on each item is low, failing to meet the requirements. In addition, many programs are carried out at the same time, spreading to many fields, which are scattered, failing to make a clear transformation, reducing the overall effect. The province have only carried out the decentralization of the allocation of investment capital from the collection of land use fees to district and commune budgets; The criteria and norms for allocation of investment capital to district and commune budgets have not been set up. Therefore, some tasks directly linked to district-level management have not yet fully decentralized. The district level cannot take the initiative in planning and arranging budget management.

*The quality of consultancy is not high, and there are obstacles in site clearance.* It can be obviously seen that the consultancy in setting up the project, the cost estimation design had many errors in volume, unit price, technical and economic norms and the result is the accuracy of the total investment of works are not high. Many survey projects do not meet the requirements, so when the implementation there must have many amendment and supplement, which is time-consuming. Site clearance work has encountered many difficulties, mainly due to frequent changes in the policy regime in the management of investment so it has not been updated in time and in full, creating obstacles in the investment preparation phase, some localities are not really determined, which slows down the progress of the project.

*The coordination among sectors, levels and units in the state budget expenditure management is limited.* Some of the issues have arisen in the process of managing budgets related to many agencies but there is no close coordination to solve them. The advance capital investment has been too high, and lasted for many years, the capital investment capital allocated to projects but not recovered in time leading to the state of appropriation, loss and waste of state budget. Especially in the supervision, inspection of the process of implementing the budget of the superiors has not paid due attention. The overlapping between the inspectorate, the State audit and the internal inspection of the industry still occurs.

*The late settlement, lasting for many years affect the efficiency of investment.* In the investment phase many investors have not really paid attention to the settlement. The preparation of settlement of investment capital report of completed works or work items is often slower than the regulations, the quality of reports is still slow, many projects have been completed but the settlement has not been approved.

*\* Norms of allocation and use of budget for recurrent expenditures are not concretized, are not close and suitable with actual situation.*

In the past years, though repeatedly added and modified by the provincial People's Committee, the budget allocation and use norms are still limited, specifically: (i) Bases for building norms do not really have a sound scientific foundation, which does not comprehensively cover all aspects of social life. It is also qualitative, average, not close and suitable with actual situation; (ii) The promulgation, amendment and modification of state policies and regimes on budget use norms is too slow and inconsistent, mainly dealing with current situation, typically the ones on wages, salary allowances, working allowances, telephone regimes, fee collection mechanism, hospital fees, etc. Particularly in the past year, inflation was always high, prices skyrocketed. Expenditure is no longer appropriate to the reality, and the documents are not timely added, causing difficulties in the management and use of budget, this has created a gap for units to make false statement to compensate those norms. By tacit agreement between the financial institutions and the budget spenders, the false estimate are still agreed and approved. This is difficult to change.

This unwanted fraud makes the management of state budget expenditure more difficult and complicated.

*\* There are many inadequacies in preparing, allocating and settling budget expenditure*

The timeframe for estimating the budget is not long enough to enable the relevant agencies to improve the preparation, examination and discussion of budget estimates. The timing of preparations for the session of the provincial People's Council and related departments is not appropriate. It takes a long time for PPC to allocate funds to the budget beneficiaries. On the other hand, as the preparation, allocation of state budget at all levels are mixed and integrated, upper agencies have to wait for subordinates, affecting the time of budget location to the units. In fact, at the beginning of the year, almost all units only receive advance to pay salaries and salary allowances so they were very passive in the process of fulfilling their tasks. While state budget law stipulates that the budget spenders will only have advance in January of the first quarter. Bases for budget estimation are based on the system of allocation norms, budget expenditure norms and financial expenditures set by the Government, People's Councils and People's Committees. However, many expenditure sectors and tasks have not yet been set norm, there is no specific expenditure level, it has not covered the specific tasks of professional expenses in agencies and units, etc. leading to the fact that budget estimates are not specific and clear to each specific task of the units, so in the regular fiscal year they must supplement and adjust the budget at the beginning of the year or the provincial People's Committee still has to issue decisions allocate additional funds to budget spenders for the performance of tasks. This may lead to an "ask-give" or "arbitrary" mechanism in budget allocation that the provincial People's Council - the decision-making body of the budget finds it's difficult to control or monitor. On the contrary, there are cases where the budget spenders have to re-estimate their budgets as they are assigned too many tasks from upper levels because the local budgets are insufficient to meet demand or the units fail to fulfill their tasks and move the same to the following year.

The budget estimation has not been uniform with the work of developing plans, projects and other subjects such as training plans, vocational training plans, projects and scientific research projects, environmental protection projects, etc. This leads to the fact the development of recurrent expenditure estimates in the abovementioned sectors has no solid basis and is qualitative rather than quantitative. Estimates do not lead the unit to perform the task. It is difficult to verify the budget of the People's Council. This reduces the role of the People's Council in budget decision-making. The biggest inadequacy in preparation of recurrent expenditure estimates from local budgets is the contradiction between the demand of expenditure and capacity of local budget revenues. This issue is not only between the budgeting unit and the financial agencies but also between the upper level budgets and the lower level budgets. For lower-level budgets, the revenue estimates are lower than the revenues expected to receive from over-collection; Expenditures are not based on revenues but are often set to a higher level hoping to receive additional budget from upper level. This has led to tensions during the budget discussions between the PPC and the Ministry of Finance as well as between the localities and Department of finance.

The methodology for estimating and allocating funds is mainly based on the input expenditure rather than the output. While the goal of state budget expenditure management is to improve efficiency and outcomes. The current method for estimating and allocating budget does depend on input rather than output. Therefore, the management of state budget expenditures has not been linked with the target, the budget users are not encouraged to save state budget. In addition, at the end of every year, most units try their best to exhaust all their budgets, though the budgets are allowed to move forward to the following year. This leads to pressure on the State Treasury as well as the financial agencies to control state budget expenditures with an overloaded workload at the end of the year. Currently, the local budget estimates are prepared annually, which is time-consuming, wasting human resources and money and failing to cover mid-term events that may affect the estimates, therefore, it is not linked to the socio-economic development plan in

the locality. Recurrent expenditures and development investment expenditures are individually prepared, which reduces the efficiency of public resource use.

*Budget settlement has not been paid much attention and has not served as the basis for the construction and adjustment of allocation norms, and budget estimates for the following years.* The settlement report fails to meet the requirements of time, the quality of reports is not high, in many cases it does not match the details and synthesis. The quality of the valuation and approval of settlement reports is sometimes formal, failing to handle expenses which are not in accordance with the regime, and the time for approval of settlements is often slower than the regulations. The situation of budget settlements at all levels is mixed and the upper levels have to wait for their subordinates, leading to prolonging the settlement time. A major shortcoming in the budgeting process is that most units and localities are only interested in the preparation and implementation of budget estimates, and disregard the settlement. The assessment of settlement only carried out by considering revenue and expenditure figures in the year of the unit without analyzing and evaluating such settlement data as a basis for the preparation of budget allocation norms and use norms. The budget of the financial agencies has not yet drawn lessons for budget implementation to improve the quality of management and use of the budget for the following year. Some areas of decentralization are not uniform with the decentralization of the organizational structure and staff, such as the operation of health centers, which are expenditures of the district budget but the employees are managed by the Department of Health. It is difficult for the management of the local government; the expenditure on preschool education is the task of communal budget, but the district budget allocates some salaries and allowances. Some of these tasks are directly linked to district level management but are not decentralized and balanced in the budget allocated at the beginning of the year so district and commune are not active in planning and budgeting. Especially, the province only allocates investment capital from the collection of land use fee to the district and commune budgets; The criteria and norms for allocation of investment capital to district and commune budgets have not been set up.

Besides, there are many obstacles in the implementation of Decree 130/ND-CP and 43/ND-CP of the Government. Decree No. 130/2006/ ND-CP regulates the determination of budget norms for the implementation of the mechanism of autonomy, based mainly on payroll/employee. The administrative units have not really paid attention to direct implementation; the awareness and understanding of the policy implementation of autonomy mechanism the civil servants is not yet high. The implementation of the autonomy mechanism has not been seen as creating conditions for the heads and officials of the unit in the use of staffing and funds allocated, linking the use of funds with quality and efficiency of work. Actually, the autonomy of the head of the unit is still limited because the unit is allowed to set up its own internal expenditures, but the spending levels must not exceed the criteria and norms prescribed by the competent State agencies. The expenditures is subject to autonomy, but unit still has to ensure the lawful and valid bills and invoices as prescribed; many units assign some of their expenditures (stationary contracting, telephone contracting, etc.), to each department and staff, however, bills and invoices are still required to legalize the settlement documents. With respect to Decree 43/ND-CP, the study and development of documents defining the criteria for evaluating the level of completion and quality of business activities of the units when they are given autonomy and self-responsibility have not been implemented, restricting the payment of income according to the level of completion of work; payment of income in some units is still equal or average.

*\* The staff of finance is still insufficient, their qualifications are not high, and fail to meet the requirements set out*

Currently, the Ministry of Finance has assigned the State Treasury to implement the reform of the state budget management information system (Tabmis), assigned to the financial agencies to carry out the entry of estimates. With such a large workload, while the staff who perform the budget entry work of the financial institution is insufficient, low in both quantity and qualifications, resulting in slow entry of estimates into the system. There are many budget spenders failing to use self-control budget estimates by March, affecting the operation of units in the area.

Therefore, it is necessary to have regulations specifying responsibility and coordination between the financial agencies and state treasury in the process of managing state budget estimates. In addition, the staff in charge of finance at the district and commune levels are still limited, they have not fully grasped the budget accounting regimes, they are not trained properly, they hold multiple positions, so it is difficult for them to respond promptly to the current demand for public financial reform.

#### *3.5.2.2. The causes of limitations*

##### *\* Objective causes*

***The impact of the world economy:*** The world economy is showing signs of recovery but *there* are still some potential risks, affecting most countries in the world, including our country in general and Nam Dinh in particular. The escalation of the input cost has led to a decrease in investment efficiency, and the ability to attract domestic and foreign investment has become more difficult.

***Natural conditions in the area:*** With 72km of sea coast, Nam Dinh is one of the provinces to suffer the consequences of natural disasters, floods, etc. hindering many investment projects. Some projects have to postpone their construction progress, suspend the construction work, expenses for maintenance and repair of traffic and dykes, etc. arise, adding to the original estimates, directly affecting the allocation and use the budget in the area.

##### ***The mechanisms and policies of the State and the direction from the central level:***

***The unsuitable norm system:*** The budget expenditure often bases on regimes and norms, but the system of budget allocation and use norms and techno-economic norms are often outdated (only meeting 70-80% of the requirements). They are not suitable, slowly amended and supplemented. In practice, many norms are plan only and for reference and few of them are applied by units. Many types of unit prices and norms associated with the management of recurrent expenditure have not yet issued, such as for the construction industry, tree care, lighting repair, etc. Therefore, there is no sufficient basis for management of this activity.

*The system of investment management documents is incomplete and complex:* The system of documents on management of investment and construction has been amended and supplemented regularly by the agencies, but in general they are incomplete, many regulations overlap, and are very difficult to implement.

*There are no regulations on the medium-term expenditure framework or at least multi-year budget:* Law on State Budget currently stipulates the annual budget estimation. However, in practice, decision on expenditures policies or deciding on investment projects generates demand for expenditures over the years. So if a medium-term expenditure framework or a multi-year budget cannot be set up, the units shall face the dilemma: tasks without funding. Failure to forecast the possibility of resources is also the cause leading to the situation that the mechanisms and policies are often overloaded, without reciprocal resources for implementation. As a consequence, resources tend to be fragmented, spread over each mechanism, policy, sector, and locality, rather than based on local needs, goals, objectives and tasks in the implementation of socio-economic development tasks in each period.

*Estimates allocation is slow:* The main reason is the integrated budget model, lower budgets overlap the upper budgets. Therefore, the allocation, adjustment and approval of lower budget must always wait for approval of the upper budget. It means that, the initiative and the ability to analyze, exchange, refine, carefully select, the appropriate and effective spending plan for socio-economic development of the locals becomes more difficult.

*Decentralization fails to create the real decision-making authority for the locality:* The main source of revenue of the province is the additional revenue from the upper budget, which directly affects the decision-making authority of the locality. Although in terms of legal documents, the central government only binds the locality in expenditures on education and training, science and technology, and contingency expenses (about 25% of total recurrent expenditure). In fact, however, the central government influence is much larger. The expenditures on salaries and wages only under the State's policies for the number of employees permitted in localities account for about 50% of local recurrent expenditures. For Nam Dinh

province, which has difficult conditions, this expenditures reach to 60% - 70% of total recurrent expenditure. Even for over-collection during the period of stabilization, the actual authority of the locality in allocating and using the budget is very limited. On the one hand, the central government restricts the expenditure items in salaries, investment, debt and contingency. On the other hand, the majority of these over-collection must be balanced by increasing expenditure in education and training according to the central allocation norms and expenses arising from other changes in mechanisms and policies.

*\* Subjective causes*

***The local government:*** (i) *The system of norms on the basis of budget allocation for sectors and domains has not yet based on objective assessments on the functions, tasks, purposes and objectives of each sector or domain in each period:* The Law on State Budget empowers the province to formulate and decide upon a system of budget allocation norms. However, the province simulates the central allocation norms system and determines the norms of budget allocation mainly on actual expenditure of sectors and areas in previous periods and future revenue increase. In other words, budget allocation is not tied to goals and tasks set for each sector or domain in each period. The current budget allocation is seen as an increased budgets each year, which is the increase for reach sector for certain period and amount, without the need to assess the tasks or objectives and the change of budget on each sector; (ii) *Rigid application of the budgeting model by input:* Nam Dinh and some other localities have rigidly adhered to the annual budgeting mechanism. Although Law on state budget stipulates the form of annual budgeting and advise agencies, departments, sectors and localities to centrally allocate capital, limit the spreading of budget, however, it does not prohibit the allocation to pursue strategic objectives. Moreover, the law also specifies a period of budget stabilization, which stabilizes revenue sources, spending tasks, stabilizes budget allocations and balanced allocations. The law also gives the province the power to decide on budget allocation and debt financing in the area. Thus, the inability to allocate consistently is due to the fact that the province is not relying on the targets to be achieved to

allocate the budget. When there is no definite basis for allocating budgets, budget allocations are more likely to be influenced by subjective factors, which change over the years; (iii) *Overlapping budget decentralization*: Nam Dinh decentralizes expenditures according to socioeconomic management decentralization. Such decentralization will increase costs significantly due to the parallelism mechanism. Furthermore, multiple levels are responsible for the same task, which reduces responsibility of each level. For example, for education, the results of the following years are the accumulation of the previous ones. The decentralization of preschool to communes, primary and secondary schools to districts and high school education to the provinces will significantly reduce the responsibilities of each level. Although, the regulations and guidelines of law on state budget for decentralization are relied on, the practice of decentralization in each province is very different.

***Financial agencies - State Treasury and related departments:***

The dissemination and implementation of the Law on State Budget and other documents guiding and adjusting the State Budget to agencies and units have not yet been fully complete, failing to reach the set targets. Financial officials' awareness of State budget is limited. Investigation, inspection and supervision of investment and handling of violations in capital construction investment, financial expenditures have not been carried out regularly. Concluding and handling of violations is not serious and ruthless against violating units and investors to set an example for others. This is a reason that has led to ineffective management of state budget expenditure. Financial staff at the district and commune levels are still lacking in quality and quantity and have not been standardized in time to meet the public finance reform process. The sense of law observance, quality, qualifications and capacity of a part of cadres in the management and implementation of capital construction investment projects are uneven. On the other hand, the capacity of the investors has not kept up with the management requirements, therefore, the consultancy units and the contractors have not been inspected and supervised, leading to the low efficiency of management of investment from the budget.

*The implementation of computerization of budget accounting work under the Ministry of Finance's projects is slow and not uniform. Currently, the number of units participating in the computerization program of the financial sector is only at provincial and district level. Although the estimation was assigned to the financial agencies, in fact, central budget estimates and the communal budget was still allocated to the State Treasury for the implementation, putting pressure on the Treasury and the coordination between the budget management agencies is not tight. Especially, the coordination between the financial agencies - State Treasury - DPI has not been smooth and uniform, especially in the process of preparing the budget management report in the locality, the budget expenditure data still lag between departments and divisions and it will be difficult to provide close consultations, timely serve the process of budget operation in the area.*

***The budget spenders:** (i) Some agencies and units using the state budget have not properly complied with the provisions of the Law on State budget, have not raised the consciousness of management of economical and efficient use of funds. The inappropriate implementation of the financial management mechanism, management of state budget expenditure is causing waste in some stages and expenses. The fact that many of the staff of the budget spenders hold multiple positions who are not trained, equipped with basic knowledge related to financial management, as a result, the updating of documents and regimes is not made regularly, leading to financial management violations and errors in the process of preparing, implementing and settling the budget; (ii) The roles and responsibilities of heads of units in budget management have not been strengthened. The responsibility of heads of agencies and units in the management of budget use and regimes for handling violations is lacking, which leads to the occurrence of financial breaches, making it difficult to determine personal liability. On the other hand, due to the lack of a mechanism that binds responsibility to the management of the units, leading to a situation where the person who performs correctly and uses effectively is not rewarded while less efficient person will not be treated; (iii) The pilot units of employee package and administrative management funds are not*

*aware of the policy of Decree 130/2005 / ND-CP and Decree No. 43/2006 / ND-CP.* These units only consider the administrative management expenditure by package is simply to save money to increase incomes for officials and civil servants without paying attention in connection with the organization of the apparatus, improvement of management measures, and improvement of work efficiency. There is still the idea of relying on subsidies from the state budget, thinking of renovation is slow in some managers and public servants.

### **Summary of Chapter 3**

Chapter 3 analyzes the situation of state budget expenditure management in Nam Dinh province for the period of 2011-2014. It also shows the achievements and limitations as well as the shortcomings in state budget expenditure management in the province, it is summarized through the following main points: Leadership, direction and execution ability at different levels cannot keep up with development requirements. The staff quality is still limited, state budget management staff is limited both in quantity and quality; some mechanisms and policies of the State remain troublesome due to inadequacies and inconsistencies. Mechanisms and policies of the province have not been strong enough, lacking of initiative in researching and proposing breakthrough mechanisms and policies to the Central for the development of the province; the coordination with the departments is far slow to concretize and direct the implementation of major policies of the Party and the Government in the area. These limitations and reasons serve as the basis for proposing solutions and recommendations in the next chapter.

## **Chapter 4. THE SOLUTIONS SYSTEM FOR IMPROVING EFFICIENCY OF STATE BUDGET EXPENDITURE MANAGEMENT IN NAM DINH PROVINCE**

### **4.1. Viewpoints, objectives of completing the management of state budget expenditure in Nam Dinh province**

#### ***4.1.1. Viewpoints:***

The completion of the state budget expenditure management must inevitably be based on local characteristics and development objectives of the province, at the same time create favorable conditions for development subjects in an environment of equality both domestically and abroad; Enable the budget to become the key tool of the authorities in promoting economic growth and sustainable development. Accordingly, the orientation to complete budget management in Nam Dinh province should focus on the following issues:

*State budget expenditure management must ensure high socio-economic efficiency in the use of state budget:* State budget is an important source of financial resources, which is the people's contribution. The necessity of achieving high socio-economic efficiency is not only the demand of management but also the aspirations of the entire people. In order to implement this point of view, it is necessary to the budget expenditure decisions must be accurate and the investment direction must surely achieve high socio-economic efficiency. It is necessary to have a good strategy, planning and development plan to serve as a basis for the State capital investment plan. Development orientations must meet the market requirements, exploit the local competitive advantage. Strategic orientations must be transformed into economic programs and investment projects. The selection of investment projects included in the annual investment plan must be based on rigorous evaluation, derived from high socio-economic efficiency criteria; The allocation of budget for investment must be concentrated, the works must be put into use on time. The use of budget for investment must be efficient and economical. To this end, the budget allocation must be based on a reasonable cost norms system. The use of budget

must be closely monitored, timely detecting violations and wastes. There should be a standard system for assessing the economic use of budget. Particularly, appropriate models of package expenditures should be used to promote the economical use in budget expenditures.

Budget expenditures must take into account the output, linked to socio-economic development objectives and strategies, in line with economic characteristics in the locality. Identify key areas to invest, eliminate fragmented investment, and prioritize key projects. Build a rational recurrent expenditure structure, increase development investment expenditure, create breakthroughs to develop regional advantages and achieve the set targets. *The completion of local budget expenditure management must take reference basis as theory management of budget expenditure in accordance with international standards and in accordance with the reality of Vietnam in general Nam Dinh in particular.* The general standards of budget expenditure management are aimed at the ultimate goal of making the budget an effective tool of government at all levels in socio-economic management and regulation. Vietnam has been integrating into the regional economy and is also an official member of the WTO. The problem now is how to maximize the benefits of the integration process. To that end, budget management must be renewed to be suitable with common standards; properly define its function and mission, and at the same time create conditions for the best performance of that function. Although there is a certain difference in terms of qualifications and conditions of development, to participate in the WTO integration process, it is necessary to improve the management of budget expenditure in the area in accordance with international practice.

The completion of expenditure management needs to be done step by step: Even when theoretical reference of budget expenditure management in line with international practice, with certain characteristics of the country and development orientation in the future, the completion of budget management should be carried out step by step. Budget decentralization is one of the indispensable components to improve the efficiency of local expenditure management. However, budget

allocation always implies the risk of regional or regional disparities and disparity between groups in society. With the long-term goal of sustainable development, budget management must harmonize efficiency and equity in resource allocation and use; ensure a certain level of service delivery, public goods for all people regardless of geographic location, level of education and population. Similarly, linking policies and plans to the budget requires certain conditions. However, it is not possible to wait for the conditions to be met, instead, implementation should be carried out step by step, in accordance with the specific conditions of each stage of development.

The state budget expenditure management must be associated with the completion of the budget expenditure management apparatus and the improvement of the ability, capacity and morality of the staff of the budget expenditure management staff: establish a budget expenditure management apparatus that is capable of solving complex issues in order to spend the state budget just in accordance with the regime, while fulfilling the difficult tasks. There should be coordination among budget management agencies: Department of Finance, State Treasury, Department of Planning and Investment and local authorities in the budget management process, and at the same time coordinate with budget beneficiaries in the area. Refine the apparatus, reduce workload, and avoid overlapping in management. In parallel with the multi-purpose and comprehensive management apparatus, it is necessary to recruit and train a contingent of managerial staffs with theoretical and professional expertise and high sense of ethics in order to minimize administrative violations in State budget management.

#### ***4.1.2. Objectives:***

The basic objective of improving the state budget expenditure management in the province of Nam Dinh in the coming time is to overcome current shortcomings and step towards the management of financial resources in accordance with modern standards.

State budget expenditure management must first and foremost establish and maintain close fiscal discipline. To do so, there is a fundamental need to reform the

analytical work, forecasting total resources for the public sector. On the basis of the total resource constraint, expenditure management must control total demand within the allowed resources.

State budget expenditure management must aim to allocate the limited resources identified for the socio-economic development priorities in the area, substantially eliminating the fragmented and unbalanced budget allocation of the years. Budget allocation must speed up the process of economic structural change, especially economic restructuring within each sector. Wage reform is still one of the priority areas for the next phase as it is the root of the state's efficiency. The improvement of quality and equality in the delivery of basic social services such as health and education, towards sustainable development in the province is also important.

State budget expenditure management should also focus on improving the efficiency of budget use. Implementing budget allocations according to local strategic priorities will partly overcome shortcomings in the efficiency of capital use and eliminate fragmented and late allocation without close connection to performance. However, in order to effectively use the budget, it is necessary to fundamentally reform both mechanisms, policies and modes of selecting projects and budget spending projects. For the areas that the private sector can undertake, it is advisable to adjust the scope of the State intervention, to increase the market economy incentives in each stage of public services and good provision. Even in the areas where the State must provide, it is necessary to apply economic analysis tools (cost-benefit analysis) to choose the least costly methods. Linking budgets to outputs and creating reward-based should also be gradually applied to increase the accountability of budget spenders.

State budget expenditure management must be directed towards local socio-economic development objectives. While prioritizing key areas for economic development in each period, state budget expenditure management should be based on the goal of socio-economic development.

## **4.2. The solutions improve efficiency of state budget expenditure management in Nam Dinh province**

### ***4.2.1. Completing the system of norms of allocation and use of state budget***

Currently, the system of budget allocation norms of Nam Dinh province has revealed some limitations, some indicators are no longer suitable with socio-economic development situation of the locality. In order to serve the stabilization period, it is necessary to build, supplement and complete the system of allocation norms to suit the current state of the economy as well as the new policies of the State. In particular: Revise the current system of norms of allocation and use of the state budget, abolish the outdated regimes issued by the province which are out of line with reality and to promulgate new financial norms and regime within authorized jurisdiction; Set up a system of new allocation norms, ensuring budget expenditure for the performance of tasks of socio-economic development, national defense and security in the locality. In building new norms, it must meet the requirements of covering all spending tasks, suitable to the reality in each period. The amendment, supplement of norms, standards and regimes in the following areas shall be in the direction of: limiting the number of fixed norms, increasing the number of norms frameworks and ceilings for ministries, sectors and localities to apply flexibly to be in line with the method of estimating the budget and allocating the budget by the output. The system of norms to be issued must be based on the capacity of budget revenue and the development of the economy; Server as leverage to stimulate administrative reform, streamline the employees, reduce the burden on the budget. It is advisable to divide the norms in two categories: "fixed" and "flexible": The "fixed" norms are to ensure the implementation of the main content of the work that the state budget must ensure because it is the responsibility of the state budget; The "flexible" norms are the remaining ones that may subject to change, these norms are usually spent on procurement, repair, small construction and equipment for operation of agencies at a minimum levels. Regarding to the criteria for allocation of administrative expenditure, the province has selected the payroll of public servants as the criteria for allocation, which is relatively suitable in

present conditions, but for units with the high coefficient of wages, the province should supplement the allocation criteria based on the workload and the population in the area, in addition to the specific tasks in each region and region, to limit the average in the process of building norms.

Therefore, the province should study and issue the norm system and the expenditure regime on the basis of rational criteria. The level of expenditure should be economical but fully reflect the cost of the system, facilitate the development of a standardized normative system that demonstrates the logical correlation between outcomes, outputs and inputs. These norms are highly synthesized, linked to specific socio-economic conditions of each locality. This standard norm system will be the basis for moving from the budget estimates by input to the budget estimates by output.

#### ***4.2.2. Completing the decentralization of state budget expenditure at district and commune levels***

Continue to complete the decentralization mechanism to minimize overlap, repetition and enhance the autonomy of local authorities at all levels in state budget expenditure management. Re-adjust the expenditure hierarchy, overcome the overlap between local government levels. At present, the decentralization of expenditure tasks is managed by both levels and sectors. As a result, for each task, almost all of the three levels are involved, management expenditure takes up most of the budget allocated to the sector. This will increase the cost of service delivery due to the overlapping management structure at all three levels. For example: In the education sector, both Department of Education, Division of Education, Preschool education administrators carry out the management. To overcome this situation, the province should revise the decentralization mechanism to determine which tasks should be decentralized to the province, district and commune and should base on decentralization criteria, rather than by hierarchy.

To adjust the investment decentralization associated with the decentralization of expenditures on culture, education and medical care. If sector expenditure decentralization should not coincide with investment expenditure decentralization

and vice versa as when applying the medium-term expenditure framework or budget management by output, there is no separation between the recurrent budget and the investment budget.

With a number of specific expenditures, it is necessary to decentralize the spending tasks as follows: For education and health: If the criteria of the scope of benefits of these services are considered, then it can be decentralized to the locality. That is, the province will decentralize the district or commune to implement education at all levels. However, in the early stages of development, the difference in demand among localities is not great, the management level of the district and commune is still inadequate, to achieve the objective of equality, sometimes the immediate government (province) is responsible for this spending task (not decentralize to district and commune). Nam Dinh as well as other provinces may consider this solution, especially, in the context of limited budget and the collection of service fee is still limited. And for expenditure on science and technology, the focus should be concentrated in the provincial level. Decentralization is not really necessary as the activities of science and technology only provide basic services. Moreover, science and technology research often has the benefit of increasing the scale, if decentralized to the district, the budget for each level may not be large enough to carry out an effective research or development experiment.

*Regarding to enhancing the autonomy of local authorities at all levels in state budget expenditure management decentralization in the locality.* In order to increase the autonomy of the local authorities in the decentralization of budgetary management, it is necessary to improve not only the contents of budget decentralization, but also to increase the autonomy of localities in investment planning in accordance with the actual needs of each area by the following basic measures: In the approval of investment plans of provincial governments for the local level, for works in districts and communes, it is necessary to consider the necessity of each project, the demand for use according to cultural and geographical characteristics of the area to ensure the effectiveness of the works. Increasing the autonomy in budget expenditure management decentralization at district level by

decentralizing annual investment expenditures to the district level for the overall transfer of all investment capital in the year. This division of decentralized investment capital is detailed for each district-specific project assigned to district level. The above-mentioned decentralized contents have contributed to enhancing the autonomy of district-level administrations, improving the current situation where only the State budget implementation is decentralized to district level, rather than the decision on the state budget. For commune level: It is necessary to raise the maximum investment capital with the Commune People's Committee as investor (no more than 3 billion in the current regulation). The current regulation on the maximum level of investment capital owned by the commune level is not commensurate with the size of a budget level, with the level of annual contributions to the commune budget, especially with commune-level units with huge the revenue sources contributed to the budget.

#### ***4.2.3. Completing financial mechanisms for public administration and public service agencies***

*Continue improving the quality of implementation of administrative expenditure package according to Decree 130/2005 / ND-CP of the Government to all units under the province.* In order to well implement the Government's Decree No. 130/2005 / ND-CP, the following measures should be taken:

Amend and supplement the regulations on expenditure package in a more concise, open and reasonable manner for State agencies in implementing the regime of payroll autonomy which may take the initiative in deciding the recruitment of public servants in accordance with the regulations, take the initiative in using the payroll and budget in the most reasonable manner in order to well fulfill the assigned tasks and promote the rearrangement and reorganization of the concise apparatus according to working positions. Practice thrift against wastefulness, raise labor effectiveness and efficiency in using funds, thus contributing to raising public employees' incomes from the savings.

To assign the heads to decide on the contents of expenditure, without any limitation on the level of additional expenses for cadres and civil servants; Unused funds can

be set aside to set up the reserve fund to stabilize the income, reward and welfare of the unit. At the same time, the heads of the units are allowed to set higher or lower levels of expenditure than those prescribed by the State for expenditure items not yet prescribed by the State, the heads of the units are entitled to set the levels of appropriate spending to ensure the completion of professional tasks and on the basis of budget autonomy. In addition, in order to reduce the workload and reduce unnecessary administrative procedures, it is possible to develop the package for the recurrent expenditures of the unit, including fund package of salary for each department in the agencies.

Strengthen the implementation of the administrative reform program, reviewing the rearrangement of the state management apparatus towards streamlining, reduction of focal points and intermediary stages in order to raise management effectiveness and facilitate the implementation of package.

In order to ensure consistency in evaluating the performance of tasks of state agencies from central to local levels, the State should issue criteria for assessment framework of basic contents such as quantity and quality of the work done, the time of work implementation etc. Based on the framework criteria, the upper level management agencies, the People's Committees at all levels have the basis of issuing basic criteria as the basis for evaluating the performance of duties of subordinate units.

The provincial People's Committee needs to consider the increase the norms of administrative expenditure for units with small number of staff to meet the demand for expenditures and to reduce difficulties for these budget spenders.

There must be plans to train and retrain the contingent of cadres under the program of training cadres of the provincial Party Committee by 2015 and the Resolution of the 11<sup>th</sup> Party Central Committee, to recruit qualified staff of ethical qualities and competencies that meet the requirements.

*Timely implement of Decree 16/2015 / ND-CP dated 14/02/2015 of the Government regulating autonomy mechanism of public service agencies (referred to as Decree 16) to meet the demand of renovation and development of public service in the*

*socialist-oriented market economy in the locality.* It should be taken into account that Decree 16 has some new highlights compared to Decree 43/2006 / ND-CP dated 25/4/2006 of the Government as follows: the classification of public service delivery units is based on the level of financial autonomy of the units both in recurrent and investment expenditures. Accordingly, based on the level of self-financing for investment and recurrent expenditures, public service delivery units are classified into four categories: (i) public service delivery units self-financing recurrent and investment expenditures. (ii) public service delivery units self-financing recurrent expenditures, (iii) public service delivery units self-financing a part of recurrent expenditure, (iv) public service delivery units financed by the State on recurrent expenditures. The autonomy of the units in the performance of their tasks, the organization of the staff and the finance are regulated correspondingly to each type of public service delivery unit, The higher is the self-financing level of the units, the higher the level of autonomy assigned to them to increase revenues, reduce subsidies from the state budget, including the salary subsidies increase to gradually switch to the units self-financing recurrent expenditures, units self-financing recurrent expenditures and investment expenditures. Public service delivery prices are defined in Section 2, Chapter II of the Decree, including regulations on prices, public service charges, method for determining public service delivery prices not using state budget and public service delivery prices using stated budget. Accordingly, for non-public service delivery without using state budget funds determined according to the market mechanism; Public service delivery prices not using state budget shall be determined on the basis of techno-economic norms and prescribed cost norms and roadmap for price calculation under the provisions of Decree No. 16/2015 / ND-CP. At the same time, it is necessary to specify the roadmap for the calculation of public service delivery prices using stated budget. This regulation aims to create conditions for step by step making full calculation of public service delivery prices using stated budget into costs. On the transitional provisions, the decree stipulates that while the Decree on the autonomy of public service delivery units in each field has not yet been issued or amended, the

public service delivery agencies in each sector shall continue implementing the autonomy mechanism stipulated in Decree No. 43/2006 / NĐ-CP and current decrees on autonomy in the sectors.

#### ***4.2.4. Renovating and improving the efficiency of investment capital management in the locality***

Improving the management of investment expenditure from the state budget is an urgent task in the period of curbing inflation and cutting public expenditure nowadays. To carry out this task, the province should focus on implementing some solutions as follows: *annual capital construction investment plans must strictly comply with the State regulations on investment and construction management.* Procedures for arranging lists of investment projects, planning projects, preparation for implementation and investment execution must strictly comply with the conditions for capital registration. Continue to restructure spending in the direction of increasing the accumulative rate for development investment, pay more attention to investment in key economic regions, create a breakthrough in economic development, the focus should be placed on Hoa Xa Industrial Park, Rang Dong Textile and Garment Industrial Park, select to invest in particular projects and fields to avoid overlapping with other provinces in the region. The structure of investment capital must ensure the socio-economic development orientation of the province, not spreading out, not exceeding the balance of the budget, and Group C projects must be completed in 3 years. Prioritize allocation of funds for transitional works, approved works with shortage of capital and projects expected to be completed in the year. *Inspecting the efficiency of investment in the area, especially the assessment of the construction of socio-economic programs. Eliminating or reducing the scale of activities, changing the priority order, or reducing the objectives to achieve the highest efficiency, and at the same time associated with the economic development objectives in the area.* In order to implement this solution, we must establish the priority order associated with the outputs and activities to reduce the budget estimates in accordance with of the budget ceiling. By reducing the number of execution activities; Reduce the amount of input for activities, or find

alternatives in limited budgetary terms; Remove low priority activities; Look for alternatives to carry out activities by attracting funds, the private economic sectors involved in public service provision not necessarily from the state budget, attached to the direction of the State in the implementation of public investment restructuring. The immediate solution is to focus on eliminating fragmented and inconsistent investment that has existed for many years. There is a great contradiction between the limited investment capital and the demand for and huge investment in the projects. The first change should be made in\* the selection and allocation mechanism for sectors, localities in general and specific projects in particular. The existing projects will be reviewed, evaluated and classified into three groups. The first group consist of those who shall be completed early and allocation of funds should be made early. The second group consists of project that may be converted to other forms of operation, or other sources of funds for implementation may be mobilized. The third group consists of project that is being suspended. Implementing this solution requires the determination of the leaders, the agencies regulating and distributing capital, including the understanding, support and consensus of all levels and sectors, especially all parties involved in each specific investment project. It is difficult to evaluate, select unfinished investment projects, and the amount of capital allocated. The common way of thinking is that if you do not keep investing, you will lose the investment you have made, wasting money and causing losses for the society. It is normal to compare the loss and the consequence of cutting out the investment capital for projects, but the cost of cutting off the invested capital may be less than the cost in case of continue to invest.

*Next, reform of administrative procedures and application of information technology in the management of investment capital in the area.* Accelerate the speed of administrative reform in investment procedures, promulgate and implement and closely supervise the settlement process of specialized agencies under the People's Committees at all levels in the evaluation of technical economics report, appraisal of construction drawing design, bidding, and appointment of contractor, payment and settlement control. Implement the pilot application of "one-

stop mechanism" at DPI by applying information technology at a one-stop shop, investing in DPI's website to serve the registration of Administrative procedures through the Internet system, public information and guidance on handling administrative procedures, etc. In particular, it is necessary to pay attention to the regulation and public posting of records, order and procedures that investors should have when dealing and the time to solve those tasks. At the same time, implement the program of connecting data management from the budgeting, disbursement to the settlement of investment capital between PPC, DPI, State Treasury, Department of Finance and related departments. All competent authorities have the right to log in and use information in this program, provide accurate, timely and consistent information to advise the People's Committee on budget operation in the area. In order to successfully implement this investment management data connection program, it is necessary to have the attention of the local authorities to direct the Department of Finance to take the lead. Every day, the State Treasury updates and transmits data to the management center of the Finance Department with the amount of money allocated to each project. At the same time, based on this program, software system for checking, forecasting and analyzing revenue and expenditure data for local budget management and administration will be integrated. *The Department of Planning and Investment shall coordinate with the State Treasury, the Department of Finance in the area to focus on the payment of advance of investment capital.* In line with Circular 86/2011 / TT-BTC dated 17 June 2011 of the Ministry of Finance, DPIs, DOFs and State Treasury jointly review, and urge the investors to make the repayment of advance, and at the same time advise the provincial People's Committee to apply specific sanctions on investors with large advance balance and to draw specific recovery plans for each type of works or set up a maximum time limit for each project, after such time limit, any unit failing to have enough records and documents to pay the advance, it must be treated strictly and requested to pay back the budget or cut, deducted into the budget, capital plan of the unit and investors for the following year.

*Improve the quality of investment capital settlement from the budget, strictly implement the settlement in accordance with the spirit of Circular 19/2011 / TT-BTC.* Settlement of projects, completed works is a very important stage in the process of managing investment capital. In order to limit the delay in the settlement phase, it is necessary to thoroughly implement the following solutions: The investors and project management units must seriously report on the settlement of completed projects under their management scope every six months and annually to the superior agency of the investor and the agency in charge for verification of settlement according to Form No. 12 / QTDA, issued together with Circular No. 19/2011 / TT-BTC no later than July 10 for the first six month report and January 15 of the following year for the annual report. The agencies verifying and approving the settlement shall have to guide, inspect and urge the investors to complete the settlement of completed projects in time and with full contents of the prescribed forms. Instruct investors to solve problems arising in the settlement of completed projects. At the same time, they shall take responsibility to law for the results of direct examination on the basis of settlement dossiers supplied by investors. Finance agencies at all levels shall have to guide, urge and inspect the settlement of investment capital and completed projects under their management. In case of detecting errors in the settlement verification process, they have the right to request the approver of the settlement to make adjustment; at the same time handle or propose the handling of violations according to regulations. For late settlement projects, the provincial People's Committee is required to issue a specific penalty for each subject and the content of violation based on the provisions of Article 22 of Circular 19/2011 / TT-BTC. Closely and uniformly facilitate the coordination between the capital allocation and payment agencies and the investors and project management unit in inspecting, comparing and certifying the investment capital allocated or paid for completed projects, work items or projects which have not yet been settled and have not yet been verified and approved for settlement. Publish the information on the information pages of the DPI and local authorities so that investors and related units can follow up and monitor each other regarding to the

projects. At the same time, specific sanctions for fines will be announced in accordance with Article 22 of Circular 19/2011 / TT-BTC so that the budgetary authorities as well as the units using the investment capital from budget find it convenient to follow and comply with regulations.

*Accelerate the progress of land clearance, improve the quality of management during the implementation of investment projects from the state budget*

For site clearance work we should focus on the following contents: Be active in site clearance to ensure enough time on the basis of planning and implementation of early clearance before the implementation of construction. At the same time, the local authorities take the initiative in mobilizing the people and units in the clearance area to agree with the ground clearance policy. The compensation regime of land clearance must be implemented so that the affected people can assure life stabilization and production and business after relocation, in which a reasonable compensation policy is needed. Plan for new locations for those should be make good. For those who fail to comply with the site clearance commitment with the local authorities after having agreed, immediately apply coercive measures.

For investment project management from the state budget, the following must be done: Organize regular meetings to assess the progress of construction, disbursement and dealing with problems arising in the course of project implementation; organize effectively the implementation community supervision of investment and construction activities in the area in accordance with current regulations of the State. Improve the capacity and responsibility of state management agencies, investors, project management boards, contractors and consultancy units in project appraisal, basic design, construction works, capital allocation, etc. to raise the investor's responsibility for disbursed projects which are slow to be recovered, the head of the investor must bear full responsibility to the People's Committee and the People's Council. Promulgate sanctions which specify the regime of reward and punishment clearly in investment management. Investors having disburse capital below 50% for two consecutive years shall be dismissed and new management board shall be appointed to replace. The units and the head of the

unit having disbursed project less than 80% of the capital plan allocated in the year shall not be considered for reward. The works and projects must fully repay their previous advance capital to be considered for further capital of the following year. At the same time, carry out the capital transfer under the provincial authority for projects disbursed less than 60% of the planned capital by the end of September 30 every year; and by the end of November 30 every year for projects that have been disbursed less than 85% of the planned capital.

#### ***4.2.5. Group of other solutions***

*a. Continue to implement the Public Finance Reform Project of the Ministry of Finance and improve the budget management quality of the Finance and State Treasury in the locality.* Currently, the Ministry of Finance's Public Finance Reform project has been implemented in accordance with Decision No. 432 / QĐ-TTg dated 21 April 2003. In order to effectively implement the Public Finance Reform project, local authorities, departments and agencies involved in state budget expenditure management should take specific measures: carry out close coordination between finance agencies, state treasury and related agencies in budget management and successful implementation of TABMIS system. This is an integrated system with clearly defined role of each person, each unit involved in the system and requires the implementation of the process in a uniform manner between departments, individuals. Therefore, there should be close coordination, close relationship between the units in the finance sector and especially the attention, support, and direct guidance of the Party committees, local authorities to implement the project of modernizing the finance sector according to the roadmap and plans set out to exploit effectively the application program for the management and administration of budget expenditures in the province. In particular: (i) Promote the communication about the meaning and importance of the implementation of TABMIS system to the budget beneficiaries in the area and related customers; (ii) Coordinate closely in the process of implementing, operating the TABMIS system and handling situations occur. In order to implement this solution effectively, leaders of the Department of Finance, Nam Dinh State Treasury shall be responsible

for assigning personnel to be responsible for systematic operation of each stage of budget management, from allocation to settlement. At the same time, propose to the Ministry of Finance to issue sanctions in association with the responsibilities of each staff, each participating unit and the system; (iii) Local administrations should direct the allocation of reasonable budget to increase investment in information technology infrastructure, application software in state budget management and finance training for finance staff in the area. Especially, accountants at budget beneficiaries will be able to catch up with the new budget management technology as well as new budget accounting systems, so as to minimize errors in the budget implementation.

*Improve the quality of budget management of finance agencies and State Treasury in the area:* Publicize procedures, processes and operations in budgetary management by developing and promulgating processes and procedures in the contents assigned to state budget management, publicly post the procedures and processes made at the headquarters and on the website of the local government. Clearly define the time limit for settling and the rotation order between the stages and department in the process of management of the budget expenditures. The budget management units in the area must commit to apply the ISO standard in state budget expenditure management. Currently, in our country, the application of ISO by a number of ministries and departments has brought about very positive results, helping the State agencies reform administrative procedures, build the work-handling procedures. The responsibilities of each cadre and civil servant at each stage are clearly defined. The financial agencies, the State Treasury applying ISO 9001: 2000 should focus on: (i) Create scientific working methods for civil servants; (ii) Unify the procedures and processes and clearly define the tasks and responsibilities of each cadres and civil servants while enhancing their sense of responsibility in the course of performing their duties.

Applying this standard will have good control over the work and duties of civil servants and bring about high efficiency in budget management. Improve the specific methods of budget allocation: It is recommended to gradually remove the

form of collection - payment recording, this method should only apply to receipts, expenses in kind and working days. To manage and administer the budget according to the overall budget, it's not necessary for the units to prepare estimates for each item.

*Promote the application of information technology in budget management:* Local authorities should pay attention to allocating reasonable budget to increase investment in information technology infrastructure and software applications in State budget management, with emphasis on software that links management information between budget administrations and links with the budget spenders. Implement software systems connecting data from the Tabmis program, Web sites, etc. Upgrade communication infrastructure; manage the operation of communication infrastructure in the field of finance in the area; Implement provincial and district communication infrastructure in the whole province, especially successful implementation of Tabmis project. Ensure the archival and updating of data on budget revenues and expenditures at the State Treasury to serve the budget management in the localities and create foundation to supply information on the national financial-budget database; Distribute information from the Department of Finance; DPI.

Public finance reform, along with the application of software, the advances of information technology in state budget management, the combination of budget expenditure control and state budget management, electronic accounting on wide area network, using information and disclosure kiosks in spending, procurement, capital construction investment from state budget shall shorten transaction time, reduce negative troubles due to the bureaucratic way of doing things, contributing to improving the effectiveness of public finance management in the area.

*b. Strengthen the financial inspection and financial publicity at all levels*

Further strengthen the inspection and control of budget use and management, detect and rectify violations of policies and regimes; Study and submit to competent authorities for the transfer of control and pre-inspection to post-inspection and requiring specific sanctions for cases of violation of budget management and use,

increase the discipline and raise the sense of responsibility of the units to law; Practice thrift, anti-waste, violation, corruption. It is necessary to develop a coordination mechanism between inspection agencies such as the provincial inspectorate, the party inspection, the financial inspectorate, the tax inspectorate and other inspection agencies to eliminate overlapping; A unit and the same content a year should only inspected once, except in special cases with signs of law violation. Consider the removal of the regulations on the approval and evaluation of settlement by the financial agencies in estimating and allocating, as the State Treasury is actually the agency controlling the collection and spending documents of the units before spending; At the same time, the financial and management agencies cannot have the time and resources to review and appraise the settlement of all estimating units and budget levels; On the other hand, the time for the review, appraisal and synthesis of accounts is short, so most of the agencies and units will complete the final settlement and then to conduct the review and examination; Therefore, it is proposed to revise in the direction that the budget use unit is responsible for the accuracy of the settlement report. Instead of reviewing and appraising the settlement by checking the compliance with financial accounting policies of the managing agency and the higher finance agency, this inspection may be in the year or following year depending on and time, workforce and necessity for each budget using unit; Inspection may be carried out on units that fail comply with the regulations.

Financial publicity is a means to promote the mastery of State officials and employees, the workers and the people in exercising the right to inspect and supervise each other in the management process and use of state capital and assets; Supervise the mobilization, management and use of people's contributions according to the provisions of law; Detect and promptly prevent acts of violating the financial management regime; Ensure the efficient use of the state budget, practice thrift and combat wastefulness. Promote the financial publicity of budget levels to implement the following solutions: Determine the right contents and scope of data to be publicized according to regulations. Choose the form of publicity suitable to

each locality or unit so that the people, cadres and civil servants can understand and publicize contents. In addition to traditional form of publicity, provincial and district budgets can be made public on the provincial website. Communes and wards should pay particular attention to publicizing people's contributions to infrastructure development, as state budget spending is the tax payment of the people, this is often omitted, which causes many questions from the people and functional agencies mass organizations should strengthen the inspection and supervision of budget publicity in localities and units. Timely propose to deal with units violating the regime of financial publicity.

*c. Consolidate the organizational apparatus, intensify the training of budget expenditure managers in the locality*

The effectiveness of state budget expenditure management is highly dependent on the organization of the state budget management apparatus and the quality of the staff of financial institutions, State Treasury and accountants at agencies and budget spenders. Therefore, in order to improve the efficiency of state budget expenditure management, it is necessary to: (i) continue to renovate the organizational structure. Regularly review the functions and tasks of the budget management agencies at all levels in the direction of meeting the requirements of financial management in the new period and efficiently implementing the budget expenditures under their respective management. (ii) Continue to refine the management apparatus. Local authorities should attach great importance to the implementation of the refinement of apparatus and staff, to accurately redefine the functions and tasks of each agency and unit in charge of state budget management to avoid overlapping functions and tasks, reduce troublesome and cumbersome administrative procedures for enterprises and people. Resolutely remove out of the State apparatus the incompetent and unqualified staff, leaving no shortcomings in the apparatus and staff, which causes damage to the prestige of the State agencies and affects local socio-economic development. (iii) improve the quality of financial staff: Standardize and specialize the qualification of state budget expenditure management officials. It is required that these officials have high professional

competence, knowledge and understanding of the socio-economic situation as well as the State's mechanisms and policies. At the same time they must have a good moral character, responsibility and dedication to the work assigned. In order to meet the above requirements, agencies must annually review and classify staff according to ethical standards and professional standards, etc. and based on the results of the review to establish plans to foster, arrange and assign work according to the capacity and qualifications of each official. Strengthen the training and retraining of state budget management knowledge for financial and accounting officials in budget estimating units, commune, ward and town for good understanding and awareness of the requirements of state budget management and functions as well as their competence and self-accumulation of knowledge and experience to be capable of performing public duties. Develop a strategy for planning budget management officials by training and retraining in association with the standardization of each title and job requirements. In addition to professional training, attention should also be paid to the training of knowledge on state management, market economy, foreign languages and informatics, their salary and income policies so that they can perform their assigned tasks. Complete and consolidate the mechanism for assessing official so that they can be assigned suitable jobs; official who do not have adequate qualifications and / or professional skills shall be transferred to other jobs, for retraining or resign. At the same time, place the right persons in the right job and the right training discipline, to avoid the situation of inappropriate placement of professional work, limit the situation of official doing multitask and gradually improve the quality of the state budget management staff. Periodically rotate official to build a decent and professional management team. Establish a reward and punishment regime, raise personal responsibility and create confidence of the people towards the State. Develop information technology human resources, provide regular training and retraining of official to improve the level of information technology application, especially financial staff participating in the Tabmis system, build up the professionally-oriented, well-organized information

system and improve job security, which is a necessary and very important goal of the state budget expenditure management system.

*d. Implement application for estimating and allocating budget of medium term expenditures in the area*

*Applying budget estimates and allocation process of medium term expenditure framework by output associated with the budgeting policy and plan. Medium Term Expenditure Framework (MTEF) is a methodology for the preparation and establishment of transparent budget plans, in which the Government, ministries, sectors and local governments agree on the allocation of resources in a strategic priority order based on the assurance of overall fiscal principles. MTEF sets a resource limit in the medium to long term (3 to 5 years) allocated from the top down to ensure financial discipline and requires budget estimates for bottom-up policy implementation, expenditure policy in a strategic priority order.*

The reality of Vietnam in general, Nam Dinh in particular, has shown that without major changes to the mechanism of budget estimates and budget allocation then the strategic priorities of the budget allocation by strategic priority order in economy cannot be carried out and foundation cannot be set up for ensuring that the socio-economic goals will be materialized. Therefore, implementing application budget estimates and allocation by MTEF is an urgent requirement. Applying MTEF means that it will have to fundamentally reform the method of allocating budget according to current norms. MTEF budget allocation is determined on the basis of the need for funds to perform certain tasks and goals that will allocate sufficient funds to fulfill each task. Management in this way ensures the overall fiscal principles; Allocate resources according to strategic priorities of the economy; effectively use the resources in implementing strategic priorities at the lowest cost. Management in this way puts the output on the top, while not only paying attention to proper spending, norms and policies, but also spending on the basis of achieving the goals of socio-economic development in the area. To achieve these principles, in the MTEF implementation process the following issues should be taken into account:

(i) Implementation plan: It is necessary to carry out reforms in a logical and

reasonable manner in order to minimize risks when applying MTEF. In the first phase, 2 out of 10 districts / cities will be piloted from the implementation of some fundamental reforms such as unification and classification of budgets in line with scope, accounting and statistical methods to the inspection and improvement the budget process. The next phase is the overall pilot implementation, draw lessons learned and apply to all 10 districts and cities. (ii) Time and resources: MTEF implementation needs to be well prepared for resources and time. It takes a long time to develop strategic plans. In addition, special attention should be paid to the MTEF training and professional training for planning agencies / staff to ensure the effective implementation of the MTEF. (iii) Coordination between organizations and agencies: Budgeting under the MTEF is a radical reform and management mechanism in the public sector. This raises many new challenges, especially clarifying transparency and accountability in management. This responsibility here does not stop at output, but is tied to the results and policy objectives chosen. In addition, it is important to ensure coordination among relevant organizations and agencies to provide the necessary information to the MTEF.

*Apply the budget management method in the medium-term expenditure framework with the State administrative agencies (SAG) in the area to improve the efficiency of budget use.* Medium-term budgeting is a vision of management and budgeting over a three-year period. However, in order for medium-term budget planning to be effective, it is necessary to shift the form of budgetary management by input into the form of budget management by output. In order to realize that idea for the SAG, the province needs to: review and redefine clearly the specific functions and tasks in each department and agency. Establish criteria for assessing the outcomes of the activities of the SAG, especially in the field of providing administrative services. These criteria can be: - To well fulfill assigned tasks in each area of State administrative management with a modern management process; to satisfy the legitimate demands of the people in providing administrative services with the requirement of saving time, effort and money of the people and the State; The level of public trust in the functioning of the SAG through a sociological investigation of

the vote of trust. Establish the content, method, procedure of assessment and inspection of the authority, with the participation of the people in the use of funding allocated to the SAG.

Renovation of budget management by output with a mid-term vision (3 years) is a thorough renovation of a habit, toward building a new process and model. It is not easy and cannot be done in a quick manner. This innovation is really hard but not impossible to do. The most important thing is that at the very first stage of the budgeting process, the expected output targets must be determined and based on that, the level of budget allocation is determined to accomplish and achieve those goals. As a result, from the estimation stage, leaders must foresee the outputs and resources to ensure the implementation of the outputs. It is clear that the provision of financial resources and the realization of political objectives has been linked and is predictable. In other words, rather than just basing existing resources on input for budgeting, new budgeting processes focus on early identification of outcome, rely heavily on outputs to plan and allocate budgets over a three-year medium-term perspective. Thus, reforming the budget process and methodology for outputs under medium-term expenditure is the right choice to meet the demands of the real economy in the field of budget management and planning, consistent with the trend of international economic integration today.

*e. Strengthening the direction of the PPC in the management of state budget expenditure*

The target of socio-economic development in the five years (2011-2015) and towards 2020 of the province has mostly completed, in which the target of local budget revenue and expenditure has basically been completed. In the coming time, the provincial People's Committee should focus on directing the sectors to implement some contents in order to achieve and fulfill the targets of financial and budget management set up in the province as follows: carry out good reform of administrative procedures; closely manage and efficiently use revenues from taxes, charges and fees for development investment; exploit and foster new revenue sources; Increase revenues from production and business to meet timely key tasks to

speed up the economic restructuring of the province. Carry out the management of budget expenditures properly, economically and effectively. Adjust the budget expenditure structure in line with the adjustment of the economic structure with high focus on poor areas and key economic regions; Prioritize budget capital investment in the areas of education and training, science and technology, social security, health, culture, national security and defense. Balance the integration of budget sources to perform some key tasks of the province. Take the initiative in advising the Provincial People's Council, the provincial People's Committee on amending and supplementing the mechanisms and policies to clearly define the powers and responsibilities of all levels in the management, administration, use and settlement of the budget. Ensure the principle: Centralized, democratic, public, transparent in budgetary management. Comply with Article 5 of the Law on State Budget on the right to make payments and take responsibility to law for the payment of the account holder. Effectively implement measures to increase budget revenue, budget recurrent expenditure, budget expenditure control, price management, review of construction investment projects; Final settlement of completed works and projects, etc. To well implement the Law on Management and Use of State Property; Ensure that the standards and norms of equipment and facilities in service of the work of administrative agencies and public units in accordance with the Government's regulations; Improve the quality of inspection, examination and auditing of budgetary work, the use of public assets by budgetary levels, estimating units; Strengthen the self-inspection, enhance the responsibility of the budget levels, account holders in the procurement of assets, budget management, use of public assets; Strengthen the management of corporate finance. Focus on the good implementation of administrative reforms in line with the renovation of work-handling procedures; Strive to reduce at least 30% of procedures and handling time directly related to organizations and individuals under the one-stop mechanism.

### **4.3. Some recommendations**

#### ***4.3.1. Recommendations to the National Assembly, Government, Ministry of Finance***

It is proposed that the National Assembly consider amending the unreasonable provisions of the current Law on State Budget in the direction of reducing the integration of budget levels and increasing the powers of the local authorities to decide on budget revenues and expenditures. Adjust of a number of revenues of 100% of the central budget to facilitate the increase in the number of local self-balancing budget revenues and expenditures, ensuring the consistency with the decentralization of State administrative management between sectors and territories. Implement the medium-term expenditure framework, output-driven approach to policy and budget planning, and improve public financial management. The Government should unify the management of norms including the norms promulgated by the Ministry of Finance, norms setting the frame rate and assign the provincial People's Council to make sure that it conforms to the local characteristics. Establish budget norms with different coefficients to meet the requirements and budgetary capabilities of each level of government, characteristics and geographical conditions of each region and the scale and characteristics of State management agencies. Apply the expenditure norms framework for work-related expenditure rather than the payroll norms. To promulgate a standard system of equipment and working facilities suitable to each type of titles of public servants and employees for uniform application in State agencies. This norm allows agencies to make adjustments in the implementation process, in accordance with their work requirements and budgetary capabilities.

The implementation of Decree 130/2005 / ND-CP is consistent with performance evaluation of administrative and public service delivery units from central to local levels. Formulation of criteria for the evaluation framework, including: volume, quality of work performed, time of work settlement, and compliance with policies, regimes and regulations on finance. Promulgate documents guiding the implementation of Decree 16/2015 / ND-CP dated 14/02/2015 by the Government.

*Shorten the time limit for budget estimates:* Most countries have 12-month budget year, whether coinciding with the calendar year or not, according to customary practice. The budget year of Vietnam, Korea coincides with calendar year (starting from 1/1 and ending on 31/12 every year); Japan's budget year starts April 1 and ends at March 31; Thailand starts from 1 October and ends at 30 September. All budgeting procedures are finalized on the last day of a budget year, but the start of each country varies, resulting in varying lengths of budgeting. The start of Vietnam's budget planning process is relatively late, the duration of the budgeting process in Vietnam is shorter than that of other countries (see Annex Table 3.2: *Schedule of State Budget in Vietnam*). Vietnam's budget planning process is 6 to 7 months long, but in countries in the region it is usually 10 to 11 months. Estimates are approved before the start of the new budget year. Budget year is a significant principle in traditional budget management. At the end of the budget year, unused budget estimates are out of value. However, this will change when managing budget by new model, based on the output associated with the medium-term vision. The timeframe for budgeting is long enough and clearly defined, which will facilitate quality improvement agencies to better prepare, establish, inspect and discuss budget estimates. If counting from when the Prime Minister's Directive on the preparation of state budget estimates has been issued, the process of budget estimates of Vietnam will begin on May 31st. When the National Assembly Standing Committee (NASC) gives its opinion on the allocation norms and the regime of important budget expenditures, the time of commencement of the budget estimate is from 1 May; the formal regulation of the "starting" time of the budgetary process in Vietnam is rather late in comparison with other countries in the world. Normally, countries are required to prepare estimates starting from the second month of the current budget year. Particularly, most countries promulgate regulations on preparation of budget estimates from the first month, immediately after the budget has been approved (Malaysia issued Circular guiding the preparation of budget estimates from the first month, Guiding budget estimates and policies of Thailand was issued from the second month, Korea issued guidelines for

preparation of budget estimates from the third month every year. Therefore, the time for budget estimation should be extended for budget estimates, preparation period may be extended up to a few months, arrange reasonable time for the steps, ensure the material time needed for the Committees of the National Assembly, the National Assembly and the People's Councils at all levels to study, appraise and discuss thoroughly the state budget estimates.

The issuance of the Law on Public Investment now creates a comprehensive legal system to manage the whole process of public investment, from investment policy and capital appraisal of programs and projects using public investment funds, formulate, appraise and approve investment plans, implement plans, monitor, evaluate, inspect and review public investment plans. However, the Government should soon promulgate regulations detailing the articles and clauses assigned in the Law so that the Law will soon come into effect and improve the effectiveness of public investment management. The Government should promote the socialization of education, health, culture and sport. Assign localities the right to decide on the establishment and gradual shift of some public establishments to non-public ones in order to diversify forms of activities and products and services in the fields of education, health, culture and sports while mobilizing the potential and social resources to invest in this area. It is proposed to decentralize the management of kindergartens, preschools and health stations to the commune level, and socialize the operation of this system.

#### ***4.3.2. Recommendations to local government***

Strengthen the leadership of the Party and the role of the province in managing budget expenditures in the province. The provincial Party Committee should work out appropriate socio-economic development guidelines that will serve as the basis for the authorities at all levels to closely follow implementation, especially in the process of allocating budgets. Party committees, local authorities and units should uphold their roles and responsibilities in overseeing the budgetary management and spending process in accordance with State norms and educate civil servants to implement the provisions of budget expenditures in accordance with the regime.

Provincial Party Committees must regularly inspect and direct the implementation of budget expenditures in accordance with the State's policies and policies in order to contribute to improving the living standards of people in the locality. PPC need to include budget management information in the monthly and quarterly work program for specific evaluation. Strengthen the leadership role of Party committees and authorities in the city by the following measures: (i) The Party Committee must lead the Party Committees at all levels and coordinate with the State in managing the budget expenditures at all levels. (ii) The Party must be responsible for understanding the Law on State Budget, disseminate the State's guidelines on public expenditure management and integrate the same into the Party's resolutions to cause Party members and people in the locality to implement the guidelines effectively. (iii) Improve the state budget management capacity at all levels of government, make the right spending and reduce unnecessary expenditures. Provinces that fail to meet the collection plan must reduce expenditures accordingly, only cover the expenses which are really urgent, focus on investment in development and prevention of natural disasters.

The province should take the initiative in researching, training and piloting the model of state budget expenditure management according to the output attached to the medium-term vision and set up a norm system towards the management objectives of State budget management and meet local practical requirements. While awaiting the revision of the Law on State Budget in line with the medium-term and by output, Nam Dinh should actively research, train and pilot the management model for state budget expenditure to promote socio-economic development in the area. Nam Dinh should actively coordinate with the central government in institutionalizing and publicizing the renovation of the budget process. Set up a system of medium-term budget estimates mechanisms and make public expenditure estimates on the basis of the medium-term expenditure framework; Change the thinking of budgeting on the basis of existing resources by managing outcomes based primarily on public expenditure. Complete the system of granting financial autonomy to unit using public finance, especially units having

revenues such as education and training, health, television, radio and culture. Improve public expenditure management in administrative units, ensure the quantity and quality of state administrative services to meet the needs of local development. The system of regimes and norms of expenditures on the use of public resources in State administrative units and public units should be changed, adjusted and clearly defined according to the identified reform by output. For the state administrative sector, it is necessary to specify clearly, closely and in detail the norms of use. For non-business units, the framework should be provided and the autonomy and self-responsibility should be given to the budget users. Limit the imposition of previous type of control, with a strong emphasis on the output of public expenditures. Establish bases and criteria for assessing the quality of public services for non-business units. Evaluate publicly by sampling by consulting service users, classify units by 3 levels of good performance, fair performance and bad performance, and take measures to improve the quality of services for the units performing badly. Establishment of a system of public financial information throughout the province in association with the national information system, linking the management agencies (Finance, State Treasury, Planning and Investment, etc.) and other Agencies, departments and sectors using public resources.

The People's Committee of the province thoroughly causes the relevant departments and agencies to expeditiously re-arrange and review the items, progress, funds allocated to the projects of all funding sources to ensure the balance of funds made in the prescribed time in accordance with the Prime Minister's Directive No. 1792 / CT-TTg dated 15/10/2011, priority is given to allocating funds for completed items, transferred items; No funds will be allocated for new items when transferred items are not sufficiently funded.

#### ***4.3.3. Recommendations to the Department of Finance - State Treasury***

The Department of Finance should review the quantity and quality of staff, develop the plan for recruitment, reorganization and redistribution of work in accordance with the qualifications and capacity of each staff. Strengthen training and retraining, prioritize the training capacity in information technology application. In addition, it

is necessary to improve the quality of morality, sense of work, communication style to meet the requirements of assigned tasks.

And the State Treasury should build information portals and provide detailed information on the state budget for each unit, in order to meet the matching and monitoring requirements of the units in the process of using the budget, contributing to reduction of the comparison work of controllers of the State Treasury especially at the end of the quarter, at the end of the year.

#### ***4.3.4. Recommendations to budget spenders***

Level I budget estimates units must take the initiative in developing criteria and methods of budget allocation in line with sector characteristics, especially DOET, DOH, and DARD. Organize the negotiation work to allocate the budget among the higher-level estimating units to their attached cost-accounting units. Results of allocation of state budget must be public and transparent in all units of the sector in accordance with the Government's financial-budget disclosure regulations.

### **Summary of Chapter 4**

Chapter 4 focuses on studying and proposing viewpoints, objectives and solutions to improve the management of state budget expenditure in Nam Dinh province. First of all, Chapter 4 specifically identifies socio-economic development objectives in Nam Dinh province in the coming time. Hence, on the basis of theoretical studies on state budget, state budget expenditure management in Chapter 1, the current situation of state budget expenditure management in Nam Dinh province in Chapter 3, Chapter 4 proposes nine groups of practical solutions aimed at completing the management of budget expenditures in the locality. In order for the above solutions to be feasible, the research also proposes recommendations to the National Assembly, the Government, the Ministry of Finance, the local administration, the budgetary administration as well as to the beneficiary of the budget, contributing to improve the management of budget expenditure in the area, meeting the roadmap of public finance reform in the current period.

## CONCLUSIONS

State budget expenditure management is an urgent requirement in present conditions. Especially for poorer provinces including Nam Dinh, state budget expenditure management is always a very sensitive and meaningful issue both in theory and practice. With the aim of researching to improve perception of theory and practice as well as finding solutions to improve the management of state budget expenditure in Nam Dinh province, the research has solved some of the following basic issues:

1. Systematize, supplement and completion the scientific basis on state budget, state budget expenditure and especially state budget expenditure management in Nam Dinh province. The basic issues such as the concept, purpose, requirements, methods, tools, influencing factors as well as the content of state budget expenditure management are discussed herein.
2. Summarize the experiences of some localities in some countries in the world, and then draw on the lessons learned for state budget expenditure management in Vietnam in general and in Nam Dinh province in particular.
3. Based on analyzing and evaluating the current situation of state budget expenditure management in Nam Dinh, the thesis has drawn the achievements, limitations and its causes. These are considered as urgent issues that need to be addressed in the management of state budget expenditure in Nam Dinh province in the coming time.
4. On the basis of the viewpoints, guidelines, policies of the Party and State on public financial management, state budget management of Nam Dinh province, the thesis proposed implement 5 viewpoints, 4 objectives and 7 groups of solutions to improve efficiency of state budget expenditure management in Nam Dinh province. At the same time, the research provide four groups of recommendation submitted to the National Assembly, the Ministry of Finance, the Government, local authorities as well as the agencies responsible for budget management to improve the policy

mechanism and macro policies to facilitate the implementation of proposed solutions.

The above solutions are realistic with the practical situation in Nam Dinh and have practical value in the implementation process. However, in order to be feasible it is necessary to have a uniform implementation of solutions and organization in a scientific way, in accordance with local conditions.

As a master thesis in Public Policy and Public Financial Management, in the course of research, despite numerous efforts and attempt, the thesis may still contains shortcomings. The author wishes to receive comments so that any further study will be more complete.

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### Appendix: Schedule of budget estimates of Vietnam

Items	Time
The National Assembly Standing Committee gives its opinion on the norms of budget allocation and important budget expenditure regimes as the basis for state budget estimates	Prior to May 1
The Prime Minister issues the Directive on the establishment of socio-economic development plans and state budget estimates	Prior to May 31
The promulgation of circulars guiding the preparation of budget estimates and issue examination notices on state budget estimates	Prior to June 10
The ministries, central agencies and provincial-level People's Committees shall guide and notify the inspection number of the budget estimates to their subordinate units	Prior to June 10
Provincial agencies and units send their estimates to the Ministry of Finance and the Ministry of Planning and Investment	Not later than July 20
Discussion of estimates between the Ministry of Finance and central and local agencies; synthesize and estimate the State budget submitted to the Government	From the end of July
The government submits state budget estimates, allocating funds to the NA's agencies for verification.	Prior to October 1
The National Assembly's Finance and Budget committee holds the verification meeting	Not later than October 5
The government submit explanation report after the NA verification meeting	3 days after the meeting
Audit Report of the Finance and Budget Committee	Not later than October 12
National Assembly Standing Committee gives comments	Prior to October 18
The NA holds meeting, discussion and making decision on the state budget	Prior to November 15
The Finance Ministry shall submit to the Prime Minister for allocation of central budget	Prior to November 20
The Provincial People's Council decides the budget and allocates the local budget	Prior to December 10

District-level People's Council decides on district budget estimates and allocations.	Prior to December 20
Commune People's Councils prepares budget estimates and budget allocations at the commune level	Prior to December 31
The allocation and assignment of budget estimates must be completed	Prior to December 31