PUBLIC FINANCIAL MANAGEMENT SYSTEM ASSESSMENT

A. Macro-Fiscal Context

1. **Viet Nam exhibits a record of high and sustained growth.** This has, in turn, enabled the government to reduce poverty at record pace. Poverty declined from 58% in 1993 to 17.2% in 2012, and Viet Nam's per capita income o increased from $118 in 1991 to reach US$1,910 in 2013, which helped Viet Nam to graduate into the group of lower middle income countries. Rapid expansion in the size of government expenditure from around 20 percent of the budget at the end of the 1990's to 28.4% of gross domestic product (GDP) in 2013 has contributed to Viet Nam's impressive development outcomes over the last twenty years.

2. **In recent years, fiscal policy has come under stress.** To address the effects of the global financial crisis of2008-2009, the government implemented stimulus measures. A slowing economy has negatively affected the budget with revenue collection falling to 19% of GDP in 2014 from an estimated 27% of GDP in 2010 (revenue averaged 26.3% of GDP during 2006–11).[1] Tax revenue alone has fallen by 4 percentage points to 18 percent of GDP from 22 percent of GDP over this same period. Subsequently the budget deficit had increased sharply from an average of 2.9% of GDP during the period 2010–2012 to 5.3% of GDP in 2013; and is projected to remain at 5.0% in 2015.

3. **Fiscal consolidation is important.** High fiscal deficits lead to a significant overheating of the economy as the annual inflation rate reached a staggering 23 percent in August 2011. With rising pressures on the budget, the government faced crucial fiscal policy choices in an effort to maintain the twin objectives of economic expansion and macroeconomic stability. Further, the continuing deficits risked violating the "Golden rule" on fiscal balance, as they are well above the target set by the Socio-economic development Plan (SEDP) (2011–2015).[2]

4. To address this, the Government initiated measures to strengthen tax administration, and accelerate revenue policy reforms. Further, the Government implemented measures that exerted more discipline over capital expenditure. For example, priority is accorded to completing ongoing projects and new projects are approved only in exceptional cases. Total capital spending (including off-budget) is estimated to have fallen to an estimated 7.8% of GDP in 2013 from around 11.6% of GDP in 2010. In addition, the ratio of capital to recurrent spending has declined consistently in recent years from 62% in 2010 to 44% in 2011, and 38% in 2012. The Government brought forward some planned capital spending which lifted public investment although it is likely that public sector spending will remain subdued.

5. **Sustaining social sector spending remains a high priority.** Despite the marked decline in recurrent spending, spending on the social sectors has always remained a priority for the government and its proportion of the total budget has steadily risen from 8.4% in 2010 to an estimated 9.4% in 2013. Spending on education in Viet Nam is commendably high, and the government is committed to allocating at least 20% of the state budget to education and ensuring that the health budget grows by at least as much as the overall budget. In Viet Nam, the re-distributive significance of cushioning social sector expenditures, together with payments

[1] Slowing revenue collections in recent years is partly due to slower economic growth, but also due to stimulus tax breaks, cuts in tax rates, reduced trade tariffs, and tax incentives for investors.
[2] Macro-fiscal targets in the SEDP 2011-2015: Social investment accounts for around 33.5%-35% of GDP; Budget overspending to be kept at below 4.5% of GDP in 2015; Collected tax and fee contributions to the State budget not to exceed 22%-23% of GDP a year; Public debt by 2015 not to exceed 65% of GDP.

to support the poor, the unemployed, and other social safety nets, even at a time of adverse macroeconomic environment from budget cuts, is well recognized.

B. Public Financial Management (PFM) Assessment[3]

A. Budget Formulation

6. **Two decades of PFM reforms in Viet Nam.** The enactment of the revised State Budget Law in 2002 (SBL 2002) set out several important "golden rules" which have enabled Viet Nam to steer its PFM systems on a steady course. The first PEFA (Public Expenditure Financial Accountability) assessment was undertaken by the Government in 2011–2012, and was finalized in July 2013. By and large, the PEFA confirms that the government has a functioning PFM system capable of efficiently collecting a substantial amount of revenues as a proportion of GDP.[4] The PFM system is also able to strategically allocate funds to provinces, including the more remote ones through a rule based, and transparent fiscal transfer system. Going forward, the Ministry of Finance's (MOF) modernization strategy, approved by the Prime Minister for the period 2012–2020, commits Viet Nam to "enhance the transparency and accountability of public finances". The Government is currently in the process of revising the SBL 2002, which is expected to lead to significant improvements in the planning and enactment of the State Budget.

7. **The legislative framework for budget is firmly established.** The SBL 2002, first enacted in 1996, and revised in 1998 and 2002, is the key legislation underpinning budget management in Viet Nam and covers all levels of government to ensure uniformity of the budget system.[5] Viet Nam is one among a few countries that utilize a nested budget system - lower level budgets are a component of the higher level budgets – which use higher level administrative oversight to ensure local budgets are not in deficit. Other than the SBL 2002, laws on state accounting, state audit, procurement, public debt management, and tax administration, also impact on budget management.[6]

8. **Budget management is hierarchical.** As a consequence of nested budget administration, the National Assembly (NA) is the top of the pyramid and has the ultimate power to approve the State Budget. The NA also exercises legislative oversight of budget preparation through its Economic and Finance Committee. The MOF is responsible for revenue estimates, determining baseline budget requirements (for both capital and recurrent) and allocating the recurrent budget. MOF also indicates the magnitude of the budget deficit and the level of capital expenditure.[7] The Ministry of Planning and Investment (MPI) is responsible for preparing the

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[3] This assessment is informed by the *Vietnam Public Expenditure and Financial Accountability (PEFA) Assessment of 2013; Linking State Planning and Budgeting in Vietnam: Achievements and Future Reforms, World Bank; 2014 Article IV Consultation–Staff Report*; *Press Release; and Statement by the Executive Director for Vietnam, IMF; and the PFM Assessment for Vietnam* prepared by Hoang Thi Thuy Nguyet and in-house desk study.

[4] Averaging an estimated 28% GDP during 2010–2013.

[5] Vietnam has 4 tiers of government: central; 63 provinces (cities); 700 districts (cities, towns) and 11,145 communes (wards). Vietnam's budget system consist of central budget and local budget, in which local budget consists of budgets of local authorities having People's Council and People's Committee. Local budget includes provincial budget (including provincial and district budget); district budget (including district and commune budget) and commune budget.

[6] In addition to these laws, SBL 2002, Public Investment Law (ratified in June 2014 and has come into effect on 1 January 2015 and a plethora of laws – Construction Law, 2014, Law on Tax Administration, 2007, Value Added Tax Law, 1997, Corporate Income Tax Law, 2003, Personal Income Tax Law, 2007, Special Consumption Tax Law, 1998 , Social Insurance Law, 2006, Health Insurance Law, 2008 and State-owned Enterprise Law, 2003 – also contribute to the legal framework of public financial management.

[7] Annual revenue estimates are based on SEDP macroeconomic projections, as updated annually by the MPI. Estimates of spending levels and allocations are based on: five-year and annual SEDPs; policies on budget deficit

five-year and annual SEDP and is entrusted with the task of economic forecasting, which provides the macroeconomic policy framework for budget preparation. MPI's role is to align capital expenditure with the SEDP and thereby oversee allocation of the capital budget. MPI also has a leading role in coordinating the National Target Programs (NTPs), as well as capital allocations for NTPs (targeted transfers to local authorities for specific development priorities).

9. **Budget transparency has increased.** The budget preparation process is streamlined. A well-developed and orderly budget calendar sets out the timetable and activities for budget preparation by line ministries and provinces as well as the schedule for presentation of budget by government for its consideration and approval. The budget process culminates with the review and approval of the NA by 15 November of each year, followed by the notification of the overall allocations for the ministries and provinces -both revenue and expenditure- by the MOF. This budget cycle is well adhered to with the NA approving the annual budget on time every year for the past 5 years.

10. **The budget process incorporates numerous fiscal and strategic objectives.** The process begins with a high-level directive from the Prime Minister that sets the socio-economic planning and budgeting policy agenda. This agenda is the basis for MOF (with respect to recurrent expenditure) and MPI (with respect to capital expenditure) to issue their guiding circulars which provide more specific guidance as well as indicative budget estimates and ceilings.[8] This directive also includes a provision similar to a "golden rule" whereby borrowing can only be for investment purposes, and the deficit will be maintained within specified targets (e.g. 5 percent of GDP). However, these indicative budgets are not discussed within the Government and therefore do not serve as ceilings within which spending units should prepare their budgets: rather they serve as a basis for negotiations between MOF/MPI and spending units before the consolidated proposals are approved by the Government and submitted to the NA.

11. **Linking policy planning with budget is a challenge.** There is a lack of integration between the capital and recurrent budget. In Viet Nam, the allocations of current and capital expenditure are assigned separately to MOF and MPI. Expenditure is also reported separately by the MOF (recurrent expenditure) and MPI (capital spending). Despite regular consultation and coordination between MOF and MPI, it is difficult for MOF to have a comprehensive estimate of the sector allocations both at the national and sub-national levels, as well as their links to development plans, including forecasting of the recurrent needs of capital investments over the medium-term to long term. This weakness is further exacerbated as the estimation of funding needs for recurrent expenditure -for the maintenance and operation of completed investment projects- is not reliable. In relation to physical infrastructure and public investments, this leads to low returns on investment and impacts on the sustainability of the fiscal framework.

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targets; baseline budget requirements on the wage bill, social benefits and debt servicing; policies on budget shares for specific sectors (e.g. at least 20% for education, 2% for science and technology, and 1% for environment protection).

[8] Prior to the issuance of budget call circular around June each year, important steps are taken consisting of socio-economic planning and programming, medium term fiscal projections and forecasting (based on macro-economic modelling), and revenue estimates. The Ministry of Planning and Investment (MPI) and its agencies are responsible for preparing the core economic programming and indicators, doing the forecasting. In addition to MPI and its agencies, National Institute for Finance (NIF) - MOF and State Bank of Vietnam (SBV) also undertake some modelling and projections. The various scenarios so prepared, Prime Minister (PM), in consultation with the cabinet, decides on the scenario and budget targets. This decision is then taken on board by MOF, which, in consultation with MPI, issues the budget call circular.

12. **A proposed medium-term fiscal framework (MTFF) and medium-term expenditure frameworks (MTEF).** Recently, Government piloted the MTEF and MTFF in a rolling 3-year cycle for a number of the main ministries (Finance, Planning and Investment, Health, Education and Training, Agriculture, and Transport), and also for three provinces and a city (Hanoi, Binh Duong, and Vinh Long). Assistance was provided by the World Bank and UK Department for International Development (DfID) (2007–2010). Transition of the pilot into the live budget process has not yet been completed as there were numerous challenges with the pilot MTEFs including; i) the quality of the pilots, ii) the lack of sector information, and 3) and large unaddressed funding gaps. Nevertheless, the pilots produced several positive outcomes. There is relatively greater awareness of the MTEF rational, together with stronger technical capacity. Key lessons included the need to have strong support from the political leadership and providing for medium-term budgeting provisions in the State Budget Law. The pilots also highlighted a need to effectively balance medium-term expenditure needs with resource availability by setting clear expenditure ceilings.

C. Intergovernmental Fiscal Transfers

13. Since the adoption of the SBL 2002, local authorities in Viet Nam have been vested with increasing levels of fiscal responsibilities and they play a key role in public service delivery.[9] The SBL 2002 is generally recognized to have laid the foundation of a solid subnational PFM framework, which is rule based, and provides for transparency in fiscal relationships. It provided the key principles for spending assignments, revenue arrangements, and intergovernmental fiscal transfers to address two structural imbalances (vertical and horizontal imbalance), and granted provincial authorizes a significant degree of autonomy to determine fiscal relationships with districts and communes within their jurisdiction.

14. **Fiscal decentralization.** The fiscal decentralization policies have worked well. They have ensured more spending for the poorest part of the country where development needs and costs of service delivery are higher, underlining the redistributive nature of fiscal transfers in Viet Nam. According to a recent study, the poorer provinces have in fact benefitted from higher levels of per capita spending compared to richer provinces.[10] Largely due to fiscal decentralization, local authorities in Viet Nam are responsible for around 55% of general government spending and account for over 75% of total capital spending. Local control over spending is even higher in key social service delivery areas such as education (90%), economic services (80%) and health (from 72% of recurrent spending in 2006 to 88% in 2011). During the same period (2006–2011), decentralization within provinces down to district authorities has also increased. The share of local government spending increased to 55.6% in 2012, which is a relatively high share compared to other countries. In 2012, 73.9% of overall capital expenditure and 56.1% of recurrent expenditure are devoted to local governments. It is estimated that district spending represents more than 45 percent of total local spending and accounts for the majority of recurrent spending in both health and education within provinces, though decentralization of capital spending has been less pronounced.

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9 Total government spending in Vietnam is close to 30 percent of Gross Domestic Product; local authorities' spending is close to 17% of GDP.

10 2014. The World Bank. *Making the Whole Greater than the sum of its parts, A Review of Fiscal Decentralization in Vietnam, Summary Report, October, 2014*.

D. Budget Implementation

15. **Public Procurement.** The Procurement Law and Implementing Decree (No. 85/2009), and a number of circulars containing operational guidelines have strengthened the legal and regulatory framework of public procurement in Viet Nam. The framework provides for public access to procurement information including government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints. Contract awards (above a threshold of VND 2 billion, equivalent to US$100,000) are published in MPI's Procurement Gazette and on the Ministry's website. Its implementation, however, falls short of expectations. Procurement in Viet Nam leaves too much scope for direct contracting. PEFA 2013 estimated that 70% (by number) and 40% (by value) of 2009 and 2010 contracts were let directly, thus undermining open competition and value for money.[11] The law also permits a number of derogation from its application. The public have access to procurement plans, information on bidding opportunities and contract awards. However, the results of complaints against procurement decisions are not yet published. An independent system to handle complaints exists, but is not much used and lacks the authority needed to suspend contracts .

16. The new Law on Public Procurement (LOPP) is a significant update to the 2005 Law on Public Procurement.[12] The LOPP aims to enhance competition and transparency in tendering, and to strengthen the monitoring of non-compliance. More significantly, the LOPP includes provisions on the selection of investors for public-private partnerships ("PPPs"). Previously, the LOPP only applied to the selection of contractors for projects that had at least 30% state investment. As the level of state investment is frequently not clear at the tendering stage, there was often confusion on the rules relating to the selection of investors for PPPs. The LOPP now clarifies that it will apply to all PPPs. The LOPP is intended to complement other key PPP legislation.

17. **Accounting and Reporting.** Budget classification is consistent with GFS 1986 and broadly consistent with Classification of the Functions of Government (COFOG), and is used for accounting and reporting.[13] But the system is not consistently applied in all the stages of budget preparation, allocation, execution and final account presentation. A unified Chart of Accounts (COA) is applicable throughout the government for treasury and budget management. The COA provides for information to be recorded about the economic, functional, source (e.g. administrative unit), and program characteristics of each transaction in a way that is consistent with Government Finance Statistics (GFS)/COFOG.[14] National accounting standards are currently used for reporting purposes, but are not consistent with International Public Sector Accounting Standards (IPSAS). MOF is examining the implications of adopting IPSAS, and is

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[11] MPI's annual survey of procurement in 2010 recognized that single source selection (direct contracting) has often been used in cases where open tendering would have been perfectly possible.

[12] The Procurement Law was revised in 2013.

[13] The system of budget classification in Vietnam allows for four types of classification: by organizations (chapters), by functions (categories and sub-categories), by economic character of State budget revenues and expenditures (groups, sub-groups, items and sub-items), by national programs and projects

[14] The IMF Government Finance Statistics (GFS) is the standard reference source on governments of IMF member countries. Annual data is supplied on revenue income by source (tax, lending, bonds, etc.), and expenditure by sector (defense, education, health, etc.) for all levels of government (national, state, local). The Classification of the Functions of Government (COFOG) was developed by the Organization for Economic Co-operation and Development and published by the United Nations Statistical Division. COFOG has three levels of detail: Divisions, Groups, and Classes. The Divisions could be seen as the broad objectives of government, while the Groups and Classes detail the means by which these broad objectives are achieved.

trying to develop a set of public accounting standards based on IPSAS to facilitate the consolidation of information and the preparation of a balance sheet.

18. There is predictability in the availability of funds to meet committed expenditures. Regulations are in place to institute commitment controls. Central treasury prepares a quarterly cash flow forecast based on experience and on information from spending units. Spending units can commit their full budget allocations at any time during the year. According to PEFA 2013, there have been no recent cases where substantial reductions in approved budgets have been imposed over the course of budget execution without a full discussion in the NA. There is, however, evidence of problems in the management of payments on contracts extending beyond a year, but no sign of payments without proper authorization. In addition, there is evidence of significant amounts still owed to contractors when available budget appropriations were not sufficient to cover the actual percentage completion.

19. **Treasury and Budget Management Information System (TABMIS).** The system has been utilized since 2013. It is a large, financial management information system that covers budget management (revenue and expenditure), cash management, payment authorization and reporting, together with an expenditure commitment control function and TABMIS. It has more than 1,500 access points in treasury system, down to district level. At present, there are 10,000 estimated end-users recording budget transactions, and generating data management and reporting to different management levels. The system has been designed with an open source code that will easily support updates to reflect the adoption of new Laws (State Budget Law and the Law on Organization of local government). TABMIS has modernized the state treasury and budget management functions in Viet Nam and has improved budget execution.

20. **Budget execution statement.** A consolidated budget execution statement is prepared annually, covering revenue and expenditure at all levels of government including borrowing and debt service. According to the 2013 PEFA assessment, not all revenue of service delivery is fully reported, and the annual financial statements remain significantly incomplete in their quality and timeliness. For example, unreported government operations from extra-budgetary funds approaches 8% of the total budget expenditure due to the omission of information regarding financial assets and the treatment of expenditure carried over from the previous financial year. These issues create challenges when attempting to interpret statements. In addition, there is a delay in submission of the budget execution statements to audit, and the budget execution report submitted to the NA does not provide consistent information covering expenditures carried forward from the previous year and expenditures funded from the current year’s appropriations.

21. **Progress in establishing an internal audit function is modest.** As a measure of the government’s oversight of budget execution and internal controls, a fully effective internal audit (IA) function has not yet been established. Separate IA’s has been established in MOF, the Ministry of Defense and SBV. A relatively small number of IA reports have so far been issued by the three pilot ministries. MOF ‘s Internal Finance & Planning Department has established an IA unit, and the internal audit/inspection services of some Ministries have begun to do work which has some of the character of IA. Responsibility for supervision and coordination of IA work among agencies across the government has not been decided, and reports have gone only to the concerned ministries. Currently, the State Audit Agency (SAV) is finalizing a draft Decree on internal audit, which will set out how IA should be established in all Ministries, agencies and provinces with submission or reports to the NA.

22. **State Audit Agency (SAV) continues to progress.** Established under the 2005 Audit Law, SAV performs a wide range of audit work in accordance with international (INTOSAI) standards and reports to the NA. Its staff numbers have doubled over the last four years, and SAV now has some 1,600 staff working in 8 departments at its headquarters and in 13 offices in the provinces. An overall report is produced covering the execution of the consolidated state budget[15]. SAV's report on budget execution is published once it has been approved by the NA; elements of its other reports may be published a month after delivery to the NA if SAV so decides. In addition, reports are produced covering individual entities or particular topics, but resource limitations restrict the annual coverage of its audit to not much more than 60% of central government departments and 50% of sub-national governments. The NA has approved a development plan for the SAV for the period 2011-2020, which will provide for an increase in staff from the present 1600 to 3500. This will make it possible for SAV to audit all Ministries, provinces and SOEs every year (instead of the 50-60% coverage currently achieved), as well as extending its work on performance audits.

23. **NA's scrutiny extends to all aspects of fiscal policy.** The NA's rules and procedures are well-established and respected in practice. However, NA has less than two months to complete its scrutiny of Budget proposals. The NA Committee considers reports on budget execution prepared by the SAV without delay, and its Committee uses SAV reports as basis for enquiries in its supervisory visits to Ministries and provinces. NA endorses SAV recommendations in detail in its resolution on budget execution. MOF tracks the implementation of SAV recommendations. NA also exercises oversight of aggregate fiscal risk from other public sector entities. Reporting obligations of State-Owned Enterprises (SOEs) have been strengthened, and reports are now made to the NA about the fiscal risks arising from the capital structures and economic performance of different SOEs.

E. Development Partners Support

The ADB, International Monetary Fund (IMF), Japan International cooperation Agency (JICA), the European Union (EU), the World Bank (WB) and other development partners are involved in several initiatives to modernize the policies, institutional structures and PFM systems in Viet Nam. Development partners participate in regular meetings of the PFM Partnership Group which provides an important platform for continuous dialogue with the government agencies. Over the years, the World Bank has provided support to MOF to strengthen budget planning, execution, reporting and accountability.[16] The Treasury and Budget Management Information System (TABMIS), in particular, is the centerpiece of the World Bank's support. The system has already provided substantial benefits to the government through improved accuracy, timeliness, and transparency in budget execution and reporting at each level of government. GIZ has been providing support to MOF since the development of SBL 2002, and is providing key support to the revision of SBL this year. Ongoing amendments of the SBL 2002 have also been informed by the challenges and lessons from the pilot MTEF and MTFF that the World Bank supported. Amended SBL is expected to introduce multi-year budgeting in Viet Nam. The World Bank's support to the implementation of the Debt Management and Financial Analysis System (DMFAS) and a number of associated technical assistance activities have strengthened the

[15] The SAV report on each year's budget execution has been submitted to the NA within three months of its receipt of the budget execution statements from the Government.

[16] The World Bank has recently closed an Investment credit that supported the introduction of a modern treasury and budget management information system (TABMIS), and a large multi-donor trust finds for PFM reform. It also has an investment loan for tax administration modernization.

institutional arrangements, systems, and capacity for the management of public debt and the monitoring of fiscal risks arising out of the SOEs.

24. An annual Debt Sustainability Assessment is prepared jointly by the World Bank, IMF and the ADB. The World Bank and IMF provide policy advice on tax reforms and in the development and timely dissemination of reliable economic and financial statistics. JICA is active in supporting capacity development in the area of macro-economic stability, SOE reform, and project/program management, among others. The MOF is currently working with the World Bank and other development partners on a public expenditure review in five sectors (Education, Health, Agriculture, Science and technology and Transport) at the national level and provincial level (Lao Cai, Hai Phong, Quang Nam, Hochiminh City and Can Tho). A financing agreement has been signed for a planned EU public finance modernization program. This program is expected to contribute to improved management and oversight of public finance by building the organizational and operational capacity of key institutions such as the MOF and SAV. Under the project, a twinning like arrangement will be established with European State Audit Institutions. This effort is expected to make a significant contribution to improving the accountability, reporting, transparency and oversight of public financial management activities.

F. Conclusion and the Way Forward

25. **Significant progress has been achieved.** State budget spending has increased from 20% of GDP some fifteen years ago to just under 30% in more recent years. This increase has contributed to Viet Nam's economic development by providing critical infrastructure and enabling greater spending to benefit the poor. In poorer regions, where development needs and service delivery costs are high, state budget policies have enabled up to seven times more public spending per person than in richer regions. When the economy was overheating in 2011–2012, state budget polices reduced government spending as a share of GDP but maintained critical spending on health, education, and social protection. There are clear accounting and reporting rules and regular independent auditing to validate the quality of government accounts. The general public has full access to key fiscal information and adherence to the budget calendar is noted. Fiscal decentralization policies have brought spending decisions closer to people providing more opportunity to reflect choices and preferences in budget allocations.

26. **Challenges remain.** Remaining challenges should be evaluated in the proper perspective as just over a decade ago the entire budget was considered a state secret. In budget preparation, the most critical issue is the need to fully integrate recurrent and capital spending and to ensure that annual expenditure planning is performed within the context of medium-term resource constraints. A lack of alignment between plans and budgets continues. MOF does not yet have a central role in budgeting as investment budget priorities are set by the MPI. Flexibility accorded to the executive to change budget appropriations approved by the legislature undermine budget credibility. The approved budget, while fairly comprehensive, does not present information for all programs and uses terminology and definitions which are not consistent with international practice. Fiscal risks and reporting on public debt is not disclosed. There is no consolidated reporting of extra-budgetary activities, which is crucially important to assess the overall fiscal situation of the government. Final accounts are typically delayed, and audit reports are published by SAV with a significant time lag. There is no public reporting mechanism to track the actions by the executive to address the audit findings and recommendations in the audit report. Viet Nam scores poorly in fiscal transparency having an extremely low Open Budget Index (OBI). In 2012 Viet Nam's OBI ranked 19 out 100 (19%)

which is lower than the minimum required level of 20%. Information on interim, intra-year budget and financial activities is very limited relative to international standards.[17]

27. **Local government finance should be strengthened.** The system of targeted transfers should be reoriented from an input driven approach to a more performance-based one. Expenditure performance of local authorities should be monitored with greater accuracy as local spending plans lack credibility when compared to actual outturns. This is especially true in the case of capital spending, which is often more than 50% of what was budgeted and well above the stipulated guidelines of maintaining spending within 5% of budget. Incremental measures to grant some autonomy to local authorizes on revenue policy decisions is needed as they have little to no autonomy over revenue policy and administration. A review of the debt ceiling for rich provinces would promote increased investments in high growth potential areas.[18]

28. **Capacity of oversight institutions is limited.** Independent scrutiny of PFM has increased, with both the NA and the State Audit of Viet Nam (SAV) playing a more lead role in the examination and oversight of the state budget. The capacity of these institutions, however, remains inadequate. Legislative oversight needs further strengthening as the over compressed budget review period constrains effective scrutiny within the time lines of the budget calendar.

29. **Recent studies highlight a number of reforms that could help Viet Nam.** Reforms are necessary to further modernize the budget system and enable it to meet the development challenges of Middle-Income country. Viet Nam's achievements hitherto provide an important foundation to address ongoing constraints to streamline the PFM systems. The Financial Development Strategy towards 2020 has identified key directions for public financial management reform in Viet Nam, including fiscal decentralization. A new Budget Law is being drafted and expected to be enacted in 2014 and come into force in 2016.

30. **MOF is pursuing a progressive agenda for reforms.** The revised Budget Law is expected to introduce a medium-term fiscal and expenditure framework, reform budget planning toward output and program-based budget elaboration, and adjust the budget structure and coverage to be more in line with international norms. The draft law is expected to further clarify the roles and responsibilities, definitions and classifications (e.g. debt, revenue, expenditure), and the content of fiscal and financial reports, and includes a requirement to have a consistent presentation applicable to all stages of the budget process. The revised Budget Law will also include provisions to improve community oversight of the state budget and provide for frequent reporting on implementation as well as an evaluation of effectiveness in public spending by line ministries and relevant agencies.

[17] Vietnam's score on the 2012 Open Budget Index is 19% (up from 14% in 2010 and 9% in 2008). Vietnam's score is lower than that of any of the other countries surveyed in South East Asia, with the exception of Cambodia. The OBI score has increased from 3% in 2006 to 19% in 2012, largely due to the publication of the in-year reports and audit reports. Following approval by the National Assembly, the annual budget plan is now published on the Ministry of Finance website prior to the start of the fiscal year. Quarterly estimated budget execution reports are also posted on the website within a month of the end of each quarter, and a provisional annual budget execution report appears within a month of the end of year.

[18] Please refer to footnote 10.