VIETNAM
Toward Fiscal Transparency

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ABBREVIATIONS

FEO   Fiscal and economic outlook
FMIS  Financial Management Information System
GFS   Government Financial Statistics
MOF   Ministry of Finance
PFI   Public financial institutions
QFAs  Quasi-fiscal activities
SAV   State Audit of Vietnam
SBVN  State Bank of Vietnam
SOEs  State-owned enterprises
A joint IMF-World Bank mission visited Hanoi from September 1-11, 1998 at the request of Mr. Nguyen Sinh Hung, the Minister of Finance to advise on measures that could be taken to improve the transparency of fiscal data and budget presentation. The mission met with Mr. Tran Xuan Gia, the Minister of Planning and Investment, Mr. Tran Van Ta, Vice Minister of Finance, Mr. Do Hoang Anh Tuan, Deputy Director of Budget Department and a number of other senior and technical officials. The mission wishes to express its appreciation for all the arrangements made for the meetings and the seminar on fiscal transparency, and the open discussion of all issues during the visit.

The report of the mission, “Vietnam: Toward Fiscal Transparency,” presenting the mission’s findings and recommendations, was published in February 1999 and sent to the Government for restricted distribution. This report is a revised version of the earlier one, incorporating the changes proposed by the Government and the changes are shown in Annex 5. The Government has authorized wider dissemination of this report during the mid-term review of donors on June 14-15, 1999.

Since the September mission, the authorities have taken the following steps to enhance fiscal transparency in Vietnam:

- Published 1997 final accounts and the 1999 budget plan by the General Statistical Office (GSO) on June 4, 1999, in the form of a booklet that is freely available. This booklet contains information on total, investment and recurrent expenditure for the state and for each of the 61 provinces, on recurrent expenditure in education and in health for the state and for each of the 61 provinces, and on expenditures in each of the 116 agencies including ministries and mass organizations;
- Posted budgets by communes outside commune offices;
- Provided fiscal information to international organizations and donors in a GFS-consistent format as well as to all relevant government agencies;
- Improved fiscal management by requiring improved accounting of foreign grants and clarification of roles in management of external debt and in debt monitoring;
- Clarified processes for managing fees, charges and revenues raised and spent by spending agencies.

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5 Issued Decision 225/1998/QD-TTg (Nov. 20, 1998) on fiscal publication for various state budgetary levels, spending units, state owned enterprises, and funds contributed by people; Circular No. 188/1998/TT-BTC (Dec. 30, 1998) to guide the publication of the national and provincial budget; and Circular 29/1999/TT-BTC (Mar. 19, 1999) guiding the implementation of fiscal transparency with regard to funds contributed by people.

6 Issued Decision 225/1998/QD-TTg (Nov. 20, 1998) on fiscal publication for various state budgetary levels, spending units, state owned enterprises, and funds contributed by people; Decision 1581/1998/QD/BTC (Nov. 11, 1998) to guide the provision of fiscal data to external agencies.

7 Issued Decree 90/1998/ND-CP (Nov. 7, 1998) to clarify roles of government agencies in external debt management and in debt monitoring, and Circular 22/1999/TT-BTC (Feb. 19, 1999) to ensure that all foreign grants are accounted in the state budget according to the budget classification.

8 Issued Decree 04/1999/ND-CP (Jan. 30, 1999) to manage fees and charges under state budget, and Circular 54/1999/TT-BTC (May 5, 1999) to guide implementation of Decree 04.
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EXECUTIVE SUMMARY

Introduction

The overall purpose of the mission was to promote fiscal transparency in Vietnam. The Minister of Finance had specifically requested advice on modes of distribution and dissemination of budget data and the levels of detail of budget information that could be provided at different levels of government, and for information on publication practices in other parts of the World. To provide advice of most relevance to Vietnam in this area, the mission first reviewed recent progress in implementing improvements in areas of fiscal management relevant to transparency, particularly where significant technical assistance had been provided. It also presented, at a seminar for senior officials on September 7, 1998, material on international developments in transparency, covering the Code of Good Practices on Fiscal Transparency--Declaration on Principles adopted by the Interim Committee of the Board of Governors of the IMF in April 1998 (henceforth referred to as the Fiscal Transparency Code, or, in some cases, simply as the Code), and experience on various aspects of fiscal transparency from different countries, including a detailed presentation of practices in Malaysia.

Increasingly, domestic and external market participants and international agencies will demand transparency in fiscal and financial operations as a basis for investment or lending. Development of an explicit action plan to attain reasonable standards of fiscal transparency should thus play an important role in Vietnam’s modernization strategy.

Vietnam, like a number of other economies in transition, falls short in most requirements of fiscal transparency advocated to meet the Fiscal Transparency Code minimum standard. However, Vietnam has made good progress in implementing fiscal management reforms of relevance to a number of important aspects of transparency. In particular, the implementation of the 1996 Law on The State Budget and the revised budget classification have led to significant improvements in the capacity of the government to produce reasonably comprehensive, timely, and analytical fiscal reports. Progress has also been made recently in establishing more stable intergovernmental fiscal relationships, though much remains to be done in this area. Given this recent progress and the commitment to improve transparency, as embodied in Article 3 of the Law on State Budget and Article 4 of Decree 38/1998/ND-CP, a good basis has thus been established for improvements in critical areas of fiscal transparency.

This report identifies feasible near and medium-term measures that could be introduced to improve fiscal transparency. It will be difficult to achieve all of the requirements of the minimum standard of transparency in Vietnam over the next five years. The approach that has been taken, therefore, is to focus initially on a critical subset of these requirements. Even within this subset, it is necessary to identify a series of steps that are compatible with the Vietnamese current environment, but which should lead to a more extensive achievement of fiscal transparency over the longer term.

Annex 1 gives the full text of the Fiscal Transparency Code, and a listing of requirements from the draft Manual of Fiscal Transparency (henceforth, the Manual) to achieve a minimum standard of fiscal transparency (website: http://www.imf.org/fiscal). These requirements provide the basis for a set of medium-term targets for developing an action plan to improve transparency in Vietnam.
Main Recommendations

The mission has been impressed by the recent improvements introduced to fiscal management and the commitment to further moves toward greater fiscal transparency and has a number of recommendations that are aimed at building on this progress. The mission’s recommendations fall into three areas: immediate priorities; a medium-term action plan aimed at achieving compliance with the minimum standard proposed by the Manual; and specific recommendations on the proposed Bank-financed project for modernization of the Ministry of Finance (MOF). Although both the immediate priorities and the recommendations on the MOF modernization project are presented separately from the medium-term action plan, they are also important elements of that plan.

Immediate Priorities

Two actions of the government that represent a significant commitment to fiscal transparency are:

- public dissemination of the budget and final accounts with the presentation of the 1999 budget; and
- making analytical fiscal reports available to external agencies.

High level policy and legislative clearance has been given to proceed in both areas. Subsequent to the mission’s visit, regulations were prepared to allow dissemination of information from the 1999 budget and 1997 final accounts--generally within 30-60 days of their approval by the National Assembly. The current proposals, partly for technical reasons, are to promulgate mainly aggregate budget information at various levels and through carefully designated channels. These actions, while a welcome step forward, do not provide enough information to allow a clear examination of the Government’s fiscal position. The proposals cover only very limited and aggregate data on the budget and accounts and it does not appear that the published material will include a fiscal and economic outlook (FEO) paper to explain the economic background, and the projections and assumptions underlying fiscal policy. According to Regulation 158, the authorities will make aggregate information on the fiscal position in a GFS-consistent format available to external agencies (such as the IMF, the World Bank, the Asian Development Bank, and bilateral donors) from December, 1998. Quarterly information is to be made available to such agencies within 30 days from the end of the quarter, annual budget estimates by the first quarter of the budget year, and annual accounts 30 days after approval by the National Assembly.

These actions represent a significant move away from the previous practice of treating budget and accounts information as State secrets. In terms of achieving international standards of fiscal transparency, however, these are preliminary steps. To achieve a reasonable level of fiscal transparency, as well as to consolidate progress made so far, it is essential that the 1998 regulations be followed up by a more comprehensive reform of

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current practices along the lines described below in the proposed medium-term action plan and MOF modernization program.

A Medium-Term Action Plan to Improve Fiscal Transparency

A broad commitment by the Government to fulfill the requirements for the Fiscal Transparency Code minimum standard by around FY 2003 is recommended by the mission as an anchor for plans to improve the fiscal management system. Many of these requirements, however, cannot easily be met in the near future. A high priority should therefore be given to initiating work on a strategic subset of requirements. As discussed in detail in the next chapter, it is suggested that the initial emphasis should be on introducing stepwise improvements to budget and accounts data and presentation. Key elements that need to be given emphasis in the initial phase of the action plan are listed below. Target dates are given as suggestions and would be reviewed in the light of examining specific proposals to improve the fiscal management system.

- The budget and accounts presentation should be developed in accordance with the general international practices listed in Chapter 2 of this report. The FY 2000 budget should be presented along these lines and progressive improvements introduced over the action plan period. Particular emphasis should be given to ensuring comprehensive coverage of all public funds in published State budget and accounts documents.

- During 1999, a presentation format should be developed with a view to incorporating an FEO statement in the FY 2000 budget. It should incorporate detailed analysis of macroeconomic and sectoral policies (including sectoral public expenditures) and an assessment of the sustainability of fiscal policy, with clear analytical links to the budget estimates.

- Reporting to MOF on contingent liabilities and development by MOF of a fiscal risk statement with the annual budget should be initiated in 1999 and an initial statement produced for the FY 2000 budget.

- Reporting by public enterprises should be improved with a view to identifying, reporting, and/or phasing out quasi-fiscal activities (principally noncommercial support of enterprises through the banking sector). A public enterprise report should be included with the FY 2001 budget publication.

- The administrative classification of the budget should be deepened so that total spending by second and third tiers of government agencies can be easily identified at national level. As well as providing clearer accountability, this is a necessary step toward the introduction of a GFS-consistent functional classification. These classifications should be in place for the FY 2000 budget.

- Accounting policies and procedures should be reviewed during 1999 (see also comments on modernization of the MOF) and a statement of current accounting policies (that is, those used for 1998 budget and accounts) should be included in the presentation of the 1998 final accounts.
Other elements of the action plan, such as establishing a clear distribution of tax powers and expenditure responsibilities among different levels of government and development of the role of the State Audit of Vietnam (SAV) will require sustained effort over the entire period of the action plan to fulfill minimum standard requirements. The mission suggests that a full review of fiscal transparency in Vietnam vis-a-vis the minimum standard be carried out after one or two years of implementation of the action plan, possibly in association with IMF Article IV consultations.

**Modernization of the MOF**

Development of an integrated financial management information system and improved government accounting are very important steps toward improving both fiscal transparency and the effectiveness of fiscal management in Vietnam. Continuing work in this development should be a high priority in the medium-term action plan on fiscal transparency. However, because substantial amount of preparatory work has already been completed for a possible Bank-financed project for modernizing the MOF, separate recommendations are made on this aspect. The mission’s recommendations in this area are as follows:

- The Treasury should be designated as the department responsible for maintaining comprehensive central accounts and managing the Financial Management Information System (FMIS) for the Government.

- The coverage of the Treasury accounting operations should be extended to include the special accounts of spending ministries and the integration of aid transactions into government financial reports. Appropriate legal action would have to be taken, for instance, to give the Treasury the authority to process payments and maintain accounting records on departmental special accounts. Information flows to the Treasury concerning donor account transactions should be improved.

- A study of current accounting practices by spending ministries and departments should be undertaken as soon as possible to determine the appropriate basis to be used for government accounting in Vietnam both in the near future and longer term.  

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11 This term is used, with reference to domestic spending, to describe arrangements whereby fees and charges collected by spending units are retained by them and used directly for spending on goods and services. It is also used more generally to cover arrangements for externally financed projects, whereby external funds for aid or loan-funded projects are held in commercial accounts outside the Treasury and expenditure is made directly against these accounts. See discussion in Chapter 3.

12 Recent work by Bank-financed consultants has proposed an ambitious project aimed at providing “state of the art” information technology and a full accrual basis government accounting system. While certain elements of this work are useful, it is the mission’s view that, overall, these recommendations do not address the immediate needs of Vietnam and a substantially modified approach needs to be taken. In particular, the process of institutional change with a clear objective of improving fiscal transparency should take precedence over an information technology (IT) dominated approach. IT will, of course, play an important role in modernizing MOF systems, but user departments should be involved more fully in system development and system elements need to be phased with and preceded by key institutional changes.
Decisions on these matters will very strongly influence the configuration of the Government accounting system and FMIS. For future development of this project, the mission recommends that the system be designed in terms of two distinct, but closely linked elements: treasury and central FMIS development; and the government accounting system development and integration. Any work in this area should be done in close consultation with the French team, who have provided technical assistance and training, specifically directed toward improving the existing treasury operations. Major hardware and software purchase should be deferred until after institutional review and redesign of specifications—though some development tools and minor hardware acquisition to assist in system design and preliminary prototyping could be included in an early phase of the project.

Technical Assistance

As discussed between the authorities and the mission in September, the FAD provided technical assistance in November 1998 for a review of the budget classification system. Another FAD technical assistance mission in November led by Mr Sunley,13 reviewed TA needs to improve public expenditure management as part of a broader review of fiscal TA. A Bank mission also reviewed the debt recording system in November 1998. Further technical assistance from the Fund, Bank, or bilateral sources, as indicated, would be required to help the authorities in some aspects of implementing the above recommendations.

In summary, the main TA requirements are as follows:

(a) Assistance to develop the budget and accounts presentation, the FEO, and other ancillary papers accompanying the budget. Areas covered should include the following:

- Format and presentation of government budget and final accounts
- Format and underlying methodology of the macroeconomic framework and medium-term economic and fiscal forecasts
- Presentation of aggregate fiscal policy objectives
- Presentation of sectoral policies and objectives
- Review and analysis of sectoral public expenditures
- Methodology and modalities of reporting on contingent liabilities and quasi-fiscal activities (QFAs)
- Debt reporting

(b) Preparatory review and design of both treasury and accounting components of the MOF modernization project. The se studies should encompass revision of accounting regulations and internal control procedures and the legal, administrative and technical requirements (including hardware and software needs) for defining a new accounting system and developing specifications to establish an integrated Treasury FMIS.

13 See Mr. Sunley’s report entitled “Vietnam: Selected Tax and Fiscal Issues and Possible Areas for Technical Assistance,” January 1999. Immediate needs for TA for the treasury system were also endorsed by the Sunley mission.
Structure of the Report

The following Chapters provide a more detailed analysis of the mission’s recommendations. Chapter 1 provides a general outline of the basis for standard setting in this area proposed under the IMF Fiscal Transparency Code and the specific application of the Code to Vietnam. Detailed application of the Fiscal Transparency Code in Vietnam to budget preparation and publication is described in Chapter 2; and the application to budget execution, accounting, and fiscal reporting in Chapter 3. Chapter 4 deals with intergovernmental aspects of transparency in the context of a more general discussion of intergovernmental financial relations--an area of work in which the Bank has a continuing involvement. In addition to Annexes 1 and 2 described above, Annex 3 describes fiscal management practices and transparency in Malaysia--giving reference also to similar practices in other countries. Annex 4, provides tables summarizing the present allocation of responsibilities for revenue raising and public expenditures among the different levels of government in Vietnam.
1. THE INTERNATIONAL CONTEXT
AND THE IMF FISCAL TRANSPARENCY CODE

Before discussing the specific issues of improving fiscal transparency in Vietnam, this Chapter provides a general explanation of the IMF’s Fiscal Transparency Code and the steps being taken to encourage its implementation in all Fund member countries. As well as the specific issues faced in implementing such a Code in Vietnam, this introductory section examines some general implementation difficulties faced by economies in transition.

The Fiscal Transparency Code

The Fiscal Transparency Code was developed by the IMF and adopted by the Interim Committee in response to a widespread concern with good governance as an essential basis for sustainable international financial relations. The Code is based on four general principles:

- **Clarity of roles and responsibilities:** A clear definition of government and boundaries (a) between government and other sectors, (b) within government, between fiscal, monetary, and public enterprise activities, and (c) between different levels of government, provides a foundation for transparency of fiscal reporting and accountability of organizations.

- **Public availability of information:** This principle emphasizes the need for information to be comprehensive, that is to cover all of the fiscal activities undertaken by government agencies—even if some fiscal activities are undertaken by banking or enterprise agencies and are conducted outside the formal budget process. It also emphasizes the need for the government to make a formal commitment to publish fiscal information according to an announced timetable.

- **Open budget preparation, execution, and reporting:** This principle encompasses traditional standards relating to the coverage, accessibility, and integrity of fiscal information in the annual budget and accounting processes of government. It places an emphasis on moving toward adoption of international standards in fiscal reporting and development of comprehensive reliable accounting systems.

- **Independent assurances of integrity:** This principle emphasizes the necessity for institutional arrangements that provide some guarantee of the quality and reliability of data and procedures and of compliance with legal and administrative rules.

The basic concern of the four principles is to establish a comprehensive and clearly defined fiscal management framework that provides assurances, first, that adequate information is available on all aspects of the formal budget process, and, second, that

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14 These are described technically as quasi-fiscal activities (QFAs), which are defined as activities (under the direction of government) of central banks or other public financial or nonfinancial institutions outside general government that are fiscal in character— that is, in principle, they can be duplicated by specific fiscal measures, such as taxes, subsidies or other direct expenditures, even though precise quantification can in some cases be very difficult. Examples include noncommercial or directed bank credit to public enterprises, or noncommercial public services provided by an enterprise through cross-subsidization.
the budget process is not weakened or made irrelevant by extensive use of nonbudget measures nontransparently to achieve fiscal goals. The first three general principles are concerned primarily with governmental reporting and management processes to satisfy these requirements; the fourth principle seeks a fundamental assurance of the reliability of data and procedures by explicit institutional arrangements for external and independent review of critical aspects of fiscal data. The Code principles are thus intended to be observed as a whole, though it is acknowledged that many countries will not be able to implement all of the good practices listed under each principle.

The Code goes on to define specific principles under each of the general principles and, under each specific principle, a set of good practices that represent a standard that it is expected most countries would seek to meet. As noted, the draft Manual, which sets out these principles and practices in more detail and provides guidance on their implementation, is now available on the internet to all member countries to help promote these standards of fiscal transparency as widely as possible.

The Code is to be implemented on a voluntary basis. Countries have no formal obligation to meet the standards proposed. The main incentives for meeting these standards are, first, the authorities’ need to improve the effectiveness of decision-making within the country, and, second, the expectations by lenders and financial markets that countries should be seen to observe these principles. The Manual describes each of the principles and practices in further detail to assist countries adopt good practices in line with their priorities and administrative capacities. A number of countries already meet most of the requirements advocated by the Code, but the majority of countries will need considerable time to achieve an adequate standard in many aspects of transparency. There may also be a need for technical assistance to support individual country efforts.

Diversity among Countries and “Minimum” Code Standards

Diversity in country backgrounds and capacity constraints limiting the rate of improvement in fiscal management improvement are clearly recognized in both the Code and the Draft Manual. In order to move toward implementing the Code, countries that are a long way from meeting the overall standards will need to set priorities among the range of Code good practices, while retaining the central emphasis of the general Code principles.

The Manual cannot set detailed guidelines for priority setting suited to all countries. It does, however, identify a subset from the overall list of good practices of fiscal transparency as a minimum standard that all countries should aspire to meet. The minimum standard focuses particularly on governments’ capacities for comprehensive reporting on fiscal activity, including those conducted outside the formal budget process.

The underlying rationale is very straightforward. Comprehensive, reliable, and timely government reports on budget and offbudget fiscal activity are a fundamental requirement for assessing a country’s fiscal policies and the merits of its borrowing or external assistance requests. National governments, no less than corporations, should be expected to meet stringent criteria for reliable reporting if they are to attract international funds and minimize risk premium payments on borrowing or investment.
Domestic investors and businesses are also sensitive to uncertainty about fiscal policy. Making better quality information widely available domestically as well as internationally should improve the climate for investment and growth.

The standard proposed aims for complete acceptance of the general principles of the Code. The elements of the standard are “minimum” in the sense that they identify critical areas of good practice under each general principle and accept that a number of countries will not be able to achieve a high technical standard on a number of the other requirements proposed by the Manual.

Some Issues for Economies in Transition

It is not suggested that the requirements to meet the minimum standard can be attained quickly. There are many technical and political challenges, particularly among economies in transition to a market oriented economy. It takes time to change institutional structures. Public access to information may not be given the same degree of emphasis in some transition economies as that prevailing in advanced market economies.

Although not part of the Manual, it is useful therefore, in the situation being faced in Vietnam, to distinguish three levels of transparency, differing in the degree to which full public access to data is attained: internal (or management) transparency; external agency transparency; and public transparency. *It is emphasized however that, even at the level of the minimum standard, full public access to information is a necessary condition to fulfill the Code requirements.* Of the three levels described, only the third fulfills minimum standard requirements. The first and second levels do not, but they represent important steps toward this end. Attainment of these lower level targets can confer significant management benefits, but the full benefits will be realized only when the minimum standard is achieved.

*Internal transparency* means that timely and comprehensive information on fiscal activity is available to the key decision-makers of executive government to allow a rational assessment of fiscal activity and a clear assignation of fiscal responsibilities. Attaining such a level of transparency has obvious benefits: allowing decision-makers an overview of fiscal choices and tracking performance over time. In one area of fiscal transparency, Vietnam, because of its successful implementation of the revised budget classification, can attain a good standard of practice in internal fiscal reporting in the near future if it improves its Treasury coverage (see later discussion).

The bulk of the direct costs of fiscal management system improvement are incurred in setting up good internal information and control systems; subsequent information dissemination costs are relatively minor. Internal transparency does not, however, provide adequate safeguards for fiscal decision-making--and, for this reason, does not satisfy Code requirements. Achieving transparency *only* for internal decision-makers may give rise to major future costs to the economy because there is no systematic independent crosscheck on reliability of information on which decisions are based or on fiscal outcomes. The risks are potentially high of policies being seriously out of line with economic reality and public needs as well as for misallocation and misappropriation of public funds. Limiting information availability outside government
also gives rise to unnecessary uncertainty among private investors over the current and prospective fiscal position.

**External agency transparency**, meaning that critical fiscal information is made available to external financing agencies, will help avoid some of these risks at comparatively little cost. Even this, however, falls short of Code requirements. Ultimately, the capacity of these organizations to check the reliability of fiscal information is limited and the disparate agendas of such organizations is not likely to lead to an efficient way of ensuring overall reliability of the fiscal information system--unless international efforts are expressly directed to this end. Transparency at this level is not a good substitute for domestic and public accountability mechanisms--and it does not reduce the uncertainty faced by market participants. Overreliance on external agency oversight can also run the risk of neglecting the development of systematic internal management information systems.

**Public transparency**, which is fully consistent with the Code standard, requires that the general public and independent national business and nongovernment entities as well as international and bilateral agencies are given full access to fiscal policy and performance data. This level of transparency provides the best overall assurance that the data is reliable, that public policies provide what people want, and that financial propriety is observed. Again, once the basic information system is in place, such assurance can be provided at relatively little additional cost. Observation of the fourth principle of the Code may involve additional costs for strengthening audit and statistical agencies. Such costs should, however, be more than outweighed by the greater assurance of reliable data and the benefits that would flow from this assurance in domestic business and international capital markets.

Public transparency may be seen to involve an additional “cost” in the sense that when policies and performance are widely known, they are open to better informed debate of public policies. Though some decision-makers will be uncomfortable with such a level of scrutiny, well conceived policies should be able to withstand such scrutiny--and weak policy proposals can more easily be dropped if they are subject to close examination and wider debate.

**Fiscal Transparency in Vietnam: Main Issues**

The mission did not attempt a comprehensive assessment of all aspects of fiscal transparency in Vietnam.\(^{16}\) It is apparent that, at present, Vietnam does not meet many of the minimum standards of fiscal transparency proposed under the Fiscal Transparency Code. However, several things indicate the likelihood of future improvements in transparency: the authorities have taken initial steps to improve public access to fiscal information; the capacity of the system to produce timely and reliable information has improved and can be further enhanced; and there are significant fiscal management benefits to be gained from improved fiscal transparency--as well as the

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\(^{15}\) As described in the Executive Summary, the term covers such organizations as the IMF, World Bank, Asian Development Bank and other multilateral or bilateral lending or donor agencies.

\(^{16}\) A questionnaire covering all elements of the Fiscal Transparency Code has been prepared and is available through the internet address noted previously along with the Draft Manual on Fiscal Transparency. This questionnaire will provide a basis for a full self-assessment of the Vietnamese system against every element of the Code.
wider economic benefits that may accrue as Vietnam’s improved capacity becomes more widely known to the international financial community. The steps that the authorities have taken to improve fiscal transparency through publication of aggregate budget and other public fund information are summarized in Annex 2.

The mission recommends that the authorities undertake a full assessment of fiscal transparency after say two years of implementation of an action plan to continue improving key aspects of transparency. Such an assessment could be done in conjunction with IMF Article IV consultations. It is worthwhile, however, now briefly reviewing fiscal transparency in Vietnam in relation to key minimum standards of fiscal transparency under each general principle.

**I - Clarity of roles and responsibilities:** A key requirement of the minimum standard in this area of the Code is that an internationally accepted definition of general government should be used in identifying the relationships between government and other sectors and within government. This requirement is an essential conceptual basis for clear delineation of responsibilities for fiscal activity, and is fundamental to implementation of all of the Code principles and practices. The other requirements proposed under this principle amplify further the areas that all countries must consider in defining the nature and boundary of government fiscal activity: the budget process to include so-called “extrabudgetary” activities; government equity holdings to be identified; QFAs to be identified; and that there be a satisfactory legal and administrative framework for budgeting and taxation.

In relation to this standard, Vietnam has expressed the intention of submitting data for a Vietnam page in the Government Finance Statistics Yearbook and is, thereby, moving toward greater clarity in defining general government as defined in the GFS Manual.17 A basic framework of budgetary and tax law is also in place—though improvements can be introduced in each area over time. It does not meet the minimum standards in most other respects: special accounts are not yet fully integrated into the budget and accounting processes; the relationship between government departments and associated public enterprises needs clarification; the status of other public funds (Annex 2, part 4) needs to be clarified; and there is no systematic identification of QFAs, though directed lending by the banking sector is widely practiced.

**II - Public availability of information:** The minimum standard requires that the budget should be comprehensive and that countries should identify and report on fiscal activities conducted outside the annual budget appropriation and accounting processes, such as QFAs, tax expenditures,18 and contingent liabilities. These requirements follow logically from the minimum standards under General Principle I of the Code, but may seem somewhat contentious as minimum standards—such reporting is being practiced by a few of the more advanced economies, but may be seen as being out of reach of many

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17 The authorities have indicated that technical assistance would be needed for this purpose, but as yet have not submitted a formal request.

18 Tax expenditures are concessions or exemptions from a “normal” tax structure that reduce government revenue collection and, because the government policy objectives could be achieved alternatively through a subsidy or other direct outlays, the concession is regarded as equivalent to a budget expenditure. Precise definition and estimation of tax expenditures thus require definition of the normal base as well as determination of the most appropriate way of assessing costs (i.e., by revenue foregone or the expenditure required to achieve the policy objective).
countries. As noted earlier, the position of the Code and the Manual, however, is that comprehensive analysis and reporting on all fiscal activity is fundamental to the Code. Indeed, particularly for countries with less well developed fiscal management systems, it is inadequate--and may be counterproductive--to introduce rigorous standards of transparency for formal budget accounts, while continuing nontransparent practices in policies of bank credit, tax exemption, or issuance of guarantees. Technical standards for such reporting, however, will necessarily be somewhat less demanding in developing and transitional economies than in the more advanced economies.

With respect to these standards, it follows from the comment made under General Principle I that Vietnam has made little progress even in terms of internal transparency in systematically reporting on the extent of QFAs, contingent liabilities, or tax expenditures. The Budget Department of the MOF has indicated concern with the level of such activities and also indicated that internal controls are applied on issuance of guarantees. The General Department of State Assets and Capital Management of State Owned Enterprises of the MOF is responsible for administration of issues related to public enterprises, but concerns with fiscal risks related to these activities do not appear to be formally linked to budget decision making.

III - Open budget preparation, execution, and reporting: The proposed minimum standards give central importance to the production of clear budget statements, with a complete and accessible fiscal policy justification, and reliable audited accounting reports. In this sense, the proposed standards are similar to ones that would be applicable to entities in other sectors of the economy. Weaker technical standards are unavoidable in some countries, in part because international accounting standards covering cash and modified cash basis systems are not in place. It is vital, however, that all countries pay close attention to weaknesses in their budget documentation and financial statements, and that international agencies give priority to supporting measures to address such weaknesses.

As noted above, some significant progress is being made in Vietnam in terms of establishing a reasonable standard of fiscal reporting in terms of internal transparency. However, despite progress made recently in implementing the new budget classification and getting reasonably timely reports on actual receipts and spending in an economic classification from the Treasury, external agency reporting remains in the old format. The Law on the State Budget (Article 47) requires statements covering the main elements of fiscal policy to be presented to the National Assembly with the draft State Budget. Based on Decree 38 in fulfillment of a National Assembly Ordinance, and as described in Annex 2, the Government will make some budget and final accounts data available to the public at all levels of government. There are many remaining weaknesses, but virtually full attainment of the minimum standard proposed for this General Principle under the Fiscal Transparency Code appears broadly feasible for Vietnam over the next two years, given the necessary political commitment.

IV - Independent assurances of integrity: As in the full Code, minimum compliance with the need for institutional assurances of data integrity is essential to support the minimum standards set under the other three principles. Without some evidence that independent external audit is taking place, that internationally accepted auditing practices are followed, that there is a mechanism to follow up implementation of audit
recommendations, and that macroeconomic forecasting methodology is open to scrutiny, it would be difficult to make sound judgements about the reliability of fiscal data.

The present institutional arrangements in Vietnam do not adequately fulfill the requirements of the minimum standard under this General Principle of the Code. For instance, the State Audit of Vietnam (SAV) is under the direction of the Prime Minister rather than the legislature. Macroeconomic methods and assumptions are not available for independent scrutiny. Some significant structural changes would be needed for these minimum standards to be met.

A Medium-term Action Plan to Improve Fiscal Transparency

The mission recommends that the Government make a broad commitment to fulfill the requirements for the Fiscal Transparency Code minimum standard by around FY 2003. Such a commitment would serve as an anchor for many ongoing plans to improve the fiscal management system. Many of the requirements of the minimum standard, however, cannot easily be met in the near future. A high priority should therefore be given to initiating work on a strategic subset of requirements during the first two years of the action plan.

It is suggested that the initial emphasis should be on introducing stepwise improvements to budget and accounts data and presentation. Table 1, gives an outline of the proposed actions to fulfill each requirement of the minimum standard. The action plan is divided into two main phases: Phase I should be completed by end-FY 2000 and should result in the achievement of a reasonably high standard budget and accounts presentation (which, it is emphasized, should aim to be fully publicly transparent). Phase 2 should aim for complete achievement of the Code minimum standard by end-FY 2003 and will focus on broader institutional strengthening, particularly in those requirements under General Principle IV of the Code. A comprehensive assessment of fiscal transparency by the authorities in consultation with Fund staff is suggested as an important element to be included toward the end of phase 1—or earlier, depending on progress.

Table 1. Fiscal Transparency: Medium-Term Action Plan

<table>
<thead>
<tr>
<th>Fiscal Transparency Code Minimum Standard Requirement</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phase 1 FY 1999-2000</strong></td>
<td></td>
</tr>
<tr>
<td>General Principles I and II</td>
<td></td>
</tr>
<tr>
<td>General government should be defined as in the System of National Accounts (SNA, 1993) or the IMF Manual on Government Finance Statistics, (GFS, 1986).</td>
<td>Significant achievement in this area by application of GFS classification; stated intention to produce a Vietnam page in the GFS Yearbook</td>
</tr>
<tr>
<td>Continuing work will be needed throughout the action plan period to define boundaries within government and between government and other sectors more clearly.</td>
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<tr>
<td>Fiscal Transparency Code</td>
<td>Action</td>
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<tr>
<td>--------------------------</td>
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</tr>
<tr>
<td>Minimum Standard Requirement</td>
<td>Establish Treasury control over special accounts, and integrate aid transactions into treasury reports and review status of “other public fund accounts” during 1999.</td>
</tr>
<tr>
<td>Extrabudgetary activities should be subject to government review and priority setting as part of the budget process. (I); and these activities should be covered in budget documents and accounting reports. (II)</td>
<td>Reporting on contingent liabilities to be incorporated in FY 2000 budget documentation, and developed thereafter.</td>
</tr>
<tr>
<td>Significant quasi-fiscal activities (QFAs) of the central bank, PFIs, and NFPEs should be identified. (I); and budget documents should include statements of the main central government contingent liabilities and tax expenditures, and a statement of significant QFAs of the central bank, PFIs and NFPEs. (II)</td>
<td>Public enterprise reporting to be improved and included in FY 2001 budget documentation.</td>
</tr>
<tr>
<td>A budget law or administrative framework, covering budgetary as well as extrabudgetary activities and specifying fiscal management responsibilities, should be in place.</td>
<td>Significant achievement in this area with enactment of the Law on the State Budget in 1996. A review of the Law on the State Budget to be considered in phase 2 with respect to publication commitments.</td>
</tr>
<tr>
<td>General Principle II</td>
<td>External agency reporting to be improved with World Bank technical assistance.</td>
</tr>
<tr>
<td>The level and composition of central government debt should be reported annually with a lag of no more than six months.</td>
<td>Stock of debt to be reported in 1998 final accounts report.</td>
</tr>
<tr>
<td>Original and revised budget estimates for the two years preceding the budget should be included in budget documents.</td>
<td>To be achieved for FY 2000 budget presentation and progressively improved.</td>
</tr>
<tr>
<td>General Principle III</td>
<td>Consistent with Article 47 of the Law on The State Budget, develop FEO analysis and presentation of both macroeconomic and sectoral policies (including sectoral public expenditures) for FY 2000 budget and progressively improve</td>
</tr>
<tr>
<td>A fiscal and economic outlook (FEO) paper should be presented with the budget, including a statement of fiscal policy objectives and priorities, a summary of economic prospects, and a qualitative assessment of fiscal sustainability.</td>
<td>A statement should be made of the medium-term macroeconomic framework for the budget, including the macroeconomic forecasts on which the budget is based. Key forecasting assumptions should also be reported.</td>
</tr>
<tr>
<td>To be included in FEO, as above.</td>
<td></td>
</tr>
<tr>
<td>Fiscal Transparency Code</td>
<td>Action</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Minimum Standard Requirement</strong></td>
<td>An initial statement to be prepared for the FY 2000 budget and progressively improved.</td>
</tr>
<tr>
<td>A statement of fiscal risks should be presented with the budget documents, including</td>
<td>Significant achievements in this area.</td>
</tr>
<tr>
<td>the impact of variations in assumptions on fiscal forecasts, contingent liabilities, and</td>
<td>Deepening of administrative classification and adoption of GFS-consistent functional classification by January 1, 2000.</td>
</tr>
<tr>
<td>the main uncertainties about the costs of specific programs.</td>
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<tr>
<td>All general government activities should be covered by the budget and accounts</td>
<td>To be included in FY 2000 budget as a standard feature of budget documentation.</td>
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<tr>
<td>classification. Transactions should be recorded on a gross basis, and a classification</td>
<td></td>
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<tr>
<td>by economic, administrative, and functional categories should be derived.</td>
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</tr>
<tr>
<td>The classification system should identify administrative responsibility for the</td>
<td>Include in FEO for FY 2000.</td>
</tr>
<tr>
<td>collection and use of public funds.</td>
<td></td>
</tr>
<tr>
<td>The overall balance should be reported in budget documents, with an analytical table</td>
<td>A brief statement of current accounting standards to be included as part of the presentation of 1999 final accounts.</td>
</tr>
<tr>
<td>showing its derivation from budget estimates.</td>
<td>Accounting standards and policies to be reviewed in the context of the MOF modernization project (see Chapter 3).</td>
</tr>
<tr>
<td>A statement of accounting standards should be presented with the budget.</td>
<td></td>
</tr>
<tr>
<td>GDDS standards of periodicity and timeliness for central government reports (each</td>
<td>Progress in terms of internal transparency and external agency reports through new regulations</td>
</tr>
<tr>
<td>quarter within a quarter) should be followed.</td>
<td>Minimum Code standard for public reporting to be met during phase 2.</td>
</tr>
<tr>
<td>Final central government accounts should reflect high standards of coverage and</td>
<td>Standards of accounting and internal control systems to be reviewed in the context of the MOF modernization project.</td>
</tr>
<tr>
<td>reliability, should be reconciled with budget appropriations, and should be audited by</td>
<td>Auditing practices and the independent role of the SAV to be strengthened (linked to ongoing technical assistance).</td>
</tr>
<tr>
<td>an independent external auditor. Audited accounts should be prepared within 12 months</td>
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<tr>
<td>of a fiscal year.</td>
<td>A comprehensive review of progress in improving fiscal transparency to be conducted during FY 2000 as a basis for setting more</td>
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<td></td>
<td>precise targets for consolidating progress and improving other elements of fiscal transparency.</td>
</tr>
<tr>
<td>Fiscal Transparency Code</td>
<td>Action</td>
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<tr>
<td>----------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Minimum Standard Requirement</td>
<td>Phase 2 FY 2001-2003</td>
</tr>
<tr>
<td>Government equity holdings should be</td>
<td>Action on many of these elements is under way (e.g., development of</td>
</tr>
<tr>
<td>identified.</td>
<td>tax law; work on intergovernmental fiscal relations). Priorities for</td>
</tr>
<tr>
<td>Taxation should be under the authority of</td>
<td>fiscal transparency aspects of this work will need to be re-examined</td>
</tr>
<tr>
<td>law and the administrative application of</td>
<td>in the context of the suggested fiscal transparency review.</td>
</tr>
<tr>
<td>tax laws should be subject to procedural</td>
<td></td>
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<tr>
<td>safeguards.</td>
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<tr>
<td>Extrabudgetary activities should be</td>
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<tr>
<td>subject to government review and priority</td>
<td></td>
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<tr>
<td>setting as part of the budget process.</td>
<td></td>
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<tr>
<td>Distribution of tax powers and</td>
<td></td>
</tr>
<tr>
<td>expenditure responsibilities--reflecting</td>
<td></td>
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<tr>
<td>stable principles and formulae--to be</td>
<td></td>
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<tr>
<td>clearly stated19</td>
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<tr>
<td>A statement of fiscal reporting practices</td>
<td></td>
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<tr>
<td>should be published.</td>
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<tr>
<td>Advance release date calendars should be</td>
<td></td>
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<tr>
<td>announced for the year ahead showing no</td>
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<tr>
<td>later than release dates for annual reports</td>
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<tr>
<td>and a range of dates for more frequent</td>
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<tr>
<td>reports.</td>
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<tr>
<td>Mechanisms should be in place to ensure</td>
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<tr>
<td>that external audit findings are reported to</td>
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<tr>
<td>the legislature and that remedial action is</td>
<td></td>
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<tr>
<td>taken.</td>
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<tr>
<td>Standards of external audit practice should</td>
<td></td>
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<tr>
<td>be consistent with international standards.</td>
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<tr>
<td>Working methods and assumptions used in</td>
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<tr>
<td>producing macroeconomic forecasts should be</td>
<td></td>
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<tr>
<td>made publicly available.</td>
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</tr>
</tbody>
</table>

19 Not a formal part of the minimum standard but of considerable importance to achieving fiscal transparency over the long term. (See Chapter 4).
2. FISCAL POLICY AND BUDGET PREPARATION

There are three main areas of the minimum standard in the Fiscal Transparency Code that relate to budget preparation. The first covers requirements for the annual budget to be cast explicitly within a medium term framework, including a medium term fiscal strategy and multi-year macroeconomic forecast. The second area covers the requirement for the budget estimates to be classified and presented in a way that facilitates policy analysis and promotes accountability. The third area covers the requirement for the annual budget statement and supporting documents to provide a full and complete picture of the government’s fiscal position, including items that are not normally captured and reported in government budget statements. Such items include guarantees and other fiscal risks, QFAs, and tax expenditures. Before examining these specific areas of the Fiscal Transparency Code, however, initial emphasis needs to be placed on widening public access to budget data and developing the format for presenting the budget and final accounts documents.

Budget and Accounts Presentation and Publication

Neither the budget nor any supporting documentation have been published in Vietnam prior to the proposed publication of the 1999 budget. Previously the Government has presented a short summary of the budget to the National Assembly for approval, showing only the gross amounts of spending classified in terms of categories retained from the old central planning system (such as “productive” and “social” expenditures). This has not been publicly available, at that stage or subsequently.

However, the National Assembly in May 1998 authorized the Government to publish the State Budget, and, as noted and described in Annex 2, the Government has issued regulations specifying the modalities of publication of the 1997 budget outturn, and the 1999 budget at various levels of government. While the mission considers the publication proposals to be a major step forward, it strongly recommends that the Government move toward a more comprehensive, detailed, and consolidated format for budget and public accounts presentation for the FY 2000 and future years.

It has been recommended that the budget and final accounts be published and be made publicly available with the 1999 budget presentation. The current proposals of the authorities given in Appendix 2 do not follow generally accepted international practice for publication and presentation of the budget. It is strongly recommended, therefore, that the proposed classification and analytical improvements described in Table 2 and the following sections of this Chapter be progressively incorporated into annual budget and final accounts in a way that is comparable to general international practice. Table 2 provides a summary overview of the type of presentational practice commonly adopted for government budget and accounts statements. The following sections look in more detail at the specific issues that need to be addressed in further developing the budget and budget documentation to meet the minimum standard requirements of the Code.
Table 2. **Format for Budget and Accounts Documentation**,  
(based on common international practice)

<table>
<thead>
<tr>
<th>State Budget: (i)</th>
<th>Fiscal and Economic Outlook (FEO) Paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ii)</td>
<td>Analytical table showing GFS-format fiscal deficit (incorporated in the FEO)</td>
</tr>
<tr>
<td>(iii)</td>
<td>Aggregate spending and receipts for budget year, estimated outturn for current year, and actual outturn for the previous year, shown by:</td>
</tr>
<tr>
<td></td>
<td>- ministry</td>
</tr>
<tr>
<td></td>
<td>- economic classification</td>
</tr>
<tr>
<td></td>
<td>- provincial allocation</td>
</tr>
<tr>
<td></td>
<td>- functional classification</td>
</tr>
<tr>
<td>(iv)</td>
<td>For each ministry, show expenditure details (years as for aggregate) by:</td>
</tr>
<tr>
<td></td>
<td>- economic classification</td>
</tr>
<tr>
<td></td>
<td>- allocation by department and main divisions of departments</td>
</tr>
</tbody>
</table>

**Provincial, district, and commune budgets show**

| (i) | Aggregate spending and receipts by economic classification |
| (ii) | Details of spending by department |

**Final accounts** should be classified in the same way as the budget at each level, showing original budget appropriation or estimate, revised appropriation or estimate, and actual spending or receipt.

### The Fiscal Policy Context of the Annual Budget

With regard to the fiscal policy framework of the budget, the following are proposed as representing the minimum that countries should achieve in fulfillment of this aspect of the Code:

*A fiscal and economic outlook paper should be presented with the budget, including a statement of fiscal policy objectives and priorities, a summary of economic prospects, and a qualitative assessment of fiscal sustainability.*

*A statement should be made of the medium-term macroeconomic framework for the budget, including the macroeconomic forecasts on which the budget is based. Key forecasting assumptions should also be reported.*

*Working methods and assumptions used in producing macroeconomic forecasts should be made publicly available.*

The mission proposes that, commencing with the FY 2000 budget presentation, the Government make a commitment to provide the National Assembly each year with an FEO paper: a formal statement of its fiscal policy strategy and priorities for the budget and an outline of the economic outlook for the budget year, to be presented along with its formal budget proposal. Some of this information-- required under Article 47 of the
Law on The State Budget--may, in fact, already be provided to the Standing Committee or the National Assembly. It should also be made publicly available, as an extension of the policy to disseminate information on the 1999 budget (see further discussion below). Making such information accessible to external agencies is essential for them to provide technical advice on how best to improve the quality of the FEO.

The FEO should cover the following elements:

- An annual and medium term economic outlook and macroeconomic forecasts (i.e., the forecast for the main macroeconomic aggregates, giving the key forecasting assumptions) comprising (a) an outline and assessment of the economic outlook for the next 12 months; and (b) a forecast of the macroeconomic aggregates for the two years beyond the budget year.

- A statement of its fiscal policy strategy and priorities for the budget year, and the government’s medium-term fiscal strategy and the medium-term aggregate fiscal forecasts. This statement should include forecasts of aggregate revenue and expenditure for the two fiscal years following the budget year, and should include the key forecasting assumptions. The fiscal forecasts for the two out-years need not be broken down into forecasts for each individual ministry. The statement should also cover the government’s sectoral priorities and objectives. The mission understands that the MOF does prepare five year fiscal forecasts, though the methodology needs to be strengthened.

- A short statement assessing in qualitative terms the future sustainability of the government’s budget proposals (for example, whether the forecast deficit is projected to grow over the medium term--suggesting the possible need for a change to fiscal policy settings now). The assessment should indicate the consistency of the forecast medium term fiscal outlook with any fiscal targets or rules that have been set (such as the ceiling on the size of the deficit/GDP ratio, currently set at 3.5% by the National Assembly on the recommendation of the Government).

- A short statement assessing whether the actual sectoral public expenditures of recent years are achieving the Government’s sectoral objectives and what sort of changes in allocation are being introduced to achieve these objectives in the current budget or medium-term expenditure plan. (This statement would draw on the results of sectoral public expenditure reviews that the Government plans to carry out every two years).

Some of this information is already produced for internal decision making purposes. There would be clear advantages in making this information publicly available, in addition to providing it to the National Assembly.

The third requirement of the minimum standard listed above is that details of the forecasting methods and any models used should be available on request to permit assessment of their reliability by independent experts. Such a practice may not be immediately implementable in Vietnam; it should, however, be introduced over the longer term as a means of strengthening forecasting methodology and assuring realism in budget estimates.
Classification and Presentation of Budget Estimates

Minimum standard requirements in relation to budget classification and presentation are as follows:

*Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability.*

*All general government activities should be covered by the budget and accounts classification. Transactions should be recorded on a gross basis, and a classification by economic, administrative, and functional categories should be derived.*

*The classification system should identify administrative responsibility for the collection and use of public funds.*

*The overall balance should be reported in budget documents, with an analytical table showing its derivation from budget estimates.*

Significant improvements have been made in recent years to the classification of budget data. Since the start of the 1997 fiscal year, expenditures and revenues have been recorded in terms of a GFS-consistent economic classification. This facilitates analysis of the economic impact of the budget. It also enables presentation of GFS-consistent reports distinguishing revenue, expenditure, financing, and the overall balance. It is recommended that the budget presented to the National Assembly should include an additional table showing the overall balance as defined by GFS, and its derivation from the budget estimates.\(^{20}\)

The Vietnam State Budget also shows spending and revenue allocations by main central government agency. Responsibility for the collection and use of public funds are thus identified in the budget only by the first tier of government agencies. Transfers to lower levels of agency are identified as block amounts.

There are two areas of budget classification, where further strengthening is required:

- The administrative classification of expenditures needs to be deepened at the central government level, so that total spending by second and third tiers of government agencies can be identified at national level. At present a large volume of expenditure is recorded only as a block grant from central government ministries (where a more detailed administrative classification is made) to their spending units;

- The functional classification of expenditures should be revised to group expenditures according to categories that are meaningful for policy analysis. The

\(^{20}\) It is important to emphasize that the use of the GFS overall balance concept supplements rather than replaces the traditional presentation of the budget. The GFS concept, for instance, treats debt principal payments as “below the line”, or financing, items because these transactions reduce net indebtedness of government and hence are treated differently from expenditure on goods and services. In a cash basis budget system, like Vietnam’s, however, debt principal repayments need to be treated as a budget payment in presenting and administering the budget. The budget presentation should incorporate *both* an administrative presentation and a GFS-based analytical presentation.
mission recommends that this revision be consistent with the functional classification used in GFS (which is based on the United Nations Classification of the Functions of Government). A deeper administrative classification is necessary for this to be done.

Moving both to deepen the administrative classification and to introduce a new functional classification will facilitate policy reviews by ministries, and better analysis of budget submissions by the MOF. As noted in the World Bank’s Public Expenditure Review in 1996, the absence of a GFS-consistent functional classification and the lack of detailed information on provincial spending, means the information required for policy analysis and accountability in a market-based economy is missing. This kind of information is needed to ensure that spending is as effective and efficient as possible in achieving the government’s social and economic priorities. Improving the information base in this way will assist the Government in setting budget priorities (and analysis based on this information should feed into the FEO Statement produced with the budget).

The medium term aim should therefore be to build further on a new functional classification by developing meaningful sub-groupings of activities that can be used as the basis for holding spending units accountable for the effectiveness with which they use resources. Such an approach could take the form of a program-oriented approach to budgeting, as practiced in many countries. The mission has provided information to the authorities on the type of program-oriented approach adopted since the mid-1980s in Malaysia (see Annex 3).

In terms of coverage, the State budget is comprehensive. The mission understands that, from the 1998 budget, the off-budget revenues collected by spending units and used to directly finance their operations are now shown in the budget in an extra column. This is an important step toward providing greater transparency over the size of these fiscal operations, and may indicate areas where the extent of special account activities should be reviewed.

**Off-Budget Fiscal Activities and Fiscal Risks**

The following requirements are considered necessary to meet minimum standards under the Code with respect to off-budget fiscal activities and fiscal risks:

*Significant quasi-fiscal activities (QFAs) of the central bank, PFIs, and NFPEs should be identified.*

*Budget documents should include statements of the main central government contingent liabilities and tax expenditures, and a statement of significant QFAs of the central bank, PFIs and NFPEs.*

*A statement of fiscal risks should be presented with the budget documents, including the impact of variations in assumptions on fiscal forecasts, contingent liabilities, and the main uncertainties about the costs of specific programs.*
Information on contingent liabilities, QFAs, fiscal risks, and tax expenditures is not systematically related to budget decision-making in Vietnam. Though few other than some advanced countries have established systematic processes covering these areas, the need to establish such procedures is becoming widely acknowledged. Information on these activities is important because they can threaten the maintenance of fiscal control. Tight control of approved expenditures can be undermined, for example, by the use of Government guarantees. Strengthening controls over authorized spending, without satisfactory controls elsewhere, provides incentives to use other less visible means of subsidizing other sectors. In some countries, the withdrawal of explicit budget subsidies to state-owned enterprises has been followed by the granting of government guarantees of SOE debt, or directives to state-owned banks to provide credit to SOEs on non-commercial terms. Assistance to an SOE might also be granted via a special tax concession. Off-budget operations also frequently occur in the form of guarantees issued in the process of privatizing state assets, or in the context of joint-ventures between government enterprises and privately owned businesses.

Government guarantees are not recorded as expenditures until and if they are called. QFAs such as directed credit are not directly recorded at all in standard fiscal reporting. Tax expenditures are not as transparent as direct expenditure since they are usually not scrutinized annually through a budget process and are not brought to account.

Guarantees and QFAs often give rise to very large shocks to the fiscal position, making macroeconomic control very difficult to maintain. For example, banking sector problems have resulted in major fiscal expenditures in many countries, and have greatly complicated the task of macroeconomic management. Weakness in the banking system sometimes emerges because of the effects of earlier government policies of directing banks to lend to SOEs at subsidized interest rates, or without the usual security.

In the area of off-budget activities and fiscal risks, priority in Vietnam should be given to providing the National Assembly and public with a statement of fiscal risks, and reporting QFAs. Reporting of tax expenditures, summary information on the State Bank of Vietnam’s (SBVN) profit and loss account and transfer to the central government budget, and connected lending by PFIs, could all follow as the system is developed further—unless these areas emerge as a more pressing concern in the interim.

**Contingent Liabilities and Fiscal Risks**

The mission was advised that the Government has moved to tighten control over the use of government guarantees. The number of guarantees has apparently been reduced, and the approval of the Prime Minister is required before any new guarantees can be issued. It is not clear whether a record is kept of the outstanding stock of guarantees and the amounts involved. If not, developing such a register would be an important step toward further strengthening control over the use of guarantees, and of reviewing the continued justification of existing guarantees.
There would be additional value in providing this information to the National Assembly in conjunction with the annual budget proposal, and making it publicly available. The statement should include a brief justification for the provision of each guarantee. The statement should be included in a broader statement of fiscal risks. The aim should be to provide a statement of fiscal risks with the FY 2000 budget.

The generation of a list of government guarantees would not seem to entail particular technical difficulties. A possible process for generating such a report could be as follows:

- All central government ministries, and provinces, are instructed to compile a report of all guarantees or indemnities that they have issued or are aware of. This will require central government units and provinces in turn to obtain the same information from their organizational sub-units;

- MOF compiles at the same time a list of all guarantees and indemnities that it is aware of, to use as a cross-check against the returns from ministries and provinces;

- A master list is compiled by MOF, on which ministries and provinces are asked to sign-off as being a complete list of guarantees in their areas of responsibility.

In addition to a statement of contingent liabilities, the Code requires as a minimum standard the presentation of information on other fiscal risks, such as the risk that economic growth will not be as high as assumed in the macroeconomic forecasts underpinning the budget forecasts. The risk statement should contain information on the possible impact of feasible changes in the macroeconomic forecasts - for example, the approximate effect on the fiscal deficit of a 1% change to the underlying forecast of GDP growth for the budget year. There should be few technical difficulties in compiling such information on the sensitivity of the macroeconomic forecasts to variations in the key assumptions.

A listing of the main elements to be included in a statement of fiscal risks that could be used in Vietnam is shown in Table 3. Contingent liabilities are a specific type of fiscal risk, and as noted should be included in the statement.
A statement of fiscal risks should be presented with the annual budget, providing information on all material fiscal risks surrounding the estimates of revenue and expenditure contained in the State Budget. Materiality is likely to mean reporting of all risks above some threshold size. Risks can be either positive or negative (i.e., can involve either an increase or decrease in revenue or expenditure).

The statement should not include any risks which have already been specifically allowed for in a budget contingency reserve.

Where possible, risks should be quantified.

The statement of risks should contain information broken down into the following categories:

- variations in key forecasting assumptions - the fiscal effects of variations in key assumptions underpinning the macroeconomic forecasts (e.g., the effect on the fiscal deficit of a one percent increase or decrease in GDP growth, inflation, interest rates or the exchange rate from the central rate assumed in the budget forecast); and the fiscal effects of variations in key assumptions underpinning the budget forecasts of revenue and expenditure (e.g., a variation in the average tax rate, or public sector wages);
- contingent liabilities - these may include guarantees, indemnities and warranties; uncalled capital; and litigation against the government;
- uncertainty about the size of specific expenditure commitments - where provision has been made in the budget for expenditure on an item or activity but there is a greater than usual degree of uncertainty about the likely cost, the risk should be separately disclosed. For example, the government may have given an undertaking to depositors of specified distressed financial institutions that their deposits would be guaranteed. However, at the time of finalizing the budget the eventual cost in the next financial year of this commitment may be considered as highly uncertain.

Quasi-fiscal activities

Documentation provided with the FY 2001 Budget should also include a statement of QFAs conducted by PFIs. This could be achieved by first improving public enterprise reporting and providing statements on enterprise accounts with the annual budget. An overview could be compiled by MOF, in conjunction with individual PFIs. The overview would initially be a simple list of individual QFAs, indicating the nature of the QFA and the institution conducting the activity. A categorization of types of QFA is given in Table 4.

For the budget in subsequent years, the QFA statement could be expanded by providing information to allow at least some assessment of the potential fiscal significance of each QFA. For example, reporting of a subsidized loan should indicate at least the amount and duration of the loan and the rate of interest. The report could also be expanded to include any significant QFAs conducted by the SBVN and SOEs.
Table 4. Types of Quasi-Fiscal Activities

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<th>(i)</th>
<th>QFAs related to the financial system</th>
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<td></td>
<td>Subsidized lending</td>
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<td></td>
<td>Loan guarantees</td>
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<td></td>
<td>Administered lending rates</td>
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<td>Preferential rediscounting practices</td>
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<td></td>
<td>Poorly secured and sub-par loans</td>
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<td></td>
<td>Under-remunerated central bank reserve requirements</td>
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<td></td>
<td>Credit ceilings</td>
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<td>Bank rescue operations</td>
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<th>(ii)</th>
<th>QFAs related to the exchange rate system</th>
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<td></td>
<td>Exchange rate guarantees</td>
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<td></td>
<td>Multiple exchange rates</td>
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<td></td>
<td>Import deposits</td>
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<td></td>
<td>Deposits on foreign asset purchases</td>
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<td>Subsidized exchange risk insurance</td>
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<th>(iii)</th>
<th>QFAs related to the commercial enterprise sector</th>
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<td></td>
<td>Charging less than commercial prices</td>
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<tr>
<td></td>
<td>Provision of non-commercial services (eg. social services)</td>
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<tr>
<td></td>
<td>Pricing policy for budget revenue purposes</td>
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<tr>
<td></td>
<td>Paying above commercial prices to suppliers</td>
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Over the medium term, the Government should also aim to prepare and publish aggregate information on the total amount of lending by individual PFIs and the SBVN to state-owned enterprises and other government-owned entities. Information should also be provided on the level (and definition) of non-performing loans. Such information will provide valuable additional information to monitor the fiscal risks presented by poorly performing state-owned banks and financial institutions, and to assess the extent to which connected lending is responsible for creating or exacerbating these fiscal risks. This information should be presented to the National Assembly, and published.

For the SBVN, in addition to reporting of any QFAs it conducts, the medium-term aim should be to present a statement of the main elements of the Bank’s profit and loss result, and the profit transfer from the SBVN to the government budget. This statement could be provided to the National Assembly and public in the form of an annual report on the SBVN’s activities, and/or a short one page summary statement of the projected operating result and profit transfer could be provided as an annex to the Government’s budget proposal.

**Tax Expenditures**

Tax expenditures include exemptions from the tax base, and special tax deductions or deferrals. They are often identical in their effects to expenditure programs. For example
assistance to industry can be delivered either through direct expenditure or through concessional tax treatment. Unlike appropriated spending, however, a tax expenditure does not require annual approval, and once introduced is typically not subject to the same degree of scrutiny. The precise definition of a tax expenditure can raise complex issues about the “benchmark” or “normal” tax structure, departures from which are considered to be tax expenditures.

The minimum standard requirement on this aspect of the Code is for the publication of a list with the annual budget of all tax expenditures, together with a brief explanation of the nature of each tax expenditure to enable at least some assessment of its justification and fiscal significance. As noted earlier, the mission considers that, for the present in Vietnam, reporting on tax expenditures be accorded a lower priority than reporting on the other areas outlined above. In view of the possible significance of tax exemptions to fiscal policy, however, the need to examine all exemptions carefully in the context of budget decision-making needs to be emphasized. The longer-term aim of developing formal reporting of tax expenditures should be implemented when significant progress is being achieved in other areas of transparency.
3. BUDGET EXECUTION AND FISCAL REPORTING

This Chapter discusses minimum fiscal transparency standards in the area of budget execution and fiscal reporting. Minimum standards are proposed particularly in the areas of accounting, fiscal reporting, and external audit. Budget classification, which is also relevant to budget execution, has been discussed in the previous Chapter.

Accounting, the Treasury System, and FMIS

The minimum standard requirements relevant to the treasury and accounting system are as follows:

A statement of accounting standards should be presented with the budget.

Final central government accounts should reflect high standards of coverage and reliability, should be reconciled with budget appropriations, and should be audited by an independent external auditor. Audited accounts should be prepared within 12 months of the end of a fiscal year.

GDDS standards of periodicity and timeliness for central government reports (each quarter within a quarter) should be followed.

In addition, the Code and the draft Manual emphasize the need for the accounting system to be integrated (in the sense of covering all operational and asset/liability transactions in a coherent framework), to have internal controls in conformity with INTOSAI guidelines, and to provide a reliable basis for assessing payments arrears.

The Code thus stresses the importance of establishing clear accounting methodology and integration of the government accounting system. The system should have the capability to record all government transactions in a consistent and timely manner, and cover both domestic and externally financed transactions, including aid transactions (and aid-in-kind).

Accounting Basis and Policies

In Vietnam, the process of transition creates some conceptual and technical problems in this regard. At spending ministry level, the former centrally planned economy accounting procedures remain in place; procedures practiced in market economies, however, are increasingly becoming more relevant. Being aware of this, the MOF is presently revising, streamlining, and unifying, the government accounting definitions, standards and methodology. It is particularly important that these issues be resolved as a basis for the proposed computerization and modernization of the MOF. Accounting policies and procedures should be reviewed and clear accounting standards formulated prior to undertaking major computerization of the accounting system.

As discussed further below, the improved accounting system should be supported by, and integrated with a unified and computerized financial management information system (FMIS) across the government agencies through the Treasury Department. This will enable the Treasury to access and provide up-to-date and country-wide information,
using its branches in the provinces and districts, on all government transactions in a
timely manner. The principles of an integrated financial management system have been
described in previous FAD mission reports.\textsuperscript{21} Furthermore, it is necessary that the
Treasury is given the authority to capture and provide data on the externally financed
expenditures as well as the revenues and expenditures that are currently budgeted and
executed by spending agencies outside the State budget.

It is recommended that the MOF should give a high priority to its review and revision of
accounting standards and procedures. Since a major element of the problem is the
adaptation of the current system to modern government accounting standards, external
technical assistance will be an essential element of this process. The work, moreover,
should be closely linked to the Treasury FMIS work. Previous consultants have
suggested that the Government should adopt accrual basis accounting. This mission
agrees that this could be an objective for the long term, since cash basis accounting has
many weaknesses in terms of being able to capture adequately information on bills due
for payment and integration of asset and liability accounting with current operations.

But adoption of full accrual accounting is not recommended for Vietnam for the
immediate future. Its decision-making structures at present do not provide a basis for
decentralized asset and liability management and its basic cash accounting processes are
not sufficiently strong for such a radical move to be justified in the near future. It should
be pointed out that very few of the advanced countries have adopted accrual basis
accounting and the process of implementing such a change requires major
administrative effort and restructuring. It is critical, therefore, that this subject be very
carefully reviewed before proceeding further, and that there be very close cooperation
between the MOF officials and the expert selected. It will be essential that all
documentation on the present procedures be made available and that extensive
interviews be conducted with accounting and senior decision-making staff in the
spending ministries, as well as in the MOF and the SAV.

Such a study should incorporate a review of internal control mechanisms and their
relationship to external audit. An effective internal audit by government agencies is one
of the first lines of defense against misuse of public funds. Checking of transactions by
internal auditors also provides valuable material for review of financial compliance by
external audit agencies. The effectiveness of an internal audit should be assured by
requiring that internal audit procedures be clearly described in a way that accessible to
the public. In Vietnam, internal control does exist in few and selected government
agencies. However, the MOF exercises financial control over the financial operations of
the central ministries in Hanoi, and through its branches in the localities over all
government agencies functioning in the provinces, districts and communes. This type of
control, though external to spending agencies, is internal to the government machinery
as a whole. The control procedures themselves should be open to review by external
auditors, since only in this way can the whole system be strengthened.

\textsuperscript{21} See particularly “Improving the Fiscal Information System and Public Expenditure Management in
Vietnam; Fiscal Affairs Department, April 1995”, prepared by a mission led by Mr. W. Allan. This report
summarized the state of implementation of earlier FAD missions’ recommendations, and suggested
further reform measures. Some of these recommendation, such as the introduction of new budget
classifications, have now been implemented.
**Treasury and Fiscal Reporting**

The Fiscal Transparency Code requires that “timely, comprehensive, audited, final accounts of budget operations, together with full information on extrabudgetary accounts, should be presented to the legislature”. It also proposes that a public commitment should be made to timely publication of fiscal information and that the final accounts should include a statement of the accounting basis and standards used. Effective fiscal reporting to meet these standards relies on a comprehensive and integrated FMIS, based on sound accounting principles, and it is generally considered necessary that a single organization be made responsible for the FMIS database. The broad coverage of the Accountant-General’s functions in Malaysia (Annex 3), for example, provides an illustration of such an operation, and represents standards that are applied extensively throughout the World.

According to the 1996 Law on The State Budget, the final accounts in Vietnam are submitted to the legislature, but their contents are as brief as presented in the original budget document. As a result, even if gazetted and published they do not disclose detailed information on government financial transactions. As noted earlier, the MOF is in the process of preparing regulations on the disclosure of the budget and final accounts after they are approved by the National Assembly.

As a finance management tradition in Vietnam, and in compliance with the existing laws and regulations (which in certain aspects are characterized by a centrally planned economy accounting practices), all spending agencies at national and provincial levels produce several types of budget execution and accounting reports. These include “agency balance sheets” reports, “asset value change reports”--both required by the existing accounting regulations--as well as detailed reports on revenue collection and expenditure execution on a monthly and annual basis. Most of these reports are produced manually and after compilation in the higher levels of the administrative chain (Financial Services Departments--the branches of MOF in the provinces, and sectoral ministries in Hanoi) they finally reach to the State Budget Department, Treasury Department, Statistics Office, and other central agencies--understandably with some substantial delays at each stage.

After a long period of preparatory work, and with the FAD technical assistance, since 1996, some major expenditure management reform measures have been introduced. These include the enactment of the Law on the State Budget in 1996, the introduction of a detailed and GFS-based economic/object classification of government revenue and expenditure since 1997, and the utilization of a detailed and comprehensive budgeting Manual in the preparation of the 1998 budget. These reforms have created much needed ground for an improved budget preparation as well as budget execution and fiscal reporting. In the budget preparation area, improvements, especially in regard to information for budget analysis and review and improvements in budget procedures are apparent. For budget execution, however, some institutional and organizational problems continue to pose difficulties in producing comprehensive and timely fiscal reports.

In an attempt to fill the fiscal reporting gap, at present the State Budget Department produces a central fiscal report by using data on revenues available from the Treasury Department, and compiling the budget allocations that it authorizes spending agencies to execute their expenditure budgets. Although the numbers for preparing such a report
are readily available, at this stage of budget execution, these expenditure authorizations correspond to the budget plan and do not give a clear representation of actual expenditure.

This type of central reporting is a good tool for following the monthly releases from the State budget. It is not useful, however, for fiscal analysis in terms of cash management or for tracking the deficit and its financing. Such reporting should be regarded as a first step of budget execution, which with the adoption of the new budget classifications has substantially improved compared to the situation prior to 1996. The reports can be used as an in-year indication of budgetary adjustments, though in the final months of the fiscal year, the picture may change dramatically.

It is essential that a workable alternative be developed. The Treasury Department is the only central institution that can rapidly prepare an accurate and timely central fiscal report based on actual spending. The Treasury has up-to-date revenue numbers, and more importantly, it is responsible for the execution of payments of all government agencies at all levels—it records payment transactions in their latest stage of budget execution rather than in the earlier stage of authorizations for spending. Other types of central reporting such as collection and compilation of reports from spending agencies by the State Budget Department or Statistical Office will continue to have financial inspection, bookkeeping compliance, and auditing significance.

The following obstacles to the Treasury making such reports need to be addressed.

- All ministries and spending agencies at central and local levels (provinces, districts, and communes) do raise revenues from various sources, such as small business-oriented activities, renting of properties, selling goods, charging service fees, etc., and spend these revenues outside the State budget. At the budget preparation stage, the estimates of these revenues and their associated expenditures are submitted to the Budget Department and Financial Services in the localities to justify spending agencies’ budget requests from the State budget. In the budget execution and payment phases the central and local Treasuries are not involved in the recording and reporting of these transactions, though the Treasury and its local branches provide banking service for these outside budget transactions, meaning that they credit and debit the accounts of these transactions without recording the nature of transactions as per the budget classification. This reduces the coverage of the Treasury’s reports. As mentioned above, the spending agencies later provide data of these transactions in their detailed revenue/expenditure reports, but these reports are far too late for fiscal monitoring and management purposes.

- In a very similar context, at present the receipts of external cash grants are initially kept in transit bank accounts in the commercial banks. They then flow gradually and as needed to the special accounts of spending agencies held in Treasury or in a commercial bank. Here again, the Treasury provides only banking services to the spending agencies who own these accounts in the Treasury. The recording of transactions of these special accounts virtually becomes similar to those described earlier for domestic budget special accounts. An additional problem here is that
some spending agencies have choice of depositing grant money in a commercial bank account, in which case the Treasury has no involvement, even as a banker.\textsuperscript{22}

It may be argued that outside budget and external grants transactions are deficit neutral, meaning that, if they are not received or collected, they cannot be spent. However, the present system does not meet the needs of timely, comprehensive fiscal reporting and fiscal analysis needs to go beyond simply tracking the overall deficit. External funds create assets that will eventually have to be maintained by the domestic budget, so it is important that these transactions be integrated as completely as possible into the Government’s FMIS database.

- Like external grants, external loans are also accounted for outside the Treasury, though the Treasury receives reports of their transactions at a later date. However, unlike external grants which are widely spread at all levels of spending agencies and localities, external loan transactions are mainly centralized in Hanoi, and consist of a small number of large transactions. These transactions are also not managed or banked by the Treasury, but managed jointly by spending agencies and the External Financing Department of the MOF, and banked by the External Finance Department.

**Establishing a Comprehensive Treasury FMIS**

The following steps are suggested:

- As is the case now, all revenues raised by spending agencies at central and local levels of administration across the country should be banked with the Treasury’s branches without exception. A minimum and practical time limit should be set for retention of cash in collecting agencies’ custody, and this should be regulated and monitored by the Treasury Department.

- As a new arrangement, all deposit and withdrawal forms and documentation of these special account transactions should be redesigned to carry a transaction code according to the new budget classification at item or sub-item level (to be determined) consistent with the internal bookkeeping procedures in the spending agencies. By this, the Treasury will be able to align its transactions to the budget classifications and report them accordingly, as is the case for transactions from the State budget.

- The Treasury should speed up the policy of increasing its share of direct payment to suppliers of goods and services, and should design a phased plan to extend its direct payment to suppliers to cover most transactions within a reasonable time period.

- With regard to external grants, because of donors’ requirements, the commercial banks’ transit accounts will have to continue to exist. However, final payments should not be made from these accounts. The funds should be transferred to the spending agencies’ special accounts in the Treasury to enable them to execute their external grant-financed budgets—as is already the practice for a number of agencies.

\textsuperscript{22} For further details see “Vietnam: Review of the budgeting, recording and reporting procedures of external grants and loans and recommendations for improvement”, prepared by F. Sarraf, FAD Fiscal Expert, October 1996.
This rule should be applied without exception. An essential supporting measure is that transactions from these special accounts in the Treasury should be subject to the same control and accounting arrangements suggested for domestic special fund accounts.

- Similar arrangements could be used for domestic spending from external loans. However, if this proves to be unacceptable to lending agencies, the Treasury and spending agencies will continue to receive reports from the External Financing Department of the MOF, and integrate this information in treasury reports. The main improvement that should be made is that data should be transmitted directly to the Treasury. In essence, the External Finance Department is performing an agency accounting function for the Treasury and its operations in respect of accounting should reflect this role. Because the number of transactions is limited, data can easily be transferred in a speedy manner to the Treasury. The External Financing Department should provide these data to the Treasury, using the new budget classification.

The above arrangements are essential for the production of a reliable and timely fiscal report in Vietnam. Some progress along these lines is a necessary prerequisite to implementation of a computerized treasury FMIS. Two additional points to be emphasized are:

- The proposed arrangements should not replace detailed reporting of revenues and expenditures that are presently prepared by spending agencies (and which cover both budgeted and outside budget transactions). These reports will be needed for inspection and auditing purposes. However, over time, spending agency accounting reports should be reconciled directly with the Treasury FMIS reports, which will become the basis for the final accounts for the whole of government.

- The new arrangements should not result in any increased power for the Treasury in terms of documentation control and pre-auditing, etc. It is undesirable to overcentralize controls over spending agencies, since it may cause delays in service delivery and loss of interest for proper collection of legal fees and service charges.

**External Audit**

Effective audit is a critically important element of fiscal transparency. The Code proposes as a general principle that “a national audit body, or equivalent organisation, should be appointed by the legislature, with the responsibility to provide timely reports to the legislature and the public on the financial integrity of government accounts.”

The following requirements of the minimum standard relate to external audit institutions:

*Mechanisms should be in place to ensure that external audit findings are reported to the legislature and that remedial action is taken.*

*Standards of external audit practice should be consistent with international standards.*
Internationally-recognised audit practices, as reflected in the standards issued by INTOSAI, include the need for the audit office to be independent of the executive; the need for adequate information, control, evaluation and reporting systems within the government to facilitate the accountability process; the need for the audit office to provide assurance that the State budget and accounts are complete and valid; and the need for each audit office to establish a policy on which INTOSAI standards, or other specific standards, it will follow in order to ensure its work is of high quality.

An important feature of a national audit office is that it not be under the control of the government of the day. Establishment of procedures independent of the executive for appointment of the Auditor General and his or her removal from office is a common mechanism in other countries to ensure the independence of the audit function. In Vietnam, however, the head of the SAV is appointed by the Prime Minister (as are the Deputy Auditors General). The SAV is part of the executive branch of government. Decree number 61 of 11 July 1994, which established the SAV, provides that “The State Audit of Vietnam assists the Prime Minister” in ensuring correctness and compliance of the accounts of public agencies. The Office’s annual work program is submitted to the Prime Minister for approval, and the Office is apparently in organisational terms a regular line ministry of government. Article 74 of the State Budget Law provides that the SAV report its audit results to the Government, and if requested to the National Assembly (the latter can also initiate a request for an audit of a specific entity). None of the SAV’s audit reports are publicly available.

Vietnam’s current external audit arrangements are not in accordance with this aspect of the minimum requirements of the Code. While Article 74 of the State Budget Law provides that the SAV is independent, it is not independent of the executive branch of government. The mission strongly supports further action by the Government to strengthen the independence of the SAV, in order to strengthen its ability to carry out its essential function of ensuring the integrity of the public accounts.

A further critically important element of the overall function of auditing of government activities is an effective internal control environment within all government agencies, including a sound internal audit function. Internal controls should create the necessary audit trail, and thereby make it more feasible for the external auditor to assure financial probity and compliance. It was indicated by SAV staff that, while some ministries have sound internal controls and internal audit systems, many do not. The SAV has apparently raised this issue with the government on occasions, and considers it still to be a problem. Because of the fundamental importance of this issue for fiscal transparency, the mission recommends priority be given to assessing the need for strengthening internal control systems in state spending agencies.

It is recommended that these matters be considered as part of the proposed study of accounting systems and procedures under the MOF modernization project. This study could provide important inputs to the Government’s overall reform process. Possibly, allied to this proposed technical assistance, the SAV could be requested to prepare a report on the current status of internal control systems across the government, including the internal audit function, and to prepare recommendations for the government’s consideration on strengthening the internal control environment. As part of this review, the government might also review the relative roles of the SAV and the Financial
Inspectorate in the Ministry of Finance, to ensure there is no overlapping of responsibilities, and that audit resources are deployed to the best advantage.

The mission was advised that the SAV’s Audit Research Institute has prepared a technical paper on audit methodology and standards, based on information on international auditing standards. (The SAV is a member of INTOSAI and ASOSAI, and has also had considerable contact with National Audit Offices in other countries). Consideration is apparently being given to issuing an ordinance on auditing standards. The mission supports these efforts. It is important that the SAV produces and publishes a statement of the auditing standards it follows in its work.

It was not clear to the mission whether the formal role of the SAV provides for it to audit the Final Accounts of the State Budget, or the extent to which the SAV in fact does so. Article 73 of the State Budget Law provides that the SAV shall audit the accounts of state agencies, but does not appear to specifically refer to auditing of the Final Accounts. External auditing of the Final Accounts, and reporting of the findings to the National Assembly and the public, are an important element of fiscal transparency. Any lack of clarity in the SAV’s role or practices in this area should be addressed.

A minimum requirement of the Fiscal Transparency Code is that there should be mechanisms to ensure the findings of the SAV are addressed by the audited entity. It appears that some mechanisms of this sort exist in Vietnam—though these appear to be mainly internal to the executive branch. The mission was advised by SAV staff that the SAV reports its findings to supervising agencies and the Prime Minister’s Office and National Assembly Office. The Economic and Budget Commission of the Standing Committee of the National Assembly apparently considers the reports of the SAV, with discussions being held on occasions with SAV staff, and the staff of audited entities. In addition to reporting within government and to the National Assembly Office, the SAV has the power to give an audited entity a certain date by which it must respond to its audit findings. Ultimately the audited entity may be subject to legal sanction for non-compliance. However, publication of the SAV’s reports would represent an important additional level of assurance that audit findings will be addressed. The mission therefore recommends the SAV’s audit reports should be published on presentation to the National Assembly Office.
4. INTERGOVERNMENTAL RELATIONS AND FISCAL TRANSPARENCY

Intergovernmental fiscal relations are of critical importance to fiscal transparency, but this topic raises a number of complex issues that extend well beyond the scope of this report. Some of these will be raised in the present context, but issues of changing the relative scope of action of different levels of government are subject to continuing consideration by the authorities. The World Bank, in particular, has been involved in various aspects of intergovernmental machinery, and the broader issues will be considered in this continuing work.

Where the responsibility for public service delivery is divided between several levels of government, as in Vietnam, the need for transparency in fiscal operations is self-evident. Local governments in Vietnam are responsible for an increasing proportion of public expenditure. If governments at each level are to be held accountable for their actions, as they must be if the system is to work well, both they—and, ideally, their citizens—need to know exactly who is responsible for what and what everyone is doing. The mission’s understanding of the present allocation of responsibilities for revenue and expenditure among different levels of government in Vietnam are given in Annex 4 of the report.

Though there have been improvements in transparency of Vietnam’s intergovernmental fiscal relations over the last two years, there is still a long way to go. Internal or management transparency, external agency transparency and public transparency have all improved, albeit from a relatively basic level. As noted earlier in this report, implementation of the 1996 State Budget Law, as well as the issuance of decrees and regulations in late 1998 on disseminating budgetary information of provinces and communes to government and external agencies and the public, have made those improvements possible. The following sections first examine recent developments in improving transparency and then suggest areas of priority for further improvement.

Recent Developments

Internal (or management) transparency of intergovernmental finance has improved as the fiscal responsibilities of the center and local governments as well as budgetary processes for local governments have been explicitly articulated in the new budget law. As indicated in Annex 4, expenditures and revenues are now explicitly assigned to the four levels of Government—replacing the previous system of changing many assignments every year. However, non-uniformity in expenditure assignments across different levels of local government and uncertainty in the size of real cash transfers to provinces contribute to non-transparency in process and uncertainty in outcomes in terms of the provision of services.

Because many public services and expenditures are assigned concurrently to different administrative levels, other criteria like geographical spread of benefits, size of the projects and volume of spending are used to allocate specific projects and services. For example, the central Government is responsible for operation and maintenance of large projects with spillover effects across several local jurisdictions. Smaller projects benefiting specific jurisdictions are local responsibilities. Local governments are responsible for internal security, but the center is responsible for national defense.
Education and health are concurrent subjects but there is a functional division of responsibility between different levels of government. School education is a local responsibility and the center has to look after training and higher education. Large hospitals are in the central domain, the provinces and districts administer provincial and district hospitals respectively, while communes look after the health centers.

With regard to tax assignments, while previously any decision on assignment was valid only for a year, now they will remain unchanged for 3-5 years. This arrangement will provide local governments with more room to plan over the medium-term. But local governments have no role in determining the base and/or the rate structure of taxes.

Tax collection is done through the General Taxation Department (GTD), which is a central government agency. This creates problems with tax collection incentives and distribution of tax revenue. Local governments provide incentives to the tax officials located in their jurisdictions to collect revenues. Since provinces can retain collections in excess of revenue targets, and as all taxes are not shared similarly, local governments have an interest in assisting and facilitating excess collection as well as collection of certain shared taxes which they can keep. This gives richer provinces access to more revenue. But it may also create disincentives for collecting central revenue.

The exact shares of taxes to be provided to the lower levels are decided by the higher levels of government. Each province and district follows its own system in making assignments to districts and communes, respectively. Thus, the shares vary from one district to another and from one commune to another. There is also reluctance to pass on revenues to the lowest levels of government. The communes have thus had to depend on voluntary contributions to meet their expenditures. The 1998 amendment to the budget law has tried to ease communes’ problem of insufficient revenue receipts by stipulating that at least 20 percent of the agricultural tax revenue should be assigned to the communes.

Cash transfers are important offsets for poorer provinces. Expenditure levels of provinces depend on both tax assignments and cash transfers from the central government. The size of the nominal value of transfers is negotiated at the beginning of a period of three to five years and remains fixed thereafter for that period, with annual adjustments to be made for changes in inflation and growth. But those annual adjustments do not maintain real value of cash transfers. Provincial expenditures in poorer provinces are vulnerable to changes in real value of cash transfers, whereas those in richer provinces are not.

The budgetary process for local government, for both recurrent and investment expenditures has also been clarified. The MOF provides indicative targets for recurrent expenditure to each of the provinces. The provinces in turn prepare the indicative targets for districts and the districts do the same for the communes. At each level, the spending departments prepare their draft budgets and submit them to the finance department at that level which, after consolidation submits it to the People's Committee. The latter finalizes the draft budget and submits it to the People's Council for decision and simultaneously communicates the draft budget to the finance department at the higher level. This process of preparing the budget extends all the way down to the commune.

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23 Provinces can use excess revenue collections in line with their preferences, as long these users relate to social services, investment and maintenance.
level. The finance department at each level consolidates the draft budgets of spending agencies at that level as well as those below it. At the center, the MOF consolidates the estimates received from the line ministries and provinces.

The resources available for investment are allocated among the provinces through negotiations. Allocations are, however, based on an appraisal of socio-economic conditions, level of development of the province, its population size, number of centrally managed projects in the province, and counterpart funding required for the ODA. Projects are classified into three different groups, broadly according to size of investment. The Peoples Committees of provinces and provincial cities can make the decisions pertaining to investment expenditure on Group B and C projects (see Annex 4, part 3). Prior consent from Ministry of Planning and Investment (MPI) must be obtained for all Group B projects. The provinces can also delegate the power to decide Group C projects of less than a certain value to the Chairmen of the People’s Committees in districts. The provinces consolidate investment budgets of provinces, districts and communes and communicate them to the MPI.

The law specifies procedures for finalizing budget accounts. The finance department at each level examines and approves the accounts of various departments at that level as well as those below it and submits them to the People's Committees of that level for consideration and People's Councils for ratification. The report is also sent to the finance department at the next higher level. The finance departments at different levels have the powers to supervise and control the implementation of the budget at the same level as well as the levels below them. The finance department should ensure that the expenditures are incurred strictly according to the approved budget.

Through its activities of implementing and monitoring the budget, the law gives the MOF a pivotal role in the budget process at all levels of government. By communicating indicative targets along with the guidelines for preparing the budget, MOF reduces the areas of disagreement with the provinces. To that extent, budget decision making is imposed from above, though the provinces can put forth proposals for enhancing their budgets at the time of negotiations. The center does retain some leeway to enhance the budgets of the provinces at the time of negotiation. Provision is also made for adjusting the cash transfers of eligible provinces to changes in incomes and prices.

**Priorities for Improving Fiscal Transparency between Levels of Government**

Transparency of management of financial relations with subnational levels of government can be improved on several fronts. The main areas where transparency can be improved with significant advantages for both central and local management are, first, by improving the frequency and depth of reporting by all levels of government along the lines indicated earlier in this report--and as initiated by the Government through its recent issue of regulations. Second, there is a need to establish a greater degree of transparency and predictability for the system of transfers from higher to lower levels of government. Third, there is a need to continue to improve the delineation of responsibilities among different levels of government.

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24 People’s committees in Hanoi and Ho Chi Minh cities, for example, may delegate investment projects of less than 2 billion VND and in other provinces, projects with investment of less than 500 million VND can be delegated to the districts.
Improved Reporting by Local Authorities

The question of improved reporting and publication of data is very important for decentralized systems of government. If governments are to be accountable to their respective publics, each level of government must report regularly on its budgetary plans and financial outcomes to its relevant public or at least to their representatives (such as the National Assembly and Peoples' Committees). Such reports should be presented in sufficient detail and with sufficient supporting information to make it clear what the intended objectives of policy are and how the budgetary allocations and outcomes relate to those objectives.

Countries such as Brazil have shown that this can be done for local governments in a way that promotes the understanding and engagement of local communities in the formulation and evaluation of budgetary policies. To provide a baseline for comparative evaluation, information should be presented in a comparable fashion for several years and, ideally, at least some information should be provided showing how each commune, district, or province compares to others (for example, in terms of education expenditure per pupil). Moreover, to ensure the credibility of financial reporting, the annual reports of each government should be subjected to auditing by a competent agency not under the control of the government that is being audited.

Reducing Uncertainties of Cash Transfers

The cash transfer system should be moved as quickly as feasible to a simple formula-based system, aimed at offsetting revenue and cost disabilities of poorer localities. This would need systematic compilation of not only revenue and expenditure data but also of important economic indicators like provincial GDP, its sectoral composition, demographic structure of population at both national and provincial levels. Though these factors, as noted above, are taken into account at present, the principles of application should be clearly stated and room for discretion limited.

Delineating Responsibilities of Different Levels of Government

The dangers of using better information on local government fiscal activity to exercise greater central control should be avoided as far as possible. Experience in a number of countries around the world ranging from Colombia to the Philippines has demonstrated that such risks exist in practice. Central governments have a natural inclination to direct allocations at lower levels of government, for example, by mandating that an increased share of expenditures be devoted to a particular activity, such as education, or that less should be spent on salaries and more on investment, etc. Such actions are understandable, and may even be defensible in many circumstances. But they are also at some level quite contrary to the very intent of decentralization--namely to recognize local diversity and to encourage local governments to respond flexibly to these differences within the basic rules and framework established by central government policy.

There are alternative, and generally preferable, ways of handling differences between national and local preferences. For example, if the central government particularly wishes to achieve a specific policy goal--for instance, to ensure that every child receives a certain basic standard and level of education regardless of the township or commune in which its parents happen to live--it has the option of providing such services directly
from the central budget and using the information provided by the improved reporting system (and perhaps also other sources such as direct inspection by Ministry of Education officials) to monitor that the resources provided are spent appropriately. In this regard, it is of course important to distinguish clearly between the operations of central agencies at the local level and the operations of local agencies at the local level.

Local officials require a certain degree of flexibility and, within limits, discretion in how they utilize the budgetary resources under their control. This is particularly so if those resources have come from taxes and fees paid by local residents. Fiscal transparency requires that discretionary decisions are clearly and publicly reported and that the local authorities are seen to be accountable for their actions. But if one result is that the central government in effect takes away local flexibility, not only will this be a failure to achieve the stated objective of decentralization but it may also impair the achievement of real transparency. If the results of honest reporting are damaging to those who report honestly, the virtually inevitable consequence will be to force those local officials who wish to respond to the desires and needs of their citizens to bend the rules on transparency—and may thus damage both decentralization and transparency.

Of course, transparency—and, indeed, good governance in general—also requires that officials at all levels of government be fully accountable to those who supply the resources they spend, whether those resources come from local residents or from central revenues. It is difficult to draw a precise line between increasing the availability and dissemination of financial information as an essential element of improved governance, and using information as a tool to exert undue central control over decisions that are essentially local. It seems undeniable that both increased transparency and some degree of increased decentralization appear desirable in Vietnam at present, so the country seems well advised to proceed—as it seems committed to do—on both fronts at once, taking due care to avoid the possible danger alluded to above.

Any potential conflict between decentralization and transparency can be and should be reduced substantially if there is an appropriately clear delineation of the precise allocation of expenditure responsibilities between the different levels of government. Although the 1996 Law on The State Budget in Vietnam has substantially improved matters in this respect, there is clearly still a considerable distance to go before it can be said that, in the words of the Code of Good Practices of Fiscal Transparency, that the "policy and management roles" within the government sector as a whole are "well defined." With respect to education, for example, both the central and provincial government budgets include recurrent expenditures for education managed by central and provincial agencies respectively. At the same time, provincial towns and cities are tasked with spending on the construction of public general education schools at all levels, and communes and townships are charged with providing financial support for extracurricular and pre-school education. Similarly confused and overlapping responsibilities exist with respect to almost every area of expenditure.

Conclusion

Vietnam has made progress in recent years in terms both of clarifying to some extent the assignment of revenues and expenditures to different levels of government and of establishing a sounder basis for budgeting and fiscal reporting. A logical and necessary next step in this process is to improve the transparency of the fiscal system further by
making a variety of budgetary and accounting information more widely available both within the public sector and to the general public. Exactly the same sort of information should be made available at each of the lower levels of government as at the central government level, both for the general reasons favoring transparency set out earlier and to facilitate the efficient functioning of a decentralized government system. More consistent, complete, and timely financial reporting about the activities of lower level governments can and should improve the information base upon which central government policies are formulated and local government policies implemented. Local budgets, even if financed largely by central transfers or shared taxes, should not be seen as simply sub-divisions of the central budget. Central policy-makers should be careful not to misuse such information in an attempt to involve the central government inappropriately in the detailed implementation of policies with respect to which it is agreed that the local authorities should retain some discretion.
ANNEX 1. FISCAL TRANSPARENCY: CODE OF GOOD PRACTICES AND MINIMUM STANDARD REQUIREMENTS

A. The Code of Good Practices --Declaration on Principles25

The Interim Committee stressed the importance of good governance when it adopted the *Partnership for Sustainable Global Growth* in September 1996, and again at its September 1997 meeting in Hong Kong SAR. Fiscal transparency would make a major contribution to the cause of good governance. It should lead to better-informed public debate about the design and results of fiscal policy, make governments more accountable for the implementation of fiscal policy, and thereby strengthen credibility and public understanding of macroeconomic policies and choices. In a globalized environment, fiscal transparency is of considerable importance to achieving macroeconomic stability and high-quality growth. However, it is only one aspect of good fiscal management, and attention has to be paid also to increasing the efficiency of government activity and establishing sound public finances.

Because of its fiscal management expertise and universal membership, the IMF is well placed to take the lead in promoting greater fiscal transparency. The Interim Committee is therefore seeking to encourage IMF member countries to implement the following Code of Good Practices on Fiscal Transparency. The Code is based around the following key objectives: roles and responsibilities in government should be clear. Information on government activities should be provided to the public, preparation, execution, and reporting should be undertaken in an open manner, and fiscal information should be subjected to independent assurances of integrity. The Code sets out what governments should do to meet these objectives in terms of principles and practices. These principles and practices are distilled from the IMF’s knowledge of fiscal management practices in member countries. The Code will facilitate surveillance of economic policies by country authorities, financial markets, and international institutions.

Guidelines to the implementation of the Code are to be provided in a supporting manual, which is currently being developed. The Code acknowledges diversity across countries in fiscal management systems and in cultural, constitutional, and legal environments, as well as differences across countries in the technical and administrative capacity to improve transparency. While there is scope in all countries for improvement with respect to some aspects of fiscal transparency covered in the Code, diversity and differences across countries inevitably imply that many countries may not be able to move quickly to implement the Code. Moreover, it is recognized that there may be a need for technical assistance if existing fiscal management practices are to be changed, and the IMF must be prepared to provide technical assistance, in cooperation with other international organizations, to those countries that request it in connection with improving fiscal transparency. Modifications to the Code should be considered periodically, in light of the experience with its implementation.

I. CLARITY OF ROLES AND RESPONSIBILITIES

1.1 The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.

1.1.1 The boundary between the government sector and the rest of the economy should be clearly defined and widely understood. The government sector should correspond to the general government, which comprises the central government and lower levels of government, including extrabudgetary operations.

1.1.2 Government involvement in the rest of the economy (e.g., through regulation and equity ownership) should be conducted in an open and public manner on the basis of clear rules and procedures, which are applied in a nondiscriminatory manner.

1.1.3 The allocation of responsibilities between different levels of government, and between the executive branch, the legislative branch, and the judiciary, should be clearly defined.

1.1.4 Clear mechanisms for the coordination and management of budgetary and extrabudgetary activities should be established, and well-defined arrangements vis-à-vis other government entities (e.g., the central bank, and state-controlled financial and nonfinancial enterprises) should be specified.

1.2 There should be a clear legal and administrative framework for fiscal management.

1.2.1 Fiscal management should be governed by comprehensive laws and administrative rules applying to budgetary and extrabudgetary activities. Any commitment or expenditure of government funds should have a legal authority.

1.2.2 Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.

1.2.3 Ethical standards of behavior for public servants should be clear and well-publicized.

II. PUBLIC AVAILABILITY OF INFORMATION

2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.

2.1.1 The annual budget should cover all central government operations in detail and should also provide information on central government extrabudgetary operations. In addition, sufficient information should be provided on the revenue and expenditure of lower levels of government to allow a consolidated financial position for the general government to be presented.

2.1.2 Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of key budget aggregates for the two years following the budget.
2.1.3 Statements should be published with the annual budget giving a description of the nature and fiscal significance of contingent liabilities, tax expenditures, and quasi-fiscal activities.

2.1.4 The central government should regularly publish information on the level and composition of its debt and financial assets.

2.2 A public commitment should be made to the timely publication of fiscal information.

2.2.1 Specific commitments should be made to the publication of fiscal information (e.g., in a budget law).

2.2.2 Advance release date calendars for fiscal reporting to the public should be announced.

III. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

3.1 Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.

3.1.1 A statement of fiscal policy objectives and an assessment of sustainable fiscal policy should provide the framework for the annual budget.

3.1.2 Any fiscal rules that have been adopted (e.g., a balanced budget requirement and borrowing limits for lower levels of governments) should be clearly specified.

3.1.3 The annual budget should be presented within a comprehensive and consistent quantitative macroeconomic framework, and the economic assumptions and key parameters (e.g., effective tax rates) underlying budget estimates should be provided.

3.1.4 Existing commitments should be distinguished from new policies included in the annual budget.

3.1.5 Major risks to the annual budget should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).

3.2 Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability.

3.2.1 Government transactions should be on a gross basis, distinguishing revenue, expenditure and financing, and classifying expenditures on an economic and functional basis. In addition, expenditure should be classified by administrative category. Data on extrabudgetary operations should be similarly classified. Budget data should be presented in a way that allows international comparisons.

3.2.2 A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.
3.2.3 The overall balance of the general government should be a standard summary indicator of the government’s financial position. It should be supplemented by other fiscal indicators (e.g., operational balance, structural balance and primary balance) when economic circumstances make it inappropriate to base judgements about fiscal policy stance on the overall deficit alone.

3.2.4 The annual budget and final accounts should include a statement of the accounting basis (i.e., cash or accrual) and standards used in the preparation and presentation of budget data.

3.3 Procedures for the execution and monitoring of approved expenditures should be clearly specified.

3.3.1 A comprehensive, integrated accounting system should be established. It should provide a reliable basis for assessing payments arrears.

3.3.2 Procedures for procurement and employment should be standardized and accessible to all interested parties.

3.3.3 Budget execution should be internally audited, and audit procedures should be open to review.

3.4 Fiscal reporting should be timely, comprehensive, reliable, and identify deviations from the budget.

3.4.1 During the year, there should be regular, timely reporting of budget and extrabudgetary outturns, which should be compared with original estimates. In the absence of detailed information on lower levels of government, available indicators of their financial position (e.g., bank borrowing and bond issues) should be provided.

3.4.2 Timely, comprehensive, audited final accounts of budget operations, together with full information on extrabudgetary accounts, should be presented to the legislature.

3.4.3 Results achieved relative to the objectives of major budget programs should be reported to the legislature.

IV. INDEPENDENT ASSURANCES OF INTEGRITY

4.1 The integrity of fiscal information should be subject to public and independent scrutiny.

4.1.1 A national audit body, or equivalent organization, should be appointed by the legislature, with the responsibility to provide timely reports to the legislature and public on the financial integrity of government accounts.

4.1.2 Macroeconomic forecasts (including underlying assumptions) should be available for scrutiny by independent experts.

4.1.3 The integrity of fiscal statistics should be enhanced by providing the national statistics office with institutional independence.
B. Requirements of a Minimum Standard of Fiscal Transparency

Clarity of Roles and Responsibilities

General government should be defined as in the *System of National Accounts* (SNA, 1993) or the *IMF Manual on Government Finance Statistics*, (GFS, 1986).

- Government equity holdings should be identified.
- Extrabudgetary activities should be subject to government review and priority setting as part of the budget process.
- Significant quasi-fiscal activities (QFAs) of the central bank, PFIs, and NFPEs should be identified.
- A budget law or administrative framework, covering budgetary as well as extrabudgetary activities and specifying fiscal management responsibilities, should be in place.
- Taxation should be under the authority of law and the administrative application of tax laws should be subject to procedural safeguards.

Public Availability of Information

- Extrabudgetary activities should be covered in budget documents and accounting reports.
- Original and revised budget estimates for the two years preceding the budget should be included in budget documents.
- Budget documents should include statements of the main central government contingent liabilities and tax expenditures, and a statement of significant QFAs of the central bank, PFIs and NFPEs.
- The level and composition of central government debt should be reported annually with a lag of no more than six months.
- A statement of fiscal reporting practices should be published.
- Advance release date calendars should be announced for the year ahead showing no later than release dates for annual reports and a range of dates for more frequent reports.

Open Budget Preparation, Execution, and Reporting

- A fiscal and economic outlook paper should be presented with the budget, including a statement of fiscal policy objectives and priorities, a summary of economic prospects, and a qualitative assessment of fiscal sustainability.

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A statement should be made of the medium-term macroeconomic framework for the budget, including the macroeconomic forecasts on which the budget is based. Key forecasting assumptions should also be reported.

A statement of fiscal risks should be presented with the budget documents, including the impact of variations in assumptions on fiscal forecasts, contingent liabilities, and the main uncertainties about the costs of specific programs.

All general government activities should be covered by the budget and accounts classification. Transactions should be recorded on a gross basis, and a classification by economic, administrative, and functional categories should be derived.

The classification system should identify administrative responsibility for the collection and use of public funds.

The overall balance should be reported in budget documents, with an analytical table showing its derivation from budget estimates.

A statement of accounting standards should be presented with the budget.

GDDS standards of periodicity and timeliness for central government reports (each quarter within a quarter) should be followed.

Final central government accounts should reflect high standards of coverage and reliability, should be reconciled with budget appropriations, and should be audited by an independent external auditor. Audited accounts should be prepared within 12 months of the end of a fiscal year.

Independent Assurances of Integrity

Mechanisms should be in place to ensure that external audit findings are reported to the legislature and that remedial action is taken.

Standards of external audit practice should be consistent with international standards.

Working methods and assumptions used in producing macroeconomic forecasts should be made publicly available.
# ANNEX 2. SUMMARY OF REGULATIONS ON PUBLICATION OF BUDGET DATA FOR FY 1999

1. Publication of State Budget of Different Levels of Government

<table>
<thead>
<tr>
<th>Items of Disclosure and Level of Government</th>
<th>Who issues</th>
<th>Disclosure Channels</th>
<th>To Whom</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National</strong></td>
<td>Minister of Finance</td>
<td>Printed Publications</td>
<td>-Not clear from the regulations</td>
<td>-Not later than 60 days after approval by National Assembly</td>
</tr>
<tr>
<td>Aggregate data on Approved Budget and Final Account for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue and Total Expenditure, Deficit Financing (Domestic and Foreign). Expenditure details include: total capital expenditures and total current expenditures for education, training, health, culture, sport and national programs. (See part 5 below from MOF Circular 188 December 1998)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Inter-Ministerial and Central Agency Level</strong></td>
<td>Minister of Finance</td>
<td>-Printed Publications - Written Inter-agency Communication</td>
<td>- Not clear - Central Ministries and Agencies</td>
<td>-Not later than 60 days after approval - Not later than 30 days after approval</td>
</tr>
<tr>
<td>Aggregate annual planned revenue and expenditure assigned/allocated to Ministries and Central agencies by the Prime Minister; their final accounts approved by MOF</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Inter-Provincial Level</strong></td>
<td>Minister of Finance</td>
<td>-Printed Publications - Written Inter-agency Communication</td>
<td>- Not clear - Provinces and Cities under central administration</td>
<td>-Not later than 60 days after approval - Not later than 30 days after approval</td>
</tr>
<tr>
<td>Aggregate annual plan and final account of revenue and expenditure assigned to provinces/cities by the Prime Minister; revenue share percentage, transfers from central government and items of delegated expenditure if applicable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Local Government Levels</strong></td>
<td>Chairmen of People's Committee of various levels</td>
<td>-Printed Publication - Direct reporting at annual meeting of People's Council -Posting at Office of the Commune People's Committee</td>
<td>-Not clear - All people in the commune</td>
<td>- Not later than 60 days after approval - Not later than 15 days after approval</td>
</tr>
<tr>
<td>-Local government's aggregate annual plan and final account of revenue and expenditure decided and approved by People's Council of the same level. Expenditure will be given with details on capital expenditure, current expenditures for education, training, health, culture and sport. For commune level, all details of revenues and expenditures including transfers from higher levels (if applicable) will have to be disclosed through posting at the office of the commune people's committee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Aggregate annual plan and final account of revenue and expenditure of departments of the same level of government approved by People's Committee of that level</td>
<td>- Chairman of People's Committee of corresponding level</td>
<td>- Written Inter-departmental Communication</td>
<td>- Departments and agencies of local government</td>
<td>- Not later than 30 days after approval</td>
</tr>
<tr>
<td>- Aggregate annual plan and final account of revenue and expenditure assigned to lower levels of government; revenue share percentage, transfers from higher level and items of delegated expenditure if applicable</td>
<td>- Chairman of People's Committee of higher level</td>
<td>- Written Inter-governmental Communication</td>
<td>- Lower levels of government</td>
<td>- Not later than 30 days after approval</td>
</tr>
</tbody>
</table>
2. Publication of state budget of spending units

<table>
<thead>
<tr>
<th>Item of Disclosure and Levels of Spending Units</th>
<th>Who issues</th>
<th>Disclosure Channels</th>
<th>To Whom</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending Unit</td>
<td>Head of the Spending Unit</td>
<td>- Printed Publications</td>
<td>- Not clear from the Regulations</td>
<td>- Not later than 60 days after approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Written Inter-Agency communication</td>
<td>- Departments of the Spending Unit</td>
<td>- Not later than 30 days after approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Posting at Office of the Unit/s</td>
<td>- All staff of the Unit and their departments</td>
<td>- Not later than 15 days after approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Reporting to staff meeting of the unit</td>
<td>- All staff</td>
<td>- Not later than 5 days after approval</td>
</tr>
<tr>
<td>Spending Sub-unit</td>
<td>Head of the Spending Unit</td>
<td>- Printed Publications</td>
<td>- Not clear from the Regulations</td>
<td>- Not later than 60 days after approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Written Inter-Agency Communication</td>
<td>- Spending Sub-units</td>
<td>- Not later than 30 days after approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Posting at Office of the Sub-Unit/s</td>
<td>- All staff of the Sub-Units</td>
<td>- Not later than 15 days after approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Reporting to staff meeting of the sub-unit</td>
<td>- All staff</td>
<td>- Not later than 5 days after approval</td>
</tr>
</tbody>
</table>

- Annual allocated budget and annual approved final account of the unit with details according to budget classifications

- Total annual allocated revenue and expenditure and their approved final accounts. Details to be provided are expenditures on salaries/wages, business trips, conferences and meetings; purchase of office vehicles, equipment and working facilities; repair and renovation of office buildings; and capital expenditures.
3. Disclosure of information on financial position of state-owned enterprises

<table>
<thead>
<tr>
<th>Item of Disclosure</th>
<th>Who issues</th>
<th>Disclosure Channels</th>
<th>To Whom</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Capital, assets and the financial situation of enterprises</td>
<td>Chairpersons of the Board of Management or General Directors, and Directors of state owned enterprises (in case of enterprises without Board of Management)</td>
<td>- Printed Publications</td>
<td>- Not clear from the Regulations</td>
<td>- Not later than 60 days after approval</td>
</tr>
<tr>
<td>2. Results of business operations of enterprises</td>
<td></td>
<td>- Posting at Office of the Enterprises</td>
<td>- All staff of the SOE</td>
<td>- No later than 30 days after approval</td>
</tr>
<tr>
<td>3. Establishment, financing and use of different funds at the enterprises</td>
<td></td>
<td>- Reporting to meetings of the Enterprise</td>
<td>- All staff</td>
<td>- Not later than 15 days after approval</td>
</tr>
<tr>
<td>4. Different incomes and average income of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 4. Other Funds with Public Contributions

<table>
<thead>
<tr>
<th>Nature of Fund and Item of Disclosure</th>
<th>Who issues</th>
<th>Disclosure Channels</th>
<th>To Whom and Timing</th>
</tr>
</thead>
</table>
| 1. The objective of the fund's operations and purpose for which various revenues of the Fund are used | Head of management board or owner of the Fund's account | - Public listing at fund’s offices  
- Public announcement at meetings with contributors. | Recipients are not clear from the regulation |
| 2. List of contributors and mobilization methods | | | - Policies on and objectives of fund establishment are made public at the beginning of public mobilization. |
| 3. Levels of contribution | | | - Information of planning characteristic, contribution levels, criteria of fund beneficiaries and all changes related to the above (if applicable) must be publicized at least 15 days prior to their implementation. |
| 4. Operating regulations of Funds, conditions, requirements, benefits and responsibilities of the fund's beneficiaries. | | | - Information about the implementation process and fund utilization must be publicized yearly, no later than February 15 of the following year. |
| 5. Results of using funds for specific purposes | | | - Concerning funds which have used revenues from public contributions for infrastructure construction projects, in addition to yearly publication, publication of detailed accounts of project items must be made no later than 15 days from the day on which the project final accounts are approved. |
| 6. Annual final accounts by expenditure items (if any) and financial statement of funds. | | | |

Besides publication of items listed above, infrastructure construction projects using funds contributed by people must disclose the following information:

1. Total cost estimates for each of the projects in the approved investment plan;
2. Sources of financing, including publicly mobilized funds in particular;
3. Contribution levels of each contributors (total yearly amount and breakdown for each construction projects), duration of mobilization;
4. Construction projects for which bids are open under existing regulations, the results of bidding must be made public, specifically such information as: number of bidders participated, the bid prices offered, the winning firm or individual and the winning bid price;
5. Certificates of accepted bills of quantity and quality, and final accounts of the project.
5. Annex 1 from Ministry of Finance Circular 188/1998/TT-BTC

Data of the State Budget to Be Publicized by the Minister of Finance

*Unit: Dong Million*

<table>
<thead>
<tr>
<th>Items</th>
<th>State Budget Plan (or Final Account)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Total Revenues of the State Budget</td>
<td></td>
</tr>
<tr>
<td>II. Total Expenditures of the State Budget</td>
<td></td>
</tr>
<tr>
<td>III. Expenditures in Key Areas</td>
<td></td>
</tr>
<tr>
<td>- Development</td>
<td></td>
</tr>
<tr>
<td>- Current, of which:</td>
<td></td>
</tr>
<tr>
<td>• Education &amp; training</td>
<td></td>
</tr>
<tr>
<td>• Public health</td>
<td></td>
</tr>
<tr>
<td>• Culture</td>
<td></td>
</tr>
<tr>
<td>• Sports</td>
<td></td>
</tr>
<tr>
<td>IV. Expenditures in the Implementation of Targeted Programs</td>
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<td>- National Program on Public Health</td>
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<td>- National Program on Population &amp; Family Planning</td>
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<td>- National Program on Poverty Reduction</td>
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<td>V. Financing Sources for Deficit</td>
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<tr>
<td>- Domestic financing</td>
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<td>- Financing abroad</td>
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</tbody>
</table>
ANNEX 3. BUDGET MANAGEMENT AND FISCAL TRANSPARENCY IN MALAYSIA

This Annex briefly describes Malaysian budget management practices related to fiscal transparency. The exposition of the Malaysian system follows the broad themes of budget management and control: budget formulation, budget approval, budget monitoring and control, and budget evaluation and audit. Comparable experiences of other countries in this important area of governance are described in boxes at appropriate points.

Budget Formulation

In the previous budget era of the British legacy of line item budgeting, which the Government of Malaysia discarded in 1969, ministries and the Treasury worked out the respective budget allocations through a long drawn out process of haggling over line item details. With the implementation of performance budgeting and the modifications made to the process in 1990, the Treasury, at the outset of the budget process--indeed some 13 months before the start of the proposed budget year--declares its hand by informing agencies of their quantitative budget ceiling. Unlike indicative planning figures, which are subject to further firming up in the course of budget negotiations, these expenditure targets, based on the previous year’s allocation figures, are non-negotiable ceilings for on-going programs. Each agency must comply with the constraint in putting up its budget submission. The budget submissions are basically in the form of sub-divisions of the ceiling across programs and activities. Against these sub-divisions physical performance targets are reported. These budget ceilings have the advantage of:

- Immediately recognizing the primacy of fiscal policy and help resolve the micro-macro conflict that is inherent in any budget process;
- Eliminating the “poker game” between the Treasury and the ministries that went on under the previous regime of line item budgeting; and
- Making more transparent the cost of government programs across government agencies and the proposed budget that the Treasury could afford for the on-going programs of a particular ministry. Previously, agencies got to know only a few months before the start of the proposed budget year, what their budgets were after the onerous and extended negotiations with the Treasury.

Beyond the determination of budget ceilings for individual ministries, the Treasury also circumscribes its expenditure policy by two aggregate constraints:

- No borrowing to finance the operating or recurrent budget; and

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27 Ministries, departments and agencies are used interchangeably.
28 In addition to the expenditure ceilings for on-going programs, the Treasury also entertains requests for additional allocations for new policies, revision of existing policies and for one-offs (non-recurrent expenditures unique to that particular year). Any approvals given for these new policies are added up to the expenditure ceiling to constitute the budget allocation (minus any savings deducted from the on-going programs).
Balanced or surplus budgeting. Should deficit budgeting become inevitable then the fiscal deficit should not exceed one per cent of the country’s GDP.

**Aggregate budget ceilings**: This practice is similar to national aggregate expenditure ceilings imposed by many OECD countries. These ceilings may be based on the previous year’s aggregate budget allocation or expenditure and expressed as:

- Percentage of GDP;
- Balanced budget proposition; or
- Fiscal deficit as a percentage of GDP.

Often, these aggregate ceilings are published. These aggregate targets for the public sector are then sub-divided into sectoral, envelope (Canada), or frame (Sweden) targets. These sectoral targets are then further sub-divided into ministry ceilings. As an illustration of the use of such targets, in 1993 Australia announced that its medium-term expenditure target for the Commonwealth was to bring down the fiscal deficit one percent of GDP by 1996-97. The publication of this target put additional pressure on the government to meet its fiscal goals. Today, as a result of the determination and the publication of its medium-term target, Australia has managed to produce budget surpluses.

Ministries submit to the Treasury, for advice and review, **program agreements** for each activity in their program structure. These are ex ante budget documents listing proposed allocations against performance. Accompanying these agreements are ex post performance exceptions reports on the achievement of the performance targets set in the previous budget year. These reports identify where performance has been inconsistent to the targets set, the reasons for the inconsistent performance and the steps to be taken to prevent its recurrence. Program agreements make transparent ministries’ priorities in their sub-allocation of the expenditure ceiling; the performance targets that have been set for achievement in the budget year; the broad link between inputs and outputs; and the envisaged performance levels in the coming budget year. Program agreements contain the following information:

- The source of legislative or ministerial authority for implementing the activity;
- The objectives and functions of the activity;
- The policy needs and problems analysis that this activity has been designed to solve and the constraints faced by the activity in their resolution.
Program agreements in other countries: A number of countries have arrangements similar to Malaysia’s program agreements:

In Australia resource agreements between the Department of Finance and the departments in Australia, among other things determine, by means of a pre-set formula, additional funding for work load increases beyond the level catered for in the budget for on-going programs determined by the forward estimates. The cycle of program evaluations where the Treasury requires each department to suggest an evaluation of each activity at least once in a period of five years is also similar to the Malaysian system of performance management.

In the United Kingdom, agency business plans, in particular the performance contracts between a CEO and the minister in the UK, spell out the performance envisaged for the budget year. While this information may be similarly incorporated in it, the CEO contract with the minister of the relevant department specifies in quantitative terms the performance expected from the CEO and the agency for the budget and the autonomy over it.

CEO contracts with the respective ministers under the output budgeting system of New Zealand.

Performance contracts between the central finance ministry and departments in the Netherlands. These non-legally binding contracts seek, like the Malaysian program agreements, to forge the link between resources and physical performance.

In Canada, the Memoranda of Understanding between the Canadian Treasury Board and the ministries sets out the envisaged departmental performance for the budget allocated. The cycle of program evaluations instituted by the ministries in Canada also closely corresponds to a similar requirement under the Malaysian program agreements.

Like Malaysia, many of these documents are restricted documents and, as such, are unavailable to the public in their original form. However, these countries publish the substantive contents of these documents. The publication is either in a document that accompanies the budget appropriation book - as is the case with Malaysia - or in individual ministry annual reports – as in New Zealand, Australia and the UK - for legislative and public consumption. These reports, as part of budget documentation, contain a large part of performance information contained in the restricted performance contract documents.

- The strategy of implementation;
- The clientele being served by the activity;
- The financial resources required by expenditure summaries and by functions for the past, current and budget year;
- The manpower/staffing required for the past, current and budget year;
- Quantifiable targets for performance indicators – output quantity, quality, timeliness and costs for the past, current and budget year;
- Impact indicators and assessment for the past, current and budget year; and
- Evaluation plans.
Budget Formulation for Development Expenditure

While the annual budget ceilings are fixed for the recurrent or operating expenditure, the government also works under an aggregate five-year budget constraint in formulating its five-year development plan. The overall aggregate target is arrived at based on:

- the forecast of the performance of the economy;
- the targeted level of macro-economic indicators – per capita GDP, inflation rate, growth rate, hard-core poverty level
- the absorptive capacity of the economy of public expenditures to ensure that public investments do not crowd out private sector investments; and
- the level of external financing required to meet the expenditure during the plan period.

Agencies are informed of these policy outcomes and the policy priorities. They are also given information on the overall and sectoral targets and the criteria that the government will employ in the selection of capital projects for funding under the plan. Such transparency in policy priorities and selection criteria enable agencies to submit projects that are consonant with the policy priorities.

Budget Approval

Once the Treasury certifies the appropriateness of the sub-allocation of a ministry’s expenditure ceiling and is happy with the performance targets set, it submits the information contained in the program agreements to the Minister of Finance, Cabinet and to Parliament. The information is communicated in two budget books – the Annual Budget Appropriation Book, and the Program and Performance Budget Estimates (See description in Table 3.1).

Additionally, the Treasury publishes for public consumption the budget speech of the minister of finance when tabling the budget before the parliament. The speech contains the following information: the expected economic outlook and revenue forecast for the budget year; the fiscal and socio-economic policies and strategies of the government in the budget year and the years ahead; the aggregate totals of allocations for the various socio-economic sectors and programs; and the rationale for the allocations.
**Budget documentation in other countries:** While the depth and scope of details may vary, such information is contained in budget documents of many Commonwealth countries and those of the OECD. Countries with multi-year budgeting, such as Australia, UK, Germany, US, Canada and New Zealand with their system of a three-year forward estimates or forecasts, also publish these estimates. Information contained in the budget documents makes transparent to the public the government's:

- structure, objectives, functions, strategies and policy priorities;
- the relative composition of recurrent and capital expenditures;
- new policies approved;
- the past, current and budget year’s physical and financial performance; and
- where forward estimates are published, the legislature and the public can assess the long-term direction of public expenditure and the fiscal consequences of additional allocations for new policies.

Such information allows the informed public to:

- assess the appropriateness of the fiscal and socio-economic policies;
- assess the correspondence of government allocations to its stated socio-economic objectives;
- hold the government accountable for the stated expenditures. The government would have to go back to the legislature and justify any changes to its budget midway during budget execution;
- provide an informed criticism or second opinion regarding the government’s policies, chosen strategies and its priorities as reflected in the budget allocations.

As a compendium to the budget appropriation book, the Treasury also tables before the Parliament a Treasury Economic Report (see Table 3.1). This report also becomes available to the public once the Minister of Finance finishes his budget speech in Parliament.

**The five-year development/capital budget approval**

While the above practices apply for annual recurrent and development expenditures, there is also the same level of, if not greater, transparency in the five-year budgeting for capital expenditure. The government makes known its long-term strategic development priorities in its outline perspective plan. There have been two such long-term plans. The first extended from 1970-1990 while the second extends from 1991 to 2000. The second outline perspective plan, especially, seeks to make concrete the Malaysian government long range vision, encapsulated in its Vision 2020, to be a fully developed, industrial and information rich society come 2020.

These outline perspective plans are then fleshed out in the five-year development plans where strategic development priorities take more concrete shape in terms of five-year capital/development allocations to the various socio-economic sectors. The five-year plans spell out the specific policy priorities and outcomes over the plan period for the expenditures envisaged in the various sectors. These plan documents are sold to the public after Parliament has voted upon the budget over the five-year term.
Publication of the Malaysian five-year plan document informs the public of:
the government’s long range socio-economic policies and sectoral priorities; the progress of the previous five-year development plans; rationale for the proposed budget by sectors and programs for the forthcoming plan; and the previous plan budget and expenditure and the proposed plan budget for the sectors and programs.

Through such reporting, the government openly declares its committing to achieving its policies and outcomes. It also ensures that government intentions are executed as the public can easily assess whether allocations by sectors are true to the government’s policy priorities.

**Budget Monitoring and Control**

During the course of budget execution the ministries submit to the Treasury the following reports by programs, activity and responsibility centers:

- quarterly, cumulative and annual statements of the operating and capital expenditures by expenditure summaries; and

- quarterly, cumulative and annual statements of revenue collection according to the revenue classification code; and

- physical performance of capital projects.

The Prime Minister’s Department is also appraised of the physical and financial performance of capital projects. This department, upon request, informs the executive - the cabinet – of the progress of the projects accordingly.

These reports are usually submitted within a fortnight after the end of the due period. Additionally, ministries submit to the Treasury an up-to-date report of the status of their expenditure whenever they make to the Treasury a supplementary allocation request or a request to transfer funds across programs. These status reports help the Treasury to make an informed assessment of the resource needs of the ministry making such a request.

In addition to ministries doing so, the Accountant-General’s Office also submits monthly, quarterly, cumulative and annual statements of expenditures and revenue. The Accountant-General is able to do so as he is the government’s paymaster. In the course of making payments, the Accountant-General also undertakes a control function in that payments are only made if the payment vouchers from the spending units are in order
with supporting documents, there is sufficient allocation to absorb the payment and the payment is itself in accordance with the rules and regulations. When payments are made, the respective departmental allocations are debited by a corresponding accounts and the allocation balances are up-dated automatically. Given the extensive computerization of the Accountant-General’s accounting system, he is able to report to the Treasury of the consolidated financial performance of the ministries by responsibility centers, programs, activities and economic expenditure classification within a week after the close of a month.

Ministries also report their operating expenditures by their responsibility centers, programs and activities. The expenditure items are reported on all three levels of expenditure classification - general, standard and detailed objects of expenditure. Capital expenditures are reported by ministry and by projects and expenditure categories as approved by the legislature.

The periodic reports by both the ministries and the Accountant-General help the Treasury to assess the extent of resource usage vis-a-vis the stage in the budget year and to alert a ministry of a possible shortfall or overrun of expenditures.

**Budget Evaluation and Audit**

As part of the process of reporting to the Treasury, agencies are required to submit their evaluation reports on the progress of the achievement of the objectives of the programs and activities according to the evaluation plan that had been submitted under the program agreements. The periodic assessment of project implementation is also submitted to the Prime Minister’s Department.

The Economic Planning Unit of the Prime Minister’s Department undertakes a full-scale review during the middle of the plan period, the progress of the implementation of the five-year development plan. The evaluation is disclosed in the Mid-Term Review which is submitted to Parliament for approval and is also released for public consumption. This progress report also recommends for parliamentary approval, any adjustments that need to be made to either the aggregate plan expenditure ceiling and or the ceilings of individual projects. Such adjustments may become imperative under changed fiscal and economic circumstances.
As is the requirement under the law, the Accountant-General is legally bound to submit an annual financial statement to the Auditor-General for an independent audit of the public accounts. The practices in Malaysia follow well established practices for auditing of the public accounts including those of departments by an independent external agency – that is independent of the government of the day. This is a cherished institution in almost all OECD and Commonwealth countries. Indeed it is virtually a universally accepted practice, being also an enshrined feature of the French-based system, the Spanish, and the US-style presidential system.

Appointed by the King, the Auditor-General carries out a financial compliance audit and a value-for-money audit over departmental expenditures. In the former, the Auditor-General seeks to establish the integrity and regularity of expenditures, that is, whether the expenditures have been incurred in accordance with the rules. In value-for-money audit the Auditor-General seeks to establish whether the expenditures were made efficiently and economically without wastage.

The Auditor-General’s findings are submitted to the relevant departments which are required to respond to the queries. Failure to offer a satisfactory explanation to any alleged discrepancy in the accounts or mismanagement of funds results in the finding being enclosed in the Auditor-General’s Annual Report to Parliament. The Public Accounts Committee of Parliament (PAC) then acts upon this report. The PAC calls to task departmental heads whose expenditures have been criticized by the Auditor-General in his report. Based on their explanation, the PAC then makes its recommendations to the Parliament and extends a copy of these to the Treasury and the Public Service Department for follow-up action. Disciplinary action against the errant department heads is not precluded in this follow-up action.

The follow-up action completes the cycle of expenditure management from budget formulation, through budget approval and monitoring to budget evaluation and audit.

**Conclusion**

The reporting systems both within the public service and the disclosures to the legislature and the public considerably ensure fiscal transparency. The reporting within and without the public service also considerably measures up to the principles of fiscal transparency enunciated by the IMF. Malaysia is not alone in instituting the fiscal transparency initiatives. It shares common characteristics with other countries, especially those with British-style budgetary institutions and parliamentary democracy. While the nature and the scope of reporting may vary, the public in these countries gets to know the fiscal and economic policies and strategies and the allocations across government programs. In many cases, they are even appraised of the past, current and proposed financial and physical performance of government activities. As such, they are able to make informed assessment of the direction of the state budget and the value secured from the public expenditure. Such reporting also provides the government with a second opinion over its public expenditure management. And these are precisely the goals of fiscal transparency.
### Table 3.1 Publicly Available Budget Documents in Malaysia

<table>
<thead>
<tr>
<th>1. Annual Budget Appropriation Book (About 300 pages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of allocations – recurrent and capital - by 55 ministries/departments</td>
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<tr>
<td>Recurrent allocations by:</td>
</tr>
<tr>
<td>individual ministries</td>
</tr>
<tr>
<td>programs</td>
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<tr>
<td>activities</td>
</tr>
<tr>
<td>five broad economic expenditure classifications (emoluments, supplies and services, asset purchases, grants and other committed expenditures, other expenditures)</td>
</tr>
<tr>
<td>Aggregated detailed recurrent allocations (about 27 expenditure items) by 55 ministries/departments</td>
</tr>
<tr>
<td>Capital allocations by:</td>
</tr>
<tr>
<td>individual ministries</td>
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<tr>
<td>project blocks</td>
</tr>
<tr>
<td>projects</td>
</tr>
<tr>
<td>broad expenditure categories</td>
</tr>
<tr>
<td>Summary by economic classification of revenues expected by ministries/departments</td>
</tr>
<tr>
<td>Total staff strength by ministries/departments</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Establishment Book (250 pages)</th>
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</thead>
<tbody>
<tr>
<td>Staff categories and respective strength by ministries/departments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Program and Performance Budget Estimates (250 pages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent expenditure summaries by ministries/departments</td>
</tr>
<tr>
<td>The following data by ministries/departments:</td>
</tr>
<tr>
<td>objectives</td>
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<tr>
<td>strategy</td>
</tr>
<tr>
<td>summary of past year’s expenditure, current year’s allocation and budget year’s allocation by programs and activities</td>
</tr>
<tr>
<td>For each program/activity:</td>
</tr>
<tr>
<td>objectives and an explanation of the functions of the activity including sub-activity classification</td>
</tr>
<tr>
<td>summary of past year’s expenditure, current year’s allocation and budget year’s allocation by broad expenditure classification</td>
</tr>
<tr>
<td>summary of past year’s performance achievement, current year’s performance targets and performance targets for the budget year</td>
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<tr>
<td>qualitative write-up of the performance and impact</td>
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<table>
<thead>
<tr>
<th>4. The Treasury Economic Report (200 pages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of key macro-economic indicators</td>
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<tr>
<td>Expenditures by functions and sectors over ten-years</td>
</tr>
<tr>
<td>Imports and exports by countries over a ten-years</td>
</tr>
<tr>
<td>Global economic outlook – past trends and future prospects</td>
</tr>
<tr>
<td>Domestic economic scenario – past trends and future prospects</td>
</tr>
<tr>
<td>Expenditure trends and analyses by functions and sectors</td>
</tr>
<tr>
<td>Expenditure profiles for the current year and the budget year by economic classification</td>
</tr>
<tr>
<td>Federal finances and debt – internal and external - profiles</td>
</tr>
<tr>
<td>Investment-savings profiles</td>
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<tr>
<td>Growth of key economic sectors in the current year and the forecast for the budget year</td>
</tr>
<tr>
<td>The forecast macro-economic indicators, such as inflation, growth rates, employment, savings-investment ratios</td>
</tr>
<tr>
<td>Macro-economic assumptions underlying these forecast indicators in the budget year</td>
</tr>
<tr>
<td>Grants to states</td>
</tr>
</tbody>
</table>
5. The Annual Budget Speech (40 pages)

- Budget strategies
- Global economic trends
- Country’s economic performance – past and expected in the budget year
- Government’s socio-economic policy priorities and their manifestation in the allocations recommended to Parliament in the Budget Appropriation Book
- Rationale and justification for the proposed functional and sectoral allocations
- Fiscal measures and incentives – changes in customs duties and income and corporate taxes, tax holidays

6. The Five-Year Development Plan (300 pages)

- National development policies and strategies
- Macro-economic targets during the plan period and the underlying assumptions for the targets
- Review of progress of the previous five-year plans
- Current priorities and allocations by sectors
- Rationale and justification for the proposed sectoral and key project allocations

7. The Mid-Term Review (200 pages)

- Review of the achievement of the policies and strategies set in the current five-year plan
- Changes to the macro-economic targets and their justification
### ANNEX 4. ASSIGNMENT OF FISCAL RESPONSIBILITIES AMONG LEVELS OF GOVERNMENT

#### Part I: Revenue Assignment in Vietnam

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<tr>
<th>I. Central Revenues (Article 28)</th>
<th>II. Revenues of Provinces (Article 30)</th>
<th>III. Revenues of Districts (Article 32)</th>
<th>Revenues of Communes and Townships (Article 34)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 100% Assigned</td>
<td>1. 100% Assigned.</td>
<td>1. 100% Assigned.</td>
<td>1. 100% Assigned.</td>
</tr>
<tr>
<td>a. Value Added tax on imported goods</td>
<td>a. Trade license tax excluding the tax paid by individuals and small businesses in communes and townships;</td>
<td>a. Trade license tax paid by individuals and small business groups;</td>
<td>a. Trade license tax paid by individuals and small business groups;</td>
</tr>
<tr>
<td>b. Import tax, export tax</td>
<td>b. Slaughtering tax paid by slaughtering enterprises located in wards;</td>
<td>b. Animal slaughtering tax;</td>
<td>b. Animal slaughtering tax;</td>
</tr>
<tr>
<td>c. Special Consumption tax excluding:</td>
<td>c. Fees and charges collected from activities of the agencies under the management of the district level administration;</td>
<td>c. Fees, charges and contributions to the commune or township in accordance with the law;</td>
<td>c. Fees, charges and contributions to the commune or township in accordance with the law;</td>
</tr>
<tr>
<td>the tax on home-made playing cards; votive papers and objects; services related to dancing halls; massage parlors; or karaoke bars; golf membership cards and playing tickets; casino business; jackpot games; horse racing and car racing betting tickets.</td>
<td>d. Revenues collected from non-business activities of units under the management of district level administration;</td>
<td>d. Revenues from the use of public land and from other public property;</td>
<td>d. Revenues from the use of public land and from other public property;</td>
</tr>
<tr>
<td>d. Income tax on enterprises under the whole-branch accounting system</td>
<td>e. Revenues mobilized from organizations and individuals for investment in infrastructure projects according to government stipulation;</td>
<td>e. Revenue collected from non-business activities managed by the commune or township administration;</td>
<td>e. Revenue collected from non-business activities managed by the commune or township administration;</td>
</tr>
<tr>
<td>e. Taxes and revenues from petroleum industry to be remitted to the central budget as stipulated.</td>
<td>f. Voluntary contributions from domestic and foreign organizations and individuals</td>
<td>f. Voluntary contribution to the communes and townships;</td>
<td>f. Voluntary contribution to the communes and townships;</td>
</tr>
<tr>
<td>f. Income from State controlled capital, capital recovered from economic establishments, recovery of State loans and interest on them, income from the State reserve fund.</td>
<td>i. Balance from the previous year;</td>
<td>g. External aid given directly to communes and towns in accordance with the provisions of law;</td>
<td>g. External aid given directly to communes and towns in accordance with the provisions of law;</td>
</tr>
<tr>
<td>g. Government borrowing; external grants</td>
<td>j. Additional allocations made in the central budget;</td>
<td>h. Balance from the previous year;</td>
<td>h. Balance from the previous year;</td>
</tr>
<tr>
<td>h. Fees, charges and other revenues as stipulated by the government.</td>
<td>k. Other revenues prescribed by law.</td>
<td>i. Additional allocations from the higher level budget;</td>
<td>i. Additional allocations from the higher level budget;</td>
</tr>
<tr>
<td>i. Balance from the previous year</td>
<td></td>
<td>j. Other revenues as prescribed by law.</td>
<td></td>
</tr>
<tr>
<td>2. Revenues Shared with Local Budget.</td>
<td>2. Revenues shared with the Centre according to Article 28 (2). The division of these revenues to different levels of local government will be decided by the provincial administration.</td>
<td>2. Revenues shared with the provincial - level budget as prescribed in Clauses 2, 3, and 4 of Article 30.</td>
<td>2. The revenues shared with provincial and district budgets as prescribed in Clauses 2, and 4 of Article 30 of this Law.</td>
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<tr>
<td>e. Tax on the use of State capital</td>
<td>3. Revenues shared with district, commune or township budgets;</td>
<td>a. Tax on the transfer of land use right;</td>
<td>b. House and land tax;</td>
</tr>
<tr>
<td></td>
<td>c. Land use levy.</td>
<td></td>
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<tr>
<td></td>
<td>4. Revenues shared with province, district, commune, township or ward budgets;</td>
<td>a. Tax on the use of agricultural land;</td>
<td>At least 20% of this tax should be assigned to commune</td>
</tr>
<tr>
<td></td>
<td>b. Natural resources tax;</td>
<td>c. Registration fees on house and land;</td>
<td>d. Special consumption tax excluding those specified in Article 28 (1c);</td>
</tr>
</tbody>
</table>
### Part 2: Expenditure Assignment in Vietnam

<table>
<thead>
<tr>
<th><strong>Central Government</strong> (Article 29)</th>
<th><strong>Provincial Government</strong> (Article 31)</th>
<th><strong>Districts</strong> (Article 33)</th>
<th><strong>Commune/Township</strong> (Article 35)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Regular spending on:</td>
<td>1. Regular spending on:</td>
<td>1. Regular spending on:</td>
<td>1. Regular Spending on:</td>
</tr>
<tr>
<td>(a) Non-commercial activities in</td>
<td>(a) Non-commercial activities in the</td>
<td>(a) Non-economic spending</td>
<td>(a) Social work and activities in</td>
</tr>
<tr>
<td>education, training, health-care,</td>
<td>field of economy, education, training,</td>
<td>on economic, cultural,</td>
<td>the fields of culture, information</td>
</tr>
<tr>
<td>social affairs, culture,</td>
<td>health-care, culture, information,</td>
<td>communication, physical</td>
<td>and sports managed by the commune</td>
</tr>
<tr>
<td>information, physical training</td>
<td>physical training and sports, social</td>
<td>training and sport and</td>
<td>or township;</td>
</tr>
<tr>
<td>and sports, science, technology</td>
<td>affairs, science, technology,</td>
<td>social activities managed</td>
<td>(b) Financial support for extra-</td>
</tr>
<tr>
<td>and environment and other</td>
<td>environment and other non-economic</td>
<td>by district administration;</td>
<td>curricular education, child care</td>
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<tr>
<td>operations managed by the</td>
<td>operations managed by the central</td>
<td>particularly spending on</td>
<td>centers and kindergartens managed</td>
</tr>
<tr>
<td>government;</td>
<td>agencies;</td>
<td>education, training, and</td>
<td>by the commune or township;</td>
</tr>
<tr>
<td>(b) Non-commercial activities</td>
<td>(c) National defense, security and</td>
<td>health as assigned by the</td>
<td>(c) Health care activities in</td>
</tr>
<tr>
<td>managed by the central agencies;</td>
<td>social order and safety, excluding</td>
<td>provincial government;</td>
<td>commune or township;</td>
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<td>(c) National defense, security</td>
<td>those assigned to local governments;</td>
<td>(d) The defense, security</td>
<td>(d) Management, repair or</td>
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<td>and social order and safety,</td>
<td>(e) Activities of the agencies of the</td>
<td>and social safety and</td>
<td>maintenance of architectural</td>
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<td>excluding those assigned to local</td>
<td>state, the Communist Party of Vietnam</td>
<td>order and safety assigned</td>
<td>projects, public properties,</td>
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<td>governments;</td>
<td>and other socio-political organizations;</td>
<td>to the district;</td>
<td>welfare projects, and roads</td>
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<td>(d) Operations of the central</td>
<td>(f) The activities of the district</td>
<td>(e) The activities of the</td>
<td>(e) Activities of the agencies of</td>
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<td>agencies and the Communist</td>
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<td>Communist Party of Vietnam, and socio-</td>
<td>the Communist Party of</td>
<td>of Vietnam and socio-political</td>
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<td>socio-political organizations;</td>
<td>political organizations at provincial</td>
<td>Vietnam and other socio-</td>
<td>organizations;</td>
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<td>(e) Price subsidies in</td>
<td>level;</td>
<td>political organizations;</td>
<td>(f) Activities of the agencies of</td>
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<td>accordance with State policies;</td>
<td>(g) Financing social and socio-</td>
<td>(g) Financing district</td>
<td>the state, the Communist Party</td>
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<td>(f) National Program managed by</td>
<td>professional organizations at the</td>
<td>social organizations,</td>
<td>of Vietnam and socio-political</td>
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<td>the Central government;</td>
<td>provincial level according to the</td>
<td>socio-professional</td>
<td>organizations;</td>
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<tr>
<td>(g) Support for social insurance</td>
<td>provisions of Law;</td>
<td>organizations in accordance</td>
<td>(h) Activities of the agencies of</td>
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<td>fund as provided by the</td>
<td>(e) Implementation of social policies</td>
<td>with the provisions of Law;</td>
<td>the state, the Communist Party</td>
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<td>government;</td>
<td>managed by the province;</td>
<td>(f) The national programs</td>
<td>of Vietnam and socio-political</td>
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<td>(h) Subsidy to eligible</td>
<td>(f) The national programs assigned</td>
<td>assigned by the Government</td>
<td>organizations;</td>
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<td>individuals according to the</td>
<td>by the Government;</td>
<td>by the Government to</td>
<td>(i) Economic, social, cultural,</td>
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<td>social policies implemented by</td>
<td>(g) Price subsidies in accordance</td>
<td>provincial management;</td>
<td>communication, physical</td>
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<td>the central government;</td>
<td>with state policies;</td>
<td>(h) Interest on borrowing</td>
<td>training and sport and social</td>
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<td>(i) Interest payments on</td>
<td>(i) Other expenditures stipulated by</td>
<td>for investment as</td>
<td>activities managed by district</td>
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<td>borrowing;</td>
<td>Law;</td>
<td>allowed by the Government;</td>
<td>administration;</td>
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<td>(j) Aid;</td>
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<td>(j) Other expenditures</td>
<td>particularly spending on</td>
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<td>(k) Other expenditures</td>
<td></td>
<td>stipulated by Law.</td>
<td>education, training, and health</td>
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<td>stipulated by Law.</td>
<td></td>
<td></td>
<td>as assigned by the provincial</td>
</tr>
</tbody>
</table>

- Regular expenditure on:  
  - Economic, social, cultural, communication, physical training and sport and social activities managed by the central government; 
  - National defense, security and social order and safety managed by the central government; 
  - Activities of the central agencies, the Communist Party of Vietnam, and socio-political organizations; 
  - Financing social and socio-professional organizations at the central government; 
  - Implementation of social policies at the central government; 
  - Other expenditures stipulated by Law.
2. Investment Expenditures on:
   (a) Socio-economic infrastructure projects of non-commercial nature managed by the Central government;
   (b) Investment in State enterprises, contribution of capital to joint ventures with enterprises in areas warranting State participation in accordance with the Law;
   (c) Expenditures on National Investment Reserve Fund and Development Support funds for development programs and projects;
   (d) The State reserve;

2. Investment expenditures:
   (a) Socio-economic infrastructure projects of non-commercial nature managed by provinces;
   (b) Investment and capital support for State enterprises in accordance with the provisions of Law.

2. Investment expenditures:
   Socio-economic infrastructure projects as assigned by provincial level. Provincial capitals and towns shall be assigned the task of building public schools, of all levels and public utilities such as electric lighting, water supply, and drainage, urban traffic, traffic safety, and urban sanitation.

2. Spending on Investment:
   Construction of socio-economic infrastructure projects in accordance with the assignment and responsibilities by the province.

3. Repayment of loans;
4. Contribution to financial reserve fund;
5. Contribution to lower level budgets.

3. Repayment of Loans;
5. Contribution to lower level budgets.

3. Contributions to lower level budget.
Part 3: Classification of Investment Projects in Vietnam

Group A Projects

1.1 Security and defense related projects, projects of strategic interest, projects of important political and social significance (regardless of the size of investments)
1.2 Manufacturing of toxic materials and explosives (regardless of the size of investment)
1.3 Large investment projects
   More than 400 billion VND in respect of projects of industries such as:
   - Electric power; oil and gas; chemicals; fertilizer, machine tools; cement; metallurgy, mineral exploration and processing, bridges, seaports, airports, railways and highways.
   - More than 200 billion VND in respect of projects of the industries such as: irrigation, transportation (except those in point a), water supply and drainage and technical infrastructure, electric, electronics, information, machine building, material production, post and telecommunications.
   - More than 100 billion VND in respect of projects such as: domestic built-operate and transfer (BOT) projects, infrastructure, new urban areas, projects industries such as light industries, ceramics, chinaware, glassware, pharmaceutical chemistry, medicines, national parks, natural reserve zones, construction materials, agro-forestry products, fisheries, processing of agro-forestry products.
   Projects such as: health care, culture, education broadcasting, television, civil construction, storage, tourism, sports, scientific research and other projects with more than 75 billion VND capital.

Group B Projects

2.1 Projects with capital from 30 billion VND to 400 billion VND in industries such as: electric power, oil and gas, chemicals, fertilizer, machine building, cement, metallurgy, mineral exploration and processing, bridges, sea ports, airports, railways, and highways.
2.2 Projects with capital from 20 billion VND to 200 billion VND in industries such as: irrigation, transportation (excluding those included in 2.1), water supply and drainage, technical infrastructure projects, electricals, electronics, information technology, other machine building projects, material production, post and telecommunications.
2.3 Projects with capital from 15 billion VND to 100 billion VND in industries such as domestic BO T, infrastructure projects, new urban areas, light industries, ceramics, chinaware, pharmaceutical chemistry, medicines, national parks, natural reserve zones, construction equipment, agro-forestry production, fisheries, and processing of agro-forestry products.
2.4 Projects with capital from 7 billion VND to 75 billion VND in: health care, culture, education, radio broadcasting, television, construction, storage, tourism, sports, scientific research and other projects.

Group C Projects

3.1 Projects with value less than 30 billion VND in industries such as electric power, oil and gas, chemistry, fertilizer, machine building, cement, metallurgy, mineral exploration and processing, bridges, seaports, airports, railways, highways.
3.2 Projects with value less than 20 billion VND in sectors such as irrigation, transportation (except those specified in 3.1), water supply, drainage and sanitation, technical infrastructure projects, electrical and electronic industries, information technology, machine building projects, material production, post and telecommunications.
3.3 Projects with value less than 15 billion VND in domestic BOT, infrastructure projects, new urban areas, light industries, ceramics, chinaware, medicines and pharmaceuticals, national parks, natural reserve zones, construction equipment, agro-forestry production, aquatic product rearing, processing of agro-forestry products.
3.4 All other projects with total investment less than 7 billion VND.
ANNEX 5. CHANGES IN THE TEXT OF FEBRUARY REPORT

- Page 2, last paragraph: “30 days” were replaced by “30-60 days”
- Page 3, third bullet paragraph: “reporting” was replaced by “reporting to MOF” and “development” by “development by MOF”
- Page 10, last paragraph, second line: “criticism by opponents” were replaced by “debate”; last line: “criticism” was replaced by “wider debate”
- Page 22, paragraph 4, the sentence “the absence of a functional classification ....spending” was changed to “the absence of a GFS-consistent functional classification and the lack of detailed information on provincial spending”
- Page 22, last paragraph, “special revenues” were replaced by “off-budget revenues”
- Page 38, second last paragraph- the sentence “However, overlap in expenditure assignments across different levels and uncertainty over the size of cash transfers to provinces contribute to non-transparency in process and uncertainty in outcomes” was changed to “However, non-uniformity in expenditure assignments across different levels of local government and uncertainty in the size of real cash transfers to province contribute to non-transparency in process and uncertainty in outcomes in terms of the provision of services”.
- Page 39: the last sentence of the third paragraph was replaced by “But it may also create disincentives for collecting central revenue”
- Page 39, second last paragraph

The sentence: “The size of transfers are negotiated each year. Provincial expenditures on different services thus depend on the bargaining skills of the provinces, rather than wholly on considerations of equity and efficiency as they should”

was replaced by “The size of the nominal value of transfers are negotiated at the beginning of a period of three to five years and remain fixed thereafter for that period with annual adjustment to be made for changes in inflation and economic growth. But those annual adjustments do not maintain real value of transfers. Provincial expenditures in poorer provinces are vulnerable to changes in the real value of cash transfers, whereas those in richer provinces are not”.
- Page 40, second line, “of the MOF” were deleted.
- Page 41, “from a negotiated system” were taken out from the second sentence from the bottom of the page.

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