

Since the delegation of budgetary control was referred to as one of the most important issues in the task of ruling a locality, local budget has become an inseparable part of the state budget and contributed a lot to the national defense and economic development.

However, in a short time after the Liberation Day and especially after the introduction of the market economy, the mechanism for delegating budgetary control to local governments has revealed a lot of shortcomings. Rights and duties of local authorities in controlling local budget also need to be made clearer.

Authorities in some coastal prov-

21.6% and service 31.6%. The gross product increases by 6.5% a year (compared with the national average of 7.9% and the growth rate of 4.9% in the Mekong Delta) and ranks 6th among seven economic zones of the country.

Generally, agriculture is still the main economic activity in CVCPs. In infrastructure development, investment from local budget is limited and grants-in-aid are small. Reform in the mechanism for budget control and economic management is carried out very slowly. This has become an obstacle to the economic development in this zone. So in our opinion, the problem is how to enhance the budgetary con-

trol with a view to making changes to the economic structure and investment structure.

2. Employment of budget receipts in CVCPs

Around 12% of local gross product is put in local budget every year and budget receipts have increased by some 31% in the 4-year period from 1991 to 1994, however, the budget income is uneven over provinces, local governments have different opinions about certain taxes and fees, local residents have made many complaints against certain fees set up by local authorities, the machinery for collecting taxes and controlling tax take ran badly and

DELEGATION OF LOCAL BUDGETARY CONTROL IN COASTAL PROVINCES OF CENTRAL VIETNAM: SITUATION AND SUGGESTIONS

by KHÁNH CƯỜNG

inches of Central Vietnam (mentioned here are Bình Định, Phú Yên, Khánh Hoà, Bình Thuận and Ninh Thuận) have made a lot of efforts but failed to make changes to the situation because of the inertia of the mechanism and disadvantageous climatic conditions.

In order to tap potentialities existing in coastal provinces of Central Vietnam (CVCPs) where climatic conditions are unfavorable, it's necessary to make plans for economic reform in which the plan for budgetary control will play a central part.

I. SITUATION OF LOCAL BUDGET OF CVCPs

1. An outline of socio-economic situation in CVCPs

This 5-province zone has a total area of 28,000 sq.km, and a population of 4,432,930 people. The population increases by 2.26-2.69% annually. The per capita income is around US\$150 a year. In their gross product, agriculture represents 46.68%, manufacturing industry



failed to meet requirements posed by the market economy and economic reform.

3. Budget expenditure

In CVCPs, budget expenditure was kept below budget income. Grants-in-aid were turned into investments. There was a permanent shortage of fund for regular expenditure. Spending on administrative machinery usually ate into funds for development investment and subsidies to subordinate authorities.

Many expenditures were unreasonable or excessive, however, certain expenditures were limited too much by the central government.

4. Balance between budget income and expenditure

In present mechanism, grants-in-aid are used for balancing the local budget if expenditure exceeds income. On the contrary, if the income exceeds the expenditure at the end of the fiscal year, the excess will be at disposal of local authorities.

At present, there is no way of re-

ducing the supply of grants-in-aid to local governments, or subsidies to subordinate authorities, because local authorities can't change the economic structure by themselves, but in this situation, it's difficult for the central government (or provincial one) to control the budget of subordinate authorities or help to change local economic structure.

5. Conclusions of the budgetary control in CVCPs

a. Achievements

- After the introduction of economic reform, the budget income was improved remarkably, from the state of depending on foreign aid, it has become large enough to cover regular expenditure and make some development investments. The budget income of CVCPs increased by 160% in the period between 1986 and 1990 (while the state budget income increased by 200%). A well-made fiscal policy has helped CVCPs enhance their gross product and stabilize the socio-economic life.

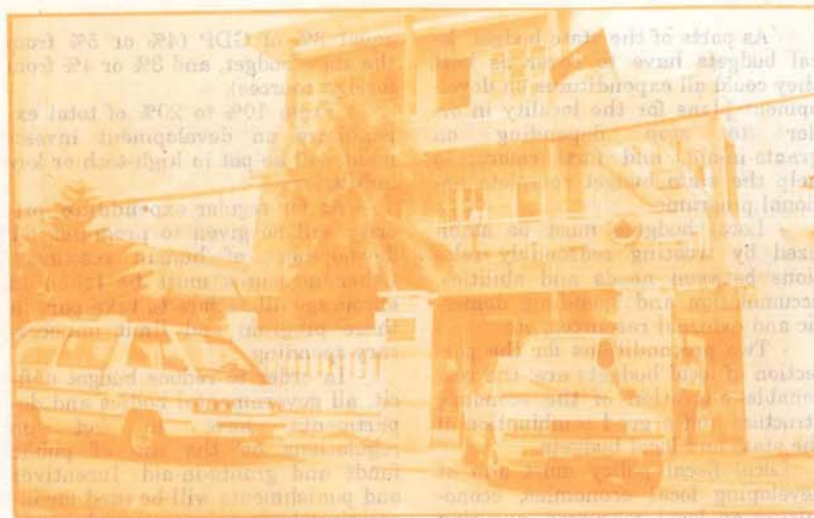
- Major changes have been made to the task of employing and controlling local budget and grants-in-aid: grants-in-aid are put in major development projects that could affect strongly the economic structure, while local budget expenditures aim at improving the infrastructure. The system of local state companies was re-arranged and expanded, so they could contribute more to local budget.

b. Shortcomings

- Receipts from businesses are still small and these receipts are controlled badly. The network of tax agencies has been formed but it failed to collect all taxes and other payments, and all receipts weren't put under control of a unique body. Foreign aid and external debts weren't recorded and treated as budget receipts.

- Regular expenditure and capital investment kept on increasing, and as a result, the budget deficit is permanent. The task of budgetary control wasn't carried out perfectly.

- For a long time, the local budget hasn't been distinguished clearly from grants-in-aid. The use of local budget income wasn't made clear, regulations made by the central government on this issue are changeable. Although grants-in-aid covered some 70% of local budget expenditure, but they failed to make changes to the local economic structure and encourage local governments to increase budget income and reduce public expenditure.



Barriers between finances of local governments have made it difficult to control local budget. Local governments that could get large budget receipts can spend more than their counterparts in poor localities. The control of local People's Councils over local budget is limited.

A lot of efforts have been made but the budget deficit is still large, many local governments had to borrow from banks or the public and receive ODA in order to make up for this deficit. But these external debts weren't well controlled, payments for interest have become a burden to the budget.

c. On changes in the local economic structure

The economic structure in CVCPs hasn't changed much: taxation has failed to encourage changes in industries; investments from local budgets haven't been concentrated on well-made projects to provide preconditions for changes in economic structure; banks and financial institutions couldn't supply loans of low interest rates to business circle in order to help them improved technology and machinery employed. In addition, many other problems, such as a policy to encourage all sectors to make new investments for example, also require local and central governments to solve as soon as possible.

6. Results of the delegation of local budgetary control

Many adjustments have been made over time to the method of delegating budgetary control to local governments and have encouraged them to increase the budget income and make plans for public expenditure. But taking a general view, the mechanism for delegating the budg-

etary control hasn't been altered basically so it failed to solve problems arising from the relationship between local and central governments. The following are, in our opinion, shortcomings in the realization of the mechanism for delegating budgetary control:

- Local governments have a tendency to exaggerate their expenditure and hide their real income with a view to getting more grants-in-aid, and as results, the state budget deficit became bigger and grants-in-aid were unevenly distributed.

- In present conditions, ways of dividing the state budget into local budgets and regulating income of localities have divided the state budget into different levels and made it difficult to control public expenditure and given bad officials chances to embezzle public funds.

- The army of officials working for district and village authorities aren't well-trained and there is no appropriate program to train local officials.

- Contents of certain receipts and expenditures aren't reasonable and haven't been corrected on time. Certain development projects assigned to local authorities haven't been financed fully by the central government with the result that these projects couldn't be completed.

The overall problem is the difference of opinion over the method of delegating the budgetary control. This is the basic cause leading to difficulties in the task of carrying out the fiscal policy.

II. SUGGESTIONS ABOUT THE CONTROL OF LOCAL BUDGET IN CVCPs

1. Views on the method of perfecting local budgets

- As parts of the state budget, local budgets have to cover as best they could all expenditures on development plans for the locality in order to stop depending on grants-in-aid, and furthermore, to help the state budget complete national programs.

- Local budgets must be stabilized by treating reasonably relations between needs and abilities, accumulation and spending, domestic and external resources, etc.

- Two preconditions for the perfection of local budgets are: the reasonable alteration of the economic structure and a good combination of the state and local budgets.

Local fiscal policy must aim at developing local economies, economizing on local resources, ensuring regular expenditure and increasing capital investment step by step.

2. Directions and measures to perfect local budgets

In this part, we only concentrate on main directions and measures to stabilize and perfect local budgets in CVCPs.

a. Directions:

- To tap all local resources as allowed by law: in this issue, from 22% to 23% of GDP will be turned into the state budget income, this percentage in CVCPs will vary from 15% to 20% of local gross product. As for the system of policies, the mechanism for generating budget income is of great importance to the economy. In addition, it's necessary to improve the task of controlling budget receipts and employing effectively local resources, encourage the formation of social funds for socio-economic activities. Proper attention must be paid to the following principles:

- + to collect all taxes and fees in order to cover regular expenditure, and then, finance development projects.

- + Each kind of receipt must be used for a specific purpose: receipts from land tax, public assets or public utility service are used for developing the infrastructure, receipts from natural resources are used for making development investments.

- As for development investment, the following problems need to be studied:

- + Proper attention must be paid to certain development projects which can help to change the economic structure and attract investment from all sectors. In this period, it's planned that expenditure on development investment would

equal 8% of GDP (4% or 5% from the state budget, and 3% or 4% from foreign sources).

- + From 10% to 20% of total expenditure on development investment will be put in high-tech or key industries.

- As for regular expenditure, priority will be given to programs for development of human resources. Other measures must be taken to encourage all sectors to take part in these program and limit unnecessary spending.

- In order to reduce budget deficit, all governmental bodies and departments have to set up regulations on the use of public funds and grants-in-aid. Incentives and punishments will be used for increasing budget income and struggling against budget deficit and embezzlement of public funds.

b. Measures:

- The demand for fund for development is great and urgent, so both local and central governments have to try their best to attract dead money from the public, develop labor-intensive industries, and expand the market for local products, and make appropriate policies to attract foreign investment.

In carrying out the policy to develop the multi-sector economy, the government should ensure the leading role for the public sector in the economy by reforming the administrative machinery and equitizing certain state companies effectively; encourage the cooperation between different sectors with a view to forming giants which could compete successfully in the international market.

- Local governments had better

pay attention to the following problems:

- + Facilitating the reasonable distribution of wealth according to the personal and corporate contribution to the economy.

- + Perfecting the law system and reforming the fiscal policy so as to encourage exportation, control importation and enhance the competitiveness of local products.

- Mobilizing all resources held by the public to develop the infrastructure: The problem is how to mobilize them effectively and reasonably. All receipts from land tax or land use right must be put in projects to develop infrastructure. Certain projects could be assigned to local governments. All sectors are allowed, and encouraged, to take part in infrastructure developing projects. The government should set up regulations on obligations to contribute to public works.

- Because the budget income is limited, so local governments have to encourage contributions from the public. Besides developing economic infrastructure, it's necessary to develop social infrastructure and an appropriate part of public expenditure must be put in development of networks of schools and hospitals, and of national insurance scheme. Finally, there must be laws controlling the use of budget receipts and ways to generate budget income.

- Other measures are: enhancing the efficiency of the administrative machinery, perfecting finance and monetary policies; setting up standards and regulations on the use of public expenditure and providing legal bases for the struggle against corruption and embezzlement, etc.

