

Under conditions of state budget decentralization, the local budget becomes a relatively independent level of budget in the system of state budget, the balancing of revenues and expenditures is a key task in the process of local budget and socio-economic management. But as we know, according to experience of our country and others in the world, the economic growth cannot meet the government expenses, so the budget deficit always occurs at every level.

Vietnam's growth rate has remained rather high in recent years, but due to its too low starting point, the people's living standard has not yet been much improved, especially in rural areas. As a



## SOME MEASURES TO BALANCE LOCAL GOVERNMENT BUDGET

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result, the percentage of revenues of local budget is though high, approximately 20% of annual GDP, but the value is still meager. Receipts are not able to cover increasing expenses. This is a reason for budget deficit - in which the spending on consumption always takes a large share of both central and local budgets. In recent years, according to the Government's estimates, some provinces and cities had budget surplus, but the number of these successful localities is not remarkable and the results are not really firm.

There are still a lot of controversy over the issues of budget deficit and local budget balance as follows:

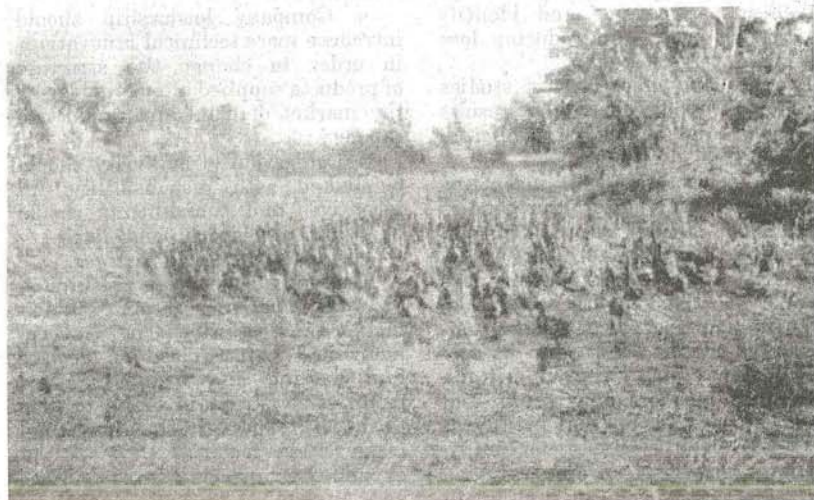
The first opinion says that only central government can overspend and take loans to balance its budget, while local governments must not do it; local budgets must be balanced upon the Government's approval, if short, they will be funded by the central budget. This is the practice of our state budget system before the Law on State Budget and now. But it is still an old view because the central budget still has to help balance local budgets while local budgets are authorized to make some collections for the central gov-

ernment. So they are not independent levels of budget. In other words, local budgets are not genuinely decentralized.

The second view claims that according to the new mechanism of budget devolution, rights and obligations of every level has been specified, the locality should thus be given autonomy in implementation. When localities are in need of capital for development invest-

ment, and capable of mobilizing and repaying debts, the central government should allow them to attract funds, even taking foreign loans. Therefore, the overspending and borrowing will be of localities' ordinary activities.

The third argument shows that if local governments are permitted to overspend their budgets and take loans, this will lead to uncontrolled debts, insolvency and disorder in





borrowing (both central and local governments can take loans). Like many enterprises which had recklessly borrowed money regardless of efficiency and then went bankrupt and finally the central budget had to clear their debts. As a result, the central government allows provinces to take restricted loans by means of issuing project bonds and no foreign debts. This regulation is complied by some provinces but the outcomes are not upon request because most of local residents remain poor and in addition the rich are not used to buying project bonds.

In our opinions, budget deficit is an unavoidable event in the market economy. So the local governments shall combine three trends to balance their budgets:

1. Fully utilizing their internal forces by taking active measures to perfect the process of establishing, executing and finally accounting local budgets in compliance with law.

It is noteworthy that the budget consideration and approval stage must be improved by the People's Council at every level. Many deputies have not yet grasped all legal documents in the process of considering local budgets. Even the Economic and Budgetary Board under the People's Council has not yet been thoroughly prepared. As a result, they almost make passive votes based on reports of the People's Committee because they obtain less information for consideration. So the budget estimates mapped out by the People's Committee should be submitted to the financial agency at upper level and the People's Council at the same level in the appropriate time. The Economic and Budgetary Board of the People's Council should give adequate information to other boards and deputies about the Government's planned budget so as to help them consider and approve the local budget better. In budgetary management, regular expenditures must be lower than collections from tax, charges and fees, that is, regular expenses are within the local growth. As a result, the local budget will face no deficit due to regular expenses.

To secure this principle, there shall be integrated and effectual measures as follows:

- To put in the local budget all revenues from tax, fees, charges, aids: At present, many revenues, especially in communes and wards, are put out of their budgets, so they are much lost. In reality, the upper levels cannot yet supervise strictly and rectify these faults.

Just because of this, the system of state budget and the budget decentralization must be rearranged more reasonably than at present.

- To expand and exploit new sources of collection: Based on the state budget devolution, the legislation should allow localities to exploit new sources of collection (in addition to charges and fees) in line with local characteristics. The important receipts will come from dividends, joint ventures between the state companies and various economic sectors in the next years. The budget should be earmarked for investments in joint stock companies (forming new companies, equitizing state firms) to help them generate more competitiveness and profits.

- To distinguish clearly between regular revenues (from tax, fees and charges not including other receipts and loan capital) and regular expenditures and spending on development investment. The total regular spending must be smaller than total regular revenues. The rest shall be used for development investment. The budget deficit thus results from spending on development investment, the funds offset for the budget deficit is just for development investment.

2. Perfecting the mechanism of balancing local budgets: According to the current practice, the central budget really helps balance local budgets. This will make localities to depend upon the central government and they find no way to fully utilize their internal forces and creativeness. Therefore the relations between upper and lower levels should be identified in the trend that the central government control and harmonize local socio-economic activities.

- The collection of local budgets should be authorized more reasonably, avoiding the current overlapping. The Government should determine detailed criteria on natural and social conditions, economic location (cities, rural areas) and real economic growth of each provinces to allocate supplements to local budget in each period. In addition, when the province budget faces great deficit due to natural disasters, it should be adjusted appropriately.

- The investments in key projects should be sorted into three groups including national projects with 100% of central budget, local projects with 100% of local expenditures, not affecting the central budget's supplements. The third kind is projects invested by local governments but they have effects

on the country's economic growth. In this case, the central government should grant supplements to local budgets for the completion of these projects.

- The discussion of local budget estimates with the Ministry of Finance should be simplified in terms of content and time, not including many rounds as at present. The collection contract should be applied to determine the minimum revenues and maximum expenditures in line with the Government's classification of cities and provinces (well developed, rather developed, less developed, poor). Those with surplus collection can spend their excessive budget. Based on this, the central government need specify only supplements to local budgets.

3. Local governments should be allowed to borrow money from the central budget or foreign organizations to make up for their budget deficit due to development investment.

The issuance of project bonds should be attractive with appropriate interest rates with a view to encouraging the people to build the country.

In addition, the Government has just promulgated the statute on borrowing and lending foreign debts (Decree 90/CP). This is a significant achievement. However, the disbursement of ODA capital and governmental funds is very slow because the domestic capability of formulating projects remains poor and administrative procedures cumbersome. The Government and relevant agencies should renovate its lending procedures to help localities to secure the planned target.

Finally, in the near future, the State Budget Law and Decree 90/CP will be amended in line with the national development. The provincial governments expect to be permitted to take foreign loans directly for development investment. The government will give a green light if the province documents its solvency, the foreign side's approval and no threat to the national security and sovereignty. This policy will strengthen localities' forces for development investment and expansion of international relations. Nevertheless, local governments shall use loans effectively and prudentially on the basis of economical expenses and accumulations for repaying debts when due. This measure also helps provinces accelerate their infrastructure construction and industrialization and balance their budgets in future.