

USING MEDIUM TERM EXPENDITURE FRAMEWORK FOR VIETNAM'S BUDGETING

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The medium term expenditure framework (MTEF) is a process to make a transparent plan and budget in a medium term (commonly 3 years), in which the specification of general expenditures for the whole economy (or general financial discipline) in the central government is closely combined with the allocation of these items to sectors and localities in line with their strategic priorities. Then the budget is established as a commitment in terms of both policy and spending.

In Vietnam, to manage public expenditures, the Government has to use certain methods to allocate limited resources of the state budget to sectors and socio-economic branches. The common tool is so far to estimate annual budget. In early fiscal year, the Ministry of Finance will submit to the National Assembly a plan of expenditure allocation of that year. When the plan is already approved by the National Assembly, it will become a legal document for budget allocation from central to local govern-

ment spending. Most of public infrastructure projects require costs of operation and maintenance upon their completion in addition to medium term investment programs. However, in the traditional method, these expenditures are independently set up. For example, in the central government, the Ministry of Planning and Investment is responsible for managing and allocating public investment programs while regular expenditures are decided by the Ministry of Finance. This results to the fact that annual regular expenditures lack estimates for operation and maintenance of public projects. Therefore, financial resources are poorly utilized because public projects cannot work at full capacity, even downgrade fast just after their construction is completed if their maintenance is not permanently secured.

The traditional budgeting method only attaches importance to controlling inputs but no outputs quality as well as their effects on the implementation of sectors' and national targets. For example, when evaluating the educational sector's expenditures, attentions are given only to planned expenditures on payroll, textbook procurement, school upgrading. All of these expenditures are only necessary inputs for the educational cause. In the meantime, we lack consideration of their effects on improving the educational quality and quantity and thus training skilled labor for the national development. This shortcoming persists not only in the educational sector but also in others.

The process of traditional budgeting is usually based on the method of incremental estimates, that is, the budget planners increase estimates for the following year in line with specific conditions of each sector and period and do not pay attention to how to enhance the efficiency of using resources.

The national financial targets are set in the first place, and eventually financial resources are allocated strategic priorities in the

Table 1: Comparison between the traditional method and the use of MTEF for budget drafting

Traditional budget	Medium term expenditure framework
1. General financial discipline - Concentrating on short term macroeconomic issues	- Placing the short-term macroeconomic issues in the medium term macroeconomic situation and sector characteristics
2. Connection between policy and budget: - Very poor because policy decisions are independent from real resources. Therefore, the policy is not sustainable and expenditures cannot reflect strategic priorities which have already been laid down.	- Policymaking is strongly affected by real resources. As a result, the connection between policymaking and budget drafting is closer. Expenditures show the strategic priorities which have been already laid down.
3. Output efficiency: - The incentives to generate output results usually have low efficiency, even no efficiency.	- Underlining the control over outputs and their efficiency, it thus improves the transparency, accountability and efficiency of using state budget of recipients and promotes the general financial discipline.

In the wave of budget reformation in countries, the MTEF is widely accepted as the most appropriate method to plan strategic expenditures and redesign the budget process. The MTEF soon becomes an effective instrument to manage public spending of many countries over the world. It connects all stages in the budgeting process from policy making and planning to budget estimating. This method is implemented successfully in many developed countries including Australia, New Zealand and initially applied in such developing countries as Malaysia, Thailand...

1. Facts of budget estimating in vietnam

This method creates favorable conditions for controlling real expenditures in the year but it reveals many shortcomings as follows:

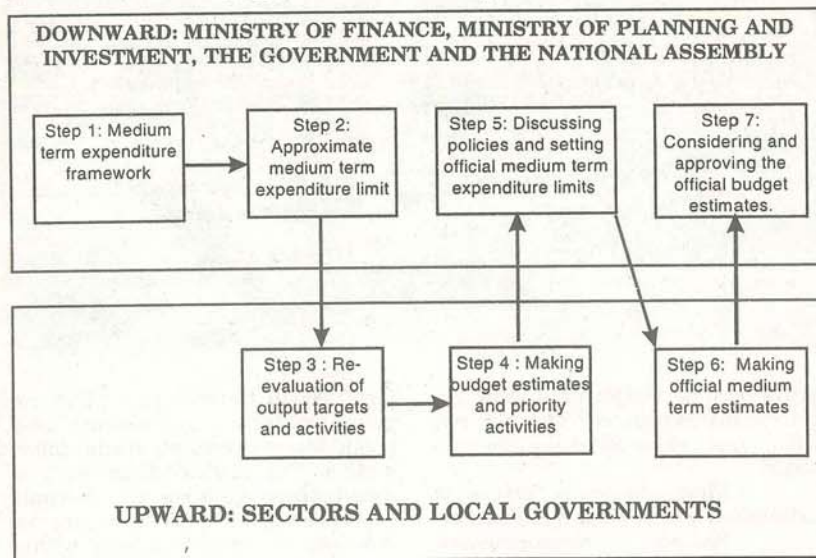
- Separating socio-economic planning from budget estimating because while the Government devises and implements 5-year medium-term plans and its policies are effective in many years, the budget is established annually. The relation between annual budgeting and the implementation of 5-year planned targets is not obvious. This dissociates the targets planned in the medium term from available resources and annual budget plan. As a result, the effects of medium term plan are poor.

- Separating regular spending from development invest-

framework of planned financial targets.

2. Mtef process

The MTEF process can be indicated in the following figure:



Step 1: The Ministry of Planning and Investment in collaboration with the Ministry of Finance makes forecasts of economic growth in the three-year period and the capacity of mobilizing local and foreign resources for the development strategy in the specified macro-economic framework.

Step 2: Based on the whole resources which can be used for expenditures in the specific medium term, budget allocating agencies of the central government will approximately set expenditure limits for sectors and localities in compliance with the Government's priority targets. These limits must be approved by the Government and competent agencies.

Step 3: Ministries, sectors, and localities will determine their spending demand in the three year-period on the basis of approximate medium term expenditure limits, the Government's priorities and needs in each field. To do this, ministries, sectors and localities first have to re-evaluate their operational strategies, and review planned targets in the immediate future and the long run, and planned outcomes as well as operations to achieve these outcomes. This task aims at helping ministries, sectors and localities forecast their needs for medium term expenditures in line with the Government's policies and priorities and their specific conditions.

Step 4: Based on their reassessment of operational strategies, ministries, sectors and localities will rank their priority strategic targets and estimate necessary expenditures to implement them. These estimates

ing with the medium term expenditure which has been approximately determined. When the total estimated expenditures surpass available resources, the Government will cut off and reallocate budget to sectors and localities. This reallocation depends upon the national strategic priorities as well as the rationality of each sector or locality's operational strategies. Finally, the central budget authority and allocated units will reach a consensus on the official medium term expenditure limit set for each unit.

Step 6: After the agreement on the official medium term expenditure limit, ministries, sectors and localities will make detailed estimates for each year in the three-year framework for their operational strategies.

Step 7: The Government will review, discuss and approve units' estimates for each year in the three-year framework and submit them to the National Assembly for adoption. Although the National Assembly only ratifies the budget estimates for the first year (not for the whole three years), they always know units' ex-



Photo by Hoàng Tuấn

must be in accordance with the medium term expenditure limit already approximately determined. In case the total required expenditures of all ministries, sectors and localities exceed the approximate medium term expenditure limit, they are forced to cut off their spending. The ranking of priority operations in the three-year period will help them know which spending must be slashed and avoid casual reduction.

Step 5: This is the stage the central budget authority discusses with ministries, sectors, and localities to review and balance their total spend-

penditures in the following two years (if there is no sudden change in macroeconomic situation).

3. Advantages

As such, this MTEF process displays more advantages than the traditional budgeting method as follows:

- The yearly budget is always determined in the medium term framework, therefore when the National Assembly or the Government approves annual budget estimates, they understand well what will be spent in compliance with the



national and sector's medium term plans in the following years.

- Limited resources are always allocated to prioritized fields. The budget reallocation is transparently undertaken with study and thus without casual reduction.

- Ministries, sectors and localities are given budget to implement planned targets only. As a result, the budget management will change inputs control to inspection of outputs and performance of budget recipients. This helps enhance the units' transparency and accountability.

- The budget allocation will depend upon sectors and localities' strategies and operational targets. Therefore, it overcomes the deficiency of separating regular expenditures from investment spending.

- The information exchange between central and local governments is regularly performed, at the same time the autonomy of ministries, sectors and localities is also promoted.

It is noteworthy that the MTEF process is not the budget adoption for all three years in the medium term. The National Assembly approves the budget for only one year. However, it is different from the traditional budgeting that the budget ratification for this year is not separated from the budget estimation for the following years.

As a result, the medium term expenditure frameworks are connected in chains but not dissociated as in the country's current five-year plans. This implies the yearly budget is placed in the three-year term expenditures, securing the policy consistency. When the following estimated

years become budget ones, how are the estimates updated? They are rectified only when following changes occur:

- First, there are errors in calculation which need rectification.

- Second, macroeconomic indicators see a change, for example, including inflation rate, GDP growth rate, and beneficiaries of subsidy programs.

- Third, there are changes in policy, for example, implementation of new programs of education and health care, reduction of state employees, and construction of road projects...

- Fourth, there are natural disasters or economic crisis...

All of these above changes will be estimated into the change in the expenditure limit for years and requirement for budget adjustment of each sector and locality. Thereby, changes are reflected and updated in estimates of the new medium term framework.

4. Conditions for using medium term expenditure framework

The process of medium term expenditure framework is not a totally new method and additional work for yearly complicated budgeting. It is just to place yearly budgeting in the medium term period. Nevertheless, to implement this method effectively, the following conditions have to be met:

- Properly understanding medium term expenditure framework is needed. MTEF is a process to enhance the efficiency of allocating resources but not to change the current budgeting totally.

- The system of macroeconomic forecast in the medium

term should be very good. This requires collection, processing and publicization of macroeconomic information. The medium framework is usually three years because economic experts even the best macroeconomic forecasts are believable only within three years.

- The MTEF implementation must be uniform with a series of relevant reforms. For example, if the MTEF is applied, there should be appropriate amendments in the Budget Law concerning the yearly budgeting.

- The policymakers should indicate their strong determination because the MTEF process requires great changes in making and approving annual budget estimates.

- The close connection among the processes of budget estimating, implementing, inspecting, reporting and evaluating must be needed.

- The central budget authorities including the Ministry of Finance, the Ministry of Planning and Investment should make close coordination with other ministries, sectors and localities receiving budget.

- The autonomy of ministries, sectors, and localities should be enhanced in devising operational strategies to reach their planned targets.

- Finally, there should be an army of high-qualified budget planners from central to local government. Vietnam cannot meet this requirement immediately. The Government has to make plans of training and improving its planning staff's skill just now and call for the assistance from international experts and organizations. ■