

# FINANCIAL AUTONOMY FOR ADMINISTRATIVE BODIES A NEW STEP OF THE REFORM IN THE PUBLIC FINANCE

by Dr. ĐOÀN NGỌC XUÂN

In the past few years, the national budget has been improved and good efforts have been made to generate new sources of income and implement the fiscal policy. However, how to use effective the budgetary income and reduce burdens to the national budget are still questions to solve.

## 1. An overview of the reform in public finance

In the transition from the centrally-planned mechanism to the market economy, the budget income that consisted mainly of payments from state-owned companies and foreign aid has had tax take as its main source. With more reliable sources of income, the national budget has been able to meet requirements from the administrative and national defense machinery, increase investment in education service, beef up the national reserves, develop the infrastructure and carry out social welfare schemes. The most remarkable is the increase in investment from the national budget in the education service.

The education service now accounts for some 15% of the budget expenditure and this figure is planned to reach 16% in 2003. In addition, when the education and health care services are open to the public, the private investment has helped increase the gross investment in these services. According to a rough estimate of the Ministry of

Education and Training, contributions from the public to the education service now equals from 23% to 25% of the gross investment in the service. Totally, the investment in the education service equals some 20% of the national budget expenditure.

In the process of opening other public services, the government has just introduced basic mechanism and policies that serve as principles, but

only limited to their organizations. Meanwhile, these receipts by their nature are sources of income for the national budget and based on "positional advantage" of the administrative bodies. To control these receipts will be a basis for reducing investment from the budget and redistributing wealth through taxes. Moreover, reducing burdens to the national budget will be a condition for more public

sustainable development strategy.

## 2. Advantages and difficulties in granting the financial autonomy to administrative bodies

### a. Advantages:

- At present, preset limits on public expenditures include many irrational aspects. For example, the basic wage-rate is too low to meet needs of civil servants and workers;



they fail to control all receipts that flow to these services. Many administrative bodies, based on their advantages, have made the best use of possible sources of finance to develop their organizations and improve the living standards of their employees but their success is

investment in social welfare.

The Decree 10/2002/NĐ-CP dated Jan. 16, 2002 regulating the finance management in administrative bodies with sources of receipts could be considered as an effort to reform the public finance and implement the sus-

hourly pay for teachers set by obsolete regulations equals only a third of what they really get, etc. In such a situation, the financial autonomy could provide an open mechanism in which an administrative body could work out its own standards, limits and rational expenses based on technical standards and

current regulations about public expenditure in order to ensure its usual operation and use its resources more economically and effectively.

- The army of civil servants today is too large, includes unreasonable factors and lack an proactive approach to their operation. When enjoying the financial autonomy, the administrative body could restructure its organization and make the size of its staff suitable to its functions according to the Civil Servants Ordinance.

encourage its staff to improve their performance.

- Under the new mechanism, the administrative body can form various funds for contingencies, awards, social benefits and further developments of the body.

- The administrative body will enjoy freedom to make the best use of existing facilities and surplus labor to engage in other services for subsidiary income.

b. Difficulties:

- The budget estimate needed for determining

nam, employees who is officially recruited and registered in the payroll are ensured work for life).

### 3. Suggested measures to implement the financial autonomy for administrative bodies

- Each administrative body must work out a strategy to make the best use of its advantage based on its tasks and functions. The strategy will serve as a basis for building specific plans for short and long terms to implement effectively.

peak and other funds formed within the body, bonuses and rewards must be given opportunely to employees with initiatives affecting favorably the development of the body.

- In setting limits on expenditures, priority must be given to items that determine the development of the body. For example, a body in the education service must give priority to scientific labor (teaching, researching, compiling textbooks, etc.) Moreover, this policy can help attract more experts and skilled laborers needed for improvements in the performance of the body.

- The piecework system and contract laborers could be used for many jobs, especially seasonal ones, in order to avoid waste of internal labor and make the best use of outside human resources. The piecework system also encourages better productivity and performance.

- Enjoying the financial autonomy, the administrative body should develop criteria for evaluating both personal and corporate performance in order to perfect financial instruments for developing the body.

- Thrift practices must be encouraged because the financial autonomy aims at the reform in management of financial matters, thereby improving the business performance and reducing burdens to the national budget.

How to use effective sources of finance to accelerate the administrative reform and improve the operational performance of the whole administrative machinery is an urgent problem posed for all administrative bodies. Reforms in the public finance, especially by delegating more financial autonomy to administrative bodies will be an important step towards this goal. ■



Photo by Nguyễn Ngọc Dao

nance and the policy to downsizing the administrative machinery. If the workload requires more workers, the administrative body could have contract employees based on the Labor Code and its financial resource.

- Based on the financial statement, the administrative body could determine the size of its payroll in which the highest pay isn't 3.5 times higher than the minimum wage if the administrative body is financially independent, and isn't three times higher than the minimum wage if the body is partly financially independent. Under this mechanism, the body could use bonus schemes to

the extent of financial autonomy lacks scientific grounds when setting limits on expenses the administrative body could take from the national budget.

- The financial autonomy will lead to difficulties for bodies with no "positional advantages" when engaging in economic activities under the open mechanism.

- The financial autonomy under current regulations on public expenditure seems unrealistic and hinders efforts to restructure the organization.

- To most administrative bodies, the overstaffed payroll has become a burden while there is no effective and official solutions to this problem (In Viet-

tively the financial autonomy. After studying the market demand, the body could determine its objectives and operation programs, and quantify its short- and long-terms tasks. By doing so, it could meet the market demand and prepare itself for further developments.

- The administrative body must review and restructure its machinery with a view to making it more effective and compact. Full attention must be paid to the task of developing experts, researchers and skilled technicians needed for the operation of the whole body.

- Based on the payroll that is allowed to reach its