

Building a Results-Based Monitoring and Evaluation System for Public Expenditure in Vietnam

SỨ ĐÌNH THÀNH

Associate Professor, Doctor of Philosophy, University of Economics - HCMC

Email: dinhthanh@ueh.edu.vn

BÙI THỊ MAI HOÀI

Doctor of Philosophy, University of Economics - HCMC

Email: maihoai@ueh.edu.vn

ABSTRACT

The paper builds a results-based monitoring and evaluation system (hereafter called “RBME system”) for public expenditure in the case of Vietnam. Such system is supposed to be a crucial component of a modern mode of working budget management and public administration that has been thus far developed and employed in almost developed and developing countries. At present, there exist plenty of gaps and defects in the monitoring and evaluation (M&E) of Vietnam’s public expenditure. Thus, it is expected that the establishment of the RBME system must be included in policy options to bridge such gaps, and then to set up institutional and technical grounds for adopting the new RBME system.

Keywords: public expenditure, monitoring and evaluation system, public governance, results-based

1. INTRODUCTION

The value of public expenditure, the quality of budget management, and the efficient provision of public services have thus far been deeply concerned by the Vietnam's National Assembly, the government, and the public. In past years, the government has implemented remedies for improving the efficiency of public expenditure such as the promulgation of the State Budget Law, empowerment of agencies in the public sector, enhancement of financial transparency and accountability, and privatization of education and health care services, etc. However, the current allocation and use of public expenditure is not as good as expected; the fiscal discipline is not respected; and budget overspend lasts long regardless of incessant increases in budget income. Even though the government has started managing implemented budget and linking budget allocation with target programs, it is indeed still dissipated. When the financial transparency and accountability of agencies is full of flaws, it is impossible to effectively manage public expenditure.

The present paper aims to establish a policy framework needed for building of an RBME system in accordance with the modern public administration in Vietnam. It provides a tool for measuring outcome of public expenditure and linking public expenditure with prioritized strategic objectives. The RBME system helps to plan budget, make policy decisions, and give feedback on results of public expenditure. In other words, the ultimate goal of the RBME system is to improve the financial accountability. Moreover, the RBME system must be at the service of sustainable development which is extremely significant for promoting reforms in the public sector and upgrading the quality of public services in Vietnam.

The remaining sections of the paper are organized as follows. Sections 2 and 3 are devoted to a theoretical framework and research methodology. Section 4 presents findings and gaps in the existing RBME system of Vietnam; and some conclusions and policy implications will be offered in Section 5.

2. METHODOLOGY

Prior to building a new system, it is necessary to identify defects in the existing RBME system. Thus, the paper starts with analyzing three categories of defects related to the context of reforms in public administration and public expenditure in Vietnam.

In order to detect defects or gaps, a theoretical framework on management of implemented budget will be formulated and analyzed. Specifically, the paper critically

reviews available literatures concerning budget management, the RBME systems in both developed and developing countries; then looks into the legal framework for Vietnam's RBME system in connection with keynote issues to figure out its defects. In qualitative analyses, the authors employ data collated via in-depth interviews with experts who have been working in elective or supervising agencies, and then systematize measures to operate RBME system, laws, decrees, and the like.

Especially, the theory of knowledge utility, which explains the acceptance of changes and then points out factors affecting utility stages of the RBME system, is taken into account. Theories on modern public administration are to be employed with a view to closing gaps in the existing RBME system. Factors of sustainable development, satisfaction, and public participation in the RBME system are also included.

3. THEORETICAL FRAMEWORK FOR A PUBLIC EXPENDITURE M&E SYSTEM

In the new millennium, many scholars in field of public finance have sought a new theoretical paradigm to improve the budget planning and management of public expenditure. The classical budget theory and the economics-based theories merely attended to how to maximize the provision of public goods; whereas, the focus of latest theories is laid on the improvement of satisfaction of the public and long-run economic targets. Moreover, latest theories also administer and measure performance with a view to boosting the effective provision of public goods (Frank, 2007).

Management of implemented budget and results-based evaluation of public expenditure has achieved a significant breakthrough in the budget planning theory (Martin, 2002). Kelley (2002) wondered whether or not the government could evaluate the supply of public goods and services in exactly the same way as the private sector. In past two decades, researches on implementation measurement and management in developed countries (such as Canada, Australia, New Zealand, and many of European ones) have great impacts on the public expenditure reform (Dluhy et al., 2000).

Measurement of implementation tries to find answer to the question of what we are doing, and more importantly, how effectively we are doing the job. Managers can use such information to improve quality, efficiency and effects of public expenditure programs.

Implementation measurement, as Kopcynski and Lombardo (1999) argued, could help to gain supports, establish trust, determine implementation targets, and set up a culture of responsibility. Behn (2003) added that information about implementation could be employed to evaluate, monitor, allocate budget, and then improve the performance. The idea behind the implemented budget is to improve the allocation of resources by paying more attention to results of public expenditure programs rather than input and output factors (Juhnes, 2008). Planning the implemented budget requires the quality control system to be able to monitor and evaluate outcomes to identify what have been achieved.

The demand for an RBME system has increased after the World War II. In late 1960s, many European countries did adopt a program-based monitoring and evaluation system, which then has been turned into the RBME system (Linda, G., 2009). Nowadays, the RBME system is acknowledged as an important factor of the modern budget management model (IMF, 2009).

4. THE PUBLIC EXPENDITURE M&E SYSTEM IN VIETNAM

a. Important Changes in Budget and Public Expenditure Management in Vietnam:

In the early years of the 21st century, Vietnam's government realized that its budget management mode was no longer appropriate or efficient; and thus adopting vital changes in the hope of promoting its global competitiveness. The comprehensive reform in public administration in the period 2001-2010 was implemented in accordance with the Decision 136/2001/QĐ-TTg dated Sept.17, 2001. This instrument set forth four fields for the reform concerning institutions, administrative machinery, the army of civil servants, and public finance. On the basis of the comprehensive reform program, there have been some appreciable achievements in the management of budget and public expenditure.

- Streamline the administrative system: The State Budget Law 1996 amended and modified in 2002 has prescribed the rights, obligations, and functions of central agencies, especially the Ministry of Finance, the Ministry of Planning and Investment, and the Vietnam State Bank, in the management of national budget and public expenditure. There is a specific schedule for the allocation of budget and financial sources to fulfill tasks set forth in the budgeting procedure. The Ministry of Finance assumes the responsibility for budgeting regular spending; the state treasury system

takes charge of implementing the national budget; bureaus of tax and customs shall collect revenues. The Ministry of Planning and Investment shall be responsible for budgeting public investment projects.

- Renovate the financial management mechanism in the public agencies: The renovation policy is based on three factors: (i) establishing new criteria for allocating budget to governmental agencies based on their output, quality of activities, and operating level; (ii) allowing preset budgets for administrative agencies; and (iii) establishing financial management mechanisms in compliance with the operation of public service units so as to assure their relative independence and autonomy in carrying out their tasks, reduce budget-financed expenditure and gradually proceed to a self-financing mechanism (as suggested by Decree 10/2002/NĐ-CP dated Dec. 31, 2002; and Decree 43/2006/NĐ-CP dated Apr.25, 2006). Those instruments enhance the financial autonomy and accountability of budget-supported agencies, and detach pure administrative functions from service-providing ones.

- Empower local authorities to make decisions on public expenditure: Together with a legislative system at the service of budgeting and public expenditure management, Vietnam has achieved considerable progress in stratifying budget income and spending between the central government and local ones. Not only is such financial stratification supposed to enable local authorities to be more autonomous in planning their spending, but it also helps improve the political responsibility and transparency in public finance management. According an evaluation of the World Bank, Vietnam's financial stratification regime is a decentralized one. As of 2002, financial supports for local budgets have constantly shot up, representing 43% of the total national budget spending. Provision of public services which used to be centralized has been passed to localities. Specifically, local authorities take charge of approximately three quarters of budget spending on education and training, and around two thirds of budget spending on health care. That is to say, local authorities have played an important role in human development.

- Improving the financial transparency and accountability: The National Budget Law and other directives have paved the way for improving the financial transparency and accountability of budget-supported agencies. Comprehensive national budget statements are published on the official website of Vietnam's Ministry of Finance. Communes' budget income and spending is also quoted at the commune's head office.

Transparency in public expenditure is a vital and indispensable part to account for the allocation of national financial resources and its effectiveness to the public. For the government and agencies, financial transparency will definitely facilitate the effectiveness of public expenditure. Transparency of budget expenditure is important to international donors who are not satisfied when they cannot gather enough reliable information to determine for what purposes and how their money is used.

- Gradually adopt the mode of implemented budget management: As of 1996, public expenditure programs have been deemed as the nucleus of investment plans and the ground for monitoring and evaluating public expenditure in Vietnam. The 2000-2005 investment programs and later ones were simultaneously prepared with the overall strategy for sustainable development and poverty alleviation; and did help to determine which industry depends heavily on the public expenditure. Moreover, the government, since 2000, has also piloted a medium-term public expenditure framework in some ministries and provinces. This framework is accordingly to improve the current public expenditure planning at ministerial and provincial level, formulate a linkage between investment spending plans and regular expenditures, set up a long-term budget and the overall financial disciplines, and tighten the budget and performance management. The comprehensive strategy for sustainable development and poverty alleviation and the five-year socioeconomic development plan must be based on the thorough calculation of opportunity costs and limits on national financial resources.

b. A System for Monitoring and Evaluating Public Expenditure:

Since 1996, Vietnam has made certain progress in developing an M&E system for the national budget and public expenditure. Nonetheless, the development of an M&E system is hindered due to the fact that it is defined and modified by various laws and regulations, such as:

- + The National Budget Law (1996; 2000),
- + Evaluation of public expenditure in the period 1996-2000; an overall evaluation of public expenditure, public tenders, and financial responsibility in 2004,
- + Piloting the medium-term public expenditure framework (2000 to 2005),
- + The Congressional Monitoring Act 2003, and
- + The public expenditure monitoring and evaluation bylaws 2003 and 2010.

Vietnam's government highly appreciates the monitoring and evaluation of public investment as part of public expenditure. In 2003, the Ministry of Planning and Investment promulgated the Circular 03/2003/TT-BKH dated May 19, 2003 guiding the monitoring and evaluation of public investment. Six years later, the M&E system for public investment was partly improved (see Figures 1 and 2).

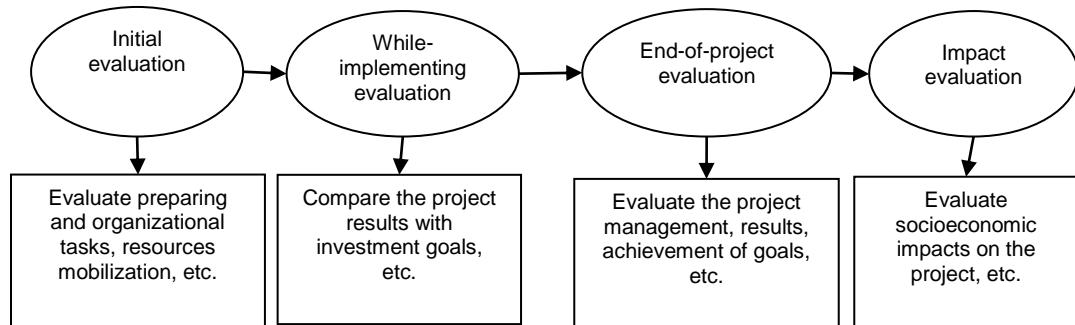


Figure 1: Public Investment Evaluation Framework

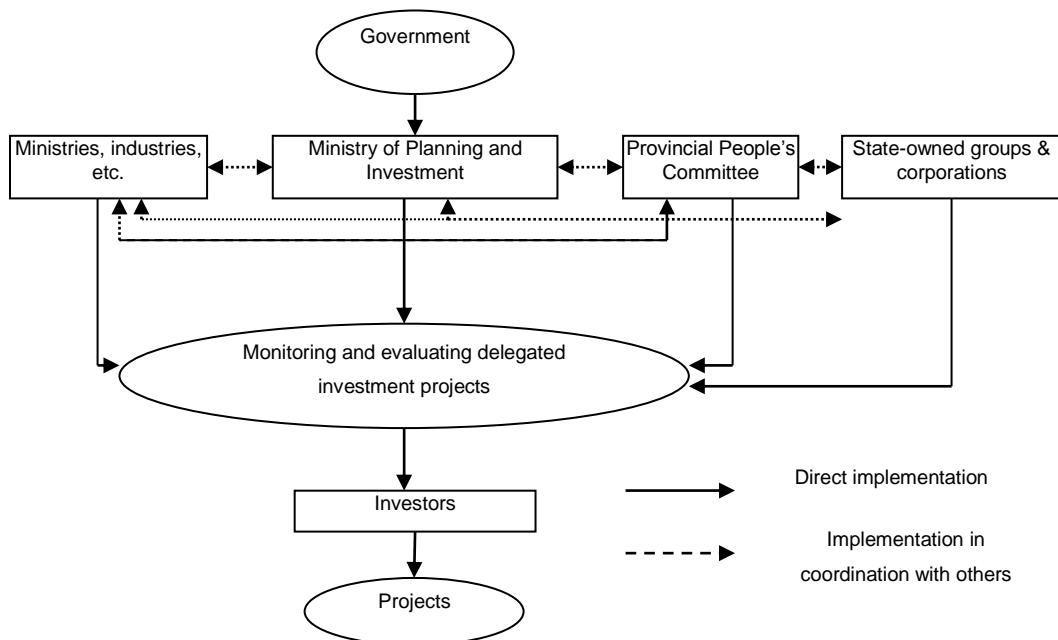


Figure 2: Public Investment Evaluators

The current public expenditure M&E system is operated ineffectively:

- (i) The overall fiscal discipline is not observed and budget overspend has lasted long although budget income always surpassed the planned target. Though the government has adopted the mode of implemented budget management and linked budget allocation with target programs, the public investment is still dispersed leading to huge wastes.
- (ii) There is a lack of financial transparency and accountability. In a conference on monitoring and improving the effectiveness of public expenditure held in Hà Nội on June 2, 2009, many experts acknowledged that the public expenditure is increasingly uncontrollable, causing unnecessary overspend, waste, losses and corruption.
- (iii) The existing mode of budget management is mainly input-based. Budget allocation aims at increasing grants-in-aid over time, which makes it impossible to evaluate precisely the link between allocation of resources and long-term socioeconomic development programs.

Under such the circumstance, it is impossible to find out factors to sustain the RBME system. The question is: who will support or worry about the M&E system? At present, most organizations in the public sector have not paid enough attention to monitoring and evaluation of public investment projects. A relevant report of HCMC (2008) and Nghê An Province (2009) rendered that over 13% of approved projects, especially delegated ones of group C, have not produced monitoring and evaluation reports; or if any, it has not met requirements. In many projects, investment M&E reports were only made when contractors want to make some adjustments to the project or “legalize” the final account because the project has been completed and come into operation.

The second question is: how reliable the database of RBME system is and how it can be utilized. Most of reports on public expenditure M&E in recent years have just rendered the plan implementation without any reference to its targets for analyzing impacts, identifying shortcomings and recommending solutions. In other words, the monitoring and evaluation of public expenditure is not done systematically enough and it is destitute of evaluation criteria with a result that the utilization of database of the M&E system is exceptionally low.

c. Gaps in RBME System:

It is possible to figure out three main gaps in the monitoring and evaluation of public expenditure in Vietnam as follows:

Firstly, at present, the monitoring and evaluation of public expenditure in Vietnam just focus on the observation of procedures and control over input and output factors rather than impacts of such public expenditure on the national strategic targets (see Figure 3). In other words, the present RBME system cannot measure attainable results, tell success from failure, and thus cannot decide whether it really works or not; and as a result, it is impossible to close the gap at the service of national targets.

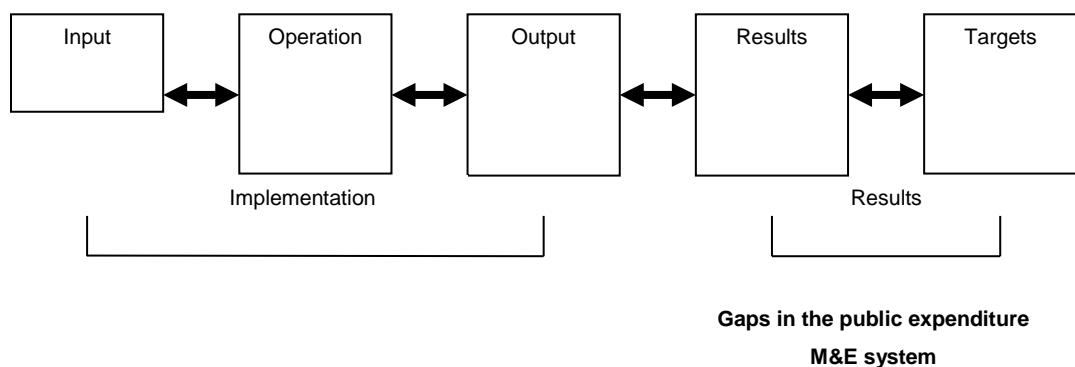


Figure 3: The Implementation-Based M&E System

Secondly, the monitoring and evaluation of public expenditure focus more on the project's finance rather than the mix of sustainable development targets, including economic, social and environmental targets (see Figure 4). In other words, evaluation of public projects focuses mainly on its compliance and financial-economic aspects, and therefore the mix of sustainable development targets have not been taken into consideration when monitoring and evaluating public investment projects. Failure to supply comprehensive information to investment policy makers and the public may lead to imbalance between various aspects of sustainable development and strategic risks in future.

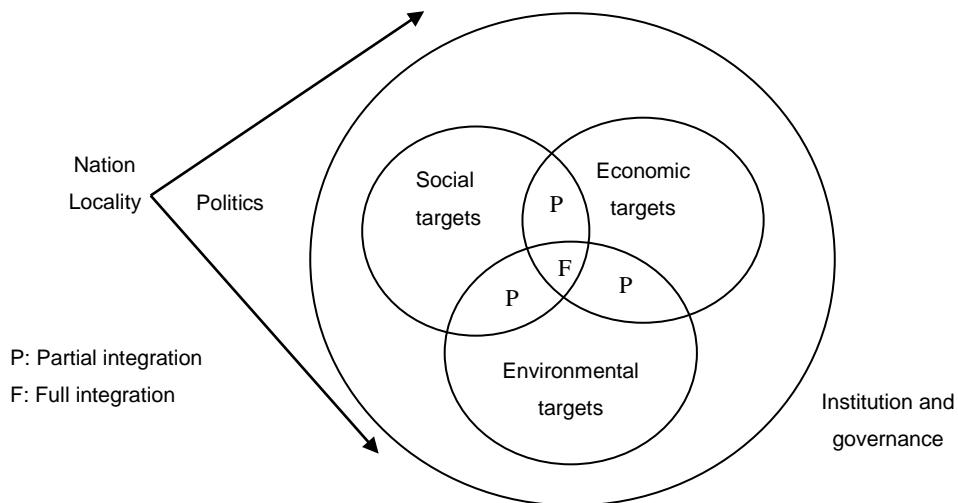


Figure 4: Sustainable Development System

Thirdly, the monitoring and evaluation of public expenditure aims at improving the performance and management responsibility rather than evaluating the public satisfaction and participation. Given the new public service theory, the collaboration and participation of the public in formulation and implementation of public expenditure strategies will assure the long-term success of the public sector; and this is also a keynote factor of an effective public administration model (Vergez & Caddy, 2001). For many investment projects, the participation of the public and organizations is very crucial to the sustainability of a project (Segnestam, 2002).

5. SOME POLICY IMPLICATION CONCERNING THE ESTABLISHMENT OF AN RBME SYSTEM TO IMPROVE PUBLIC EXPENDITURE IN VIETNAM

Given the aforementioned theoretical background and practical experience from some countries and the M&E system for public expenditure in Vietnam, it is likely that the RBME system is feasible for Vietnam. Process of perfecting the RBME system means closing its existing gaps so as to generate necessary changes in the current system and laying a solid foundation for building a more effective RBME system. The establishment of an RBME system is to: (i) facilitate the making of public finance

policies; (ii) develop and analyze public finance policies and public projects or programs; and (iii) improve the transparency and accountability of public expenditure.

a. Tackle Gaps in Current Public Expenditure M&E System of Vietnam:

The first gap in the current public expenditure M&E system originates from the fact that the public sector is operating under a traditional model of management which mainly focuses on the control over input factors rather than evaluating output factors and results. In order to close this gap, it is necessary to adopt the management model of the private sector. As we know, difficulties facing the private sector, such as the need for an expansion with a limited budget, also face the public sector. This implies that launching a public expenditure plan requires full researches on links between operations, results and context of the plan before making decisions on allocation of resources and a trade-off between targets of various plans (Weiss, 1995). This idea points out a way of reforming the management model based on imitation of managerial methods from the private sector.

Analyzing framework for the RBME system is a chain of values founded on the theoretical framework of change. Once a public expenditure project or program is launched, it is a must to think of possible steps to achieve the expected targets (Kusek and Rist, 2005). All activities lead to output factors and results which reflect targets and produce effects; and these effects lead to objectives. This is the value chain to be pondered in order to allocate or utilize public resources effectively.

Concerning the second gap, the new public administration model is criticized due to its heavy focus on the result and efficiency of public services rather than long-term targets which are supposed to be what the public sector must attempt to attain. In order to deal with this issue, socioeconomic and environmental targets are to be included in strategic targets of public administration, making a three-dimensional sustainability including economy – society – environment (Nam Chai, 2009). The socioeconomic development strategy for the period 2011-2020 has clearly reflected Vietnam's standpoint, that is, economic growth must be accompanied by the cultural development, social progress and equality, ceaseless enhancement of the people's living standards, environmental protection and improvement, and active response to climate change.

Regarding the third gap, the public administration reform, as from the 1990s, has aimed at dealing with shortcomings of the new public administration model. Some

latest models have been formulated in an attempt to supersede such the new public administration model, and the new public service model is such a typical example. As Denhardt (2002; 2003) states, the new public service theory was build on the theory of civil rights, community and civil society. The VCP platform in the context of transition to socialism (modified and developed in 2011) has developed a public administration model inspired by the new public service model: the government is a servant of the people; connects with the people; assures the democratic rights of the people; listens to the people's opinions; is monitored by the people; ceaselessly attempts to dispose of bureaucratic red tape, corruption, extravagancy, irresponsibility, power abuse, violation of the people's rights; and publicizes administrative regulations and conventions so as to facilitate the people's inspection.

b. Surmount Challenges:

Indeed, it is very difficult to bring the RBME system into play. Thus, it is necessary to take steps to implement the system. Based on the knowledge utility framework, the utility of the RBME system could be achieved through a two-phase process (Juhnes, 2008), that is, accepting the RBME system and implementing it. Surmounting this challenge requires:

- Be willing to accept changes: First of all, it is needed to call for the consensus of the entire political system, from the central government to the local one, on budget management and effective public expenditure. Secondly, activities of the public sector should be results-orientated on the ground of empowering office holders of public service units to formulate targets and assume responsibility for provision of outputs and possible results. Thirdly, salary scale must match responsibility so as to encourage civil servants to research and enrich their knowledge. Fourthly, those involved in the RBME system must be enabled to participate in all stages of the system.

- Develop infrastructure and make use of database of the RBME system: In order to operate and administer the RBME system, it is a must to improve the quality of database to help competent authorities work out a policy effectively. At the same time, renovations to the organization and working style are also necessary. Regulations of using RBME system database in budgeting, planning, etc. should be specified.

c. Routine and Ways of Operating the RBME System:

To operate the RBME system requires an amendment to and perfection of the legal system concerning financial management and the national budget. Accordingly, it is

necessary to set forth obligations, rights, modes, procedures, legal value attached to the implementation of the RBME system. Then, the government, on the basis of items related to the public expenditure monitoring and evaluation specified in the National Budget Law, may promulgate directives of the process of public expenditure monitoring and evaluation.

Simultaneously, to choose an appropriate approach to the public expenditure RBME system is crucial. For large-sized investment projects or programs (of group A), a more advanced RBME system must be employed with a view to minimizing risks and preventing adverse impacts on the socioeconomic development. For small-sized ones (of groups B and C), the RBME system necessarily concentrates on the appropriate allocation of budget so as to ascertain that capital sources serve a useful purpose, and be able to evaluate short- and medium-term impacts. The government should also quickly distribute survey forms on the public service quality to all public service agencies so as to consolidate the monitoring and evaluation.

d. Enhance the Monitoring Competence of Elective Agencies (Outside Supervision):

The relationship between the National Assembly, elective agencies and the State Audit Commission (SAC) should be properly institutionalized; and the utility of SAC-provided data ought to be enhanced. To do so, it is necessary to improve the independence of SAC and specify its liabilities and rights concerning the yearly budget planning and allocation. In addition, not only does SAC audit budget statements and compliance, but it also has to carry out results-based audit models.

Outside information channels should be employed in order to enable elective agencies to do their tasks objectively and effectively. Such agencies had better actively collate and store relevant data channels, and set up infrastructures to assure the proper operation of such channels.

e. Data Access and Public Supervision over Public Expenditure:

The rights to information access start with some hypotheses (Wescott, 2009), that is, (i) policy-makers must have data to formulate socioeconomic development strategies; (ii) a person who possesses data is powerful; and (iii) as for data owners, they will be more responsible to the society when their power is enhanced. Vietnam, in order to boost the effectiveness of public expenditure, must enrich the knowledge of causes of challenges to public expenditure management, incentive measures and

policies on reforms; and then tackle organizational issues, thereby carrying out reforms in public expenditure more effectively.

Mass media agencies given more freedom of expression, a strong society, and active participation of local communities are essential for managing and operating the RBME system effectively. They are supposed to enhance the government's accountability and help the government provide public services better. Moreover, the government should encourage public participation in supervision of public expenditure■

Note:

[1] Ngày càng khó kiểm soát chi tiêu công; <http://laodong.com.vn/Home/Ngay-cang-kho-kiem-soat-chi-tieu-cong/20096/141177.laodong> (retrieved on Oct. 3, 2011).

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