



**THE UNIVERSITY OF TAMPERE  
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**MASTER PROGRAMME OF PUBLIC POLICY AND  
FINANCIAL MANAGEMENT**

**Evaluation of the Centralized Construction Investment Management  
Exercised of Bac Giang province through the State Treasury between  
2012 and 2015.**

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## **ABSTRACT**

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Public spending is a financial concept associated with the management role of the Government and involves to the economic, political, and social fields. Based on actual requirements, the impact of public spending management is that in spite of scarce financial resources, the demand of fulfilling the Government's responsibility of economic, political and social management must be well met. Capital construction investment expenditure from the State budget is one of the expenditures which play an important role in the process of perfecting, enhancing and developing infrastructure, serving as the basis of the industrialization and modernization of the economy in every country, especially developing countries.

With that strategic vision, the Government of Vietnam in general and the province of Bac Giang in particular have continuously been harnessing different forms of funding for capital construction investment; however, the funding from the state budget still plays the leading role in construction works of national scale and in each locality. In fact, in the process of public spending management, spending on capital construction investment is one of the forms of expenditure considered to be the most prone to losses, corruption, and wastefulness. Hence, an objective should be set, which is to help capital construction investment spending from the state budget to be cost effective, in order to reduce losses, wastefulness, and corruption, while still ensuring the quality, effectiveness and safety of the project to maintain good returns on the capital spent.

The State Treasury of Vietnam takes on the responsibility of controlling the payment of capital construction investment funds from the State budget. The State Treasury has performed the role of the controller well; the State Treasury has helped to save and prevent losses of billions dong in the State budget by eliminating expenditures which are not in compliance with regulations, partly contributing to the prevention and minimization of losses and corruption in capital construction by state budget funding. However, the control of capital construction investment from the state budget's funding still has many shortcomings from legal policies, macro policies, to specific activities. These shortcomings have led to harassment and violations in budgetary management, leading to losses, corruption, and wastefulness of the state financial resources.

To enhance the efficiency of the state budget in capital construction investment, it is imperative that the State Treasury system implement strict control together with the units using the state budget. In order to achieve that, the State Treasury has to have control sanctions, the local government has to have a solution on the transparent and effective use of the state budget. The officers working in the State Treasury system have to be trained properly, to be equipped with knowledge and skills, and leaders have to have good management thinking.

Based on the theoretical foundation and regulations of the State treasury system as well as local government of Bac Giang province, this study is focused on examining and analyzing the activities in the control of capital construction investment by the state budget's funding in the area of Bac Giang province through the process of capital control at the Bac Giang State Treasury. The data collection methods used include academic documents, budgetary settlement reports, statistics reports, interviews and surveys of managers and officers directly in charge of controlling this source

of capital in the State Treasury system of Bac Giang province, investors and contractors in charge of the construction in projects and some experts in the field of capital construction investment.

The findings of the study show that the improvement of efficiency in expenditure control plays an important role in managing public spending in the field of capital construction investment. An important conclusion reached is that the improvement in the efficiency of expenditure control in capital construction investment from the state budget's funding is essential to enhance transparency, minimize losses and increase the efficiency of public investment.

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Hanoi, November 20, 2017 Nguyen Quang Minh.

# TABLE OF CONTENTS

CHAPTER 1 INTRODUCTION.....	1
1.1 Research Background .....	1
1.2 Research target.....	2
1.3 Research problem.....	2
1.4 Organization of the research .....	2
CHAPTER 2 LITERATURE REVIEW .....	3
2.1 Introduction.....	3
2.2 The state budget .....	3
2.2.1 The concept of the state budget.....	3
2.2.2 The nature of the Budgeting.....	4
2.3 State budget Construction Investment Fund .....	6
2.3.1 The type of the capital construction investment.....	6
2.3.2 State budget construction investment fund .....	8
2.4 Budget Construction Investment Fund Management.....	9
2.4.1 Targets and requirements of centralised CIF management .....	10
2.4.2 CIF management principles .....	11
2.4.3 Characteristics .....	13
2.5 Context in vietnam .....	16
2.5.1 The roles of the State Treasury system in state budget investment management .....	16
2.5.2 The principles of CIF management by the State Treasury.....	16
CHAPTER 3 RESEARCH METHODOLOGY .....	19
3.1 Research method .....	19
3.2 Research instruments .....	19
3.3 Research procedure .....	20
3.4 Collecting data .....	20
3.5 Data analysis .....	21
CHAPTER 4 OVERVIEW OF BAC GIANG PROVINCE.....	22
4.1 Overview of the research area.....	22
4.2 Revenue, expenditure results achieved over the years.....	22
4.2.1 General situation of economic development.....	22
4.2.2 Overview of the province’s revenue and expenditure.....	23
4.2.3 The use of capital construction investment in the province .....	24

4.3 Results in the management of capital construction investment in Bac Giang Province....	25
4.3.1 Results in plan development and investment capital allocation.....	26
4.3.2 Results in bidding management activities.....	27
4.3.3 Results in quality management, investment supervision and evaluation.....	28
4.3.4 On the control and payment of investment capital through the Treasury of Bac Giang.....	30
4.3.5. Results in the control of the final settlement of completed projects and accrued debts from capital construction through the State Treasury of Bac Giang.....	32
CHAPTER 5 ANALYSIS OF EMPIRICAL DATA.....	33
5.1 Analysis of control through the state treasury system.....	33
5.1.1 The situation of control through the state treasury system.....	33
5.1.2 Analysis of the control process through the State Treasury of Bac Giang.....	34
5.1.3 Assessments on the process of capital control through the State Treasury of Bac Giang	42
5.2 The efficiency of investment capital control in Bac Giang province.....	49
5.3 Factors affecting the capital management process in Bac Giang province.....	51
5.3.1 Objective factors.....	51
5.3.2 Subjective factors.....	54
5.4 Proposed solutions.....	59
5.4.1 Solutions regarding mechanisms and policies.....	59
5.4.2 Solutions regarding the organizational apparatus and human resources.....	61
CHAPTER 6 CONCLUSION.....	63
REFERENCE.....	65

# CHAPTER 1 INTRODUCTION

## 1.1 Research Background

For each and every developing country, investment and construction play a decisive role in their socio-economic development, economic growth and adjustment of the economic structure in line with their set orientation. In Vietnam, *state budget construction investment fund* (hereinafter CIF) is always an extremely crucial financial resource for the national socio-economic development. CIF is used to attract both domestic and external resources as development investment that pave the way for development of human resources, science and technology, and, improvement of the people's material and spiritual life. Not only making important contributions to establishment of material and technical bases for the economy, this fund also orients investment and makes important contributions to settlement of social affairs and environment protection. Because CIF is of such importance, effectiveness of CIF management with minimization of wastes and losses has long been a research topic with much publication. CIF remains, however, a big question for not only Vietnam's public finance but also the whole government.

CIF management is an economic management activity to promote the investment efficiency, reduce wastes and losses in every step from investment preparation to investment closing before putting the construction into use.

Although CIF management reform in Viet Nam has been taking place for years and in all aspects ranging from management decentralization, allocation, and cost management to granting, balance of investment, etc, the CIF management effectiveness remains yet little improved (Huyen, 2017).

The study will mention the centralized construction investment management exercised of Bac Giang province through the State Treasury between 2012 and 2015. Bac Giang is mainly a mountainous province, with interweaving midlands and lowlands. Its economic advantages include agriculture, forestry, industries, handicraft and small industries. Having low state budget revenues, the province has been receiving support from different investment programmes for promotion of its production and infrastructure. It has gained, over the past few years, certain achievements in its overall renovation of economy, culture, and society, mainly due to the role of financial instruments in proper resource distribution and use, and the role of economic and financial solutions that enhance centralized state budget CIF management in the province. Between 2012 and 2015, though the CIF management was tightened from granting to payment and balance drawing, losses and wastes remained popular in the field with high construction debts that reduce investment use efficiency.

Bac Giang province is far from Hanoi about 50km aside north and about 100km from the border with China via Lang Son province. So it can be said that Bac Giang is the important key economic area for trade between China, the largest trading partner of Vietnam and the another Vietnam provinces. Because there is at present no evaluation of capital investment management by the local, I choose the topic: “*Evaluation of the Centralized Construction Investment Management Exercised of Bac Giang province through the State Treasury between 2012 and 2015*”.

## **1.2 Research target**

This thesis is aimed to answer the questions of the efficiency of CIF management in the locality through the State Treasury control. Its specific targets are as follows:

- Evaluation of the policy framework for CIF management and the limitations from implementation of the framework.
- Evaluation of the efforts by different ministries, services and the governments in reduction of losses and debts of construction investment.

## **1.3 Research problem**

To achieve the research targets, the thesis will answer the following questions:

- What are the factors influencing CIF management ?
- How can the province’s CIF management be really effective ?
- How do the policies and mechanisms of the local government influence the process of CIF management?

## **1.4 Organization of the research**

The thesis has six chapters. Chapter 1 introduces the thesis itself, the research targets, research issues, and questions that will be further analyzed in the other chapters. Chapter 2 is a Literature Review with a focus on theories of state budget for investment and its control through the State Treasury system. The chapter also provides some unique characteristics in Viet Nam. Chapter 3 introduces the research methodology of the thesis including data collection, data analysis and form designing. It contains analysis of the data collected the State Treasury of the province in question. Chapter 4 provides geographical characteristics, the state budget results, and the CIF management results of the province. Based on the given theoretical framework and the collected data, Chapter 5, one of the important part of the thesis, analyses the government budget control in the province. Following that is an analysis of the factors influencing CIF management by the province, based on which solutions are proposed for improvement. Chapter 6, the final one, focuses on the author’s conclusion.



# **CHAPTER 2 LITERATURE REVIEW**

## **2.1 Introduction**

Public investment is the primary motivation for the growth and development of the nation, creating a social infrastructure that supports all the economic sectors activities. It is one of the important expenditures of the government, with the aim of generating benefits in the future. However, in each country, at different levels of development and institutions, the role and field of public investment as well as the policy governing this form of investment has distinct characteristics.

This chapter contains a review of literature pertaining to construction investment management from state budget. The first, the state budget is discussed. The second section includes the construction investment. The third, the state budget construction investment fund (CIF) is illustrated. Next, the importance of state budget construction investment fund management is review. Lastly, sense of Vietnamese comment.

The literature review is structured into key areas relating to two parts of the thesis question, the affects how to CIF management exercised really effective and how the factors influencing CIF management.

## **2.2 The state budget**

### **2.2.1 The concept of the state budget**

State budget involves a system of economic relationships between the state and society arisen from the government's mobilization and use of financial resources to sufficiently perform its economic and social management functions, and, at the same time, to draw a balance between revenue and expenditure (Mai, 2011).

According to Sabina "budget is public finance activity (management and administration of public money) of a state. Establish budgets, budget is the result of efforts to achieve a certain order in public finances. Over time, have crystallized precise rules such as: unity, universality, the accumulation of budget, budgetary appropriations specialization, not affecting income, inspired by the idea of doing an effective management of financial resources of the state and to achieve a balance budgetary, financial resource management essential" (Sabina, 2011).

The birth and development of state budget is closely connected with those of the state and the development of a commodity economy. The state budget plays an extremely important role in maintaining the state power machinery.

The State Budget Law approved by Vietnam National Assembly on 16 December 2002 (2002) defines "state budget contains every government revenue and expenditure determined by the state authority and implemented within a year to sufficiently perform the state duties and functions. The

state budget is a consistent system that includes the central and local budgets. The state budget is consistently managed on the principle of democratic centralism, openness, transparency, decentralization, and association between power and responsibility”.

The budget is the result of budgeting process. Budgeting is essentially a process of making plans (estimate) budget for the fiscal year and the establishment of measures primarily on economic and finance to ensure the implementation of the targets (Mai, 2011).

A government budget is a legal document that is often passed by the legislature, and approved by the chief executive or the President. For example, only certain types of revenue may be imposed and collected. Property tax is frequently the basis used as for municipal and county revenues, while sales tax and/or income tax are the basis for state revenues, and income tax and corporate tax are the basis for national revenues (Duong and Pham, 2005).

The concept of the budget, accordingly, of necessity includes specification, that the government must comply with the main positions included in the budget. An estimate merely to get an idea of the total sum of the state's financial requirement, without any binding effect, is already in itself something worthless. For when it does not everywhere have to be complied with, then the precondition is lacking under which any estimate has to be made at all (Friedrich, 2009).

“Public budgeting is a modern governance tool. It serves its design purposes by holding public officials accountable, which is the fundamental relationship between budgeting and democratic values accountability to taxpayers and voters” (Hou, 2011).

Budgets have an economic, political and technical basis. Unlike a pure economic budget, they are not entirely designed to allocate scarce resources for the best economic use. They also have a political basis wherein different interests push and pull in an attempt to obtain benefits and avoid burdens. The technical element is the forecast of the likely levels of revenues and expenses (Duong and Pham, 2005).

### 2.2.2 The nature of the Budgeting

The state budget appears in practice to contain various forms of public finance revenues and expenditures in different social and economic sectors, which are altogether put in a financial estimate that is implemented in a given period of time. Compulsory revenues of the state budget mainly come from distribution of national income which is created within the production and business sectors, while its main expenditures are grants for development investment and social consumption. Therefore, it can be said somehow that state budget involves every revenue and expenditure within its estimate that has already been approved by the state authority and implemented within a year to sufficiently perform the state’s duties and functions.

Budgeting, first and foremost, is about people, policies, and politics. Schick's characterization is worth quoting in full: "The word "budget" conjures up images in many people's minds of thick documents crammed with obscure jargon and thousands of numbers, and of debates over accounting conventions and performance indicators. These are manifestations of budgets, of course. But this is not what budgeting is all about; it is about the interplay of people and their ideas and goals" (Schick, 1998).

Budgets are statements about the limits and allocation of financial resources that governments will use in providing assistance and services to improve social and economic well being. The budget is made up of a compromise between alternative views on government activities and spending purposes. Budgeting is a compromise process whereby ministers, members of the legislature, civil servants and others participate in a debate about the relative results of different views and conclusions. Ending is the allocation of resources. Budgeting is also a process of regulating the behavior of public servants in public service management and provision of services and in the calculation of remuneration to be used and the results achieved (Caiden, 2010).

However, because the state budget activity involves distribution of the society's financial resources that are closely connected with the formation and use of the centralized monetary fund as the state budget, the distribution results in the financial relationships between the state on one hand and social subjects on the other.

The financial relationships are: (Khoan, 2007)

The economic relationship between state budget and enterprises: This arises during the formulation of budget revenue as the latter's payable taxes, or, the former's spending on infrastructure development and loans, etc. to support the latter's development.

The economic relationship between state budget and public sector organizations: This arises during the redistribution of state budget in form of grants to state management agencies. At the same time, revenue generating public service organizations under the market mechanism contribute part of their revenue from fees and charges to the state budget while keeping the rest for their own spending.

The economic relationship between state budget and the population: This is seen through the fact that part of the latter exercises their financial obligations to the former through payment of taxes, fees and charges while another part of the latter receives allowances from the state budget in line with available policies.

The economic relationship between state budget with the financial market: This arises when the state partake the latter through issuing state treasury securities to mobilize investment from different social subjects for balancing the state budget.

Therefore, behind its appearance as a monetary fund with revenues and expenditures, state budget reflects different economic relationships during its distribution. The analysis above shows that the state budget is a system of economic relationship arisen during the redistribution of the society's financial resources to form and use the government's centralized monetary fund for fulfilling its duties and functions.

“Control” is “to monitor for discovery and prevention of illegal things”. Control in this context is to complete the construction at the lowest cost within the approved overall investment while meeting relevant technical requirements and progress. “Control” includes supervision of the implementation, comparison against the standards, and selection of the right way (Dhillon, 1987).

Budgetary control can be understood as “the establishment of budgets relating the responsibilities of executives to the requirements of a policy and the continuous comparisons of actual with budgeted results either to secure by individual action the objective of that policy or to provide a basis for its revision” (Coombs and Jenkins, 2002). It should be pointed out that there is no significant difference between the principles of budgetary control in either the public or private sector: The statement implies that, as budgets are established for various elements of the organization, managers are given responsibility for the management of budget resources in those areas. A system requires information which has to be related to the delegated responsibilities within the organization.

It should also be indicated that there is little difference in the control principle practiced by both the public and private sector. This all reflects that once the budget is established for targets, the budget manager has the supervisory power and responsibility for use of the assigned budget.

Certainly, the state budget reflects the economic relations that have arisen associated with the process of creating, distributing and using the centralized monetary fund of the State when the State participates in the distribution of national financial resources for implementation. The functions of the State on the basis of law. The state budget always belongs state owner closely and contains the public benefit.

## **2.3 State budget Construction Investment Fund**

### **2.3.1 The type of the capital construction investment**

Investment plays a decisive role in every country's economic development process. To maintain the economic growth and sustainable development in each country, especially in developing countries. Investment has been increasingly mobilized and used. Investment is an economic category that has been mentioned by both classical and modern economists from different research angles.

In financial and monetary terms, investment is the total sum of money put into business for income. As an input, investment is one of the three inputs of production (i.e. labor, land, and capital).

As a general investment, CIF as well other capital resources is expressed in money terms of the investment value including resource consumption costs for the investment activity that is, all the investment cost.

The source that creates investment capital is the part of accumulation which is expressed in the form of value converted into investment capital to server the development requirements of the society. This is the term used to refer to the sources and distribution of capital to develop the economy to respond the general demands of the state and society (Nguyet and Phuong, 2007).

On a macro views, a country have two investment capital sources: domestic investment capital and foreign investment capital.

Domestic capital is the accumulation of the internal economy, including the saving from the population, economic organizations, businesses and the government which has mobilized into the process of reproduction of society. The expression of domestic investment includes state investment and people's and private capital (Nguyet and Phuong, 2007).

Foreign investment capital includes the entire accumulation of individuals, enterprises, economic organizations and foreign governments that can be mobilized into the development investment process in the host countries. This funding sources includes: Official funding sources, credits from international commercial banks, foreign direct investment and international capital markets (Nguyet and Phuong, 2007).

Capital investment decisions are more important than ever given rapid technological advances, shorter product life cycles, and global competition (Baker, 2011). Although survey evidence by Graham and Harvey (2001) and Brounen et al (2004) among others shows a narrowing of the gap between the conventional theory and practice of capital budgeting, this gap is not entirely bridged. Managers face the difficult task of making capital investment decisions in an increasingly complex environment. Making errors could be costly because many capital investments involve large expenditures that may directly affect a firm's performance, sustainability, and future direction. When conducting project analysis, managers need to understand the underlying assumptions the techniques used, their advantages and disadvantages, and the real meaning of the results. The capital investments selected need to be consistent with the firm's strategic plan and contribute to achieving its financial objective, which is often held to be shareholder wealth maximization (Baker, 2011).

According to Liu (2017), capital construction refers to those economic activities of adding fixed assets (machinery, equipment, plant building, etc) for both simple and expanded reproduction. It is an important physical guarantee for the continuity of social reproduction and is of significance to long term balance between supply of production materials and monetary purchasing power (Liu, 2017).

Moreover, Liu comment that investment of capital construction should match the growth of other sectors. It requests, directly, input of the means of production such as building materials, machinery equipment and labors and, directly and indirectly, growing of the sectors such as fuel, electric power and transportation (Liu, 2017).

In summary, investment capital construction is an investment activity that make constructions for the aim of investors, which are the material production sector that creates fixed assets and creates material facilities, technique for society. It is an economic activity. So, capital construction is therefore an important premise in the process of socio-economic development of the economy in general and the process of production and business establishments in particular.

### 2.3.2 State budget construction investment fund

CIF is both an important part of invesment in the national economy and a crucial public finance resource of the nation. Investment includes financial resources, natural resources, and intelligence of economic subjects that are put into an investment activity. The economic subjects here can be individuals, enterprises, services or a nation. In other words, investment is a social asset being used for future results.

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As a general investment, CIF as well other capital resources is expressed in money terms of the investment value including resource consumption costs for the investment activity that is, all the investment cost.

As a national financial resource, CIF is part of the development investment from the annual state budget allocated to capital constructions of the state.

According to Munnell (1992), the U.S. Council of Mayors called for stimulative spending for very large increases in infrastructure investment, and Government has made infrastructure spending a major part of his economic plan (Munnell, 1992).

In terms of public finance management, CIF is part of the monetary fund from the state budget allocated to investment in construction of socio-economic infrastructure, and development of production in order to achieve macro economic stability, economic growth, and social development.

In terms of construction investment, this fund is mainly spent to invest in development of fixed assets within the economy. Unlike such types of investment as investment for economic structure shift,

investment in contingency, investment in public procurement, construction investment is investment in machines, equipment, workshops, infrastructure... It is development or capital investment and mainly long termed. Associated with the state budget, CIF is managed and used strictly in line with the law and relevant processes. Unlike investment in business, investment from the state budget is mainly to provide a favourable environment or conditions for the economy, with no direct profitability in many cases.

Investment has the following components (Nguyet & Phuong, 2007):

First, the money spent on purchase of fixed assets – machines, equipment, land, workshops, technology secrets (i.e. fixed capital).

Second, the money spent on purchase of liquid assets and cash for payments or salaries (also liquid capital).

Thirdly, the money spent on preparation of the investment such as that on survey, project making, permit granting procedures.

Capital construction investment is realised through various resources: that of the state, private resource, and foreign one, of which that from the state budget is significantly important.

According to Bivens, “infrastructure investments provide the potential to boost economy wide productivity growth” (Bivens, 2014).

Further, Bivens confirmed that although the political barriers it is important to emphasize what an uphill struggle it will be in coming years to overcome to increasing public investment. Because economic analysis of the nation’s infrastructure needs would drive public investment policy in a more rational world (Bivens, 2014).

In the other views, CIF is the monetary expression of the value of the investment, including the cost of the resource used for the investment, that means the total investment cost. As defined from the Investment Law of Vietnam (2005) "Investment capital is money and other lawful assets to carry out investment activities in the form of direct investment or indirect investment" (p.21).

State budget construction investment is the state budget allocation to construction investment into socio-economic structure without payback, and other investment expenditures in line with the State Budget rule.

CIF is a compulsory solution for developing countries. It is the basis for the economic development of a country. This fund is used for investment in infrastructure including roads, construction building, investment in science and technology equipment. It must be managed and used in accordance with the laws and regulations of the state.

## **2.4 Budget Construction Investment Fund Management**

CIF management involves a process of systematic implementation of measures to distribute and

use the centralised monetary fund to realise the government functions. In fact, CIF management is a process of using government expenditures from planning to budget using to ensure effective and economical spending CIF management is needed strategic and it helps government manages CIF highly effective and avoids loss of waste.

Management is a mandatory requirement for all economic forms. Rumelt (1991) has asked himself question why has the "content" side of strategic management come to draw so heavily on economics?". And he supposed "we contend that the infusion of economic thinking has been driven by five forces or events, all connected with the research program of strategic management. They are the need to interpret performance data, the experience curve, the problem of persistent profit, the changing nature of economics, and the changing climate within business schools. Each of the forces or events has shaped the connection between economics and strategic management and each continues to pose practical and intellectual challenges that will shape future developments" (Rumelt, 1991).

#### 2.4.1 Targets and requirements of centralized CIF management

CIF management aims to turn a certain amount of money into a best socio-economic result and, at the same time, harmoniously settle economic interests of the state on one hand and those of the other social subjects on the other.

On the views of Phuong, the goal of capital construction investment management on the macro perspective is the successful implementation of socio-economic development strategies in each period of each country, sector and local (Phuong, 2007).

Moreover, Porter had written about the U.S investment capital "the problem lies in how this capital is allocated at what rates and into what kinds of investments. One consideration is whether there is over or underinvestment. A second is whether an investment is complemented by associated investments that is, whether there are linkages among different forms of investments. A third consideration is whether private investments also create benefits for society through spillovers or externalities. Nations that encourage appropriate investment across a wide variety of forms and create these social benefits can leverage their pool of capital to build a strong and competitive national economy" (Porter, 1992).

CIF management must be closely connected with investment strategies and included in the overall socio-economic development planning of a region. It must also be associated with the reform of command planning for construction investment with a replacement by market based oriented planning. It must correctly apply the demand supply relationships and market relationships, and associate growth to sustainable development, improvement of internal powers, socio-economic relationships, with a consideration of the interests of the national economy and the effectiveness of project finance. The main



targets are as follows:

CIF must be allocated as much as possible from the state budget. The specific spending percentage and scale for construction investment is a difficult calculation that contains various conflicts: those between accumulation and consumption, those between immediate and long term purposes, those between demand and supply. CIF redistribution must observe the market principles for more effective use of the fund. Some projects will yield greater payoffs than others, depending on the nature of the industry, the competitive position of the company, and the nation or region in which the investment is made (Porter, 1992).

The U.S system for allocating investment capital has many strengths: efficiency, flexibility, responsiveness, and high rates of corporate profitability. It does not, however, direct capital effectively within the economy to those companies that can deploy it most productively and within companies to the most productive investment project (Porter, 1992).

CIF must be arranged properly. This in turn requires budget calculation for each project, sector or area must overcome the long standing limitations, provides a relevant structure that is neither too centralised nor scattering. The distribution must observe relevant guidelines and directions and analyse the proportionate relationships related to construction investment. No stage can be underestimated – investment preparation has long been quick and unscientific. It must overcome the long standing limitations; the budget must be towards more spending for development investment without reducing recurrent expenses that may influence public service delivery. Subsidy and allowances must be removed to increase investment mainly in the socio-economic infrastructure with further decentralisation of CIF management for more effective use of resources (Nguyet & Phuong, 2007).

CIF management must observe the law and avoid losses and wastes. The capital for each project must be tightly controlled, disbursed in time and line with regulations, further supervised and assessed. On the other hand, because CIF management involves various agencies and stages while being subject to various government policies and regulations, their respective duties and functions must be clearly and properly defined for consistent and tight cooperation in line with the law to improve the effectiveness (Nguyet & Phuong, 2007) .

#### 2.4.2 CIF management principles

##### *Saving and effectiveness*

Saving and high effectiveness are both the target and standard for assessment of state budget CIF management (Nguyet & Phuong, 2007).

This principle suggests that construction investment must be managed so effectively that every of its penny will benefit most. This principle must be considered in the context of the whole society

and economic, political, cultural, social, etc. aspects. As following Nguyet, formula for this feature Net Value Added (NAV) is follow :  $NAV=O- (MI+Iv)$ .

While : O: output- The value of the project.

MI: Meterial Input - Regular material input value.

Iv: Investment includes construction costs,etc.

This feature is used to evaluate the effectiveness of new investment projects, expansive project or complex of projects. It consists two basic elements: the direct expense paid to employees and the social surplus. When the two plans have different capital investment budget, whichever has NAV value greater that plan is better (Nguyet & Phuong, 2007).

Every investment project must be managed in line with the overall planning of socio-economic development in a given period to effectively use government resources and promote private investments. It must observe the law on investment, construction, and related ones. It must be suitable for security, social order and environmental protection.

#### *Centralization*

This principle suggests that the entire CIF management is centrally managed under a consistent mechanism of the government through consistent and clear standards, norms, procedures and technical regulations.

According to Tanzi and Davoodi, that public investment projects tend to be large and in some cases they are very large. Their execution is often contracted out to domestic or foreign private enterprises. For a private enterprise, getting a contract to execute a project, and especially a large one, can be very profitable. That may be make a negative agreements. So government must manage centrally to avoid state budget waste and losse (Tanzi & Davoodi, 1998).

Distribution of CIF management must be in line with certain strategies, planning, overall plans, and specific decisions.

#### *Harmony of interests*

CIF management must harmonize the interests of the state, the collective and the worker. Following Munnell, public capital investment can expand the productive capacity of an area, both by increasing resources and by enhancing the productivity of existing resources. A well constructed highway allows a truck driver to avoid circuitous back roads and to transport goods to market in less time. The reduction in required time means that the producer pays the driver lower wages and the truck experiences less wear and tear. Hence, public investment in a highway enables private companies to produce their products at lower total cost. But the fare must be suitable for them to used. If it is so high that make profit is none then they will never user it. The condition of the highway, of course, is just as important as its existence. Similar stories can be told for mass transit, water and

sewer systems, and other components of public capital (Munnell, 1992).

*Combined service based and territory based management*

State authorities play an important role in CIF management because they can determine the project feasibility and, at the same time, implement the function of balancing CIF properly between the central and local level and between regions to get the overall effectiveness of the whole economy (Nguyet & Phuong, 2007).

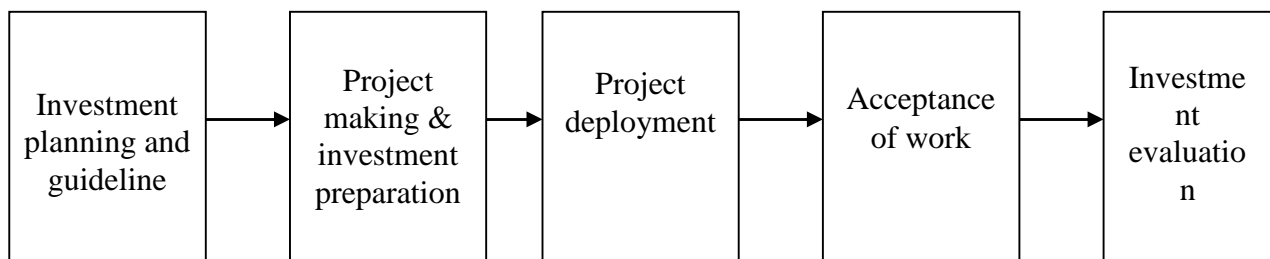
The government is the policy maker in the field of investment and construction management and related documents. Its regulations have important influences over CIF effectiveness

### 2.4.3 Characteristics

*First*, the object of management is CIF or planned allocation from the state budget through a very tight procedure of various steps: policy making, planning, estimating, norms, control and reporting regime, annual estimate, pooling revenues, allocation, accounting of state budget revenue and expenditure, and final account reporting. CIF management belongs to state budget expenditure management (Can, 2009).

According to Hoeber (2015) said that CIF is usually associated with investment projects of a five step process (Hoeber, 2015).

Figure 2. 1: Implementation process of a construction investment project



The investment and the project process are very closely connected. The former is disbursed and granted for use only after the investment project has been approved by the authority. CIF advance and payment are conducted along the progress of construction. Final accounts are only drawn after the project has been checked and taken over for use (Can, 2009).

*Secondly*, the subjects of CIF management include government agencies and functions with respective decentralised management of state budget investment. Each involves a step of the capital management process. Depend on each government there are different agencies manage it. In China, The State Development and Reform Commission is the focal point for appraising, synthesizing and submitting appraisal reports on development plans and submitting them to the State Council for approval; inspect and sumup the results of the implementation of the approved plannings. The Ministries and localities base on the approved development plannings to propose

and elaborate investment plans and lists of investment projects. In Viet Nam the agencies manage CIF that contain 3 authorities:

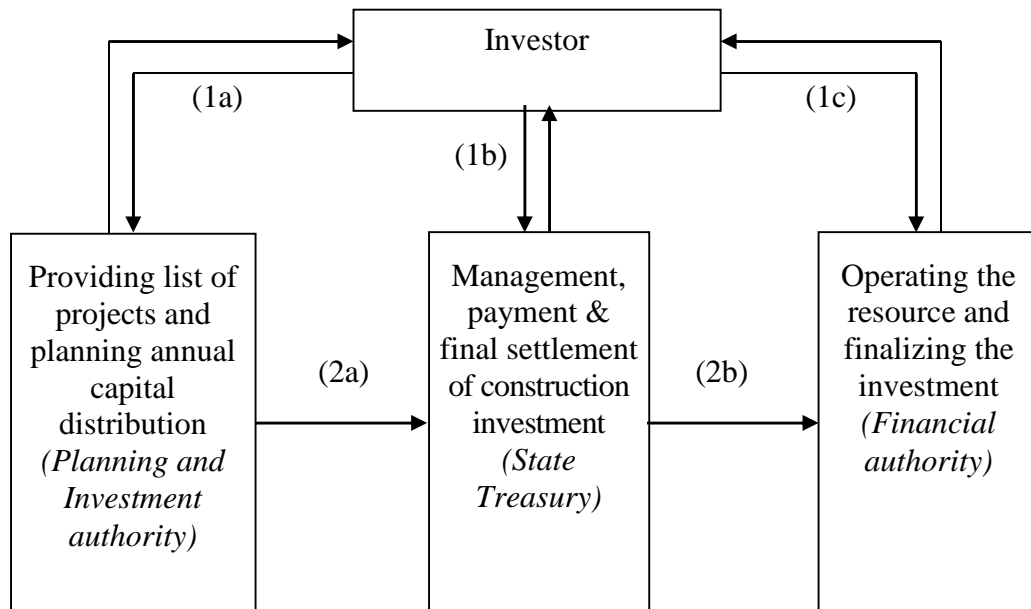
The Provincial Department of Planning & Investment (DPI) or the District level Division of Finance & Planning is responsible for distributing capital in plans of local budget;

The State Treasury manages, controls payment, does accounting and final settlement of the CIF account.

The Financial authority is responsible for management of the resource and final finalisation of the investment.

Based on the Investment Law(2005) and the Budget Law(2002), investor has related with the Planning and Investment agency, the Financial agency and the State Treasury following figure 2.2.

Figure 2.2: CIF management process



Notes: + 1a, 1b, 1c - The relationship between the investor and related agencies.

+ 2a, 2b - Disbursement process for the investor.

Among the steps of investment management, the important one decisive to the effectiveness of investment management is management, payment & final settlement of construction investment (Can, 2009).

Thirdly, CIF management aims to make the use of the capital get in line with the purposes, the principles, the standards and regulations, and to achieve high effectiveness. CIF effectiveness is not purely profitability or general economic effectiveness but a general socio-economic effectiveness. It is measured by the following criteria:

The incremental capital output ratio (ICOR) is calculated in the following formula :

$$\text{ICOR} = \frac{\Delta K}{\Delta Y}$$

where:  $\Delta K$  - the marginal amount of investment capital.

$\Delta Y$  – the output gained from the marginal amount of investment capital; it is  $\Delta\text{GDP}$ , or  $\Delta\text{GNP}$  in the economy.

ICOR reflects the effectiveness of distributing and using the investment capital. With the other conditions remain unchanged, if the capital is used effectively, ICOR will be low (that is if the same capital is used effectively, there will be more output units, or the same output units are produced from less capital (Nguyet & Phuong, 2007).

*The criterion of disbursement progress and scale from the state budget:* The disbursement progress is calculated by the ratio between the disbursed capital and the annual planned capital in the following formula:

$$\text{Investment disbursed ration} = \frac{\text{Total disbursed capital}}{\text{Total annual planned capital}} \times 100\%$$

This is a general criterion reflecting the capital disbursement result of the whole country, a service or a region at a given time. This criterion also reflects various factors, steps, and related subjects with the final result being the amount of capital construction and products of capital construction under disbursement.

This criterion has the advantage of simple data collection, easy calculation, easy check, high accuracy, and comparability across the country, a region or a service. It can also be used to analyse and compare economic activities in a period or many periods. However, its disadvantage lies in the fact that it is only suitable for general assessment of a region or service while being irrelevant for each agency responsible for an area within the state budget construction project.

A number of criteria for CIF effectiveness evaluation can be used: for example, prices, the percentage of projects drawing final accounts and implementing in line with their plan, CIF loss ratio, the relationship between CIF structure and economic structure shift. In addition, they must be connected to qualitative analyses of immediate and long term socio-economic effectiveness, as well as environment impacts to assess effectiveness (Nguyet & Phuong, 2007).

## 2.5 Context in Viet Nam

In Viet Nam, the State Treasury system control the payment of capital for state budget CIF. This is a very important process in the output by demonstrating the effectiveness of investing by state budget and leak out investment capital

### 2.5.1 The roles of the State Treasury system in state budget investment management

Section 2 Article 7 of the 2015 Vietnam State Budget Law stipulates that “*The state budget fund is managed by the State Treasury*”. According to the State Budget Law and its guiding documents, every expense from the state budget is managed, controlled, and paid through the State Treasury system; therefore, the State Treasury’s CIF management and payment is indispensable. The roles of the State Treasury in CIF management are as follows:

*First*, because the State Treasury is the executive organ of regulations on CIF management and payment, it plays the decisive role in putting regulations on CIF management into practice.

*Second*, because the State Treasury is assigned by the state to work as the final “gatekeeper” before a capital comes out of the state budget, being independent of the investor and the contractor, the State Treasury contributes to the legality of records, and thus contributes to strengthening the financial discipline over state budget users in the field of construction investment.

*Thirdly*, the State Treasury is the ultimate authority to control, pay, identify the exact investment capital payable, so it helps ensure that state budget construction investments are made to the right purposes, in line with the right regimes, and with effectiveness while limiting ineffectiveness and wastes.

*Fourthly*, the State Treasury system is the provider of data and information for budget estimating and distribution to the beneficiaries so that the estimating and distribution are suitable with deployment of projects to improve the effectiveness of using the country’s limited financial resource.

*Finally*, the fact that the State Treasury system conducts CIF management and payments means that the CIF manager and the CIF payer is the same, through which to reduce the circulating time of records, facilitating payment to the investor, the contractor, and the supplier (Decision of the Prime Minister, 1990).

### 2.5.2 The principles of CIF management by the State Treasury

*First*: Payment to the right beneficiary.

Payment of state budget construction investment capital is realised through a nonrefundable approach to provide sufficient investment capital for necessary projects of socio-economic infrastructure, national defence and security, etc. that provide necessary the material and technical basis for comprehensive and balanced development of the national economy.

The capital payable to the state budget construction investment projects includes the domestic one from different budget levels, the government's foreign loans, and foreign aids to the central and local governments and state agencies. CIF resources are only used to pay for state budget beneficiary projects in line with the State Budget Law and the laws on investment and construction.

*Secondly:* Implementation of the right investment and construction procedures, with approved estimates of sufficient required documents.

An investment or construction procedure is the order of different stages or steps of the investment/construction process of a specific construction. Regardless of investment scale and level, every investment project has to undergo a procedure of three stages (i.e. preparation, implementation, and completion for putting the project into operation). Work of the preparation and the completion stages can be done either sequentially, in an overlapping manner, or in an interweaving manner, depending on specific conditions of each project.

Capital payment to the project, during any of its stages, must be made in line with an approved estimate with its corresponding required documents.

*Thirdly:* Payment to the right purpose and the right plan.

The state budget allocation for construction investment is defined in the annual state budget plan, on the basis of the socio-economic development plan for the national economy, the capital construction plan of each ministry, service, local government, agency, and, the availability of the state budget resource. Control and payment of state budget construction capital must be made in line with the right purpose and the right plan to conform with the principle of state budget management and fit in the plans and balance of the entire national economy, each service, sector or region.

CIF can be used only for a planned construction investment already approved by the authority, not for any other purposes. CIF payment must be made in line with the capital plan already approved for each construction, and the total paid capital of the planned year for a project may not exceed its corresponding approved capital plan. The capital of a project may not be transferred to another project without a decision made by the relevant authority.

The disbursement for each activity, work item, or construction may not exceed the approved estimate or the bid package price; the overall capital paid to a project may not exceed the overall approved investment. The annual capital payable to a project, including that of advance and that of the completed amount, may not exceed the planned annual capital approved for the project. For an ODA project exceptionally, payment of advance and payment of the completed amount is not limited by the project's annual financial plan but may not exceed the overall financial plan of the whole project.

The planned annual capital is payable only to the completed amount checked and approved by 31 December of the same planned year; the deadline for such payment is by 31 January of the following year, including payment to balance the advance in the same year, except for those projects already approved by the authority to have a prolonged implementation duration and payment.

*Fourthly:* Payment of items approved and requested by the investor for payment by the State Treasury.

Based on the payment request by the investor, the State Treasury will, on the basis of the payment clauses provided in the contract (i.e. times of payment, payment periods, payment time, and payment conditions) and the specific amount of payment, to make payment to the investor, who will be responsible for the accuracy and legitimacy of the completed amount, norms, unit price, estimate of work, and construction quality while the State Treasury is exempt from those responsibilities. Based on the payment documents, the State Treasury make contracted payments (Minister of Finance, 2015).



## **CHAPTER 3 RESEARCH METHODOLOGY**

### **3.1 Research method**

The author has used qualitative methods for this entire thesis. Through collecting related and actual data of the CIF control, comparison, and finalization by the State Treasury system, the theoretical framework has been established. In addition, financial reports, applicable regulations and instructions have been used to make specific analyses.

Silverman (2013) argues that there are three approaches to thesis analysis, each of which utilizes different methods. The three approaches are: using theories (i.e. a systematic analysis for theoretical development), choosing a methodologies (i.e. develop a new method) and experiential (i.e. analysis of a specific databank related to a case). The main point of this thesis is described as a case whose actual data from the budget management system (here referred to the Treasury and budget management information system-Tabmis) to answer the questions at the present and in the future.

Because collected data have huge influence over data analysis, selecting a methodology is therefore very important in determining the nature of data to be collected. Necessary data for this thesis are those that help identify the role and tasks of the State Treasury system in controlling the investment resource, which will then be compared to the corresponding legal documents and research.

Creswell (2003) provides a number of main points that should be studied during the process of choosing a qualitative approach, which will basically discover the nature of the research issue. This approach will enable us to reach a more specific understanding through exploration, description, and explanation on the basis of investigation, realization, and impetus. These can lead us to building hypotheses and explanations. Because this thesis aims to clarify issues related to resource wastes due to CIF management and policy making, and, also to clarify the basic characteristics and limitations, the selected qualitative approach should collect data through observation, interview of budget users and contractors, as well as analysis of related documents.

Facing the research questions of this thesis, the qualitative approach is considered the most suitable one because it allows specific survey of factors possibly having influences over the thesis's object.

### **3.2 Research instruments**

Survey questionnaires, interviews, and data analysis will be the main research instruments applied to this thesis. As mentioned above, the data are collected mainly from reports by the State Treasury system, the Ministry of Finance, other ministries, the local Government, the contractors, the inventors, and, related articles and research from newspapers and journals in Vietnam.

Regarding survey questionnaires, the author has used 75 copies for the local in question. In addition, 20 people (i.e. state budget CIF managers, inspectors, financial controllers, investors, contractors, economic specialists, construction specialists, etc, related to the survey) have been interviewed. The author then analyses the factors causing wastes and losses from state budget CIF management.

Consulting those documents, articles, and analyses related to state budget construction investment is also used as an instrument to provide remarks on CIF management conducted by the whole country in general and by the province in particular.

### **3.3 Research procedure**

To realise this research, the author has conducted the following steps:

First, data and information have been collected from the State Treasury system to identify issues facing budget investment management, based on which to identify research issues and research questions. Secondly, the research design will be provided after consulting related documents, and it will be perfected on the basis of the results coming from the literature review.

The next step is collecting qualitative data. Those data collected from final accounts, summary reports, interviews, survey questionnaires will be analysed and discussed.

### **3.4 Collecting data**

Because this thesis uses a qualitative method, interviewing is used to collect data. Those documents such as performance reports, final accounts and articles in financial journals from 2012 to 2015 form the fundamental premis to evaluate the state budget CIF management performance.

Besides, the collection of managers' ideas on CIF management and specially direct contractors' ones will reveal hidden costs and questions of public sector investment performance.

Another way of data analysis is consulting the Government and the ministries' regulatory documents related to the state budget CIF management. Policy adjustments to fit such management also form one evaluative criterion of the degree of relevance and management, and gaps in the management.

Sampling taken in this research was done basing on purposive sampling, which is one of the most sampling strategies according to preselected criteria relevant to a particular research question. Moreover, purposive sample sizes are often determined on the basis of theoretical saturation (Mack et al., 2005). Specifically, the group was selected to interview is top Managers, Chief Accountants, Manager of Controller of Bac Giang Treasury, Investment units, and contractors because they are experienced and aware of this system. Thus, they can provide information to answer the research question of this dissertation.

Before conducting the interview, I have committed to keep confidentiality about the interviewee and the information to be provided by the interviewee.

Then, questions listed in an interview questionnaire were settled with each interviewee. There were 20 interviews, Each interview lasted about 5 to 20 minutes. All the interviews not being recorded, I have taken notes of interviewees' answers. Some information such as date, time, place, name, and interview questions were prepared in the notes before conducting interviews. Spaces between interview questions were leaved on the page for taking notes.

### **3.5 Data analysis**

The data analysis aims to describe and explain the binding relationships and the interdependence. First, the general data and then the specific ones are summarized. The data in question are of the budget years from 2012 to 2015. The analysed data are taken from approved final accounts of budget expenditure. The statistics are also compared in terms of periods and against the corresponding approved estimates. Interviews will help identify whether estimate approval and finalization cause wastes; and, whether the control based on executive regulations are tight and suitable. Ideas of interviewed investors, contractors, experts, and managers will provide the basis for further evaluation of the feasibility and accuracy of the published finalized statistics.

The qualitative method, data analysis, and interview of this thesis are realised through the content analysis approach (Hancock, 1998). Descriptive account of the data collected and interpretative analysis were used. Specifically, the data collected from interviews are categorised and then combined with the data from the reports to identify analyses of content. Finally, the analytical results will be the basis for provision of conclusions and recommendations to be made to CIF managers.

## **CHAPTER 4 OVERVIEW OF BAC GIANG PROVINCE**

### **4.1 Overview of the research area**

Bac Giang is a mountainous province which was reestablished and put into operation under a new administrative unit since January 1st 1997. The province currently consists of 9 districts and 1 city, with 230 communes, wards and townships. The Bac Giang terrain consists of 2 subregions: mountainous and midland with plains in between. The province's total population is 1,624 thousand people, with a population density of 422 people/km<sup>2</sup> but unevenly distributed. The province's workforce consists of 1,022 thousand laborers, accounting for 63% of the population. These laborers are mostly in rural areas, accounting for 90.5% (Bac Giang Department of Statistics, 2016).

The province's advantage lies in the fact that it is located along National Highway 1A, 50km from Hanoi, adjacent to Lang Son border gate and the key economic triangle corridor Hanoi-Hai Phong-Quang Ninh, with a convenient road, railway, and waterway network connecting to other provinces in the region as well as China which is a large market. The province's natural area is 384.9 thousand hectares, including 129.4 thousand hectares of agricultural land, 140.4 thousand hectares of forestry land, 52.6 thousand hectares of specialized land, and 23.3 thousand hectares of residential land (The geographic and economic map of Bac Giang Province, 2016).

### **4.2 Revenue, expenditure results achieved over the years**

#### **4.2.1 General situation of economic development**

The province's economic situation is first expressed in general economic indicators such as GDP, GDP growth rate, economic structure etc. The province's GDP has increased sharply in recent years: in 2012, the GDP of the whole province reached 26,514 billion dong (at 2012 prices), with an average growth rate of 9.8 %/year. In 2015, the real GDP reached 34,460 billion dong, GDP per capita reached 31 million VND(1,480 USD/person). Compared to the national average (2,028USD/person), the province's GDP per capita is still relatively low (Bac Giang Statistical Yearbook, 2016).

Table 4.1: Basic economic indicators of Bac Giang Province from 2012-2015

<b>Indicator \ Year</b>	<b>Unit</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
GDP of the province	Billion dong	26,514	28,722	31,359	34,460
Growth rate	%	109.8	108.3	109.5	109.6
GDP at current prices	Billion dong	33,364	39,496	43,229	58,660
Average population	thousand people	1,588.5	1,605.1	1,624.5	1,652.2
GDP per capita	million dong	21	25	27	31
Investment capital in the area at current prices	billion dong	17,769	22,324	25,071	30,152
Investment growth rate	%	117.6	125.6	112.3	116.7

The economic structure is shifting towards modernization but the rate is still slow. From 2012 to 2015, the proportion of investment increased from 17.6% to 25.6% from 2012 to 2013 but reduced 12.3% in 2014 and 16.7% in 2015. However, the growth mostly results from the economic structure shift in the right direction, leading to an increase in work productivity and employment. With the tendency of incrementally increasing the proportion of industry and decreasing the proportion of agriculture and forestry in the GDP, Bac Giang's economic structure has been shifting rapidly compared to the Northeastern region; however, the rate of economic growth and structure shift is still slower compared to the national average (Bac Giang's Annual Economic and Social Review, 2012-2015).

#### 4.2.2 Overview of the province's revenue and expenditure

On budget revenue : The province's state budget has increased in scale and shifted in structure. Regarding the scale, the revenue of the state budget increased from 2,578 billion dong in 2012 to 4,164 billion dong in 2015. Revenue from the foreign investment sector was still low but there was an increase over the years. The revenue in 2015 had increased more than 5 times compared to that of 2012. In the revenue structure, the proportion of revenue from land use fees was quite high, accounting for 25-35% of total state budget revenue in the area (Settlement Report of the Treasury of Bac Giang, 2012-2015).

Table 4.2: Overview of Bac Giang Province's Budget Revenue from 2012 to 2015

*Unit: billion dong*

No.	INDICATOR	2012	2013	2014	2015
	TOTAL REVENUE	2,578	3,123	3,830	4,164
1	Domestic revenues (excluding revenues from crude oil)	2,154	2,422	2,952	3,221
	Including revenue from land use fees	861	864	1,099	1,066
2	Revenues from export- import	341	588	377	478
3	Other revenues	83	103	501	465

Table 4.3: Overview of Bac Giang Province's Budget Expenditure from 2012 to 2015

*Unit: billion dong*

No.	Content	2012	2013	2014	2015
A	Local budget's total expenditure	9,191	9,123	9,767	9,703
1	Expenditure on development investment	2,376	2,439	2,585	2,340
2	Recurrent expenditure	5,372	6,680	7,178	7,361
3	Other expenditures	1,443	4	4	60

On budget expenditure: Recurrent expenditures accounted for a large share in the total expenditure. The following year saw an increase as compared to the last year, in 2012 this figure was 5,372 billion dong, accounting for 58.4%; in 2015 the figure was 7,361 billion dong, accounting for 75.8%. The structure of recurrent expenditures and capital expenditures varied widely. In 2012 recurrent expenditures were 2.2 times more than capital expenditures, in 2013 and 2015 this figure increased to 2.7 and 3.1 times, respectively. This expenditure structure clearly shows the imbalance in expenditure sources in Vietnam (Settlement Report of the Treasury of Bac Giang, 2012-2015).

#### 4.2.3 The use of capital construction investment in the province

The investment capital from the province's budget in the 2012-2015 period remained mostly stable between the years and accounted for a small proportion in the total budget expenditure, at 25.8%, 24.1% and 23.6% in 2012, 2013, and 2014 respectively. In 2015 this figure was only 24.1% (Settlement Report of the Treasury of Bac Giang, 2012-2015).

However, investment capital from other sources such as enterprise and social sources saw an increase. This increase was mainly due to an increase in investment projects from the non state sector

(corporate capital and residents' capital), which accounted for a high percentage of total social investment, from 57% to 66%. According to the Annual Economic Review of Bac Giang People's Committee from 2012 to 2015, the province's state budget capital accounted for 9% to 15% of the total social investment, this source of capital also facilitated GDP growth and economic structure shift in a progressive direction. The capital from the foreign direct investment sector remained limited, accounting from 10% to 13% of the total social investment and focused on a small number of small scale projects such as placer deposit mining, wood processing, textile and electronics factories. In general, there remain a number of issues for consideration regarding Bac Giang province's social investment:

Firstly, there is a great demand for investment to develop infrastructure for production and society as a whole, however the ability to allocate funds is still limited.

Secondly, there is a lack of business people in the field of investment for economic development. There is also a lack of enterprises with a strong foothold and contribution to investment for local economic development.

Thirdly, the investment environment is not really attractive to foreign investors. Foreign investment attraction remains a difficult issue, due to the high total investment capital and low return on investment rate. Industries like hospitality and restaurant have a high rate of return on investment but social demands for these industries are low.

Table 4.4: Investment capital in the province at current prices

Indicator	Year				
	Unit	2012	2013	2014	2015
Investment capital in the province at current prices	billion dong	17,769	22,324	25,071	26,850
Capital in the state sector	billion dong	4,410	6,841	7,800	7,934
Capital in the non state sector	billion dong	11,138	13,084	14,294	13,743
Capital in the FDI sector	billion dong	2,221	2,399	2,977	5,173

### 4.3 Results in the management of capital construction investment in Bac Giang Province

Capital construction investment is one of the areas that is related to many levels and industries. Bac Giang Province has actively focused on reforming the mechanism of construction investment management, strictly managing capital resources and construction investment costs, as well as reviewing and adjusting the master plans for economic and social development.

In the past years Bac Giang Province has implemented investment management activities for capital construction such as: reviewing and approving plans according to schedule and intensifying the publicization of information on planning, 5-year socio-economic development plans, industry/sector development planning, general planning and detailed construction planning; Improving the quality and effectiveness in the state management of construction investment. The allocation of capital was ensured to be in accordance with socio-economic development objectives and the decisions of the Bac Giang People’s Committee, in line with the sector’s planning, arranging the order of priorities in investment, solving critical urgent issues, handling accrued debt, and limiting new construction.

The management of capital construction investment in the province was carried out from plan development, capital allocation, payment and the final phase of settlement would be conducted by many appropriate authorities. Basically, these phases were all closely correlated. Administrative agencies worked in line with policies issued by the Government and Ministries. The Public Investment Law of Vietnam was promulgated in 2015 and put into effect since 2016. As a result, policies applied in the period of 2012 to 2015 were still subjective in nature on the part of each sector and locality.

#### 4.3.1 Results in plan development and investment capital allocation

The organizational structure for managing investment in focused capital construction from the State budget is implemented based on the following diagram:

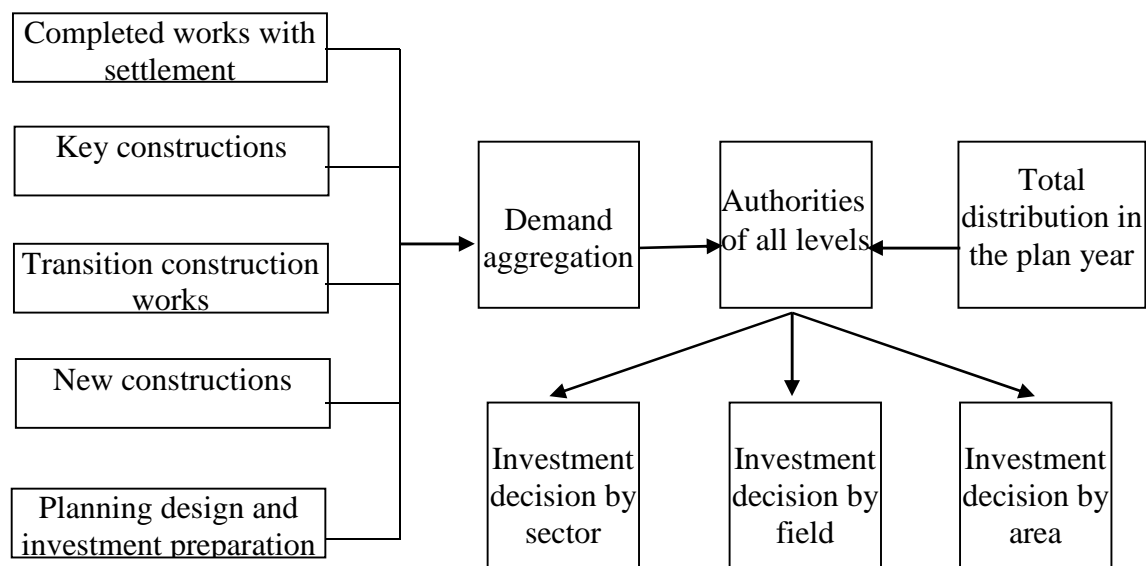


Figure 4.5: Annual investment plan layout

The allocation of investment funds had closely followed annual socio-economic development objectives, medium term construction investment plans, the 5-year socio-economic development plan, and the provisions in the current law. The province had taken steps to proactively adjust the



investment structure towards gradually decreasing public investment and strengthening measures to mobilize privatized investment resources and other investment forms such as BOT, BT, PPP, etc.

The capital was allocated on the basis of balancing feasible investment funds, to ensure that the funds were concentrated and not spread out; capital allocation to handle accrued debt in capital construction was prioritized.

The allocation of capital had to ensure the balance in capital structure in accordance with indicators in the fields of: education and training, vocational training and science-technology; in disadvantaged regions and areas as well as some other fields like transportation, environment, rural and agricultural infrastructure suitable with the province's specific conditions.

Construction works needing urgent investment in order to prevent direct harms to the health, property and lives of the residential communities within the area or in order not to cause serious effects on adjacent constructions; as well as important technical infrastructure facilities which had a big impact on socio-economic development and disaster mitigation in agriculture, transportation, education, health, national defense and security those were prioritized.

Capital would only be allocated to new constructions after enough capital had been allocated to settle accrued debts and there were sufficient basic construction investment procedures as regulated. The amount of capital allocated to new projects in the plan year had to ensure that the total amount of capital allocated to each new project, compared to the total amount of investment in the approved project must be at least equal to 15% for Group A projects; 20% for Group B projects; 35% for Group C projects.

The allocation of investment funds must ensure that group B projects be completed within 5 years, and group C projects be completed within 3 years. At the same time the allocated capital was prioritized to be spent on making payments for construction works which had been basically completed. The allocated capital according to plan would not be used on continuing the capital construction while the completed volume had not been paid for in order to avoid incurring accrued debts in capital construction.

For projects expected to be completed and put into use in the year preceding the plan year and the capital allocated to pay for the completed volume exceeding 80%, more capital would not be allocated in the plan year, in which case investors would be required to finish settlement procedures; once the settlement approval decision had been made, payment would be made.

#### 4.3.2 Results in bidding management activities

*Appraisal of bidding plans, bidding dossiers and contractor selection results:*

The focal point of project appraisal would be in charge of appraising the bidding plan to submit

to the individual making investment decisions for approval.

The investor would assign supporting departments under the investor to arrange the appraisal of bidding dossiers and contractor selection results or hire a qualified consultancy group to organize the appraisal.

*Lead time for the evaluation of bidding dossiers and bidding appraisal*

The lead time for evaluating bidding dossiers is 20 days for small scale bidding packages, 30 days for domestic bidding, 60 days for international bidding, from the date of bid opening until the day the bid solicitor submits the bidding results to the investor for approval;

Within 10 working days since receiving all valid documents, the appraisal unit shall complete the appraisal report of bidding plans, bidding dossiers, contractor selection results and submit to competent persons for approval.

*Approval in bidding:*

The person competent to make investment decisions would be the one competent to approve the bidding plan;

Within 05 working days since receiving all valid documents, the investor shall approve bidding dossiers, dossiers of requirements and contractor selection results;

As a result, from 2012 to 2015, the province organized bidding, contractor designation and other forms with a total of 7,976 bidding packages at a successful bidding value of 16,520 billion dong, thus there was a decrease of 482.55 billion dong in bidding, which is equal to 2.83% of the price of approved bidding packages.

#### 4.3.3 Results in quality management, investment supervision and evaluation

*Quality management of construction works*

According to the summary report of the Department of Construction from 2012 to 2015, the results of the construction quality management process are as follows:

The investor would direct the consultancy supervision organization and the contractor to carry out the construction in accordance with the design, standards, and regulations of the State.

The investor would select the consultancy supervision organization to ensure sufficient human resources with the quality and experience of work and without any violation in previous projects.

In case incidents occurred or the quality of construction was not ensured because of the investor, the issue must be immediately resolved; the investor must bear economic, administrative, and criminal responsibility as stipulated by law.

*Investment supervision and evaluation*

The investors of projects must take responsibility before the provincial People's committee on

the implementation results of investment supervision and evaluation activities under their scope of management; the investors must bear responsibility for the consequences of not performing investment supervision and evaluation or reporting as per regulations.

The Department of Planning and Investment: to act as a focal point in performing the task of investment supervision and evaluation in accordance with current regulations. The Department would assume the responsibility of summarizing the evaluation and rating the capacity of investors, consultancy units, and contractors participating in construction activities in the province. The Department would also summarize and report to the provincial People's committee in a timely manner all difficulties and problems related to investment activities and projects under the management competence of the People's committee to be solved (Regulations on the functions and responsibilities of the Department of Planning and Investment, 2010).

The Department of Construction: to perform the task of investment supervision and evaluation in the assigned fields in accordance with current regulations. The Department would assume the responsibility of developing the criteria and guiding the capacity evaluation and rating of investors, consultancy units, and contractors involved in the state management of the industry. This Department would coordinate with the Department of Planning and Investment to summarize the evaluation and rate the capacity of investors, consultancy units and contractors participating in the construction of projects under their management (Regulations on the functions and responsibilities of the Department of Planning and Investment, 2010).

Investors of projects: The investor of projects would bear the responsibility of supervising and evaluating the project investment in accordance with current regulations. The investor would regularly evaluate and rate the capacity of consultancy units and contractors participating in the projects under the investor's management (Law of Public Investment, 2014).

The results of investment supervision and evaluation from 2012 to 2015 are as follows:

The Department of Construction conducted quality inspection of 43 projects in the area. The technical supervision of investors, contractors, and consultants was basically carried out in accordance with the order and procedures; the construction supervision of organizations with the community was promoted, especially for construction projects with large investment capital and projects with capital contribution from the population (Summary Report on the construction industry in the 2011-2015 period, 2015).

During the investment supervision and evaluation in the province, some violations and wrongdoings causing capital losses and wastes in investment were timely detected and prevented: the Department of Planning and Investment carried out the investment evaluation and supervision for 199 projects under the decision making authority of the Chairperson of the Provincial People's

Committee; the districts organized 205 investment supervision and evaluations in accordance with their decentralized functions. Some projects had a fast progress and were soon put into use which had helped to promote investment efficiency. On the other hand, there were also some bidding packages and projects which were behind the specified schedule but the investor did not carry out procedures for extending the implementation period (Summary report for planning-investment activities in the 2011-2015 period, 2015).

*Investment supervision by the community*

Investment supervision activities by the community have been implemented in accordance with Decision No. 80/2005/QĐ-TTg dated April 18 2005 by the Prime Minister on the promulgation of the Regulations on investment supervision by the community. The community investment supervision boards had carried out supervision 2,933 times, through which 179 projects were found to have violations, which were then handled and the fines were remitted to the state budget (Summary report for planning investment activities in the 2011-2015 period, 2015).

4.3.4 On the control and payment of investment capital through the Treasury of Bac Giang

The allocation and advance payment of the state budget capital from the State Treasury for investment projects must be in accordance with the implemented volume and regulations in Circular No. 86/2011/TT-BTC dated June 17 2011 of the Ministry of Finance. Since 2017 the implementation is controlled through the State Treasury in accordance with the new State Budget Law and the regulations in Circular No. 08/2016/TT-BTC by the Ministry of Finance.

Payment in advance by contract from the investor to the contractor is made in accordance with current regulations; the total advance capital of the contracts implemented in a year must not exceed 50% of the planned annual capital allocated to the project. The investor takes the responsibility of determining the advance amount for each specific project, ensuring the advance amount for the whole project in accordance with the above requirement. The allocation and advance payment shall only be continued after payment for completed volumes has been made.

The advance payment for compensation and ground clearance as well as advance of capital for a number of components and semi-finished construction products with a high value must be completed first to ensure the construction progress and some materials must be stored by season.

The payment and advance payment of the allocated capital in the plan year must be prioritized to be used for the construction volumes which have been basically completed and are backlogged from the year preceding the plan year. Payment or advance payment of the plan year's allocated capital for the construction volumes basically finished in the plan year must not be made until the payment or advance payment for the completed volumes backlogged from the year preceding the

plan year has been made.

Table 4.6: Capital planning and disbursement of funds in concentrated capital construction investment in the 2012-2015 period

*Unit: Million dong*

No.	Sources of capital	Annual capital planning	Value of disbursed volumes	Value of completed volumes	Percentage (5)/(3)
1	2	3	4	5	6
	TOTAL	9,652,084	7,576,716	8,085,622	83.77
III	Year of 2012	2,376,564	1,658,196	1,763,744	74.21
1	Capital balance in the local budget	1,481,901	1,265,513	1,332,650	89.93
	Provincial budget	399,615	329,193	362,614	90.74
	District budget	727,235	675,896	700,343	96.30
	Communal budget	355,051	260,424	269,693	75.96
2	Targeted support capital	551,466	376,187	414,598	75.18
3	Other types of capital	343,197	16,496	16,496	4.81
IV	Year of 2013	2,349,606	1,923,047	2,080,370	88.54
1	Capital balance in the local budget	1,408,539	1,196,799	1,281,035	90.95
	Provincial budget	378,720	315,348	354,879	93.70
	District budget	678,351	615,123	648,021	95.53
	Communal budget	351,468	266,328	278,135	79.14
2	Targeted support capital	314,577	226,328	244,336	77.67
3	Other types of capital	626,490	499,920	554,999	88.59
IV	Year of 2014	2,585,186	2,017,360	2,073,571	80.21
1	Capital balance in the local budget	1,687,886	1,488,310	1,519,892	90.05
	Provincial budget	479,866	438,602	457,323	95.30
	District budget	749,110	715,800	722,335	96.43
	Communal budget	458,910	333,908	340,234	74.14
2	Targeted support capital	512,400	398,005	406,771	79.39
3	Other types of capital	384,900	131,045	146,908	38.17
IV	Year of 2015	2,340,728	1,978,113	2,167,937	92.62
1	Capital balance in the local budget	1,563,060	1,267,351	1,394,529	89.22
	Provincial budget	220,350	197,485	212,256	96.33
	District budget	780,260	677,082	680,261	87.18
	Communal budget	562,450	392,784	502,012	89.25
2	Targeted support capital	560,500	512,200	556,240	99.24
3	Other types of capital	217,168	198,562	217,168	100.00

*Source: Settlement Report of the Treasury of Bac Giang from 2012 to 2015.*

From the results of investment capital payment from the State budget shown in Table 4.6, it can be seen that the value of completed volumes of projects and construction works reported by the

investors was low compared to the capital plan, the total share of different sources of capital reached 83,77%.

#### 4.3.5. Results in the control of the final settlement of completed projects and accrued debts from capital construction through the State Treasury of Bac Giang.

The final settlement of completed projects was carried out in accordance with the circulars of the Ministry of Finance regulating the management of investment capital. Accordingly, the jurisdiction, responsibility, and process of inspection for the final settlement of completed projects have been specified clearly which make it easy for implementation.

The final settlement of completed projects has achieved relatively good results. However, some investors were not really interested and did not understand the importance of the final settlement of investment capital in completed projects, the final settlement of investment capital was slow compared to the specified schedule, many projects were not settled in accordance with current policies. Some common mistakes are calculations based on the wrong norms and unit prices, incorrect settlement of completed volumes, prices applied incorrectly compared to the bidding price leading to reduced value after the final settlement.

## **CHAPTER 5 ANALYSIS OF EMPIRICAL DATA**

### **5.1 Analysis of control through the state treasury system**

#### 5.1.1 The situation of control through the state treasury system

In the reform program of the Government of Vietnam, the Ministry of Finance, and the State treasury sector, institutional reform is a focal point and a breakthrough in the 2010-2020 period. The Decision No.138/2007/QĐ-TTg dated August 21 2007 by the Prime Minister approving the strategy of developing the state treasury system towards the year of 2020 which clearly states that “Building a modern State Treasury which operates safely and effectively, etc in order to perform well the functions of: managing the State budget funds and State financial funds; managing Government funds and debts; improving capacity, effectiveness and openness, transparency in managing the State’s financial resources”.

In the process of payment control, in addition to checking records and documents, the control of the unit’s financial activities is of great importance. In order to do this, there is no one other than the specialized official to directly monitor, manage and make payments for the unit.

To perform the task of controlling payments of capital construction investment funds from the State budget at the State Treasury in accordance with the State Budget Law and implementing the one stop shop mechanism promulgated by the Government, it is appropriate to move the request receiving and result returning departments at transactional counters to professional divisions and assign staff to perform direct transactions with organizations and agencies taking part in one stop shop transactions. It is one of the steps to ensure the effectiveness of implementing the one stop shop mechanism in controlling and making payments for capital construction investment funds from the State budget at the State Treasury of Bac Giang Province.

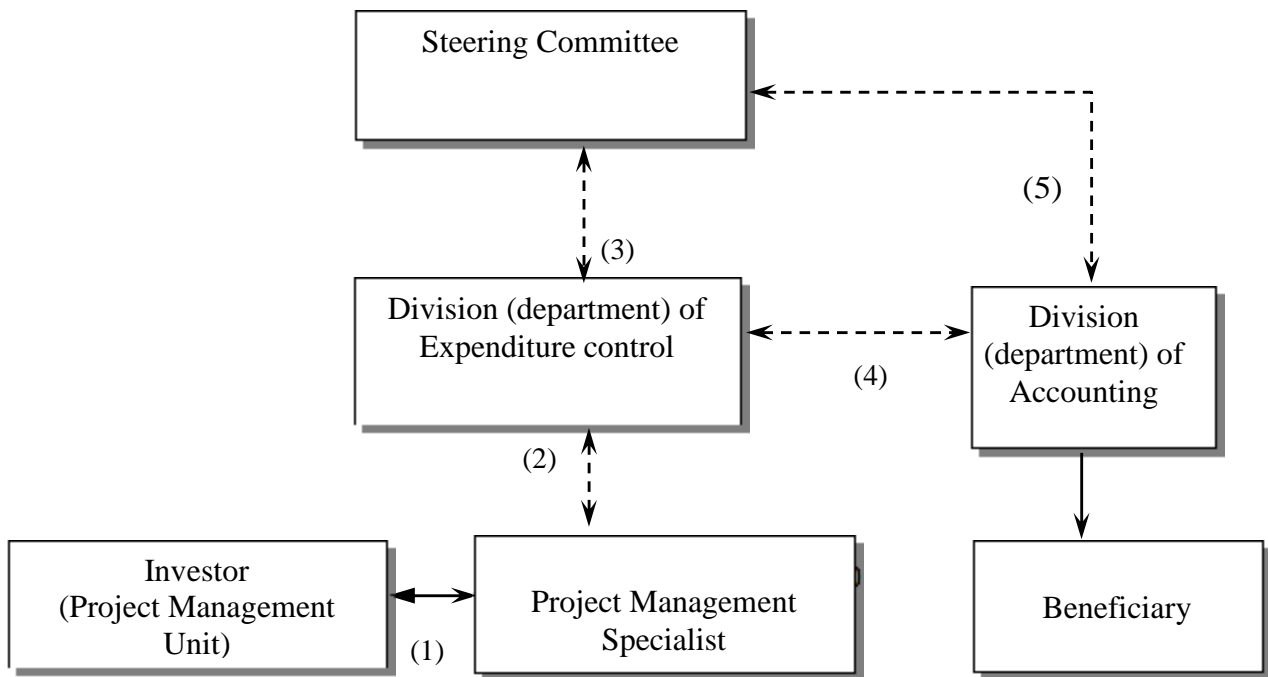
When the investor comes in for a transaction, it suffices to meet the agency’s management officer. The client shall send payment records to the agency’s management officer. The management officer shall check the documents and records to see if they are reasonable and valid. When payment procedures have been complete, the management officer shall carry out payment control procedures if the document is for immediate payment or sign the result returning date form if more time is needed to control the payment. This helps reduce the intermediate stage of receiving the documents at the transaction counter, shorten the time and save costs.

The officer directly working with the client can timely resolve issues arising during the payment process such as: completing and finalizing the vouchers, documents, and explaining the agency’s expensured not shown on the voucher.

The handling and controlling process of the expenditure control officer at the State Treasury

system of Bac Giang is described in the following diagram:

Figure 5.01: Circular flow of expenditure control vouchers for capital construction investment funds from the State budget at the State Treasury of Bac Giang.



Source: Workflow at the State Treasury of Bac Giang

The process of construction investment often spans many years. Thus, it is imperative to direct, monitor, and control the investor’s expenditures in a strict and effective manner, while the system of documents to regulate the management and usage of capital construction investment funds remains fragmented, unsynchronized and unstable like at present, which requires the State Treasury officer to know thoroughly the project’s progress to receive and inspect, as well as provide guidance to investors on payment documents and procedures, to ensure the principle of “keeping administrative procedures simple and clear, in line with regulated processes and regimes; to handle tasks quickly and conveniently for the transaction party”; there is none other than the unit’s management specialist who can perform this task well.

### 5.1.2 Analysis of the control process through the State Treasury of Bac Giang

#### 5.1.2.1 On the legal framework

To publicize the administrative procedures in controlling investment fund payment, the State Treasury of Bac Giang has issued and publicly posted the administrative procedure set applicable to capital construction investment expenditures in each investment phase. Management documents are implemented in accordance with the regulations of the Government and Ministry of Finance.



Although the State Treasury system of Bac Giang is in the Bac Giang area, it is not under the administrative apparatus of Bac Giang Province, therefore it is not bound by Bac Giang Province's legal framework. All regulations controlling state budget funds at the State Treasury are in line with regulations by the Government and the Ministry of Finance.

The documents and procedures in investment fund payment is publicly posted by the State Treasury of Bac Giang at professional departments. The publicization of administrative procedures expresses the transparency and democracy in the management and control of investment fund payment. The publicization of administrative procedures includes:

Publicizing the payment control procedures of the State Treasury for each type of work helps the clients to be in control of time when they come to the State Treasury for the payment transaction. The client can be in control of the time for document control of the officer in charge of payment.

Publicizing the documents and records of each payment item so that the client can know and prepare before going to the State Treasury for the payment transaction; this can help minimize unnecessarily missing documents and records.

The set of administrative procedures includes (table 5.02; 5.03; 5.04).

Table 5.02: Document set for payment control procedures of investment preparation expenditures:

No.	Document, voucher component	Form	Quantity	Authentication Requirement
<b>A</b>	<b>Legal document</b>			
1	Document to open account in accordance with Circular No. 109/2011/TT-BTC		01	Original
2	Written approval of investment preparation cost estimate with the approved cost estimate;		01	Original or certified copy
3	Contractor selection document in accordance with the regulations in the Bidding Law;		01	Original or certified copy
4	Contract between the investor and the contractor.		01	Original
<b>B</b>	<b>Disbursement documents &amp; vouchers</b>			
<i>I</i>	<i>Investment capital advance payment</i>			
1	Request for advance payment	Appendix 01	03	Original
2	Investment withdrawal document	C3-01/NS	03	Original
<i>II</i>	<i>Payment of investment capital</i>			
1	Request for payment	Appendix 01	03	Original
2	Investment withdrawal document	C3-01/NS	03	Original
3	Request for advance payment	C3-02/NS	03	Original
4	Table determining completed volume according to the contract	Appendix 03a	01	Original
5	Table determining volume incurred outside of the contract (if any)	Appendix 04	01	Original

Table 5.03: Document set for payment control procedures of capital used for project implementation:

No.	Document, voucher component	Form	Quantity	Authentication Requirement
<b>A</b>	<b>Legal document</b>			
1	Document to open account in accordance with Circular No. 109/2011/TT-BTC		01	Original
2	Investment project for construction of works (or economic technical report enclosed investment decisions of competent authorities, project adjustment decisions (if any);		01	Original or certified copy
3	Contractor selection document in accordance with the regulations in the Bidding Law;		01	Original or certified copy
4	Contract between the investor and the contractor		01	Original
5	Estimates and decisions to approve the estimates of each task, work item, construction work in case of direct appointment of contractors		01	Original
<b>B</b>	<b>Investment capital disbursement document/voucher</b>			
<b>I</b>	<b><i>Advance payment of investment capital</i></b>			
1	Request for advance payment	Appendix 01	03	Original
2	Investment capital withdrawal document	C3-01/NS	03	Original
<b>II</b>	<b><i>Payment of investment capital</i></b>			
1	Request for payment	Appendix 01	03	Original
2	Investment capital withdrawal document	C3-01/NS	03	Original
	Request for advance payment	C3-02/NS	03	Original
3	Table determining completed volume according to the contract	Appendix 03a	01	Original
4	Table determining volume incurred outside of the contract (if any)	Appendix 04	01	Original

Table 5.04: Document set for payment control procedures of compensation for land, crops,

houses, relocation of the population, relocation of works on the ground:

No.	Document, voucher component	Form	Quantity	Authentication Requirement
<b>A</b>	<b>Legal document</b>			
1	Approved plan of compensation, support and resettlement; approved cost estimate of compensation, support and resettlement (if not already included in the approved plan of compensation, support and resettlement).		01	Original or certified copy
2	Approved cost estimate of implementing compensation, support and resettlement.		01	Original
3	For ground clearance and resettlement projects involving the construction of resettlement areas or purchase of resettlement houses, or the construction of infrastructure for non-agricultural production and business service areas, the following documents must be additionally submitted: Contractor selection document as regulated by the law on bidding; house purchase contract for resettlement from the investor; approved detailed cost estimates of works, contractor-appointing and self-implementation bidding packages.		01	Original
<b>B</b>	<b>Disbursement document/voucher</b>			
1	Request for advance payment	Appendix 01	03	Original
2	Investment capital withdrawal document	C3-01/NS	03	Original
<b>C</b>	<b>Payment of investment capital</b>			
1	Request for payment	Appendix 01	03	Original
2	Investment capital withdrawal document	C3-01/NS	03	Original
03	Request for advance payment	C3-02/NS	03	Original
04	List to determine the completed volume of ground clearance compensation	Appendix 03b	01	Original

In the 2012-2015 period, in summary the number of documents to manage and process the capital construction investment activity from State budget funds is as follows:

Table 5.05: Number of executive documents in capital construction investment

No.	Year	Government	Ministry, Provincial People's Committee	State Treasury
1	2012	2	5	6
2	2013	2	7	5
3	2014	3	6	7
4	2015	4	7	8

*Source: Statistics of administrative reform sources at the State Treasury from 2011 to 2015*

From the above results, it can be seen that the adjustment and direction of handling issues related to capital construction investment activities have been paid close attention. All levels of authorities have paid great attention to capital construction investment. In every budget year there were executive directives from the central government to lower levels of administration. However, the effectiveness of executive documents remains questionable. Executive documents issued without being monitored and supervised lead to low effectiveness which does not live up to the expectations of the manager.

#### *5.1.2.2 Process of record control*

The officer in charge of payment control at the State Treasury directly receives records and documents in accordance with the issued set of administrative procedures, then checks the documents according to regulations for the validity and legality, as well as the consistency in the timeline of documents. This is a very important step in the process of payment control because the legal documents have to be in line with regulations for the project to be eligible to implement the next steps.

The first submission of documents (legal documents) of the project is sent to the State Treasury once when they are still in effect and have to be checked in advance in terms of authority and order to serve as a basis for payment control. Currently, most investors and project management units (PMU) submit legal documents at the same time of submitting payment documents for the first time, this has increased control time, and more content needing adjustment, hindering project implementation. Therefore, legal document control activities of the State Treasury cannot be carried out according to the regulated procedures, prolonging payment control time.

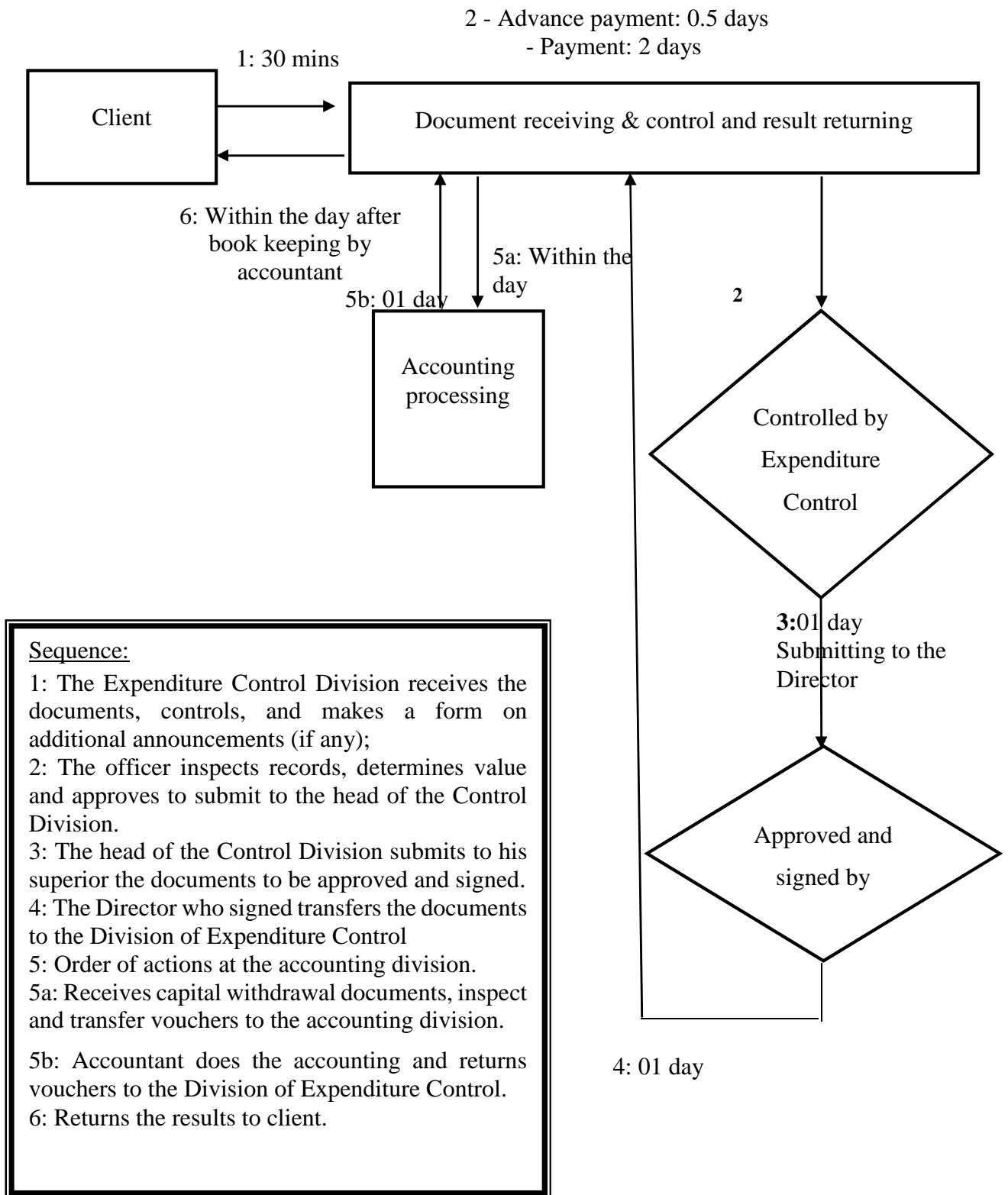
#### *5.1.2.3 The process for controlling advance payment, and payment for completed volumes for contracts with multiple payments*

The process is carried out in 03 working days; 02 days at the State Budget Expenditure Control

Division; 01 day at the State Accounting Division. At the State Treasury of Bac Giang, the payment control process is generally implemented in accordance with the regulated timeline. When the workload is low, control procedures for payment records are done within the day.

Thus, the payment control time at the State Treasury of Bac Giang has been shortened 01 day compared to the procedure of the State Treasury. Because the payment record control is carried out by the Division of Expenditure Control, the implementation time for step 5 and 6 of the accounting division is not affected by the principle of “control first, payment later”. Therefore, the State Treasury of Bac Giang still assigns 01 day to the accounting division in the control process.

Figure 5.06: Summary of the Payment Control Process of Capital Construction Investment Funds from the State Budget at the State Treasury of Bac Giang.



Source: Workflow at the State Treasury of Bac Giang

### 5.1.3 Assessments on the process of capital control through the State Treasury of Bac Giang

#### 5.1.3.1 Annual capital disbursement

According to settlement report of the State Treasury of Bac Giang, the activity of capital disbursement through the State Treasury of Bac Giang in the 2012-2015 period is as follows (It contains local budget and central budget):

Table 5.07: Plan for capital construction investment funds in the 2012-2015 period

*Unit: billion dong*

Indicator Year	Total of capital allocated according to plan	Total of disbursed capital	Undisbursed capital	Disbursement rate (%)
2012	3,238	3,159	79	97.6
2013	3,741	3,607	134	96.4
2014	3,994	3,195	799	80.0
2015	4,256	3,085	1,171	72.5
Total	10,973	9,961	1,012	90.8

*Source: The State Treasury of Bac Giang Province*

The above statistics show that the Bac Giang State Treasury's payment control has decreased in recent years, with the previous year being higher than the following year. Although the plans increased gradually over the years, the disbursed capital has been reduced, and the amount of undisbursed capital increased rapidly in the years of 2014 and 2015. What was the reason of the capital disbursement process being slowed down? Was it due to tighter control within the policies or because contractors could not meet the requirements in competency?

According to the summary report of the Bac Giang State Treasury and reports from the Bac Giang Department of Finance from 2012 to 2015, it can be seen that through payment control, some mistakes of investors were timely detected, and expenditures insufficient in documents were refused payment. The implementation progress of some sources of capital remained slow, some implementation activities such as preparing and appraising projects for approval as well as selecting projects were slow, leading to ununiformed disbursement progress of investors, large payment volumes concentrated in the last few months of the year, which in turn left significant impact on the quality of control as well as disbursement rate.

However, regulations on advance payment and repayment of advance payment are not yet uniformed and clear; as a result, the slow repayment of advance payment from investors remains



relatively common, the advance balance not yet repaid annually remains large because the State Treasury cannot actively carry out the repayment due to a lack of detailed regulations. In fact, some projects have a relatively large advance balance, mainly due to procedural problems, or contractors being slow in preparing payment documents, or difficulties in compensation and ground clearance. On the other hand, some investors are irresponsible in not urging contractors to carry out repayment procedures of advance payment, and taking advantage of gaps in regulations on repayment of advance payment to collude with contractors to appropriate capital from the State budget. There are some projects which the contractor is not capable of executing, the project is put on delay but there is still advance balance and no refund volume, however, the investor still does not have a concrete, resolute measure to get repayment. This is one of the shortcomings in the management of capital construction investment in general and payment control of capital construction investment funds from the State budget at the State Treasury of Bac Giang in particular.

Table 5.08 is based on surveys on the situation of disbursement from contractors in the 3 areas of Bac Giang, Lang Giang and Viet Yen in the province of Bac Giang

Table 5.08: Surveys from contractors

No.	Content	2012	2013	2014	2015	
Total number of questionnaires		30	30	30	30	
	Factors by management bodies	Due to factors involving legal procedures and documents	3	2	4	1
		Due to the faults of the State Treasury expenditure control officer	2	1	1	2
		Due to changes in policies	4	7	3	5
		Due to sources of capital being untimely allocated	20	20	21	21
	Factors by investors	Due to investors being behind schedule	1	0	1	1
		Due to other objective factors (weather, natural disasters etc.)	0	0	0	0

Through the survey, it is shown that in the perspective of contractors, the slow rate of disbursement is entirely because of management agencies, in which the legal procedure factor and the untimely allocation of budget are the main factors causing the delay in disbursement.

This is also in line with the opinions put forward in round table talks of economics experts when talking about the slow disbursement rate of the state budget in Vietnam (Minh, 2015).

The legal procedure factor which is stated in the report on the shortcomings of capital construction investment in Bac Giang province is that from capital allocation to payment and final settlement, the activities of management agencies are still based on personal interests, and collective

interests are not a priority. In addition, the legal factor (executive documents from competent authorities) still involves some impracticalities which cause difficulties for contractors.

#### *5.1.3.2 Control of expenditure commitment (control of capital planning)*

To limit outstanding debts in the public finance sector, since June 1st, 2013, the Ministry of Finance has managed and controlled the state budget expenditure commitment through the State Treasury with a view to further improving the efficiency and effectiveness of State budget management. The agencies and investors using the state budget and the State Treasury bear the main role and responsibilities in managing the state budget expenditure commitment.

Accordingly, the state budget expenditure commitment is how the parties using the state budget (including investors) commit to use the expenditure estimates or plan of investment capital allocated each year to make payment for the contract signed between said party and the supplier. The control of the state budget expenditure commitment through the State Treasury is how this agency inspects and controls expenditure decisions of the unit using the state budget. On one hand, this is to ensure the expenditures of the unit are within the annual cost estimates and in line with the expenditure system, standards, and norms set by the State; on the other hand, a portion of the cost estimate or corresponding capital plan shall be retained to ensure coverage when there are sufficient qualifying conditions for payment.

With this regulation, the Bac Giang State Treasury has worked towards the objective of limiting outstanding debts for the units using the state budget in investment implementation, to avoid sources of capital being allocated to one target project but used for another project. However, due to a number of objective and subjective reasons, there have been many cases when the commitment of payment to suppliers is not implemented in accordance with the contract, for example: because the sources of state budget revenue are not focused; there are not yet strong enough sanctions to guarantee the commitment is fulfilled; Party A arranges and uses the allocated cost estimates and capital plan in a spread out manner and for improper purposes. These are the main causes leading to outstanding debts in the public finance sector in general and the area of capital construction investment in particular.

According to the data through the survey the investors who have done transactions with the State Treasury from 2012 until now, and the State Treasury officers working at the State Treasury's provincial office, Lang Giang office and Son Dong office, the investors' compliance and understanding of expenditure commitment are shown in Table 5.09 below.

Table 5.09: Summary of the survey on expenditure commitment compliance at the State Treasury of Bac Giang

Year		2013	2014	2015	
No. of questionnaires		30	30	30	
Investors	Aware	Compliance	0	1	3
		Non-compliance	1	8	17
	Unaware		19	11	0
State Treasury officers	Aware	Compliance	1	5	7
		Non-compliance	9	5	3
	Unaware		0	0	0

The data show that the units using the state budget and even the officer in charge of expenditure control have performed their tasks poorly. Non-compliance here on the investors' part means the failure to meet the expenditure commitment according to regulations due to 2 main reasons: firstly, failure to complete administrative procedures on time (requiring the contract to be sent to the control agency after 05 working days). The second reason is the budget not being timely allocated. The survey sent out 20 questionnaires to the units making expenditure commitment (sampling from the document delivery slip at the State Treasury of Bac Giang from 2012 to 2015).

Table 5.10 : Summary of questionnaires at the State Treasury of Bac Giang

Content	2013	2014	2015
No. of questionnaires	20	20	20
Being unable to complete administrative procedures on time	5	3	4
Sources of capital not being allocated on time	15	17	16

It must also be asserted that the untimely implementation due to administrative procedures is partly because the investing units disregard the regulatory nature of the legal system. This shortcoming in administrative procedures is largely due to the investors, not because of complicated administrative procedures. The failure in the implementation of expenditure commitment is mainly due to the untimely allocation of the budget.

For expenditure control officers, non-compliance here can be understood as the act of overlooking investors' mistakes, not failure to carry out expenditure commitments. The expenditure control officers still fail to comply with the provisions of the law in performing their tasks. The officers in charge of controlling expenditure commitments at the State Treasury of Bac Giang still have not really controlled in a strict manner, partiality is still present and the investors are still allowed to adjust expenditure commitments, not taking into account the damages of projects with outstanding

debts.

### 5.1.3.3 Refusal of payment of capital construction investment funds from the state budget at the State Treasury of Bac Giang Province

In the payment control process, with a reference to current provisions and policies of the State, the State Treasury of Bac Giang province has strictly controlled expenditures. Through expenditure control, in the 2012-2015 period the State Treasury of Bac Giang had refused approximately 13.3 billion dong in payment due to some of the investors' violations as follows:

Payment of volumes exceeding cost estimates or value of the winning bid, payment not in accordance with the terms of the contract, arithmetical errors etc. For these cases, the State Treasury of Bac Giang Province had refused payment and requested the investors to leave them out of the final settlement of the project.

Errors in the details of vouchers, the following details on expenditure vouchers have to comply with regulations: name of unit, account number, index of budget, project code, code of capital source, form of expenditure, sample of seal and signature, account, bank and name of beneficiary etc. For these cases, the State treasury of Bac Giang would inform investors to prepare expenditure vouchers again to comply with the regulations.

Insufficient documents, procedures, or the documents failing to ensure the legality, rationality, and validity: Documents with insufficient legality may mean inconsistencies in the timeline, ultra vires approval, or inappropriate form of contractor selection. In such cases, the State Treasury of Bac Giang province would inform the investors to complete and add documents to comply with the regulations.

Table 5.11: Refusal of payment of capital construction investment funds from the state budget at the State Treasury of Bac Giang Province in the 2012-2015 period.

Year	Total of controlled payment (billion dong)	No. of projects	No. of payments with insufficient procedures	Amount of refused payment (billion dong)
2012	3,159	520	782	4.3
2013	3,607	527	761	3.5
2014	3,195	459	601	2.3
2015	3,085	765	673	3.2

Source: Annual report on the refusal of payment at the State Treasury of Bac Giang in the 2012-2015 period.

From the data in Table 5.11, it can be seen that: The amount of payment control capital had increased continuously over the years, whereas payment refusals had seen a downward trend. This is due to the fact that in the current payment control mechanism, the State Treasury is not responsible for the quality and volume, and also not responsible for checking the application of unit price and norms. The agency only makes payment according to the terms in the contract; this responsibility lies on the investors. On the other hand, the payment control capacity of the State Treasury of Bac Giang province has been continuously increased, the investors' compliance with the provisions on payment control has been improved, and mistakes have gradually been overcome. Thus, the number of payment refusals has been on the decrease.

Through the results achieved in the control and payment of capital construction investment expenditures from the state budget at the State Treasury of Bac Giang in recent years, it can be seen that the State Treasury plays a very important role in controlling capital construction investment expenditures. Capital construction investment expenditures from the state budget are all tightly controlled and timely paid to beneficiaries. However, with the currently regulated payment control function, the number of payment refusals from the State Treasury of Bac Giang province is mostly due to the fact that the expenditures have non compliance with the State's regulations; when the investor completes and finalizes the procedures, payment for these expenditures will then be made, thus they are not real savings for the state budget.

#### *5.1.3.4 Control of outstanding debts and settlement of funds*

The final settlement of the finished project is implemented in accordance with Circular No. 19/2011/TT-BTC dated February 14th 2011 of the Ministry of Finance regulating the settlement of completed projects under the State's funding and Circular No. 28/2012/TT-BTC dated February 24th 2012 of the Ministry of Finance regulating the management of investment capital under the funding of the commune, district, or town's budget. Accordingly, the authority and responsibility, as well as the process of inspecting and settling completed projects have been clearly specified, which are easy to follow.

In the past period, the final settlement of completed projects has achieved certain results, especially following the implementation of Directive 27/CT-TTg dated November 27th 2013. However some investors have not really paid attention and have not yet been aware of the importance of the final settlement of completed projects, the final settlement of investment capital is still behind schedule, the final settlement of many projects is not in line with the current system and policies, with the main errors being incorrect calculations of norms and unit prices, incorrect settlement of completed volumes, incorrectly applied prices compared to the bidding price, leading to deducted

value after settlement. Specifically, from 2012 to 2015, in the province of Bac Giang 4,888 completed projects and construction works were inspected and approved, with the approved settlement value of 11,288 billion dong, decreasing 132 billion dong compared to the proposed settlement value of the investors (Summary report of the Department of Finance in the 2012-2015 period).

By December 31 2015, in the province there were 175 projects whose finalization reports were submitted more than 6 months behind schedule (3 provincial level projects; 27 district level projects; 145 communal level projects); the competency of officers in many communes did not meet the requirements of final settlement (Summary report of the Department of Finance in the 2012-2015 period).

Capital construction debts in the province were still significant at approximately 497.3 billion dong, in which: Accrued debts from projects with approved final settlement were 195.3 billion dong (no debt at the provincial level; at district level 40.8 billion dong; at communal level 154.5 billion dong); debts from unfinished projects were 302 billion dong, including: 39.7 billion dong at the provincial level; 105 billion dong at the district level; 162 billion dong at the communal level; the amount of capital construction debt increased mostly at the communal level, in which most debt was from communes which were accelerating the completion of the criteria in new rural area development (Summary report of the Treasury of Bac Giang in the 2012-2015 period).

For provinces with a low budget, outstanding debts in capital construction investment are inevitable. Vietnam is a developing country, the boost in infrastructure development and factors for development investment are imperative. However, the sources of investment capital are entirely dependent on the State budget. Borrowings for development investment are used as a financial tool. This is also a double edged sword for development. The Government of Vietnam's policy for development investment in the 2012-2015 period also relied mainly on the state budget rather than extrabudgetary funds.

In the inspection report by the Finance Committee of the National Assembly of Vietnam, three directives of the Prime Minister of Vietnam from 2012 to 2015 were specified, which required that from 2013 capital needs to be prioritized to be allocated to dealing with outstanding debts from capital construction, to ensure that by 2015 the issue of debts from capital construction would have been solved. However, according to the report, by December 31st 2014, outstanding debts from capital construction, advance capital from the state budget, and government bonds were still high at about 87 trillion dong; this was not a decline and was even on the increase in recent years. Meanwhile, according to a report of the Government submitted to the National Assembly in the 6th session (at the end of 2013), the amount of outstanding debt of capital construction from the state budget funding and governmental bonds by June 30th 2013 was 43 trillion dong. In addition to outstanding debt, the

inspecting agency also pointed out many shortcomings and limitations in capital construction investment which have been long present but slow to be overcome such as: losses and wastefulness in investment, low investment efficiency, or projects being approved while the sources of capital for new construction projects have not been balanced (Vu, 2016).

The province of Bac Giang is also not an exception within the general situation in Vietnam; with a desire for socio-economic development, Bac Giang has focused a great portion within the state budget on capital construction investment in the 2006-2016 period. The province has issued many legal directives and solutions to limit debt from capital construction investment. However, outstanding debt from capital construction investment still remains a difficult problem to solve. In Bac Giang, outstanding debts from capital construction at the communes which are building new rural areas remain a significant issue, all levels of government in the province have not been able to come up with solutions to completely resolve this problem. Some districts and communes have shown signs of getting achievements at all costs, by approving and implementing too many projects to meet the criteria of the new rural commune; they begin new constructions while resources for implementation have not been mobilized or outstanding debts from capital construction have not been resolved. The subjective reason is that the preparation and approval of investment policies have not been paid due attention; the directions from leaders have not been drastic enough; the guidance of functional branches on program management has not been closely linked and in line with regulations; the evaluation of project effectiveness is still taken lightly, etc which all lead to the preparation, appraisal, and approval of investment policies in some districts being limited and unbalanced as compared to pre-approval sources of capital. Some district or communal level localities have not yet paid attention to and resolutely directed the measures to resolve capital construction debts in their respective level (Hoa, 2016).

## **5.2 The efficiency of investment capital control in Bac Giang province**

There are many criteria and indices to evaluate the efficiency of investment. Within the scope of this thesis, the ICOR (Incremental Capital Output Ratio) will be mentioned as an indicator of the public investment capital's efficiency.

Table 5.12 : The ICOR of some countries in the region

Country	2001-2005 period	2006-2010 period	2011-2013 period
China	4.14	6.27	11.84
India	4.23	6.37	8.88
Indonesia	4.57	7.97	11.75
Laos	2.90	5.94	5.05
Malaysia	10.75	1.26	7.85
The Philippines	5.17	7.85	6.58
Vietnam	4.33	8.31	9.20

Compared to other countries, Vietnam has a high ICOR. The reason is partly because Vietnam is focusing investment on infrastructure, including infrastructure in remote areas, as well as investment on alleviating poverty and ensuring social security. However, there are still subjective reasons such as a lax system of construction investment management, leading to serious wastefulness, unreasonable initial planning etc. Therefore, compared to other countries which gone through a similar development phase, Vietnam still has a high ICOR score (The Journal of Finance, 2016).

A high ICOR is partly due to the fact that Vietnam is focusing investment on infrastructure, including infrastructure in remote areas, as well as investment on alleviating poverty and ensuring social security. However, the main reason is that there are still many shortcomings in planning activities; investment decisions are spread out with low efficiency and many construction works and projects receive investment from the state budget (including state credit, government bonds and ODA reciprocal capital) in which losses and wastefulness are still prevalent (Thanh, 2016).

Growth is mainly based on capital but losses and wastefulness are high, leading to low investment efficiency. The ICOR coefficient increased from 4.33 in the 2001-2005 period to 8.31 in the 2006-2010 period and 9.20 in the 2011-2013 period, which means that in the past years, in order to create 1 dong in GDP, 9.20 dong had to be invested. Compared to other countries in the region, this is a high ICOR. In the 2011-2013 period, Vietnam's ICOR was 9.20, whereas for Malaysia it was only 7.85; for the Philippines it was 6.58. Vietnam's ICOR was even 1.8 times higher than that of Laos, an economy perceived as less developed (in the 2011-2013 period, Laos' ICOR was only 5.05). One more thing worth mentioning here is that the ICOR of the public economic sector is approximately 1.5 times higher than the whole economy's average (Thanh, 2016).

Low investment efficiency makes it difficult to solve the problem of fragmented public investment and public debt continues to rise. According to Huyen this is because the Public Investment Law and the law on the management and usage of state funding to invest in production



and business still lack by-law documents and there is not yet a strict enough mechanism to inspect and supervise and there are no sanctions to handle problems that may arise. In particular, many projects delay implementation in order to increase investment capital; this has reduced the efficiency of capital use (Huyen, 2017).

In that general context of the whole country, Bac Giang province is no exception. Bac Giang's ICOR in recent years is as follows:

Table 5.13: ICOR of Bac Giang Province in the years of 2012 to 2015

Indicator	2012	2013	2014	2015
ICOR	5.3	6.4	6.4	5.9

*Report of Bac Giang Department of Investment and Planning, 2016*

Compared to the average among the provinces, Bac Giang's ICOR has been lower but it is still very high when compared with countries in the region. A lower ICOR compared to neighboring provinces is due to the low amount of investment concentrated in Bac Giang; thus, the process of controlling and allocating funds is paid more attention and more closely supervised. In addition, Bac Giang is a poor province, therefore the concentration of capital, especially investment capital, is relatively low.

### **5.3 Factors affecting the capital management process in Bac Giang province**

#### **5.3.1 Objective factors**

Firstly, the legal environment in the management of capital construction investment from the state budget:

The legal environment in the expenditure management of capital construction investment from the state budget is the system of legal documents in the expenditure management of capital construction investment from the state budget including the State Budget Law, Construction Law, Bidding Law etc. issued by the National Assembly, the decrees on investment and construction management issued by the Government, documents guiding the expenditure management of capital construction investment of Ministries, industries, and localities. The mechanisms and policies as well as regulations on the management of capital construction investment of the Government often change and lack uniformity which have partly reduced the effectiveness of legal normative documents. Thus, a stable, uniform, consistent, and complete legal environment with clear, concrete regulations will help facilitate the State Treasury to tightly control, and make complete and timely payment of investment capital to projects, through which the quality of the payment control of investment capital at the State Treasury will be improved.

In the province of Bac Giang, the implementation of legal regulations from the government is uniform. The regulations of the government and Ministries are implemented relatively well by the authorities at the provincial level, reflected by the issuance of legal normative documents in the area being uniform and consistent. The State Treasury system of Bac Giang province is under the direct management of the Ministry of Finance and not the provincial People's Committee; therefore, the control of this source of capital is independent and in accordance with the legal procedures of the Ministry of Finance. However, due to the geographical interrelation within the area, the State Treasury system of Bac Giang is affected by Bac Giang province's authorities in terms of sources of capital. Thus, in fact there is some influence from the local authorities in controlling the sources of capital which had caused a lack of transparency in expenditure control of this source of capital. Through a survey in the forms and interviews with 35 expenditure control officers and managers at 4 state treasuries at the provincial and district levels on the pressure and intervention of the local government in controlling sources of funding for capital construction investment, the following results are gathered in Table 5.14.

Table 5.14 : Summary of survey at the State Treasury of Bac Giang province

No.	Content/Year		2012	2013	2014	2015
No. of questionnaires			35	35	35	35
	Affected by the local government	Implemented in accordance with the local government's request	1	1	2	1
		Balanced between regulations and local government's influences	29	28	32	32
	Not affected		5	7	1	2

Thus, it can be seen that expenditure control officers at the State Treasury of Bac Giang province were not really strict in performing their tasks; rather, they were still affected by the local mechanisms, leading to the fact that negotiation and agreement in the specific policies and mechanisms of the locality were still present. This is a weakness in the control process of this source of capital. As a consequence, there is a risk of losses for one individual or group using the capital from the state budget. Therefore, through the annual budget audit conducted by the State Audit, the task of repaying the construction investment funds always have many manifestations. According to the auditing reports at Bac Giang province over the years, the errors and withdrawal of the budget's

funding due to errors in spending in capital construction investment are increasing.

Secondly, the annual preparation and allocation of estimates and planning for capital construction investment funds of all levels, industries, localities and financial agencies have great impact on the capital payment control of capital construction investment funds at the State Treasury.

If the annual preparation and allocation of estimates and planning for capital construction investment funds are close to the project implementation progress, and if within the budget the sources of revenues are balanced, the control and payment of capital construction investment funds at the State Treasury will be met with many favorable conditions; the quality and specified timeline of the control, payment, accounting, and settlement of investment capital each year in accordance with the State Budget Law can be ensured.

Conversely, if this activity is not precise, the state budget's funding will be insufficient, leading to prolonged implementation time of projects, which in turn causes wastage of investment capital or leads to various adjustments in cost estimates and plans; consequently, the implementation progress of the investment project will be affected. On the other hand, the allocation of planned capital to investment projects lacking procedures in accordance with regulations will lead to delays in project implementation, affecting the annual disbursement progress of capital construction investment funds.

Because Bac Giang is a locality with low revenues, with investment from the state budget still dependent on the budget at the central level, the budget management in capital allocation is still met with difficulties, and delays are inevitable. The data in Table 5.08 show that through the survey, contractors have confirmed that over 70% of the capital sources were not timely allocated. In addition, the allocation was still for small interests and not really based on the large and overall planning visions of the whole region. The short term mindset in leadership was the basic factor to implement the allocation and reallocation of the state's funding.

Thirdly, regarding the planning, preparation, appraisal, and approval of investment projects:

If the State's principles and regulations regarding the capital construction's preparation, appraisal, approval, management and implementation of investment projects are strictly followed, the control and payment of investment capital at the State Treasury will be facilitated, the process of capital control and payment will be quick, which helps to shorten the circulation time of money, increase capital turnover, and boost economic growth.

On the contrary, if the process of project planning, appraisal, and approval is not detailed and does not strictly comply with regulations, in implementation the project will have to make adjustments on the project's scale and design, causing an increase the total amount of investment capital for the project. Making adjustments in the project is also time consuming; as a result, the completed project when put into use is not as effective as originally intended. This has also created

some difficulties in the control and payment of capital construction investment funds at the State Treasury in terms of monitoring and adjusting the sources of capital to match the changes in the project.

Here, a fact remains that through surveying expenditure control officers of the State Treasury, it has been found that the appraisal and approval of projects in the province of Bac Giang are still just for the sake of formality, where legal documents are prepared to be adequate in numbers and form, however the actual execution is different. Basically, for construction works (especially for small, individual works), usually the procedures and documents will be completed later, and the project is approved in a non transparent way first. This has led to a lack of uniformity in planning and bidding is just for the sake of formality without actual efficiency.

### 5.3.2 Subjective factors

This is a basic factor which determines the quality and efficiency of the control and payment of capital construction investment funds at the State treasury.

Firstly: regarding the organizational structure, competency of leaders and officers who are in charge of the control and payment of capital construction investment funds at the State Treasury.

In fact, in Bac Giang province, the expenditure control apparatus through the State Treasury system has gone through many functional changes. In the years of 2000, 2009, 2013, and 2015, the management apparatus of expenditure control was modified towards efficiency and necessity. However, in fact, despite the changes in the management agencies' functions and apparatus, if the competency and awareness of these officers do not improve, these individuals will not be able to detect errors and violations, or they will become an accomplice to cause losses in the state's funding. According to the data by the Transparency International, Vietnam's corruption index was around 31 in the 2012-2015 period and thus the country ranked from 112 to 123 out of 170 countries in the survey. This number was higher than that of the 2005-2011 period.

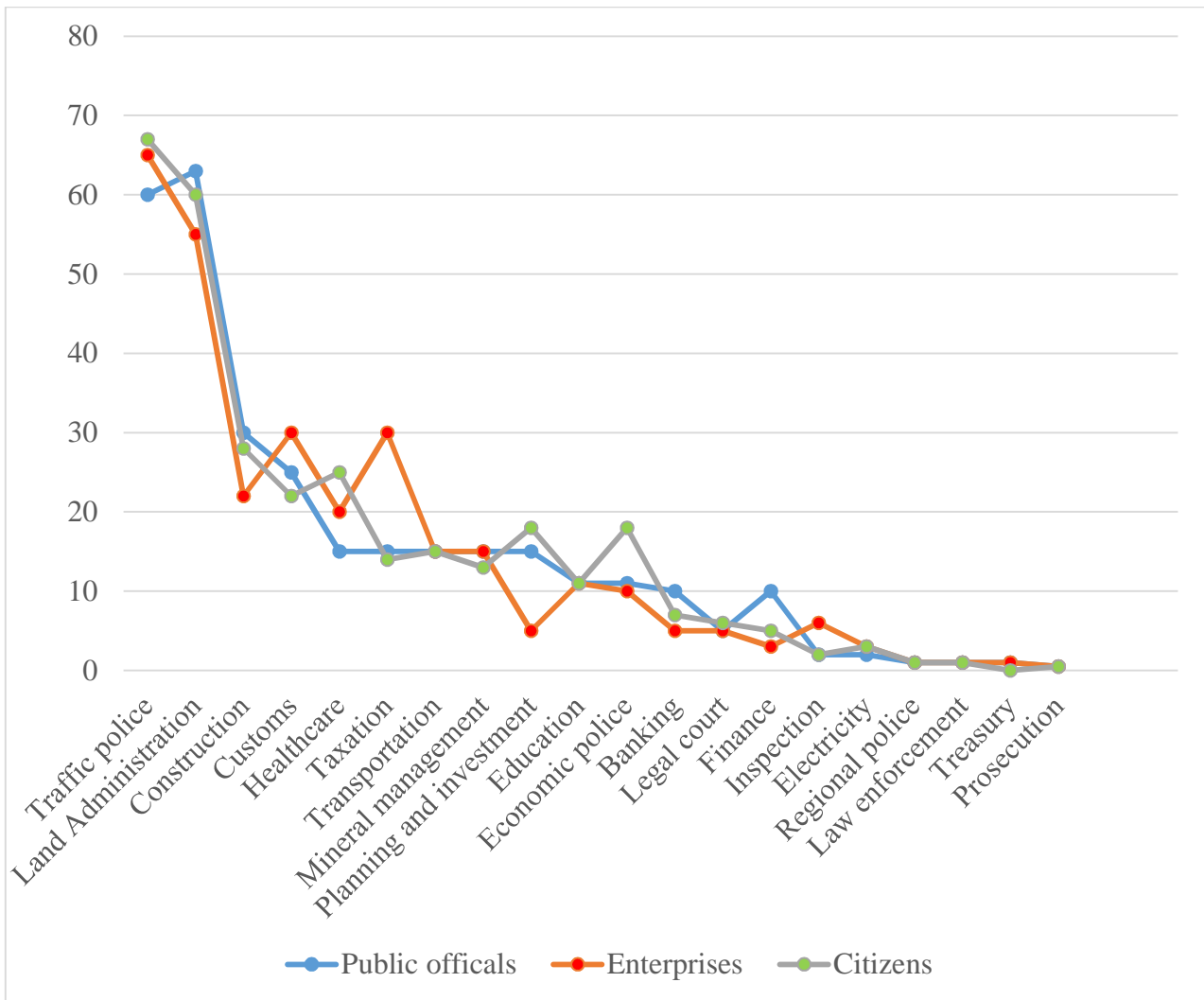
Table 5.15: Vietnam's Corruption Index over the years

Vietnam's corruption index, on the scale of 1-10, and 0-100 since 2011 (the lower the score, the higher the corruption level)		
Year	Score	Ranking
2005	2.6	107/158
2006	2.6	111/163
2007	2.6	123/179
2008	2.7	121/180
2009	2.7	120/180
2010	2.7	116/178
2011	2.9	112/182
2012	31	123/176
2013	31	116/176
2014	31	119/175
2015	31	112/168
2016	33	113/176

*Source: Transparency International.*

A 2012 World Bank survey in Vietnam, in coordination with Vietnam's State inspectors examined 03 groups of subjects who are civil servants, enterprises and citizens in order to provide statistical data on the industries with the highest level of corruption, as presented in Table 5.16.

Table 5.16: Ranking of industries with corruption in 2012



Source: World Bank 2013.

Thus, there is corruption in the State treasury system, but it is not high as the State treasury ranks 19th out of 20 industries. This is a basis for assessing loss as control through the system did not cause serious losses and corruption. However, corruption remains high in construction and investment/financial planning, which are the phases in the process of using investment capital from the state budget. Based on that fact, it is reasonable to say that losses of capital are due to these factors.

In the annual survey on the Public Administration Performance Index (to measure the efficiency of public management and administration at the provincial level), there is the Control of Corruption index, which indicates the control of corruption in the public sector. Bac Giang was ranked as follows Table 5.17.

Table 5.17: Ranking of the Public Administration Performance Index (PAPI) of Bac Giang province.

Year	Bac Giang	Ranking
2011	5.0	57/63
2012	6.3	19/63
2013	4.9	63/63
2014	No data	
2015	6.2	31/63
2016	6.6	3/63

*Source : The Vietnam Union of Science and Technology Associations and the United Nations Development Programme (UNDP) in Vietnam*

According to the data in Table 5.17, in 2013 the control of governmental agencies in Bac Giang province in anti corruption activities was the weakest in Vietnam. Thus, losses in the state budget's funding were inevitable, in which losses caused by investment activities from the state budget were present. In the budget year of 2013, control and supervision were still limited with many gaps. Since 2015 there had been a strong shift and breakthrough in the control of budgetary operations. As a result, the control coefficient had increased sharply from 4.9 in 2013 to 6.2 in 2015, which placed Bac Giang in the middle position in the national ranking. In 2016 the province even ranked 3rd nationally. Thus, it can be asserted that since 2015, the governmental agencies of Bac Giang province have paid attention and performed well the task of preventing and minimizing corruption, and have followed closely in monitoring administrative activities in all areas, including the budget and financial activities in capital construction investment.

Thus, it can be seen that losses and wastefulness of the state's funding in capital construction investment are present and prevalent. In one form or another, the state's funding is not utilized in a thorough and effective manner. There are many causes for this loss, but the heart of the matter lies in the human factor. People's planning of policies is not appropriate and holistic, but is for personal gains and small group's interests. People fail to perform their tasks properly due to professional competency or also due to personal interests or pressure from other individuals.

Secondly: Technology is a major factor of influence on the control, risk identification and disbursement.

The equipment and working instruments including information technology softwares also contribute to the improvement of the efficiency and quality of management. Adequate equipment applying various information technology softwares in management and payment can save time on the processing of tasks, speed up the flow of currency in payment and help streamline the apparatus, paving the way for institutional reforms.

The State Treasury system of Bac Giang province has implemented the focused application system of the Ministry of Finance called the Treasury And Budget Management Information System (Tabmis) since 2011, therefore the management and control has achieved transparency in data and report of expenditures. However, the linkage between the local government agencies and the State treasury has not had a common implementation measure and method; thus, there has not been effective coordination in the mechanism of control, supervision and monitoring. Meanwhile, the coordinating agencies in the capital construction investment from the state's funding do not have a system connecting to the state treasury and have not been able to build an information technology system to create the linkage and support management activities with the state treasury system. This has led to delay in coordination, moreover it has also caused losses of information in management.

In short, managing the capital construction investment funds from the State budget is the responsibility of all industries and levels from the stage of preparation, appraisal, and allocation of estimates, payment, and settlement of capital construction investment funds, in which the State Treasury plays an important role in the stages of control and payment with the function of being the last control agency before the State's capital construction investment funds go out of the State budget.

The model of the State Treasury system is a uniform organization from the central to local level, which simultaneously carries out the task of developing a document system to guide the control of investment capital payment to ensure the timeliness and prevent clutters, as well as gathering information for report to support the activities of management and direction. The State Treasury system has generally performed well the task of the expenditure controller in the payment of capital construction investment funds from the state budget of all levels. In controlling the payment of capital construction investment funds, the State Treasury performs its role through regulating a uniform process of payment control of capital construction investment funds in the whole country.

Payment of investment capital is one of the important tasks of the State Treasury in the current period. With the role of being the final 'final gate keeper' in the expenditure control of capital construction investment from the state budget, through the control and payment of investment capital, the State Treasury has performed its role and tasks well, contributing to limit capital losses and wastefulness for the State and minimize corruption as well as unreasonable costs, helping investment capital to be used properly and effectively, which improves the economic effectiveness of the investment project. However, there are still individuals who are unaware and have a wrong mindset regarding their tasks and jobs which cause difficulties for contractors, or they might collude with contractors or investors to cause losses and wastefulness in the state budget's funds. All levels of the local government of Bac Giang in the early years of the 2012-2015 period were not sufficiently aware, concerned and invested in the competency, qualifications, as well as technology in the supervision,



inspection, and management of the state budget's funding used for capital construction investment; the consequences are slow allocation of capital, leading to high losses and corruption. However, in the final years of this period, the local government had strived to boost institutional reform, strengthened supervision and inspection mechanisms to minimize procedures in payment, final settlement, minimize investment risks and losses in investment capital.

## **5.4 Proposed solutions**

With the above analysis, it is necessary to have groups of solutions for the state management sector in controlling capital construction investment funds from the state budget. Two groups of solutions have been proposed to the local government of Bac Giang province and the Bac Giang State Treasury, namely the group of solutions regarding mechanisms and policies, and the group of solutions the organizational apparatus and human resources.

### **5.4.1 Solutions regarding mechanisms and policies**

Firstly, the mechanisms and policies of managing capital construction investment funds from the state budget at the State Treasury must be rounded out, specifically in the aspects of financial discipline, and the power and functions of the State Treasury in managing the State budget funds.

In managing and controlling expenditure commitments the State Treasury of Bac Giang has to be strict and comply with legal regulations. Managing and controlling expenditure commitments is one of the first bases for performing accrual accounting (monitoring the expenditure from the step of budgeting, signing the contract of procurement of goods and services with suppliers until payment is made for that procurement contract of goods and services). In terms of management, the expenditure commitment will help control state budget expenditures of estimating units and investment projects, especially in capital construction investment spending, it will help prevent outstanding debts in payment, and enhance the responsibility, as well as financial discipline not only for financial agencies and the State Treasury, but also for estimating units and investors of projects.

The mechanism of controlling management policies of capital construction investment funds has to be open and transparent in the direction of controlling outputs and only managing outputs. The management of every detailed component and stage should be avoided. The responsibility assigned to each individual in charge of implementing the task has to be clearly defined.

There needs to be more empowerment in policy implementation regarding budgetary control. The State Treasury has the right to verify, inspect, and supervise the actual operation of these sources of capital. Then the use of the budget will be more efficient and transparent.

Secondly, it is crucial to have regulations on the appraisal, review, and independent auditing in order to receive feedback, appraisal, and public auditing of state capital sources at the localities.

A macro policy of the State requires independent appraisal and review. Implementation results have to be independently audited and made publicly available on public information systems. This is essential for a sound and effective policy. When the governmental bodies, Ministry of Finance, State Treasury, and local authorities do not have an independent appraisal, review, and audit mechanism and rely entirely on policies, the quality and effectiveness of the sources of capital will not be high. What makes investment in the private sector more effective than the public sector? It is the appraisal, review and then audit in a serious and independent manner.

Thirdly, the local authority must have a macro policy regarding the use of capital sources according to plans which is publicly available. This policy also needs to be appraised and reviewed by independent organizations. The use of funds under the ask and give mechanism should be strictly avoided. The funds should be invested and used in a focused manner.

The local government has to really reform the institution and financial discipline. Policies must not be issued as only a warning and not implemented. There should be no addition or adjustment of funds for approved projects.

In fact, most construction projects using the state budget funds exceed the allocated amount of capital, the reason not being force majeure circumstances. The local authorities have also issued a number of regulatory documents and directives, but these have not really been effective. This has shown a disrespect towards the law and institution on the part of the people using the budget. This is not what policy makers would want. However, why the local government is not firm enough to call off the project, change the contractor or apply a penalty? There are many reasons but the main one is that the contractor has done the work or the work item but the government has not allocated the funds to pay the contractor. This demonstrates that the local management bodies have invested in a fragmented, unfocused manner, which leads to a shortage of capital. In addition, corruption regarding policy (taking advantage of policy loopholes) is the root cause of the incurable disease of abusing the policy for personal gains. Thus, more than anything, the government of all levels needs to reform the mindset and change in thinking in the institutionalization of regulations into reality in executive management. There needs to be independent supervision in financial activities.

Fourthly, the local authority also needs policies to privatize capital construction investment. Here, although the government has defined basic issues in private-public partnership investment, it is obvious that too many binding conditions has made investment from the state budget remain the primary form of investment. The constraints are sometimes legal, other times it involves the issue of private ownership. Although the Law of public investment which has been implemented since 2017 does mention the public-private form of investment, the privatization of investment is still an unfamiliar concept to macro policies.

#### 5.4.2 Solutions regarding the organizational apparatus and human resources

Firstly, regarding the organizational apparatus at the State treasury system and authority of Bac Giang province.

The management system needs reorganizing to be streamlined from the stage of planning, plan approval, plan execution, as well as control and settlement of funding sources. The focal point of control needs to be concentrated to avoid too many parties involved in the use of funding like at the present. More people involved in this process mean more losses due to corruption, which leads to lower investment efficiency.

Although many agencies are involved in the use of state funding, there is a lack of coordination, which in turn inadvertently creates a policy gap in the use of funds.

In the State treasury system of Bac Giang province, the fact that there is a payment document control function but no activity control function has led to payment and settlement documents being sufficient in number but inaccurate in reality. The local government has 4 independent agencies involved in the use of this funding source. This has led to the rise of ask and give mechanisms in planning and approval of planning. Meanwhile, not until 2016 did Bac Giang province establish a Project Management Unit specialized in construction and transportation. All activities are dependent on the local government. Although operations are based on the investors' use of the state budget's funding, they depend entirely on the finance allocation plan of the financial sector, thus, in reality the investors cannot take initiatives in operations.

The specific responsibilities of investors have to be clearly defined regarding the quality of the project, cost management in construction, as well as the reporting and violation handling system in the investment process. These regulations need to be materialized and systemized for each type of work and officers. In fact, the local authorities of Bac Giang province still allocates significant power to investors, which leads to many investors lacking skills, and professional expertise. This in turn causes the sources of capital or construction projects to be unrealistic and wasteful.

There needs to be regulations to prevent closedness in the management of capital construction investment projects, separate the link between the investor and the project management unit, separate the management unit and supervision/consultancy unit, if the project management unit runs the project, the unit has to hire an independent supervision consultancy. The binding relationship between the investor, project management unit, supervision consultancy, construction unit, quality control is the relationship between economic partners, not a relationship between superiors and inferiors. This is to ensure the prevention of closedness in project management, guaranteeing the openness and transparency in capital construction investment.

Secondly, it must be firmly decided whether to use or not to use the leaders of organizations in

the use of the state budget fund. Why are the heads of organizations mentioned here? There are many officers involved in the process of appraisal, inspection, utilization, and control of the budget's fund. However, in reality, in organizations where the leader has "talent, heart, and vision", the work within that organization will be smooth, each individual takes care of his/her own work and is highly responsible for what he/she does; moreover, corruption, harassment, and annoyance will be unfamiliar to the people. The promotion of personal responsibility equals the attitude of handling work based on the principle of clearly defined rewards and punishments, as well as transparency and democracy, which will lead to efficiency in operations. The leader needs to be empowered in using staff in governing bodies. The empowerment of leaders helps them to employ workers in the most reasonable way, which balances the capacity in different positions of work.

Thirdly, it is imperative to apply the information technology system in the working and operating process of the units. There needs to be transparency in the accurate information on financial activities in using investment funds in capital construction. The individuals and units within the administrative apparatus of Bac Giang province and Bac Giang State Treasury must operate publicly for people and investors to understand the plan and progress of the work.

## CHAPTER 6 CONCLUSION

Expenditure control of capital construction investment funds from the state budget at the State Treasury of Vietnam is a broad and complex concept, and is a task which affects many subjects, levels, branches, and agencies and units within the government. However in order to effectively use the state budget to invest in construction works and projects to develop the infrastructure for the economy, as well as help the capital construction investment funds from the state budget to really take on the leading and guiding role, which attracts capital and invest it on the development of the economy to ensure rapid and incremental growth over the years, along with increasingly diversifying the sources of capital, through research and analysis the author would reaffirm the point which has been mentioned in the introduction “the management of capital construction investment funds from the state budget at the State treasury is one of the important tasks towards the development of a open and transparent management mechanism, helping to save time, human resources and effectively use limited financial resources for the growth of the country”. It is important to perform well the task of expenditure control of capital construction investment funds from the state budget through the State treasury system.

With the study “Evaluation of the Centralized Construction Investment Management Exercised of Bac Giang province through the State Treasury between 2012 and 2015”, the author has focused on theoretical research, along with a situation analysis and some proposed solutions on the expenditure control of capital construction investment funds from the state budget through the State Treasury of Bac Giang province and the local authority of Bac Giang. The research and analysis have helped the author to understand more deeply the theoretical foundation of the expenditure control of capital construction investment funds from the state budget, as well as attain a realistic view of the expenditure control of capital construction investment funds from the state budget through the State Treasury of Bac Giang province from 2012 until the end of 2015. Accordingly, some strengths and shortcomings of the expenditure control of capital construction investment funds from the state budget through the State Treasury of Bac Giang have been identified. Based on that, some recommended solutions are proposed to all levels of the local government, the Ministry of Finance, the State treasury system in general and the State Treasury of Bac Giang in particular; with a view to further improving the expenditure control of capital construction investment funds from the state budget through the State Treasury of Bac Giang, while still ensuring the openness and convenience for all levels of authority, branches and investors involved in capital construction from the state budget. At the same time, some solutions should be identified to save social costs in the process of managing capital construction investment from the state budget within the possible conditions and

capacity.

As previously mentioned, the scope of expenditure control of capital construction investment funds from the state budget through the State Treasury is very broad, complex and diverse, which requires elaborate and systematic research. With the scope and time of research, within the frame of a Masters' thesis, the author has taken the liberty of presenting some strengths and shortcomings, as well as proposing a number of solutions to related issues in the expenditure control of capital construction investment funds from the state budget through the State Treasury; with the hope of finding effective solutions which help to improve the control of expenditures in capital construction investment from the state budget, and help the state budget's funding allocated to capital construction investment to serve the right purpose and have high efficiency, as well as minimize losses; to make a modest contribution to the industrialization and modernization of the whole country in general, and Bac Giang province in particular. However, shortcomings and limitations in the research would be unavoidable; thus, the author would like to receive opinions, feedback and additional comments from the professors at the University of Tampere, from scientists, colleagues and anyone who has an interest in the issue of expenditure control of capital construction investment funds from the state budget through the State Treasury, so that this study can be further improved.

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# APPENDICES

## APPENDIX 1

### QUESTIONNAIRE

*(On the control and payment of capital construction investment funds at the State Treasury of Bac Giang Province)*

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With the purpose of examining the factors affecting the process of capital disbursement and losses of budget capital through expenditure control at the State Treasury of Bac Giang, this study would like to ask the individuals directly involved in transactions, construction contractors paying capital construction investment funds at the State Treasury of Bac Giang and State Treasury officers directly involved in expenditure control to provide an honest answer to the following questions. The questions has 3 choices for each year from 2012 to 2015, if you know which year you choose it.

#### I. Legal documents:

**Question 1:** How do the policies and mechanisms of all levels of the local government influence the process of management?

Year

- Unreasonable
- Mostly reasonable
- Completely reasonable
- Other opinions:.....

2012	2013	2014	2015

.....

**Question 2:** What is your opinion on the documents guiding the control and payment of capital construction investment funds as well as payment procedures and documents?

Year

- Slow to change and cannot keep up with the real situation:
- Stable and consistent in the long run:
- Changes are too rapid and overlapping:
- Other opinions:.....

2012	2013	2014	2015

.....

**Question 3:** What is your opinion on the documents guiding the implementation of payment commitments?

Year

- Unaware:

2012	2013	2014	2015

- Aware but implemented improperly:


-Aware and implemented properly:

- Other opinions:.....

.....

**II. Professional skills:**

**Question 4:** How are the professional skills in control, payment and guidance of officers and civil servants towards organizations and investors?

Year :

2012	2013	2014	2015

- Control is fast, honest, and accurate:

- Good professional skills, good communication:

-Showing difficulties in communicating and guiding organizations:

- Other opinions:.....

.....

**Question 5:** How is the control and payment of capital construction investment funds implemented?

Year

2012	2013	2014	2015

- Fast and in compliance with regulations:

- Normal:

- Not in compliance with regulations:

- Other opinions:.....

.....

**Question 6:** What is your opinion on the legal documents and procedures?

Year

2012	2013	2014	2015

- Simple, streamlined:

- Moderate:

- Multiple, cumbersome procedures:

- Other opinions:.....

.....

**Question 7:** What is your opinion on the time of control and payment?

Year

2012	2013	2014	2015

- Fast:

- Normal:

- Slow:

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- Other opinions:.....

.....  
**Question 8:** What is your opinion on the working styles of officers and civil servants at the State Treasury of Bac Giang Province?

Year

2012	2013	2014	2015

- Fast, courteous, caring, attentive:

- Normal:

- Slow, causing me to wait:

- Other opinions:.....

.....  
**III. On other factors:**

**Question 9:** What do you think are the causes of slow capital disbursement?

Year

2012	2013	2014	2015

- Complicated administrative procedures:

- State Treasury officers deliberately causing difficulties:

- Untimely allocation of capital:

- Other opinions:.....

.....  
*Thank you for your cooperation!*

## **APPENDIX 2: INTERVIEW QUESTIONNAIRE**

1. What factors influence you in the management and control of State budget expenditures? What are the factors that cause difficulties in management?

2. Are you aware of the regulations and do you comply with expenditure commitments during the process of payment and control of investment capital from the State budget? If yes, do you comply strictly?

3. What are the difficulties when you implement expenditure control? Do the government's legal elements create any obstructions in the disbursement of capital?

4. Are you influenced by the local government to commit wrongdoings and overlook wrongdoings in enforcing your accountability? If yes, are you aware that you are responsible in causing losses to the State budget?

5. What are the difficulties that you encounter in the payment of the State budget's capital at the State treasury system of Bac Giang? What are your recommendations to streamline documentation and procedures?

6. As an economics expert, what are your views on the policies and budget management mechanisms? What are the current gaps? Are there possibly any losses and corruption from these policies?