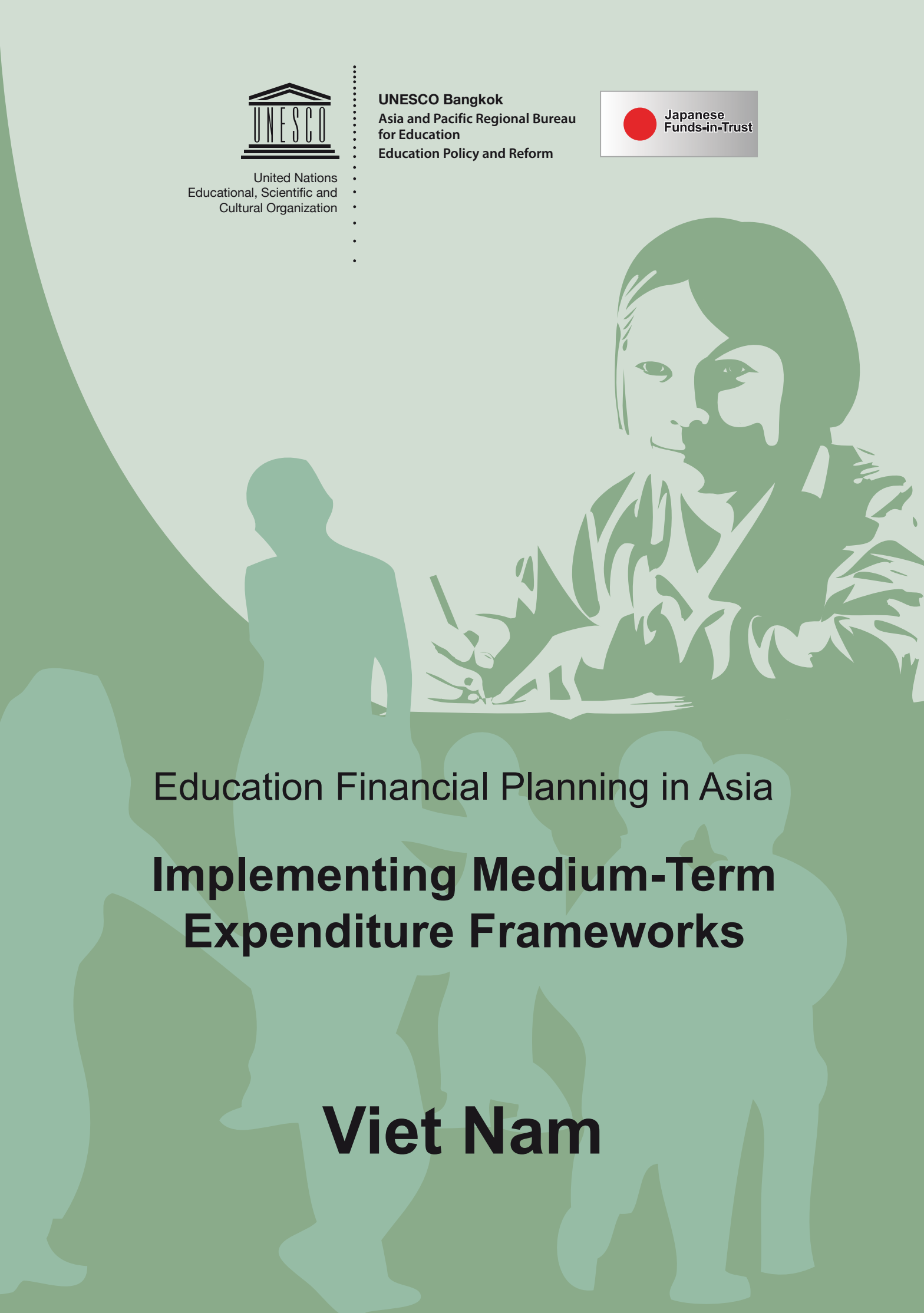




United Nations
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Cultural Organization

UNESCO Bangkok
Asia and Pacific Regional Bureau
for Education
Education Policy and Reform



Education Financial Planning in Asia **Implementing Medium-Term Expenditure Frameworks**

Viet Nam

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Expenditure Frameworks**

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Abbreviations

BOET	Bureau for Education and Training
CPC	City People's Committee
DOET	Department of Education and Training
DOF	Department of Finance
DPC	District People's Committee
DPI	Department of Planning and Investment
EFA	Education for All
MDGs	Millennium Development Goals
MOET	Ministry of Education and Training
MPI	Ministry of Planning and Investment
MOF	Ministry of Finance
MOLISA	Ministry of Labour, War Invalids and Social Affairs
MTFF	Medium-Term Fiscal Framework
MTEF	Medium-Term Expenditure Framework
NTP	National Target Programme
PCP	Provincial Council of People
PPC	Provincial People's Committee
UNESCO	United Nations Educational, Scientific and Cultural Organization
VND	Viet Nam Dong (currency)

Foreword

Education Financial Planning in Asia: Implementing Medium-Term Expenditure Frameworks — Viet Nam is part of a series of in-depth studies on education financial planning in Asia, commissioned by the UNESCO Asia and Pacific Regional Bureau for Education - UNESCO Bangkok in 2008. The studies initially covered five countries, including Mongolia, Nepal, the Republic of Korea, Thailand and Viet Nam. Additional studies are now underway in Cambodia, Indonesia, Singapore and Tajikistan.

Medium-term expenditure frameworks (MTEFs) have been used in Organization for Economic Cooperation and Development (OECD) countries for a while, but their history of use in developing countries is more recent, having started in the late 1990s. Over the past decade, however, donor support has provided for MTEFs aimed at strengthening the link between policy, planning and budgeting in many developing countries. Some of the best well-known and studied experiences in introducing and using MTEFs come from African countries. In Asia, a number of countries have introduced or are planning to introduce MTEFs, but no studies had been conducted nor any attempts made to document the experiences that countries have had in using MTEFs until this research.

Thus, the country case studies commissioned by UNESCO Bangkok are an attempt to address this knowledge gap. They look at Asian experiences with MTEFs, and thereby contribute to understanding the diverse practical aspects of introducing MTEFs, in general, and for the education sector, in particular.

The case studies were written as part of UNESCO Bangkok's clearinghouse project on education financing for implementation of Education for All (EFA) programming in Asia and Pacific countries. The clearinghouse has been developed as an e-resource portal on the UNESCO Bangkok website. Through this portal, UNESCO shares the organization's long-standing experience and expertise in working with national and international partners on education policy analysis and planning. The portal also features more recent on-going work about education financing and the MTEF.

The portal has been designed for easy access by professionals who work on education planning and finance. Included in the portal is a range of practice-oriented information concerning modern planning techniques and medium-term planning and expenditure frameworks in individual country contexts. The site also contains training materials and tools, briefing notes on technical topics, updates on research and a glossary.

It is hoped that this reservoir of resources will provide Asia-Pacific countries with strengthened knowledge to use MTEF and, thereby, to contribute to effective implementation of their planned education reforms.



Gwang-jo Kim

Director

UNESCO Bangkok

Acknowledgement

This publication forms part of a series studying the application of the medium-term expenditure framework in financial planning in the education sector in Asia. The studies were initiated and their implementation co-ordinated by the Education Policy and Reform (EPR) Unit at UNESCO Bangkok. The unit was able to draw on a wide range of local and international expertise available at research institutes, universities and ministries in the participating countries.

The study in Viet Nam was written by Dr. Dang Thi Thanh Huyen, Director of the Education Management Science Research Institute at the Viet Nam Academy of Education Management. The study has particularly benefited from the input of the working group on MTEF from the Ministry of Education and Training (MOET). The most recent data and information included within this report have been collected thanks to the collaboration of the Planning and Finance Department at the MOET.

The regional project receives a generous financial contribution from the Japanese Government.

Executive Summary

For the Government of Viet Nam, investment in education means investment in development. As such, the country's education policy is a top national priority, and several new policy directions have demonstrated this commitment.

The Government's decision to allocate 20 percent of the total state budget to education by 2010 demonstrates the importance of financing education. The emphasis within this budget is on investment in public education and training in underserved areas. The Government is also following a policy called "socialization" in seeking a variety of financial resources for education. It encourages private funding and investment to broaden the spectrum of educational opportunities.

With this background, the Government initiated a Public Financial Management Reform Project in 2003 with the assistance of the World Bank. The project involved the strengthening of state budget and investment planning, including the development of a medium-term fiscal framework (MTFF) and of medium-term expenditure frameworks (MTEFs). The MTFF has been used to support MTEF pilots in four sectors and four provinces of the country. The education and training sector was one of the four sectors involved in the pilot of an MTEF approach to funding. There has been ongoing, important progress in MTFF and MTEF development.

The MTFF is a budget plan that uses a three-year framework to establish national policy priorities, based on macroeconomic realities and sustainable budget principles. The current year establishes specific funding and project plans for the next two years. Following years assess the programming for the first year, plan the current year, and again plan for the coming two years.

The MTEFs provide a balanced approach to funding that matches expenditure ceilings for the sectors in the MTFF with expenditure proposals by sector ministries. The first education sector MTEF covered the period of 2005–2007. Since then, the education sector MTEF has been updated every year; the latest MTEF, now under preparation, covers the period for 2009–2011.

The MTEF pilot in the education sector has achieved some initial goals. First, the use of this planning process has contributed to improvements in public awareness of the budget, and to the effectiveness of the annual budget. During the pilot process, it was clear that implementing the MTEF improved integration and co-ordination between sectors, ministries and sub-national governments. Also, in a global context, using the MTEF as a basis for annual budget planning is in line with international practices.

The calculation and allocation of savings has been an important financial benefit of the education sector MTEF since 2006–2008. These savings are a result of the increase made in the student/teacher ratio at the primary and lower secondary education levels. This reduced the salary burden and funded additional resources to improve educational quality. The 2007–2009 MTEF submission incorporated tools and methodologies to analyse educational financing strategies, to set and rank priorities within budget constraints, and to adopt a baseline calculation model.

However, the existing education financial management mechanism is quite complicated, as it involves a large number of sector management agencies and ministries. In addition, the role of the Ministry of Education and Training (MOET) in sector management has not been resolved. Education budget management includes multi-level and multi-sector expenditure, so

the MOET does not directly control all schools; some are the responsibility of other ministries and provincial government education services. The lack of accurate data on financial sources and expenditures from other educational services explains the inaccuracy of the MOET's expenditure estimates. As a result, the integration of the MTEF with the annual budget is limited and data projections are unrealistic. Budget deficits in recent years indicate that there are too many new initiatives being funded, showing that the prioritization process has not yet had a real effect. The MTEF has not yet been able to meet its goal of improving the quality of annual budget planning in the education sector.

Education budgets based on the MTEF calculation methods still require improvement in the accuracy of forecasts, efficiency in expenditures and investment in education. The process of piloting the MTEF has increased inter-ministerial co-operation, provided training in the use of new budgeting tools, and introduced the practice of prioritizing projects. These changes are contributing to educational management reform.

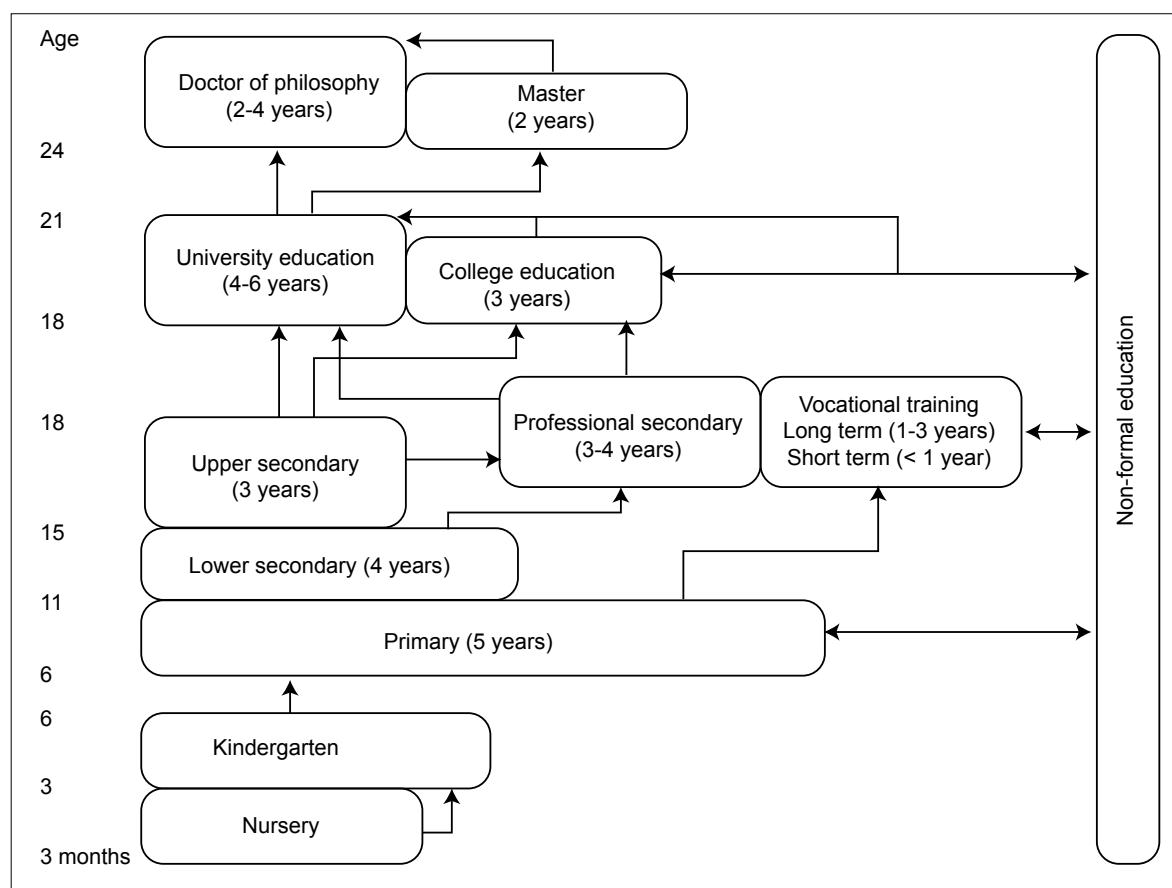
I. Education System

Under the Education Law of 2005, the Vietnamese national education system includes different education levels and kinds of education for the population, as shown in Figure1.

Pre-school education includes crèche and kindergartens for children aging from 3 months to 5 years. Universal education includes primary education and secondary education. Primary education enrolls children at the age of six and lasts for five years. Secondary education is split into lower secondary education for four years, and upper secondary education for three years. Primary and lower secondary education is compulsory in Viet Nam.

Professional education includes professional secondary education and vocational training. Professional secondary education offers three- to four-year programmes for lower secondary school graduates, or one- and two-year programmes for upper secondary school graduates. Vocational training is offered to students who meet health and educational qualifications. Short-term vocational training lasts for one year, and longer term vocational training may last from one to two years.

Figure 1. The Education System



Source: Education Law 2005.

University education covers higher education, undergraduate and post-graduate training. Higher education is an education programme for certified upper secondary school graduates or professional secondary education graduates. University education provides four to six years of schooling, depending on the major, for upper secondary school graduates or professional

secondary school graduates; or one to two years of schooling for higher education graduates of the same major. Masters education offers two-year programmes for university graduates. Education at the Ph.D. level provides four-year programmes for university graduates and two- or three-year programmes for masters graduates.

Continuing education, also known as informal education, consists of various education options. Students can choose to attend continuing education classes and go to work. Lower secondary school graduates can choose to attend continuing education instead of upper secondary school, professional secondary school, or vocational school.

The Ministry of Education and Training (MOET) is responsible for the state administration of the whole sector, including crèches, kindergartens, universal education, professional education, university education and continuing education. Although a number of education institutions are managed by other ministries to meet the demand for specific training, the MOET is responsible for the administration of the sector, and for overall education sector development strategy. Other sector ministries are responsible for the implementation of education policies in their own education institutions. With respect to development strategy, the MOET is required to collaborate with the Ministry of Labors, War Invalids and Social Affairs (MOLISA) and other ministries to reach a consensus on sub-sector development objectives.

Decentralization is increasing in the education sector and more autonomy is being granted to local levels. Provinces and cities are managing the providers of pre-school and universal education, professional education, university, higher education and continuing education. Central ministries and agencies are managing the majority of professional secondary schools, vocational training schools, universities and higher education institutions. MOLISA directly controls most of the vocational training schools, and other sectoral ministries directly control most professional secondary schools, universities and higher education institutions. The MOET directly controls 77 subordinate university and higher education institutions.

Planning in the Education Sector

Currently, education sector plans include a five-year education development plan and annual education development plans. Education sector planning is undertaken at the central level, by the MOET and other central ministries, and at sub-national levels by provincial and district education services, schools and education institutions. School level (sub-sector) planning is reflected in the five-year and annual plans.

Nowadays, educational development does not follow a top-down command approach in planning; there is coordination between the different levels, especially in institutional level planning. Education development policies are based on national socio-economic development directions and the realities of education development at the sub-national and institutional levels.

At the central level, the education policies and plans are based on plans ratified by the Government. These include the socio-economic development plans for 2001–2010, the overall poverty reduction and growth strategy of 2003, the five-year socio-economic development plan for 2006–2010, the Millennium Development Goals (MDGs) of Viet Nam, the education development strategy for 2001–2010; and the National Education for All (EFA) Action Plan for 2003–2015.

The Government prepares both the five-year socio-economic plans and the annual plans, based on prime ministerial guidelines. Ministries, sector managers and sub-national governments

prepare their respective sector development plans and sub-national socio-economic development plans. The MOET develops overall education sector development plans based on the directives of the Prime Minister and the guidelines of the Ministry of Planning and Investment (MPI). Other ministries draft the plans for education development in their sectors.

At the sub-national level, based on the guidelines for five-year and annual education development plans by the MOET, the provincial education development directions, and the actual local education conditions, the provincial Departments of Education and Training (DOET) develop their five-year and annual plans. The sub-national education development planning specifications are based on the overall sector targets, and the specific conditions of the local institutions.

The provincial education development plans are submitted by each DOET to the City or Provincial People's Committees, People's Councils, and the MOET for ratification. The education development plans of the districts and education institutions under the control of the DOET (e.g. the secondary schools, continuing education facilities and professional secondary schools) are based on the education development plans of the province, the socio-economic development plans of the districts and the local conditions. The education development plans of the rural and urban districts are approved by the district People's Committees, People's Councils and the provincial DOET. Schools and educational institutions use the sectoral plans and reference their local knowledge to develop their institutional plans.

School and educational institution plans are approved by the agencies that directly control them. Most kindergartens, primary schools, and lower secondary schools are managed by the District Education Department, while upper secondary schools and professional education institutions are managed by the provincial DOET and other provincial departments. Currently, most universities develop five-year strategic plans and annual plans, while universal education schools only develop annual plans.

II. Financing the Education Sector

Policies

Educational policy development is one of the Government's top national priorities. It plans to increase the share of the total state budget for education to 20 percent by 2010. Remote areas, ethnic groups, students eligible under entitlement policies and those living in poverty have priority in education spending, as does the construction of education facilities for primary and lower secondary schools. These strategies will increase access to education and improve the quality of education.

The Government is also implementing "socialization" by widening access to financial resources for education. It will change semi-public schools into self-financed schools in some urban areas, develop non-public education institutions and reform school fee policies. This diversification will broaden the spectrum of educational programmes and educational opportunities for different educational needs. Funding diversification is also expected to improve the quality of education and contribute to the modernization of the system. Furthermore, it is expected to attract more financial resources for the improvement of education and increase efficiency in the system by creating cost-benefit incentives.

Another financial strategy is the reduction of expenditure on salaries in the education sector by increasing the student/teacher ratio in schools. Schools with low student/teacher ratios, such as primary schools and lower secondary schools, will be targeted.

The Government also plans to increase external borrowing and other assistance to promote education investment in priority areas, to improve education quality and to expand access to education.

Background

The state budget plays the main role in financing education. The Government sets a high priority on investment in education and encourages domestic organizations, individuals, overseas Vietnamese, foreign organizations and individuals to invest in education in the country. However, the share of national expenditure given to the education budget in Viet Nam is still very low compared to that of other countries, as shown in Table 1. The average expenditure per student per year in Viet Nam in 2006 is low; only one fourth that of Malaysia and Thailand.

Table 1. Annual Expenditure for Education, Per Student, in USD

	Year	USD/Student/Year
Malaysia	2003	3,031
Thailand	2003/04	3,170
France	2003	7,807
Germany	2003	7,368
Japan	2002/03	7,368
USA	2002/03	12,023
Viet Nam	2006	723

Source: UNESCO, 2006, p. 72.

The state budget for education includes the recurrent budget, which is split into salary and non-salary recurrent expenditure, and capital expenditures. Non-salary recurrent expenditure includes operational expenditures to improve educational quality, as well as maintenance and other expenditures (see Table 2).

Table 2. Sources of Funds and Expenditure in the Education Sector

Sources of funds for education sector	Expenditure in the education sector
1. State budget ¹ Capital Recurrent	1. State budget expenditure Capital expenditure Recurrent expenditure
2. Government bonds ²	Expenditure for National Target Programme for Education and Training
3. Aid, ODA ³	2. Expenditure for the implementation of credit and grant ODA
4. School fees, charges and other revenues.	3. Other expenditure, including Expenditure for the collection of school fees, entrance exam fees Cost of production and service delivery, including taxes payable, fixed asset depreciation ...

1. Annual State budget allocation for the education sector
2. Government revenues rose from the society for the implementation of major national target Programme for education such as school concretization.
3. Non-refundable assistance, credit, counterpart funding.

Source: Socialist Republic of Viet Nam, 2005b.

According to the Resolution of the Xth National Assembly, education expenditure is targeted to account for 20 percent of the total state budget expenditure by 2010. State budget expenditure accounts for two-thirds of total educational expenditure and is growing very rapidly, as shown in Table 3. In 2006, the total state budget expenditure for the education sector was VND 54,798 billion, almost three times that of 2001.

Table 3. State Budget Expenditure for Education and Training, in VND Billion

No.	Item	2001	2002	2003	2004	2005	2006
1	Total State budget expenditure for education and training	19,747	22,601	28,951	34,872	42,943	54,798
	Recurrent expenditure	16,082	18,754	24,162	28,712	35,717	44,798
	Education sector as % of total State budget expenditure	81.4%	83.0%	83.5%	82.3%	83.2%	81.8%
	Capital expenditure	3,665	3,847	4,789	6,160	7,226	10,000
	Education sector as % of total State budget expenditure	18.6%	17.0%	16.5%	17.7%	16.8%	18.2%
2	Decentralization of Education and training expenditure authority						
2.1	Sub-national level	15,452	17,471	22,535	27,412	32,063	40,458

No.	Item	2001	2002	2003	2004	2005	2006
	Recurrent	13,262	15,174	19,646	23,752	27,567	34,578
	Capital	2,190	2,297	2,889	3,660	4,496	5,880
2.2	Central level	4,295	5,130	6,416	7,460	10,880	14,340
	Recurrent	2,820	3,580	4,516	4,960	8,150	10,220
	Capital	1,475	1,550	1,900	2,500	2,730	4,120

Source: MOET, 2007.

EFA expenditure also grew during the first half of the decade, from 62.02 percent of the total state budget expenditure for education in 2001 to 63.1 percent in 2006. Most of the expenditure for EFA was for primary education and lower secondary education.

Table 4. EFA Expenditure as % of Total State Budget Expenditure for Education Sector

Target Group	2001	2002	2004	2006
All 4 EFA Target Group	62.02	61.52	61.40	63.10
Pre-school (ECCE)	6.97	6.92	7.52	7.47
Primary education	32.71	31.23	29.73	31.21
Lower secondary education	20.31	21.11	21.32	21.59
Non-formal education	2.03	2.26	2.83	2.83

Source: MOET, 2008.

Budget Planning

The state budget law, revised in 2005, specified two levels of state budget: the central level and the sub-national level.

At the central level, recurrent budget allocations for spending ministries and provinces are the responsibility of the Ministry of Finance (MOF). The capital budget allocation is the responsibility of the Ministry of Planning and Investment (MPI). Similarly, recurrent budget allocations for departments and districts are the responsibility of the provincial Department of Finance (DOF) and capital budget allocation is the responsibility of the provincial Department of Planning and Investment (DPI). The process of state budget allocation is detailed in Annex 1.

The sector ministries collaborate with the MOF and the MPI in the preparation of budget drafts and the education budget allocation plan to be submitted to the MOF and the MPI prior to 30 July for the following year. These are consolidated into the state budget draft and budget allocation plan for submission to the Government and the National Assembly.

At the sub-national level, the authority for educational capital expenditure is delegated to the People's Committees in provinces and cities. Provincial People's Committees (PPC) and centrally managed City People's Committees (CPC) oversee the provincial DOET, which collaborates with the DOF and DPI to prepare budget estimates and plans for the provinces or cities. The DOF consolidates the recurrent budget and the DPI consolidates the capital budget. These are submitted to the PPC or CPC for submission to the Provincial Council of People (PCP) prior to 20 July in the preparation year. After ratification by the Standing Committee of the PCP, the PPC or CPC submits the budget plan to the MOF and the MPI.

The local government is responsible for budget allocation to education institutions in their jurisdiction. In the education budget, the sub-national share of the education budget is

expanding relative to the central budget share. For example, in 2005, the central education budget accounted for 21 percent of the state budget expenditure, while the sub-national education budget accounted for 79 percent. In 2006, the central education budget dropped to 19.5 percent of the total, and the local education budget accounted for 80.5 percent.

Viet Nam currently uses an annual budget cycle; the fiscal year starts on 1 January and ends on 31 December. In accordance to the State Budget Law, all expenditure requirements are subject to budget approval by the relevant authorities to obtain allocation for expenditure. Budget preparation must cover all the expenditure requirements of the spending units for the implementation of the mandates and project targets set for the year. They must also comply with all policies, norms and other regulations and guidelines of the government and senior ministerial levels for the preparation of the annual budget and follow the timeline. Budget preparation in the education sector is based on the targets and mandates set forth for the year and includes a review of the performance against targets of the previous year.

Budget Preparation

The MOET collaborates with the ministries that manage education institutions, the MOF and the MPI, to prepare the budget draft and allocation and management plans for the education sector. Following budget assignments by the Prime Minister and People's Committees, state agencies at central and sub-national levels allocate budgets in their jurisdiction.

The process starts on 15 November every year when the National Assembly ratifies the state budget and central budget appropriations for the coming year. Next, the MOF submits these appropriations to the Prime Minister for decisions on the revenue and expenditure mandates.

Following approval, the education budget is proportioned to the MOET and other ministries. At the sub-national level, the education budget is reflected in the central budget supplementary transfer to each province or city. The budget allocation process is completed before 20 November every year.

Each PPC and CPC then allocates resources to their subordinate spending units. The provincial DOET submits their detailed sub-allocation plans to the provincial DOF and provincial DPI before 5 January of the next year as the basis for budget fund disbursement in that year (see Annex 1).

All schools that are considered public service delivery units are granted financial autonomy and must open an account in the state treasury system. This must capture all inflows and outflows of state budget-related funds. They will be subject to state treasury control. However, the revenues and expenditures incurred from additional services, joint-ventures or school associations that have financial autonomy can be transacted in designated state treasury accounts or commercial bank accounts. All state budget expenditures are paid in Vietnamese dong, for the budget year and in line with state budget classification, by the unit managers or other authorized persons.

National Target Programme (NTP) funding aims to address immediate problems. Past and current programmes include education programme reform, curriculum reforms and textbook reforms; IT officer training and IT implementation in schools; management training and refreshment training; education supports for mountainous areas, ethnic groups, and areas in extreme difficulties; and the improvement of physical facilities in schools.

The MOET develops an annual NTP budget draft to submit to the MOF. As part of the budget formulation process, the MPI and the MOF will officially assign the expenditure mandates to the MOET and to other central-level ministries for the implementation of the NTP. Budget allocations and NTP implementation at sub-national levels are the responsibility of the PPCs and CPCs. Under this mechanism, the sub-national governments have discretionary powers in resource mobilization and the implementation of each NTP in their jurisdiction. In practice, however, the role of the provincial DOET in the budget allocation and implementation of NTPs differs in each province.

III. Medium-Term Expenditure Framework

Education Sector MTEF Piloting Process

The education sector first piloted a medium-term expenditure framework (MTEF) in 2000 as a result of the Public Expenditure Review programme funded by the United Nations Development Programme (UNDP). This was a small experimental project, a first trial of the MTEF approach in the education sector in Viet Nam. This project lacked the formal engagement of the MOF and the State Budget Department. Because of this, the whole financial picture of the education sector is not reflected in the document, and the effectiveness of the pilots was difficult to judge.

In 2003, the Government initiated the Public Financial Management Reform Project¹ with the assistance of the World Bank. It involved the strengthening of state budget and investment planning, including the development of a medium-term fiscal framework (MTFF) and of MTEFs. The piloting of an MTEF was an important part of this project. After several years of preparation, the Government ordered the piloting of the MTEF approach in four sectors; education, health, transport and agriculture, and four provinces; Hanoi, Ha Tay, Binh Duong and Vinh Long.

The MTFF is the term for the national or sub-national budget plan for a three-year period, starting from the coming budget year. It is prepared every year in a rolling approach. It presents macroeconomic forecasts, the possible budget revenue and expenditure balance, and budget sustainability principles for the medium-term. These are based on socio-economic development objectives and macroeconomic forecasts, and the on-going national budget and fiscal policies for the next three years. The MTFF also reflects medium-term priorities for the sectors in both national and sub-national government budget allocations. It also sets out major strategies to balance between expenditure requirements and public financial resources.

In 2007, the MOF first issued an official circular to set pilot guidelines for the 2008–2010 MTFF and MTEF as part of the 2008 budgeting processes in the pilot ministries, cities and provinces. This document became an important reference in reviewing and adopting the 2008 budget appropriation plan for submission to the National Assembly. The sub-national fiscal and sector expenditure framework for 2008–2010 was used by the PPCs in their submissions to the People's Councils for review and decisions on the 2008 sub-national budget appropriation plans.

At the time of writing, in the pilot process, the MTEF is being rolled-over to the 2009–2011 cycle. It has become a useful format for the Government in reviewing state budget submissions and adopting the 2009 central budget appropriation plan. It is envisioned that the MTEF approach will be adopted in the State Budget Act to take effect nationwide in the future.

The MTEF consists of two processes: the top-down process from the central government and the bottom-up proposals for funding from the spending ministries and provinces. The MOF and the MPI use the top-down process to provide the macroeconomic forecasts, fiscal framework and expenditure ceilings for the sectors and provinces. In the bottom-up process, the sector ministries, provinces and budget spending units prepare their MTEF submissions, including baselines and new initiative proposals based on the ceilings, trends, priorities, strategies and available resources of the sector. The MTEF is a rolling plan of revenues and expenditures over three years. The first year is the budget year, and the budget for the next two years is

¹ In accordance with Decision No. 432/QĐ-TTg, dated April 21, 2003, for the approval of the feasibility study of the “public financial management reform project”

planned. This process is repeated every year so that there are always concrete immediate plans with two-year projections to support the annual budget process.

Table 5. Comparison of the MTEF with an Annual Budget Plan

MTEF	Annual Budget Plan
Overview of whole sector scope of estimates	Review of the previous year, required mandates for the planning year; justification of the expenditure estimates for the year
Trends and issues of the sector in the three-year time frame	
Priorities and strategies in the medium-term expenditure plan	Templates required by the Ministry of Finance • Budget revenues (recurrent, capital)
Funding for existing policies and activities	• Expenditures by policy commitments (recurrent: salary, non-salary, capital)
Funding for new policies and activities	
Sources of funds for the sector	• Proposal for in-year budget supplements

To develop the MTEF and MTEF, the official process follows a strict process and principles. The first step is to review budget allocation priorities. Ministries and provinces are required to review the actual implementation of the previous MTEF, as well as objectives and targets for the coming cycle, to provide an assessment and forecast of the context, requirements and mandates in the coming period. Based on that, budget priorities can be adjusted to reassess approved activities that are not performing as expected to provide resources for activities of higher priority.

State budget ceilings must be respected. Budget expenditure plans must be within the budget ceilings as set by the MOF and the MPI to ensure efficient baseline expenditures, and adequate funding for new initiatives. The process must be integrated with the annual state budget preparation process.

The measures to close any funding gap must be analysed, and solutions to address contingent liabilities must be proposed. In the case of funding gaps between the budget ceilings and the expenditure requirements, the spending ministries and provinces must analyse the gaps and propose methods to close them, or to mobilize other sources of finance. Contingent liabilities must be analysed and ranked to reduce them over the three year period.

Developing the Education Sector MTEF

An international consultant developed a model and templates, and set requirements for input data and financial information in the education sector MTEF model. In that model, the budget ceilings and expenditures are consolidated from all education levels at the central and sub-national budget levels by classification into recurrent, national target programme, or capital expenditures.

In the next step, the international consultant and local consultants worked together to design information collection templates from the provinces and districts for the years 2002 and 2003. It was highly time consuming to collect data this way. After six months, only 50 percent of the provinces (26/61 provinces or cities) and 50 percent of the districts (269/613 districts) had returned data to the collection unit. This data was used for the calculation of unit costs by sub-sectors.

One important outcome of the model's development was to allow the calculation of baseline expenditures and new initiatives by school level. This included the calculation of important changes in the cost drivers of baseline expenditure, including changes in the number of teachers and staff, changes in the unit costs of public and semi-public institutions, and improvements to education quality in response to the National Education for All (EFA) Action Plan from 2003 to 2015.

However, the 2005–2007 education sector MTEF models had some limitations. First, the design for the calculation of baseline and new initiatives for each sub-sector required a lot of detailed information, and the data collection capacity was limited. Second, the calculation did not reflect fully the cost drivers that have impacts on baseline expenditure, such as salary policies and changes in student patterns. Another constraint was the lack of differentiation between education expenditure by the MOET and by other ministries; expenditure prioritization and savings are not shown in the working tables.

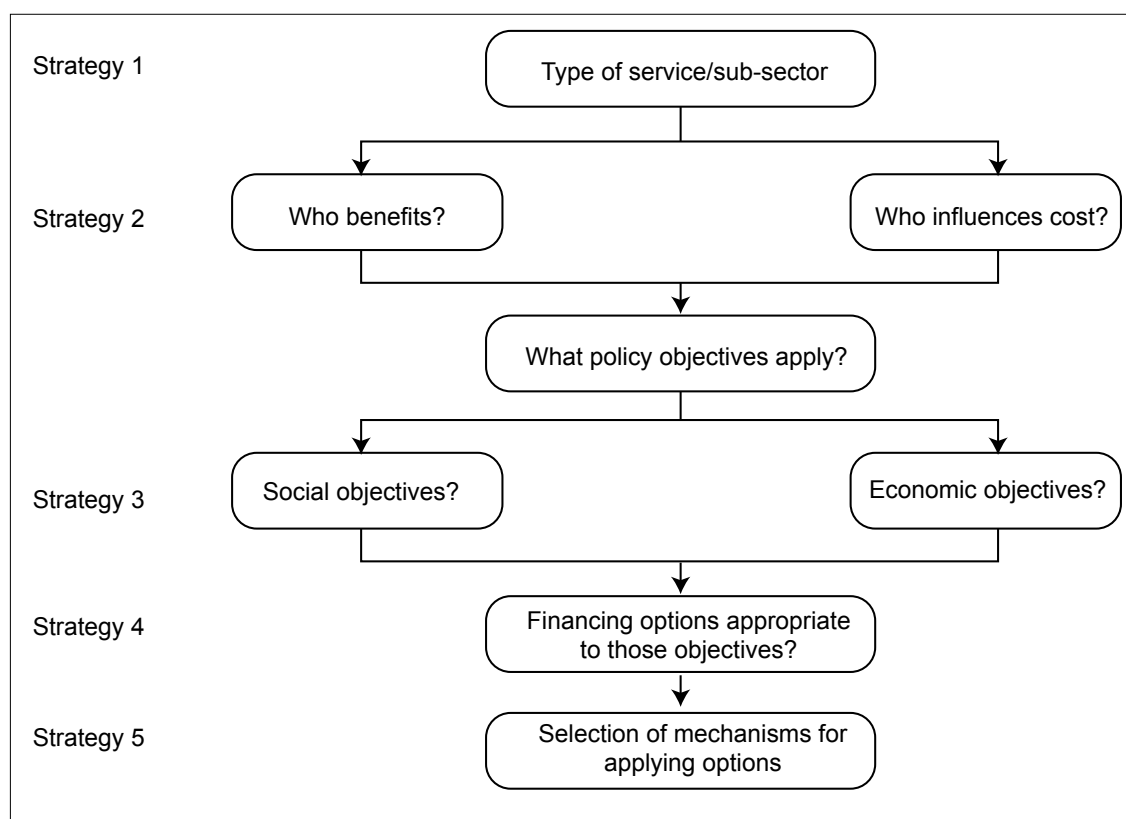
Starting in 2006, the MOET prepared the MTEF for the education and training sector as a part of the national-level MTEF. The development of the education sector MTEF follows the guidelines of the MOF and the MPI for the MTFF and MTEF process. These documents were prepared under the formal oversight of the State Budget Department. The MOF took the lead in the pilot of the MTEF approach and issued document templates with the assistance of international consultants. The MOF also co-operated with the MPI to provide socio-economic background and fiscal forecasts for the preparation of MTEF submissions by the MOET.

The 2006–2008 education sector MTEF submission was prepared under new templates designed to overcome the limits identified in the model for the 2005–2007 cycle. Subsequent submissions of the education sector MTEFs have used the 2006–2008 templates.

The ability to project and calculate savings has been a feature of the education MTEFs since 2006, as demonstrated by the changes to the student/teacher ratio at the primary and lower secondary education levels. Increasing the student/teacher ratio, which had been quite low at 20 students per teacher, has reduced the salary burden and provided resources for other programmes to improve educational quality.

The 2007–2009 education sector MTEF submissions deployed tools and methodologies to analyse the education finance strategy (see Figure 2), to set and rank priorities within the budget constraints and adopt the baseline calculation model. These tools and methodologies were introduced by a second international consultant, who was serving as the national consultant for the education and health sectors in Viet Nam.

Figure 2. The Decision Process for Financing Strategies



Source: Brooke, 2007.

Process of MTEF Preparation

The MTEF submissions of the education and training sector use the general MTEF submission templates (developed for the pilot sectors) and follow the MOF guidelines. The education sector MTEF is a three-year budget expenditure plan that is prepared each year in a rolling approach. It presents the objectives, mandates, activities, entitlement regimes, and major core business policies of each sub-sector and each spending institution in the medium-term, together with specific projections of financial resources for their implementation. In addition, the MTEF sets out priorities and cost estimates within the pre-defined expenditure ceilings. It also outlines major approaches to balancing budget needs and public financial resources for education.

The preparation of the MTEF in the education and training sector for 2006–2008 follows specific stages to realize the theoretical approach:

- setting up a sectoral Working Group of experts from MOET and other related ministries. This group will implement guidelines of the MOF and the MPI, and indicate budget ceilings for the education sector over three years for both recurrent and capital expenditure to prepare the first MTEF submission draft;
- analyzing the budget to identify cost drivers as provided by the MOF, for example, inflation and the effects of salary policy reform. The assumed cost drivers are applied to the preparation of the expenditure estimates for the coming three years, most importantly calculating baseline expenditure and introducing the working table for baseline calculation; and
- subtracting the baselines from the ceilings, and applying the remaining funds to new sectoral initiatives. Then the new initiatives can be developed and estimated. Priorities for new

initiatives must be developed and ranked. Sources of funds for new initiatives, like donors, government bond issues and increased school fees, must be found. This leads to the final stages of calculating budget deficit or surplus and proposing deficit financing measures.

In looking at the planning process for the 2008–2010 period, the education and training sector MTEF submission was developed to include:

- anticipation of changes in national policies and mechanisms that may have impacts on the activities, mandates and targets for the sector
- identification of the sectoral objectives, mandates, activities, policies and priorities over the medium-term in the linkage with the national and sectoral five-year socio-economic development plans
- estimation of fund sources (i.e. fees and charges) and retained revenues for the implementation of specific mandates of the sector
- identification of principles and priorities for funding allocation for the key mandates, activities, policies by functional and economic classifications (i.e. recurrent, capital)
- calculation of baseline expenditures and funding for new initiatives based on the ceilings announced by the MOF and the MPI
- identifying the funding gap between the ceilings and the expenditure requirements, including baseline expenditure, new initiatives, changes due to price inflation, additional volume of work and budget adjustments for the implementation of the mandates, activities and policies
- proposing gap financing measures, such as reducing expenditure for existing mandates, activities, and policies for adjustment or replacing them by more efficient ones; introducing proposals for new mechanisms to raise off-budget resources; introducing early warning signals to monitor the country's ability to achieve sector targets for a given period.

Baseline Expenditure Calculation Model

With the assistance of international and local consultants, the MOET adopted a baseline expenditure calculation model customized for the education and training sector. The baseline expenditure calculation is designed for each school level, based on the unit costs and number of students. The budget for the whole sector is consolidated for all school levels, whether they are the responsibility of the MOET, other ministries or sub-national governments. The baseline expenditure proposal is based on the budget ceilings for the sector, the baseline expenditure for existing policies and commitments, and funded recurrent and capital expenditures. These include the salary policy, a provision for inflation and changes in student numbers at each school level over the time frame, unit costs for the starting base broken down by school levels; changes in the student/teacher ratios for increasing efficiency in the primary school and lower secondary school level and measures to improve educational quality.

The baseline expenditure calculation model was designed as three linked spreadsheet tables. The first spreadsheet allows changes to the unit costs for salary and non-salary expenditures for each school level. The second spreadsheet estimates changes in the expenditure to meet the need for improvement at each school level, incorporating the assumed changes in student/teacher ratio, and changes in the unit costs identified in the first worksheet. The third spreadsheet calculates changes to the baseline expenditure due to the changes in student number at each school level. Consolidation of these tables would give baseline expenditure calculation outcomes for the education and training sector.

IV. Resource Allocation

Standard Allocations in the Education and Training Sector

For the education budget, Decision No 151/2006/QĐ-TTg, dated 29 June 2006 stipulated the norms for state budget allocation for recurrent expenditure in 2007. Standard allocations for education services are based on the size of the population aged from 1 to 18 years, whereas the allocative norms for training and vocational training are based on total population (see Table 6).

Current budget allocations for education and training include supplements for poor households and areas and other targeted groups. These targets reflect societal priorities and the policy of rewarding merit. The effect of poverty on educational quality is reflected in the ratio of salary to non-salary recurrent expenditures, where non-salary expenditures are required to be at least 20 percent of the total costs. Expenditures for salary and related costs including social insurance, health insurance, and trade union membership should account for 80 percent of recurrent costs, while non-salary expenditure should account for at least 20 percent, excluding expenditures from school fees. Based on these norms, if the non-salary expenditures are lower than 20 percent of the total expenditures, a supplement will be transferred to make up the difference. For provinces and centrally managed cities that have areas in extreme difficulty², an additional subsidy of VND70,000 for each commune resident from the age of 1 to 18 is available to provide textbooks and notebooks.

Table 6. Standard Allocations for Education and Training Services by Type of Region, per Year

Region	Allocations for education services ¹ per person aged 1-18 (in VND)	Allocations for training and vocational training services ² per person (in VND)
Urban area	565,400	21,330
Plain area	664,000	23,710
Mountainous area with ethnic groups living in plain or remote areas	817,200	3,000
Highland or island area	1,144,000	42,700

1. Includes pre-school education, universal education, continuing education, scholarships and priority entitlement

2. Includes all other training including formal, informal, refreshment and all other vocational training at different levels, and political training at province and district levels

Source: Socialist Republic of Viet Nam, 2006.

There are also supplements for regional public universities, colleges and professional secondary schools that provide training for students from other provinces. The allocation norms regarding supplements apply to these institutions in provinces or centrally-managed cities that follow the budget guidelines of the State Budget Law. For such institutions, a supplementary transfer of 30 percent of the expenditure budget allocated by the PPC to the institutions in 2006 was made from the central budget to the local budget in 2007.

2 As defined in programme No.135 as approved by the Prime Minister for 2006–2010

Capital Budget Allocations

Guidelines for capital expenditure or financing for capital construction and the procurement of goods and equipment, are also stipulated in the State Budget Law. In accordance with the law, the MPI and the provincial DPI are to collaborate with the governmental finance agencies at the same level to prepare and allocate capital expenditure to each project and programme in the education sector. These are submitted for consolidation to the provincial DOF at the provincial level, and the district DOF at the district level. Then a budget plan is prepared to submit to the relevant authorities for review and for execution by the spending ministries.

The MOET directly controls the capital construction budget for only those spending units that are its responsibility, and does not have an overview of the capital expenditure allocation and implementation for the whole sector. In practice, the MPI will reach an agreement with the MOF annually to allocate capital construction budgets to the sub-national governments. The provincial DOETs can participate at different levels, depending on each sub-national government, in the process of planning, budget formulation and execution in their jurisdictions.

In some cases, the Provincial People's Committee does not decentralize or delegate the execution of capital budget to the spending units in the province, districts or communes. Every process from project preparation, project design, tender, project approval, project implementation, to final account approval is undertaken by the PPC. Projects, programmes and procurement of goods and equipment will be implemented by the People's Committee and the outcomes will be handed over to the spending units.

A variety of other approaches are used for capital expenditures. The PPC may decentralize project management to the Town or District People's Committees (DPC), handing over authority to the district level for the management of certain sizes and scopes of projects. The PPC can also decentralize and authorize the district to implement procurement and capital construction by sources of funds. In another model, the projects and investment that belong to the district budget will be implemented by the DPC. Decentralization can also be carried out according to the share of capital contribution for those projects which are partly funded by the provincial authorities. The PPC will approve any provincial transfer that exceeds a threshold, while the DPC will be the project holder and have decision-making authority if the provincial capital transfer is below the threshold. In addition, there may be a threshold for expenditure authorization for the DPC. The PPC will retain decision-making authorities in any project that exceeds the threshold.

V. Issues for Further Consideration

Issues in Financial Policies for the Education Sector

In the process of the current education management reforms, where sub-national governments, schools and education institutions are being granted more autonomy and accountability, education sector planning is experiencing a number of positive transformations, moving from the top-down approach to the provision of guidelines that fit practical conditions. Planning objectives and specifications are becoming more realistic and more closely linked to the availability of resources. The development of monitoring and evaluation criteria is one of the important requirements for planning in the education sector. With these positive changes, education sector planning is becoming a significant and integral process for education development in Viet Nam.

However, several shortcomings exist in planning within the education sector. First, there is a weak connection in education development targets between the central level and sub-national levels and agencies. In addition, the objectives and targets of education institutions are derived more from the development objectives and targets of senior levels than from conditions at those institutional levels.

Second, the planning capacity in the education sector needs to be further developed. Although the education sector is trying to strengthen the management capacity of education management officers, including their planning skills, these skills are not equally developed at different levels. Technical assistance is required in several areas. These include problem identification and development prioritization; the connections between context, objectives, activities and resources; and the establishment of monitoring and evaluation criteria.

A third shortcoming is the lack of participation by relevant stakeholders in the education planning process. To overcome this obstacle, more exchange is needed between local leaders and managers at different levels, and between education management officers and education institutions in the planning process.

The existing financial distribution mechanism regulating the relations between the central ministries and sub-national governments is causing a number of difficulties in the management of education budgets. In institutions run by other ministries or by sub-national governments, the responsibilities for budget control, revenue and expenditure account examination/approval belong to the line management agencies or finance agencies of those ministries and governments. There is no incentive to provide the MOET with financial information at either the central or sub-national levels. Hence, the MOET does not have enough information for the monitoring, consolidation and evaluation of budget performance for the education sector as a whole.

The annual budget allocation does not link with the medium-term sector development plan, which is causing difficulties for prioritization and implementation of expenditure mandates within pre-defined ceilings in the balance of expenditure requirements and public resource availability.

The financial mechanism of self-management and self-accountability at public education institutions has not taken full effect, as the annual budget is limited and barely enough for salary costs. The low level of school fees adds to the lack of resources, meaning that the education institutions still do not have adequate resources for improvements to educational

quality. In practice, the amount of the non-salary recurrent budget allocation is very low. Most of the sub-national governments cannot meet the budgetary ratio of 80 percent for salary and 20 percent for non-salary allocation. In many sub-national governments, the salary budget in the education sector accounts for 90 to 95 percent of the total recurrent expenditure.

Although the policy of “socialization” in the education sector has been introduced, there is not yet an effective mechanism to mobilize financial resources from members of society for investment in education. There is no means to raise revenue or exploit the financial resources of a group of high income earners who are willing to pay for higher quality education. A side effect of this gap is that money is being transferred abroad for the education of their children.

It is clear that the MTEF implementation in Viet Nam is following a strict process and principles. However, it will require prudent preparation in terms of the technical model, as well as building human capacity and broader financial reforms at different levels, to be successful. The integration of MTEF and the annual budget planning in the pilot ministries and provinces have illustrated this point.

In practice, MTEF implementation is facing a number of challenges. First, the process does not have an adequate legal status. The MTEF is not yet protected by legislation. Even though the government has allowed MTEF piloting in several ministries and provinces, the financial planning process still follows the annual budgeting process as stipulated in the State Budget Law.

Second, the information flow mechanism is not yet comprehensive enough to support an accurate MTEF. The development of the MTEF at the sectoral and provincial levels requires streamlined financial information flows between management agencies and provincial agencies. There is now a gap between data collected at the central level and data consolidated from provincial levels for the same type of information. This is the biggest challenge in MTEF implementation, requiring legislation to support an adequate information exchange mechanism.

Third, because the practice of annual budgeting is the norm, most sectors and provinces still apply incremental budgeting and unfocused allocation. This creates obstacles in expenditure prioritization and estimation of savings, and in the connections between new initiatives and the direction of sector development.

Fourth, the existing measures to close funding gaps between expenditure requirements and budget ceilings include requests for budget supplements, and issuance of both government and education bonds. However, these are passive measures, reliant on state resources. There is not yet a proposed measure for mobilizing off-budget resources, promoting self-financing mechanisms for institutions, or other revenue-raising strategies.

Developing Capacity

The education sector has been developing and using tools for education financial policy planning, prioritization, funding strategy/policies and sector-customized baseline calculation models. These tools were developed with the support of both international and local consultants for MTEF development in the education sector.

Close co-operation with MOF and MPI is the key factor that has ensured that the education sector MTEF is realistic and effective. Another positive factor is the prudent oversight that the MOET has over the MTEF pilot in resource allocation and prioritization. An inclusive Working Group was formed, consisting of members from the Finance and Planning Departments and

other direct stakeholders, such as the Statistics Unit, the Education and Training Trend Forecast Team, the University Team, the Pre-school and Universal Education Team, the Financial Team in charge of financial indicators, and the team in charge of development capital and construction in the sector. This inclusivity creates favourable conditions for the operation of the Working Group. The MTEF Working Group members, who are experienced and qualified staff, have quickly grasped the concepts behind the pilot. They have learned and applied the technical models supplied by the consultants.

Initially, international consultants drafted the model and provided guidelines and timelines in agreement with the State Budget Department, the MOF and the MPI. Then consultants for the MOF and the MPI prepared the MTFF. The MOF and the MPI cooperated with the consultants to set sector ceilings. The ceilings for recurrent spending were set by the MOF, and the capital ceilings by the MPI. The Education Sector Working Group cooperated with the consultants for the preparation of the education sector MTEF.

The education sector is working to develop an MTEF that allows mobilization of robust financial resources for the implementation of education sector development strategy, focusing on the priorities in each phase. In this framework, education budget expenditure is estimated on the basis of achieving strategic targets in balance with available resources, within a financial policy framework. This involves identification of priorities, new initiatives, and forecast of budget expenditure demand for the medium-term in strategic order of priority. To balance expenditures with plans, projects may be postponed due to funding constraints, and measures to close funding gaps will be proposed in a constructive way.

Increasing the ability of managers to use the tools developed for the MTEF was an important element of the process. Staff developed their capacity to forecast social and economic trends over the medium-term and analyse the impact on development trends in the sectors and provinces.

Learning to set priorities around new initiatives was another noteworthy part of the MTEF piloting in the education sector. The prioritization of new initiatives to close funding gaps became an important aspect of the MTEF. New initiatives were separated into three groups: Group One proposals have priority in implementation; Group Two are proposals that may have to be postponed unless and until additional resources become available; and Group Three proposals have low priority.

2008–2010 MTEF Submission

The strength of the model refined for the 2008–2010 submission is that it fully reflects all sources of funds for the education sector over the medium-term, including State budget funds, other budgetary sources and integration with the annual budget. The submission presents a sector financial strategy based on the analysis of impacts and development trends, introduces systematic prioritization to rank new initiatives, identifies savings and calculates saving levels, and differentiates between baseline expenditure and new initiatives. Developing the baseline calculation model is highly relevant to the education sector and makes data collection feasible.

However, the education sector MTEF for 2008–2010 still has some limits. The link between national policies/priorities and responses from the provincial level is not clearly reflected in the document. The MOF did not issue medium-term education budget ceilings for the provinces and other ministries, so their education expenditures are forecast based on historical data,

resulting in low accuracy. There is also inaccuracy in the forecast of financial trends due to the recent inflation hike. As a result, the integration between MTEF and the annual budget is limited and data for projections is not accurate. In addition, the budget deficit over the whole period, especially in 2010, indicates that there are still too many new initiatives being proposed, and that the system of prioritization has not yet had real effect.

In the education sector, the current trend in financial planning is to further integrate the MTEF in the budget process. Over time, education budget specifications based on MTEF calculation methods will promote improvement in the accuracy of forecasts and efficiency in expenditure and investment in the education system. Moreover, having the MTEF as the basis for annual budget planning puts Viet Nam in line with international practices. The education sector MTEF has contributed to improvements in budget accessibility, transparency, realism and effectiveness of the annual budget. During the pilot process, it was further demonstrated that in developing the MTEF, the processes of budget integration, information flow/processing, and co-ordination between sectors, ministries and sub-national governments are being improved.

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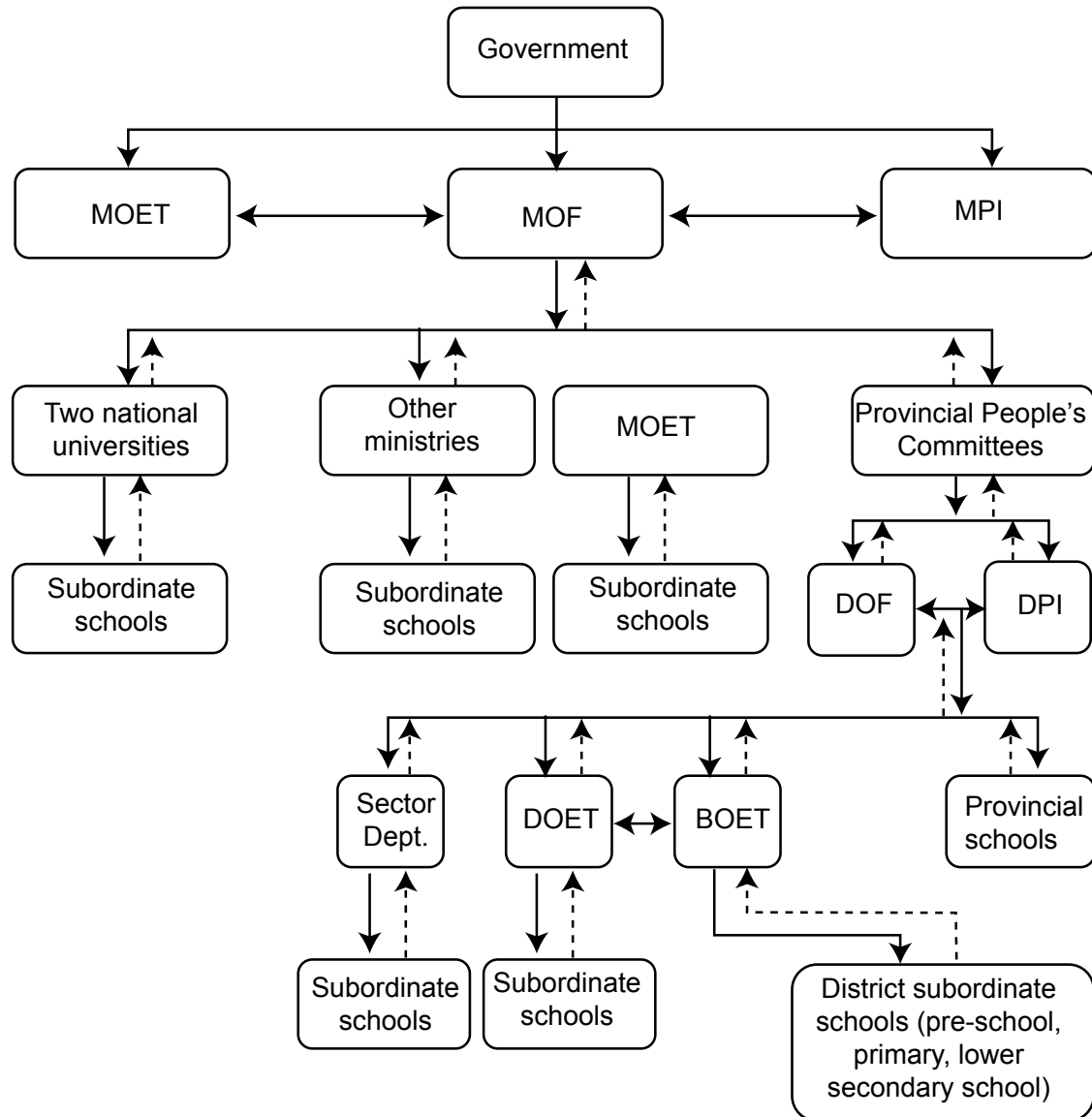
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Annex

Annex 1. Process of State Budget Allocation in Education and Training



Annex 2. Summary of Expenditure Against Envelope

Summary of Expenditure Against Envelope, in VND Trillion per Year

	2003	2004	2005	2006	2007
Ceilings for expenditures					
GDP	605.331	694.918	825.000	891.000	971.190
State budget	158.924	187.670	229.750	249.480	271.933
Education as % of state budget	16.35%	17.13%	18.12%	18.60%	19.30%
Education budget	26.950	32.146	41.631	46.403	52.483
Salary contingency		2.848	8.353	7.214	9.536
Recurrent MOF			26.655	31.000	33.500
Capital MPI			6.623	8.389	9.447
Expenditures					
Main investment	3.460	4.900	8.294	10.323	10.722
National Target Programmes (recurrent)	0.970	1.250	1.770	2.334	2.391
Recurrent	21.550	23.148	33.012	39.228	43.112
Analysis by level :					
Provincial					
Main investment	2.100	2.909	5.790	7.103	7.310
National Target Programmes	0.719	0.921	1.430	1.994	2.051
Recurrent	17.869	19.958	28.903	34.307	37.776
Central :					
Main investment	1.360	1.991	2.503	3.220	3.412
NTP	0.251	0.395	0.340	0.340	0.340
Recurrent	2.962	3.190	4.108	4.921	5.336
Total expenditure			43.076	51.885	56.225
Surplus or deficit			-1.445	-5.482	-3.742

Source: MOET, 2004.

Annex 3. Analysis of Changes to Recurrent Budget 2005–2007

Expenditure in VND Million

	2005	2006	2007
Base budget (Recurrent)	26,352,192	26,352,192	26,352,192
Consequences of baseline changes to existing policies, with added costs arising from changes in student numbers			
Academic staff numbers	988,277	1,138,664	1,217,868
Non-academic staff numbers	81,129	156,812	207,034
Per-student recurrent costs	680,039	1,160,138	1,451,970
Per-semi-public-student recurrent costs	50,447	108,112	170,940
Change of revenue arising from student numbers	-208,849	-355,053	-458,026
Add EFA approved increases in non-salary recurrent costs for primary and lower secondary	396,743	587,505	795,540
Sub-total baseline changes	1,987,786	2,796,177	3,385,326
Revised baseline recurrent budget	28,339,978	29,148,369	29,737,518
New initiatives			
Add changes in staff numbers arising from planned quality changes in student/teacher ratio			
Reduced academic staff	-131,314	556,741	1,697,304
Reduced non-academic staff	-103,523	-201,451	-213,502
Add salary reform for teachers	3,601,266	7,107,503	8,455,446
Add salary reform for non-teachers	682,426	1,270,944	1,449,570
Add real increase in student non-salary resource	304,374	787,246	1,342,622
Add real increase in transfers to semi-public institutions	216,879	513,556	869,611
Other adjustments	101,250	85,755	84,933
Savings			
Real change in student contribution	504	-38,541	-306,246
Salary savings in MOET HE		-2,550	-5,485
Total proposed new initiatives (net savings)	4,671,861	10,079,202	13,374,252
Total recurrent budget	33,011,838	39,227,570	43,111,771
Add pay inflation	0	3,052,848	5,892,298
Add price inflation	0	484,186	833,630
Total recurrent budget	33,011,838	42,764,604	49,837,699

Source: MOET, 2004.



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