

MINISTRY OF FINANCE*Hanoi, November 29th 2011***UPDATING REPORT
ON PUBLIC FINANCE MANAGEMENT REFORM
IN THE PERIOD 2007 - 2011**

During the period of 2007 – 2011, PFM is considered as one of the four important areas of the public administrative reform process in Vietnam. Basing on internal efforts and support of international community, the PFM reform has achieved many significant outcomes, including the improvement of institutional framework, capacity building, and management-supported information system. In the coming time, PFM reform continues to play an important role in inflation curbing, macro economic stabilization and development, implementing the economy restructure objective.

In 2007, with both domestic and external support, the Ministry of Finance (the MOF) has completed the Single Document (SD), designed to stipulate reform activities under 8 major sub-sectors of the finance sector, from 2007 until 2010. SD is an overall framework of financial reform and development strategies regulating prioritization, schedule, human and financial resources, necessary technical assistance in each sub-sector. SD also guides direction, measures and the road map to ensure systematic and consistent implementation in different sub-sectors. Although SD was initially designed for the period 2007-2010, it is open for further update and annual supplements to keep pace with the development and demand of Vietnam's finance reforms in the long run.

Up to now, the program of public finance management reforms (the PFM program) with SD has achieved considerable results and contributed to the efficiency and sustainability of fiscal system. The economic - financial crisis in 2008 and following series of measures to stimulate urgently the economy in 2009 are considered as top priorities of Vietnam efforts. Therefore, in PFM program, several activities started during 2008-2010 are still being put forward in 2011.

In order to keep the reform orientations to be implemented consistently, the development of Financial Sector Strategy for 2011-2020 and its sub-strategies has continued to put as the top priority in 2011. At present, the Taxation System Reform Strategy and the Customs Development Strategy towards 2020 have been approved by the Prime Minister.

In this context, the PFM reform under SD is always a guideline which orienting all activities of reform implementation for the MOF, especially in current period, the economy has been changing positively but still many difficulties and challenges.

This report updates some main achievements of PFM reform under contents of SD in the period 2007-2011 and key activities in 2012 and the coming time.

I. The PFM reform outcomes in the period 2007 – 2011

1. State budget expenditure reform:

1.1. Improved legal documents on State budget: State budget Law and guidance documents have been studied to amend in order to overcome existing shortcomings by enhancing State budget allocation and renewing regulations on State budget expenditure management in accordance with international practices. Revised Law is expected to submit to the Government in 2012.

1.2. Continuously improve the accounting, information and reporting system on state budget, namely:

- *TABMIS:*

- + Has been deployed in financial agencies and State budget system of 46/63 provinces and 15 central ministries and agencies.

- + Issued legal documents on TABMIS deployment, and enhanced capacity of the executive board on TABMIS implementation.

- + Improved the procedures of expenditure commitment in accordance with the roadmap of TABMIS deployment in internal State budget system, expected to deploy from 2012 when TABIS is implemented comprehensively all over the country.

- *Procedure of “one-stop-shop” state budget expenditure control:* has been applied in all local state budgets since 01/01/2010. At present, State budget has been supervising and evaluating “one-stop-shop” mechanism for state budget expenditure control to build an united model suitable to all fields of expenditure control.

- *State budget management model:* implementing the non-cash transactions state budget model through assigning the cash revenue to commercial banks.

- *Applying and maintaining the comprehensive state budget classification lines in budget estimation, accounting and reporting:* The process of budget estimation, accounting and reporting has currently implemented according to the State Budget lines issued in 2008. Up to now, the Budget-Treasury accounting mechanism and State accounting system applied for TABMIS and

other state accounting-based units/agencies have also followed up the current regulations.

- *Regarding to apply the International Public Sector Accounting Standards (IPSAS) for public accounting activities:* continuously study IPSAS to select accounting standards to apply in Vietnam; building the roadmap for Vietnamese public accounting standards; reviewing and updating 26 existing standards on commercial accounting to be applied and internationally respected as a basis for business with/and in Vietnam.

1.3. Enhancing financial transparency and accountability: The MOF has updated periodically CFAA (each six months) to report on implementation progress of CFAA recommendations to Donors and Prime Minister. The information disclosure on foreign debt has been updated periodically in every January and July with the MOF's Bulletin on Foreign Debt. As expected, in the early 2012, the MOF will publicize all information relating to public debt, foreign debt and other information on domestic debt in a reporting form as regulated in Circular No. 53/2011/TT-BTC.

1.4. Regarding to the PEFA: With support of international donors, the MOF has been under the pilot implementation of the PEFA, expected to complete in the middle of 2012.

1.5. Regarding to Mid-Term Expenditure and Fiscal Framework (MTEF & MTFF): Completed the pilot implementation and manuals of MTEF & MTFF.

2. Taxation Management Reform:

2.1. Continue to improve taxation management institutions:

- Issued the taxation management Law in 2007 and guiding documents, formally adopted the mechanism of self calculation-self declaration-self payment nationwide. Built taxation management procedures simple and convenient for taxpayers, creating conditions for implementing the "one-stop-shop" mechanism.

- Issued new laws on: Personal Income Tax (No.04/2007/QH12); Non-agricultural Land-used Tax (No.48/2010/QH12); Natural Resources Tax; Environmental Protection Tax.

- Revised and issued laws: Corporation Income Tax, Value Added Tax, Special Consumption Tax.

- Promulgating guiding documents on the revised and new laws in order to concretize policies, creating conditions for tax-payers, ensuring the state budget revenue.

2.2. The propaganda program supporting taxpayers:

- Regular update of new tax policies, guidelines and tax agencies' activities in mass media, in the tax websites.

- Supported taxpayers in learning tax policies, tax administrative procedures; solved difficulties in many ways such as: direct support in tax offices, telephone, documents, dialogues, training courses;

- Enhanced training on tax laws.

2.3. Tax inspection reform

- Selected objects of inspection and investigation based on clear statistics and assessment criteria, ensuring the impartiality, transparency in inspecting, investigating taxpayers

- Developed and implemented procedures on tax inspection and investigation, tax inspection Manual; issued documents guiding the inspection and investigation for some specific sectors.

2.4. Reform of tax debt collection:

- Developed some guiding documents on business processes related to the tax debt collection such as: procedures of tax debt collect management; tax enforcement procedures; Tax debt management Manual, system of tax debt collection risk criteria

- The monitoring and management of tax debt by each taxpayer, each economic region, each tax has been computerized nationwide at taxation department level, creating database to build debt collection criteria.

Achievements: collected over 80% of the debt able to be collected until December 31st each year; the debt ratio has been decreasing over the years: 9,5% (2008), 8,4% (2009), 5,5% (2010).

2.5. Developed the information system of taxpaying entities, individuals : the information collection from tax offices is in following activities: tax registration, tax code, declaration, tax payment, settlement, production and business results of taxpaying entities, individuals have been timely updated and reserved at general department level.

2.6 IT application in the taxation management: developed database of taxpaying entities, individuals; e-portal on taxation; e-declaration; pilot implementation of PIT management with online declaration; pilot information connection for taxpayers via banks; combined the business registration and tax registration at the “one-stop-shop”, connected the taxation application system with Customs, Treasury, planning and investment.

2.7 Continuously reform the taxation organizational structure: An uniform model of taxation management from central to local levels;

- Established PIT management department and large scale-enterprise management department at general department level.

- The taxation management has been specialized, ensuring the united direction in 3 management levels in which GDT plays the key role.

3. Customs modernization:

3.1. Deployment of electronic customs clearance procedures: upgraded, improved e-customs clearance software; standardized and encoded information; applied e-customs procedures in 19 customs departments and 90 local customs offices; almost 47.000 enterprises joined the implementation of e-customs procedures.

3.2. The restructure of procedures and IT system has been deployed. GDC is going to receive and deploy NACCS-an automatic customs system of Japanese Customs.

3.3. Customs management is being gradually reformed to focus on compliance, risk management and post-review:

- Developed legal documents on the application of risk management in customs procedures;

- Established the risk management board to advise and develop the information system of risk management, improving the system of units in charge of collecting, processing information of customs and risk management;

- Operated the risk management system, Phase I; phase II is being approved.

- Expanded the application of risk management in some areas such as: checking goods through container scanner, receiving and processing E-manifest.

3.4. Study to develop the national Single-window customs and ASEAN Single-window customs model.

3.5. Infrastructure modernization: invested modern equipments (large container scanner, camera system...) for key areas (major ports, centralized monitoring places); invested for centralized monitoring places.

4. Public debt management reform:

4.1. The Department of Debt Management and External Finance was established to manage government, municipal and underwritten debt;.

4.2. Institution building and improvement: issued public debt management Law No. 29/2009/QH12 dated 17/6/2009; Decree No.78/2010/ND-CP dated 14/7/2010 on foreign debt re-lend; Decree No.79/2010/ND-CP dated 14/7/2010 on public debt management; Decree No.15/2011/ND-CP dated 16/02/2011 on government guarantee issuance and management; Circular No.53/2011/TT-BTC dated 27/4/2011 on the guidance of the reporting and information disclosure formats on the public and foreign debt; Circular

No.56/2011/TT-BTC dated 29/4/2011 on methods calculating and supervising public and foreign debt.

4.3. Deployed the information system of domestic debt management integrated with external debt database

4.4. Debt monitoring:

- Established an early warning system, applied the enforced financial report regime, finance publicity, improved the system of State budget expenditure control.
- Fiscal risk monitoring: under construction of regulations on risk monitoring; pilot construction of debt operation, monitoring the risk on rate and interest rate of Government loans.
- DeMPA: the MOF collaborated with WB to assess the public debt management of Vietnam by DeMPA; expected to implement annually to improve the public debt management..

4.5. Continue to improve the public debt management and monitoring.

5. Financial market supervision and bond market development:

5.1. Further improved the system of policies, legal documents on supervision of financial market and financial service market.

- In securities sector: Issued the Law on amendment and supplement of some articles of Securities Law; Decree guiding the securities Law; Decree on the sanction of administrative violations in the field of securities and securities market as well as Circulars guiding specific operations (rates, collection, payment, management and use of securities fees; offering securities to the public; public offer to purchase shares of public companies, fund certificate of the Public securities investment Fund;...). Submitted to the Government the Proposal on restructuring securities companies.
- In insurance sector: Issued the Law amendment and supplement of some articles of Insurance business Law; Decree regulated clearly some articles of Law on insurance business; Decree stipulating the financial regime for insurance enterprises, insurance broker enterprises and legal documents guiding some specific contents related to the insurance business (financial regime for insurance enterprise and insurance broker enterprises; regulations on the deployment of linked insurance products....)

5.2. Further improved the policy system for the development of bond market: issued the Public debt management Law; Decree No.78/2010/ND-CP on relending foreign loans; Decree No.79/2010/ND-CP on the public debt management; Decree 53/2009/ND-CP on the issuance of foreign bonds; Decree 01/2011/ND-CP dated January 5th 2011 on the issuance of Government bonds; Decree No.90/2011/ND-CP dated October 14 th 2011 on

the issuance of enterprise bonds; Circular No.150/TT-BTC dated November 9th 2011 on guiding the swap of government bonds. At present, the draft Circulars guiding Decree No.01/2011/ND-CP as well as the Strategy for development of Government bonds to 2020 are being built and approved..

6. Public Assets Management Reform

6.1. Continue to build and improve legal documents on the management and use of public assets: issued Law on management and use of public assets as well as guiding documents; focus on amending and supplementing the system of standards and norms for the public asset use and procurement such as standards and norms for using the commune offices; standards, norms, regime for using and managing Vietnamese representative offices in foreign countries; the procurement regime of state asset in the methods of concentration

6.2. Procedures for compulsory acquisition and requisition of state property: issued the Law on compulsory acquisition and requisition of state property.

6.3. Financial mechanism for land policies: improved under market mechanism in allocation and lease of land and solving problems through the mechanism of exemption of land use fees for organizations, individuals, including: policies on exemption of land use fees for riverside households, people on rivers, lagoons moving to resettlement areas and objects stipulated in Decision No.78/2008/QĐ-TTg; exemption of land use fees in the case of agricultural land used for the drug addiction treatment.

6.4. The MOF continuously plays the role in the management of state assets in ministries, localities: established the Center of national database exploitation on State asset and asset services under Public asset management Department – MOF; issued regulations on this Center; operated the website taisancong.vn and the Registration Management Program on state assets version 1.0.

7. Corporate Financial Management Reform:

7.1. Restructuring the Proposal of SOEs Restructure; expected to be submitted to the Government in the end of 2011.

7.2. Building Decree on the state capital investment in enterprises; expected to submit to the Government in first quarter of 2012.

7.3. Methods of evaluating large-scale enterprises: issued Decree No.59/2011/ND-CP dated July 18th 2011 on the conversion of enterprises with 100% state capital into stock companies, replacing Decree No.109/2007/ND-CP.

7.4. Revised, supplemented financial mechanism for state-owned companies: issued Decree No.109/2008/ND-CP dated October 10th 2008 on the sale and assignment of State-owned 100% capital enterprises; Decree No.09/2009/ND-CP dated February 5th 2009 stipulating regulations on SOE financial

management and management of state capital invested in other enterprises, replacing Decree No.199/2004/ND-CP dated December 3rd 2004 of the Government.

7.5. Monitor, inspect and support SOEs: improving and revising the Regulation on monitoring SOEs and enterprises invested by state capital, issued together with Decree No.224/2006/QD-TTg and Regulation on monitoring SOEs with unprofitable and ineffective business issued together with Decree No.169/QD-TTg.

7.6. Implement the innovation in the management, investment of state capital in enterprises, strengthen the restructure in SOEs, improve the effectiveness of state capital in enterprises, step by step unify rights and obligations of state capital owners into a focal, narrow and proceed to eliminate the administrative interference of state agencies into activities of enterprises; currently, the MOF is submitting Prime Minister to issue Decree on functions, responsibilities and mechanisms of the State Capital Investment Corporate (SCIC).

7.7. Rearrangement, equitization of enterprises: issued Decision No.14/2011/QD-TTg of Prime Minister on criteria, classification of SOEs; whereby ministries, localities, economic groups, state-owned corporations will base on new classification criteria to review, arrange and equitise enterprises in coming time.

7.8. Implementing pilot inventory and revaluation of assets and capital of some enterprises with 100% state capital under Decision No/325/QD-TTg of Prime Minister.

7.9. Amending to improve Regulation on financial supervision for SOEs and enterprises invested by state capital issued together with Decision No.224/2006/QD-TTg and Regulation on monitoring SOEs with unprofitable and ineffective business, issued together with Decision No.169/2007/QD-TTg

8. Price Management Reform:

8.1. Issued documents guiding the implementation of Price Ordinance: Decree No.75/2008/ND-CP dated June 09th 2008 on amending, supplementing some detailed regulations on the implementation of some articles of Price Ordinance; Decree No.84/2011/ND-CP stipulating the sanction of administrative violations in the field of price and Circulars.

8.2. Under construction of Price Law and guiding documents: Draft Law on price was submitted to the Government for approval, currently submitted to National Assembly to pass in May 2012.

8.3. Issued documents guiding the price determination methods of essential goods, namely:

- Determination methods of land price: issued Decree No.123/2007/ND-CP dated July 27th 2007 amending, supplementing the determination methods of land price frame.

- Water price: issued Circular No.100/2009/TT-BTC dated May 20th 2009 on price frame of fresh water consumption; Joint Circular No.95/TTLT-BTC-BXD-BNN dated May 19th 2009 guiding principles, methods and competence to decide the fresh water consumption price in urban areas, industrial parks and rural areas.

- Oil and gas prices: issued Decree no.84/2009/ND-CP dated October 15th 2009 replacing Decree No.55/2007/ND-CP dated April 6th 2007 on the fuel business in which enterprises can decide oil and gas retail prices; Circular No.214/2009/TT-BTC guiding the implementation of Decree No.84/2009/ND-CP; Circular No.234/TT-BTC guiding the mechanism of formation, management and use of the Fuel price Stabilization Fund.

- Regarding rice production price: issued Joint Circular No.171/201/TTLT-BTC-BNNPTNT dated November 01st 2010 guiding the methods to determine rice production cost and production price; Circular No.89/2011/TT-BTC dated June 17th 2011 guiding the methods to determine the floor price of rice production.

- Transport Price of airway, road, domestic waterway and railway: issued Circular No.129/2010/TLT-BTC-BGTVT dated August 27th 2010 on the guidance of road transport cost and service cost; Joint Circular No.43/2011/TTLT-BTC-BGTVT dated March 28th 2011 on the guidance of domestic air transport cost and service cost in airports in Vietnam; Joint Circular No.75/2011/TTLT-BTC-BGTVT dated June 06th 2011 guiding the cost formulation and management of public products, services in the field of management and maintenance of road, domestic waterway, under orders, plan to use state; Joint Circular No.76/2011/TTLT-BTC-BGTVT dated June 06th 2011 guiding the cost formulation and management of public products, services in the management and maintenance of railway, under orders, state budget using plans.

- Electricity and Coal prices: submit to Prime Minister to adjust electricity and coal prices in order to ensure the accounting mechanism of input cost for enterprises.

8.4. Issued guiding documents on price valuation: Circular 67/2007/TT-BTC dated June 19th 2007 guiding the conversion of price valuation Centers, centers with price valuation functions into price valuation enterprises; Decision No.55.2008/QD-BTC dated July 15th 2008 of Minister of Finance on regulations of examining, granting and use of price evaluator cards; Decision No.87/2008/QD-BTC dated October 22th2008 stipulating regulations on training and fostering the price evaluation; Decision No.129/2008/QD-BTC dated December 31 2008 stipulating 06 standards of price evaluation (phase 3).

II. Assessment of PFM outcomes in the period 2007 – 2011

Period 2007-2011 was the period of difficulties for Vietnam's economy when constantly faced with many challenges from domestic and international environment: world economic crisis 2008-2009; European public debt crisis in 2011; social crisis in North Africa and the Middle East strongly affecting oil prices; high inflation, strong exchange rate fluctuations; large deficit ... In this context, the MOF decided to continue implementation of the reform plan in his management as planned. The reform activities have made some practical effects to the whole financial system and in each specific area, contributing to gradually improve the system's efficiency and sustainability.

1. State budget revenue: despite unfavorable impact of the world economy and domestic conditions, SB revenue and expenditure in the period 2007-2001still achieved satisfactory results.

2. The revenue management had many achievements, satisfying investment requirements for development, construction of transportation and irrigation infrastructure, ensuring funding for social development, policies for the poor, playing an important role to prevent economic recession, contributing to maintain the growth in the context of economic crisis.

3. Public debt has been closely managed within safety. The legal framework and organizational structure in the public debt management has been formed and continuously improved in order to improve the transparency of information on public debt, increase the efficiency, sustainability and towards the international practices.

4. The process of SOEs equitization has been continuously developed, documents guiding the implementation of enterprise structure have been formed. The mechanism of corporate finance has gradually improved in accordance with market economy, implementing the method innovation in the management of state capital in investment and business.

5. Public asset management: initially formed legal framework to improve the management and use of public assets.

6. Price management: continue the roadmap of price management based on market mechanism, minimizing the direct State intervention. Initially developed the asset evaluation system in accordance with ASEAN and international standards.

Besides the results have been implemented as planned, some contents are still in the deployment process, the period 2007-2011 generally has noted many positive changes in the process of PFM reform, especially on the legal framework, information infrastructure, creating necessary foundation for further reform steps in the coming years.

III. Key areas of PFM reform in 2012 and coming years

The PFM reform activities will be continuously developed in 2012 and the following years. At first, the MOF will focus on the improvement of the Financial Strategy for the period 2011-2020, the five-year Finance-Budget plans and finance sector Strategies (besides 3 approved strategies for Treasury, Taxation and Customs) to submit to the Prime Minister for approval and used as the foundation for implementation of the whole financial sector, including:

- Financial Strategy for the period 2011- 2020.
- Finance and Budget Plan for the period 2011-2015.
- Finance and Budget Plan for the period 2016- 2020.
- Public and foreign debt Strategy for the period 2011-2020 and vision to 2030.
- State reserve development Strategy for the period of 2011-2020.
- Insurance market development Strategy for the period 2011-2020.
- Securities market development Strategy for the period 2011-2020.
- Capital market development Strategy and vision to 2020.

In 2012 and the coming years, expected to develop some main areas in public finance, namely:

1. State budget expenditure management: Continuously study, develop and finalize the revised State Budget Law to submit to the Government.

- Continuously deploy TABMIS in the whole financial system.
- Study to develop the legal framework to implement MTEF and MTFF Periodically report on the implementation progress of the CFAA's recommendations.
- Build a model of general accounting (2012).
- Deploy a project on management reform of State funds (2012).

- Define suitable public accounting standards and build the roadmap (2012).
- Update the system of public accounting standards.

2. Budget revenue management:

- Deploy the Taxation policy system reform Strategy to 2020 and Vietnam Customs development Strategy to 2020.
- Revise the personal income tax (2012); Taxation management Law (2012); Import-export tax Law (2013); Enterprise income Law (2013); Law on fees and charges (2013); Customs Law (2013).
- Continuously deploy TAMP and Taxation administrative management reform Project.
- Receive and deploy NACCS in order to implement the customs management and the “one-stop-shop” mechanism.
- Continuously widen e-customs procedures and improve the risk management system Phase II.

3. Public debt management:

- Build and deploy Projects: (1) Review the management of public debt in the period 2006 -2010 and targets, orientation of loan mobilization and use, debt payment and public debt management in the period 2011-2015; (3) a 3 consecutive year mid-term debt management Program.
- Continuously build database on domestic public debt integrated with foreign debt to be comprehensive public debt database.

4. Financial market supervision and bonds market development:

- Develop and develop Projects on: (1) restructure of the securities companies; (2) derivative transaction; (3) stock market restructure.
- Unify the management, supervision of financial market in Vietnam, creating mechanisms for the management, supervision coordination among ministries; improve the efficiency and effectiveness of the management and supervision of financial market; ensure the safety for market, investors and national financial – monetary security.
- Enhance capacity of intermediary financial institutions, diversify products of bond market, improve the coordination between the bond market and monetary market in policy operation, inflation curbing, monetary stability, coordinate more efficiently to ensure the national financial security.

5. Corporate financial management reform: Develop and implement Project on restructure of SOEs.

- Improve SCIC model and comprehensively issue financial mechanisms, policies for SCIC.

- Develop and issue Decree on state capital investment in business, combining the enterprise Law and investment Law in economic sectors.

6. Public asset management:

- Review and improve the legal framework for the public asset management.

- Enhance IT application in State-owned asset management and national database improvement. Build and develop Project on State-owned asset valuation.

7. Price Management:

- Build and issue Price Law and guiding documents.

- Finalize the draft Circular amending the current Circular guiding the calculation of fresh water price.

- Continue the implementation of market mechanism with State management for some goods and services.