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Shortcomings In The Management Of Off-Budget Financial Funds - Remedial Solutions

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I. Introdution:

The establishment of state financial funds outside the state budget is an objective necessity aimed at creating an independent source of finances apart from the state budget to fulfill certain specialized tasks that the state budget may not be able to address promptly or adequately. However, the existence of state financial funds outside the state budget poses challenges in controlling overall expenditures as the expenditures from these funds might lie beyond the oversight of financial and authoritative agencies.

Currently in Vietnam, there are over 40 state financial funds outside the state budget that have been established to address diverse requirements of different periods, intertwined across various sectors, including 24 funds managed by the central government. Among the funds managed by the central government, there are 17 funds formed based on economic and social development policies of the Party and State, which are further stipulated through legislative acts; 2 funds specifically regulated by Government Decrees; 3 funds specified in Prime Minister's Decisions; 3 funds formed according to directives issued by the Prime Minister; and 2 funds established through inter-ministerial resolutions.

These funds serve various purposes, encompassing different fields of development and governance.

II. Concept and Characteristics

The State Off-Budget Financial Fund (hereinafter referred to as the Fund) is a financial institution of the State, operating independently from the state budget, established by the authorized state agency to mobilize additional revenue from society in order to carry out designated tasks. As per state regulations, localities, ministries, sectors, and state-owned enterprises have the authority to proactively collect, disburse, and manage this type of fund in accordance with prevailing laws. Despite being established for various purposes, these funds all aim to facilitate state intervention in the economy.

According to the definition above, State Off-Budget Financial Funds will possess the following characteristics:

Firstly, the entities that establish and manage these Funds are the State authorities. Presently, the establishment of most Funds is typically carried out by executive agencies such as the Government, People's Committees at various levels, while the National Assembly only decides on the establishment of certain crucial funds such as the National Reserve Fund, Social Insurance Fund, etc. Once established, these Funds are often entrusted to a Council or an organization, enterprise representing the State, which directly undertakes the management and utilization activities of the Fund. This is a significant feature that distinguishes these Funds from other financial funds established by different organizations and individuals for community purposes (collectively referred to as social funds).

Secondly, the financial resources of the Fund are formed through contributions from various organizations and individuals in society, as well as support from the state budget. In this regard, budgetary support is not entirely mandatory, but for certain crucial Funds, it becomes a condition to ensure the stability of the Fund. The extent of state budget support for each Fund varies, contingent on the different functions and the ability to mobilize resources from society. Funds that serve the purpose of reserves, emergency funds for addressing significant risks impacting the economic and social development receive substantial state budget support, constituting a major proportion of the Fund's financial structure. Conversely, many other Funds do not receive any support from the state budget.

Thirdly, the objective of the Fund is to provide additional support to the state budget in executing the functions of the State. This is evident in cases where the State faces financial difficulties, or to serve the purpose of encouraging and promoting cultural, educational, healthcare, and other community development objectives that inherently fall under the responsibility of the State. However, due to limitations in resources, the State may not be able to solely bear these responsibilities. This characteristic helps differentiate State Off-Budget Financial Funds from other financial funds established by state agencies with authority but not operating for the community's benefit, or funds established by the community but serving specific purposes of their members.

Fourthly, the creation and existence of the Fund are time-bound, contingent upon situations and events that demand resource concentration for resolution. When these situations or events are conclusively addressed, the rationale for the Fund's existence diminishes. Nevertheless, in reality, many Funds persist for extended periods due to society's enduring needs, serving the purpose of supporting the State's management and socio-economic development activities. However, the level of motivation and role of these Funds may vary across different periods. Nevertheless, the stability of the Fund cannot be equated to that of the state budge.

III. Shortcomings in the Management of Off-Budget Financial Funds

Firstly, the fundamental distinction between the State Off-Budget Financial Fund and the State Budget Fund lies in the disbursement mechanism. The state budget disbursement mechanism is subject to stringent oversight by the State Treasury system in accordance with legal regulations. On the other hand, for off-budget financial funds, the State Treasury has no control; these funds exercise "self-control" over their expenditures. In cases where the funds maintain accounts with the State Treasury, the Treasury's oversight is limited to legality and validity. Therefore, without close monitoring and supervision by the managing authorities, there's a risk of violating expenditure regulations, misusing funds for unintended purposes, resulting in adverse effects on the economy, society, and national financial security.

Secondly, there lacks a comprehensive regulatory framework for uniform management of these funds. The creation and operation of funds occur based on decisions made by the Prime Minister, individual Ministries, Departments, or local authorities. Some funds are established on the basis of Laws and Regulations. However, there is no unified legal document providing general regulations to govern the activities of these funds, outlining principles for establishment, and systematizing their utilization. Due to the nature of their activities lying outside the state budget system, they aren't directly regulated by the State Budget Law. Moreover, these funds aren't financial organizations providing commercial financial services like banks, hence they aren't subject to the direct regulations of the Law on Credit Institutions either. Some funds operate in a "hybrid" financial organization manner, lying between state budget organizations and commercial financial entities. As a result, this situation complicates the oversight and monitoring efforts of government agencies concerning these financial funds.

Thirdly, the establishment of state off-budget financial funds is often arbitrary, resulting in overlapping functions with both the state budget fund and among these funds themselves. In theory, the execution of tasks and functions by state agencies should be ensured through budgetary funding. However, the creation of numerous Funds indicates that many state agencies have partially shifted their responsibilities from the budgetary revenue and expenditure management mechanism outlined in the State Budget Law to an off-budget management mechanism. Although considered "off-budget", the operational funding for many Funds still primarily comes from the state budget, with external mobilization of funds being insignificant (except for certain funds like the Social Insurance Fund, for example). This is also one of the key reasons for the widespread creation of state off-budget financial funds, as the current regulations often lead to a more relaxed control over expenditure from these funds after budget allocation compared to direct spending from the state budget fund.

Fourthly, the effectiveness of many Fund's operations remains low, failing to fully leverage the importance of the funds for socio-economic development. In terms of management, theoretically, the State is the entity responsible for managing the Funds. However, in practice, the State often delegates authority to state agencies or other related organizations for management. This delegation of authority is often not rational in many cases and significantly impacts the efficiency of fund utilization. For instance, in the case of the Fuel Price Stabilization Fund, the managing entity is the lead enterprises themselves, as stipulated, "The Fuel Price Stabilization Fund is established within enterprises". Allowing each enterprise to manage a portion of the fund's capital has resulted in the dispersion of funds into 14 separate accounts across these lead enterprises. Despite the Ministry of Finance's regulations mandating these lead enterprises to account, settle, and report to the Ministry about the allocation, utilization, and balance of the Fuel Price Stabilization Fund within their organizations, the fact that the fund remains within the enterprises means that, aside from proper bookkeeping, these enterprises can still temporarily use this cash for other purposes without assurance that they have truly set aside funds specifically for stabilization.

Fifthly, transparency in the utilization process of most current funds has yet to be ensured, despite regulations requiring the disclosure of off-budget financial funds. In the provisions regarding organization and operations, most funds only broadly mention the obligation to report to the managing authorities and the entities directly overseeing the fund's activities about the management and utilization of the fund. However, the specifics of how this reporting obligation is carried out, the extent of the managing entity's responsibility when reports are incomplete or inaccurate regarding the fund's actual operations, have not been adequately addressed. The mechanisms for verifying and supervising the accuracy of reports, as well as the accounting and settlement procedures, have not been explicitly defined.

IV. Solutions to Enhance the Effectiveness of Off-Budget Financial Fund Management

Firstly, refining the regulatory framework for managing state off-budget financial funds should be integrated with the broader financial-budgetary regulations; linking reports on state off-budget financial funds with economic-social development plans and financial-budgetary plans; delineating responsibilities and authorities of various sectors and levels in establishing, utilizing funds, and reporting the income and expenditure status of each fund type. The government should report to the National Assembly on the outcomes of state off-budget financial fund activities alongside the annual state budget report.

Secondly, there is a need to review and consolidate state off-budget financial funds with similar objectives, standardizing management mechanisms and models to gradually merge these funds and establish a specialized, centralized system to reduce management costs while concentrating resources. Humanitarian and charitable funds should be centralized under a single entity to coordinate implementation and provide clear regulations for recipients and assistance methods. Funds focusing on lending, credit guarantees should be consolidated into a comprehensive management model with unified operational mechanisms, similar to financial funds.

Thirdly, there is a need to innovate the management and operational mechanisms to ensure transparency and effectiveness. Firstly, there should be a renewal of the fund's management body. The management structure should be streamlined, without the need for excessive involvement of various departments as is the case now. It's necessary to consider adding representatives for those who contribute fees to the Management Council of the fund. When participating in the fund's Management Council, these stakeholders should have the right to voice their opinions and vote on decisions regarding fund management and utilization. Additionally, specific responsibilities of the managing entity should be clearly defined, especially in cases where the fund is mismanaged, used inefficiently, resulting in losses to the fund's assets. Regulations on the responsibility for compensating damages caused by the managing entity should also be incorporated. Upholding transparency in fund management must be a paramount concern.

Fourthly, the organization and management apparatus of the state off-budget financial fund system need to be restructured and its staff's capacity needs to be consistently enhanced. To improve the efficiency of state off-budget financial funds, ministries, sectors, and localities need to review and clearly categorize organizational models for management, apply suitable financial, salary, allowance, and bonus regimes; establish and reinforce the organizational structure of the fund management apparatus in a professional direction, with a deep level of professional expertise to effectively fulfill their assigned tasks. For funds following the career unit model, their organizational, staffing, salary management should be carried out similarly to state-owned enterprises. Regarding funds currently applying salary and bonus mechanisms based on state-owned enterprise standards under the guidance of the Prime Minister, the Ministry of Labor, Invalids and Social Affairs, in coordination with the Ministry of Finance and relevant ministries, sectors, and localities, should review and research policies to provide appropriate guidance.

Fifthly, the activities of state off-budget financial funds need to be strengthened through enhanced supervision, inspection, and auditing to ensure efficient, transparent, and accountable management and utilization of state financial resources. In conjunction with the review of the existing state off-budget financial funds, in the coming period, ministries, sectors, and localities should continue to strengthen management efforts, conduct regular checks, and enhance monitoring of the activities of state off-budget financial funds. They should strictly implement the regime of transparency in the activities of these funds and take decisive actions against any violations as stipulated by the law. The Ministry of Finance should issue regulations regarding the accounting regime for these funds to ensure uniformity and facilitate seamless audits and inspections.

V. Conclusion:

The establishment and operation of the funds have fundamentally met the set requirements, contributing to the advancement of socialization and mobilization of additional financial resources within society to realize the economic and social development goals of the nation as a whole and individual regions in particular. This has alleviated the burden on the state budget. Through investment activities in financial markets and monetary markets, some funds have played a role in diversifying the financial activities of the state and promoting the development of these markets. Although, over the past period, state off-budget financial funds have to some extent carried out their assigned functions and tasks, there remain various deficiencies and limitations in their operations that need to be addressed to enhance their effectiveness. The author believes that by implementing a comprehensive approach to the above-mentioned solutions, state off-budget financial funds will contribute alongside the state budget to fulfilling the mission of developing the economy and society of Vietnam in general, and of specific localities in particular.

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