



## **Assessing Applicability of Biodiversity-Targeted Results-Based Budgeting in Protected Areas in Vietnam**

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### **Abstract**

Improving cost-effectiveness through mainstreaming of biodiversity into national development and sectoral planning, and for developing comprehensive national finance plans is an important objective of UNDP managed Biodiversity Finance Initiative (BIOFIN), which has been implemented in 30 countries including Vietnam. To sustain biodiversity targeted financial resources, among others, BIOFIN aims to promote application of results-based budgeting (RBB) practice in protected areas in participating countries.

Traditionally, Vietnam's budgetary system has been heavily characterized by centrally planning management with a strong and dominant inputs-based habit, which is unfavored RBB application. However, the new State Budget Law of 2015 and its following guidance regulation has opened new window for RBB in some extent. This paper aims to assess if such new window is sufficient for actual application of RBB in protected areas in Vietnam. By analyzing the current budgetary management structure in Vietnam in general and in protected area in particular, the paper concludes that more radical changes in the system is needed to make a significant shift toward RBB in protected areas in Vietnam.

**Key words:** results-based budgeting, protected areas, biodiversity.



## 1. Introduction

The global Biodiversity Finance Initiative (BIOFIN) is managed by UNDP, in partnership with the European Commission and the Governments of Germany, Switzerland, Norway and Flanders. Working with the global BIOFIN team, 30 countries, including Vietnam, are currently involved in developing and piloting the new methodology for, among others, developing a Biodiversity Finance Plan including a vision for the future sustainable management of biodiversity, reviewing past expenditures and financing needs, and identifying and prioritizing a wide range of financing solutions. Corresponding to this objective, BIOFIN promotes application of biodiversity-targeted results-based budgeting (RBB) practice in protected areas (PAs) in participating countries.

The current budgeting system in Vietnam has followed the traditional, inputs-based and process-based approach, where accountability to outputs and results are still absent. PA Management Unit (PAMU) is categorized as a public service delivery unit (PSDU) – a part of the public sector. As a result, it is still required to comply with regulations and procedures of state budget planning, execution and evaluation as set by government's public finance management agencies. Recently, there are some evidence signaling the government's increasing concern about performance and how to link budget planning and use with performance of spending units. The revised Law on State Budget (SBL), adopted in 2015, stipulates using an RBB approach. Following the Law, the Decree 136/2016/ND-CP has provided preliminary guidance for performance-based budgeting and management. Other reforms in public finance management has also been aligned with this direction, of which Decree 16/2015/ND-CP granting autonomy to PSDUs is the most influenced legal document.

Given this context, the paper analyzed the current budgetary process in Vietnam's PA financing. From that, potentiality and feasible scope of biodiversity-targeted RBB application in PAs in Vietnam now is assessed. Findings of the study can provide evidence to convince policy makers about needed changes and revisions in current legal framework in order to create an enabling environment for biodiversity-targeted RBB in a larger scale and fuller coverage of services in future.

## 2. Methodology

***Theory of RBB application in an organization.*** RBB is a budget process in which (a) budget formulation revolves around a set of predefined objectives and Expected Results, (b) Expected Results justify the resource requirements which are derived from and linked to outputs required to achieve such results and (c) in which actual performance in achieving results is measured by objective performance indicators (Mac Robinson và Duncan Last, 2009). In practice, RBB is an approach to achieve public organizations' goals and priorities by measuring performance and links their performance to budget decision (Seil Kim, 2017).

The philosophy behind RBB is different from that of traditional budgeting (or line-item budgeting). The rationale for line-item budgeting is to manage limited resources and prevent



regularities. Therefore, the traditional budgeting focus on controlling input and ensuring compliance with set rules and regulation, while information on achieved results and is absent or poor. It is characterized by a budget plan consisting of various budget lines, each of which is earmarked for a specific purpose. Unused funds cannot be shifted from a budget line to the other.

In contrast, RBB aims to achieve predefined goals and expected results by designing activities - and the budget for implementation - into intervention programs to achieve goals. Therefore, RBB gives greater autonomy to the heads of organizations to allocate budget for the program implementation and switch flexibly and reasonably among activities to achieve the expected results. In addition to the increased self-decision making, RBB will closely monitor the achieved results by setting up objective indicators to measure the level of achievements and a system for monitoring and evaluating the achievements by indicators.

In developing countries like Vietnam, traditional budgeting is still very popular. Therefore, in the current conditions, it is not feasible to convert the entire budgeting work of an agency or unit in the public sector (for example, PAs) to RBB. However, to apply RBB, an agency needs to meet at least the following conditions:

1. Designed as a program with specific goals and enables the organization of activities aimed at achieving goals.
2. Has own budget to carry out that task, and the basis for funding the activities of that task is the level of achievement. Lump-sum contract for performing work is a form of budget allocation suitable to this condition.
3. Implementation results can be reflected by objective indicators that measure the achievement results and a convenient and low-cost monitoring and evaluation system can be set up to determine the level of achievement of indicators, as a basis for payments.

**Research methods.** The questions are: within the legal framework for public financial management in Vietnam and the current state of mobilizing and utilizing PA revenue sources, is there any opportunity to apply RBB in PAs? If yes, is it possible to thoroughly apply RBB to the entire PA budget or can only some of the most suitable activities be selected to pilot RBB? These questions will be addressed via utilizing the following research methods.

To assess RBB applicability in the context of new SBL of 2015 in Vietnam, the paper utilizes the following methods:

- *Document study.* This method is applied to reviewing institutional settings including current policies, regulations and mechanisms shaping the legal framework, which is the favored RBB application in PAs. The review is crucial to provide sound diagnosis on the potentiality and likely scope of RBB application in PA (to the entire PA revenue sources or just some typical budget lines in its revenue).
- *Stakeholder consultation.* Various consultation meetings are held with key stakeholders in both central and local levels. At the central level, the Ministry of Natural Resources and Environment (MONRE) (Biodiversity Conservation Agency – BCA), Ministry of Finance (MOF) (Department of Recurrent Expenditure Management), Ministry of Agriculture and Rural



Development (MARD) (General Department of Forestry) are key actors directly involved in the concerned study topic. At the local level, and combined with field visits, are consultation meetings with the Department of Finance (DOF), Department of Natural Resources and Environment (DONRE) and Department of Agriculture and Rural Development (DARD), PAMUs and their forest control stations.

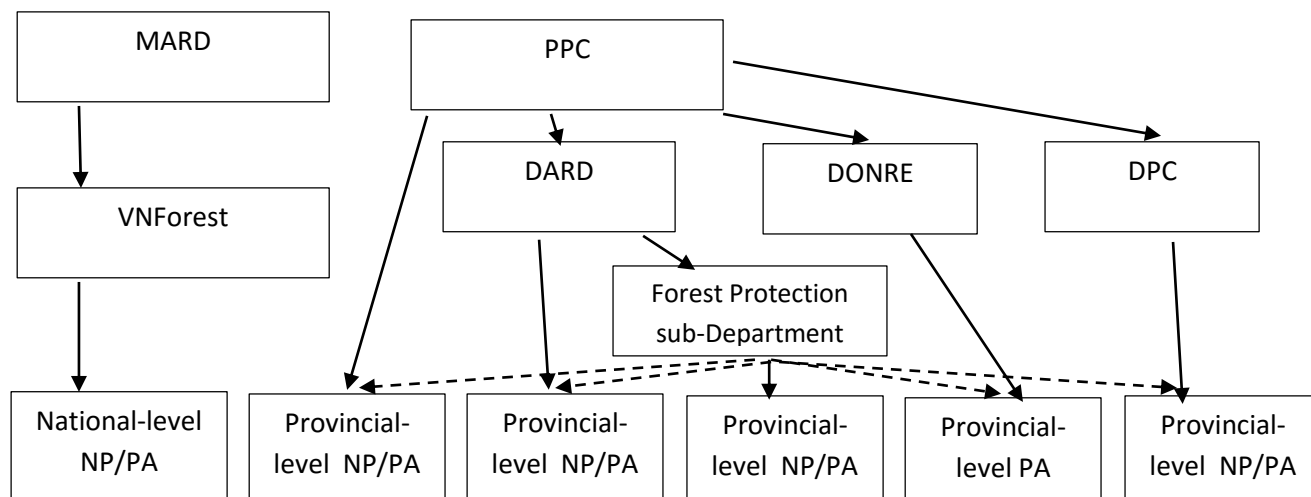
- *Field work.* Field work is among major methods used in this study, which was combined with stakeholder consultation at visited sites. Seven PAs were visited and PAMUs were involved in discussion their opportunities and challenges to shift towards RBB practice.

The paper is divided into four parts. In addition to Introduction, Part 2 of the paper presented theoretical framework on RBB using for the assessment and key research methods applied in the paper. Based in discussion on the PA management decentralization system aligned with the overall budgetary management structure of the economy, Part 3 presents the general financing structure for a typical PA in Vietnam. The final part, Part 4 focuses on assessing the capabilities and scope of RBB application in PAs in the context of current public finance management.

### **3. Analysis of the current budgetary management system in Vietnam and in PAs**

***Management decentralization of PAs in Vietnam.*** PAs in Vietnam include Terrestrial PAs (special-use forests), Marine PAs and Wetland PAs. Also, PAs in Vietnam are divided into four types by their functions as follows: (1) National Parks (NP), (2) Nature Reserves (NR), (3) Species and Habitat Conservation Areas (SHCA), and (4) Landscape Protected Areas (LPA). Based on biodiversity levels, biodiversity values, scale and area, PAs are managed by national and provincial level agencies to ensure appropriate management and facilitate implementation of investment policies. All PAs have a common mission of: (1) Conservation of ecosystems and wild areas; (2) Conservation of species and gene diversity; (3) Maintaining naturally environmental benefits; (4) Protection of special natural and historical - cultural landscapes; (5) Scientific research; (6) Use for tourism and entertainment; (7) Education; (8) Rational use of resources from natural ecosystems; and (9) Maintaining cultural symbols and traditions. Thus, one of the basic functions of PAs is biodiversity protection, to preserve species population as well as ecosystem processes to be minimally, or free from, disturbances.

Currently, Vietnam has six national parks managed by MARD and hundreds of PAs and other national parks managed by Provincial People's Committees. National park management is decentralized by the MARD to the Vietnam Administration of Forestry (VNFOREST) through National Park Management Boards. At the provincial level, the Provincial People's Committees can directly manage PAs, or assign the task to other local agencies such as DARD, DONRE, or District People's Committee. In turn, the DARD also assigns the provincial Forest Protection Department to manage or establish a dedicated PA management board. The management decentralization model of Vietnam's PAs is described as in Figure 1.



*Source:* Reflection of the current PA management decentralization structure in Vietnam

**Figure 1. PA management decentralization model in Vietnam**

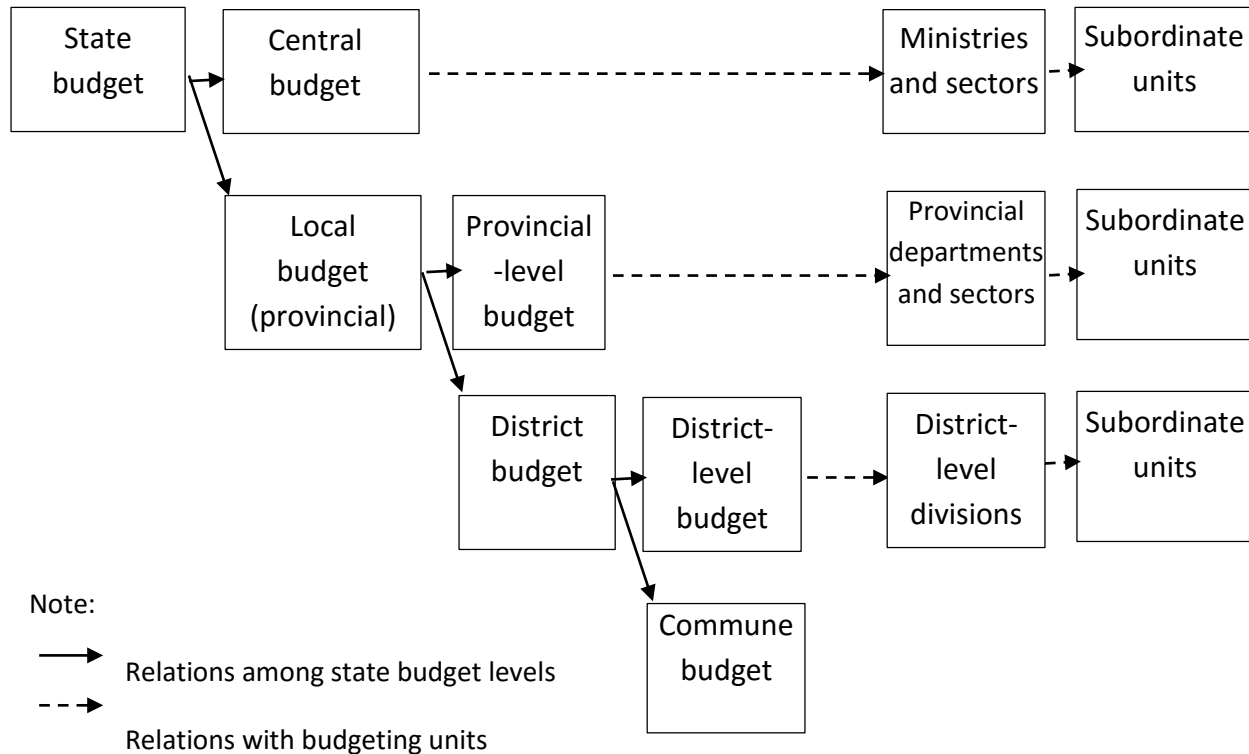
This management decentralization model reveals some challenges to the biodiversity conservation in PAs as follows:

Firstly, as regulated under the 2018 Biodiversity Law, MONRE is the focal agency in State management on biodiversity (Article 6) and the system of wetland PAs. Meanwhile, MARD is the focal point in managing special-use forests and marine PAs. However, most of the PAs in Vietnam are currently special-use forests or marine PAs, so most of biodiversity values are concentrated in these PA systems. At the same time, the law also assigned MARD to lead a number of other tasks related to biodiversity conservation, such as protection of wild species (Article 44) and listing rare and precious species prioritized for protection (Article 48, 49), etc. The separation of state management functions on biodiversity to assign to different focal agencies will lead to overlapping in the current biodiversity management between MARD and MONRE.

Secondly, as seen in Figure 1, the system of PAs itself is also being managed by various agencies under different government levels - a problem described by the term "fragmented institution". This makes it difficult to coordinate horizontally (among agencies of the same level) and vertically (among agencies of different government levels). Meanwhile, biodiversity conservation is a new, complicated and difficult task to manage and there are no dedicated officer-in-charge. Therefore, PA management units tend to focus on conventional tasks such as patrolling to protect forest areas, communicating to and mobilizing people not to encroach on forests, etc., rather than on protection of species and gene diversity or other biodiversity conservation tasks. Therefore, if no biodiversity indicator is developed and used as a basis for assessing the level of fulfillment of functions and tasks of PAMUs, the implementation of provisions under the Biodiversity Law is at risk of being only in appearance.

**Decentralization of State budget management.** Vietnam's administrative system consists of four levels: central, provincial, district and commune levels, of which the last three administrative levels are collectively called local authorities. The four administrative levels correspond to four state budget levels. However, the characteristic of the state budget management system in Vietnam is an

integrated system (or so-called Matryoshka doll model), in which the state budget consists of the central state budget and the local state budget (also called provincial state budget). The central state budget is allocated to sector-ministries under the central administrative apparatus. The provincial state budget consists of provincial state budget (which is allocated to provincial sector-departments) and the district state budget. The district state budget consists of the district state budget (which is allocated to district sector-divisions and units) and the commune state budget (also called commune -level state budget). Figure 2 below describes the integration nature of the state budget system in Vietnam



**Figure 2. Integrated budget system in Vietnam**

The state budget of each government level will consist of two main sources of revenues: entitlement budget revenues (including 100% retained revenue and shared revenue, which is shared with the higher government levels) and transfer from the higher government levels. For example, the provincial state budget will receive transfer from the central government in two forms: balancing transfer and targeted transfer. If balancing transfer is a form of state budget subsidy (provincial budget support) that province can freely decide how to allocate among its expenditure assignments, where a targeted transfer is targeted support programs or national targeted programs, which is earmarked for predefined spending purposes and objectives of the programs.

Each state budget level includes many different spending units, whose budgets are allocated from their equivalent budgetary tier. The general principle is that the spending unit will receive budget from the government level, who directly supervise it. Thus, PAs at the central level will receive funds allocated from the line ministries' budget (currently, MARD), while the provincial PAs will be funded by the provincial state budget. In addition, depending on the management



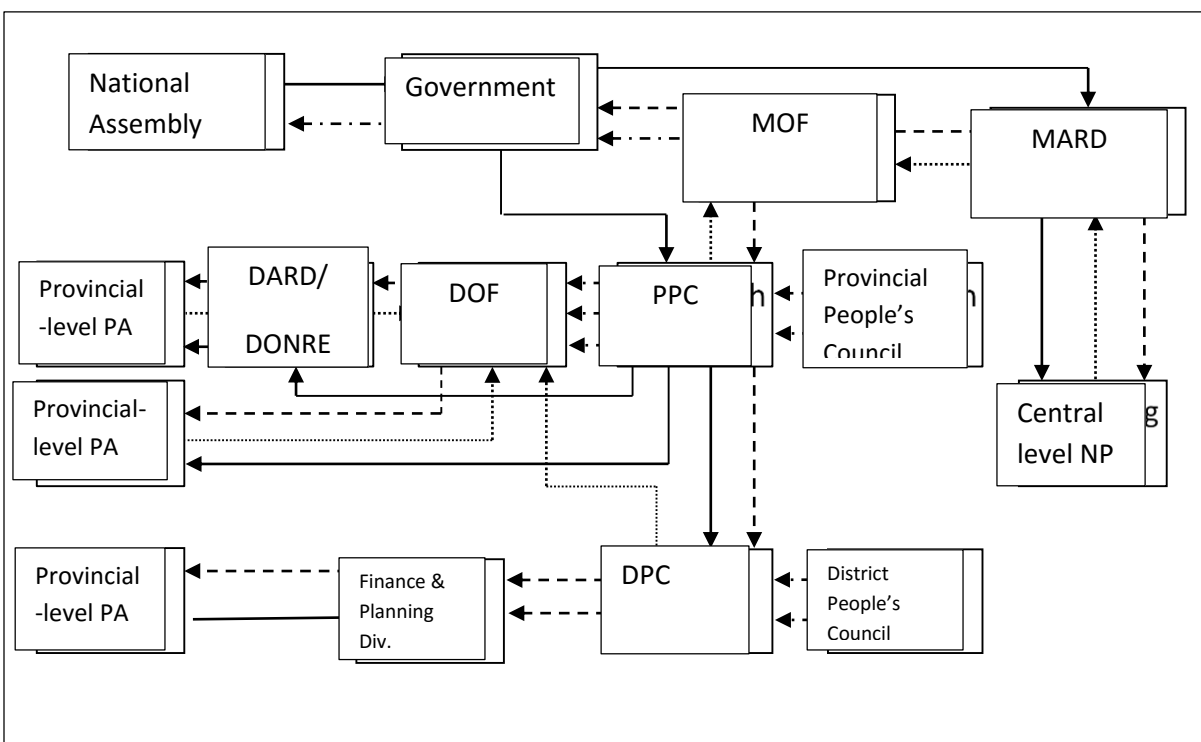


decentralization mechanism in each province, PAs can receive budget directly from the DOF or through line departments (such as DARD or DONRE) - corresponding to the management decentralization setup in Figure 1. In addition, PAs can receive funding from relevant targeted support programs of the central level.

The budgeting mechanism and allocation process of state budget among levels complies with a unified process from the central to local levels in accordance with regulations under the SBL of 2015, in which there is a distinction between the budgeting and allocating mechanism for recurrent expenditures and capital expenditures to PAs. This mechanism has the following characteristics:

Firstly, setting allocation norms for recurrent expenditure budget. The important legal basis for allocating recurrent budget is the set of allocation norms for recurrent expenditures. This set was issued once in each fiscal stability period and applied consistently during that period. The issuance of a norms system is conducted in accordance with the authorized power of government levels: The Prime Minister decides the allocation norms among ministries, provinces and centrally-managed cities. Ministers decide the specific funding allocated to agencies and units under the ministries' management. Similarly, at the local level, the provincial/district People's Councils decide the allocation norms of recurrent expenditure applied to agencies and units (including PAs) under their management.

Secondly, the process of budgeting and allocating recurrent budget involves different steps as described in Figure 3. Annually, based on the decision of the Prime Minister, the MOF issues a circular guiding the state budgeting and informs the indicative ceilings including the total state budget expenditures ceilings and spending ceilings on each sector for central ministries and for each province and centrally-managed city (including MARD). MARD issues a document guiding recurrent expenditure budgeting for subordinate units (including NPs managed by the ministry). At the local level, the DOF advises the PPC to issue guidance on preparing state budget plans for agencies and units under the provincial management and the DPC (including provincial PAs). Based on guidelines of the provincial People's Committee, the DPC issues guidelines on state budget plans for units under the district management and the commune People's Committee.



**Figure 3. Budgeting process for recurrent budgeting and allocation to PAs**

Thirdly, the state budget for capital investment expenditures for PAs now complies with the Public Investment Law of 2014, which specifies the content, process, and approval of investment policies and decisions. Accordingly, the public investment allocation is linked to the 5-year medium-term public investment plan (MTIP) and the annual public investment plan (APIP) set up in each ministry and locality. Central ministries, sectors and localities must determine the total capital funding needs for 5 years, the portfolio of public investment projects in 5 years and work out plans to mobilize and allocate investment capital aligned with their investment priorities. The capital allocation must place the first priorities for: (i) committed policies and programs; (ii) state funding contribution in PPP projects, state budget counterpart funds for ODA projects; (iii) repayment of arrears and advance funding; and (iv) ongoing projects. The remaining capital pool, if any, will be allocated to new projects.

**Budgetary structure of PAs.** For a basis to generalize a common and popular structure of the current PA budget, the paper begins from an overview of legal provisions related to funding sources to meet the spending tasks of PAs. Corresponding to those regulations, the Report points out basic expenditure tasks of PAs. Since the current PA budget is still developed in a traditional manner (budgeting based on budget spending lines), revenue will only be spent on corresponding expenditure tasks. Therefore, analysis from spending tasks allows to indicate main revenue sources of PAs.

**Legal status of PAs.** According to regulations under Vietnam's laws, agencies and units of the State apparatus are divided into two categories: State administrative agencies (such as offices of central ministries and sectors or local departments, divisions and units) and public service delivery units





(units that supply public services with or without a service charge/price, such as schools, hospitals, research institutes, etc.). PAs in Vietnam are classified into public service delivery units.

Previously, the financial mechanism for these two groups of agencies and units had no distinction and the groups were all allocated funding from State budget. Some types of public service delivery units are allowed to collect service fees, but the fees are very low, and not enough to offset expenses, so in fact, these units still depend almost entirely on the State budget. In order to reduce the burden of State budget spending and force public service delivery units to embrace competition and improve service quality, the Government requests these units to implement autonomy mechanism by Decree 43/2006/ND-CP and most recently, Decree No. 16/2015/ND-CP (replacing Decree 43). The nature of autonomy mechanisms is to allow public service delivery units to gradually increase their service fees to the level of cost recovery, and correspondingly, the loss compensation by the State budget will gradually decrease. As financial autonomy becomes higher, the autonomy in other aspects (such as autonomy in organizational apparatus and human resources and autonomy in professional operations) will be expanded accordingly.

Due to different capabilities of public service delivery units in revenue generation, Decree 16 classified public service delivery units into four groups by the level of financial autonomy from the highest to the lowest: (i) Group 1: Full autonomy (both recurrent and investment expenditures); (ii) Group 2: Autonomy in all recurrent expenditures; (iii) Group 3: Autonomy in part of recurrent expenditures; and (iv) Group 4: Completely dependent on State budget.

Decree 16 also requires ministries, sectors and localities to build an autonomy roadmap for their public service delivery units, in line with the time frame for applying cost-recovery service charges. Currently, no protected area in the country is classified into Group 1. Most of PAs are still in Group 4 or Group 3. Only a small number of PAs - which can generate abundant revenues from services (mainly tourism services, such as Cu Lao Cham Marine Protected Area) are public service delivery units of Group 2. Corresponding to this characteristic, all the state budget revenues of PAs consist of two types: revenues from funding sources allocated by the State budget and non-state budget revenues.

*Revenues from funding sources allocated by the State budget.* Revenues from funding sources allocated by the State budget include recurrent and investment expenditures.

For recurrent expenditures, the SBL of 2015 stipulates that state budget expenditures are allocated in 13 areas with details to each state budget user, in which, expenditure on nature conservation and biodiversity is not specified as any among the 13 areas stipulated by the SBL. This means that a PA that wants a budget for biodiversity conservation activities must base on the expenditure content of each specific biodiversity conservation activity to classify them into one of the above areas in its budget estimates and submit to the finance agency for consideration. Normally, the recurrent expenditure of a protected area is classified into the following areas:

- Administration expenditure: This is salary and spending on people associated with salary (for example, prescribed allowances) and on routine activities of PAs. In order to encourage public service delivery units to save administrative expenses, the State issues a lump-sum allocation mechanism of state management funding based on the approved number of permanent staff members and cost norms per staff member issued by competent agencies (central ministries and



sectors and/or local people's committees). If units have measures to increase operational efficiency or labor productivity to not use all of the allocated funds, the remaining fund will be used to increase income (increased income) or supplement the units' funds as prescribed by law. Therefore, this expenditure is also called *lump-sum recurrent expenditure* or *block grant for recurrent expenditures*.

- Sector-specific expenditure: According to current regulations, nature and biodiversity conservation activities of PAs are classified into "economic sector-specific expenditure", "environmental protection sector-specific expenditure", education and training sector-specific expenditure" or "science and technology sector-specific expenditure". Every year, when preparing budget estimates, PAs need to propose activities and associated budgeting. If the estimate is approved by the competent authorities, the protected area is only allowed to use the funding for the stated purposes. Unused funding must be returned to the State budget and not transferred to other budget expenditure lines. This is called *non-block grant recurrent expenditure*. Such a name implies that sector-specific expenditures are recurrent expenditures allocated by the State budget to PAs for carrying out some sectoral tasks proposed by PAs, but these proposals must still be reviewed and approved annually. Depending on the ability to balance the State budget and the necessity of the proposals, the PAs can be allocated or not with such a budget. Therefore, there is no general rule showing which is the main one among sector-specific expenditures, but this depends entirely on the locality's decision every year. Because this is a State budget expenditure, it also complies with the allocation and approval process of recurrent expenditure state budget as mentioned above.

Capital investment expenditure of a PA may originate from two sources: (i) public investment project using centralized development investment budget of line agencies (line ministries or PPC) and (ii) investment projects within the framework of targeted support programs or national target programs (central budget or provincial reciprocal budget which was specifically allocated to the programs).

In the 2016-2020 period, the target programs which is the most directly related to the operations of PAs of special use forests in general and biodiversity conservation activities in PAs in particular is the Sustainable Forestry Development Program in the 2016-2020 period. The total investment capital of the program is VND 59,600 billion (USD 2,480 million), of which central budget secures VND 14,575 billion, and the rest is mobilized from ODA and other legal sources.

Unlike the revenues from recurrent expenditure state budget, PAs are not funded with development investment budget every year. It also depends on the quality of project proposals of PAs, the priority of the proposals compared to other development investment needs of ministries or local authorities, and the ability to adjust the total annual State budget for development investment expenditure. In fact, the total budget for development investment expenditure of ministries, sectors and localities is very limited, while many other investment needs are very urgent (such as construction of transport infrastructure, irrigation, schools, hospitals, etc.) so most of investment project proposals in PAs are difficult to get a high priority.

Revenues from ODA projects and international cooperation activities: According to the 2015 SBL, funding from ODA and foreign aid projects have been included as part of the state budget. There are many organizations interested in nature and biodiversity conservation in Vietnam, such as the



Biodiversity Conservation Information System (BCIS), the International Union for Conservation of Nature (IUCN), the World Wildlife Fund (WWF), ActionAid, Agronomes et Vétérinaires sans frontières, Bread for the World, CARE, Oxfam, etc. In addition, there are small grants from international sources such as embassies (Denmark, the Netherlands) or development agencies (e.g. USAID, WB, UNDP) directly allocated to PAs or community organizations in localities with PAs to support natural protection and livelihood improvement. Popular cooperation forms are technical assistance in scientific research on nature and biodiversity conservation, animal rescue, etc., providing equipment for patrolling, monitoring and making inventory of biodiversity, or financial support to hire more forest patrol forces. Some PAs with experience and international cooperation networks can take advantage of these resources (such as Xuan Thuy National Park, Cat Tien National Park, Van Long Nature Reserve, etc.) but these revenues are not large and non-continuous (due to dependence on the project implementation timelines).

*Revenues from non-state budget sources.* Revenues from non-state budget sources of PAs are mainly from: (i) deduction from payment for forest environmental services (PFES) and (ii) revenues from services that are organized and provided by PAs themselves.

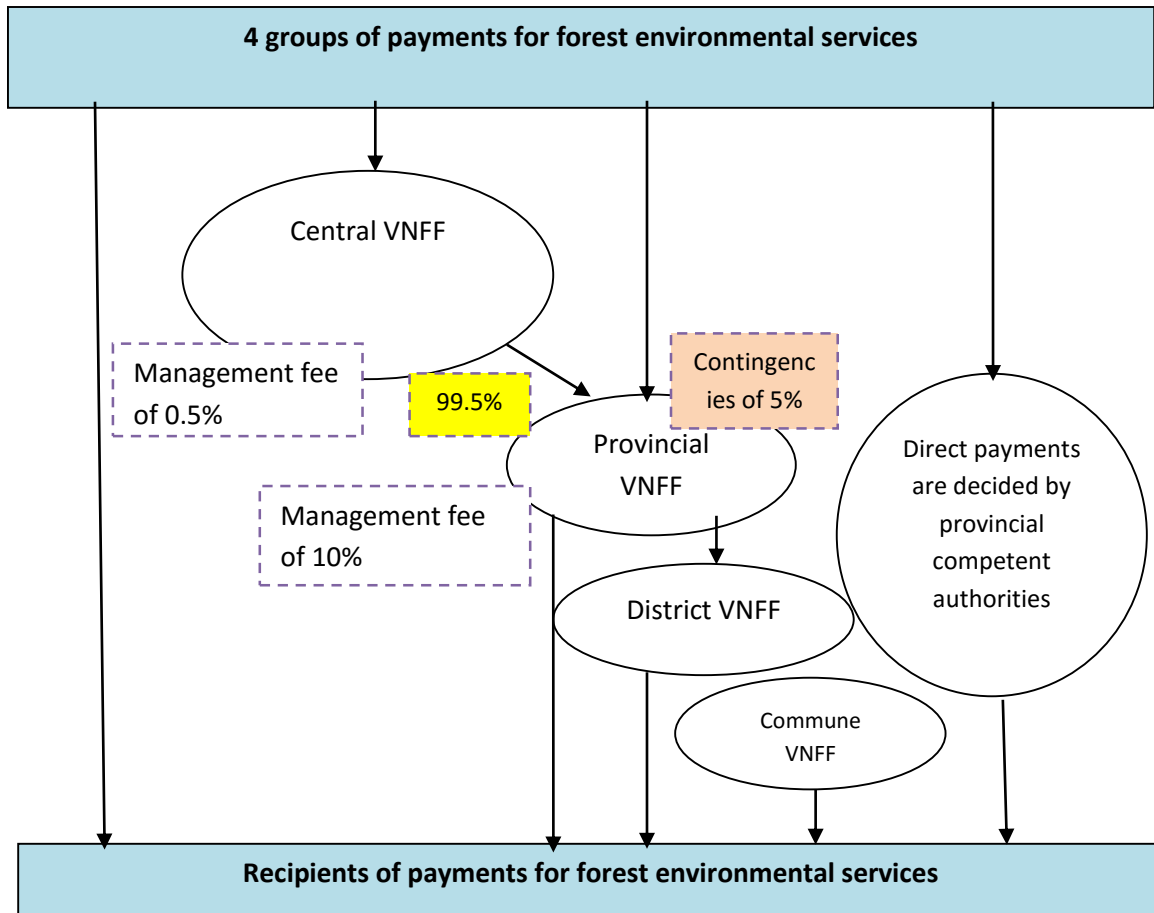
Revenues from PFES. On September 24, 2010, the Government issued Decree 99/2010/ND-CP on policies of payment for forest environmental services with the aim of strengthening financial resources from the business sector for forest protection and other development purposes. So far, this is one of the most successful, innovative financial mechanisms for environmental protection and biodiversity conservation in Vietnam. Under this mechanism, forest owners are PFES beneficiaries, including organizations (such as PAs), households and individuals which are allocated with forest lands by the Government for forest protection and development. Four sectors - hydropower, ecotourism, water supply and industry, which benefit from forest environmental services, such as water resource and clean water supply and natural beauty, are obliged to pay for forest environmental services. The payment levels have been determined for each sector (Table 1).

**Table 1. Payment levels for forest environmental services in Vietnam**

	<i>Enterprises</i>	<i>Unit</i>	<i>Payment level before December 2016</i>	<i>Payment level from January 2017</i>
1	Hydropower companies	VND/1 kWh of commercial electricity	20	36
2	Water supply companies	VND/1 m <sup>3</sup> of commercial water	40	52
3	Tourism companies	% of annual revenue	1%-2%	1%-2%
4	Processing industries	MARD proposes to the government for issuance		

*Source: Decree 99/2010/ND-CP dated September 24, 2010; Decree 147/2016/ND-CP dated November 2, 2016*

As regulated, the money collected from forest environmental services is paid to the forest areas that are certified to provide environmental services to the payers. Therefore, if PAs do not have the above certification, they will not be entitled to this revenue. Vietnam Forest Protection and Development Fund (VNFF) is designated by the Government as an organization to manage and transfer the collected the payments to forest owners. VNFF is established at the central and provincial levels. VNFF, at the central level, collects PFES from larger payers whose PFES areas span two or more provinces. The central VNFF holds 0.5% of the total collected PFES as service fees, and transfers 99.5% of the collected PFES to the provincial VNFF (see Figure 4).



Source: Nguyen Xuan Nguyen (2018), *Policy and Institutional Review (PIR)*

**Figure 4. Operational mechanism of policies on payment for forest environmental services in Vietnam**

PAs, after receiving payments for forest environmental services, will retain 10% for inspection, monitoring, acceptance and evaluation of forest quality and quantity for the annual payment of forest environmental services. The remaining amount (90%) is to pay for households contracted to protect forests. Contracted households can be individuals, households or groups, and all contract arrangements are expressed through forest protection contracts between protected area management units and contracted households.



Revenues from service activities. The revenues are very diverse, depending on the specific nature of each protected area. The main service activities are to serve the needs of tourism, accommodation, dining or sales of products made by PAs from resources utilized in PAs. As analyzed above, in order to encourage PAs to increase non-state budget revenues to increase the autonomy of units, revenues from the service activities are now left entirely at the units and PAs are allowed to use these revenues in line with the approved internal spending regulations. When this source of revenues is enough that it can compensate the entire wage fund, the State will gradually reduce the allocation from State budget accordingly. Meanwhile, State budget will shift to pay for tasks ordered or assigned by the State to PAs. These tasks will be signed in the form of an order contract or assignment, and it will be an opportunity to apply comprehensive RBB in PAs (see also the analysis of RBB applicability assessment in PAs below). Table 2 below summarizes the main revenue sources for the operational budget of a protected area.

**Table 2. General structure of a PA's operating budget**

State budget	Recurrent expenditures	Block grant allocated expenditure	State management expenditure	Salary and related payments
				Operational expenditures (calculated by the staff number and the norm on each staff)
		Non-block grant: Sector-specific expenditure	Training & Education	Training for capacity development of HR
			Economics	Performing investment-like expenditure tasks using sector-specific expenditure budget sources (purchasing equipment for patrols and building patrol ships, etc.)
			Environment	Communicating to and mobilizing people in buffer zones to protect forests
			Science and technology	Implementing research projects and schemes on biodiversity or statistics of resources, etc.
	Investment expenditures	From centralized development investment budget (within the medium-term public investment plan)		Investment in basic construction (infrastructure: headquarters of management boards, forest protection units, forest ranger stations, internal roads, patrol routes, etc.)
		From the sector's target program		



	ODA		Cooperation in scientific research, capacity building, strengthening forest protection and biodiversity conservation activities.
Non-state budget	Forest protection and development fund: PFES Payment		Deduction for management fees
			Contracts on forest protection
	Service provision		Tourism, accommodation, production and business, etc.

The next section will assess the possibility of the pilot application of RBB for different parts of a PA's budget.

#### 4. Discussion and Conclusion on possibility of results-based budgeting application a look from the current status of budget management in PAs

Assessment of the RBB applicability in PAs

Through survey results in seven PAs and comparison with the revenue structure described in Table 2, the paper identifies many similarities, allowing generalization into common characteristics of revenue sources. In this section, the paper evaluates the RBB applicability for each of these revenues, based on the three RBB conditions mentioned in the theoretical framework.

##### *For State budget sources*

First off, the current budgeting (the state budget portion) of PAs must strictly comply with the mechanisms and procedures of preparation, submission, approval and allocation of State budget under the SBL of 2015 and Decree 163/2016/ND-CP guiding the implementation of the SBL. Accordingly, PAs' estimates will be allocated in 13 areas<sup>1</sup>, but there is no dedicated area for biodiversity conservation. PAs still have to explain the funding for biodiversity conservation activities (if any) into spending tasks for other sectors. Thus, in general, revenues from State budget funding of PAs do not meet the first condition: instead of being designed as a spending program aimed at biodiversity conservation, the PA's budget is broken down into many different budget lines, each line is explained by different spending purposes, and does not allow flexible transfers among budget lines.

Second, the allocation of recurrent expenditures (block grant portion) must still comply with the system of allocation norms issued by competent authorities. This current system of norms is still

<sup>1</sup> Not all PA budget has all budget lines in the 13 areas. Basically, recurrent expenditure state budget of a protected area will cover the following areas: (i) State management expenditure; (ii) environmental protection; (iii) science and technology; (iv) economics; and (v) education, training and vocational training.





based on inputs (such as the operating expenditure norms calculated on the number of staff), not yet linked with the performance results of units, i.e. not yet meeting the second condition.

Finally, the budget for development investment expenditures is established, appraised and approved by each project. This is the spending group with the highest RBB applicability, because all development investment projects themselves must have specific objectives and resources. The appraisal, funding, monitoring and evaluation and final accounting of these projects are all linked to the implementation results of the objectives and activities explained in the detailed project documents. However, as analyzed, due to the limited ability to adjust development investment capital, investment projects in PAs are often small-scale, aimed at solving very urgent and specific problems and cannot bring about significant impacts on biodiversity conservation.

*Conclusion 1: Within the current legal framework, RBB cannot be applied for the funding allocated from the state budget to PAs.*

However, public financial management mechanisms are also opening up opportunities to apply RBB for PA operations. Specifically, the SBL 2015 stipulates the gradual shifting to RBB. Decree 163/2016/ND-CP also clearly states the conditions for State budget users to manage State budget based on the results of task performance. Unfortunately, there have been no specific guideline on this issue so far. If the contracting mechanism is based on outputs commitments of State budget users, this may be the initial preliminary foundation to shift from inputs-based budgeting to RBB. Therefore, the issues that need further clarification for this State budget source are: Need to understand what is contracting mechanism? What services will be ordered and contracted by the State? What basis does the state use to determine the tasks to order or contract? What conditions are required for a PA to switch to receiving the State budget under the contracting mechanism?

During consultations with the central Ministries, MOF informed that the recurrent expenditures budget allocation for PSDUs is still based on the annual budget item estimations, specified according to 4 expenditure categories. In essence, it is still inputs-based budgeting. The units must spend according to the approved estimates. At the end of the year, if not used up, the remaining budget will be returned to the State budget. If an agency wishes to switch to the contracting mechanism, the PSDU needs to clarify what specific deliverables are and at what cost. On that basis, the State will order or contract with the agency to deliver the outputs. If saving can be made, given full fulfillment of committed deliverables, it can be kept for its own use. Thus, *the contracting mechanism has laid down the basic foundation for outputs-based budgeting - the first step towards RBB.*

However, in order to implement the contracting mechanism, the following conditions are required:

- (i) A "task" must be included in the list of public services that the State will order or contract.

Currently, the list of public services ordered by MONRE is the Decision No. 1990/QD-TTg dated December 11, 2017 and by MARD is the Decision No. 254/QD-TTg dated February 22, 2017. For Decision No.1990, relating to the field of natural conservation and biodiversity, only 3 services are prescribed: (i) National biodiversity conservation master planning; (ii) National biodiversity monitoring; and (iii) Development of lists and programs of conservation of endangered, precious and rare species prioritized for protection; compilation of Vietnam's Red Book. Expanding into



the field of the environment, it also only stipulates: (i) Recurrent expenditure-based national and inter-provincial waste management and environmental pollution control under the responsibility of the MONRE in accordance with the Law on Environmental Protection and the Law on Biodiversity; (ii) National environmental protection planning; and (iii) National environmental monitoring; national environmental statistics; preparing national environmental status report. Thus, there are no specific conservation and biodiversity service activities of PAs in this list.

*Conclusion 2: Based on the current regulations, it is very difficult to directly attach the contracting tasks ordered by the State to the conservation and biodiversity objectives in the PAs. If possible, this objective can only be integrated into relevant tasks (e.g. forest protection, forest ecological restoration, etc.).*

(ii) The line agency must establish the economic-technical norms and specifications, which specify mix of inputs to produce committed output. The mix of inputs is crucial to calculate unit cost for each output, which serves as basis for State's contract negotiation with PSDUs. Currently, all the Ministries are in the process of developing economic-technical norms and specifications, and this process will take time. In the short term, it is very less likely to get economic-technical norms and specifications for services related to biodiversity conservation.

*Conclusion 3: In the coming time, the State budget for conservation and biodiversity activities in the PAs cannot apply the contracting mechanism aligned with new RBB direction in State Budget Law 2015.*

(iii) If the contracting mechanism has not yet been applied, the agencies must prepare their budget plan in the traditional practice. Consequently, budget execution and reporting must comply with the current inputs-based accounting standards and regime.

*Conclusion 4: The plan to develop the overall results-based budgeting (RBB) system for the operation of the PAs is not applicable in the current conditions. Therefore, those PAs that are excessively dependent on the State budget will not be good candidates for pilot application.*

(iv) If new pilot RBB mechanism is to be applied to a PA, specific permission from authorized agency is required. A pilot RBB mechanism, especially in relation to the use of state budget, even if only applied within the framework of a PA, also requires an approval of the competent authority. For the State budget, PPCs or line Ministries may not have sufficient authority for granting permission, but may need to report to the Prime Minister for a decision.

*Conclusion 5: Currently, it is impossible to develop a comprehensive RBB pilot model for the PAs. It would be more reasonable for applying partly RBB for non-state budget revenue sources of the PAs that satisfies the highest level of the RBB application conditions mentioned above, to add biodiversity objectives to the set of monitoring indicators to monitor the performance relating to that revenue sources.*

***For non-State budget sources***



As illustrated in Figure 5, the two non-state budget revenue sources of PAs are from services provided by the PAs and from the payment for forest environmental services to pay for forest protection contracts.

*Revenues from services provided by the PAs.* To encourage PAs to gradually increase the level of financial autonomy, the State allows PAs to provide more revenue generating services. For some PAs with great tourism potential (such as Cu Lao Cham MPA or Cat Tien National Park), this is an important revenue source to improve employees' incomes and upgrade facilities and working conditions of the PAs. However, the development of these services (especially tourist sightseeing services) poses risks of conflict with the objective of biodiversity conservation, putting the PAs into a dilemma: continue to attract tourism to increase revenues or control it within a certain limit, in accordance with the optimal "absorption capacity" of the PAs. The State's policies themselves are not consistent to resolve this conflict of interest. On the one hand, the Law on Biodiversity, Law on Forestry and many other legal documents related to biodiversity, forest protection and development all emphasize the conservation of nature and biodiversity but there are no effective measures to monitor and control it. On the other hand, Decree No.16 and many other regulations on financial autonomy encourage PAs to generate more non-State budget revenue, but there are no specific regulations to hold the PAs responsible for ensuring the sustainable development of the PAs.

In the long term, there are certain opportunities to gradually guide the special-use forest PAs toward the application of RBB. During discussions with the VNFOREST, the Law on Forestry puts in place a requirement for forest owners to develop sustainable forest management projects. On November 16, 2018, the MARD issued Circular No. 28/2018/TT-BNNPTNT regulating sustainable forest management to guide forest owners to develop this plan. Therefore, this could be an opportunity for the parties (MONRE and MARD) to exchange and integrate conservation and biodiversity objectives/targets into the guiding content of project preparation, using it as a basis to assess the level of "self-responsibility" of the special-use forest PAs in the implementation of the projects. However, as there are no specific guideline on this, it is not easy to convince forest owners to apply the RBB to this revenue source.

*Conclusion 6: Encouraging PA for application of RBB in voluntary basis is not easy. It requires the PA's leaders to be open minded, reform oriented, proactive in mobilizing and using non-state budget revenues.*

*Revenues from payment for forest environmental services.* This is a revenue source with a purpose of use clearly defined from the beginning (*earmarked revenue*). Except for the proportion of management fees, the rest is used by the PAMUs to pay for households contracted to protect forests. Payment method is according to contracts. Currently, forest protection contracts have used some simple output indicators as a basis to evaluate the acceptance of results and payment of contracts. Those are: indicators of total forest area contracted for protection and quality of forests (according to some evaluation criteria given). Although the specific indicators of biodiversity conservation are not yet clear in the contracts, this is the most likely source for the RBB application in the PAs for the following reasons:

- This revenue source is used for a common objective of protecting forests and biodiversity. Contracted households are flexible in implementing activities, as long as they can protect the



received forest area. Thus, the forest protection activity itself from the PFES source has been designed like a target program on natural and biodiversity protection, *meeting the first condition of the RBB*.

- The budget for this task is an earmarked budget, and the basis for wage payment for forest protection is a performance-based contract with simple commitments on outputs, meeting the second condition of the RBB. If it is possible to convince the PAMUs to add some indicators of biodiversity conservation into the contract, it can be considered as a simple and feasible RBB model for biodiversity at the moment.
- In order to keep track of the contract implementation process, many PAMUs have applied relatively effective, objective and highly reliable monitoring and supervision tools (as analyzed in following part). Therefore, *the third condition of the RBB can be basically met*.

### Overall conclusion

Through analysis of the current revenue sources of the PAs, it can be generally seen that, the PAs' budgets are still being allocated in the traditional way based on the budget lines, each line corresponds to a separate targeted expenditure task and is difficult to switch among the budget lines. However, there is the task of protecting forests using the PFES payment that meets all conditions to apply RBB. However, it is still recommended to develop a simple RBB model, which is suitable for the current monitoring and supervision capability of the PAMUs and does not create excessive concerns for the PAMUs or households contracted in having to be responsible for the binding biodiversity conservation objective (after all, the contract to protect forests according to the current forms does not require the PAMUs to include biodiversity conservation indicators as contract terms). Finally, some other aspects need to be considered when considering the pilot areas. Those are: (i) support from the line agencies (MARD/DARD); (ii) willingness to pilot of the PAMUs; (iii) consensus of contracted households when discussing the contract terms.

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