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**SUB-NATIONAL DEBT MANAGEMENT
IN VIET NAM**

Major : **Finance - Banking**

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SUMMARY OF ECONOMIC DOCTORATE THESIS

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**The thesis is completed
at the Academy of Finance**

Thesis supervisor: Assoc.Prof.Dr. Hoang Thi Thuy Nguyet

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PREAMBLE

1. Significance of the thesis topic

All localities need to borrow funds to meet the increasing demand for capital in order to realize the local socio-economic development goals. For those facing budget deficits, borrowings will help to rebalance the local budget; for those having budget surplus, maintaining a certain level of debt will ensure the locality's presence in the capital market. However, borrowing and debts always pose risks. Excessive debts, a flawed debt structure, ineffective management and use of loans will lead to difficulties in budget management that undermine financial security and development stability, safety and sustainability at large.

Along with the national financial system reform in Viet Nam, sub-national debt (SND) management has seen welcoming advancements. However, certain shortcomings, difficulties and challenges in the legal frameworks and the implementation process remain unsolved. The gap between the applicable regulations and actual debt planning, implementation, monitoring and repayment practices by the local authorities has posed questions that require both theoretical and practical lenses to look into. It is important to scrutinize the sub-national borrowing limits, debt indicators, debt transparency, coordination mechanisms among relevant SND management agencies, debt management information system, among others, to find specific solutions to overcome the shortcomings and improve SND management effectiveness. Moreover, given Viet Nam's current integration and development processes, SND management should strive to follow relevant international best practices while remaining fitting in Viet Nam's context.

Considering the above-mentioned requirements, Viet Nam's past and current SND management practices, and the objective of improving SND management in the future, this thesis will focus on studying the topic of "*Sub-national debt management in Viet Nam*".

2. Literature review

2.1. Planning for sub-national borrowing and sub-national debt repayment

The literature is an important theoretical reference that provides a direction and a scientific foundation to identify both legal and practical difficulties and obstacles in planning for sub-national borrowing and SND repayment. Based on such foundation, the thesis will come up with specific solutions that are theoretically and practically relevant.

2.2. Sub-national borrowing and debt repayment

The literature provides a comprehensive overview of SND instruments and comparisons between previous and current regulations on sub-national bond issuance, on-lending of ODA loans and concessional loans of foreign donors. The literature is an important theoretical and practical reference for collating and evaluating sub-national loan limits.

2.3. Monitoring of sub-national borrowing and debt repayment

The literature sheds light on different approaches to the monitoring and transparency of SND, including regulations on SND control and administrative measures on SND transparency, etc.

2.4. An overview of the literature and literature gaps

On the planning for sub-national borrowing and SND repayment, the literature focused on: New points in the legal framework for sub-national borrowing following the promulgation of the 2015 Law on State Budget; Planning for 5-year, 3-year and annual sub-national borrowing and debt repayment in accordance with Decree No.93/2018/ND-CP; Sub-national loan limits stipulated in relevant legal documents; Advantages of sub-national borrowing.

On sub-national borrowing and debt repayment, the literature evaluated each SND instrument individually.

On the monitoring of sub-national borrowing and debt repayment, the literature touched upon some issues regarding SND monitoring.

Some unexplored issues in the literature gaps are: Current outstanding loans and debt repayment obligations of all localities; Relevance of applicable borrowing limits to each locality's situation and demands; Difficulties and obstacles in each locality during borrowing and debt repayment planning and implementation; Indicators used in SND monitoring; Transparency and clarity of data and information on SND; Coordination among relevant agencies in SND management.

3. Aims and objectives of the thesis

3.1. Aims of the study

The study aims to develop a viewpoint on SND management and suggest solutions to improve SND management in Viet Nam.

3.2. Objectives of the study

The study's objectives include: (i) Collate, systematize and analyze theoretical issues pertaining to SND management; (ii) Collate international experiences on SND management and draw lessons for SND management in Viet Nam; (iii) Collate, analyze, give examples for and draw conclusions and comments on the achievements, limitations and causes of limitations in SND

management in Viet Nam by studying relevant debt management processes; (iv) Develop a viewpoint and suggest highly feasible solutions to improve SND management in Viet Nam based on scientific and practical arguments and in line with the objectives of public debt management in Viet Nam.

4. Subjects and scope of the study

4.1. Research subjects

The research subjects of the thesis is the theoretical and practical issues of SND management.

4.2. Research scope

Technical scope: The thesis focuses on studying SND management, particularly SND management processes and their correlation with management processes at the central level, including planning, implementation and monitoring of sub-national borrowing and SND repayment. The thesis does not study: SND sustainability, SND accounting and auditing.

Spatial scope: The thesis studies SND management in 63 provinces and municipalities in Viet Nam.

Time range: (i) SND management in Viet Nam in the 2011 - 2020 period. (ii) Perspectives and solutions to improve SND management in Viet Nam for the 2021 - 2025 period with a vision to 2030.

5. Research methodology

The thesis uses the following scientific research methods simultaneously: Data collection; Basic qualitative research; Classification and systematization of theories; analysis and collation.

6. New contributions of the thesis

Theoretical contributions: The thesis summarizes and takes stock of issues related to SND management. In particular, the thesis develops 08 indicators to monitor debt ratio, debt structure and debt repayment capacity of local authorities; 12 indicators to evaluate SND management effectiveness.

Practical contributions: The thesis analyzes and clarifies issues related to the SND management practices in Viet Nam in the 2011-2020 period, thereby presenting the outcomes, limitations and causes of limitations in SND management in Viet Nam. The thesis proposes four groups of solutions to improve SND management in Viet Nam and proposes recommendations on the ceiling for outstanding loans and debt repayment obligations of local authorities.

7. Structure of the thesis

Besides the introduction and conclusion, the main body of the thesis is divided into 3 chapters.

Chapter 1

THEORETICAL OVERVIEW

OF SUB-NATIONAL DEBT MANAGEMENT

1.1. SUB-NATIONAL DEBT MANAGEMENT

1.1.1. Definition, characteristics and role of sub-national debt

1.1.1.1. Definition of sub-national debt

“Sub-national debt (SND) is a component of public debt, which is borrowed by provincial-level authorities to offset local budget deficits for local development investment and to make repayments to other direct borrowings”.

1.1.1.2. Characteristics of sub-national debt

First, SND is a component of public debt.

Second, SND is similar to public debt.

Third, SND is subject to regulations imposed by the central government.

1.1.1.3. Role of sub-national debt

First, SND helps to redress local budget imbalances.

Second, sub-national debt contributes to local economic growth.

Third, SND ensures intergenerational equity.

1.1.2. Classification of sub-national debt

1.1.2.1. Classification of sub-national debt by geographical origin

Domestic debt is loan made in local and foreign currencies from resident entities.

External debt is loan made in foreign and local currencies from non-resident entities (residency principles); or loan made in foreign currencies from resident and non-resident entities (currency principles).

1.1.2.2. Classification of sub-national debt by form of capital mobilization

By ways of capital raising, sub-national debt is divided into two types: debt from direct loan agreements and debt from issuing debt instruments.

Debt from direct loan agreement is loan made with a loan agreement signed by the local authority and the lending institution.

Debts from issuing debt instruments is loan made from the local authority's issuance of debt instruments (bonds, bills) in the capital market to raise capital.

1.1.2.3. Classification of sub-national debt by interest rate

By interest rates, sub-national debt is classified into fixed-rate debt and floating-rate debt.

1.1.2.4. Classification of sub-national debt by term

By term, sub-national debt includes short-term debt and medium/long-term debt.

1.1.3. Factors affecting sub-national debt

There are many factors affecting sub-national debt in particular and public debt in general. To analyze the factors affecting a country's outstanding loan, the IMF has introduced two formulas, one for a closed economy and another for an open economy.

For a closed economy (no foreign debt):

$$d_{t+1} = (1 + i_{t+1}^d)d_t^d - pb_{t+1}$$

For an open economy (having foreign debt):

$$d_{t+1} = e_{t+1}/e_t * (1 + i_{t+1}^f) * d_t^f + (1 + i_{t+1}^d)d_t^d - pb_{t+1} + o_{t+1}$$

Considering its purpose of borrowing to offset budget deficit, the local authority is a similar entity to the central government. Therefore, with the above-mentioned analytical formulas, factors affecting the outstanding sub-national loan can be grouped as follows:

Group 1: capital factors (demand for capital, lending limit, budget deficit baseline, borrowing costs with consideration of some loan requirements, etc.)

Group 2: capital use and capital market factors (macroeconomic indicators, macroeconomic policies, business and investment environment, etc.)

Group 3: management factors (legal regulations, administrative procedures, management processes, strategies, programs, debt plans, budget decentralization mechanisms, information and reporting systems, functions and duties of debt management agencies, etc.).

Group 4: local authority capabilities (governance and public administration efficiency; competitiveness of local authority; budget transparency index, state administrative reform, e-government and local credit coefficient, etc.)

1.2. SUB-NATIONAL DEBT MANAGEMENT

1.2.1. Definition, objectives, principles, tools and methods of sub-national debt management

1.2.1.1. Definition of sub-national debt management

“Sub-national debt management is a process that includes steps of planning, implementing, and monitoring the borrowing and repayment of sub-national debt in order to meet the local and Government’s goals on sub-national debt management.”

1.2.1.2. Objectives of sub-national debt management

Sub-national debt management objectives include:

- (i) to meet the demand for loan mobilization.
- (ii) to fulfill debt repayment obligations.
- (iii) to ensure debt safety.

1.2.1.3. Principles of sub-national debt management

- (i) No financial support.
- (ii) Equality in borrowing.
- (iii) Conformity to debt management processes.
- (iv) Keeping debt indicators within bounds.
- (v) Openness and transparency in debt management.
- (vi) Clear assignment of responsibilities among debt management agencies.

1.2.1.4. Sub-national debt management tools

SND management tools are divided into 3 main groups: Debt safety indicators; Borrowing and repayment plans; Loan limits.

1.2.1.5. Sub-national debt management methods

Planning.

Implementation.

Monitoring and evaluation.

1.2.2. Steps of sub-national debt management

1.2.2.1. Planning to borrow and repay sub-national debt

Planning is the foundation and the most important function of management. Planning means to choose one action plan; decide in advance what to do, how to do it, who to do it, and when to do it. There are many ways of planning yet it usually involves several steps as follows:

Step 1. *Identify the issue.*

Step 2. *Set a goal.*

Step 3. *Make forecasts.*

Step 4. *Prepare plan options and compare.*

Step 5. *Select a plan.*

Step 6. *Adjust the plan.*

a) Sub-national borrowing and debt repayment plan

Plans for borrowing and repaying sub-national debt are usually classified by time range, including: 5-year borrowing and repayment plan; 3-year debt management program, and annual loan repayment plan.

b) Methods of making plans on borrowing and repaying sub-national debt

Planning for borrowing and repayment of sub-national debt is based on the MTFE method. The method of planning for borrowing and repaying sub-national debt has a reciprocal relationship with the method of planning finance - budget and public investment. During the planning of borrowing and debt repayment, local authorities need a coordination mechanism among debt management agencies to ensure synchronization and cohesion in the development of plans.

c) Foundations for making plans on borrowing and repaying debts of the local authority

Planning to borrow and repay sub-national debt is based on multiple factors: National and local long-, medium- or short-term *action plans* to implement strategies and schemes for socio-economic development, finance-budget, public debt management, etc. *Some forecasting scenarios* about the domestic and foreign political, economic, and financial situations as well as other factors can also affect sub-national debt borrowing and repayment plans. *Applicable legal frameworks* and plans to amend, supplement or promulgate new legal documents on economics, finance - budget, public debt, public investment, tax system reform, public spending restructuring, etc. may affect sub-national debt management policies.

d) Requirements for the planning of borrowing and repayment of sub-national debt

The planning must be *in line with the objectives, duties and solutions* specified in the national and local long-, medium- or short-term action plans to implement strategies and schemes for socio-economic development, finance-budget, public debt management, public investment.

The planning must be *in line with the organizational structures* and principles of state management of economy, finance - budget, public investment, public debt and sub-national debt.

The planning must *ensure the achievement of the objectives in the priority order* specified by the debt manager in each period.

The planning must *ensure conformity to the principles of openness and transparency*.

e) Steps of planning for borrowing and repaying sub-national debt

The planning process includes multiple steps: Identify the issue; Set a goal; Make forecasts; Prepare plan options; Choose a plan; Adjust the plan.

f) Procedures of making plans on borrowing and repaying sub-national debt
Specific timeline.

Specific tasks.

Coordination among agencies.

1.2.2.2. Borrowing and repaying sub-national debt

a) Mobilizing capital loans by local authorities

In order to achieve the capital mobilization goal, the local authority can use many different forms of capital mobilization. In general, capital loan can be divided into two types: domestic loans and external loans.

b) Repaying sub-national debt

Based on the borrowing and repayment plan, the local authority shall pay the principal, interest and fees for the loans that have been approved by the competent authority. The debt repayment of the local authority must be made in a sufficient and timely manner.

1.2.2.3. Monitoring sub-national borrowing and debt repayment

a) Develop a legal framework for sub-national debt management that is sufficient, synchronous and ensures compliance

The debt-related legal system is a system that includes legal documents regulating all aspects of borrowing and repayment activities. Ensuring compliance in law enforcement and debt repayment processes means to ensure that relevant legal regulations and approved processes are conformed to in a full, accurate, and orderly manner.

b) Develop indicators to monitor sub-national debt and ensure compliance

The system of sub-national debt monitoring indicators includes quantitative indicators to monitor the sub-national debt status and management effectiveness regularly and continuously over a certain period of time. The goal is to identify risks, thereby issuing warnings and suggesting handling measures as the basis for an appropriate adjustment of sub-national debt management policies.

c) Ensure transparency of sub-national debt

Transparency of sub-national debt is reflected in: transparent public disclosure of sub-national debt; detailed breakdown of functions and duties of sub-national debt management agencies.

1.2.3. Organizing the sub-national debt management apparatus

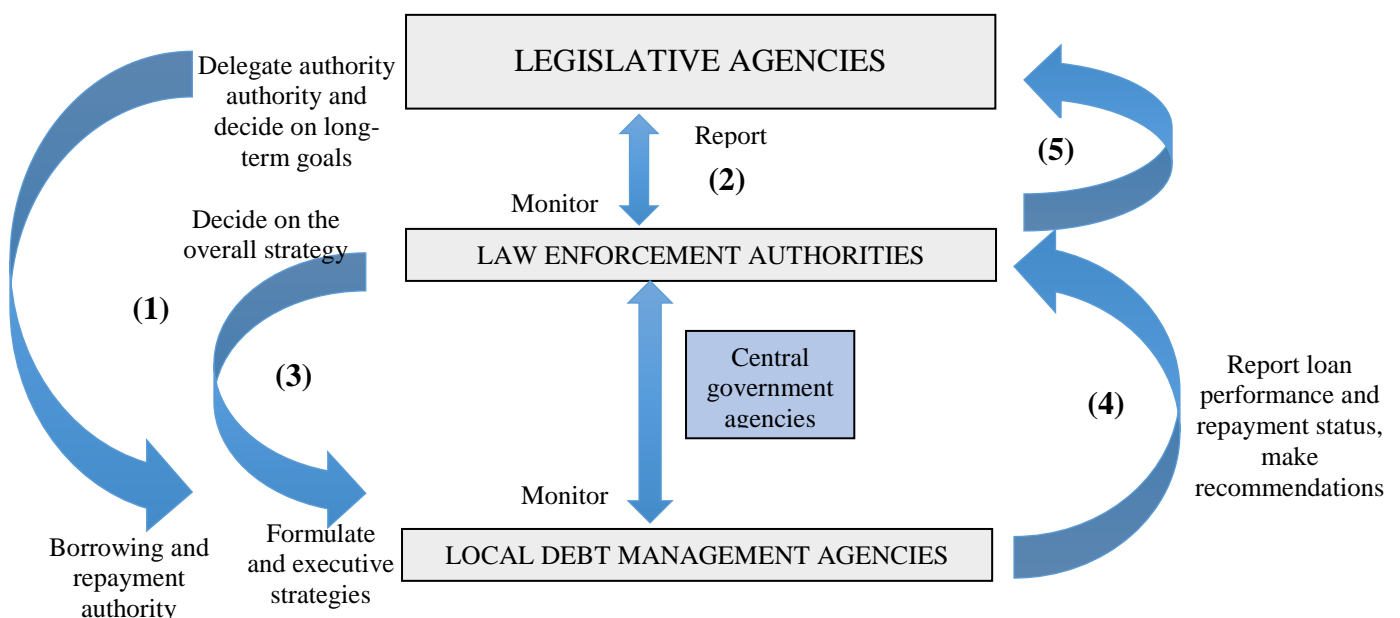


Figure 1.2. Organization of sub-national debt management apparatus

1.2.4. Factors affecting sub-national debt management

1.2.4.1. Objective factors

- (i) local socio-economic development progress.
- (ii) policies of international donors.
- (iii) overarching legal framework for SND management.
- (iv) development of financial market.
- (v) local stature and credit rating.

1.2.4.2. Subjective factors

- (i) internal processes and regulations on SND management.
- (ii) local debt management capacity.
- (iii) organization capacity of SND management apparatus.
- (iv) application of information technology in SND management.

1.3. INTERNATIONAL PRACTICES ON SUB-NATIONAL DEBT MANAGEMENT AND LESSONS FOR VIET NAM

1.3.1. International experience in sub-national debt management

1.3.1.1. Planning for borrowing and repayment of sub-national debt

In the world, there are several ways to regulate sub-national borrowing limits:

- (i) No specific regulation on loan limit.
- (ii) loan limit upon mutual agreement.
- (iii) loan limit stipulated in legal documents.
- (iv) fixed annual loan limit.

1.3.1.2. Borrowing and repaying sub-national debt

By issuing local authority bonds: Most countries allow local authorities to mobilize loans by issuing local authority bonds.

By on-lending the Government's foreign loans: Similar to issuing local authority bonds, most countries allow local authorities to on-lend the Government's foreign loans.

By using debt repayment accumulation funds: Some countries (Italy, New Zealand,...) allow the establishment of debt repayment accumulation funds to support the government and local authorities to repay debts using the budget, repay principal of loans, or support debt restructuring.

1.3.1.3. Monitoring sub-national borrowing and debt repayment

- (i) For SND monitoring indicators.
- (ii) For SND transparency.

1.3.2. Lessons for Viet Nam

First, it is necessary to stipulate a sub-national loan limit in accordance with the demand for capital mobilization of the respective locality.

Second, it is necessary to diversify debt instruments.

Third, it is necessary to introduce indicators to monitor SND.

CONCLUSION OF CHAPTER 1

Chapter 1 of the thesis has summarized and taken stock of issues related to SND management such as: definition, objectives, principles, tools, methods, organizational apparatus, influencing factors and steps. The thesis has introduced the concept of SND management according to the debt management process; identified 03 objectives, 06 principles, 03 groups of debt management tools for local authorities; identified 05 objective factors and 04 subjective factors affecting sub-national debt management. The thesis has concretized and clarified the process of SND management by 03 phases of planning, implementing and monitoring of the borrowing and repayment of SND. In each phase, the thesis has focused on clarifying: programs and plans to borrow and repay SND in the short, medium and long term; ways of capital mobilization of local authority; and monitoring of borrowing and SND repayment. The thesis has looked into good international practices and drawn lessons for Viet Nam in multiple aspects of: setting SND limits in accordance with local capital mobilization demands; diversifying SND instruments; and introducing indicators to monitor the borrowing and repayment of SND.

Chapter 2

CURRENT SUB-NATIONAL DEBT MANAGEMENT PRACTICE IN VIET NAM

2.1. OVERVIEW OF SND IN VIET NAM IN THE 2011-2020 PERIOD

According to relevant regulations, SND is a component of public debt, together with government debt and government-guaranteed debt.

SND's proportion in Viet Nam's total public debt (excluding VDB loans and government's on-lending loans to avoid double counting) saw an increase tendency in the 2011-2015 period (from 0.8% in 2011 to 1.4% in 2015) and then a gradual decrease in the 2016-2020 period (to about 0.7% by the end of 2020).

Absolute sub-national outstanding loan increased rapidly in the 2011-2015 period (an average of about 35%/year) then slowed down in the 2016-2020 period (-8% on average).

SND structure is mainly comprised of domestic borrowings and external borrowings through on-lending foreign loans of the Government.

2.2. ANALYSIS OF SND STATUS IN VIET NAM IN 2011-2020

2.2.1. Model of SND management in Viet Nam in the 2011-2020 period

At the central level, the SND management model includes the functions and tasks of the following units: National Assembly, Government, Prime Minister; Ministry of Finance; Department of State Budget; Department of Banking and Financial institutions; Department of Debt Management and External Finance; State Treasury; State Audit.

At the local level, the SND management model includes the functions and tasks of the following units: Provincial People's Council, Provincial People's Committee, Provincial Department of Finance, and other functional agencies under the Provincial People's Committee (Department of Planning and Investment, State Treasury, Project Management Units).

2.2.2. SND management practices in Viet Nam in the 2011-2020 period

2.2.2.1. Planning to borrow and repay sub-national debt

a) Sub-national borrowing and repayment plan

b) Methods of making plans on borrowing and repaying SND

c) Foundations for making plans on borrowing and repaying SND

d) Requirements for the planning of borrowing and repayment of SND

e) Steps of planning for borrowing and repaying SND

f) Procedures for making plans on borrowing and repaying SND

2.2.2.2. Borrowing and repaying sub-national debt

a) Mobilizing loans by the local authority

Law on State Budget No. 83/2015/QH13 (effective from January 1, 2017) allows localities to overspend.

In the 2011-2020 period, local authorities' capital was mobilized mainly from domestic loans through issuance of local authority bonds, advance disbursement from state budget balances to local budgets, VDB loans, loans from domestic commercial banks and on-lending of foreign loans from the Government.

Domestic loans

(i) loans from the issuance of local authority bonds.

(ii) loans from the state budget balance.

(iii) loans from Viet Nam Development Bank.

(iv) loans from commercial banks.

Loans from on-lending foreign loans of the Government

In the 2011-2020 period, the share of sub-national capital mobilized from on-lending Government's foreign loans saw an upward trend. On-lending loans increased from 0.23% of GDP in 2015 to 0.5% of GDP in 2020, corresponding to an increase in its share of the sub-national outstanding loans from 13.6% in 2015 to nearly 68%. Currently, about 58/63 localities have outstanding loans from the Government's loans for on-lending.

b) Repaying SND

Based on local budget estimates on principal repayment and principal repayment source; interest, fees and costs payment obligations for loans decided by the provincial People's Council, the provincial Department of Finance assumed the prime responsibility for and coordinate with relevant agencies in planning to pay the principal, interest, fees and costs of the SND, including: Amount of principal repayment and source of repayment for principal, interest, fees and costs of SND. Department of Finance made proposals on the time of payment to the Provincial People's Committee for consideration and decision. Repayment was made using mainly new loans and the provincial budget balance.

Total repayment of SND in the 2011-2020 period was about VND 148.7 trillion, the principal of which was VND 74.9 trillion, interest and fee payment was about VND 11.4 trillion (average interest rate for the whole period was about 4%/year). In general, the repayment of SND was made relatively in full and on time.

2.2.2.3. Monitoring the sub-national borrowing and debt repayment

a) Develop a legal framework on SND management that is sufficient, synchronous and ensures compliance.

- (i) promulgate documents to ensure consistent management of SND.
- (ii) promulgate regulations on local authority's overspending and local credit limit.
- (iii) clarify the scope of debt and debt repayment responsibility.
- (iv) promulgate specific regulations on on-lending to localities.
- (v) promulgate specific regulations on the responsibility of relevant functional agencies in the locality.

b) Develop indicators to monitor SND and ensure compliance

By far, Decree 93/2018/ND-CP has not specified indicators for monitoring SND so the monitoring of SND through indicators and risk management has not been implemented sufficiently in the localities.

c) Ensure transparency of SND

First, ensure public disclosure of debt information.

Currently, collection of SND information is still done manually, whereby the provincial departments of finance only gather data from reports sent by other functional departments and have not developed their own debt database.

Second, ensure a clear breakdown of the functions and duties of the SND management agencies.

In the past, SND management involved many agencies (Department of Finance, Department of Planning and Investment, PMUs, ODA program and project owners, State Treasury based in the locality,...) but there is no focal-point agency that takes full responsibility for debt management and gives general advice on borrowing and repaying SND at the planning, implementing, or monitoring stages.

2.3. GENERAL ASSESSMENT OF THE SUB-NATIONAL DEBT MANAGEMENT PRACTICE IN VIET NAM IN THE 2011-2020 PERIOD

2.3.1. Achievements

2.3.1.1. The legal framework for SND management is relatively complete and synchronous

In the 2011-2020 period, SND management went through two phases based on the applicable law: first phase of practice applying the Law on Public Debt Management No. 29/2009/QH12 (from 2011 to July 2018) and second phase applying the Law on Public Debt Management No. 20/2017/QH14 (from July 2018 to 2020). 2011-2020 was also a transition period between the State Budget Law No. 01/2002/QH11 (from 2011 to the end of 2016) and the State Budget Law No. 83/2015/QH13 (effective from the 2017 budget year), from non-recognition to recognition of local budget overspending and sub-national borrowing.

2.3.1.2. The policy of capital mobilization has essentially ensured resources for localities to perform socio-economic development tasks in the locality

The Law on Public Debt No. 20/2017/QH14 together with Decree No. 93/2018/ND-CP elaborates more diverse and specific capital mobilization channels of the local authority, including: Issuance of local authority bonds; on-lending from ODA, foreign preferential loans of the Government; Borrowing from other domestic sources such as the state budget, the provincial reserve fund, domestic financial institutions and credit institutions. In addition, capital mobilization for local development investment was carried out in accordance with

the State Budget Law No. 83/2015/QH13, Decree 97/2018/ND-CP and other guiding documents. It can be seen that the capital mobilization policy has actively contributed to ensuring resources for the locality to perform socio-economic development tasks in the locality.

2.3.1.3. Ensure SND safety

Most of the on-lending of Government's foreign loans by local authorities had an average annual interest of about 1.6%, which has contributed to reducing debt pressure for local budgets. According to Resolution No. 87/2019/QH14 of the National Assembly on the estimated allocation of state budget in 2020, the total SND amount in 2020 was estimated at VND 29,481.7 billion, of which on-lending amount was VND 26,541.6 billion, accounting for nearly 90%, while domestic loans accounted for only 10%. Thus, on-lending from foreign loans of the Government will continue to be the main source of loans for localities in the coming period, thereby reducing debt repayment costs, increasing loan terms and contributing to ensuring safe and sustainable SND.

2.3.2. Limitations

2.3.2.1. Shortcomings in the planning of sub-national borrowing and repayment of SND

(i) The local borrowing limit was not on par with the locality's current situation and borrowing needs.

(ii) Too many stakeholders participated in planning for borrowing and repayment of SND.

(iii) Local authorities were confused in planning for borrowing and repayment of SND.

2.3.2.2. Shortcomings in sub-national borrowing and repayment of SND

(i) Shortcomings in capital mobilization.

(ii) Shortcomings in capital disbursement.

(iii) Shortcomings in debt repayment.

2.3.2.3. Shortcomings in the monitoring of sub-national borrowing and repayment of SND

(i) Shortcomings in SND monitoring indicators.

(ii) Shortcomings in SND transparency.

2.3.3. Causes of limitations

2.3.3.1. Objective causes

(i) limitations in the general legal framework for SND management.

(ii) the locality's low development level and limited accessibility to financial markets.

2.3.3.2. Subjective causes

- (i) Lack of regulations on coordination among SND management agencies.
- (ii) Lack of a specialized provincial department in charge of debt management.
- (iii) Lack of a general SND database.
- (iv) Lack of reporting mechanism of debt information to local authorities.
- (v) Limited SND management capacity.
- (vi) Low level of IT application in SND management.

CONCLUSION OF CHAPTER 2

On the theoretical basis elaborated in Chapter 1, Chapter 2 of the thesis has analyzed and clarified issues of SND management in Viet Nam in the 2011 - 2020 period, thereby showing the achievements, limitations and causes of limitations in SND management. The thesis has provided an overview of sub-national debt status in the past 10 years and clarified the functions and roles of the agencies participating in SND management. The thesis has analyzed the actual SND management practice by looking into the debt management process, in which in-depth analysis of the SND planning, implementing and monitoring practices is given. On that ground, the thesis has identified 03 achievements, 08 limitations, 02 objective causes and 06 subjective causes of limitations in the SND management. These findings will be the foundation for recommendations of solutions in Chapter 3.

Chapter 3

IMPROVING SUB-NATIONAL DEBT MANAGEMENT IN VIET NAM

3.1. VIEWPOINTS ON AND OBJECTIVES OF IMPROVING SUB-NATIONAL DEBT MANAGEMENT IN VIET NAM

3.1.1. New context and issues affecting SND management

3.1.1.1. International context

In the early years of the 2011 - 2020 period, the world economy was affected by the 2008-2009 global financial crisis and the public debt crisis in many countries in the European region, which led to a sharp decline in financial capital.

It is expected that in the 2021 - 2025 period, the world economy will continue to face many unpredictable developments, including a lower growth rate than the 2016-2020 period due to the negative impacts of the Covid 19 pandemic, the Russia-Ukraine conflict, geopolitical instability and other potential risks. Interest rates and inflation are expected to increase following

FED's current rate hike schedule. The 4.0 Industrial Revolution is exerting positive effects as it encourages the application of digital technology in information collection and analysis, production, services and social activities to increase efficiency and reduce price. However, many limitations have gradually been revealed.

3.1.1.2. Domestic context

The domestic context is witnessing many favorable conditions: macroeconomic stability, high growth rate amid complicated world economic fluctuations. The major balances of the economy have been improved. Institutional reform in the financial sector was synchronized with institutional reform in other related fields, contributing to the development of various market factors and financial markets, creating an equal and accommodating competition environment for investment, production and business.

However, besides such advantages, limitations, difficulties, challenges remain prevalent. The economic institution has not kept pace with the development of the economy; stability remains fragile. The competitiveness of the economy is still low. Adverse effects from slowing world economic growth; the global financial and currency market fluctuations; tariff phase-out; low oil price while the need to spend state budget to solve social problems is increasing; the complicated developments of the Covid-19 pandemic, among others, are factors that have beset Viet Nam's economy. Interest rates and inflation in the international market are on an increase, which also affect debt management. The slow disbursement of public investment in the 2016 - 2020 period which continued into 2021 and 2022 has also affected the SND management effectiveness. High inflation across the world has also affected the efficiency of local project investment because the time length from approving investment projects using on-lending loans to the official loan disbursement is often over-extended. The 4.0 Industrial Revolution has also posed both opportunities and challenges for debt management.

3.1.2. Viewpoints on improving SND management

First, considering the tremendous demand for capital that serves socio-economic development while local resources remains limited, borrowing is necessary.

Second, SND must be kept secure.

Third, loan must be obtained in diverse forms with reasonable structure and cost.

Forth, functions and roles of the debt management agencies in the locality must be clearly defined.

Fifth, SND management must be careful and firm at all stages of planning, implementing and monitoring.

Sixth, openness, transparency, and discipline in SND management must be improved.

3.1.3. Goals of improving SND management

Based on the above-mentioned viewpoints, the general goal and some specific targets to improve SND management in the 2021 - 2025 period with an orientation to 2030 can be proposed as follows:

3.1.3.1. General goal

To improve the legal and institutional framework for SND management; mobilize loan capital with appropriate cost and risk level to ensure local budget balance for socio-economic development investment in each period; allocate and use loan capital for the right purposes and ensure the repayment capacity of the locality; ensure the safety of SND by developing SND safety indicators, ensuring that debt indicators are within bounds in line with the conditions of each locality and applicable legal regulations.

3.1.3.2. Specific goals

First, develop local borrowing and repayment planning processes to strengthen coordination among SND management agencies.

Second, improve SND management towards ensuring that the local loan limit to total allocated budget revenues ratio is suitable for the situation and borrowing needs of the locality.

Third, restructure the SND portfolio towards increasing on-lending from the Government's foreign loans and borrowing from local authority bonds, while gradually reducing dependence on capital allocated from the central budget and loans or advances from state budget balance to enhance the responsibility of local authority in mobilizing loans and repaying debts.

Forth, ensure the fulfillment of debt repayment obligations, avoid overdue debts, especially overdue on-lending of foreign loans by the Government, so as not to affect Viet Nam's international commitments, national credit ratings, and the locality's prestige.

Fifth, develop a system of SND monitoring indicators, ensure that debt indicators are within bounds and help to ensure effective SND management.

Sixth, enhance debt transparency by developing SND information systems and applying IT in SND management; form a specialized agency in charge of debt management in the locality; improve capacity and discipline in SND management.

3.2. SOLUTIONS TO IMPROVE SUB-NATIONAL DEBT MANAGEMENT IN VIET NAM

3.2.1. Solutions for the planning of sub-national borrowing and SND repayment

3.2.1.1. Developing local borrowing and repayment planning processes

The local borrowing and debt repayment planning processes may include: (i) Coordination process between Department of Finance, Department of Planning and Investment, other departments or PMUs in proposing loans; (ii) Process of evaluation of repayment capacity of existing and future loan programs and projects in the locality, based on the expected revenue, expenditure and balance of the local budget, thereby assessing the costs of the loan and the local budget's repayment capacity; (iii) The process of comparing and analyzing risk costs and sustainability of debt portfolios to ensure that the local loan repayment plan is in line with the objectives and plans prescribed by the Provincial People's Committee.

3.2.1.2. Revising the local loan limit in accordance with the actual situation and local borrowing needs

Considering the local budget overspending history of about 0.2 - 0.3% of GDP in the 2016-2020 period, the current local borrowing needs, and relevant international experiences, a local budget deficit of around 0.5 % GDP is proposed for the 2021 - 2025 period.

Along with the increase in the total local budget overspending rate, it is necessary to consider increasing the loan limit of the locality according to its allocated budget revenue and according to the actual situation and local borrowing needs. To be specific:

(i) For Hanoi and Ho Chi Minh City, loan limit shall not exceed 95% of respective allocated revenues; loan limit in localities with growth potential such as Hai Phong, Da Nang and Can Tho must not exceed 60% of allocated budget.

(ii) For localities with higher allocated local budget revenues than respective local recurrent expenditures, loan limit shall not exceed 40% of the allocated budget;

(iii) For localities where allocated budget revenues are less than or equal to their respective recurrent expenditures, loan limits shall not exceed 30% of the allocated budget revenues.

3.2.1.3. Improving project preparations for on-lending of government's foreign loans

During planning for borrowing and repaying SND, localities should clearly define the role and importance of preparations, implementation and delivery of

loan objectives; as well as ensure the stability of the loan mobilization and disbursement framework according to the plans of the management agencies.

In addition, the locality also needs to improve the quality of preparations and design of ODA programs and projects, select qualified consultants with experience in project design to ensure quality, reality-relevance and avoid unplanned adjustments during implementation.

3.2.2. Solutions for making sub-national borrowing and SND repayment

3.2.2.1. Mobilizing loans

It is necessary to consider including local authority bonds in the SBV's list of valuable papers used for transactions to increase the attractiveness and liquidity of local authority bonds.

For on-lending of foreign loans from the Government, it is necessary to *consider developing a capital mobilization mechanism towards gradually reducing loans for project financing and increasing direct loans and budget harmonization* to reduce dependence on allocated public investment capital and at the same time increase local proactiveness in disbursement based on the investment spending capacity and the local budget's expenditure estimates.

3.2.2.2. Loan disbursement

It is suggested that outstanding loan estimates of localities that do not have borrowing needs can be transferred to those that have borrowing needs.

It is also suggested that solutions to speed up loan disbursement shall be implemented synchronously.

3.2.3. Solutions for monitoring of sub-national borrowing and SND repayment

3.2.3.1. Develop indicators for monitoring SND

a) Monitoring indicators on SND ratio and repayment capacity

(1) Outstanding SND to GRDP: reflecting the SND scale compared with the gross regional domestic product, calculated as of December 31 each year.

(2) Outstanding SND to local budget revenue: reflecting the SND scale compared with the total local budget revenues, calculated as of December 31 each year.

(3) Local authority's debt repayment obligation (including principal and interest) to local budget revenues: reflecting the local authority's due debt compared with the local budget revenues, calculated as of December 31 each year.

b) Monitoring indicators on SND structure.

(4) Government's foreign loan on-lending rate: reflecting the structure of domestic and foreign SND, calculated as of December 31 each year.

(5) Ratio of local authority bond issuance to the total outstanding SND: reflecting the proportion of outstanding loans made from local bonds, calculated as of December 31 each year.

c) Monitoring indicators on loan terms and interest rates

(6) Average interest rate of sub-national loan: calculated on the basis of weighted average of various loans with different conditions.

(7) Average term to maturity of sub-national loan: calculated on the basis of weighted average of various loans with different conditions.

(8) Average sub-national loan term: calculated on the average issuance term (for local authority bonds) or loan term (for commercial loan and other loans made by the local authority).

d) Indicators to evaluate SND management effectiveness

To evaluate the effectiveness of SND management, based on the WB's DeMPA framework, it is proposed that the following indicators be used to evaluate the effectiveness of SND management:

Table 3.4. DeMPA Indicators

| Code | Indicator | Summary of requirements |
|---|----------------------|---|
| State management and strategy development | | |
| DPI 1 | Legal framework | Ensure that the legal framework clearly stipulates lending authority, debt-related transaction authority (such as debt exchange, currency swap and interest rate, if any), and loan guarantee authority. To get a higher score, it is necessary to ensure that the legal framework includes: (a) clear debt management objectives; (b) requirements for the development of a medium-term debt management strategy; and (c) requirements for reporting to the National Assembly on debt management and loan guarantee activities. |
| DPI 2 | Managerial Structure | Ensure that the managerial structure for debt and debt-related transactions is effective and there is a clear division of responsibility between the competent authorities and the debt management agencies. |

| Code | Indicator | Summary of requirements |
|--|--|--|
| DPI 3 | Debt Management Strategy | Ensure the local authority has drafted and approved a medium-term debt management strategy based on long-term debt management objectives that have been set in consideration of multiple macroeconomic scenarios and hypothetical budgetary frameworks. Ensure the local authority has a coherent decision-making process for strategy development and strategy communication. |
| DPI 4 | Debt Reporting and Evaluation | Ensure the periodic preparations and publications of debt statistical bulletins and periodic reports to the competent authority. |
| DPI 5 | Audit | Ensure debt management activities and policies are under the supervision of audit agencies. Ensure relevant planners are committed to implementing recommendations from the audits. |
| Coordination with macroeconomic policies | | |
| DPI 6 | Coordinate with local fiscal and monetary policy | Assess the assurance of providing timely, reliable, and reasonable forecasts of debt obligations during the annual budgeting process. Ensure: (i) key macroeconomic indicators are available and (ii) debt sustainability analysis at the local authority level is carried out and shared with debt management agencies. |
| Borrowing and related financing activities | | |
| DPI 7 | Domestic borrowing | Ensure that domestic sub-national borrowing is done through market-based instruments and that borrowing is transparent and predictable. The indicator covers all domestic borrowings (determined by respective authority). |
| DPI 8 | External borrowing | Ensure that domestic borrowings are carefully planned and the terms and conditions proposed by all potential lenders and markets are carefully analysed. Ensure that borrowings from external sources are |

| Code | Indicator | Summary of requirements |
|---|---|--|
| | | <p>fully documented, including all lenders and market-based funding sources.</p> <p>Ensure legal provisions based on good practices are included in loan agreements.</p> |
| Cash flow forecasting and local budget balance management | | |
| DPI 9 | Cash flow forecasting and local cash balance management | <p>Ensure reliable and reasonable forecasts of cash balances are made and sent to the primary debt manager. Some forecasting information, such as debt obligations, shall be provided by the debt manager, while other information, such as collection forecasts, may be provided to the debt manager by another relevant agency.</p> <p>Ensure cash balances are proactively managed and short-term issues are planned according to cash balance forecasts.</p> |
| Debt Recording and Operational Risk Management | | |
| DPI 10 | Debt management and data security | <p>Ensure that there are documented procedures for handling debt-related payments, including the following requirements: (a) all payment notifications are checked against internal records prior to making the payment, (b) payment instructions and processes involve at least two authorized individuals, and (c) the payments are made by the due date.</p> |
| DPI 11 | Delineation of tasks, personnel capacity and continuity in operations | <p>Ensure the internal organization of the debt management agency is based on the division between relevant departments' duties and authority to negotiate or sign loan agreements. At the same time, loan information must be entered into the debt management system.</p> <p>There is a risk and compliance monitoring function within the primary debt manager. Its main function is to monitor all debt management activities.</p> |
| DPI 12 | Debt Records and Debt Reporting | <p>Ensure the completion and timeliness of debt records of local authorities.</p> <p>Make sure to have all complete and up-to-date records of all owners on the guarantee registry.</p> |

Source: WB, compiled and adapted by the PhD student

3.2.3.2. Enhancing risk assessment and analysis

In addition to the SND monitoring indicators, the local authority can assess and analyze the debt portfolio risks through specific situation analysis and random risk analysis.

3.2.3.3. Developing a SMD management information system

First, develop a common SND database.

Second, connect the SND management information systems between the central and local levels.

3.2.3.4. Forming a department dedicated to SND management

It is necessary to form a specialized department in charge of SND management to ensure consistency in planning, implementation, and monitoring of sub-national borrowing and SND repayment.

3.2.3.5. Enhancing transparency in SND management

It is necessary to enhance transparency in SND management through the publication of SND bulletins. The bulletins may include information on debt structure, outstanding balance, debt instruments used by the local authority and classified by creditor, instrument type, currency, interest rate, and term; cash flow to repay principal and interest; indicators such as debt to GRDP ratio, debt to local budget revenue ratio; and the basic hedging measures in the debt portfolio.

3.2.4. Other solutions

3.2.4.1. Improving SND management capacity

3.2.4.2. Strengthening the application of information technology in SND management

3.2.4.3. Specific disclosing information mechanisms of SND management

CONCLUSION OF CHAPTER 3

Based on the current SND management practices in Chapter 2, Chapter 3 of the thesis has proposed solutions to improve SND management in Viet Nam. The thesis has developed 08 indicators to monitor debt ratio, debt structure and debt repayment capacity of local authorities; 12 indicators to evaluate the effectiveness of SND management. The thesis has also provided information on outstanding loans and debt repayment obligations of 63 provinces and municipalities. Based on relevant theoretical foundations, international good practices, and SND management practices in Viet Nam, the thesis has proposed 04 groups of solutions to improve SND management in Viet Nam, in which emphasis is placed on the application of indicators to assess debt scale, debt structure, debt repayment obligations and debt management effectiveness of local authorities. The thesis has as well recommended a ceiling for outstanding loans and debt repayment obligations of local authorities.

CONCLUSION

The thesis "Sub-national debt management in Viet Nam" has successfully delivered the following objectives:

Chapter 1 of the thesis has summarized and taken stock of issues related to SND management such as: definition, objectives, principles, tools, methods, organizational structure, influencing factors and steps.

Chapter 2 of the thesis has analyzed and clarified issues related to SND management status in Viet Nam in the period from 2011 to 2020, thereby elaborating the achievements, limitations and causes of limitations in SND management. The thesis has analyzed the actual SND management practice by scrutinizing the debt management process, in which in-depth analysis of the SND planning, implementing and monitoring practices is given. On that ground, the thesis has identified 03 achievements, 08 limitations, 02 objective causes and 06 subjective causes of limitations in the SND management.

Chapter 3 of the thesis has developed 08 indicators to monitor debt ratio, debt structure and debt repayment capacity of local authorities; 12 indicators to evaluate the effectiveness of SND management. The thesis has also provided information on outstanding loans and debt repayment obligations of 63 provinces and municipalities. Based on relevant theoretical foundations, international good practices, and SND management practices in Viet Nam, the thesis has proposed 04 groups of solutions to improve SND management in Viet Nam, in which emphasis is placed on the application of indicators to assess debt scale, debt structure, debt repayment obligations and debt management effectiveness of local authorities. The thesis has as well recommended a ceiling for outstanding loans and debt repayment obligations of local authorities.

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