

**VIETNAM DEVELOPMENT FORUM**  
**Joint Project Between GRIPS and NEU**

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**RESEARCH PROPOSAL**

**IMPACTS OF THE BLOCK GRANT POLICY  
ON PERFORMANCE OF PUBLIC SERVICE DELIVERY UNITS:  
EVALUATION OF HOSPITAL SERVICE IN VIETNAM**

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## **I. BACKGROUND INFORMATION AND RESEARCH RATIONALES**

Since the Doi Moi policy was launched, Vietnam has gained significant achievements in development. While the country has still maintained its growth pace at relatively high rate (approximately 7% per year in the course of three consecutive years 2000 to 2001), a lot of arisen challenges need to be removed if its development is to be sustained. Among others, weaknesses of current public administration appear to be great obstacles for development. Therefore, the government has seen public administration reform (PAR) as a high priority in its reform agenda in the period of 2001-2010. As an important pillar of PAR, public finance reform has received great concerns of international donors and researchers as well as domestic researchers and policy makers. The aim of this research is to evaluate one of those reform efforts in the field of public finance, that is the block grant initiative for public service delivery units (PSDUs). Because the concept of public services has very broad and varying meanings, the paper will narrow its research scope at evaluating impacts of the initiative on health care in general and hospital service in particular. Given importance of this sector, findings of the paper will provide policy makers better insights of the issues in order for them to design appropriate financing mechanism for the sector.

In this section, the proposal will explain (1) how the initiative fits into the context of institutional reform in Vietnam currently; (2) what the initiative is all about and why hospital service should be studied; and (3) how far existing studies and reports have reached in this issue and how approach of the paper is different from them.

### ***1. Connection of the block grant initiative to Vietnam Development Goals (VDGs) and Public Administration Reform (PAR)***

In September 2000, 189 Heads of State came together at the United Nations Summit in New York and signed the Millennium Declaration, thereby strongly reaffirming the commitment of their nations and the international community to the achievement of the MDGs by 2015. Based on the MDGs, Vietnam has set its own development goals, or Vietnam Development Goals (VDGs), which could be seen as localization of the MDGs. Achieving the VDGs for 2005 and 2010 is a foundation for Vietnam to reach the MDGs by 2015.

The VDGs are clearly defined in Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) over the period of 2001-2010, which will be implemented through a full course of reforms in various perspectives. Specifically, the ninth VDG (*Improving governance for poverty reduction*) will be reached through successful implementation of the Master Program on Public Administration Reform (PAR) for the 2001-2010 period, which aims to achieve the strategic goal of *building a democratic, clean, strong, professionalized, modernized, effective and efficient public*

*administration system which operates in line with the principle of the socialist State of rule of law.* PAR is basing on four pillars: (i) institutional reform, (ii) reform of the organizational structure of public administration, (iii) renovation and improvement of the contingent of cadres and civil servants and (iv) public finance reform.

In the field of public finance, various reform initiatives have been piloted. This study will focus on one of those initiatives, that is a gradual delegation of budgetary flexibility within a fixed “block grant” to PSDUs.

## ***2. Fixed block grant for public service delivery units (PSDU) in general and for public hospitals in particular***

Public agencies in Vietnam fall into two categories that are administrative units and PSDUs. While administrative units are responsible for purely administrative services, which are mostly free of charge, PSDUs are in charge of providing fee collecting public service such as education, health care or sports. Prior to application of the block grant initiative, these agencies are regulated by the same financial management mechanism, which is called centralized line-item budgeting. The main idea of this kind of practice is a procedure compliance of spending units according to preset spending lines. At the end of fiscal year, all non-spending fund should be returned to the Treasury. This mechanism has increasingly revealed various shortcomings as follows:

- Unlike administrative units, PSDUs are allowed to raise revenue through user fees or charges. However, that additional revenue must be returned to the national budget while their expenditure are allocated from the budget according to budget norms. This rigid management mechanism has hindered PSDUs from investing to improve service quality.
- PSDUs’ staffing and payrolls are strictly decided by given norms, which are ironically low, and then incentive for better performance of staff members are destroyed.
- PSDUs have strong incentive to under-report their off-budget revenue and ask for unofficial pays from clients. This non-client oriented behavior in service provision has threatened their survival as the service sector opens to international competition when Vietnam accesses WTO.
- State budget has to suffer heavy financing burden for PSDUs while a complementary financing source from higher willingness to pay fraction of population is wasted.

Being aware with limitation of item budgeting, a shift to block grant budgeting for PSDUs is proposed. The initiative aims to provide a new room for shifting resources between recurrent budget lines and, crucially, to use saving derived from staffing reduction or reduced operational costs to finance salary supplements. It will also

provide more autonomy for spending units in deciding how to use their budget envelop most effectively. The initiative is expected to create better incentives for internal control in spending units. As an initial step of financial management mechanism reform toward improving efficiency and effectiveness of public finance, the block grant initiative for PSDUs has been piloted in Vietnam Television through Decision 87 TTg dated 1<sup>st</sup> June 2001. After a half year of implementation, the government decided to extent pilots into different types of public services by Decree 10 ND-CP dated 16<sup>th</sup> January 2002. In particular, health care is seen as important sector with huge potential of fund raising through user charge collection. Moreover, the service has great impact on human resource development in Vietnam. Therefore, it has naturally become a leading sector in implementing Decree 10. This can be seen by the fact that the government has issued various regulations and guidelines for piloting the block grant initiative in the sector:

- Decree 10 ND-CP dated 01/16/2002 on *Applying New Financial Regime for PSDUs*.
- Circular 25/TT-BTC dated 3/21/2002 and Circular 81/TT-BTC dated 9/16/2002 on *Guidelines of Expenditure Control for Block Grant Receiving Units*.
- *Law of User Fees and Charges and Guideline for Implementing Law of User Fees and Charges in Health Sector*.

The block grant initiative for PSDUs aims to achieve the following objectives:

- To increase financial autonomy and operational accountability of PSDUs.
- To encourage those units to streamline their organization and downsizing toward simplification, efficiency and effectiveness.
- To encourage saving and minimize resource wastes.
- To improve managerial efficiency of PSDUs.
- To provide stronger incentives for performance improvement of public service providers through supplementing their salaries by reapplying saving.

According to the preliminary report of the Ministry of Finance (MOF), by June 2002, 26 out of 105 health care units have piloted the block grant initiative. By now, most of remaining units in health sector has followed. Despite short time horizon of implementation, some positive progresses seem to be made against its stated objectives. Nevertheless, implementation of Decree 10 has led all hospitals to increase service fees, which was set at very low level since 1994 according to Decree 95 CP in August 1994, to supplement salaries. Adverse effects of this practice could be exclusion of the poor from accessing health care service, for profit competition among hospitals, malfunctioning of primary health care network, development disparity among hospitals of different service levels and regions, and alike. It is evidently a

need to have a primary evaluation of impact of this piloting implementation on health care service delivery and on the clients, especially the poor.

### **3. *Primary review of existing relevant literature***

The block grant is relatively new government initiative in the field of public finance reform, (Decree 10 has been implemented for less than 2 years). Thus, existing literature on this issue is quite limited.

From international source, the most significant studies are Henning (1999) and Bartholomew and Lister (2002) (see Appendix). Although those studies are useful in the sense that they provides clear framework for public finance reform in local authorities in Vietnam, they does not pay attention specifically on PSDUs. While the former talks mostly about general framework for reforming local budget planning, the later focuses only on impacts of the block grant initiative for administrative units (instead of PSDUs) in HoChiMinh City. It seems that there is not any international study available so far choosing PSDUs as main focus of research.

From domestic source, there are some preliminary reports from implementing ministries and localities, such as Government of Vietnam (2003), MOF (2003). As suggested by names of those reports, their assessments are general and analytically poor. In addition, performance of piloting hospitals is not typically mentioned.

Relevant personal studies or articles on the field could be listed as Hai (2001), Ha (2002), Cuc (2002) or MOF (2001). While those studies are more analytical oriented with more concrete arguments, they still lack a critical and multi-dimensional point of view. They also do not look at any specific type of public service.

Currently, the team is going to complete another study of impact of the block grant initiative for administrative units in Nghe An province. That study will be an excellent complement for this research, but it still focuses on different type of public agency.

Therefore, it could be safe to say that this proposal is a pioneering evaluation of impact of the block grant initiative on performance of important public service, that is health care service of public hospitals.

## **II. PROPOSED METHODOLOGY FOR THE CASE STUDY**

### **1. *Key assumption:***

The case study is conducted based on the main hypothesis: Implementation of the block grant for hospitals will generate incentives for services providers to improve their performance, but it may benefit disproportionately groups of clients, especially the poor.

## **2. *Research questions:***

From the above-mentioned hypothesis, the research aims at answering following questions:

- How can new financial management mechanism lead to service delivery improvement of public hospitals?
- What are different clients' perceptions of impacts of new financial mechanism on services that they receive?
- What are potential policy improvements that policy makers should make or what are concerns that they should take into consideration in applying new financial management so that benefits of the reform can be shared broadly among different groups of clients?

## **3. *Proposed sites for conducting case study***

The research will investigate a group of large public hospitals in Hanoi and Thanh Hoa province.

Hanoi is selected as a study site because the city is location of most of central public hospitals, where patients are greatly varying in terms of their living standards, types of treatment and residential localities. Therefore, investigation of those hospitals will evidently reveal thorniest problems of health sector since application of new financial management mechanism.

Thanh Hoa province is selected as representative of primary health care network at local level. According to new Budget Law in 2003, local hospitals will be fully financed by local budget. Then, by examining their operation, additional distortions of strong budget decentralization process may be found.

## **3. *Research methodology***

Information for the case will be gathered by a combination between literature review and field survey.

### *Literature Review*

This method is used to collect information on institutional framework of the initiative, current status of its pilot implementation, and relevant statistics about selected hospitals and their current implementation of the block grant initiative.

Data sources for literature review come from MOF, Ministry of Health (MOH), related hospitals, reports of pilot projects and relevant sources.

### Field Survey

Given limitation of the foregoing data sources that they are unlikely to provide sufficient insights about impact of the initiative on well being of clients, especially the poor, it must be supplemented by field survey.

The survey will be conducted with two main stakeholder groups:

- ❖ Hospital patients
- ❖ Frontline service providers in block grant receiving hospitals.

Depending on specific conditions of the visited sites, different survey methods will be selected. For example, questionnaire, focus group discussion or semi-structured group interview may be suited for getting insights about how different groups of clients perceive service quality that public hospitals deliver to them and how their financial burden changes since application of new financial mechanism. In contrast, direct interview seems to be best suited for collecting information from hospital leadership and frontline service providers.

All interviews and surveys conducted will be note taken, and those notes are valuable source of information for preparing the final report.

## **III. TENTATIVE OUTLINE OF THE PAPER**

The paper is tentatively organized as follows:

### **Executive Summary**

### **Introduction**

### **Review of implementation of the block grant for public hospitals**

Block grant for PSDUs in a general context of public finance reform

Institutional framework of the initiative

Objectives and implementation of the initiative

Block grant for public hospitals

Needs for new financial management mechanism in public hospitals

Content and objectives of new mechanism for public hospitals

### **Evaluation of block grant implementation for selected hospitals**

Impacts of the reform on internal improvement of hospitals

Organizational restructuring and Staff rightsizing

Allocation of retained revenues

Management procedure rationalization

Performance improvement

Transparency

Accountability

Staff motivation

Service timing and attitude

Participation

Shortcomings of the initiative

Impacts of the reform on service clients

Clients' impressions on performance improvement after the reform

Quality of services received

Waiting time to be served

Appropriateness and transparency of delivery procedures

Extent of service satisfaction

Extent of incorporation of customers' feedback into service delivery improvement

Shortcomings of the initiative

Change in their financial burden for treatment

Assessment

#### **Wider issues and recommendations**

Issues to be concerned in introducing new mechanism

Potential policy improvement

Replicability

Other recommendations

#### **IV. ORGANIZATIONAL ARRANGEMENT AND PLANNED TIME SCHEDULE**

##### ***1. Research team and responsibilities***

The Team consists of three members.

1. Mr. Vu Cuong, MA. National Economics University

Team Leader

He is in charge of collecting relevant information, designing questionnaire and analyzing data and completing final work. He is also responsible for regular dialogue and discuss with VDF and other team members.

2. Mrs. Hoang Thuy Nguyet, MA. Academy of Finance

Team member

She is a public finance expert who is able to access to various sources of secondary data and information of current public finance reform in Vietnam. Thus, she will be in charge of collecting relevant information regarding to the block grant initiative and analyzing public finance data. She also involves in designing questionnaire, conducting survey and contributes to final report.

3. Mrs. Nguyen Quynh Hoa, MA. National Economics University

Team member

Having experience in conducting survey and a strong connection with network of hospitals in Hanoi, she will be in charge of designing questionnaire, conducting survey and processing survey data. She also contributes to final report.

**2. Tentative time schedule for implementation**

Total time horizon for the work is 6 months, which is tentatively divided as follows:

Activities	Month 1				Month 2				Month 3				Month 4				Month 5				Month 6			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
1. Prepare the detailed outline	■	■																						
2. Literature review			■	■	■	■																		
3. Collect secondary data			■	■	■	■																		
4. Conduct survey									■	■	■	■	■	■										
5. Process data													■	■										
6. Prepare draft report																	■	■	■	■				
7. Comment on the draft report																					■	■		
8. Finalize report																							■	■

## **APPENDIX: LIST OF REVIEWED LITERATURE**

- Bartholomew, Ann and Lister, Stephen (2002), *Block Grant in HoChiMinh City: An Experiment in Public Expenditure Management*, w.w.w.mokoro.co.uk
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- MOF (2003), *Preliminary Report on Implementation of Decree 192 and Decree 10 on Piloting Block Grant for Administrative agencies and Public Service Delivery Units*.
- Nguyen Ngoc Hai (2001), *Some Financial Management Issues in Public Administrative Agencies*, Journal of Finance.
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