

# Improving the Capital Payment Process for Construction Projects Funded by the State Budget

Le Viet Hoa<sup>1\*</sup>

<sup>1</sup> Hanoi Architectural University

## KEYWORDS

Payment  
Investment Capital  
Disbursement

## ABSTRACT

The capital payment process for construction investment plays a crucial role in ensuring project progress, reducing losses and waste, especially for projects funded by the state budget. The legal regulations governing this process generally meet management requirements, simplify administrative procedures, strengthen decentralization, and increase transparency in the responsibilities between project owners and payment agencies within the control and payment process. However, there are still several limitations in this process that affect disbursement progress and investment efficiency. This paper will analyze the current situation of capital payments for construction projects funded by the state budget, identify existing issues and their causes, and propose several solutions to improve this process.

## 1. Introduction

Expenditure for basic construction investment is a budgetary expenditure task of the state budget to implement programs and projects for the development of socio-economic infrastructure and other programs and projects serving socio-economic development. The management of basic construction investment costs, from the allocation of annual capital plans to payment and settlement of projects, is regulated with relatively complete procedures regarding management processes and responsibilities of relevant agencies, units, and individuals. Accordingly, the project owner is responsible before the law and the competent authorities for organizing the selection of contractors in accordance with the provisions of the Bidding Law, ensuring the accuracy of the executed quantities, unit prices, payment values, ensuring the legality of data and documents provided to the State Treasury and other relevant state agencies. At the same time, the State

Treasury controls payments based on the documents provided by the project owner and in accordance with the state regulations on payment principles. Some breakthrough regulations in payment include the capital plan being directly inputted into the Budget and Financial Management System (Tabmis) and transferred to local state treasuries where the projects have accounts, shortening the time for capital plan transfer; changing the payment control method from "pre-control, post-payment" to "pre-payment, post-control," reducing the maximum payment processing time from 7 days to 4 working days. The regulation of 'pre-payment, post-control' for each payment and 'pre-control, post-payment' for the final payment of the contract has created flexibility for both the project owner and contractor in making payments, ensuring compliance with state regulations, while also accelerating project implementation and investment disbursement.

However, the annual rate of investment capital payment from the state budget remains low, as shown in Table 1.

**Table 1.** Summary of State Budget Investment Capital Payment Results for the Period 2019 - 2023 (As of December 31 of each year) [2,3,4].

Billion VND

Content	2019		2020		2021		2022		2023	
	Planned	Percentage executed	Planned	Percentage executed	Planned	Percentage executed	Planned	Percentage executed	Planned	Percentage executed
Domestic capital	369.289	68,06 %	497.042	75,33 %	489.098	75,43 %	610.712	76,63 %	841.800	75,1
Foreign capital	60.003	31,45 %	45.379	55 %	51.550	28,40 %	34.800	26,5 %	29.000	33,6
Total capital (Excluding capital carried over from the previous year)	429.292	62,94 %	542.4219	73,63 %	540.648	70,95 %	645.298	70,8 %	870.800	73,6 %

\*Corresponding author: kiendd@hcmute.edu.vn

Received 14/04/2025, explanation 05/05/2025, accepted 06/05/2025

Link DOI: <https://doi.org/10.54772/jomc.v15i01.916>

In addition, for construction investment projects, the payment rate is usually low at the beginning of the year and increases in the second half of the year. This situation has persisted for a long time and has become an unavoidable rule. According to statistical data, for the period 2019 - 2023, the payment rate in the first 8 months of the year reached approximately 34-47 % of the annual plan, with the lowest being in 2022 at 34.86 %. Disbursement (including capital advances and payments for completed work) tends to be concentrated at the end of the year due to the nature of construction work, where contractors need time for construction and accumulation of sufficient quantities to perform acceptance and payment [5]. On the other hand, the payment rate in the early years of the planning period is very low, with a continued need to reallocate funds to accelerate disbursement, especially foreign capital. For example, the medium-term public investment plan for the 2021 – 2025 period in the transport sector, which was approved by the National Assembly in July 2021, only started to mainly implement projects carried over from the previous period by mid-2022, while new projects were still in the preparation phase, undergoing investment approval procedures (with a duration of approximately 6-8 months) [6]. There are many causes for this situation, but mainly due to institutional deficiencies, overlapping legal regulations, and management capacity that has not yet met the requirements of the task.

## 2. Research methodology

Synthesis and Comparison Method: Based on practical work experience and the study of legal regulations to identify research issues.

The data collection method involves reports from the Government, the Ministry of Construction, the Ministry of Finance, the State Audit, and previous studies, in order to investigate the characteristics of the payment process. This includes analyzing and evaluating the current situation, exploring the causes of existing issues in the capital payment process for construction investment funded by the state budget. This serves as the basis for proposing solutions and recommendations.

## 3. Research findings

### 3.1. Characteristics of the capital payment process for construction investment funded by the state budget

Capital payment refers to the disbursement of investment capital for the completed work volume up to the technical stopping point, meeting the conditions for payment as per regulations. The capital payment process for construction investment funded by the state budget is carried out in accordance with the principles and regulations of current law, from the phase of capital planning, annual capital allocation, to the payment and settlement stages, expenditure conditions, and the control and payment procedures.

Capital payment for basic construction investment from the state budget (SB) is linked to the general expenditure activities of the state budget, and specifically to the management and use of funds allocated for development investment and basic construction investment. This payment can only be carried out when it has been included in the approved budget estimate.

The management and payment of investment capital is characterized by being regulated by numerous related legal provisions. When key regulatory documents (such as Land Law, Procurement Law, Public Investment Law, Independent Audit Law, State Budget Law, etc.) are amended, it directly affects the procedures, principles, legal documentation, and payment control of the projects.

The investor or the legal representative of the investor is responsible for preparing the payment request documentation and ensuring the accuracy of the requested payment value. The State Treasury and public administrative units are responsible for controlling the payment of capital according to regulations.

Cost management in capital payment must be carried out regularly and continuously throughout the construction investment process. Therefore, the investor, project management board, contractors, and capital disbursement agencies must closely monitor the payment process to ensure timely and on-schedule disbursement of capital to contractors. Specifically: (1) Be familiar with the legal bases related to capital payment such as the guidelines for payment procedures, regulations on cost management, and capital payment processes. (2) Clearly define the capital source, usage requirements, and usage plans to ensure the disbursement agency can act proactively. (3) Verify the correctness and reasonableness of applying construction unit prices and construction costs, ensuring accuracy between the estimated quantity and the designed quantity. (4) The economic contract should fully and clearly stipulate payment content, payment deadlines, payment stages, contract price adjustments, contract advances, work progress and completion times, work acceptance, component or stage acceptance, and warranty provisions.

### 3.2. The current situation of capital payment for construction investment from the state budget

#### 3.2.1. The legal system is not yet synchronized, and procedures remain complex

\* The regulations between legal documents are not consistent. Decree No. 99/2021/ND-CP dated November 11, 2021 (hereinafter referred to as Decree 99/2021/ND-CP) regulates the scope of managing and paying public investment capital, including public investment projects using state budget capital, planning tasks and investment preparation tasks. According to the Law on Planning No. 21/2017/QH14 and Resolution No. 61/2022/QH15 of the National Assembly, planning tasks use regular budget funds. According to the Law on Public Investment No. 58/2024/QH15, public investment capital does not include regular budget funds. Therefore, it is necessary

to align the scope and subjects of regulation between these legal documents. [7, 8, 9]

\* Many regulations are unclear, causing difficulties in payment:

According to Decree 99/2021/ND-CP, the State Treasury (KBNN) is responsible for controlling and paying public investment capital from the state budget and legal revenues allocated by state agencies for investment purposes. Public service units are responsible for controlling payments from their own legal revenue allocated for investment. Therefore, KBNN is not responsible for controlling investment expenditures of public service units. However, the Decree stipulates that the control and payment of capital are carried out in accordance with Articles 9, 10, and 11 of the Decree. Moreover, the transaction and payment procedures of public service units are also applied similarly to those of the State Treasury, with no specific guidance distinguishing the duties, powers, and responsibilities of each agency. This lack of clarity creates confusion and difficulties in coordinating the implementation between KBNN and public service units [7].

The payment for completed work must be based on the contents specified in the contract, including the 'payment time'. However, there is no consensus between the controlling agency, the investor, and the contractor regarding the understanding of the 'payment time'. It may refer to a specific day, a certain period, a specific event, or the work that has been accepted as per regulations (it is not mandatory to specify a rigid time frame within the year).

\* Some procedures are still complex

According to Decree 99/2021/ND-CP, when the investor requests to withdraw advance capital from the budget account to the deposit account (to transfer to the organization responsible for compensation, support, and resettlement at the district-level State Treasury), they must provide complete legal documents to the provincial State Treasury. However, Clause 5, Article 9 of this Decree also requires that when the organization responsible for compensation, support, and resettlement withdraws capital from the deposit account at the district-level State Treasury, they must provide similar legal documents and procedures as those required at the provincial State Treasury [7]. Therefore, for the same expenditure and the same investor, the capital withdrawal (advance, payment) involves two separate processes, thus increasing administrative procedures.

\* The decentralization in payment has not been fully implemented:

The capital payment process, including the three stages of advance payment, recovery of advance payment, and payment for completed work, along with numerous administrative procedures, creates difficulties for investors.

The controlling and payment agency performs control on each advance payment and payment based on the legal documentation provided by the investor. However, the legal documents and payment records for the entire contract, particularly those related to land clearance, are voluminous and contain many technical details that fall outside the scope of the payment control agency's responsibilities. This

also creates difficulties for investors when submitting documents and highlights issues in the full digitization of public services. Given these circumstances, it is necessary to continue simplifying the management and payment documentation [10].

### 3.2.2. Application of science and technology

The application of science and technology in investment management in general, and in payment processes in particular, has not yet met the requirements for the development of e-government. The main reason is the separation of information management systems. Specifically, data on annual capital plans and investment capital settlement are accessed through the State Treasury system (under the Ministry of Finance), while data on mid-term investment plans is managed and accessed by the Ministry of Planning and Investment through a separate system of the Ministry. The maintenance of multiple systems without connectivity solutions leads to inconsistent data, and manual updates and reporting processes, resulting in delays in the settlement and payment process.

### 3.2.3. The management capacity of some project investors is still limited

For construction investment projects, the investment decision-maker assigns the project management unit to handle the specialized investment construction, regional project management unit, or an agency or organization with experience and capacity to act as the investor. However, the law does not specify the conditions or capacity of the investor (i.e., what constitutes an agency or organization with experience and capacity to be an investor) [11]. As a result, the management capacity of some investors does not meet the required standards, leading to errors in documentation and delays in the payment process. Specifically:

Some investors and payment officers have not been properly trained, so the payment documents submitted to the State Treasury do not meet the legal and procedural requirements. These documents are often returned and require multiple revisions, such as the payment value exceeding the allocated capital plan, discrepancies in the quantities listed in the payment request compared to the detailed price table attached to the contract, payment and reimbursement requests not meeting the conditions specified in the contract, certain documents lacking legal validity, such as unclear or incorrect signatures, improper seals that do not match the registered seal with the State Treasury, or unauthorized representatives as per the Civil Code and Public Servant Law, some documents being photocopies; missing important documents such as the decision approving the contractor selection results, the decision approving the estimated costs for additional work, and contract appendices; or the contract appendix being signed before the approval of the additional work estimate. Notably, some ODA-funded projects lacked contract liquidation records, but the investor proceeded with

submitting payment documents, which were accepted by the State Treasury based on the contract value [12].

The investor's staff and project management team often have multiple responsibilities, leading to a lack of time for focused work. Many projects extend over several years, and as management staff are rotated, the new personnel are not fully acquainted with the project's details. In some cases, the investor has made payments to contractors exceeding the value of completed work, causing contractors to "avoid" cooperation with the investor in preparing payment documents. In certain instances, contractors have dissolved, gone bankrupt, or changed their operational models, making it impossible to recover the payments made.

#### 3.2.4. *The fluctuation of material prices*

The prices of fuel and key construction materials (such as cement, steel, and iron) have fluctuated in an upward direction, making them difficult to predict. In 2022, cement prices increased three times, from 220,000 to 270,000 VND per ton, while the price of asphalt rose by 23.52 % compared to 2021. In 2023, steel prices increased five times consecutively, and the price of construction sand rose from 340,000–370,000 VND per cubic meter to 450,000–480,000 VND per cubic meter [4]. Meanwhile, the price announcements from the inter-departmental agencies are mostly quarterly, which are not timely and do not reflect the actual current prices.

Payment based on the contract must align with the type of contract, the contract price, and the conditions specified in the contract. Construction projects funded by the state budget rely on the published prices from the Department of Construction as the basis for bidding invitations, contract signing, and settlement. The abnormal increase in material prices affects the payment for completed volumes. For lump-sum contracts, payment is made according to a percentage of the contract price or the project price (without price adjustment). Fixed-unit price contracts also face difficulties similar to lump-sum contracts, as payment is based on the unit prices in the contract (which remain fixed throughout the execution process). For contracts with adjustable unit prices, payment is made according to the unit prices in the contract or adjusted prices as agreed upon in the contract [7]. Current legislation clearly specifies the price adjustment methods for the investor and contractor to choose. However, payment for completed volumes for these contracts is also hampered by the slow publication of material prices and construction price indices in various localities, which fail to keep pace with market fluctuations.

As a result, many enterprises are reluctant to advance funds and are forced to halt construction, as continuing work leads to losses. If funds are advanced, the procedure requires the purchase of construction materials, but due to the discrepancy between the published prices and actual prices, it becomes impossible to justify the invoices and receipts for material purchases to the tax authorities. For example, in the two North-South expressway projects, Mai Son – National Route 45 and

Phan Thiet – Dau Dey, according to the price and index adjustments published by localities in 2021, these two projects are contractually adjusted by 5-7 %. However, when considering the actual inflation, the adjustment should be 17-18 % [4].

#### 3.3. *Exploring the causes*

The construction investment activities are regulated by various legal documents, including the State Budget Law, Public Investment Law, Bidding Law, Construction Law, Land Law, Resolutions of the National Assembly, and the implementation guidelines of these laws. The management and payment of investment capital are characterized by being governed by multiple related legal provisions. However, some of these documents overlap and lack consistency, leading to confusion in the payment process for investment capital. The issue of "capital awaiting projects" remains widespread, and there has yet to be an immediate remedy for this situation.

On the other hand, government-issued documents in this field frequently undergo changes, leading to difficulties in updating and applying new regulations, as well as modifying the management information systems. This presents challenges for both regulatory authorities and investors, as well as contractors, in adapting to the new and revised requirements.

The decentralization of management in basic construction investment capital is still inadequate. Although the investor is responsible for the accuracy of the data and the legality of the documents in the payment dossier, there are no specific sanctions in place. Some investors have not been proactive in the payment process and have not coordinated closely with contractors to expedite payment progress.

The awareness and capacity for managing construction investment of some investors and contractors are limited. Some investors and project management boards lack experience, fail to comply with procedures and processes in basic construction investment, and do not effectively control consulting and construction units in the execution of contracts.

Some contractors have not paid attention to or coordinated with the investors and project management boards in preparing A-B settlement and have failed to prepare and provide the necessary documents as required for the completion project settlement.

Recently, the prices of construction materials have fluctuated significantly, and the local price notifications have not kept up with market trends, requiring supplementary adjustments during the settlement process, which affects the progress. For large-scale road construction projects, the simultaneous implementation of multiple projects in the same area often leads to a shortage of material resources during construction, especially materials such as fill soil, sand, and gravel, resulting in increased material costs [5].

#### 4. Solutions to improve the payment process for construction investment projects funded by the state budget

The payment of construction investment capital is one of the key steps in evaluating the effectiveness, rationality, and legality of the investment process. To improve this process, comprehensive solutions are required, ranging from mechanisms and policies to practical implementation. Below are some key solutions:

*\* Improving mechanisms and policies, as well as enhancing the application of science and technology in the payment of investment capital from the state budget*

- To improve and harmonize the legal system, and avoid overlaps between regulations on investment, construction, and the state budget, the following aspects should be emphasized: Reviewing and supplementing the legal framework for investment capital payment to align with the new provisions of the Land Law No. 31/2024/QH15, the Procurement Law No. 22/2023/QH15, the Public Investment Law No. 58/2024/QH15, Law No. 56/2024/QH15 amending certain provisions of the Securities Law, the Accounting Law, the Independent Audit Law, the State Budget Law, the Law on the Management and Use of Public Assets, the Tax Administration Law, and the Personal Income Tax Law.

Add provisions regarding the implementation of information technology applications in the financial management of investment projects using state budget capital, in line with the modernization policy of government agencies, and consistent with the strategy for the development of e-Government towards the digital government phase 2025-2030.

Decree No. 99/2021/ND-CP stipulates the main contents regarding the management, payment, and final settlement for projects using public investment capital. In practice, the management, payment, and final settlement of capital for completed projects are two independent activities with different scopes of regulation. Therefore, it is necessary to add separate provisions regarding the management and payment of projects as follows: (1) Provisions on payment principles, legal documents submitted to the State Treasury, payment documents, and advances must be linked to the direct and comprehensive responsibility of the investor/project management board, with clear boundaries for control and payment by the State Treasury. (2) Regulations on management and payment applicable to projects using public investment capital; regulations on final settlement of completed projects applicable to all state capital sources.

Apply flexibly the two methods of "payment first, control later" and "control first, payment later" for each type of contract. Payment first does not mean loosening control but rather implementing a periodic or ad-hoc post-audit mechanism to promptly detect errors.

- Promote decentralization of management by clearly defining the responsibilities of each unit and simplifying the management and payment procedures. This should be implemented based on the following principles: decentralizing responsibility to the investor who is fully accountable for the accuracy and legality of the information

provided in the payment documents submitted to the control and payment authorities, reducing the need for document submission and storage, adhering to the principle of strongly reforming the control and payment process at the State Treasury, promoting the digitization of control procedures, thoroughly decentralizing management to the relevant ministries and investors in the disbursement process of projects. This approach aligns with the roadmap for streamlining the State Treasury's structure, ensuring transparency, compliance with regulations, accelerating the control and payment process, facilitating the digital transformation process, and working towards the goal of achieving 100 % electronic payments.

*\* Enhance the capacity and responsibility of the relevant stakeholders*

For investors and project management boards: It is necessary to establish individual accountability for those in charge of payment processes in cases of delayed or non-compliant documentation. Develop a mechanism for evaluating the effectiveness of disbursement and payment based on individual and collective KPIs.

For the controlling and payment agencies: Assign and delegate control responsibilities clearly and transparently to individuals within the unit's control process. Strengthen coordination with the direct superior of the investor to promptly resolve any issues faced by the investor. Publicize the process for receiving, controlling, and circulating documents and records of state budget expenditure through the KBNN's online public service portal.

For contractors who violate the timeline for preparing payment documents: Publicize the list of contractors on the Bidding Newspaper and the National Bidding Network System to inform investors and project management boards. Ensure that contractors in violation are not allowed to participate in bidding for new projects or packages.

The Ministry of Construction should collaborate with the Ministry of Planning and Investment to provide specific guidelines on contract price adjustments due to material price fluctuations, and offer instructions to localities on how to survey, calculate material prices at the construction site, as well as how to determine price indices for construction projects, ensuring the rights and interests of contractors. Furthermore, integrate investment capital payment processes into the annual inspection and audit plans for affiliated units.

#### 5. Conclusion

Improving the investment capital payment process is a key solution to enhance the efficiency of public budget use, accelerate project progress, and improve quality. However, there are still many challenges in payments due to inconsistent mechanisms, policies, and legal systems, complex procedures, slow disbursement progress, and the insufficient capacity of investors. To address these issues, coordinated solutions are needed, including reforming procedures, promoting the application of technology, and enhancing the accountability of stakeholders, contributing to the modernization of investment capital

management, in line with current digital transformation and administrative reform requirements.

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