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Resources, limits, and evolution of local governance

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Foreword

This publication is based on the final report of a research project entrusted by Samuel LEFEVRE, a project manager at the Agence Française de Développement (AFD), to a team of consultants (from the firm CARO) in order to furnish a comprehensive overview of the local government sector in Vietnam: the context in which it operates, its institutions, organisation, policies and the way in which these are implemented.

Since the 1990s, the city has become a pivotal element in the organisation of Vietnamese society, on which the national economy is increasingly hinged. The rate of urbanisation has risen from 16% in 1945 to close on 30% in 2009 and cities now contribute to 70% to national production.

In the framework of its general orientations, which place partnerships with local authorities and urban development high on the agenda, AFD wished to gain a deeper understanding of how Vietnamese local actors operate and, more particularly, the role they play in delivering the main urban public services (water, sanitation, waste management, public transport, health, education...). Hopefully, this study will enable AFD to effectively tailor the partnerships it proposes to Vietnam's local government actors and to intervene in the most relevant way within the framework of its operations.

With this aim in view, an in-depth research study drawing on first-hand sources of information was commissioned. In addition to an exhaustive review of the existing literature, this required a great many interviews with national and local actors, mainly in ten cities and provinces (including the five largest in the country) on which a dedicated monograph has been produced (see Map 1, p.14). This research method has enabled accurate and up-to-date information to be gathered from the actors involved, which has added substantially to the depth and forcefulness of the study.

The research was conducted between July and November 2009 by Philippe PAPIN, David ALBRECHT and Hervé HOCQUARD, the research director. Administrative assistance was provided by Huong PAPIN. At the local level, the team was assisted by several Vietnamese experts, interpreters and researchers, especially Mrs. NGUYEN VU Phuong Lien, and by the researchers of the CEFURDS headed by Mrs. QUYNH TRAN in Ho Chi Minh City. We would like to extend our warm thanks to all of them.

Nathalie LE DENMAT

Local Authorities and Urban Development Division, AFD

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Introduction

Introduction

Today, cities are the key drivers of Vietnam's wealth creation, even though for many years they also aroused a certain wariness that dates back to the struggles for independence and reunification, which were chiefly supported by rural areas. Since the turning point of the 1986 Renovation (*doi moi*),[1] policy cities have increasingly become the major hubs of public action.

Local authorities play a key role on account of their regional roots, which give them a specific legitimacy and responsibility among public actors. Their sphere of competence and autonomy *vis-à-vis* central government is constantly expanding, as are their prerogatives and resources, although varyingly so depending on the economic power of the territory they administer.

One of the overriding concerns of local officials is how to manage or support the cities' demographic and economic growth. They are required to act in an increasingly complex local arena but must also rely on a central power that still holds real sway even though this is wielded in a less and less systematic and preponderant manner.

The present study, conducted in 2009, takes stock of the emergence of the local government administrations – with the provinces in the forefront – that have now become the protagonists of economic and urban development. More specifically, it provides a detailed view of the financial resources and mechanisms that local governments have at their disposal in order to achieve their ambitions, despite the ever-present supervision of central government. The study lays particular emphasis on recent innovations in the ways that local government action is financed.

[1] The economic opening up of the country was proclaimed in 1986 at the 6th Party Congress. It began in 1992, and became effective with the suspension of the American embargo in 1994. The opening up was not a deliberate political choice, but the consequence of a vital need. In a climate that had been marked by constant economic depression since 1982-1983, the end of Soviet foreign aid acted as a trigger. Vietnam had been kept afloat by this aid and, suddenly, in just a few months the support was withdrawn. The leaders urgently sought alternative sources of aid: international aid, foreign companies, funds from the diaspora. It was only six or eight years later that the idea of moving over from the recognition of free-market trade to actively promoting a market economy took hold. Reforms were then extended to industry, trade, banks, state-run and foreign companies.

There are therefore two chronological periods that must be clearly distinguished so as to avoid any misunderstanding over the significance of *doi moi* and the way it was implemented. Indeed, if the two periods together are seen as one, it is difficult to appreciate that the first period between 1986 and 1994–corresponding to a forced opening that was intended to be temporary–had a considerable impact on the second period, which is perhaps currently reaching completion.

After an analysis of the paths of urban development in Vietnam and of the impact of current public-sector planning tools, there follows a more detailed study of some key public services that are the cornerstones of "sustainable" urban development: drinking-water production and supply, sanitation, waste management and public transport…

Part One

1. The Rise of the Provinces

1.1. The city, a mainspring of change in Vietnam today

For about twenty years now, Vietnam has been initiating extremely rapid changes which have completely transformed the country. These changes have been demographic, economic, social and even political, despite an apparent stability in terms of discourse and a constant presence of the elites. Although it may not have been the only engine, the city is the mainspring that best embodies this change.

1.1.1. *Demographic change*

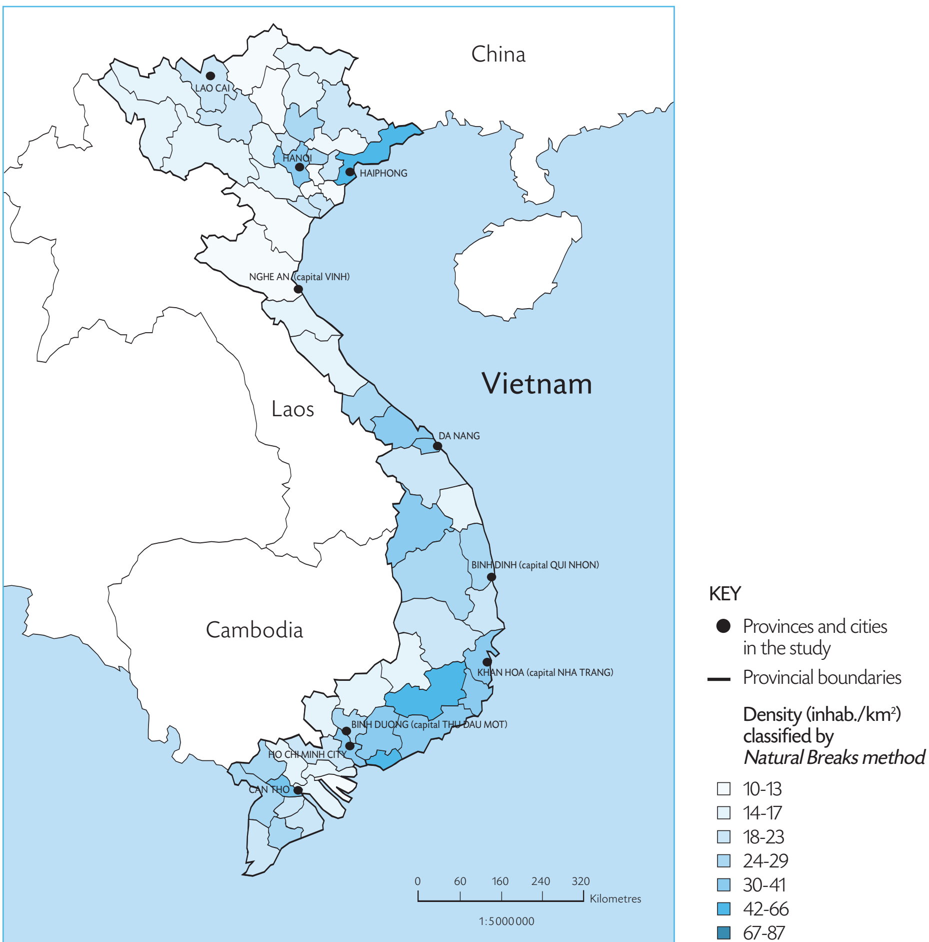
In 2009, Vietnam's population stood at 85.8 million inhabitants, with an annual growth rate in the region of 1.2%, meaning 1 million youths enter the labour market every year. Cities, especially major cities, act as magnets for these populations which do not find employment in rural areas.

The growth of cities is an extremely recent phenomenon in the history of Vietnam. It initially mainly occurred in the South and was linked to the American period (almost half of the inhabitants of Southern Vietnam were living in cities at the end of the American War). Urban development was subsequently impeded by a Communist regime that was somewhat wary towards cities and resorted to massive population displacements. It only really began to take hold from the 1990s onwards.

Since this period, the city has become the main framework for the organisation of society and the national economy. The proportion of urban dwellers rose from 18.5% in 1980 (after the authoritarian ruralisation in the South *via* the displacement of urban populations) to almost 30% in 2009, for a total population which rose from 53 to almost 86 million inhabitants over the same period, *i.e.* the urban population was multiplied by 2.6 in less than 30 years. This increase went hand in hand with an even faster physical expansion of cities. According to the Ministry of Construction, urban areas in Vietnam represented 630 km^2 in 1995 and 1,380 km^2 in 2000 (multiplied by 2.2 in 5 years), with a forecast of 2,430 km^2 in 2010 (x 3.9 in 15 years) and 4,600 km^2 in 2020 (for a total land area of 341,690 km^2).

Demographic growth has particularly benefitted the urban areas on the two deltas, the Central coast and in the Southeast. A part of the "temporary" migrants (who do not have the status of permanent resident) are not included in official statistics. For example, in Ho Chi Minh City, where the urban area now has 9 million inhabitants (7.1 million in the city alone), it is estimated that at least 15% of the population is made up of rural migrants that live in makeshift dwellings and are deprived of a legal status.

Map 1 *Population density by province according to the 2009 census*



Map established on the basis of the 2009 census – GSO.

This demographic change gives shape to an increasingly contrasting country: on the one hand, rural and mountainous areas, deserted by youth, where the level of comfort has seen practically no improvement (rural exodus: 1 to 1.5 million people a year); on the other hand, cities which are constantly growing, with needs for housing and collective services rising exponentially.

The metropolises are experiencing well above average growth, in the South with Ho Chi Minh City and in the North with the capital Hanoi. Moreover, the administrative boundaries of cities no longer suffice to apprehend the issues relating to their development. Major conurbations are, indeed, being formed, for example around Ho Chi Minh City.

1.1.2. *Economic change*

The average wealth of the Vietnamese has risen sharply over the past decades, with income per capita reaching almost €800* in 2009, i.e. it has doubled in 12 years in constant currency and tripled in 20 years. This improvement in the standard of living is also perceptible in the indices for equipment and access to collective services. Urban dwellers are the main beneficiaries of this increase in wealth, or at least some of them are, because cities concentrate the greatest social disparities.

The *doi moi* turning point, proclaimed in 1986 but effective in 1991, and the public service "socialisation" policy,[2] unlike China, did not materialise in the destatisation of the economy. In fact it was quite the reverse: the recent development of the economy has come about by taking advantage of the framework of the State. Today, the State sector accounts for over a third of GDP, half of investments and half of bank credit, and for less than 10% of employment. Public sector companies are a cornerstone of Vietnam's economy and are active in all productive and service sectors. They have specific accounting practices and their accounts are not consolidated with any administrative level.

Agricultural activity is still the country's main economic sector. It meets the needs of a population which now eats to its fill and has a varied diet. It has also become an exporting activity thanks to increased productivity. However, expropriations of farmers linked to economic and urban expansion pose a threat: 2 million households lost their land between 2000 and 2005 (more recent figures are not available). It is one

* €1 = 26,000 Vietnamese dong (2009).

[2] "Socialisation" is the mobilisation of all components of society in order to participate in financing targeted sectors (particularly public services), which notably means opening up to private capital and/or greater user participation.

of the main causes of the current tensions in rural areas and generally involves the most productive land in a country whose geography is constrained by mountains.

Industry has developed enormously. In this respect, Vietnam has not, however, achieved the results of the other major countries in the region and industry employs only 15% of the working population, primarily in state-owned or foreign enterprises. The centrally planned economy and the state-controlled environment, which continue to persist, are not flexible enough to allow a powerful private productive sector to fully develop. From this perspective, Vietnam is way behind China and the Asian Tigers (Malaysia, Thailand...).

Generally speaking, imports continue to dominate in the country (machine tools, raw materials, consumer products) and 60% of imports come from China. Although Vietnam exports crude oil, it only has one refinery which was inaugurated in 2009, and must import most of the refined products.

The informal economy is an essential dimension of the national economy and widely contributes to its overall dynamism, thanks to its low cost and malleability. In Hanoi, as in Ho Chi Minh City, it accounts for half of employment in trade, services, the craft industry and small-scale industry. Part of this economy was officialised with the 2000 law on private companies, which also allowed the State to announce flattering statistics on its market economy.

Despite its cumbersomeness and shortcomings, the economy is bolstered by annual growth in the region of 7% and the recent crisis has caused only a slight slowdown. The positive ingredients of this growth are the urban foothold, political stability, the competitive advantage of low wages and a flexible workforce, a good level of basic education (92.5% literacy rate) and a strong cultural aspiration for knowledge. To this must be added a true feeling of national pride to see one's country, free of all domination, now pull itself out of poverty.

The overheating of the economy became apparent in Vietnam as early as in the spring of 2008, prior to the global crisis. Inflation (23% in 2008) and the trade deficit caused a serious liquidity crisis, which obliged the country to resort to external borrowing. An ambitious recovery programme – that came with a cost of a budget deficit for 2009 estimated at roughly 8% of the gross domestic product – was implemented. It resulted in sustained growth, along with a marked slowdown in inflation.

1.1.3. *Adjustment policies*

A Western observer could well see the economic and political changes as being a product of an astonishing schizophrenia.

- On the one hand, the Party and the Communist order appear to be well established. The ideological principles have not wavered, democratic centralism continues to be the rule and, at all levels, State entities are coupled with those of the Party. The economy continues to be centrally planned and the performance of economic actors is theoretically subject to this planning. For its part, the political discourse has remained close to the rhetoric of emulation and voluntarism of yesteryear.
- On the other hand, all the external signs of the liberal economy are on the rise, with a more favourable legal environment (company law and contract law), increasingly enterprising arrangements, aggressive behaviour on the part of economic agents, a demand for performance and profitability, an emulation and a greater freedom of initiative for the private or informal sector, an opening up to foreign investors.

The distortions between these two worlds are obvious, as everything – or almost everything – is agreed upon among those in power, under the undisputed authority of the Party. It is the State and the Party, the latter controlling the former, that appoint the leaders of the main levels of the political, administrative and economic hierarchy. It is the State and the Party that will be in a position to ensure the country's cohesion and stability, despite the gap between the socialist discourse and the liberal practice that often hits the people and the poorest. Current rural tensions (for example, the clashes in Da-Nang in May 2010) give cause for concern in this respect.

The alliance of the "socialist tradition" and liberal modernism is organised through numerous hybrid corporate structures that are gradually allowing public ownership to give way to other interests. In order to bring about this change, state companies consequently first acquired an identified and specific asset value, whose ownership was subsequently opened up to private entities or individuals.[3]

These entities are often very complex to analyse. The web of shareholdings in the companies is impossible to untangle and it is generally impossible to identify the private shareholders. Financial information is incomplete, difficult to obtain and

[3] Details on this point are given later in the section The Provincial "Holding Company".

questionable, because it is often based on local standards and is certified by non-independent bodies. Decision-making processes are extremely discreet. Their mysteries and protagonists are known and controlled by just a handful of individuals, comprising men with political – and now financial – power.

This Vietnamese cocktail is subtle and effective. It is conciliatory regarding the past, holds society firmly in the present and allows the new economy to develop. It is obvious that this suits many people. The system may not be completely in line with the moral doctrine and vision of the fathers of socialism, but it unquestionably allows the country to take off.

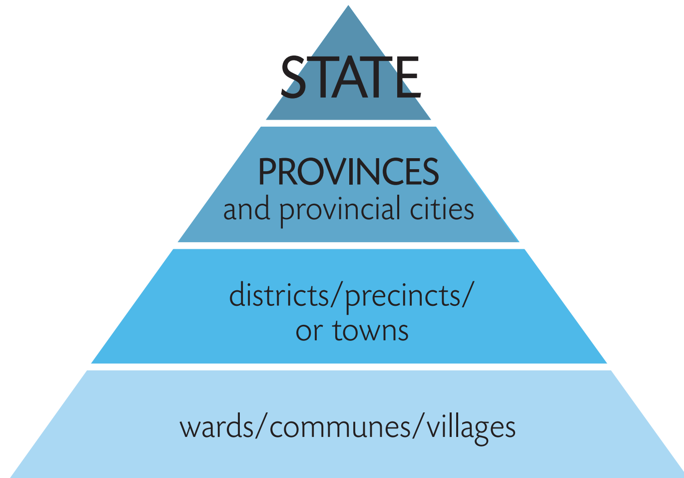
1.2. How local authorities are organised

The local authorities play a key role in the evolution of the country, since the material well-being of the inhabitants, particularly city dwellers, the way companies are welcomed and the services they are offered, and the sound political management of the country increasingly depend on them. Vietnam's transformation has led to a major change in the way they position themselves, with a move towards a clearly marked strengthening of their prerogatives and their autonomy *vis-à-vis* the central government, despite their formally subordinate status *vis-à-vis* the latter.

1.2.1. *How local public administrations are structured*

From a legal perspective, local public administrations are just a dismemberment or a local embodiment of the State. Their budget is simply part of the state budget and, in principle, only serves to implement at the local level the plan defined at the national level. In Vietnam, one can only consequently speak of devolution. At the local level, the State is first embodied by the provinces, which are themselves divided up into districts. Cities can be either provincial cities or district cities. They are divided up into precincts (for the provincial cities) and wards. The rural districts are made up of communes and villages. There are a total of 58 provinces and 5 cities under national supervision ("provincial cities" of Ho Chi Minh City, Hanoi, Danang, Hai-Phong, Can-Tho), which constitute the first local level of the administrative system in Vietnam.

Figure 1 *The four levels of sub-national government of the Vietnamese State*

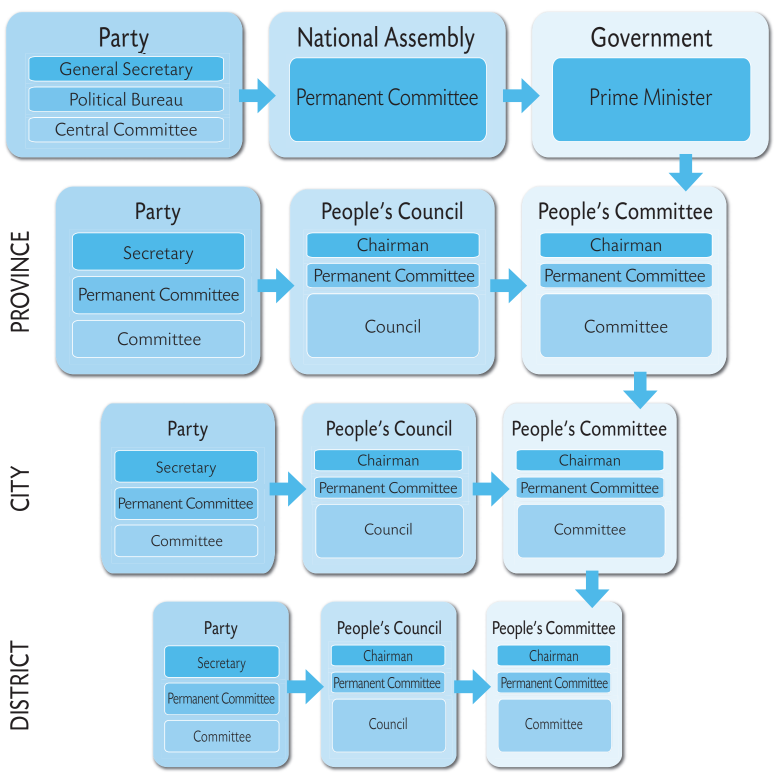


The different levels of sub-national government cover extremely diverse realities and show wide disparities. The role played by cities increases according to their demographic and economic weight. They are involved in a sort of *cursus honorum* with a classification (in 6 classes), which their prerogatives and autonomy depend on, as well as allocation conditions for development loans, for example. These six classes are, in descending order, the "special" category (with only Ho Chi Minh City and Hanoi), then classes I to V (cities in class I and II may be under national or provincial supervision). The classification depends on quantitative factors (number of inhabitants, urban dwellers, density...) and qualitative factors (influence of the city from an economic, educational, cultural perspective...).

The province is the most important level, as it is in charge of the bulk of local public services (public transport, infrastructure, health and education to a large extent, water supply, sanitation, waste...), and generally confines the lower levels to more narrowly local interventions. It also has a sort of supervisory authority over their budgets and decisions. Cities thus generally have to defend their place and autonomy *vis-à-vis* their province (except in the case of the five provincial cities under national supervision). This results in perceptible conflicts, particularly in cases where the city represents a large part of the provincial population.

The organisation of sub-national government is mainly based on the state model. Departments in each of the provinces correspond to the main ministries (Finance, Planning and Investment, Construction, Transport, Health, Education...).[4] These departments report to both their ministry and the provincial authorities. These authorities are organised as People's Councils (the local legislature, linked to the National Assembly) and People's Committees (the local executive, under the supervision of the Government). The executive is, in reality, quite concentrated in the hands of the Chairman of the People's Committee and two or three other committee members. This concentration of responsibilities within a restricted circle of people is, moreover, a widespread practice at all political and administrative levels.

Figure 2 *Authorities and levels of administration*



[4] For example, the Ministry of Finance corresponds to the provincial Department of Finance in the province: the Ministry of Construction corresponds to the provincial Department of Construction in the province and also at the district level, etc.

The local administration operates with weak inter-department collaboration and an apparently rather lax coordination on the part of the Chairman of the People's Committee. This coordination is organically exercised by the provincial Department of Planning and Investment for investments and by the provincial Department of Finance for budget preparation and execution. The other departments appear to be quite widely autonomous in their mission, meaning there are sometimes delays and conflicts. In addition, management tools and information-sharing appear to be underdeveloped and rarely computerised.

On the periphery of the provinces, public sector companies and other "ancillary" entities play an increasingly important role (see below).

1.2.2. *Politico-administrative integration*

The Communist Party and the Fatherland Front are less visible – but of course essential – actors. All important decisions are taken with the approval or according to the directives of the Party. Their local leaders have real power, which is often greater than the visible power of the province or city leaders themselves. The Party has also shifted from an organisation based on a handful of elites to a much more systematic network within society, in order to ensure it is firmly established. The Fatherland Front, which groups together all the active social forces, sectoral and professional organisations… is a valuable representative and intermediary for the Party. It plays an essential role in appointing candidates to the different political functions. This whole system exercises an effective control over society, along with a power of leadership which is omnipresent and very real.

There is a great osmosis between leaders at both the local and national levels. In the cities and provinces, all the senior positions are held by members of the local branch of the Party. Recent institutional changes have led to a move towards a public display of the leadership role of the Party and a simplification: People's Councils are being abolished and the positions of Party Secretary and Chairman of the People's Committee have been merged. Since the beginning of 2010, these positions are systematically combined. Communes and districts in about ten provinces are already operating under this regime. This osmosis also exists among the other main bodies (army, police), which are, moreover, also represented on the People's Committees. This practice cements the pact of local governance and, at the same time, ensures it is opaque and allows the parties involved to agree on the sharing of the benefits of growth.

In short, the centre of local power lies within the Party, whose local leadership is increasingly merged with that of the People's Committee.

1.2.3. *Increasing local autonomy*

Over the past years, one can observe an unquestionable trend towards a greater autonomy of local authorities, particularly the provinces. Recent texts confirm this trend:

- Decree 12/2009 of 10th February 2009 on public investment, whereby only the most important cases are subject to the agreement of the central level;
- Law 30/2009/QH12 of 17th June 2009 on urban planning, which gives a greater latitude to local governments for the definition of zoning and building regulations;
- various laws and decrees passed in 2007 in the sectors of water (Decree 117/2007/ND-CP of 11/07/2007), sanitation (Decree 88/2007/ND-CP of 2007), waste (Decree 59/2007/ND-CP of 2007), which specify and extend the prerogatives of the provinces;
- the creation of investment funds (at the end of the 1990s, but this has gained importance since Decree 138 of August 2007), which provide the provinces with a financial instrument for their operations.

Almost everywhere, the "horizontal" hierarchy of the provincial committees over the local departments prevails over the vertical hierarchy of ministries over these departments, except when the important nature of decisions means they still require central approval, particularly when transferred credits are at stake (which is much more generally the case in the poor and rural provinces than in the economically dynamic and urban provinces).

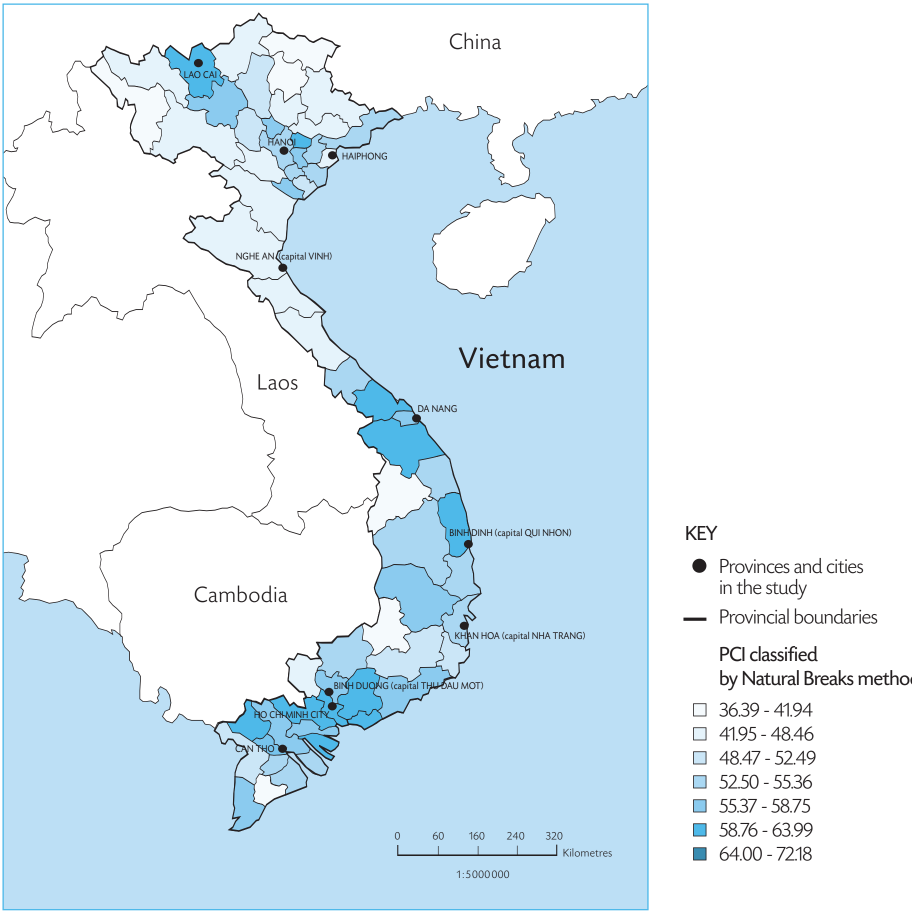
This evolution meets a unanimously recognised need. The State has implicitly relinquished ruling over everything in the face of the increasing complexity of society. There are too many decisions to be made and too much information to handle. It recognises that the local level is often in a better position to take decisions, and the latter consequently increasingly benefits from a kind of delegation. The fate reserved for the Plan (Socio-Economic Development Plan – SEDP), which appears to be mainly a national "exercise in style", is one example of this. The most important thing would appear to be to formally comply with the SEDP and provide evidence of this.

The corollary of this is a form of pressure from the central level, which is exerted in a more or less formal manner on local authorities. They are openly requested (as one can see in the press) – at least in the cities – to have more and more effective public services, plentiful housing and high-quality infrastructure. They must also conduct the major development projects with diplomacy. Popular satisfaction and social peace in the provinces are indicators of success that are carefully measured by the upper echelon of political hierarchy. Local leaders abide by this and in return ask the State to give them complete freedom

There is, in addition to this pressure, a form of competition between provinces. Provincial leaders are consequently extremely sensitive to the Provincial Competitiveness Index (PCI),* established annually for each province by American and Vietnamese experts, on the basis of about ten representative criteria of the dynamism of the province, the administrative effectiveness and its integrity. This ranking is taken very seriously by the central authorities and moving up a few places is an envied sign of major success.

* http://www.pcivietnam.org

Map 2 *The provinces' 2008 PCI ranking*



Source: PCI survey, 2008.

The relative increase in the power of the Association of Cities of Vietnam is a sign of the increasingly important place held by local government. Founded in 1990, for a long time it only gathered leaders from medium-sized cities, but its leaders are now no less than the chairmen of the People's Committees of Hanoi, Ho Chi Minh City, Can-Tho and Hue. It conducts studies on technical subjects of a common interest and actively makes proposals to the national authorities.

The interests of local elites (at least in the most prosperous provinces) are also being oriented towards a greater autonomy and responsibilities. These elites are involved in the contracting out of local public services and urban development *via* partner companies, and are logically seeking to benefit from the positive effects of this process. They prefer the process to be managed locally and wish to avoid interferences from a central power that would have difficulty in grasping local balances and seek its own interest.

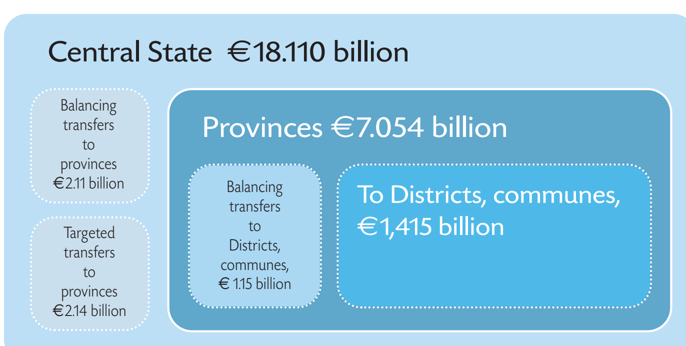
The two major economic and political capitals provide the most mature cases of this "autonomisation". Moreover, Ho Chi Minh City and Hanoi each benefit from a status that gives them a wide autonomy (Decrees of 18th May 2004). Their leaders are, in addition, by right among the top Party leaders at the national level.

1.3. A budget still closely supervised and highly equalised... with the development of tools to support local action

1.3.1. *Rich provinces and poor provinces*

The budgets of provinces and other local entities represent roughly 44% of the State budget. They are prepared at the provincial level, discussed with the Ministry of Finance and the Ministry of Planning and Investment, voted by the National Assembly, then detailed at the provincial level (only the overall amount is imposed and the apportionment may be modified after validation by the Assembly). The cities under provincial supervision are submitted to the same process, one level lower. Local public finances are governed by the Law 1/2002/QH11 of 16th December 2002, which defines how they are organised and imposes the principles of solidarity and equilibrium.

Figure 3 *Rich provinces and poor provinces*



Source: Statement of accounts of the State and provinces for 2008, MOF.

There are considerable inequalities between provinces, which reflect the economic disparities in the country. Indeed, their own resources all more or less depend on the local economic dynamism. This concerns:

- Resources of a fiscal nature, such as the property tax on constructed land (in fact on land use), the tax on the transfer of land use rights, and taxes that more directly target economic activity: VAT, corporate tax (CT), tax on high incomes.[5]
- Collected local taxes and user fees, such as the tax on constructions, fees for administrative files, occupancy rights, rights of way, for the use of public services… part of these resources finance part of the budget, the allocation of which is at the discretion of the local authorities.
- Resources from the transfer of land use rights.[6] which mainly benefit the richest and most dynamic provinces. Moreover, it is their main source of direct autonomous financing for investments. This resource is obviously not inexhaustible and raises the question of the sustainability of direct public investment financing in the provinces concerned.

The provinces' per capita budgets would be in a ratio of 1 (Lai Chau Province) to 200 (Ho Chi Minh City or Ba Ria-Vung Tau), if they were based purely on own resources.

1.3.2. *High level of equalisation*

The State plays a key role in mitigating the effects of this great disparity. This considerable equalisation effort is made:

- Through a transfer to the central State from the main local taxes relating to economic activity (VAT and corporate tax). Ten of the 63 provinces consequently transfer between 5% and 74% of these resources. For the 10 provinces concerned, this transfer represents a total loss equivalent to roughly 60% of their potential

[5] The fiscal apparatus of the provinces and districts directly depends on the State. Its performance is limited (except for VAT with an estimated 84% collection rate), due to an inadequate inventory (perhaps made even worse by the fact that all taxes have gradually become declaratory since 2007), complex rules for the oldest taxes and collection problems.

[6] Transfers of land use rights are similar to actual sales insofar as there is no time limit on the rights (at least for housing, while they are limited to between 50 and 70 years for economic activities), they are transferrable and can be inherited. However, the land officially continues to belong to the State, which in principle allows the State to recover it in case of need, particularly to implement operations in the general interest. But even though the State remains the owner *de jure*, it cannot dispose of its property without providing a considerable amount of compensation for the holders of the land use rights.

revenues. This sharing out is defined by the National Assembly for a 3-to-5-year period. It is decried by the provinces that are taxed, even though they are also relatively proud of it.

- Conversely, by the payment of balancing subsidies (26% of local budgets in 2009) or subsidies for the implementation of targeted categories of investment, the "target programmes" (22.4% of local budgets). In principle, only the provinces that do not "share" their main taxes with the State receive these transfers.

Certain provinces consequently do not receive a single dong from the State, while transfers from the national level can represent up to 90% of the budget of other provinces. On average, on the national scale, the transfers contribute to 47% of the provinces' budgets.

After equalisation, the provinces' budgets per capita reach a ratio of 1 (Soc Trang Province) to 5 (Danang), with an average of €80/inhabitant in 2009. These local budgets have generally risen sharply in recent years.

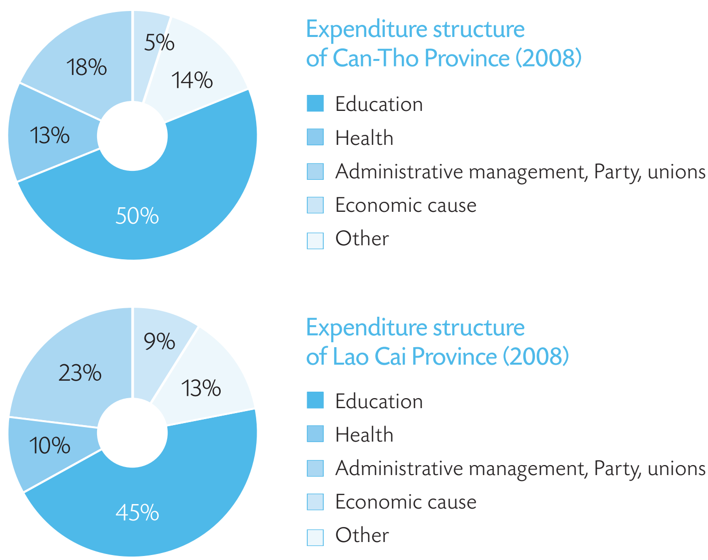
1.3.3. *Budget structure*

The structure of expenditure shows strong similarities between two provinces – Can Tho and Lao Cai – that have extremely different profiles:

- roughly a quarter of expenditure earmarked for investment;
- roughly a fifth earmarked for transfers to sub-provincial entities;
- a non-earmarked budget (designated by part B of the budget), financed by service user fees (mainly in the sectors of health and education), in the region of between 10 and 15% of the main budget;
- staff expenditure, which is certainly the dominant budget item (but there is no presentation by type of expenditure that would allow an accurate assessment of this);
- by sector, the largest items are education, with almost half of the current budet, and health with roughly a sixth, both of these sectors being highly labour-intensive.

The size of budgets may vary enormously, but there is little difference in their structure [7] as they must respect minimum percentages for a certain number of sectors (education, health, research, Party...)

Graph 1 *Expenditure structure of the two provinces*



Source: Approved accounts of the provinces for 2008.

The budgets of districts and sub-provincial entities on average represent a fifth of the provincial budgets. They are mainly devoted to local services (schools and health centres, public highway cleaning...) and a few investments (roughly one-fifth on average of those made by the provinces). These budgets are mainly financed by provincial transfers, which are controlled although the provincial authorities do have some leeway (and therefore real power). Part of the fiscal revenues (mainly those concerning land) is shared between the province and the districts (30% in principle). The district cities can also partly benefit from the transfer of land use rights on their territory

[7] With the notable exception of Ho Chi Minh City, where the share devoted to the "economic cause", *i.e.* particularly for the subsidies for local public sector companies, represents a quarter of the budget.

1.3.4. *The provincial "holding company"*

The provinces' budgets are far from giving a full picture of all provincial actions, as these are also implemented *via* numerous autonomous entities, whose accounts are nonetheless often balanced by transfers from the province.

The province (or city) is consequently generally at the head of a group of entities, local public sector companies that manage local public services in the broad sense of the term (water production and supply, wastewater collection and treatment, transport, cleaning of public areas, construction and development, etc.). Some of them can operate in more classic market sectors (industrial, commercial, financial activities...). The province appoints their senior managers, sets the tariffs (for the urban services) and, very often, at least partly meets their financial needs. Among them, one can generally at least find the water utility and the provincial Urban Environmental Companies (URENCOs).[8]

Figure 4 *The provincial "holding company" and its satellites*

[8] Companies that come under the generic term of URENCO are public sector companies that are the operational actors of the city for a certain number of urban services (public cleaning, public lighting, waste management, maintenance of roads and public gardens, sanitation, etc.). Their geometry varies depending on the cities, but they generally include sanitation, when the latter is not provided by the water company. They also often have activities outside, or on the periphery of, these sectors (construction, selling equipment, etc.). They may have other names, such as Public Works Company (in Can Tho, for example).

In the largest provinces, the major public sector companies (at least those that have a certain economic equilibrium) are generally structured as "general companies" (*Tổng công ty*). They are a sort of holding company on which depend a whole host of subsidiaries that may have extremely diversified activities. They can take out loans, generally from national banking establishments, which are also under public ownership (Vietnam Development Bank [VDB] or state-owned commercial banks [SOCB]). The State makes lines of credit available to them at administered rates *via* these financial bodies (notably VDB). For the urban services, investments are made either by the provinces (and provincial cities), or directly by the operating companies, with financing in the form of a subsidy/transfer from the central government or a loan at specific rates, depending on the sector (see the section on investments).

The diversification of their activity can sometimes be very far from their core activity (for example, building and public works activities or property development for a water distribution company). This is a common practice in Vietnam's public sector companies and can provide a way for urban service companies to break even.[9]

Since the Law 60/2005/QH11 on Enterprises of 29th November 2005, the Vietnamese authorities have been implementing a progressive "corporatisation" policy, *i.e.* a policy to turn public sector companies into companies with a "private" status, but 100% public-owned, prior to opening up their capital to external shareholders (public or private). Companies controlled by local public administrations have not escaped this. There is a move towards a separation, at least officially, between the governance of companies and that of their supervisory authorities in order to avoid conflicts of interest (for example, between the regulator and operator for urban services). But this evolution is slow and, today in any case, more official than real, especially in the main public services (water, electricity, waste management, public transport, etc.) where tariffs are set by the public authorities at levels which rarely make it possible to cover their costs.

In order to prepare their privatisation "by tranches", the companies often take the form of general companies (*Tổng Công Ty*), or holding companies, and operating subsidiaries. The capital of some of these subsidiaries (the most profitable) may then be opened up to external shareholders (generally public or private Vietnamese companies, with a part in principle reserved for employees). This is the preferred operating method in local public services, which are increasingly contracted out. The

[9] For example, the Thanh-Hoa Water Company earns only half of its income from drinking water production and supply.

aim is for these companies to be in a position to open up their capital, thus giving them an attractive economic profile. This can be achieved by raising user charges, redefining their scope of intervention by giving priority to the most lucrative activities…

This partial privatisation still only concerns a few cases in the most prosperous provinces: for example, the water companies of Ho Chi Minh City (SAWACO), Hai Phong and Vung Tau, or Hanoi's waste management company (see examples in the thematic sections).

The most mature case is, of course, that of Ho Chi Minh City, which had 381 companies in 2009, including 262 with several shareholders and numerous cross-shareholdings. These companies operate in practically all the sectors of the local economy (building and public works, property development, tourism, transport…). It is, in addition, estimated that 80% of the public investments of the economic capital are made by these companies, while only 20% of them are made by the province.[10] The economic capital is seen as a testing ground by the provinces that have the economic wind in their sails…

Yet some provinces, such as Danang, have preferred to follow the path of refocusing on their core activities and selling their assets. Danang consequently has a progressive policy to sell all its shares in "commercial" companies and only keep the control of public services, such as water distribution or waste management.

Box 1 *The status of public sector companies*

There are currently three types of public sector company:

• "Classic" public sector companies, governed by the law of 2003, which must all be turned into limited liability companies or public limited companies by 1st July 2010.

• Public sector companies with a private status (which we will call "corporatised"): they have assets that are separate from their supervisory authorities and officially operate in an autonomous manner, although their autonomy generally remains extremely relative. They have the status of a single-member limited liability company.

…

[10] Yet no accounting consolidation (results, debt…) of this powerful group is either made… or accessible.

•••

They are wholly owned by the State or the local governments they are dependent on. In theory, this is only an intermediary status, prior to their "privatisation", but they may keep it for a long time, either because their commercial viability is not yet guaranteed and they consequently do not attract sufficient private equity, or because the authorities wish to maintain full control;

• "Privatised" companies (where part of the capital has been transferred to external investors): this is an increasingly common case. The external shareholders may be executives or employees of the company, investment funds (private or controlled by public sector companies) and sometimes even foreign investors. They then become Joint Stock Companies (JSC), with a legal status as Shareholding Companies.

In a few very limited cases, this privatisation, generally negotiated "by mutual agreement", has led to an initial public offering. In some sectors, particularly for urban services, there are limits to the transferrable part of the company. Legally, the State retains at least 50% of the capital of companies in the following sectors: railway maintenance; road and river network management and maintenance; management and operating of small maritime ports; sanitation and public lighting in urban areas; production of electricity of over 100 MW; drinking water operations, production and distribution (level I and II networks); road, maritime and air transport…

It is also increasingly common for companies to be directly set up with a status of JSCs (for example, in property operations when the province or city provides the land in exchange for shares in the company that will develop it). The capital of "privatized" companies has mainly been opened up to employees and managers. Decree 187/2004/ ND-CP dated 16/11/2004 stipulates that employees have priority for the acquisition of shares and benefit from a 40% reduction compared to the actual price. Each employee may purchase 100 shares for each year worked in the company and the value of the shares sold must be above 20% of the share capital. But in practice, less than 15% of the capital is often sold in this manner and in conditions where little information is available.

"Public establishments" ("Agency-type"): entities that are legally separate from their supervisory authority, but financially and politically totally dependent on it. Prior to the 2003 Law on public sector companies, urban services were generally managed under this status, and entities such as planning Agencies are also to be found in this category…

Unfortunately, there is no consolidated accounting approach by the provinces or cities and the entities which are dependent on them: no overall vision of their results, internal transfers, or overall debt, commitments or contracts with third parties or between each other.

1.3.5. *A new tool: the Local Development Investment Fund (LDIF)*

Local Development Investment Funds (LDIFs) are specific financial institutions. They constitute legal and operational tools for the provincial governments, allowing them to invest in urban and economic infrastructure that provides a satisfactory return on investment. LDIFs have a legal status as "locally based state financial institutions", with charter capital and specific accounting, which is not consolidated with that of the province they are dependent on ("off-budget").

Following the creation of a "pilot" LDIF in Ho Chi Minh City in 1997, HIFU,[11] the first law on LDIFs was promulgated in December 2001. After several years of experimentation, the precise definition of the operating mechanisms was set out in Decree 138 of August 2007 on the organisation and management of LDIFs, which paved the way for the widespread implementation of the "modern" version of LDIFs.

The projects implemented *via* these Funds are urban and economic infrastructure projects in the broad sense of the term: health, education, drinking water distribution and treatment, waste management, sanitation and wastewater treatment, roads and bridges, transport logistics, ports, fixed support infrastructure for information technologies and telecommunications (ITT), residential development, including social housing, industrial areas, energy transmission...

These are the main ways in which LDIFs are financed:

- Share capital subscribed by the province
- Domestic medium- and long-term loans [12]
- Bonds
- Official development assistance (ODA) loans (AFD, World Bank) *via* the Ministry of Finance

[11] Ho Chi Minh City Urban Development Investment Fund, today Ho Chi Minh City Finance and Investment State-Owned Company (HFIC)..

[12] One of the World Bank's concerns (Local Development Investment Funds Project, Project Information Document, 2009) is that certain LDIFs borrow a lot in the short term with roughly 80% of the capital borrowed for less than one year, 20% for less than 5 years, and almost no long-term debt. This corresponds to the lending conditions of local commercial financial institutions that do not lend over the long term.

The mobilised capital (excluding funds managed on behalf of third parties) cannot exceed six times the amount of the charter capital.

The LDIFs have an autonomous status vis-à-vis their political supervisory authority. However:

- all the members of the Board of Directors, Supervisory Board, as well as the director, deputy director and chief accountant, are directly or indirectly appointed by the Chairman of the People's Committee;
- the provincial-level Director of Finance is often a member of the Board of Directors and has oversight of the LDIF;
- the approval of the People's Committee is required for all investments exceeding certain thresholds (calculated according to the charter capital).

There are currently at least 21 LDIFs (12 in 2005), of which the largest and the most emblematic remains HIFU (Ho Chi Minh City) €57.3 million invested by the provincial government and €63.5 million of loans, mainly from banks.

Most LDIFs are currently at a fledgling stage and are just in the process of being set up, sometimes ambitiously, sometimes without the local managers fully grasping or understanding yet the funds' potential. It is often the manager of the local VDB branch that takes charge of the management.

However, the 2007 Decree obliges them to have their own resources and personnel by 2010 in order to be recognised as an LDIF.

The interest of this instrument lies in its wide range of possibilities for action. LDIFs may invest in a variety of ways:

- Direct investment, notably *via* BOT, BTO and BT-type contracts[13]
- Loans with maturities up to a maximum of 15 years
  alone or with other investors
- Equity investments in newly created companies
- Fund management on behalf of third parties (province...)

LDIFs may take part in operations combining several intervention methods, for example they may:

[13] BOT: Build-Operate-Transfer; BT: Build-Transfer-Operate; BT: Build-Transfer. These contracts have been governed by Decree 08/2009/ND-CP since 15th January 2010.

- Take an equity stake in the capital of a company
- ...which is a member of a corporate organisation...which holds a BOT
- ...and benefits from loans from the LDIF

The LDIFs are all designated as being the "operational wing" for the development of enterprising provinces. AFD has been supporting these instruments for several years. It has allocated two loans to HIFU, appraised requests for the LDIFs of Danang and Can Tho in 2010, and is supporting the structuring of the three funds by providing them with technical assistance.

The World Bank is also supporting the LDIFs. Following an initial loan to HIFU, it considered it was probably the best local intermediary for well-targeted lending operations. In this respect, it has developed an ambitious lending programme (USD190 million) with several of them. It was concluded in September 2009.

The fact that the LDIFs are recent and do not yet benefit from a very professional supervision does, however, give reason to be vigilant. For example, the certification of accounts according to Vietnamese standards [14] probably does not constitute an adequate guarantee of control. The fact that there is also no accounting consolidation of these entities – which may borrow heavily – at the overall provincial level is also a weak point in the system, as the risks they take are ultimately borne by the province.

1.4. The mechanisms for local public investment

The State has consequently chosen to gradually give greater autonomy to local authorities. This is a calculated and controlled choice. It widely benefits the country: 62% of public investments are now made by local authorities, against 42% just 15 years ago. The rule established by the central State would appear, in an oversimplified manner, to be: "as long as you do not weigh on the State budget but, on the contrary, contribute to it, you may be autonomous". But how are these investments made at the local level?

Local public services are increasingly developed on the initiative of the local authorities. Their programming, approval and implementation meet specific rules. Their financing uses extremely variable methods, especially in the rich provinces and cities. In all the intervention sectors of the cities, there are an increasing number of projects

[14] Certification is made by a body considered as being independent, which is in fact appointed by the Chairman of the People's Committee.

due to the fact that the needs are so considerable. Extremely different types of partnerships and arrangements can be observed, both with processes that largely depend on the level of marketisation of services.

1.4.1. *The procedure for defining and implementing investments*

Public investments must theoretically be based on the Socio-Economic Development Plan (SEDP), which is a five-year framework document. A new SEDP will be defined for the period 2011-2015. Investments must also (and perhaps in a more practical manner) be in line with sectoral plans (water, transport, environment…) and the Master Plans, which provide the framework for land use.

Everything must pass through the Ministry of Planning and Investment, and at the local level the provincial Departments of Planning and Investment (DPIs). Under the plan, they regulate the investments, authorise them, put a brake on them, without any known objective criteria. Projects are never clearly identified in the budgets: the only thing that appears, in both income and expenditure, is the source of their financing, notably when it involves "target programmes" (see Section 1.3.2) financed by the central State. This manner of operating, which lumps investment expenditure together and makes it anonymous, facilitates credit allocations and withdrawals depending on the level of progress of the operations. This great budget "flexibility" results in extremely high levels of investment (80%). This manner of presentation is essential, as the pragmatic objective of the provinces is to show that they have achieved the agreed total volume of investments and not to go into details of what they are destined for. Moreover, as long as State finances are not at stake (this is the case for the rich provinces), the intervention of the Ministry of Planning and Investment will be limited to the technical aspects.

The Ministry and Department of Planning and Investment must also ensure that the numerous technical and administrative rules set out in the Law 59/2005/QH11 of November 2005 on investments and by Decree 108/2006/ND-CP, updated in 2009, are complied with. The latter classifies investments in several categories according to their amount and their nature. Depending on the category, the central State's green light is or is not required, the level of preliminary and feasibility studies varies and the contract procedures are more or less restrictive. In all cases, the public-sector project is led by a provincial or city department and a project management unit (PMU) is appointed to manage it as soon as the project reaches a certain size. In many cases, the technical authorisation process requires the intervention of several departments (Construction, Transport, Environment…):

- The provincial Construction Departments (with approval by the Ministry of Construction for the largest) approve major projects from a technical perspective in the sectors of water, sanitation, waste, and appraise the construction permits for these projects, and more generally all the projects involving major construction works.
- The provincial Transport Departments (and the Ministry of Transport) are responsible for public transport, road network maintenance and infrastructure.
- The provincial Departments of Natural Resources and Environment (and the Ministry of the Environment) give an authorisation for the land to be made available and for the creation of facilities that have an impact on the environment, establish environment quality standards, and control polluting facilities and water quality.
- The provincial Departments of Agriculture and Rural Development intervene for rural areas and the environment in the water sector.

1.4.2. *Investment financing*

Transfers

Most provinces can only finance their investments via State transfers and sometimes with a meagre amount of self-financing. These are targeted transfers ("target programmes"). These transfers represent almost a quarter of the local budgets, and even the bulk of the latter for over half of the provinces.

Financing by users

In the most affluent provinces, new possibilities are emerging simply due to the fact that the end users (companies or households) have more resources to contribute to financing investments, or that these regions are in a context of urban expansion.

Fees paid for services such as water, sanitation, waste collection and treatment, or transport currently barely correspond to the real cost, and in many cases even simply the operating cost. The provinces, which have some leeway in setting user fees, generally maintain them well below authorised national limits. However, one can observe a prudent, but clear, trend towards tariff increases.

It is important to note that:

- The prospects for self-financing via tariffs are much better when the local government is prosperous and benefits from a growth process. These local governments can not only rely on an increase in the volume of services rendered and charged, but can also allow themselves to envisage higher tariffs than the others.
- Companies in productive sectors, which are likely to pay a tariff that is closer to the real costs, should allow certain sectors (waste and sanitation in particular) to find an initial "client base" and professionalise a range of services that continues to be too limited; here, the problem lies rather in ensuring that industries actually move towards these services. The law obliges them to do so, but in reality, controls and sanctions in terms of policing the environment remain inadequate.
- User fee revenues do not suffice, year after year, to finance direct investment expenditure. At best, they can provide a basis for borrowing or allowing public-private partnerships to develop. Recourse to borrowing and/or PPPs is all the more advisable as these services have real potential for development.

In addition, the public sector companies in charge of these services often seek to improve their profitability by offering services in different sectors (*e.g.* water companies operating in the building and public works or property sectors).

Borrowing

Recourse to borrowing is strictly supervised by the Ministry of Finance, as the central level is afraid of being drawn into an uncontrolled debt spiral by local authorities due to the enormous extent of their needs.

Loans may be taken out by provinces in the framework of Article 8, paragraph 3 of the 2002 Law. These are short- or medium-term loans destined to give public investment expenditure a greater flexibility and, especially, to bridge the gap from one financial year to another. They are mainly taken out from the Treasury Department and/or the Bank of Vietnam.

The amount of outstanding loans cannot exceed 30% of the amount of investments set out in the yearly budget (on average, the investments represent 25% of the provincial budgets). In Ho Chi Minh City and Hanoi, which can go up to 100% of this amount, debt consequently takes on a completely different dimension and can be in the form of bonds, which are, moreover, mainly subscribed by Vietnamese public financial establishments.

There is consequently no long-term debt (always less than 5 years) at the level of the local authorities themselves. Long-term debt to finance equipment and infrastructure is – and will be – made rather by local public sector companies. Indeed, they do not appear to be affected by the percentage limits that their "mother companies" (*i.e.* the provinces) must comply with. There are even fewer examples of loans allocated to these entities, either by Vietnamese public banks (VDB among the main ones), or by official development assistance (ODA) entities. In all cases, the approval of the Ministry of Finance is required. It ensures that the loans are only allocated for operations that provide a rapid return on investment and have high repayment capacities. It also holds the province or the city under its supervision as the first to be responsible for repayment.

The conditions for official development assistance loans are not the same as those that the State will pass on *via* the Ministry of Finance, as it is the latter which borrows (sometimes in foreign currency), bears the exchange risks and possibly subsidises the rates. The lending conditions depend on the category of the province or city that is the final borrower, as well as the type of investment financed.

The Local Investment and Development Funds (LDIFs), which can borrow up to six times the amount of their charter capital, also add to the options open to provinces (see above).

Public-Private Partnerships (PPPs)

New contractual forms of PPPs with integrated financing have appeared in recent years (BOT- and BOO-type PPPs) and concern the design, implementation and operating of infrastructure. They make it possible to accelerate investment and create a basis to finance it with conditions ensuring a motivating return for the private partner.

Partnership operations, in the sector of infrastructure and public services of a technical nature, must find the right balance by exploiting several elements:

- a commitment to increase prices for the final consumer if the partner receives payments directly or if its remuneration depends on them;
- a minimum revenue guarantee, possibly depending on the volume of services provided.

… but also other elements such as:

- the allocation of facilities concerning the land
- the actual duration of the contract
- renegotiation clauses
- tax exonerations
- the guarantee on loans taken out.

However, PPPs are having difficulty taking off in Vietnam and there are still very few examples, except in the energy sector (example of the Phu My 2 thermal power plant). This is particularly due to the fact that the public authorities are not used to delegating some of their rights over the long term, to the unstable legal framework and to a few unfortunate experiences.

The PPP formula does not necessarily mean that the contract is signed between a public administration and a private consortium. The consortium can itself comprise public sector companies, as is the case with the Phu My Bridge in Ho Chi Minh City, where one can find alongside foreign companies both a major building and public works company from Hanoi and CII, a public sector company from Ho Chi Minh City of which HIFU is a major shareholder.

More simply still, the two contracting parties can be the province on the one hand, and a company it fully owns on the other hand. This is the case of Binh Duong Province with the province-owned company BECAMEX, which in 1999 obtained a 35-year concession to repair, widen and improve Trunk Road 13. After five years, BECAMEX had repaid the loans taken out in part… from the province's LDIF (BEDIF).

A clearer framework should be defined for the PPPs, as until now the conditions have been negotiated without sufficient baseline. These projects, which are nearly always on a large scale, are indeed each time very new for the local public administrations from both a financial and technical perspective. A draft bill for this was under preparation in 2009.

In urban services, the only PPPs identified, almost all of them extremely recent, mainly concern water and waste (see Part 2).

Development operations

The large-scale urban development operations are, in fact, most of the time real partnerships between the public authority and the operators. They make it possible to finance urban infrastructure or social housing in private development operations on land that was initially state-owned (infrastructure is included in the operation's financial balance).

Private development projects or operations are proposed by the investor to the relevant provincial department or the district People's Committee (in the provincial cities) the project is dependent on, or directly to the provincial Department of Planning and Investment. It is the investor that generally proposes the "compensatory" infrastructure to be built.

The People's Committee has several levers or "bargaining chips" that allow a mutually profitable partnership to be sealed:

- transfer of land use rights
- freeing up of land and rehousing of displaced persons
- tax advantages
- possible adjustment of constructability rules and local Master Plan
- since the recent law on urban planning, the investor can itself draw up the detailed plan of the area it is developing

Finally, there can be other types of trade-offs... that sometimes only have a distant connection with the operation. The case is quoted of a profitable road concession granted in an area of Ho Chi Minh City to a company that has also been granted permission to develop difficult land... on the other side of the city. In Hanoi, a Chinese company has been entrusted with the construction of a metro line in exchange for land located in sectors that are sometimes very far from the line in question.

Moreover, independently of the financing of equipment and infrastructure within the development projects themselves, the transfer of land use rights by the provinces for real-estate development projects constitutes an important resource for the most dynamic provinces (although it is mainly not long-term), or may even be the main resource for their "direct" investment policy.

The superposition of new contractual forms, local public sector companies that can open up their capital and diversify their activities, and local investment funds make it possible to come up with complex arrangements that are not always well understood from the outside. A province-owned company whose capital is opened up can consequently have a public-private partnership with its own province and benefit from loans from a provincial investment fund. This is the impressive case of BECAMEX in Binh Duong, which makes heavy road investments. It is also the main urban developer and invests in water, transport, waste, pharmaceutical product production... It also manages the country's second best football team.

Part Two

2. Urban Development and Local Public Services

Vietnam's urban explosion is taking on forms which are increasingly characterised by the large scale of investments, though this is part of a process that is increasing regional and social inequalities within urban areas. This urban growth is integrated into a normative planning framework that is relatively strict, yet greatly flexible in practice. The associated local public services are constantly trying to keep apace with this robust growth, and despite structural handicaps, are seeking to find new means to upgrade.

After describing the framework of urban expansion and its realities, this study now takes a more in-depth look at four core urban services: drinking water production and supply, sanitation, waste management and public transport. Local policies in terms of housing, education and health will then be addressed.

2.1. The forms of urban expansion

The expansion of cities, particularly major cities, is taking the form of an urban explosion. This has clearly been fostered by the *de facto* recognition of private property in 1988 and 1993 and, especially since the 2000s, by the liberalisation of "land use rights". Between 1989 and 2009, the population of Ho Chi Minh City rose from 3.92 to 7.12 million permanent residents, to which are added roughly 1.9 million "temporary" migrants living in Ho Chi Minh City or in neighbouring provinces partially absorbed by urban expansion: [15] Dong Nai (2.48 million official inhabitants in 2009), Binh Duong (1.48 million official inhabitants) and, to a lesser extent, Ba Ria–Vung Tau (1 million official inhabitants). These migrants are mostly poor, and this demographic growth goes hand in hand with a dramatic increase in informal housing.

[15] Which also raises the question of managing an area at the metropolitan scale.

2.1.1. *Private development programmes – "formal" engines of urban expansion*

There has been a sharp increase in the construction of formalised private property since the 2003 Land Law, which widened and clarified land use rights. These rights may be given and used as capital in a company (even though the State continues to be the official owner of the land). The transfer and registration of land use rights have been devolved to the provinces and are becoming their main autonomous source of income.

From 2003 onwards, property construction began to take the form of major development projects, with the operators being mainly state enterprises (*e.g.* Tu Liem in Hanoi), and then increasingly with recourse to private and foreign capital. These operations are for the upper middle classes and rich populations, and mark the suburbanisation of the affluent classes (particularly in Ho Chi Minh City). Projects are generally on a large scale, entire neighbourhoods being built on unused land, often marshland or paddy-fields, on the periphery of major cities. They are integrated projects, which include (at least in theory) the coordinated development of technical infrastructure and networks, housing and public and private collective equipment and services. The projects propose apartments and individual houses, as well as serviced land for construction. However, in practice, the building of infrastructure, especially the public urban services (schools, health centres...), suffers from delays, and sometimes the land allocated for these is finally allocated for more lucrative uses...

For example, the Saigon South project (population forecast at between 500,000 and 1 million inhabitants), is being implemented by a joint venture between a Taiwanese company (Central Trading & Development Group – CT&D), which holds 70% of the shares, and the Vietnamese state enterprise Tan Thuan Industrial Promotion (which is providing the land), under the auspices of Ho Chi Minh City. This type of development leads to a privatisation (and an internationalisation) of urban development, which holds a financial benefit for the State (and especially the provinces).

The development/construction sector is dominated by a few major public construction companies (Vinaconex, Cofico, HUD, Song Da) and subsidiaries of large public sector companies seeking to diversify their activities (Viettel Construction, Lilama Hanoi JSC). However, powerful private Vietnamese companies are beginning to emerge (Bitexco, Idico, Him Lan, Kien A), including some which have close ties with the sphere of public authorities. And foreign investors are arriving in force, particularly on the biggest projects, for which local public sector companies do not have the capacity to raise sufficient funds. Companies from Malaysia, Singapore, or even South Korea, are among the most present.

For example, in 2006, in Ho Chi Minh City there were 121 property projects with international financing, for a total of over USD5.5 billion (1988-2005). Foreign direct investment (FDI) in this sector was even higher than that of industry! And the amount of investments is increasing in an exponential manner all over the country: USD4.4 billion in 2006, USD8 billion in 2007 and USD28 billion in 2008 (45% of FDI in 2008).

Despite two periods of stagnation in 2004 and 2008, property prices have been on a firmly upward trend since the early 2000s. This phenomenon is mainly linked to the rise in land prices, partly due to an artificial shortage of land (that provincial governments do not make available), and partly to the economic boom and the increased purchasing power of certain categories of population. The emergence of a mortgage market has also fostered this phenomenon, as well as the use of property as an asset, in preference to other investments (stock market, bonds...), which are seen as being unreliable, especially because their rates of return (bonds and banking products) are set by the State at rates that are often below inflation.

2.1.2. *Residential precariousness – the dark side of Vietnam's urban expansion?*

This property development has obviously led to a massive increase in built-up areas. In June 2009, the housing stock stood at 1,058 million m^2, including 320 million in urban areas (Nguyen Manh Ha, 2009), which represents an average of 12.2 m^2/inhabitant (14 m^2 per person in Ho Chi Minh City in 2007, against 9 m^2 in 1992-1993). Despite this unquestionable rise, the objectives set in 2004 (14 m^2/inhabitant by 2010 and 18 m^2/inhabitant by 2020) require constructing roughly 50 million m^2 a year.

In addition, this average hides wide disparities. Whole sections of the population, lower middle classes and especially the poor and recent migrants, still do not have access to decent housing. The ADB estimates that 41.3% of the urban population was living in slum areas in 2007.

[16] These "official" figures need to be qualified, for at an official opening ceremony for social housing sites in Ho Chi Minh City in September 2009, the Vice Minister of Construction, Mr. Nguyen Tran Nam, declared that he estimated that countrywide there were today 1 billion residential m^2 for 86 million inhabitants, *i.e.* an average surface/inhabitant of 12.2 m^2, but only 8 m^2/inhabitant in Hanoi and Ho Chi Minh City (SGGP 19/9/2009).

In the city centres, land pressure caused by economic activities (State or private companies, but also international companies – hotel chains, shops, etc.) has led to operations to rehabilitate precarious housing in city centres (sometimes financed by ODA). This generally results in the eviction and/or rehousing of poor populations, which do not have the means to stay in the same area.[17] This rehousing has often led to the destruction of the economic and social ties that guaranteed the survival of these populations. Moreover, the actual purchasers, in theory the expropriated populations, are in fact often privileged people who buy for speculative reasons. In the three years following rehousing, some programmes have a resale rate of between 70 and 100%.

Yet the housing problems are not confined to the poorest households. A study conducted with 1,000 households in Hanoi between 2006 and 2009 by the National University of Economics shows that only 7.9% of the population earn over €116 per person per month, 12.9% between €77 and €116 per person per month and the remainder earn less than €77 per person per month.[18] However, most housing programmes only target the first category of earners, and a few target the second. Current housing construction consequently remains inaccessible for 80 to 90% of the urban Vietnamese, despite the growth of the middle classes.[19]

"Illegal" migrant housing

Despite the relative relaxing of the conditions for the legalisation of urban residence in 2006-2007, the numerous unregistered migrants (not "officially residing" at their place of residence) – populations considered as being "illegal" – are the most vulnerable. They can neither install water, nor benefit from land use rights that could give them access to mortgage loans, nor receive compensation in case of rehousing.

Migrants that come to the city in search of employment in industrial areas are generally crammed into boarding houses and shared rentals located on former farmland on the city outskirts, on which the owners build small units that they rent out at a relatively modest price.[20] The building takes place without planning permission or sanitation infrastructure, water is provided by a borehole on the plot and electricity

[17] In Ho Chi Minh City, the population fell by 22% in District 1 between 1998 and 2005, by 19% in District 3 and 14% in District 5 (Cholon).

[18] *I.e.* for an average household of 4 people, thresholds of between USD464 and USD308/month of family income, respectively VND12m and VND8m.

[19] The urban middle class (earning between €174 and €347/month/household) has expanded sharply in Hanoi and Ho Chi Minh City from 30% in 1999 to 55% in 2006.

[20] €11.5 to €15.3/month in Ho Chi Minh City in 2009, according to the NGO *Villes en Transition*; €2.3 to €5.8/month/person in 2008, according to Viet Nam News (26/6/2008).

is supplied by a central meter in the name of the owner. These structures constitute real neighbourhoods that are totally informal and never taken into account by the public authorities. They represent a "social" housing solution that is rudimentary, but quantitatively very important, where living conditions are precarious and environmental problems considerable...

The migrants also create communities in the form of shanty towns on land occupied without titles (and, of course, without infrastructure). Some experiments to rehouse this type of population on site have been carried out, but despite their success (integration of the socio-economic functioning of populations, extremely low resale rate), the authorities are very reluctant to extend them, because they consume a large amount of public land, which is gaining value with the extension of the city (eviction without compensation being a much more lucrative solution for the public authorities). The rise in land prices, even in peripheral sectors, combined with the lack of ownership titles in the shanty towns, raises risks of eviction for the poorest.

2.1.3. *Industrial zones*

One of the drivers of urban expansion are the industrial zones. At the beginning of 2008, Vietnam counted 171 industrial zones, but new ones are created very regularly. There were 194 of them at the end of 2008 (Nguyen Manh Ha, 2009).

Industrial zones are provided for in the Master Plans (see below) and are generally created by the provinces, which are the reference authority. Most provinces manage these industrial zones via authorities or companies that directly come under the People's Committee. This type of entity can be specifically set up for a particular sector, as in the case of Nhon Hoi Industrial Park (Quy-Nhon). For example, in Ho Chi Minh City, the Ho Chi Minh City Export Processing and Industrial Zones Authority (HEPZA), set up in 1992, supervises the city's 15 industrial zones (32 km^2 in 2007, with a planned extension to 70 km^2 by 2015). In the rich province of Binh Duong, it is BECAMEX, the subsidiary 100%-owned by the People's Committee, that develops and markets the numerous industrial parks and offers many services to companies.

The industrial zones can be directly developed and managed by these entities, or delegated to private operators or other provincial or national public sector companies (the province sometimes partly subsidises this development, or bears the cost of certain facilities, such as wastewater treatment).

These operators may be major national or international groups that invest at the same time (sometimes on the same site) in other real-estate projects (housing, offices and shops, private schools…).

Box 2 *An "integrated" private development project*

The example of "Tan Duc Industrial Park – Residential Area"

The Tan Duc sector in Long An Province, 20 km from the centre of Ho Chi Minh City, is being developed by the private Vietnamese group Tan Tao on an area of 1,157 ha (over 11 km^2).

The programme combines:

- an industrial area of 5.35 km^2, with an integrated river port over an area of 10 ha
- a residential sector of 4.22 km^2, including a private South East Asia College over an area of 100 ha
- a leisure sector of 1.67 km^2, with a sports complex, leisure and service facilities, green spaces and a 10 ha park
- a river port of 0.33 km^2
- a water production plant with a capacity of 48,000 m^3/day
- a wastewater treatment plant with a capacity of 20,000 m^3/day
- an internal electricity supply system

There is strong competition between the provinces to attract investments, which leads to the development of industrial zones that often go beyond the actual demand. For example, according to the Vietnam Chamber of Commerce and Industry, quoted by the newspaper Dat Viet of 24/9/2009, in the 20 industrial zones on the Mekong Delta (36.45 km^2), the occupancy rate stands at only 22%, and in the 177 industrial complexes (154.57 km^2), it stands at 4.5%! The major part of the region's industrial land is consequently not occupied, and yet the expropriation of a hectare of industrial land costs on average €154,000 (without mentioning social costs). This low occupancy rate can be explained partly by the lack of transport infrastructure (roads, public transport), which makes supplying inputs to the sites more difficult, as well as access for workers, and complicates production distribution.

2.2. Urban spatial planning

Urban planning and development are managed *via* a series of Master Plans at different levels. The plans are static and normative and consequently lack strategy and are difficult to adapt. The current general Master Plans ("for the year 2020") were defined in 1998, and often reviewed in 2004 following the adoption of the Law on Construction (at least for Hanoi and Ho Chi Minh City). They are currently being redefined ("Master Plan for 2030 with a view to 2050").

Urban planning and, by extension, all "territorialised" investments in urban areas, are governed by the Law 16/2003/QH11 of 26th November 2003 on Construction, and placed under the aegis of the Ministry of Construction. The official urban policy is consequently orientation Master Plan for Urban Development to 2020, defined by the Ministry of Construction, which is the ministry in charge of the urban policy and planning. The principles of this plan are largely demographic: population targets aiming to limit growth in the two metropolises – Hanoi and Ho Chi Minh City – and create satellite towns, promote the development of small and medium towns, develop rural areas…

This policy is then set out in a series of Master Plans, ranging from general to specific plans, each lower level having to comply with the orientations of the level immediately above. The Law of 2003 defines four types of Master Plan, with a responsibility in terms of definition and levels of approval that vary depending on the territory concerned, the category of the city and the level of detail:

- **Regional Master Plans (RMPs):** [21] these include population forecasts, and spatial planning according to these forecasts (urban areas, industries, technical and social infrastructure, areas to protect the environment and natural resources, land reserves);
- **General Urban Master Plans (UMPs):** these define the total urban area (and therefore the area to be urbanised) in line with population forecasts, establish a functional macro-zoning with elements for urban regulation in each area;

[21] The regional plans were introduced in 2005 to rationalise development and investment between organically linked provinces. This was supposed, for example, to limit the proliferation of industrial zones, with each province in competition with its neighbours to attract investors.

- **Detailed Urban Plans (DUPs) (in more restricted sectors):**[22] these give details – within predefined boundaries (generally in areas to be urbanised) – of the works that must be conducted for technical infrastructure (including to improve existing infrastructure for the urban improvement Master Plans), and all the constructability standards in detail.
- **Master Plans for rural residential areas.**

In practical terms, the Master Plans are defined by the provincial Department of Construction, or by the provincial Department of Urban Planning and Architecture if this is a separate body (in the major cities), with support from the urban planning institutes that come under the Ministry of Construction (the largest cities can have their own urban planning institute).[23] The local public administrations often use external consulting firms and international cooperation for preparing Master Plans.

This must be done in coordination with the provincial Department of Natural Resources and Environment, which has its own planning department (at least at the level of the province) and orients the use of land according to environmental constraints. It assesses the impact on the environment and the absorption capacities of the territory (maximum number of inhabitants...).

The Master Plans must be coherent with the Thematic Plans (transport, sanitation, etc.) defined by the relevant departments, and with the SEDPs, defined locally by the provincial Department of Planning and Investment, but in reality, this harmonisation is quite relative as there is little communication between the departments.

The actual urbanisation can be very different from the forecasts of the Master Plan, provided a certain formalism is respected. For example, in Ho Chi Minh City the main urban investments are decided on by the vice-chairmen of the People's Committees on a case-by-case basis, generally acting on a proposal made by the investor and the economic actors.

[22] As the financing required to service the relevant territory is not always available when the plan is defined, the development is either slowed down, or, more often, takes place before the implementation of any infrastructure (water, sanitation, drainage, roads, etc.), which subsequently makes this implementation difficult and costly. This is especially the case for "individual" development, as major private development projects generally include financing for technical and social infrastructure.

[23] In Ho Chi Minh City, a reform in October 2008 established the HIDS (Ho Chi Minh City Institute for Development Studies), which comes directly under the People's Committee. It groups together economic, social sciences and urban planning institutes and is in charge of the city's Master Plan.

According to the Law of 2003, the plans could be amended during the validity period by following the same approval circuit, if the Master Plan at the level above was modified or in order to attract investments.

This possibility to modify Master Plans enabled investors to adapt them to their projects. To do so, they had to convince all the actors in the definition and approval chain. The bigger the city and the bigger the modifications, the higher the level involved (modification of the detailed or general Master Plan), even up to the prime minister.

This possibility to review the different plans in order to "attract investments" disappeared with the recent law on Urban Planning (Law 30/2009/QH12 of 17th June 2009), which aims to make the Master Plans more coherent and effective. It decentralises the approval process a little further, and introduces an urban zoning plan between the urban Master Plan (established for 20 to 25 years) and the detailed plan. It also introduces a technical infrastructure plan that must be defined at the same time as the urban Master Plan and defines the modalities for the urban renovation plans (for existing urban areas), which previously did not exist. Moreover, the law proposes methods for consultation, and the possibility for an investor to prepare the detailed development plan of the sector which has been entrusted to it. This law came into force on 1st January 2010.

2.3. Water production and supply

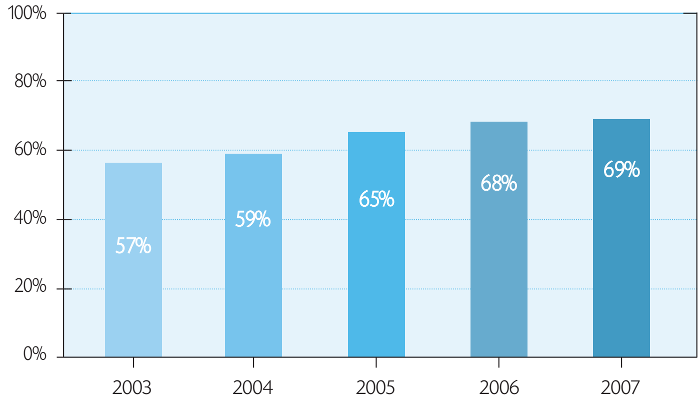
Drinking water supply is certainly the urban service that has seen the most rapid development. It has closely followed urban growth. This is undoubtedly related to the fact that it directly and visibly affects populations (unlike sanitation for example) and that it consequently presents a more direct political interest. It also stems, however, from the fact that this service draws a major part of its revenues from users. However, its development continues to be hampered by a certain number of constraints.

2.3.1. *Needs remain huge, despite sizeable investments*

Coverage rate rising, but still insufficient

According to the Vietnam Water and Sanitation Association (VWSA), the coverage rate for urban households stood at 69% in 2007, with a 12% increase in 5 years. Households connected to the network have an average of 90 to 100 l/day/person (national target: 120-150 l/d/p).

Graph 2 *Water supply rate for urban households*



Source: VWSA

Among the households that are not covered (roughly 1 million people in Ho Chi Minh City, for example), access to water is provided by wells (with the associated risks of pollution) or by purchasing water. In the rural districts of Ho Chi Minh City, the price of purchased water can reach €3.85 to €4.6/m^3, against €0.1 to €0.3/m^3 for water provided by SAWACO.

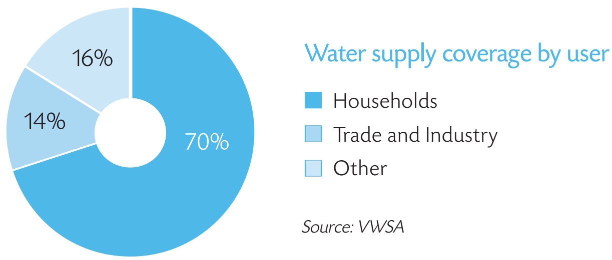
There are considerable differences in coverage rates between cities (in 2009, almost 100% in the urban districts of Haiphong, or 82% in Ho Chi Minh City, and less than 40%, or even less than 20% in certain Class IV cities), as well as within the provinces themselves (from 37% in rural districts to 100% for certain urban districts in Ho Chi Minh City).

There are currently roughly 420 water production plants with a total theoretical capacity of 5.7 million m^3/day, but an operating capacity of only 4.3 million m^3/day [24] (Bui Xuan, 2009). 64% of the production comes from surface water (93.5% for Ho Chi Minh City), mainly rivers and reservoirs, which poses an increasing number of problems due to river pollution.

[24] 2.1 million m^3/day in 1998.

Households are the main beneficiaries of the water distributed, with a rate of 70%, trade and industry represent 14%. .

Graph 3 *Water supply coverage by consumer*



Source: VWSA

Huge needs linked to urban growth

For an urban population estimated at 30 million people in 2010, if one wanted to achieve a 90 to 95% coverage rate for the population, including for industrial use but excluding distribution network losses, a production capacity of 8 to 9 million m^3/day would be required. This means raising production by 4 million m^3/day, representing investments in the region of €2.8 billion. [25] According to the targets for access to drinking water set by the Ministry of Construction, the needs are even estimated at 7 million m^3/day in 2010 and over 12 million by 2020, requiring an investment of €262 million/year between 2010 and 2020 (against roughly €69 million/year invested between 1995 and 2005 [Staykova and Kingdom, 2006]).

[25] World Bank estimates (2006) of investment needs: USD3.8 billion for 2010 and USD6 billion for 2020.

There are consequently huge needs in terms of extending coverage and improving the efficiency and quality of water production and distribution. This involves building new production units, improving the quality of networks (leak reduction) and improving water quality control.[26]

2.3.2. *Fast-paced change for operators*

Ambitious political targets

The water supply sector is governed by Decree 117/2007/ND-CP of 11/07/2007 on drinking water production, supply and consumption. This Decree covers urban and rural areas, industrial parks, special economic and export areas and high-tech areas. It defines the rights and obligations of organisations, industries and households in the sector and is expected to bring about major changes.

Decree 117 provides for the principle of sustainable financial equilibrium, among other things, while at the same time encouraging investments in the sector: sale prices must cover costs, which are set locally, and be equal for all users of the same category. The local governments must, according to the text, "implement projects in order to reduce costs", and have to pay compensation to operators if the sale price of water (defined by the provincial People's Committees) is lower than the cost price.

The State has announced voluntarist targets for almost universal coverage of urban needs, which go hand in hand with the affirmation of the need for the financial autonomy of the sector set out in Decree 117.

A provincial quasi-monopoly

Water production and supply in cities is practically exclusively provided by provincial public utilities. In general, there is one public water supply company per province. It is estimated that there were 68 companies in 2009.

These companies are in charge of supplying water to Class IV and above cities in the province they are under the supervision of. They are responsible for water production and distribution, billing and invoice collection. Many also have other activities, mainly in the sectors of sanitation and waste collection, but also in the construction or equipment trade, for example, for which they are authorised including in other provinces.

[26] Roughly 50% of the 66 water companies which participated in a 2004 study declared that they did not have laboratories to test water quality.

The water companies are generally the owners of their investments, whether for network extension and renovation, or for production plants. Concerning the networks, they depend on the province or city for works authorisations, but bear the cost of all the works, including after-works road rehabilitation (it should be noted that works on networks are generally not coordinated with roadworks). In some cases, the authorisations are given progressively, which can lead to additional costs: in Ho Chi Minh City, for example, SAWACO complains about the fact that works authorisations are given section by section, as the provincial Department of Transport (competent for roadworks) waits to control that a section has been correctly rehabilitated before authorising works to start on the following section.

Sector-wide statutory changes

At the national level, political orientations aim to group water and sanitation operators together in the same company (except for Hanoi and Ho Chi Minh City), which is justified by the economies of scale and the fact that the sanitation tax is levied on the water bill. In 2003, this was already the case for 38 companies out of 66.

In the mid-2000s, the water companies generally had the status of public sector company (according to the "Public Enterprise Law"). They are all required to be corporatised, *i.e.* turned into single-member limited liability companies or public limited companies before mid-2010. This is already the case for a certain number of them.

This process has made more headway than in the waste or wastewater sectors, as the water companies bill and collect their revenues themselves, and consequently have a certain management autonomy. Their autonomy does, however, remain limited, as the provincial People's Committee sets the water tariff for users, generally at levels that are sufficient to meet operating costs,[27] but not for the total amount of the required investments.[28]

This corporatisation process leads to the networks and equipment (previously owned by the State, which authorises the province to transfer the assets) being transferred to the assets of the water company. It must, in theory, be backed up by a contract with the provincial People's Committee, which must include objectives

[27] According to the VWSA Benchmarking Study in 2004, only 2 of the 66 companies did not cover their operating expenses.

[28] People's Committees are always extremely reluctant to raise water tariffs, despite the fact that the Ministry of Finance introduced the "full cost recovery principle" for water tariffs with Decree 104 in 2004.

in terms of activity (cf. Decree 117), with a business plan and the corresponding tariff changes. This is still not always the case, and the contracts that are signed may only set out the main principles and general objectives.

The water companies may seek to break even by diversifying their activities outside the water supply sector, particularly in property development. This trend is still generally quite limited in terms of turnover, but several companies have set up specific subsidiaries (sometimes *via* joint ventures or with external shareholders), or are considering doing so (Da-Nang, for example). In some cases, diversification plays an important role.

A still hesitant and limited opening-up to external partners

The opening up of capital to external shareholders remains marginal (4 to 5 companies, including in Can-Tho, Ho Chi Minh City, Hai-Phong and Vung Tau). Many of the provincial People's Committees met are not planning this type of development in the short term, as they think it will necessarily lead to "uncontrolled" tariff increases that politically they do not wish to assume. The privatisation of water companies is a complex process, which notably comes up against the low level of profitability in the sector, linked to tariff levels.

Box 3 *Haiphong Water Supply Company's difficulties to open up capital*

The Haiphong Water Supply Company recently decided to open up the capital of one of its subsidiaries, the Vat Cach Water Producing Enterprise (drinking water production unit).

It decided to transfer 45% of the capital of this subsidiary, including 10% to the investor "Da Do Irrigation Water Company", a public sector company which provides raw water to Vat Cach, 5.3% to the company's workers and 29.7% to the public. Out of the 29.7% of shares offered to the public, only 14% found a buyer when they were put on the market (59 investors). The preferential shares for the workers (offered at 60% of the public price) were all invested.

The Hai-Phong company was consequently compelled to recover the rest of the shares and maintain its shareholding at 70.7% instead of the planned 55%, *i.e.* at a level, nevertheless, below the 75% required to control the subsidiary's investment policy.

Public-private partnerships are also slowly beginning to appear in the sector, particularly in the major cities, even though they are much less developed than in the road infrastructure sector. The Vietnam Water and Sanitation Association counted six PPPs in operation or being prepared in 2009, including three in Ho Chi Minh City (including the only two operations that have already been delivered).

The water companies are also beginning to have recourse to external partners for the management and financing of their investments, particularly for network loss reduction (contract signed in Ho Chi Minh City, study underway in Hanoi). These contracts may be remunerated solely on the basis of the results obtained.

Concerning the financing of investments under the direct ownership of the company, alongside traditional ODA financing generally intermediated by VDB, the LDIFs may also be called on to contribute (SAWACO had recourse to HIFU as early as in 2004; DAWACO-Danang borrows from the provincial Danang Development Investment Fund [DDIF]).

Box 4 *Changes in water companies*

The emblematic example of SAWACO in Ho Chi Minh City

SAWACO is a pioneer in financial ownership structuring and institutional innovations in the water sector. It is also the largest water company in Vietnam, with a production capacity of 1.3 million m^3/day, a turnover of over €48.6 million and 3,698 employees in 2009.

It was turned into a limited liability company in 2005, and restructured as a general company (*Tông Công Ty*), with subsidiaries in charge of:

- the management of production sites
- distribution (six territorialised subsidiaries covering the entire city)
- consultancy services and the implementation of facilities in the water sector
- development and building and public works in general (two subsidiaries that result from the "diversification" policy, but which make a very small contribution to the company's turnover)

At the production level, SAWACO was a precursor to PPPs, with an operation as early as at the end of the 1990s. Three production units currently fall within this framework:

...

...

• The Binh An BOT (Malaysian investors): 100,000 m³/day (€17 million investment), commissioned in 1998, 20-year contract with a sale price of USD0.2/m³ (unchanged since).

• The Thu Duc 2 BOO: 300,000 m³/day scheduled from the end of 2009 (requires renovating the networks to make them pressure-resistant), 100,000 m³/day since 2008 (€64 million investment). The project began in 1997 with Lyonnaise Vietnam Water Company (LVWC), was abandoned by LVWC during the construction phase, and was taken over by a consortium of public and private Vietnamese capital. [29] The list of shareholders (which does not include SAWACO) and the production sale price are confidential.

• The Kenh Dong BOO: 200,000 m³/day, commissioning scheduled in 2010 (€42 million investment), public and private Vietnamese investors (SAWACO 20%), the list of shareholders and sale price are confidential. The company will sell 150,000 m³/day to SAWACO and distribute 50 000 m³/day itself nearby the plant.

At the level of distribution, the capital of six subsidiaries was opened up to external investors, mainly public and private Vietnamese companies. The subsidiaries (in which SAWACO remains the majority shareholder) are in charge of water distribution and network extension in the territory they are allocated, and own the networks. The bulk sale price for water is determined "each year according to the expenditure of the subsidiary" (according to the deputy chief executive officer of SAWACO), and appears to be adjusted to allow an adequate dividend for shareholders.

For example, the company Ben Thanh (WASUCO), whose capital opening was approved in 2005 and implemented in 2007, gives the following information in the minutes of its AGM of 2008:

- 54 shareholders present representing 80% of the capital
- 37.4 million m³ of water sold in 2008
- Turnover: €7.4 million/profit: €354,000 (7.96% of the capital, including 6.5.% distributed in the form of dividends)
- Other activities: feasibility studies, sale of raw materials and construction equipment, property development, rental of motorised vehicles and machines for construction

...

[29] The city recovered the assets and the government authorised it to set up a BOO. The contract was won by a local consortium *via* a combination of a bid invitation and negotiated contracts. The selection process was rapid for Vietnam: 18 months between the decision to set up a BOO and the signing of a USD92 million contract in March 2005 between the consortium and Hyundai Corporation for the construction of the plant.

•••

This system poses a problem for network extension, as the external shareholders only wish to connect the most profitable clients, *i.e.* shops, services and industries and are reluctant to extend the service to households. As a result of this, SAWACO is currently considering the possibility of taking back network ownership (and therefore the responsibility for its maintenance and extension), with the subsidiaries becoming service providers. It would appear to want to take back control by buying up to 75% of the share capital of each subsidiary, the legal minimum shareholding required to control the subsidiary's investment policy (Youth E-newspaper of 05/02/2009).

At the level of network maintenance, SAWACO has signed a management contract to reduce network losses in one of the six sectors with the Filipino company Manila Water. It is a service provision contract indexed on annually controlled results, which raises the question of the quality and sustainability of repairs.

Rising pressure on purchase costs upstream (BOT, BOO) and the fall in sale prices downstream (guarantee of a sufficient profit for the subsidiaries, despite the low tariffs implemented by the People's Committee) obviously weigh on the financial equilibrium of the company, and particularly on its capacity to invest. SAWACO has consequently benefitted from an authorisation from the Ministry of Finance and People's Committee of Ho Chi Minh City to modify its rule for depreciating and valuing its assets in order to improve its balance sheet. More structurally, it is attempting to negotiate a tariff increase from the People's Committee, in the framework of the implementation of an extremely ambitious "Water Supply" Master Plan (USD3.5 billion of investments until 2025).

"Secondary" historical operators and the emergence of new "independent" distributors

There are also water suppliers that are not provincial companies (a total of 142 suppliers identified in 2003 by the General Statistics Office, including the 66 provincial companies), in the very small towns and in rural areas. They may be public (districts or communes), private or community companies.

In addition to these "official" operators, there are numerous private boreholes, including in urban areas, which supply households or industries.

Finally, for the construction of the equipment itself and the associated engineering, several major actors are active on the market including:

- Public enterprises, major building and public works groups or their subsidiaries, such as VINACONEX, WASEENCO, the General Construction Company of Hanoi

(Song Da Licogi), the Construction Company for water supply and drainage No.2, etc.;

- Foreign companies, particularly French companies (OTV, Degrémont, etc.). Véolia Water (OTV), notably, built 19 water production plants with a capacity of between 10,000 and 40,000 m^3/day and two wastewater treatment plants between 1999 and 2009.

New and more professional private operators for water distribution have recently been emerging, in connection with the PPPs and/or the urban development projects. These operators generally involve major specialised Vietnamese construction companies and they distribute a part of the water they produce themselves.

For example, in the Kenh Dong BOO in Ho Chi Minh City, the investor directly distributes 25% of its production. In Hanoi, a similar operation has also been put together in Song Da with Vinaconex, a public sector company controlled by the Ministry of Construction. One of its subsidiaries (VIWASUPCO) operates a plant constructed under a BOO and sells the water to another subsidiary (VIWACO), which distributes it in the newly urbanised western districts (including an area urbanised by VINACONEX) of Hanoi (particularly Tu Liem). Part of the water must also be sold to HAWACO (Hanoi's public water authority).

Financing planned under the World Bank's LDIFs for 2010 include financing a drinking water production and supply system for the industrial areas of An Tay, Viet Huong 2 and May Chung in Binh Duong, which should also supply the residential areas of An Tay and An Dien. The investor is a JSC (mainly private) made up of four shareholders, which all have experience in this sector.

2.3.3. *A precarious financial equilibrium meaning investments cannot meet the challenges*

Household tariffs often below requirements

In 2001, the tariff per m^3 for domestic use varied between €0.04 and €0.15 (2003 average: €0.08/m^3). Tariffs have since risen quite sharply. A few cases presented below show quite varying situations, with certain cities having introduced progressive tariffs for households.

FOCALES

Table 1 *Water tariffs (in euros/m³)*

Company	City	Households		Industry	Shops and services
		Minimum	Maximum		
HAWACO	Hanoi	0.11	0.32	0.19	0.32
SAWACO	HCMC	0.1	0.31	0.17	0.23 to 0.31
DAWACO	Da-Nang	0.1	0.1	0.17	0.23
Cie Can-Tho [30]	Can-Tho	0.13	0.16	0.22	0.22
Cie Binh Dinh	Quy-Nhon	0.18	0.18	0.28	0.61
Cie Khanh Hoa	Nha-Trang	0.09	0.23	0.17	0.27
BIWASE [31]	Thu Dau Mot	€0.15 to €0.31 /m³ (0.25 for industries)			
HAWASU	Nha-Trang	0.09		0.23	

Source: CARO interviews, 2009.

It is important to note that connection fees can be relatively high (almost €31 on average in 2003, with reductions for the poorest households).

However, tariff increases remain necessary in order to ensure a real economic equilibrium. They are legally possible, since the Ministry of Finance authorises tariffs up to between €0.38 and €0.46/m³ for households, depending on the size of the cities. But increases are held in check by the provincial People's Committees, which have the power of decision over these and are reluctant to take such an unpopular measure.

In 2005, operating costs varied between €0.02 and €0.10 per m³ sold, with an average working ratio of operating costs (excluding depreciation, interest and debt service)/revenues of 64%, which is relatively productive. This coverage rate is nevertheless well below the level required to cover capital investment, which should be in the region of 60 to 80% of the total cost (Staykova and Kingdom, 2006).

[30] Tariffs observed in September 2009 following a long period of stability (with a minimum of €0.09/m³).
[31] Increased in 2009, there was previously a uniform tariff of €0.15/m³.

VWSA notes an average production cost of €0.08/m^3 in 2008, including 35% for labour, 24% for electricity and 41% for other expenditure (chemical products, equipment replacement...). This cost *a priori* also only includes operating expenditure.

Financial health varies enormously between companies

Water companies have widely varying financial situations due to the fact that tariffs are set by the political authority, but also due to the quality of their management and the size of recent investments for which they must repay loans. Here are a few examples:

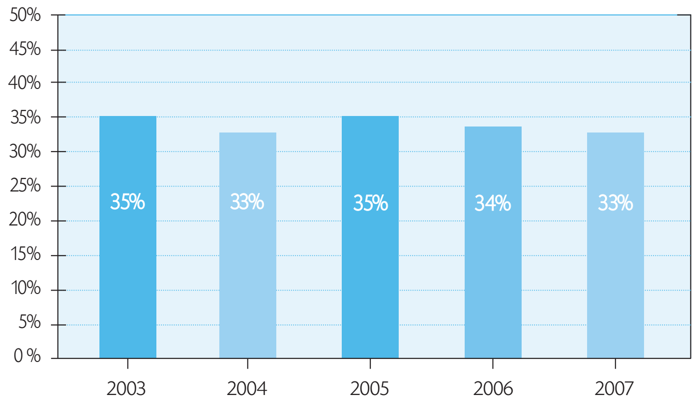
- Da-Nang: the water production and distribution company spends almost as much on operating costs (€2.7 million in 2009) as on loan repayments (€3.1 million) and only manages to break even via a subsidy which represents a third of the total (€1.9 million out of €5.8 million).
- Binh Duong–Thu Dau Mot: income prior to the 2009 tariff increase hardly covered operating expenditure but should now finance part of the investments.
- Can-Tho: the turnover scarcely covers operating expenditure (roughly 7% surplus in recent years), but none of the investment or associated expenditure.
- Ho Chi Minh City: in deficit in 2007 and 2008, its accounts are firstly heavily dependent on the tariff at which water is purchased from the BOOs and BOTs, and secondly on the bulk sale price to its partially privatised sub-sidiaries. SAWACO benefits from subsidies from the City's People's Committee for certain investments (particularly for network extensions). The company has requested a 30% tariff increase from 2010, which it says will allow it to reasonably cover its expenditure, including investment costs.
- Nha-Trang: profit of over 10% from its water sales activities in 2008, with the integration of repayments and asset depreciation, for a total of 57% of expenditure.
- Quy-Nhon: profit of over 10% with a provision for depreciation representing 36% of total expenditure.
- Hai-Phong: it is estimated that the tariffs cover the entire operating costs; in a new sector supplied, where there is a surcharge on tariffs, it is estimated that they also covered the costs of installing the new network created in 2005.

Whatever the situation, except for a few companies, operators' investment capacities are *a priori* low in the current context of the tariffs charged, and, in all cases, are generally well below the objectives announced in terms of coverage and production.

Leakage rates and headcount numbers: two major weaknesses

The main operational weaknesses of water companies are their sizeable headcounts and the poor quality of their networks, which causes huge water losses and varying water quality. However, they would seem to have high rates for bill collection and meter installations (even if some are obsolete). [32]

Graph 4 *Water network loss rate*



Source: VWSA.

Network losses (mainly leaks, but also a lack of meter reliability) on average represent 33% of production in 2007 (42% in 1998 and 38% in 2002), *i.e.* roughly 1.4 million m^3/day, and reduce water quality [33] and pressure. In 2002, these rates varied between 13.6 and 75.7% depending on the province. In general, little investment has been made in existing networks (most investments have focussed on production). Ho Chi Minh City (41% of losses) and Hanoi (40%) are only just beginning to take an interest in the problem. Some provinces have better results, such as Hai-Phong with a 16% network loss rate in 2009, as well as Nha-Trang with less than 17% and Binh Duong-Thu Dau Mot with 12%. These low rates are linked to sizeable investments (Hai-Phong, which has benefitted from a considerable amount of ODA) and/or sound network management (Nha-Trang). Network loss reduction is a strategic issue since it of course makes it possible to reduce investment requirements for new production.

[32] The average meter installation rate already stood at 96% in 2000 and the collection rates at roughly 95%, with a collection period of less than 30 days.
[33] It is estimated that only 50% of distribution networks have an acceptable quality.

The provincial water companies employed a total of 13,442 people in 2004, with the number of staff per 1,000 connections 2.5 times higher than the best practices in developing countries. Out of a few recent examples (2007-2008), substantial differences in ratios can be observed between companies (cf. Table 2).

Table 2 *Water companies' headcount and subscribers*

City	No. of employees	No. of subscribers	Ratio/1000
Nha-Trang (2009)	315	80,000	3.9
Hai-Phong (2009)	954	210,000	4.5
HCMC (2009)	3,698	711,258	5.2
Quy-Nhon (2009)	245 (including sanitation)	41,386	5.9
Kien Giang/Rach Gia (2006)	222	30,224	7.4
Long An (2006)	100	12,000	8.3
Can-Tho (2006)	500	57,000	8.8

Source: CARO 2009 interviews .

Sizeable investments and high potential for partnerships

Investments to raise production capacity and, to a lesser extent, extend networks are on the increase in Vietnam's major cities, which must face rapid growth in demand.

These investments are mainly financed via ODA loans (85% of investments between 1995 and 2005), which have been directly redistributed to operators since the beginning of the 2000s in the form of subsidised loans via public banks (VDB or SoCB). They may be completed by subsidies from provinces (such as Binh Duong-Thu Dau Mot, or Ho Chi Minh City).

Water companies can also be financed by LDIFs and directly by SoCBs, but only the largest do this (notably SAWACO).

Despite a still fragile legal framework and strong tariff constraints, the water sector is consequently a promising sector for bringing in private actors, whether this be at the level of production, network maintenance, distribution or in forms combining several links in the chain. There are huge and growing needs, and the water companies' response increasingly takes the shape of partnerships with the private sector or equivalent such as:

- BOOs-BOTs (in which the company or other public sector companies may be stakeholders).
- Service provision contracts (notably for network maintenance and loss reduction).
- Infrastructure financing *via* property development operations.

Increasing tariffs for households will help make investments in the sector viable. Industrial clients already represent a sub-segment where sale prices are more compatible with economic equilibrium.

2.4. Sanitation

2.4.1. *A new concern – practically non-existent infrastructure*

Wastewater collection systems are still underdeveloped and are mainly found in major cities. Up until recently, urban sanitation was consequently more a private good, with households investing in septic tanks or latrines depending on the location. Residential and commercial constructions must, in theory, have septic tanks, but they are rarely built and maintained in an appropriate manner. Effluents generally end up polluting soils and waterways.

Existing collection systems are generally combined sewerage systems (rainwater and wastewater), except for certain recently developed areas which have complied with the law. The coverage rate for drainage systems in urban areas is estimated at roughly 60% (Bui Xuan Doan, 2009).

Urban wastewater treatment: a huge lag

In 2004, none of Vietnam's cities were treating urban wastewater. Several wastewater treatment plants have since been built, but it is estimated that only 6% of wastewater is treated (Nguyen Viet Anh, 2008). According to the Ministry of Construction, in 2009 only six Vietnamese cities had wastewater treatment plants and there were projects in eleven others (including Hai-Phong).

This represents a total capacity of less than 380,000 m^3/day, compared to the 4.3 million m^3/day produced...

The sludge resulting from the cleaning of the sewerage system is also discharged into the environment without treatment. In Ho Chi Minh City, this represents 2,000 m^3/day of waste from drains and 2.3 million m^3/year of sediment from the six major canals.

Box 5 *Sanitation in Hanoi: a striking deficiency*

It is estimated that 500,000 m^3 of wastewater are discharged into Hanoi's waterways every day, including 100,000 from industries, hospitals and other services. Although most households are equipped with septic tanks, very few hospitals and industries have on-site treatment units. As a result, only 8 to 10% of wastewater is treated in the 4 recently built treatment units, which have a total capacity of 48,000 m^3/day.

Investment costs for the collection and treatment of wastewater in urban areas were estimated in 2006 by the World Bank at €2 billion for 2010 and €2.8 billion by 2020 (Staykova and Kingdom, 2006), *i.e.* €195 million/year between 2010 and 2020 for a 100% coverage of urban areas.

Industrial wastewater: medium-term prospects?

In theory, the law obliges industries to treat their effluents before discharging them into urban sewer systems or canals and waterways, but in reality few of them do so. The industrial units established in the urban fabric are directly connected to the general sewer system without treatment, and even in industrial zones, very few comply with legislation. According to the Ministry of Natural Resources and the Environment, out of the 200 industrial areas in activity in Vietnam at the end of 2008, less than a third had effluent treatment units and less than 15% of companies had individual treatment systems.

Sanctions, when they are applied, are extremely lenient. Fines are limited to a few thousand euros,[34] and the sanction which involves stopping the activity of industries that breach the law must be submitted to the provincial People's Committees on which they depend. Yet the latter are often extremely reluctant to apply them as

[34] A maximum of €1,950 in 2009 for effluent-related pollution, up to €19,500 for very serious general environmental offences according to *Viet Nam News*.

they are afraid of the flight of investments. Industries and industrial areas can consequently pay fines and continue to manufacture without treating their effluents.

As for hospital wastewater, this is often discharged into the urban sewerage system without any specific treatment. In Danang, for example, only 11 of the city's 21 hospital structures treat their effluents.

Box 6 *A few examples of sanctions against industrial polluters in Dong Nai, Ho Chi Minh City's main "industrial suburb"*

At the end of 2008, the Department of Natural Resources and Environment of Dong Nai Province, near Ho Chi Minh City, requested the provincial authorities to suspend the activities of 19 of the 22 existing industrial zones, because they had no system to treat their effluents. These 22 zones generated 68,000 m^3 of wastewater per day, two-thirds being directly discharged into waterways.

In September 2008, after having received over 2,600 denunciations from farmers in surrounding areas, the provincial department of the province's environmental police observed that the Taiwanese company Vedan Vietnam, which produces monosodium glutamate, was discharging its wastewater into the River Thi Vai without treatment (roughly 45,000 m^3/day). Vedan paid an €11,000 fine after an injunction of the Ministry of Natural Resources and the Environment. It had to shut down two plants (following a decision of the Prime Minister) and the volume of water it uses was reduced from 20,000 to 15,000 m^3/day. An inquiry is underway into the €5.35 million of sanitation taxes that it should have paid during its 14 years in operation.

A strengthening (at least at the level of the media) of inspections of industrial effluents may open up prospects for the construction of specialised treatment units operated by traditional urban operators or other public- or private-sector or private companies. Indeed, the law specifies that industrial polluters must directly pay for the treatment of their effluents, on the basis of a price negotiated with the operator, which could consequently easily reflect the actual operating and investment costs.

The provincial public sector companies in charge of sanitation generally do not operate in the industrial sector, but it is possible that they will develop their activities in this sector, particularly if the treatment units are also destined for urban areas. For example, in Can-Tho a wastewater treatment plant has been planned (financed by Korea EXIMBANK) for an industrial zone that is currently being developed, which will also treat wastewater from the neighbouring urban sectors and should be entrusted to the city's water company (which is also in charge of sanitation).

Vietnam also counts roughly 2,790 "craft villages", small production units in rural areas, which are often highly polluting and over 90% of them have no treatment system for their wastewater.

Septic tank sludge

Depending on the cities, septic tanks may be emptied by the water and sanitation company, the local URENCO (Urban Environmental Company), or by small private companies. The product is generally discharged into waterways without treatment.

Specific treatment units appear to be coming into being in the major cities. For example, in Ho Chi Minh City, specialised treatment facilities with a capacity of 500 m^3/day (estimated production of the city, according to Viet Nam News: 400 m^3/day) were commissioned in 2008 in the District of Binh Chanh by Hoa Binh Waste Processing Ltd. (€1.3 million investment),[35] to replace an older and basic treatment plant (polluting infiltrations). However, after a few months, only 30 of the 130 trucks specialised in this type of service were actually unloading the sludge at the plant due to its distance from the city centre (40 km). The remaining sludge was directly discharged into the waterways.

2.4.2. *The environmental situation gives cause for concern*

Due to the lack of a sanitation policy, the waterways have suffered from increasing pollution, particularly in the major cities and areas where industries are established. A general database on pollution is currently being compiled by the Ministry of Natural Resources and Environment, but patchy data already provide an example of the catastrophic situation of urban waterways. For example, in the River Sai Gon (there are 29 industrial zones in its basin), the rate of coliforms was multiplied by 30 between 2006 and 2008, with, in particular, the indiscriminate discharge of toxic chemical waste from the textile industry and effluents from the paper and plastic

[35] At least until the closure of the old treatment unit, no fees were charged for the sludge and the financing came exclusively from waste recyling (fertilizer).

industries. The River Dong Nai – which receives 1.1 million m^3 of untreated wastewater every day. Fifty-six industrial zones are established nearby and only 21 of them had a wastewater treatment system in 2008 – presents, in the area around Bien Hoa, levels of coliform between 186 and 920 times the maximum considered as being reasonable.[36] Yet these two waterways provide 93.5% of Ho Chi Minh City's drinking water.

At the end of 2007, the River Vam Co Dong in the Mekong Delta showed a level of Biochemical Oxygen Demand (BODS) 465 times higher than the authorised norm.[37] In Hanoi, the lakes present a level of coliform 100 to 200 times above the maximum rate, and up to 700 times during the dry season.

The examples are legion and demonstrate a rapid and massive deterioration of the quality of water in areas around cities and industrial production centres.

This situation has dramatic consequences in terms of public health and also at the economic level, as the water can no longer be used to irrigate fields and fish farming has become impossible. The cost of producing drinking water has also risen due to the increase in the use of chemical products for depollution.

2.4.3. *Sector structuring and functioning still far from meeting the challenges, and evolution is slow*

Operators still widely dependent on their supervisory authorities, despite the political orientations

The sector is regulated by Decree 88/2007/ND-CP of 2007. It establishes the polluter-payer principle, defines responsibilities (at the level of the province for the urbanised areas) and lays the foundations for financing that would gradually be more autonomous, notably via an increase in the sanitation tax (which now represents a minimum of 10% of the water bill whereas previously it stood at 10% maximum).

The political orientations stipulate that financing for the sector must eventually be autonomous, that water and sanitation services must be grouped together (except in Hanoi and Ho Chi Minh City) and give wastewater treatment rates for 2010 which vary between 40 and 100% depending on the plans...

[36] Levels of coliform 31,000 times above the norm were even recorded at the exit of the Viêt Hau Limited Company factory in 2009!

[37] Inspections of 11 industrial units showed that 8 of them were not treating their effluents, but none of them were shut down.

There is generally one company in each province in charge of these sanitation and drainage sectors (which are not separated). It generally only treats urban wastewater. [38]

These functions generally come under either the water company (in Can-Tho, Quy-Nhon or Nha-Trang, for example), or the local URENCO. Hanoi, Ho Chi Minh City, Da-Nang and Hai-Phong are the only cities identified that have an autonomous unit specifically in charge of sewerage and drainage. In 2008, in Da-Nang sanitation and road maintenance were separated from the URENCO, which now only treats solid waste.

In 2003, VWSA counted 80 companies in charge of urban management in the broad sense of the term, including:

- water supply and sanitation: 30
- water supply and sanitation and other activities relating to urban management: 8
- sanitation, urban management and other activities: 19
- sanitation only: 2
- miscellaneous/other: 21

The entity in charge of sanitation is generally controlled by the provincial People's Committee, either directly or *via* one of its departments (provincial Department of Transport in Ho Chi Minh City, for example, or the provincial Department of Construction or of Public Works elsewhere). It operates within the boundaries of the city, but may also extend its activities to neighbouring districts. It is in charge of maintaining the sanitation system, but is *a priori* never the owner of investments. In the megacities (Hanoi and Ho Chi Minh City), districts may be in charge of maintaining secondary and tertiary sewer systems via their district URENCOs.

For their urban sanitation activities, the public sector companies are totally dependent on the respective provincial People's Committee. The budget definition procedure varies depending on the province, but generally follows this scheme: the companies propose an expenditure budget every year, which is assessed by their supervisory technical department and approved by the provincial People's Committee. In principle,

[38] Industrial and hospital effluents are treated (when they are treated) by the facilities' owners. Septic tank sludge is collected either by public sector companies, or by small-scale private operators, and is generally discharged into waterways without treatment.

this budget constitutes a limit that must not be exceeded. If the total amount of expenditure at the end of the year is lower than the allocated budget, the difference is reallocated at the level of the People's Committee. This gives no incentive to optimise management of the service.

In most cities, where wastewater is not yet treated, the expenditure is restricted to maintenance and minor repairs on the sewerage and drainage systems (which are generally one and the same). The reference provincial department is in a position to conduct a cursory and relatively basic control of this expenditure (staff costs, small equipment). With the establishment of treatment facilities, this control will become much more complex, and the local regulator will certainly not have the technical capacities to conduct it.

The sanitation budget is not linked to the revenue from the corresponding tax. The latter is collected by the water company on behalf of the provincial People's Committee, which is the end beneficiary. Its revenues are often (but not always) well below the level of expenditure.

Slow and complex statutory changes with user financing of operations at an embryonic stage

As in the water sector, sanitation companies are entering into a corporatisation process. However, the process for companies that are autonomous or come under the URENCOs has made much less headway than in the water sector: very few entities in charge of sanitation have been already corporatised, and none have been privatised. The Hanoi sanitation company has been turned into a limited liability company and the Ho Chi Minh City Urban Drainage Company (UDC) – in charge of sanitation in the city – was supposed to be so by the end of 2009. However, the Da-Nang company, for example, is expected to remain an autonomous city service, without company status. In this corporatisation process, the sewerage systems and any wastewater treatment plants remain fully under the ownership of the People's Committee.

Recent measures aiming to raise sanitation tax revenues (suppression of the maximum limit of 10% on the water bill, which becomes a minimum)[39] and the gradual water tariff increases, which have a mechanical effect on tax revenues, are helping the move towards greater financial equilibrium, at least for operating expenditure (which is currently limited due to the low number of treatment plants).

[39] These increases had not yet been applied everywhere in 2009, and the rate of the tax continues to remain below 10% in certain provinces.

Table 3 *The sanitation budgets of a few provinces*

City	Amount of tax collected in 2008	2008 Sanitation budget	Coverage rate (operating)
Da-Nang	€346,000 to 385,000	€231,000 to €269,000 (wastewater treatment plants) + €538,000 to €577,000 (road and severage system maintenance)	68% (estimation)
Quy-Nhon	€146,000	€127,000	115%
Nha-Trang	€354,000	€231,000	153%
HCMC	€3.85 million	€13.46 million	28.6%

Source: CARO surveys, 2009.

It is often impossible to separate expenditure relating to sanitation from other budget items in the accounts of the URENCOs, which are not divided up by sector (for the water companies it is simpler, as they generally only request subsidies for the sanitation part).

… But investments are still almost exclusively financed by ODA

Due to the precarious economic equilibrium within the current regulatory and political framework, no PPP operation has been set up for urban sanitation, except in Hanoi, within a property development project (see Box 7).

Investments in the urban sanitation sector are entirely financed by the public budget, notably *via* State subsidies to provinces.[40] The People's Committees continue to own the equipment and entrust its management to the reference public operator for sanitation. Numerous projects (rehabilitation and extension of sewerage systems and treatment facilities) are consequently ongoing or scheduled, and are generally financed by ODA. They mainly concern the major cities, and primarily Ho Chi Minh City and Hanoi.

[40] Major investments (treatment plants) are generally prefinanced by ODA funds.

In theory, it could be possible for the management of wastewater treatment facilities to be entrusted to an external operator, which could even make the investment. This would, however, require a sound contract establishing financial transfers from the People's Committee to the operator over a period of at least 15 years. This has not yet been experimented or envisaged by the people we met in this sector.

A few innovative arrangements for investments beginning to appear

Changes are beginning to come about in terms of part of the financial cost of investment being borne by the sanitation companies. For example, in Ho Chi Minh City, UDC will bear the cost of and repay €42 million out of the €139 million of the first phase of the World Bank project (which concerns drainage and sewerage). This is the only case observed in 2009. This means that the cost is *de facto* borne by the province, which has to adjust its subsidy and/or the level of the sanitation tax in order to cover the additional cost. In Hai-Phong, sanitation investments in the city centre have been partly financed by an additional tax paid by the inhabitants of the districts concerned (a condition of the ODA loan which financed the investment), and the possibility is being considered of reproducing this mechanism in other districts.

It is also possible to finance urban wastewater treatment plants as part of property development projects. For example, a Malaysian company has negotiated the construction of this type of plant with the Hanoi People's Committee in exchange for land to be urbanised.

Box 7 *Land development in exchange for a wastewater treatment plant in Hanoi*

In 2007, the Malaysian group Gamuda Berhad signed a contract with the City of Hanoi for the construction of a wastewater treatment plant with a capacity of 190,000 m^3/day in Yen So, on the site of the current wastewater treatment plant, which is considered to be technically obsolete and inefficient.

The scheduled investment amounts to €278 million in the form of a BT. The plant will be transferred to the City of Hanoi one year after its commissioning. In exchange, the City will allocate 180 ha of land to be urbanised to Gamuda (housing, 5-star hotel, shopping centres, offices), including the entire 73 ha area of the Yen So Park where the current plant is located. The City of Hanoi has demanded that the Gamuda sanitation system be connected with Hanoi Department of Public Works' water drainage project, financed by Japan Bank for International Cooperation (JBIC).

Sanitation investments in industrial zones are financed by developers (which often do not implement them). They can either transfer the ownership directly to the People's Committee, which entrusts the management to an operator, or directly manage them for a period defined by contract with the People's Committee and reallocate the ownership at the end of this period. This sector of industrial effluent treatment may eventually attract private investments, as the operators have much more room for manoeuvre, despite the current limits explained above.

Numerous projects (rehabilitation and extension of sanitation systems and treatment plants) are ongoing or have been scheduled, generally with ODA financing. They mainly concern major cities, firstly Ho Chi Minh City and Hanoi.

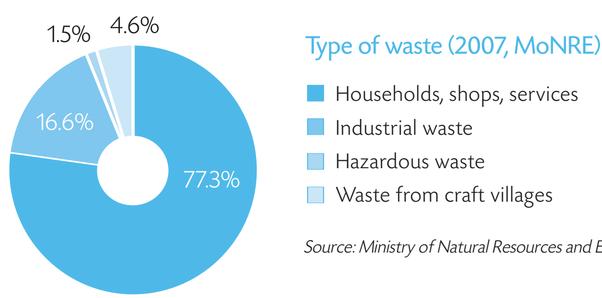
2.5. Waste management

2.5.1. Growing production and basic treatment

Rapidly growing waste volumes

The Ministry of Natural Resources and Environment estimates the 2007 level of waste production at some 17 million tonnes a year.

Graph 5 *Type of waste in 2007*



Source: Ministry of Natural Resources and Environment.

The Ministry of Construction estimates that 7.4 million tonnes of household and commercial waste are produced in urban areas (cities that are class IV or above), *i.e.* roughly 54% of the total amount (these figures are probably underestimated; other estimations put the figure at 80% of urban waste). Another estimation from the same ministry (Bui Xuan, 2009) in 2009 puts the amount of waste from cities and their outlying areas at 8.8 million t/year, including 6.9 million tonnes of urban waste, 1.6 million tonnes of industrial waste and 300,000 tonnes of hospital waste.

The volume of waste is expected to rise considerably and reach 22 million tonnes by 2020 (Ministry of Construction, 2008). The figure is likely to be much higher (some estimations put it at 25 to 30 million tonnes as early as in 2010).

Partial collection and haphazard treatment

Again according to the Ministry of Construction, 65% of domestic waste was collected in 2004, and 82% in 2009. However, other estimates put forward lower figures,[41] and especially wide disparities depending on the size of the cities and the sectors.[42]

Statistics on collection by type of waste are not systematically available for several reasons:

- Industrial and hospital waste in cities is often mixed with urban waste.
- Managers of industrial zones are supposed to treat their waste themselves. They have sometimes signed contracts with local URENCOs, which may concern ordinary waste, hazardous waste, or both, but they generally handle their waste treatment themselves (by illegal landfill on site or discharge into neighbouring waterways).
- Part of the waste (household and industrial) is collected by small companies and informal recyclers, which sort it and dump the non-recyclable waste into the environment.

The waste treatment method that is used in practically all cases is to deposit the waste in dumps. The Ministry of Construction estimates that roughly 12% of waste is actually treated (incineration and recycling).

In 2005, only 17 of the country's 91 major landfill sites complied with standards (leachate recovery and treatment in particular,) and 49% of them were declared to be harmful to the environment and were supposed to be shut down as quickly as possible. It is estimated that in 2009, 60% of collected waste was buried in compliance with prevailing health and safety standards (Bui Xuan, 2009). This would denote a clear improvement in the quality of landfill centres.

[41] According to ADB's Water Sector Assessment, (2009), 60 to 80% of the waste of level 1 cities with a special status is collected, 25% in the major provincial and district centres and 2% in certain sectors. In rural areas, the rate ranges between 10 and 15%.

[42] In Hanoi, for example, practically all of the waste is collected in urban areas, but only 70% in rural districts.

Although some companies are beginning to invest in the collection and treatment of hazardous waste, most of it continues to be mixed with ordinary waste. The situation varies enormously depending on the city. The Hanoi URENCO says that it collects practically all of the 300 t/day of the city's industrial waste (but only incinerates 20 to 50 tonnes of it per day). [43] The Da-Nang URENCO collects only 5% of it (only ordinary industrial waste). In Ho Chi Minh City, CITENCO is just beginning to install the equipment required to treat industrial waste. It collects only a small amount, which generally goes to the landfill site along with the household waste.

The bulk of hospital waste would appear to be collected in major cities, but it is not always treated in an appropriate manner. Hospitals sometimes have on-site equipment, but it is not always operational (it is estimated that 60% of hospitals have waste treatment units, but that only 18% of them are operational). In the major cities, hospital waste may be treated globally by the URENCOs by incineration. For example, in Ho Chi Minh City, CITENCO incinerates the entire 10 tonnes of medical waste produced per day, and in Hanoi the URENCO does the same for the 5 to 7 tonnes of daily production, but in both cases there is no specific treatment of contaminating waste (steam sterilisation or other treatments). Da-Nang collects all hospital waste (apart from the waste that is incinerated on-site in the city's two main hospitals), but only incinerates part of it. In Can-Tho, apart from the city's main hospital where waste is incinerated on-site, hospital waste is deposited at the landfill site in an indiscriminate manner.

Recycling, a practice that remains marginal

Selective sorting at the source and recycling have been mandatory since 2007 (Decree 59), but are applied little in practice. The Ministry of Construction estimates that roughly 10% of collected waste is recycled.

The recycling operators are small, often informal, companies or private individuals, which purchase or directly collect recyclable waste from households and/or companies (roughly 1,000 people in Hanoi and 700 companies in Ho Chi Minh City). [44] The non-recyclable waste is generally dumped into the environment without treatment. Access to most of the main landfills would appear to be relatively controlled, but in some cases, families living nearby make their livelihood from collecting recyclable waste directly from the landfill site. For example, in Quy-Nhon roughly 5% of waste is recycled in this manner by between 80 and 150 people.

[43] Other sources put Hanoi's collection rate at 85 to 90% for industrial waste and 60 to 70% for hazardous waste.

[44] According to *Viêt Nam News* press articles.

The collected recyclable waste (plastic, metal, paper...) is then sold to companies (private companies or cooperatives) that exploit it and sell it as a raw material.

URENCOs are beginning to set up recycling plants, mainly composting plants, but the lack of sorting at the source makes the economic development of the activity uncertain (considerable need for labour in order to sort waste on arrival). For example, the Cau Dien composting plant in Hanoi needs to be subsidised by the People's Committee. The Quy-Nhon composting plant only operates at 15% of its capacity and requires an annual subsidy of €77,000. There are also composting facilities in Nam Dinh and Hué, and a plant under construction in Hoi An. Several recent projects are either being designed or are in the investment phase in the South of the country.

URENCOs are also implementing pilot programmes for selective sorting in several cities, such as the 3R programme (Reduce–Reuse–Recycle) in Hanoi (JICA financing), a pilot programme in Ho Chi Minh City, or the integration of a "selective sorting" component in the project financed by the World Bank in Quy-Nhon.

2.5.2. *Operators remain highly dependent on their supervisory authorities, despite improving economic equilibrium*

High ambitions

Waste management is regulated by Decree 59/2007/ND-CP of 2007. It creates the polluter-payer principle, selective sorting at the source, and the principle of a pluriannual contract between a provincial People's Committee, which sets the collection taxes for households (as it does for water), and an operator, which negotiates with industries and hospitals in the basis of actual costs.

Policy orientations put the emphasis on a progressive coverage of expenditure (investment and operations) from income, via greater financing by the user, with the ambitious prospect of improving coverage rates and treatment quality. For example, a strategic "waste" plan for 2025 is under preparation (in 2009), which amounts to €1.7 billion (€615 million by 2015 and €1.09 billion by 2025), with the State financing up to 50% of investments. It provides for:

- the collection of 85% of waste and the treatment/recycling of 60% by 2015
- respectively, 90% and 85% by 2025

Structuring provincial companies

URENCOs are generally responsible for solid waste management and often, as we have seen, sewerage and drainage, and sometimes for other urban services (such as cemetery management). URENCOs responsible for waste management in provincial capital cities are under provincial supervision. In Ho Chi Minh City and Hanoi, district or urban precinct URENCOs also exist. Elsewhere, rural district URENCOs may exist, which manage the entire waste treatment chain on their territory. This is the case for the district of Gia Lam in Hanoi or the rural districts of Binh Dinh Province.

URENCOs controlled by the province mainly operate within the boundaries of the province's capital city, but may extend their activities to neighbouring districts, or to even more remote districts in the province.

They generally also handle waste management internally. They can subcontract part of the task (mainly collection and transport) to public sector companies, small companies or cooperatives, generally in a marginal manner when there is a surplus of work (after flooding for example, cf. Da-Nang) or to serve sectors that are remote or difficult to access (about a dozen companies with a private status or cooperatives in Hanoi, but it would appear that the province controls at least some of them).

URENCOs are generally organised as departments (or subsidiaries, particularly for the corporatised companies), and are in charge of collection in a given territory (the territory is divided into several sectors), equipment management (landfills, incinerators) and the collection/transport of specific waste (hospital, industrial).

The ownership of assets and the responsibility for their realisation vary from one city to another. The main URENCOs (CITENCO in Ho Chi Minh City, the URENCOs of Hanoi, Hai-Phong or Da-Nang, for example) generally manage the investment process, but in the case of the smaller cities (Quy-Nhon, Nha-Trang), it is the province. The equipment generally comes under the ownership of the province (but in 2009, the boundary was unclear, due to the fact that most URENCOs had not yet been corporatised), but it may also belong to the URENCOs (for example, the landfill site and some treatment facilities in Hanoi where the URENCO is corporatised).

Improvement in economic equilibrium, despite administered tariffs

The URENCOs collect a charge on household waste from households, the amount being defined by the provincial People's Committee (after approval by the People's

Council). It is generally a small amount:

- Hanoi: €0.08/month/person and €0.04/month/person in rural areas
- Ho Chi Minh City: €0.4 to €0.8/family/month
- Da-Nang: €0.27 to €0.58/family/month
- Quy-Nhon: €0.31 to €0.5/family/month
- Hai-Phong: €0.54/household/month

The tariffs for ordinary waste (household, but also from hospitals, shops, production units…) are supervised by various regulatory texts, and must not exceed €0.12/person/month or €0.77/family/month for households. The tariffs for hazadous waste are left to the discretion of People's Councils.

The effective collection rate varies enormously, from almost 100% announced in certain cities, to only 60 to 65% in Nha-Trang, for example.

This charge is directly levied by the URENCOs and is used to cover all or part of the waste collection costs. It is topped up by a city subsidy for waste treatment, which generally at least partly depends on the amount of waste treated (but it can also depend on the actual expenditure [wage bill, petrol, etc.]).[45] This subsidy is negotiated by the URENCO at the beginning of the year and is adjusted according to the tonnage that is actually treated. This tonnage is controlled by city inspectors. The subsidy is paid by the city and not by the province (except in the case of provincial cities), even though the URENCOS statutorily depend on the province.

The modalities for this subsidy and the associated service can sometimes be determined by contract, but the agreement between the URENCO and the People's Committee is more generally based on general objectives that are sometimes quantified (quantity of waste treated).

The URENCOs are also paid a specific rate for industries, offices and hospitals, which is generally closer to the actual cost of treatment. [46]

[45] In Ho Chi Minh City, for example, the City's subsidy depends exclusively on the tonnage of household waste, the number of kilos of hospital waste and the number of m^3 of treated leachates.

[46] Provinces generally give URENCOs more leeway in setting tariffs for this type of client, but in Quy-Nhon, for example, where the People's Committee wants to attract industries, the industrial tariff is practically the same as the tariff for households.

Table 4 *Examples of tariffs for waste treatment*

<table>
<tr><th>City</th><th>Hazardous industrial waste</th><th>Ordinary industrial waste</th><th>Hazardous hospital waste</th><th>Ordinary hospital waste</th><th>Offices</th></tr>
<tr><td>Hanoi</td><td>€385/t</td><td>€77 to €115/t</td><td colspan="2">€308/t</td><td></td></tr>
<tr><td>Hai-Phong</td><td></td><td>€6.2/m³</td><td></td><td></td><td></td></tr>
<tr><td>HDa-Nang</td><td>Depends on contract</td><td>Depends on contract</td><td>€288/m³</td><td>€4.9/m³</td><td>€3.8/m³</td></tr>
</table>

Source: CARO surveys, 2009.

These revenues represent an extremely variable share of the URENCO's turnover and it is difficult to isolate the part that is purely "waste", as it rarely differentiated from other activities, which often benefit from a 100% subsidy (street cleaning, public lighting, cemetery management...).

Table 5 Example of URENCOs' financial equilibrium (2008)

2008	Quy-Nhon	Da-Nang	Nha-Trang	Hai-Phong	Hanoi
Total revenue	€1.05 million	€960,000	€1.5	€2.4	€9.6 million [47]
Incl. taxes collected	€267,000	€960,000	€300,000	€1.6 million	€11.5 million
Incl. subsidies	€770,000	0	€1.2 million	€800,000	€8.1 million
Provision for depreciation/ investments	Yes (not given but *a priori* low)	No	No	No	€1.9 million
Activities included	Waste, cemetery	Waste	Waste, cemetery, public lighting	Waste	Waste

Source: CARO surveys 2009.

Decree 174/2007 of 29/1/2007 regulates the introduction of an environmental tax on solid waste (from which households are exempt). Its maximum amount is set at €1.53/tonne for ordinary waste, and at €231/tonne for toxic waste. The amount is determined at the local level by the People's Council, and the tax is collected at the same time as the fee. The revenue from this tax is kept by the province and may be used (following a decision by the People's Council) for:

- waste incineration, disinfection and burial
- support for selective sorting, including information campaigns for the population
- the construction of landfill sites and treatment and recycling centres

In reality, this tax seems to be applied very little at the local level.

[47] Half of these revenues come from industrial and hospital waste treatment (break-even achieved for this activity) and half from household waste treatment (€1.5 million of collected taxes and €8.1 million of subsidies).

2.5.3. *New opportunities for partnerships*

URENCOs increasingly motivated to finance their investments

Up until recently, URENCOs were not generally in debt (with the notable exception of CITENCO in Ho Chi Minh City), but in certain recent projects (for example, those of the World Bank in Nha-Trang and Quy-Nhon) it is planned that the cost of part of the investments (mobile equipment, trucks) be borne by the URENCOs.

CITENCO and the Hanoi URENCO have a financial reserve (replenished regularly in the case of Hanoi, more sporadically for CITENCO), which they use to invest. For example, the Hanoi URENCO financed the Dai Dong industrial waste treatment plant using this reserve, and CITENCO used it to provide 20% of equity for a leachate treatment project.[48]

Investments in urban areas may be financed by loans administered by the State. The LDIF's can also participate in financing waste management infrastructure (HIFU is the only example identified in 2009).

Small investments are generally financed on the operating budget, but average investments (in rolling stock, for example) are often integrated into general projects in the sector financed by ODA.

ODA donors are still not very active in financing this sector, but there is an upward trend in their participation, particularly within comprehensive development programmes.

The emergence of profitable market niches and multifaceted partnerships between public and private actors

As in the water sector, URENCOs are often subject to a corporatisation process, which should be finalised at the national level for mid-2010. Again like the water sector, the companies are restructured as "general companies" and subsidiaries, some of which are set to be privatised. The process is ongoing and, in mid-2009, few URENCOs had already changed status.

This process and incentives for greater financial autonomy lead the URENCOs to develop their potentially profitable activities, *i.e.* industrial and hospital waste treatment in particular (for which there is less constraint on prices due to political motives) and

[48] This rather unorthodox use of depreciation funds has been specifically authorised by the People's Committee of Ho Chi Minh City. The financial reserve has now almost been completely used (in 2009), and CITENCO's income no longer allows it to replenish it. This poses a problem in terms of equity capital (20% generally required) for future investments.

waste exploitation (recycling and composting), which is, moreover, encouraged by strong government pressure on the provinces.

The Hanoi URENCO has perhaps made the most headway in this process, as it was corporatised four years ago and has opened up the capital of two of its subsidiaries (Bac Son and Dai Dong), which manage industrial waste, to external shareholders. It has even set up a joint venture with its Dai Dong subsidiary in order to invest in an industrial waste treatment complex.

The Da-Nang URENCO has recently begun to develop contracts with industries.

The "socialisation" process and the low level of public investment capacities have led to the emergence of several private investment projects for waste treatment, based on a contract stipulating a price per tonne for treatment and often an economic recycling of waste. The movement remains timid, however, due to legal uncertainties concerning this type of arrangement. However, there are several examples of ongoing projects.

The most emblematic (and controversial) is perhaps the Da Phuoc private landfill in Ho Chi Minh City (see below).

In the Mekong Delta, in 2009 a private Vietnamese investor signed contracts for composting units[49] with three provinces (TECSEM technology – French SME) with a capacity of between 200 and 600 tonnes/day. The price paid by the province amounts to €4.9/tonne, and the contract has a three-year renewable duration. The investments initially only concern composting, but methane-based energy production may also be added.

In Da-Nang, two private projects were being negotiated in mid-2009:

- An Italian project for gas recovery from two landfills (one old landfill that has eady been closed and one new one). It involves a €2.1 million investment in relation to the Kyoto Protocol. Works were due to begin in 2010. The concession company has signed a 23-year contract with the URENCO and will pay it 10% of its turnover.
- Plastic and rubber recycling project, 100% financed by private Vietnamese companies. Cost: €5.6 million. It involves sorting plastic waste when the waste arrives at the landfill site. Income is generated via the sale of recycled products. Forecast: 150 tonnes/day recycled, *i.e.* 25% of the city's rubbish.

[49] These composting and power generation plants use TECSEM technology, which is considered to be extremely competitive (cost 30 to 50% lower than competitors). The Vietnamese investor would like to establish this type of plant in about ten Mekong Delta provinces.

In Hanoi, it appears that the People's Committee (in 2009) was seeking investors for a BOT project with a cost estimated at €50 million, on stable terms and conditions (€10.4/tonne paid by the People's Committee over a 20-to-30-year period, and €0.042/kWh in the case of power generation).

Recycling and composting is already viable for private investors (at €5/tonne in the Mekong Delta) and is expected to be increasingly profitable in the future, as the government is encouraging the provinces to set the price per tonne at a minimum of €7.

Box 8 *The organisation of URENCOs: the pioneering example of Hanoi*

The Hanoi URENCO is a limited liability company 100%-owned by the City, under the direct control of the People's Committee. It is undoubtedly the URENCO that has made the most headway on the path to reaching autonomy.

It is organised into 8 direct subsidiaries, 6 autonomous subsidiaries (which have the status of JSCs), and three associated companies:

The eight direct subsidiaries are in charge of:

- waste collection in 5 territorial divisions
- the management of the Soc Son landfill site
- the Cau Dien composting plant
- representing the URENCO in Da Nang

Three autonomous subsidiaries are in charge of:

- waste collection in the Tay Do precinct
- industrial waste collection in the north of Hanoi (Bac Son)
- industrial waste collection in the east of Hanoi (Dai Dong)

The capital of the last two companies (Bac Son and Dai Dong), which manage industrial waste, was opened up to public sector companies, but the URENCO remains the majority shareholder.

The three other autonomous subsidiaries offer services in the environmental sector, including environmental impact assessments. The three associate companies sell equipment, environmental services and one of them is dedicated to "sports and leisure development in Me Tri".

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Waste management is almost entirely handled in-house, except for in certain remote areas, where the URENCO subcontracts household waste collection to small local enterprises (roughly 12 companies with a private status).

The URENCO generally owns the investment projects in its sector. It has no debt, and is in a position to take on debt, but with the guarantee of the People's Committee and the government. It is the owner of the Soc Son landfill site and the Dai Dong complex; the Cau Dien composting and incineration site is owned by the People's Committee.

Box 9 *Waste management in Ho Chi Minh City: an atypical system*

In Ho Chi Minh City, urban waste management is organised into three levels: 22 public sector companies (district URENCOs) and one private, which collects part of the waste by using informal collectors, and the provincial URENCO, CITENCO, which collects the remaining urban waste, hospital and industrial waste, transports and treats it (depositing it at landfills, with some methane recovery, and incineration).

The informal collectors and district companies collect and keep the fees relating to household waste (set by the People's Committee). CITENCO's operating costs (annual budget of roughly €23 million) are paid for via its commercial revenues (over €5.8 million from industrial waste treatment and construction) and a subsidy from the City for household and hospital waste and leachate treatment (roughly €15.5 million). This subsidy is negotiated depending on the volume treated, the type of waste and the type of treatment.

In 2009, CITENCO was a public sector company under the supervision of the provincial Department of Natural Resources and Environment, but was planning to become a limited liability company in the short term and open up its capital. It was organised into five thematic, territorial and functional subsidiaries, but was considering restructuring in order to open up the capital of certain "profitable" subsidiaries, based on the model of the Hanoi URENCO.

In this perspective, the strategic orientation is to increasingly entrust household waste collection and transport to district URENCOs (which represented between 40 and 50% of collection until 2008, and 55 to 58% in 2009), and particularly develop the more profitable "industrial" sector. For example, CITENCO is developing a project

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for an "industrial zone" specialised in industrial waste treatment and exploitation, for which it is seeking private investment. It would be destined to serve all Southern Vietnam up to Da-Nang.

CITENCO started borrowing to build equipment back in 2000. HIFU (and AFD) was its main financer in 2009. It bases its economic calculation on the additional tonnage that the equipment will allow it to treat (and the revenue it will earn in terms of the City's subsidy per tonne), and must consequently negotiate a price per tonne with the City for each investment.

A precursory and controversial PPP has also been set up for waste management in Ho Chi Minh City: the private landfill site in Da Phuoc, which was built by an American investor of Vietnamese origin. This investor is said to have negotiated a price with the People's Committee of €11.4 a tonne (whereas the price paid to CITENCO varies more between €3.5 and €6.25/tonne, and only between €1.4 and €2 per tonne for the Hai-Phong URENCO). However, it is said that the PPP will only treat (only by landfill dumping) only part of the tonnage for which it is paid. In 2009, the Ho Chi Minh City People's Council requested an inspection on this issue… The City's three other dumps belong to the province and are managed by CITENCO.

A few private companies are working in industrial waste management (nine operators in Ho Chi Minh City. One of them is the cement manufacturer CONXIM, which uses ordinary industrial waste to produce energy), including hazardous waste. Their remuneration comes from the energy-generating industries and sometimes from recycling (plastic, paper, metal). They are generally small local companies or informal companies (see the section on "recycling").

The corporatisation of the URENCOs is consequently beginning to become a reality, in a sector which is gradually building a viable economic model, under the combined effect of more effectively enforced regulation, rising tariffs and well managed public subsidies. There are an increasing number of projects for investment and partnerships (with private operators for landfill management or recycling…).

2.6. Urban transport

The issue of urban transit constitutes a major political and economic challenge in Vietnam. Under the effect of rural exodus and relatively dynamic demography, the urban population is growing at a fast pace, and economic growth has led to an equally rapid expansion of the middle class, which is quickly becoming motorised.

Given the current situation is far from meeting actual needs, the policy orientations aim to develop mass transport networks in the metropolises (highly ambitious objectives of 35 to 40% of motorised transport by 2025), and extend bus services to the 63 provincial capitals (49 today).

2.6.1. *A major challenge for Vietnamese cities*

Two-wheeled motor vehicles are currently the main means of transport in urban areas, but although the figure remains low, there is a rapid growth in car purchases. According to the Ministry of Transport, in 2008 Vietnam counted 1 million cars and 20 million motorcycles, compared to 450,000 and 6 million respectively in 1999.[50]

Table 6 *Modal share of vehicle journeys in Hanoi*

	2005 (1)	2008 (2)	No. vehicles 2008 (2)	2020 without MRT (1)	2020 with MRT (1)
Motorcycles	63.2%	80.7%	2.5 million	58.7%	52.9%
Bicycles	25.3%	2.5%		3.8%	3.8%
Cars	3.6%	4.0%	255,000	19.5%	15.8%
Urban buses	6.7%	10.7%	940	14.5%	9.5%
Mass Rapid Transit	-	-		-	20.5%
Other	1.1%	2.1%		3.5%	3.5%
No. of journeys /day (1,000)	6,321			9,848	9,848

(1) HAIDEP survey, (IWATA S. *et al*, 2007).
(2) TRAMOC interview, 2009.

[50] According to the Department of Transport, 1,200 new motorcycles and 120 new cars are registered in Ho Chi Minh City every day.

The Master Plan for Hanoi transport, which was reviewed following the absorption of Ha Tay Province, aims for 50% of passengers to be transported by public transport by 2030 in greater Hanoi (against 30% previously in the initial Hanoi boundaries).

Table 7 *Modal share of motorised journeys in Ho Chi Minh City*

	2007	No. vehicles 2007	2025 forecast
Motorcycles	87%	3.5 million	40%
Cars	8%	400,000	20%
Urban buses	5% [51]	3,200	40%
Mass Rapid Transit	–		
No. of journeys / day	18 million [52]		40 million

Source: Ho Chi Minh City Master Plan.

For the time being, the transport system has extremely negative consequences (traffic jams, pollution), mainly in the two main metropolises (Hanoi and Ho Chi Minh City).[53]

No reliable data are available on the level of pollution, due to deficiencies in the control stations and the lack of systematic data collection. Air quality is, however, considered poor in the two metropolises. For example, the Global Environment Outlook published by UNEP estimates that Hanoi and Ho Chi Minh City are among the six cities with the highest air pollution in the world.

The issues relating to urban transport are only just beginning to come to the fore in a few other cities in the country (Hai-Phong and Da-Nang in particular), which now also have to face the problems of metropolises.

[51] 1.7% in 2003.
[52] 8.25 million in 1996.
[53] In 2005, the Ministry of Transport estimated losses due to traffic congestion In Ho Chi Minh City at €192 million a year (1.8% of the City's GDP), and according to Pham Xuan Mai from the Ho Chi Minh City Polytechnic University, the City loses €570 million a year, i.e. 5.1% of its GDP because of traffic jams!

2.6.2. *Urban bus networks: extremely varying situations*

Bus systems exist in 49 cities, according to the Ministry of Transport. This represents 476 lines, 7,100 vehicles and 794 million passengers transported. Hanoi and Ho Chi Minh City alone represent 215 lines (45% of the total), 4,142 vehicles (58%) and 656 million passengers (82.6%). These systems have been developed little outside the two metropolises and account for only a small percentage of the total number of journeys, despite a sharp improvement in Hanoi and Ho Chi Minh City in the 2000s. A province such as Binh Duong – despite being rich – still does not organise any public transport system on its own account.

Bus networks exist in Vietnam in many provincial capitals, but most are on an extremely small scale (less than 10 lines). The two major networks are those of Ho Chi Minh City and Hanoi, compared to the one in Can-Tho, which is an example of a network in a medium-sized city (which could benefit from AFD financing via the provincial investment fund, and that of Hai Phong.

Table 8 *Main characteristics of bus networks in four major Vietnamese cities*

	Hanoi	Hô Chi Minh City	Can-Tho	Hai-Phong
Number of buses	940	3,202	117	110
Number of lines	64	151	7	13
Network extension	1,179 km	2,106 km	?	?
Number of operators	5	30	4	6
Number of passengers transported	400 million (2008)	256 million (2007)	7 million (2008)	?
Modal share	10.7% (2008)	5% (2008)	?	3 to 4%

Source: PADDI and CARO surveys 2009.

Although Hanoi's system is still not sufficient in terms of volume, it is considered to be a model, while that of Ho Chi Minh City is unanimously considered to be in need of rationalisation.

The development of surface public transport is extremely limited due to the lack of space reserved for roadways width over: 2.5% in Ho Chi Minh City (including only 14% with a size above 12 m allowing large buses to pass and 35% that can only be used by two-wheeled vehicles), and 7% in Hanoi, against 25% in Paris, for example.

2.6.3. *Provincial governance more or less well-organized*

Provinces are the key actors in urban transport. However, for major urban infrastructure projects (major bridges, national roads), the Ministry of Transport may be the owner of the assets. It is even the owner of a metro line project in Hanoi, due to the fact that this uses a right-of-way controlled by the national railway, but this case is quite an exception.

A provincial regulatory authority

The competent provincial department is the Department of Transport, which is in charge of the maintenance and investment for the road network (apart from the local street system, which comes under the administration of district People's Committees). The provincial Departments of Transport are theoretically in charge of public transport regulation, but in practice this is not quite so clear.

In Ho Chi Minh City and Hanoi, the administrative management and control of the bus system comes under the responsibility of a regulatory authority under the control of the provincial Department of Transport (Transport Management and Operation Center [TRAMOC] in Hanoi and Bus Management Centre [BMC] in Ho Chi Minh City), which defines the relevant policies and manages relations with operators. Regulatory authority is also the responsibility of the provincial Department of Transport in Nha-Trang and Quy-Nhon, for example. However, in Can-Tho, the bus system is managed by the Public Works Company (directly under the People's Committee), *via* a subsidiary which is both the main operator and regulator for private operators.

The two cities' main systems present similarities in the way they are organised with, in particular, the existence of a regulatory authority (TRAMOC for Hanoi, BMC for Ho Chi Minh City), placed under the authority of the provincial Department of Transport, which:

- defines network planning (lines, timetables). This is validated by the provincial Department of Transport and the People's Committee;
- manages ticketing (in a centralised manner for season tickets and ticket books, *via* tickets sold by operators on the buses for single tickets) and collects all revenues;

- manages contracts with operators, which are annual (apart from four lines in Ho Chi Minh City that benefit from a four-year contract, and the private companies, or JSCs in Hanoi, with a three-year contract), and specifies the remuneration of operators depending on the type of vehicle and the number of kilometres covered, mainly defined by cost criteria (petrol, labour, maintenance);
- calculates and collects the balancing subsidy from the People's Committee;
- ensures operators comply with the clauses of the contract (this control *a priori* works relatively well in Hanoi);
- organises bid invitations for the allocation of new lines (these lines would appear to be defined by proposals made by operators in Ho Chi Minh City but in Hanoi more by TRAMOC), on the basis of the lowest price offer (with a notion of service quality in Ho Chi Minh City).

In Can-Tho, regulation is handled by a subsidiary of the Public Works Company, which is also the largest operator (50% of the fleet). It sets the remuneration of the private operators on an annual basis, and the latter can operate whatever lines they choose, with timetables that they consider appropriate...

In Hai-Phong, regulation is theoretically handled by the provincial Department of Transport of the city, but the system is relatively chaotic and there is no organisation of the network (no bus stops, no interconnection between lines...). In Quy-Nhon and Nha-Trang, regulation is handled by the provincial Department of Transport, and the system is operated in the first case by a single public operator, and in the second by a cooperative group.

Dominant public operators

Operators may be public, private, mixed or cooperative, with a large place always being occupied by the "historic" public operator:

- Hanoi: 64 lines, including:
  – Transerco (public limited liability company): 49 lines
  – Hanoi Bus Joint Stock Company (under the majority control of the People's Committee): 6 lines
  – three private companies: 9 lines
- Ho Chi Minh City: 151 lines, including:
  – Saigon Bus (public limited liability company controlled by the People's Committee): 37 lines
  – CITRANCO (mainly private joint venture), Saigon Star (private) and 28 cooperatives: 114 lines (including ten which are operated by two companies simultaneously)

- Can-Tho: 55 buses out of 117 operated by the public sector company, the rest are divided between several private operators
- Hai-Phong: 2 lines out of 13 operated by the public sector company,[54] the others are divided between 5 private companies.

The operators are the owners of their rolling stock, which they must depreciate and replace periodically, without any specific subsidy (apart from Can-Tho, where only the public operator received subsidies of between 20 and 32% for the acquisition cost of new buses). In Hanoi, at least until the mid-2000s, it was the People's Committee that financed the acquisition of Transerco's buses (the situation has evolved towards more autonomous financing with the opening up to competition in 2004. However, it would appear that Transerco continues to receive subsidies for bus acquisitions). In Ho Chi Minh City, the City offers interest rate subsidies to operators for their fleet renewals.

In Ho Chi Minh City, the province is the owner of infrastructure (hangars, maintenance workshops), which it makes available to operators, which are required to maintain it (apart from Saigon Bus, which has its own premises), while in Hanoi the operators own their depots and maintenance workshops.

Competition between actors during bid invitations can be biased by the public-sector or parapublic status of certain operators (in Hanoi, Transerco and Hanoi Bus JSC have been awarded the five latest new lines). In Ho Chi Minh City, the system for one-year contracts, renewable by bid invitation (based on criteria concerning personnel, finances / investment capacity and capacity to achieve revenue targets) leads to a high level of insecurity for private operators (threatened with bankruptcy if they lose a contract), and by a *de facto* preference for the "lowest bidder" (even though service quality criteria are theoretically taken into account), which results in buses over 10 years old being commissioned.[55]

There are also specific bus services for students and workers. In Ho Chi Minh City, 42 of these lines (90% of the market) are operated by Saigon Bus, which signs contracts with industrial zones or universities. In Binh Duong Province, transport is currently only organised by industrial areas and major employers.

[54] Hai Phong Road Company, which is also developing numerous other activities.
[55] Operators also assemble their own minibuses (Jambros) using chassis imported from Korea or Japan.

2.6.4. *A precarious financial equilibrium which requires huge subsidies*

The bus networks are in deficit in the three cases studied, requiring huge balancing subsidies from the City of Hanoi and Ho Chi Minh City and a marginal intervention for Can-Tho.

In the two metropolises, the subsidy represents roughly 40% of operating costs (on the increase in both cases, but mainly due to the rise in petrol prices in 2008).

Table 9 *Evolution of the financial equilibrium of bus networks in Hanoi and Ho Chi Minh City*

	Hanoi (2004)	Hanoi (2008)	HCMC (2007)	HCMC (2008)
Expenditure (millions of euros)	11	38.5	46.5	52.7
Ticket revenues (millions of euros)	7.7	23.1	27.2	28,1 [56]
Balancing subsidy (millions of euros)	3.3	15.4	19.3	24.6
Subsidy rate	30%	40%	41.5%	44%

Source: PADDI and CARO surveys 2009.

For special transport (students and workers), Ho Chi Minh City's subsidy stands at 27%.

In Ho Chi Minh City, in addition to this expenditure, there are the interest rate subsidies on loans to operators for the acquisition of rolling stock, as well as investment in infrastructure (road networks, stops, depots, etc.), that was built some time ago and already amortised.

In Can-Tho, the system is balanced, apart from the subsidies to the public sector company for the acquisition of rolling stock. In Hai-Phong, the public sector company is subsidised, while the private companies find it difficult to break even (and acquire their rolling stock).

[56] Including additional income (advertising...): roughly 0.5% of ticket revenues.

The price of tickets is decided by the People's Committee on the basis of a proposal made by the regulatory authority.

The amount of remuneration for operators per kilometre covered is defined by TRAMOC (Hanoi) or by the Departments of Transport, Finance and Planning and Investments (Ho Chi Minh City), and is approved by the provincial committee. These amounts may be updated during the contract life-cycle depending on the evolution of various parameters (price of petrol in particular), after approval by the relevant departments and the People's Committee, and include the depreciation of the rolling stock.

2.6.5. *Ambitious projects in the two metropolises*

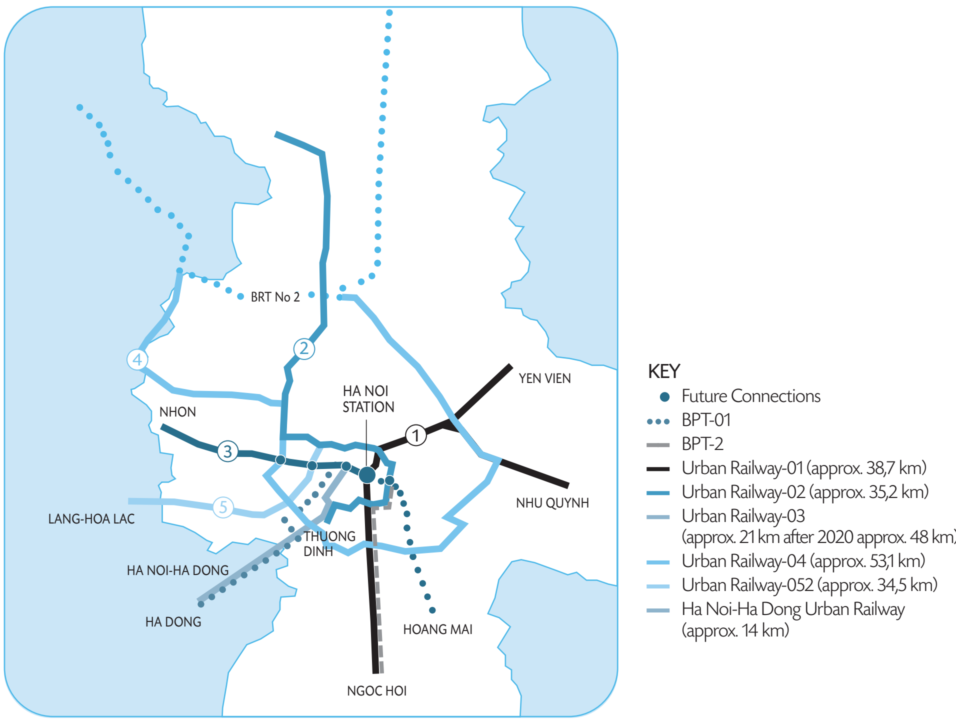
Projects relating to the bus networks mainly concern the setting up of BRT (Hanoi and Ho Chi Minh City, World Bank financing), network extension (Hanoi, Can Tho), fleet modernisation (Hai Phong), or the creation of networks (Da Nang).

The most ambitious projects are by far the creation of metro networks in Vietnam's two metropolises. Urban rail transport is practically nonexistent in Vietnam. The only means of transport that bears some similarities is the use of the national railway network for metropolitan services in Hanoi (it includes several stations inside the urban area). However, there are ambitious projects, most of which are extremely costly, for MRT in Hanoi and Ho Chi Minh City. These projects have reached different stages of progress. There is always a high level of public-sector financial participation, with support from ODA.

Hanoi

Four MRT lines are planned in Hanoi. Three of them are financed by ODA from Japan (Lines 1 and 2) and France, the European Investment Bank (EIB) and the Asian Development Bank ODA (Line 3). Line 2a, to be built by the Chinese, will be paid for in land for development. A suburban train line has also been planned with KfW financing, the creation of which has been compromised by the reactivation of the Line 1 project, which mostly follows the same route. Similarly, Line 2a (Chinese) is partly in competition with the BRT project financed by the World Bank.

Map 3 *Mass public transport project in Hanoi*



Source: AFD.

No operational regulatory authority has been set up yet for the management of new projects, and it would appear that this has given rise to internal conflicts between the different authorities in charge of projects or legitimately in a position to implement them. Currently (2009), the World Bank BRT project is managed by the provincial Department of Transport (*via* an Urban Transport Management Committee [UTMC], which is different from TRAMOC),[57] the MRT Lines 2 and 3 being managed by an Urban Railway Board (URB) placed directly under the authority of the People's Committee. Line 1 is under the ownership of Vietnam Railways, and Line 2a is under the control of the Ministry of Transport. However, TRAMOC will likely be the manager of a rail project for a rapid transit suburban train service, which would use existing railways, financed by KfW...

[57] The World Bank project document stipulates that TRAMOC, converted into a Public Transport Agency, will be the regulator of the BRT and will award its management as a concession to an operator.

Ho Chi Minh City

The Urban Transport Master Plan for Ho Chi Minh City proposes six metro lines, for a total cost of roughly €4.4 billion. Three "lighter" projects (a tramway and two monorails) are being developed at the same time by private groups. The feasibility studies for the two monorails concluded that there was a need for 80% of public investment, which means this is not currently viable…

For the projects that have made the most headway, business plans have been defined on the basis of the loans being paid by the operator. Generally speaking, a sizeable participation in the initial investment is always requested from the public authorities, as well as a balancing subsidy over many years. For example, for Line 2, the total amount of subsidies is estimated at €620 million (almost as much as the financing for the investment).

The structuring of the regulatory authority has made a little more headway in Ho Chi Minh City than in Hanoi. A specific authority was set up there in 2007 to manage urban rail transport, MAUR (Management Authority for Urban Railways), and has been placed under the direct authority of the People's Committee. It replaces two entities initially in charge of this domain which were, for their part, placed under the authority of the provincial Department of Transport. The BRT projects would currently appear to remain within the competence of this department, but the set-up may rapidly change with the future operational implementation.

2.6.6. *Road networks and other urban transport sectors*

The road networks and the urban road infrastructure are directly the responsibility of the local authority (Department of Transport) for both the construction and maintenances of roads and traffic regulation. However, there would now appear to be leeway in the most dynamic regions for partnerships and financing for infrastructure, such as highways or bridges. A toll system is subsequently implemented in order to pay back the private investor. One can quote the case of Binh Duong Province, which in 2004 entrusted a BOT to its subsidiary BECAMEX for the complete overhaul of Highway 13. The 30-year concession still has many years to go, whereas the loans have already been repaid thanks to the toll system. The only toll systems currently planned in consolidated urban areas are to finance two BOT infrastructure projects (in Ho Chi Minh City): Phu My Bridge (commissioned in September 2009, 26-year concession) and the Thu Thiem tunnel (under construction). There are also toll systems for the BOTs in areas of urban expansion, such as the new large-capacity express way that will link up Binh Duong with Ho Chi Minh City's future airport (BOT once again entrusted to BECAMEX).

Parking remains an area that is still not well apprehended by the public authorities, despite the huge needs and the economic potential it holds.

2.7. Social housing

There are considerable housing needs that, of course, stem from the ever-increasing attractiveness of the major cities, which draw ever-growing populations.

Social rental housing does not exist in Vietnam. The only assisted rental housing units have been allocated to a limited, hand-picked, population of civil servants. They are progressively sold to their legal occupants and undergo a refurbishment process, mainly in the framework of demolition-rebuilding operations with an increase in density. The "social" housing mainly concerns rehousing expropriated families.

The Vietnamese are gradually implementing instruments that aim to promote access to affordable housing (which nonetheless remains accessible to a small part of the population), rental housing for students and workers, and the urbanisation of precarious housing areas.

The housing sector is heavily influenced by the laws of 2003 on land ownership and of 2005 on housing ownership, which have created the basic conditions for a real market. The public authorities now appear to be increasingly relying on the forces of this market in order to gradually meet the considerable needs for housing. They are, moreover, taking measures to steer the market and making efforts to meet the most urgent needs.

The Ministry of Construction estimates that these needs would require a production of 50 million m^2/year, according to the National Housing Development Orientation of 2004, which sets the targets of 14 m^2 of living space per capita by 2010 and 18 m^2 per capita by 2020.

Box 10 *The fundamental texts for land rights and property*

- The Land Law 13/2003/QH11 of 2003. This recognises the transferability of land use rights for an indeterminate period, and consequently transforms them *de facto* into title deeds. It designates the provincial People's Committees as the authorities in charge of distributing land titles and authorisations for changes in use. The competent ministry is the MoNRE.
- The Law on Housing 56/2005/QH11 of 29/11/2005 and the enforcement decree 90/2006/ND-CP. These texts:
  – recognise the right to assignable and transferable housing ownership, distinct from land use rights;
  – specify methods for housing (and commercial facilities) construction programmes;
  – create the possibility of Social Housing Funds, which may be set up by private persons. The investors and managers for social housing are selected by the provinces, and projects may be subsidised by public funds;
  – define the eligibility criteria for social housing (without specifying income limits), including the need to be in formal employment, and stipulate that social housing buyers must have a minimum 20% downpayment, which *de facto* excludes the poorest.

A National Housing Development Program for 2010-2015 is currently (2009) being defined. It could materialise the State's direct financial commitment for certain "social" housing components.

2.7.1 *Refurbishment of old rental stock*

Up until the 1990s, housing was provided by the State to civil servants (which *de facto* represent a major part of the urban population). In this framework, a relatively large rental stock was built by the State in the main cities (the "*Khu tâp thê*" [KTT]) from the 1960s to 1980s, particularly in the North (the reunification only occurred in 1975, and the creation of this type of stock in the South was mainly implemented *via* expropriations of existing buildings). Priority for this stock was historically given to senior civil servants (who also have the right to more space), heroes of the revolution and certain families with children. The rents for this type of housing are very low, maintenance is far from being systematic and evictions for unpaid rent are nonexistent.

This system led to the emergence of a market for the sale of rights of use, which was initially illegal and then legalised.

From 1994 onwards, the State implemented a policy to systematically sell public housing units (KTT in the North and rental housing units in the South) to their occupants (Decree 61/1994), with subsidies for the buyers. In 2004, roughly 40% of housing units had been sold, thus creating public-private co-ownerships. This concretely meant that the upkeep of common areas practically ceased. These sales gave rise to a considerable amount of speculation (the market price was obviously well above the government sale price, especially once the aid had been deducted) (Tran and Dalholm, 2005).

In this old stock, the Ministry of Construction has identified unsafe housing which must be refurbished-rebuilt.

Table 10 *Unsafe housing identified in five cities*

City	No. of buildings	No. of m^2	No. of m^2/ building	No. of households	No. of m^2/ household
Hanoi	456	1,000,000	2,193	30,000	33.3
HCMC	100	500,000	5,000	10,000	50
Hai-Phong	120	200,000	1,667	700	285
Vinh	21	81,600	3,886	1,400	58
Ha Long	44	66,000	1,500	2,200	30
Total	741	1,847,600	2,493	44,300	41.7

Source: Ministry of Construction.

The cities concerned are concentrated in the North, apart from Ho Chi Minh City. The buildings vary enormously in size (from between 1,500 to 5,000 m^2 on average), as well as the number of m^2/household (which leads one to assume that there are either statistical approximations or that the majority of housing units are vacant, as in Hai-Phong).

The Ministry of Construction's aim is to eradicate unsafe housing by 2015, *via* demolition/rebuilding operations, which are already common practice

These operations are being developed on the sites of the most attractive old public rental housing units, located in or near the city centre. They are generally proposed by property developers (private or public), which rehouse the inhabitants on the spot at no cost (with the same living space, but they can pay to have more living space), and make the plot denser (the other properties are sold at market prices). Some households choose to be compensated, and among those that are allocated a housing unit (with full ownership) on the site, some sell it and leave to live in a cheaper sector (depending on the people we spoke to, it would appear to be either a majority or a small minority).

2.7.2 The "affordable" housing policy

The Government's basic orientation is to give property developers the incentives they require to produce affordable housing and encourage land owners to invest in order to rent out their property.

On 20th April 2009, the Government consequently promulgated Resolution 18/NQ-CP (along with the Decisions of the Prime Minister No. 66/2009/QD-TTg and No. 67/ 2009/QD-TTg of 24/4/2009), which lays the foundations for a policy for "affordable" housing destined for students, workers in industrial areas and poor households in urban areas (effective date: 10/6/2009).

It offers a series of fiscal advantages and production criteria for housing for workers, students and poor urban households, with an extremely ambitious production target for housing for 50% of workers and 60% of students by 2015. These two specific priorities will be addressed below.

The main lever for this "affordable housing" policy resides in the incentives given to property developers to finance property operations comprising this type of product, with a considerable brake due to households' lack of solvency given the inadequacy of home loans for private customers

Financing real-estate operations

The financial equilibrium of operations that include "social" construction works, whether infrastructure or affordable housing, is mainly based on making land available at attractive conditions, on fiscal and/or financial advantages granted by the public authorities, and on the construction and sale at market prices of the other built areas by the property developer.

In Da-Nang, for example, the Hanoi-based company, Vincom, invested in 1,000 housing units, a part of which had a maximum sale price of €8,000, with the possibility to purchase over a 13-year period, for a public proposed by the city (list compiled by the provincial Department of Social Affairs and the Fatherland Front and approved by the People's Committee): mainly civil servants, workers from industrial areas and those living in substandard housing. Under this operation, the City provides the land at no cost. The other housing units are sold on the open market.

Several provinces are offering, or planning to offer, interest rate subsidies for social housing production, particularly *via* their Investment Funds (BDIF in Binh Duong for example, with loans at 0.3%, or Khanh Hoa–Nha-Trang, which plans to replenish the Social Housing Construction Fund, managed by the Municipal Investment Fund, which would lend at 0%). The Investment Funds often have housing financing projects in their portfolios (HANIF or CCDIF for example), but most are *a priori* classic real-estate operations (including the demolition-rebuilding of old public rental housing units (HANIF) or rehousing).

The revenues from the "market" real-estate operations constitute the largest autonomous source of income for the local authorities. These revenues also allow them to finance infrastructure in the framework of the project (roads or public equipment and infrastructure).

However, the "social" or "public" part often ends up being sold at market conditions. This concerns both housing units or public infrastructure, as is the case in Hanoi, where land provisioned for the construction of a public school under a development project has finally been allocated (against payment) to a private school.

Due to the financial significance of real-estate market operations for the provinces and their leaders, the allocation of land either free of charge or at very low prices for social housing is always a painful choice, and is becoming more and more so with the increasing scarcity of "easy" land (occupied land leads to much higher costs and longer time scales, and the cost of expropriation/rehousing is always borne by the local government authorities).

Resolution 18 constitutes a major step forward, by offering various incentives and imposing 20% of "social" housing for any project over 10 ha. The maximum sale price for housing units is set by the Resolution at VND7 million/m^2 (€270/m^2), and there is no income ceiling for beneficiary families. This programme *a priori* seems to target workers in stable employment, the lower middle class and not very poor people, but it is an important first step, even if it may come up against certain difficulties during implementation.

Financing private individuals: an underdeveloped sector

Home financing for private individuals is relatively underdeveloped in Vietnam: it is estimated that less than 20% of home financing comes from the banking sector, the rest coming mainly from family savings or networks of families and friends. Bank and mortgage loans are reserved for middle and high income brackets.

Cash purchase is the traditional home financing method, with loans from family networks. This makes it impossible for low income families to access property ownership and difficult for middle income families, in view of the increase in prices for residential property.

The land and housing ownership (rights of use) registration system, which could provide a guarantee for lenders, does exist, but it is generally kept by hand, which complicates procedures and many households have not yet had their ownership regularised.

The poorest have access to microfinance *via* a few institutions which lend for housing – public institutions or NGOs – but the latter lack cheap capital in order to extend their action, and these mechanisms remain marginal. Banks consider that home loans are not feasible for these populations due to housing prices.

In 2002, ADB launched a lending programme destined to boost the mortgage market for low income households, *via* cheap loans (Housing Finance Project). To date, no project using this programme has come into being.

The most mature attempt within this programme was the arrangement in 2007 of an operation in Ho Chi Minh City, involving the City, a private property developer (M&C) and a private bank (Dong A). The City provided the land and took charge of organising the expropriations. The housing units were put on sale at the construction price (roughly €10,500 on average), with a 30% personal downpayment and the rest financed by low interest rates using the ADB line of credit, with the intermediation of the commercial bank. The beneficiaries were also to rent out the land to the province at a low cost. The project, destined for civil servants, was supposed to begin as soon as a sufficient number of interested households had registered. According to ADB, it met with no success with its target and it was not possible to bring it to a successful conclusion. According to the property developer, the difficulties stemmed more from the fact that the ADB loan was a sovereign loan and that a private company could not benefit from it.

The arrangements that have been devised to date, based on access to property ownership, *de facto* exclude low income populations due to the need for a personal downpayment and the lack of motivation on the part of the banking sector to extend property loans to low income households, even for assisted financing.

Housing for workers

In 2008, the Vietnam General Confederation of Labour estimated that 70% of workers in industrial areas were migrants, and that the housing built by the State or companies only met between 7 and 10% of needs. This is very little and housing for workers consequently continues to be a priority, with a target announced of 50% by 2015…

Until now, in the rare cases where industrial areas have reserved land to build housing for workers, the housing is underused, even abandoned, as it very far from urban services and infrastructure (*An Ninh Thú Đô* of 21/7/2009).

It is possible that Resolution 18 may change the situation a little, by obliging industrialists and the managers of industrial zones to build housing for workers on site or nearby, with their own financing. However, the modalities for practically enforcing the Resolution and the way it is adapted to the actual situation remain to be seen.

Student housing

There are very few specific structures to accommodate students and they are generally in a poor state of repair as most of them were built in the 1960s and 1970s, and few have been maintained since.

The Ministry of Construction estimates that these structures have a capacity to house 20% of all the students in the country. The others must find private accommodation, at conditions that are often prohibitive with a deplorable quality of housing. Yet there are currently 3 million students in the 400 universities, secondary schools and 340 vocational training centres (vocational training represents roughly half this figure), and it is estimated that this figure should reach 4.5 million by 2020.

In Ho Chi Minh City, for example, 70% of the City's 330,000 students come from other provinces and there is a capacity to receive only 17% of the latter. In Hanoi (800,000 students, when vocational training is included), this percentage stands at 18%. Places in university accommodation are thus reputedly sold illegally at between VND300,000 and VND1 million (*Dat Viet*, 14/9/2009).

Resolution 18 is highly ambitious in terms of the student housing sector, with a target of 60% of students accommodated in university residences by 2015, which requires building a capacity for some 2 million beds. This is the only "social housing" segment in which the public authorities are *de facto* the most financially involved (most universities are public).

The Government has consequently earmarked considerable funds (roughly €310 million) for student housing in 2009 and 2010, financed by bond issues. These funds are intended to be used to finance structures built within or near universities, under the ownership of the university establishments. However, the programme is slow in getting off the ground (only three projects have started out of the 267 registered at the summer of 2009), mainly due to the lack of available land, particularly in Hanoi and Ho Chi Minh City.

Political pressure is extremely intense (especially at the start of the new school year). In Hanoi, the capital and political showcase of the country, over €23 million have been earmarked for the construction of dormitories with a capacity of 100,000 beds from September 2009, including 40,000 on two new plots that have already been identified in Thanh Tri and Tu Liem.

2.7.3 *Upgrading precarious housing areas: housing for the poorest*

A whole part of the population, notably migrants, is particularly exposed to extremely poor housing conditions, with precarious or nonexistent rights. In 2004, improving these precarious housing areas was recognised as being an "appropriate housing policy" for the poorest households.

In 2004, the Vietnam Urban Upgrading Project (VUUP) was launched in four pilot cities (Ho Chi Minh City, Can-Tho, Hai-Phong and Nam Dinh), with World Bank financing

On this basis, the Vietnamese Government devised a national programme: National Urban Upgrading Program to 2020–NUUP 2020, destined for 95 Class IV and above cities (approved in June 2009 by the Prime Minister). This programme mainly addresses servicing precarious housing areas (networks, roads), but also includes a line of credit to help inhabitants improve their housing, and technical assistance for land regularisation. The eight prospective cities for the first phase were still under discussion between the government and World Bank in the summer of 2009.

The high minimum technical standards do not foster the construction of low-cost housing for the populations of these areas. The only really possible solution is consequently to consolidate the existing precarious housing, both legally (land ownership) and technically (serviced plots, public services and facilities, quality of constructions). However, this "officialisation" of precarious districts means that the public authorities must abandon their future land development... as these areas are often located in urban expansion areas.

2.7.4 *Rehousing expropriated households*

Housing operations presented as being "social" by the public authorities are generally rehousing projects linked to development projects (infrastructure or property development). This is a major issue for urban development in Vietnam, as it is highly controversial and often leads to several years of delay in project implementation.

For projects of "public or economic interest" (*i.e.* the vast majority of the major development projects), it is the province that is in charge of expropriating and rehousing people living on site. When they do not have a formal land title, the eviction is generally "brutal", otherwise the authorities must negotiate with the inhabitants. This causes major delays in all infrastructure projects and makes rehousing a core issue for urban development.

In reality, the expropriated households receive compensation that is lower than the market price (but the amount is increasing), to which other types of additional compensation are gradually being added (for expenses and loss of income related to expropriation), and are offered housing and/or land at a "favourable" price. In reality, the rehousing areas (generally planned to be near the site in the initial project) are in fact often located in the outer peripheries, far from economic activity hubs. There are also delays in construction, which makes negotiations with expropriated households difficult.[58] Moreover, they are not always financially accessible to the beneficiaries, as there is no guarantee that they will be rehoused (until the decree of 2009, which seems to be an important step in this direction).

In order to try to improve the legal framework for expropriations, which are the subject of numerous scandals and criticisms, the Government adopted Decree 69/2009/ ND-CP, which was supposed to come into force on 1st October 2009. It stipulates, among other things, that housing that is built or plots that are serviced

[58] According to the newspaper *An Ninh Thủ Đô* (21/7/2009), only 40 to 50% of housing destined for rehousing is occupied, including half by second-hand buyers.

in the framework of rehousing operations must offer diversified surface areas and price ranges so that they are affordable for all levels of income, and that the provinces can earmark 30 to 50% of revenues related to rentals or the sale of rights of use in order to set up Land Development Funds, which could finance the construction of housing to rehouse expropriated people, their compensation, and vocational training for them…

Regular inhabitants, *a fortiori* if they have been settled on the site for a long time, certainly have the means to negotiate with the province. They often have political connections at the local – and sometimes provincial – level (this is also the result of the systematic supervision of citizens in the mass organisations) and play on the internal conflicts in administrations (which are not monolithic). It is difficult for the authorities to use force to evict them, as they are afraid of the scandal that would inevitably occur, and the intervention of a higher hierarchical level (Sun and Kim, 2008), or even the Prime Minister himself. [59]

Due to this complexity and the lack of funds to finance land clearance, and skilled human resources, the provinces often delegate this mission to investors (particularly when they are private developers), the cost of expropriation is then deducted from the sale price of the land.

2.7.5 *The outcomes of resolution 18 of 2009*

This Resolution is unquestionably a breakthrough, as it marks the beginning of a concrete involvement of the central State in terms of affordable housing. It has given rise to a series of announcements by the People's Committees. For example, according to the Ministry of Construction, in the first six months of 2009, 21 provinces proposed 189 projects for moderately priced housing (less than €270/m^2) totalling 5.6 million m^2, including 150 projects for the period 2009-2010. [60] Another newspaper [61] quotes the figure of 556 housing construction projects for students, workers or low-income populations proposed by the provinces for the period 2009-2015, representing over €3 billion requested from the State budget.

[59] The article "Land acquisition in transitional Hanoi" studies two examples of recent private development (completion 2006) in Hanoi which required the intervention of the Prime Minister and the payment of additional compensation.

[60] *Kinh tê' Đô thi* (KTĐT) of 7/7/2009.

[61] ANTD 21/7/2009.

However, the way these projects will be implemented in practice remains uncertain, [62] and the actual beneficiaries will not necessarily be those that are targeted. This was highlighted by the website metvuong.com on 5/5/2009, which made a small calculation:

- Principles: average price €230 to €310/m^2, *i.e.* €11,500 to €15,400 for an apartment. Buyers must pay 30% of the total amount when the contract is signed (roughly €3,850), the remainder is to be paid over a 15-to-20-year period with the agreement of the bank selected by the investor, provided the buyer has a minimum salary of €385 per month (those that earn over €192 are in the "high income bracket" and pay taxes as such).
- Conclusion: the official beneficiaries of this policy can never purchase housing. Those that have money take advantage of this to buy and sell at a price that is 1.5 times higher.

This type of mechanism can work for middle class – or even lower middle class – households, if the authorities subsidise the land, but not for really poor households.

The implementation of Resolution 18 is thus far from straightforward, and there are many possibilities for skirting round it (particularly at the level of the real beneficiaries of this type of housing theoretically destined for low income populations). This Resolution has also come in for criticism concerning the living spaces allocated to students and workers (4 and 5 m^2) and, more generally, the quality of the buildings that will be produced (many of the investors that have begun to position themselves are considered to be incompetent). It does, however, constitute a possible major break-through in housing production for certain categories of population. The way it is applied in practice will need to be closely monitored.

[62] Resolution 18 speaks, for example, of subsidised loans, but mentions neither the implementation modalities, nor the origin of the funds…

2.8. Health

2.8.1. *The state of development of the sector: the shortcomings of the public sector*

In 2008, there were 13,460 public health structures, against 13,243 in 2005 (+ 1.6% in 5 years), including 974 hospitals and numerous smaller establishments (health centres), covering the country.

Practically all of the structures are under provincial management (the structures directly managed by the districts and municipalities are included in these figures), with a few state hospitals in the major cities (a total of 36 in 2008). The districts and communes can respectively manage hospitals and health centres, particularly in rural areas.[63]

There are also a few medical centres established in the major companies and health facilities (including hospitals) managed by other public entities, but the number in this category is decreasing.

The total number of beds stood at roughly 250,000 in 2008, including 219,784 in public structures, representing an increase of roughly 10% in three years. Almost three-quarters of the beds of public structures are managed by the hospitals, with an average capacity that is higher for state hospitals (410 beds/hospital) than for provincial and district hospitals (147 beds/hospital).

The State budget allocated to health has only increased slightly in recent years (it even fell in terms of the share of the total budget between 2006 and 2007), and remains well below the announced targets (roughly 6% in 2008 against an objective of the Plan of 9% for 2010).[64] The number of health staff employed in the provinces and districts however remains the second largest, after education.

The basic indicators are generally on a positive trend, apart from access to medical coverage.

[63] According to the 2008 study "Vietnam Development Report – Social Protection" (Joint Donor Report), in 2007 there were 1,030 public hospitals, including 324 directly managed by the province, 600 managed by the districts and 49 private hospitals

[64] Regional comparisons speak for themselves: 18.8% in Cambodia, 17.1% in Thailand, 10% in China in 2007.

Table 11 *Main health indicators*

Indicator	2005	2006	2007	2008 (forecast)	2010 objective
% of state budget devoted to health	5.3	6.3	6.2	6.3	9
No. beds/10,000 inhab.	23.9	23.7	25	25.7	26.3
% of private hospital beds		2.2		3	
No. doctors /10,000 inhab.	6.2	6.2	6.5	6.3	7
% malnutrition in the under-fives	25.2	23.4	21.2	21	20
% of inhabitants with medical coverage		43.8	40.8	43.8	
% of poor and near-poor with medical coverage		18	18.2	17.9	
Maternal mortality for 100,000 births	80	78	75.1	75	60
Infant mortality for 100,000 births	18	16.4	16	15.5	16
Mortality in under-fives for 100,000 births	28	26	25.5	25	25

Source: MPI 2009 (SEDP 2006–2010 Mid-Term Review Report).

The most important deficiencies in Vietnam's health system (according to the SEDP 2006-2010 Mid-Term Review Report) are:

- the low rate of medical insurance coverage;
- the lack of hospital beds, which in 2007 led to an occupancy rate of 135-139% in State hospitals and 120-123% in provincial hospitals;
- the shortcomings of health services (quantity and quality) in remote villages;
- the lack of doctors: 24,534 are trained each year, whereas estimated needs are 36,507 + 12,000 to replace doctors leaving for retirement. This shortage is particularly marked for specialist training and in preventive and public medicine;
- the extremely variable quality of health care and drugs.

These problems are exacerbated by rising demographic growth due, among other things, to the increased flexibility of the two-child policy,[65] and the young age of the population.

Other public health problems are rapidly increasing due to changes in lifestyles, such as drug addiction (170,000 drug addicts observed in 2008, including two-thirds under the age of 30), diabetes, cancer, cardiovascular diseases, smoking or alcohol-related diseases. Certain infectious diseases are on the rise (AIDS, tuberculosis, dengue fever, Japanese encephalitis).

2.8.2. *Recent evolutions: a subtantial degree of "socialisation"*

The collapse of Vietnam's traditional socialist model in the 1980s,[66] and the "socialisation" process from 1996 onwards,[67] led to two major evolutions in the health system, which can also be seen in education: the "commoditisation" of the public health sector and the emergence of a private sector. These evolutions led to a rapid decline in State involvement and, as early as in the 1990s, it is estimated that 80% of health expenditure was paid for by patients or tinsured parties (London, 2008). Since then, the public health budget has remained low, varying between 0.5 and 1% of GDP between 1995 and 2005 (whereas the budget for education rose from 2 to 3.5% of GDP over the same period), despite a sharp rise in health expenditure in general (Vietnam is one of the Asian countries that spends the most on health).

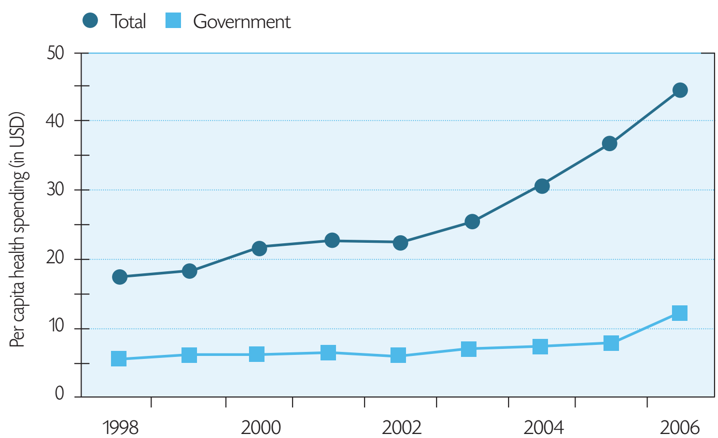
In 2006, the State budget for health represented 18% of total health expenditure and 31% when insurance is added. As we can see from Graph 6, the share borne by patients has risen sharply.

[65] In 2007, there were 112 boys for 100 girls.

[66] This model was based on universal access to health care, via a network of facilities and public policies conducted at all levels (State, provinces, districts, communes). It worked – imperfectly – until the 1980s, but the fall in State revenues from this date onwards led to a drastic decrease in the public health budget and the sector was practically bankrupt.

[67] The "socialisation of education, health and culture" was decided in 1996 by the 8th National Congress of the Communist Party.

Graph 6 *Evolution of health expenditure per capita*



Source: MOH (2007a).

This "socialisation" policy was reaffirmed and reinforced by Decree 69/2008/ND-CP of 30/5/2008, concerning, among other things, aid for "socialisation activities" in the sectors of education, training, health, culture, sport and the environment. This Decree stipulates that the provinces will provide these projects with land and premises for their activities at preferential conditions, and defines fiscal advantages. It also applies to public sector companies operating in these sectors.

Evolution of public health sector: privatisation from the inside

As early as in 1989, a constitutional amendment authorised public establishments to charge for their health care services. Billing for part of the costs (previously completely free) to users is being developed in order to finance the budget of public institutions. Public medical institutions must consequently increasingly finance their investments themselves (particularly medical equipment, which is often expensive), and are increasingly entering into a market logic. This leads to a regular increase in the costs of treatment and new partnerships with private actors in order to finance certain equipment (which is then operated at private-sector price rates). Public hospitals have also developed "additional" services for which there is a charge. Hospitals can even offer credit to the poorest households so that they can pay for their health care!

Another more unofficial health "privatisation" method is the widespread practice of doctors working in public structures, which involves opening a parallel private consultation surgery and using public health structures to "steer" the patients towards the private practice to benefit from better health care (at a cost which is obviously higher).[68] These doctors can even use the facilities and infrastructure of public hospitals, which are "rented out" to them according to locally defined arrangements. It is an "abuse" that does however make it possible to compensate for the extremely low salaries and keep doctors in public structures. It is, in fact, another form of "socialisation". In addition to this type of practice, there are "gifts" that allow patients to be treated better and more rapidly (or even to receive health care) in public structures.

This evolution was scaled up and formalised by the Decrees 10 (applied from 2004 onwards) and 43 (applied in 2006), which give public health services greater financial and management autonomy while, at the same time, giving incentives to develop "alternative" sources of income, in order to improve service quality and reduce the cost for the State.[69] However, Decree 39/2008 stipulates that medical consultation and hospitalisation fees are controlled by the Government.

The emergence of a private sector in health

In 1987, the Government authorised the limited emergence of private enterprise in the health sector (health care and sale of drugs). From the mid-1990s onwards, private health care structures emerged and have since experienced exponential growth. In 2004, 65,000 private health structures were registered in Vietnam, including 30,000 private clinics, 23,000 pharmacies and 12,000 traditional private health structures. These figures have in all likelihood been underestimated, as some of the practitioners are not registered. In 2006, 36.3% of the country's communes had private health units on their territory, but the private sector is mainly concentrated in the major cities.

From the early 2000s onwards, the sector opened up to foreign capital (one example is the Franco-Vietnamese hospital in Ho Chi Minh City) and, in 2007, the country counted 49 private hospitals.[70] In 2009, there were 11 private hospitals in Ho Chi Minh City alone, including two financed with foreign capital.

[68] Roughly 70% of private doctors also work in a public structure ("Vietnam Development Report – Social Protection").

[69] In the three years following the application of Decree 10, health care services billed by provincial hospitals rose by 47%.

[70] According to the 2008 study "Development Report – Social Protection" (Joint Donor Report).

Although the private sector represents 60% of home visits, in 2007 it handled only 4% of confinements and 11% of preventive medical care. On average, one Vietnamese has a 1.8 annual contact with a private operator, a 1.2 contact with a public health centre and a 0.8 contact with a public hospital. [71]

Inequality in health care and recent regulatory changes

Changes in the health sector obviously first affect the poorest: health expenditure represents a major and increasing share of their income. In 2004, health expenditure for a poor household with a sick person at home represented an average of 40% of its (meagre) income, against 25% for the richest households (Ministry of Health, 2005). This often leads to catastrophic situations (money borrowed, sale of property, job lost due to lack of treatment, etc.).

This situation led the State to gradually implement absorption policies as early as in the 1990s: exemption or reduction of medical fees for certain categories of population (orphans, children under 5, then the poor...), which represent an increasing number of people. For example, in 2004, 13.1 million people benefitted from these, but with, nevertheless, difficulties to access health care (two-tier system).

In addition to these efforts, there is also a policy to develop health insurance, with mixed results, despite a clear increase between 2002 and 2006 (in 2002, health insurance became mandatory for all workers in the formal sector). The coverage rate even fell for the population in general between 2006 and 2007 (40.8% in 2007 against 43.8% the previous year), and is still very far from the universal coverage targets for 2010. These shortcomings have led to the emergence of parallel private health insurance systems, which obviously further worsen inequalities in terms of access to health care.

A recent law on health insurance (which came into force on 1st July 2009) aims to standardise the system. It compensates patients for their health care according to three categories:

- 100% for children under 6, the Nation's deserving people, and police forces
- 95% for the retired, industrially disabled persons, the poor and ethnic minorities in difficulty
- 80% for the others, including employees

[71] "Vietnam Development Report – Social Protection", 2008.

This insurance will be financed by a 4.5% contribution on salaries, pensions and industrial disability pensions, starting in 2010.

The practical modalities for its implementation and its concrete results remain to be seen…

2.9. Education

2.9.1. *State of development in the sector: widespread basic education, but difficulties to adapt to a changing Vietnam*

The education system includes general education and continuing education, which are divided up into the four following levels:

- infant school: day nurseries and infant schools
- general school: primary, lower secondary, upper secondary
- vocational school; vocational secondary school
- university: 2 (or 3) years' higher education, university and post-university

It is controlled by Law 38/2005/QH11 of 14/06/2005 on Education, which mentions three types of education structure: state schools, schools "founded by the people" and private schools.

Schooling is compulsory until lower secondary school.

Although the pedagogical content of the entire system is under the supervision of the Ministry of Education, the day-to-day management of public establishments is divided between the administrative levels: day nurseries and infant schools managed by the communes/wards, primary and lower secondary schools by the districts, upper secondary schools by the province and higher education by the province or State. The competent levels are in charge of the operating expenditure of the structures under their control, which represents an substantial budget item, similar to health. The workforce employed by the local authorities in the education sector represents the largest in number.

The results of the education policy would appear to be spectacular: 93% of Vietnamese are literate, 41.7% have the equivalent of a final secondary school examination certificate, 87% the equivalent of a lower secondary school examination certificate and 32.1% of an age cohort goes to university (General Statistics Office, GSO).

Vocational secondary education has seen a sharp rise in "non-public" structures since they appeared in 2000. In 2008, the private sector represented 28% of establishments and 29% of teachers, while the number of public establishments regularly fell between 1995 and 2008. The number of pupils rose much more rapidly than that of teachers, leading to average class sizes of 37.4 pupils in 2008 against 11.9 in 1995 and 25.3 in 2000.

In 2008, there were 1.68 million students in higher education (excluding vocational training) and 393 establishments, including 18% with a private status (which represents 11.8% of the total number of students). The number of students is rising sharply, and almost doubled between 2000 and 2008. Practically all private students are full-time, against 79.3% of public students. While the number of students may have multiplied by over 5.6 between 1995 and 2008, the number of teachers multiplied by less than three.

There are also estimated to be between 1 and 1.5 million students in vocational training.

The public budget devoted to education is in the region of 18-19% of the total State budget (it fell between 2006 and 2007), and focuses on universal primary and (lower) secondary education, with a tenfold budget increase between 2002 and 2006. In fact, this means that higher and vocational training are increasingly entrusted to private initiative.

Table 12 *Main education indicators*

Indicator	2005	2006	2007	2008 (forecast)	2010 target
% of public budget devoted to education	17	19.4	18.5	18.9	20
No. of provinces with universal lower secondary education	31	32	39	47	64
% primary enrolments	94.6	95	96	96	99
% lower secondary enrolments	77.6	76.6	78.2	79	90
Enrolment growth rate in general higher education	12.5	11.4	11.1	13	10.3
Student growth rate in technical secondary education	20.9	13.4	20.9	18.7	14.7
Enrolment growth rate in vocational training	4.1	11	7.2	17	7.2
Enrolment growth rate in long-term vocational training		3.1	8.5	43	17

Source: SEDP 2006 – 2010 Mid-Term Review Report.

The main shortcomings observed in the SEDP 2006-2010 Mid-Term Review Report are the following:

- high dropout rate at all levels, linked, among other things, to the Ministry's policy to raise the level of assessment;
- small increase in lower secondary enrolment, notably due to the poor quality of teaching;
- as the State budget does not cover all needs, parents have had to make a sizeable contribution to financing schooling;
- low level of universities and colleges (higher education): low level of qualifications (under half of teachers held a diploma higher than a Master's in 2008, and only 12% of university lecturers held a PhD) [72] and lack of teachers, pedagogical material, shortcomings in the field of research;

[72] At the conference "Vietnamese Universities in Globalisation", jointly organised with the United Kingdom on 16/10/2009 in Hanoi, Mrs. Nguyen Thi Le Huong, Deputy Director of the Department of Academic Training of the Ministry of Education, announced that there were only 330 lecturers and senior lecturers in the country's 376 universities, *i.e.* less than one per university.

- despite a sharp increase, the number of vocational training institutions remains extremely limited. They are often small and do not sufficiently meet the needs of the labour market. There are few competent teachers, a lack of pedagogical material, assessment that is purely formal. Moreover, most institutions only offer short-term courses (the rate for long-term vocational training – which requires more investments and a better quality of teaching – only accounts for 17.6-19.5% of vocational training, for a target of 25-30%).

Generally speaking, the SEDP evaluation is extremely critical of the State's education policy. According to a UNESCO report, Vietnam still ranks 79th out of 129 countries in terms of the Education for All Development Index. Vietnam's education system is especially suffering from the failings of mass education, and the fact that education programmes are generally ill-adapted to the constraints of the labour market, in addition to the low level of pedagogical supervision and limited resources. According to a recent study, (Tuan and Kien, 2009), 95.6 % of respondents in Hanoi consider that the education system is unsatisfactory...

2.9.2. *Recent evolutions similar to those of health: mass arrival of the private sector*

Evolutions in the education sector are relatively similar to those in the health sector, and the socialisation policy began in education in 1996 (8th Congress of the CP). This policy has led to a constant increase in school fees at all levels.[73]

For example, in universities, the limit for school fees for the academic year 2009-2010 was set at €9.2/month/student (against €6.9 the previous year) and €6/month/student for vocational secondary schools (against €4.6 the previous year). There are also a number of additional fees.[74]

As with the health sector, an internal privatisation is underway in public education, with teachers (whose salaries are extremely low)[75] offering private lessons at all levels of primary and secondary education (often group lessons, which can even take place in the classroom).

[73] The decision to introduce school fees was taken in April 1989. The share of education in household expenditure rose from 7.2% in 1994 to 14% in 2002. School fees are controlled by the Government (Decree 39/2008).

[74] School fees and contributions for infant and primary school are decided by the provincial People's Committees. Faced with their rapid increase, a resolution of the National Assembly of 30/5/2009 proposes to limit the school fees at 5% of the household's income and separate them from the additional "contribution" (the two are generally combined).

[75] It is estimated that a university lecturer earns between €70 and €105/month, while secondary education teachers earn much less.

In addition to these extra school fees, pupils' parents must pay sums throughout the year towards the operating costs of establishments (building repairs, canteen extensions, purchase of mineral water, playground renovation...). They increasingly prefer to entrust their children to the private sector and consequently pay a little more, but officially and in one go. This is an argument that one hears very often in Vietnam.

The place of the private sector has developed enormously at all levels of education (day nurseries, infant schools, primary, lower secondary, upper secondary and higher education). This has been encouraged by the public authorities. Some private establishments even open before they receive the authorisation, and subsequently regularise their situation. There are two types of private structure:

- the "*dân lập*" = "founded by the people" (word-for-word translation), which are created by associations and are supposed to be "non-profit-making". These schools do not pay a rent for land; their directors and some of the teachers are civil servants paid by the State;
- the "*tu' thuc*" = private structures that operate as private companies.

The creation of public schools "founded by the people" or private schools is decided (as with public structures) by the competent authorities according to the educational level (up to the Prime Minister for universities).

In Nha-Trang, for the school year 2006-2007, among the children in nursery school (21.9% of the age cohort), a third go to a private day nursery and another third to a "spontaneous" day nursery (private, pending regularisation). In infant schools (73.1% of the age cohort in school), the proportions are 32% in private schools, 5.3% in "spontaneous" schools, 41.2% in infant schools "founded by the people" and only 21.5% in public establishments.

The emergence of the private sector also concerns secondary education. The private upper secondary schools are allocated a quota of pupils, but sometimes have difficulty in reaching this, as the public upper secondary schools are generally more highly rated and systematically cheaper (school fees in private schools are over eight times higher than the official fees of public schools),[76] and often widely exceed their own quota (1,145 pupils enrolled at the Viet Duc High School in Hanoi, for example, for a quota of 720).

[76] Even though the actual fees are often higher, as we have seen, public schools still, however, generally remain more affordable.

Private structures do, however, compete with the public sector, thanks to a more comprehensive management, smaller classes, better quality material and more modern teaching methods. Some establishments are very successful, such as the VIP infant-primary school in Hanoi, which opened its first lower secondary-upper secondary classes in September 2009, with 24 pupils/class (against between 50 and 70 in the public sector), motivated teachers (including Anglo-Saxons for English lessons, extremely well-developed teaching right from primary education), high quality material (computer and video equipment...), field trips, etc. The school has to turn away pupils, and is planning an extension as soon as it has received planning permission to do so. School fees range between €125/month for primary school to €175/month for upper secondary school.

Private universities began to develop [77] in 2000, as well as private vocational training entities. Between 1995 and 2008, out of 55 newly created technological institutes and 23 universities, 95% had a private status! Their level of teaching is variable, and sometimes good (cf. the example of Hoa Sen). Training cycles are often short, particularly for the vocational training institutes.

Private universities recruit the students that are turned away by public universities,[78] with tuition fees that vary between €192 and €770/year, *i.e.* 2 to 8 times higher than the maximum amount for a public university. These private entities capitalise on the high value Vietnamese parents give to their children's education. They are, indeed, willing to make every sacrifice for the education of their offspring.

According to the Ministry of Education, in 2006 there were 23 private universities out of a total of 209, representing roughly 120,000 students (11.7% of the total number). It is likely that the number has risen since.

At least some of the private universities, while they do unquestionably provide a service to the population, may be designed mainly to reach a maximum level of profitability in the short term. For example, Tay Do University in Can-Tho would appear to have been built with no water drainage network, and 40% of its income (which comes exclusively from school fees that are at the rather modest sum of €192/year) is allocated to investments and, especially, to remunerating shareholders, in proportions that is has not been possible to identify (according to CEFURDS, private universities' profits generally reach between 40 and 50% of their annual turnovers).

[77] Officially, as certain private universities had already "unofficially" appeared back in the 1990s.
[78] 20% entrance exam pass rate in public universities in 2004.

Their proliferation and the quality of their teaching raise questions, particularly from some members of parliament and university lecturers. The result would appear to be a poor quality in certain private universities. Some universities do not even have classrooms. The newspaper *Tuoi tre* (15/10/09) speaks of the three "no" universities: no teachers, no premises, no curriculum.

There are even fewer international universities (the first to be established was RMIT International University Vietnam [Australia]), but several projects are underway, including the Vietnam-Germany University which opened in 2009.

The 13th National Education Development Plan for 2009-2020 (published at the end of 2008) sets ambitious targets for 2020, by relying heavily on the private sector:

- 80% of the population at the upper secondary level (against 41.7% today)
- 30 to 40% of students in private schools
- 5 Vietnamese Universities (that would train 300,000 students), among the 100 top universities in ASEAN countries
- 2 Vietnamese Universities among the world's top 200 universities
- minimum of 20% of the State budget allocated to education

In this context, and for the university sector, Vietnam has received €280 million euros from the World Bank and ADB. At least three universities have already been identified in Hanoi, Da-Nang and Can Tho.

It is estimated that each university will request an investment of between €350 and €700 million, a major part of which will be provided by private investors. According to the Deputy Prime Minister, lecturers will be paid between €700 and €1,050 a month, *i.e.* 10 times the current salary of lecturers in public universities, but the government "will provide support to ensure that school fees remain affordable".[79]

Private education entities are generally strongly encouraged by the central government, and often by the provinces. An education reform project under discussion (2009) aims for the authorisation to open a new private university to be given by the Minister of Education, and no longer by the Prime Minister.

[79] Viet Nam News, 14/9/2009.

Conclusion

Conclusion

Huge needs that require an enhanced management framework

Local public services are engaged in an unquestionable process of expansion and financial autonomisation. This process echoes the autonomisation of local administrations, which are the key players in these changes. There is an immense range of possibilities opening up for new partnerships for financial, capital-intensive and operational cooperation in almost all of the public sectors (water, waste, sanitation, transport...), in terms of both investment and operations. The methods differ depending on the services concerned – we have discussed the main ones – and the level of maturity also varies, but the movement as a whole is firmly underway .

However, these innovative partnerships are far from being without risk for the external operators, whether these are financial or operational. It is precisely because of their pioneering dimension, in a country that does not have much experience in partnerships between the public sector and private actors, that they are not for the moment implemented within a structured framework. There are consequently high financial, political and legal risks in operations that, by definition, require long-term investments.

Beyond the niches that are already operational and those that should become so in the short run (the main ones being those we have presented above), the Vietnamese State and local public administrations must address a certain number of weaknesses – which they seem to be fully aware of given the reforms already undertaken – in order to allow the development of "socialisation" in urban services. They can be grouped into three problematics.

Financial resources must be scaled up

- The World Bank estimates the financial effort required to bring Vietnam up to an acceptable standard by 2020 or 2025 at €262 million/year for water, €195 million/year for sanitation, €576 million/year for housing. These orders of magnitude must be compared to the €1.4 to €2.1 billion that the provinces today earmark for investment and are consequently not disproportionate. The need for additional financing is, however, considerable.

- Financing for local public services in the long term depends on the capacity to charge fees for services that are near their actual cost. This should already be the case for users that can afford to pay. They are more and more numerous in an expanding Vietnam, particularly companies and the populations of more advantaged neighbourhoods. A viable economic model should consequently gradually emerge and help to finance major public services. Several provinces have already demonstrated this possibility.
- Financial support from the local authority will remain essential for a long time to come. The required resources depend first and foremost on improving local tax yields:

  – taxation must undergo new far-reaching reforms aiming to increase the tax base and rationalise it. For example, a local tax based on rental values will be created, while an overall assessment of these rental values will be made, under the responsibility of the provincial People's Committees. There is also the idea of creating an environmental tax that would replace, modernise and widen the base of several taxes. It would appear that a certain autonomy in setting the rates has even been envisaged;

  – greater efficiency is, at the same time, required in terms of making an inventory of taxes and duties and collecting them. Actions to modernise the tax administration are on the agenda.
- However, the State also has a duty to maintain, and undoubtedly scale up, inter-province financial equalisation. The risk otherwise is to create an even bigger divide between two Vietnams: a country in which the richest provinces make full use of the freedom they are granted, and a Vietnam in which the poorest provinces *de facto* remain in a state of heavy dependence on the central authorities that allocate them meagre resources to operate and invest.

The governance of provinces and cities must also be improved

- The modernisation effort has led to a number of new texts. It is difficult to unravel their relative hierarchy, and their repetitive nature means that they cannot be efficiently implemented. For example, it would be better for recent regulations related to the environment to be applied more systematically, particularly by companies. This would contribute greatly to fostering the development of local public services for water, waste and sanitation.
- From the institutional perspective, several reforms are underway. They aim to make local governance more effective by giving more power to the local section

of the Party. Hundreds of People's Councils have already been abolished at the commune and district levels, while every day the practice of appointing the local Party secretary as Chairman of the People's Committee is becoming more widespread. This system is officially only at the experimentation phase, but it has been extended enormously in recent months, as can be seen in the press. There is thus a strong likelihood that it will be enacted into law at the 11th Congress of the Party in January 2011. One can question this dual reform, which brings the Party out into the open and suppresses Vietnam's only local elections, in terms of real progress on the path to democratisation. On the other hand, by officialising existing practices, or in other words by confirming the leading role of the Party, including at the local level, the decision-making process is undoubtedly clarified and simplified.

- In addition, from a technical point of view, local administrations do not appear to be sufficiently organised and equipped to manage the new missions that are devolved to them. The technical capacity of managerial staff is probably also in question. It is not sure that their skills and number are evolving as quickly as needs.

Greater transparency is essential

- The greatest handicap is the lack of transparency surrounding the administration of provinces and cities, their markets and contracts, their public sector companies.The authorities ma y be well aware of this problem, yet they are not bringing solutions, apart from taking measures that only defer it or, in the end, exacerbate it.
- The available statistical and financial information focuses on the future and neglects the past: the budgets may exist, but the accounts are extremely late in coming. It is, moreover, in most cases patchy and not homogeneous, which makes it difficult to exploit.
- Data relating to surrounding factors, shareholders, the accounts and commitments of entities in the sphere of influence of local authorities are often succinct and cosmetic, and in any case very difficult to access.
- The conditions for bid invitations and awards for procurement contracts or PPPs are regulated (Law of 2005), but all the guarantees of transparency are seldom provided.

- Conditions for valuing companies within the provincial or municipal spheres of influence, and for the corresponding share transfers, are obscure. The role of the State Capital Investment Company (SCIC, that groups together the State's shareholdings) *vis-à-vis* local companies is not, moreover, clearly established.
- There is *a fortiori* no consolidated vision that allows an overall assessment of the financial health and the risks of the provincial or city "holding company" and its satellites.
- The controls made by the numerous bodies and inspectorates are likely to reassure, but they are redundant and perhaps do not have all the independence of judgement that is required. Similarly, the accounts of public sector companies are certified by auditors appointed by the Chairman of the People's Committee.

Although Vietnam presents considerable opportunities, it also holds high risks for financial and operational partners in projects involving local authorities. The ongoing autonomisation of these local authorities, with their widening sphere of competence and increasing financial power, is an extremely rapid process that necessarily comes with fragilities. We have attempted to list the most important ones. One may be right in thinking that with the upcoming Congress in 2011, the Party will manage to give the right impetus for the required reform on these points with the same realism that inspired it in 1995.

List of Acronyms

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ADB	Asian Development Bank
AFD	*Agence Française de Développement*
BMC	Bus Management Centre (Ho Chi Minh City)
BODS	Biochemical Oxygen Demand
BOO	Build-Own-Operate public-private partnership contract
BOT	Build-Operate-Transfer public-private partnership contract
BRT	Bus Rapid Transit
BT	Build-Transfer public-private partnership contract
BTO	Build-Transfer-Operate public-private partnership contract
CEFURDS	Centre for Urban & Development Studies (Ho Chi Minh City)
CLD	*Collectivités locales et développement urbain* (AFD department) (Local Authorities and Urban Development Division)
DDIF	Danang Development Investment Fund
DPI	Provincial Department for Planning and Investment
EIB	European Investment Bank
FDI	Foreign Direct Investment
GSO	General Statistics Office
HCMC	Ho Chi Minh City
HEPZA	Ho Chi Minh City Export Processing and Industrial Zones Authority
HFIC (ex-HIFU)	Ho Chi Minh City Finance and Investment State-Owned Company
HIDS	Ho Chi Minh City Institute for Development Studies
HIFU	Ho Chi Minh City Urban Development Investment Fund
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
JSC	Joint Stock Company

LDIF	Local Development Investment Fund
LVWC	Lyonnaise Vietnam Water Company
MAUR	Management Authority for Urban Railway (Ho Chi Minh City)
MoNROE	Ministry of Natural Resources and Environment
MOF	Ministry of Finance
MPI	Ministry of Planning and Investment
MRT	Mass Rapid Transit
NGO	Non-Governmental Organisation
NUUP	National Urban Upgrading Program
ODA	Official Development Assistance
PCI	Provincial Competitiveness Index
PMU	Project Management Unit
PPP	Public-Private Partnership
SAWACO	Saigon Water Company
SCIC	State Capital Investment Corporation
SEDP	Socio-Economic Development Plan
SoCB	State-Owned Commercial Bank
TRAMOC	Transport Management and Operation Center (Hanoi)
UDC	Urban Draining Company (Ho Chi Minh City)
URB	Urban Railway Board
URENCO	Urban Environmental Company
UTMC	Urban Transport Management Committee (Hanoi)
VDB	Vietnam Development Bank
VND	Vietnamese dong
VUUP	Vietnam Urban Upgrading Program
VWSA	Vietnam Water and Sanitation Association

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Urban Development in Vietnam: the Rise of Local Authorities

Local authorities are playing an increasingly influential role in the exponential economic growth and development of Vietnam and its cities. They have now become key actors playing pivotal roles in the delivery of most public urban services (water, sanitation, waste management, public transport, etc.).

This study provides a detailed analysis of how the Vietnamese local authorities operate and how they manage the main urban public services. It examines their roles, the limits of their powers, the institutional, financial and operational instruments underpinning their action, as well as recent and future developments.

Based on an in-depth field study, this publication makes essential reading for anyone interested in Vietnam's urban development and who wishes to gain an insight into the issues, risks and constraints involved.

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