



PPIAF

Enabling Infrastructure Investment

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Improving Private Sector Participation in Vietnam

Between 1990 and 2015, private sector investments in infrastructure in Vietnam totaled US\$11.3 billion, with 81 projects reaching financial closure. According to the World Bank Group's report, *Benchmarking Public-Private Partnerships Procurement 2017*, Vietnam scored above the averages of East Asia Pacific countries in the stages of public-private partnership (PPP) projects: preparation, procurement, and contract management. From 2003 to 2014, the Public-Private Infrastructure Advisory Facility (PPIAF) provided technical assistance to the Vietnamese government through a diverse range of activities, including initiatives supporting the legal and regulatory environment for PPPs and sector-specific assistance for transport PPPs. Overall interventions totaled US\$2.34 million.

In February 2016, PPIAF commissioned an independent impact assessment of its technical assistance in Vietnam. The purpose was to establish how PPIAF's technical work led to a more effective enabling framework—legal, regulatory, institutional, and policy reform—for PPPs and how this generally helped to increase private sector participation in infrastructure, particularly in the transport sector.

This report highlights the assessment's main findings, especially regarding an improved regulatory framework and increased private sector participation in road maintenance and bus services.

PPIAF SUPPORT

The assessment focused on PPIAF's technical assistance to the Vietnamese government on the legal and regulatory environment for PPPs and support in the transport sector. PPIAF supported the PPP Development Program Office within the Ministry of Planning and Investment in developing an institutional and implemented framework for PPPs; coordinating PPP-related activities; identifying pilot PPP projects; and disseminating PPP best practices. PPIAF-funded work also included helping the Ministry of Finance develop a

financing framework for infrastructure PPPs, specifically a viability gap financing mechanism to improve the financial viability of well-prepared projects complying with prescribed qualification criteria.

In the transport sector, PPIAF funded an assessment of options to mitigate the inefficiency and lack of road maintenance by state-owned enterprises. PPIAF supported the World Bank's assistance to the Ministry of Transport and specifically the Directorate for Roads of Vietnam in creating the Road Network Improvement Project, for which the World Bank provided a \$250 million loan for deferred road improvement and maintenance. Three separate pilot contracts were launched to incorporate performance-based contracting (PBC) for road maintenance into the nation's transportation policy. PPIAF also assisted Vietnam's largest cities, Hanoi and Ho Chi Minh City, in taking steps to involve the private sector in improving urban public transport, including bus and light rail transit systems.

IMPACTS

Institutional Framework

In 2011 the Vietnamese government issued the prime minister's Decision 71, establishing a PPP framework and identifying pilot projects in a wide range of sectors; PPIAF's background analysis and assessments helped prepare the decision. In April 2015, the government released two PPP Decrees,¹ consolidating Decision 71 and the existing Decree 108, for domestic build-operate-transfer PPPs. The resulting PPP framework and enabling legislation are exemplary and should be effective in facilitating PPPs, particularly government-level projects. The new framework widens the relevant sectors and PPP models, while generally introducing policies designed to attract international sponsors and investors or lenders to the Vietnamese PPP market. For example, the new framework uses international arbitration as a dispute-resolution mechanism—a key requirement of international market participants.

Transport Sector

PPIAF-funded technical assistance has been particularly effective in increasing the use of PBC-based contracting for road maintenance as well as outsourcing urban bus services.

Transforming Road Maintenance Contracts into Performance-Based Contracting

With PPIAF's support, the World Bank completed the Road Network Improvement Project in 2012, introducing PBC elements into road maintenance contracts. Competitive bidding was opened for privatized state-owned enterprises with less than 50 percent government ownership. The government also established a road maintenance fund (from vehicle registrations) to stabilize road maintenance budgets. These reforms created cost savings, higher quality service, and a new market segment for private sector

participants. In 2014 the Vietnam Road Asset Management Project was introduced, with pilot contracts using a "hybrid" PBC. Funding for rehabilitation works were on a unit price basis, while funding for maintenance works were on a comprehensive PBC basis, more aligned with global standards. This initiative extended the reforms and requirement for competitive tendering across the system; thus far, this project has received very positive reviews for reducing cost and improving service.

Outsourcing Bus Services

A PPIAF-funded study (2004) assessed the potential role of the private sector in providing bus services in Hanoi, encompassing maintenance facilities and ticketing systems, with the objective of assisting the city improve urban public transport services. After adopting a route-by-route cost contract as the basis of private sector participation in bus services, thirteen five-year route service contracts were awarded in Hanoi (2005–2008) to private companies for 97 routes, while the state-owned operator Transerco retained one contract for 58 routes. According to TRAMOC (Hanoi's transportation department), private sector participation has increased ridership and invested capital and has improved operating results. According to the owner of Bao Yen Bus, a privatized bus service with six route contracts, the operating and management cost structures of private companies are much lower than Transerco, offsetting its access to cheaper financing through using a government guarantee.

LESSONS

- The PPP framework embedded in Decrees 15 and 30 is well designed to implement PPP projects and should be very effective in attracting wide market interest in Vietnam from international players. This is subject to resolving any remaining commercial issue on specific projects regarding the commercial balance of risk and return in the contract between the public and private sectors. Both the PPP framework and commercial balance issues should be considered simultaneously in developing a PPP program. For example, the Dau Giay-Phan Thiet Expressway project appears to be an excellent candidate for PPP procurement as a concession, appealing to international market participants, but is currently being restructured to reassess and rebalance commercial issues. Increased market soundings by the government conducted early in the procurement process could reduce delays resulting from commercial issues.
- Availability PPP structures rather than full revenue transfers for large-scale PPPs can effectively reduce commercial exposure of private concessionaires. However, implementing this approach requires the government to reassess ancillary policy issues that could block using this structure.
- The government adopted a sequential approach to outsourcing bus services and increasing PBCs, with expansion based on experience and lessons learned. This approach has proved to be very effective in introducing fundamental change across a broad economic sector.

1 The two decrees: No. 15, establishing policies for government support and project priorities; No. 30, establishing best practices and commercial policies for procurement and competitive selection. The government issues decrees to enact laws; the prime minister issues decisions (subordinate to decrees) to enact regulations on various issues.