Urban Development Strategy

Meeting the challenges of rapid urbanization and the transition to a market oriented economy

Alan Coulthart, Nguyen Quang and Henry Sharpe
Vietnam’s infrastructure challenge

As Vietnam becomes richer it faces challenges in adapting its infrastructure policies and institutions. While the old challenges of providing basic services to all remain, new challenges are emerging, such as accessing new sources of finance, refining planning processes, preparing for rapid urbanization, improving the efficiency of infrastructure service providers, developing stronger institutions to encourage private finance of infrastructure or direct private provision of infrastructure, and developing more targeted approaches to poverty alleviation.

This report on Urban Development Strategy - Meeting the Challenges of Rapid Urbanization and the Transition to a Market Oriented Economy is one of six volumes dealing with Vietnam’s Infrastructure Challenge. Other volumes deal with Infrastructure Cross Sectoral Issues, Water and Sanitation, Transport, Telecommunications, and Electricity.

The work for these reports was carried out between 2004 and 2006 by World Bank staff and consultants. The reports have been revised to take account of comments made by the Government in workshops during May 15-17, 2006. The comments of numerous colleagues from the World Bank, the United Kingdom’s Department for International Development Bank, the Asian Development Bank, and the Japan Bank for International Cooperation are gratefully acknowledged.
Executive Summary .................................................................v

Chapter I: Background ............................................................1
Introduction ..............................................................................1
Political Context of Urbanization ..............................................2
GDP Growth and Economic Change ..........................................3
Classification of Cities ............................................................4
Urban Population Growth and Migration ....................................6
Comparative Urbanization .........................................................7
Incidence of Poverty ..............................................................7

Chapter II: Guiding Policies .....................................................11
Urban Policy Priorities ............................................................11
Decentralisation .....................................................................12

Chapter III: Infrastructure Access, Needs, and Goals ...............15
General ...................................................................................15
Water Supply ..........................................................................16
Drainage, Wastewater Collection and Wastewater Treatment .......17
Solid Waste Management .......................................................19
Urban Transport ......................................................................20
Housing ..................................................................................21
Estimated Future Financing Requirements for Urban Infrastructure ..................................................22
Urban Water Supply, Wastewater Collection & Treatment, and Drainage ..............................................23
Urban Transport: Estimated Future Financing Requirements .................................................................24
Housing for Low-Income Residents: Estimated Future Financing Requirements .......................................24

Chapter IV: Urban Planning and Urban Management ..............27
Overview of the Vietnamese Planning System ............................27
Socio-economic Planning .......................................................28
Spatial Planning ......................................................................30
Sector Planning ......................................................................32
The Challenge of Peri-Urban Development .................................33
Chapter V: Municipal Finance ............................. 39
Strategic Change in the Infrastructure Financing Model .............................................. 39
Financing Sources ................................................................. 40
Requirements for Success in Diversifying Municipal Finance .................................. 47

Chapter VI: Recommendations for Improving Urban Development .......................... 49
Guiding Policies ................................................................. 49
Needs, Access and Goals ....................................................... 50
Urban Management and Planning ................................................... 52
Municipal Finance - Resources and Needs ................................................. 53

Chapter VII: Annexes ......................................................... 55
ANNEX 1A: City Classification and Decentralized Responsibilities ......................... 56
ANNEX 1B: Current City Classification (2006) ................................................. 58
ANNEX 2: Official MOC Urban Population Forecasts .............................................. 59
ANNEX 3: Central Governmental Responsibilities for Urban Issues .......................... 60
Urban Development in Vietnam
An Assessment and Recommendations for Improvement

Executive Summary

Chapter I of this report presents an assessment of the current status of urban development in Vietnam. The main policies impacting urban areas are reviewed in Chapter II. Chapter III covers the extent to which urban residents have access to basic infrastructure services and provides an estimate of what it will cost to provide full coverage by 2010 and 2020 for all current and future residents. The challenges of urban planning and management are described in Chapter IV and Chapter V identifies the various sources of finance that cities can mobilize for the infrastructure investments identified in Chapter III. Finally Chapter VI makes recommendations on how the various challenges identified in the preceding chapters can be addressed. The report is summarized below.

Background

Two major transitions are taking place in Vietnam’s economy - one is the movement from a rural to an urban base and the other the evolution from central planning to a market oriented economy. Vietnam’s future economic growth will depend on its ability to develop competitive, market driven industrial and service sectors. These are primarily urban-based activities. Already Vietnam’s cities and towns account for about 70% of total economic output. Most FDI is directed toward cities. Economic opportunities in urban areas are propelling rapid growth in the urban population with significant rural to urban migration. Urbanisation is in turn fueling further economic growth.

Vietnam is still relatively un-urbanised by Asian standards. In 2001, the urban population was only 25%, compared to 37% in China and 42% in Indonesia. In 2003 the urban population, including unregistered migrants who are not included in official census data, was around 23 million. Annual growth projections vary but Government accepts that the urbanisation rate will be high. Around one million people per year are being added, which would lead to a doubling of the urban population by 2020.

The percentage of people in poverty is lower in urban areas in Vietnam than in rural areas. However, the poverty density is greater in urban areas i.e. there are more poor per square kilometer. This applies equally to the rapidly urbanizing areas in the hinterlands of the large cities and the intensively cultivated Red River and Mekong deltas. The economies of scale and agglomeration that underpin the existence and growth of cities mean that poor people can be raised out of poverty more cost effectively in urban areas than in rural areas. The extent to which urban areas are going to be home to an increasing percentage of the population of Vietnam calls for more investment in their infrastructure.

Guiding Policies

Over the past decade, the central government has introduced many reforms that have affected urban development. Government’s broad urban
policy is set down in the Orientation Master Plan for Urban Development to 2020, which was adopted in 1998. Unfortunately it falls short in providing meaningful strategies to achieve efficient urban development, or for urban management. Its principal policy initiative explicitly addresses urbanisation through demographics by designating a hierarchy of urban settlements. It envisages managing growth in the largest cities by developing satellite cities and managing rural migration by promoting economic development in secondary cities. Three major economic growth triangles are identified: the Red River Delta bounded by Hanoi, Hai Phong and Ha Long in the North; the Mekong Delta anchored by Ho Chi Minh City in the South; and a Central triangle based on Da Nang. Numerous provincial export processing zones/industrial estates are seen as key drivers of economic growth. The strategies described are dominated by outmoded top-down central planning targets dependent on state-run construction, specific land use controls through allocation of land, and centrally planned uses. This urban orientation sets out objectives but gives no concrete steps of how they will be financed. With the many changes that have occurred since 1998, it has become outdated and Government is in the process of revising it.

Additional orientations were issued for the Water Supply, Sewerage and Drainage and Solid Waste Management sub-sectors in the late 1990s. These too are in the process of being updated. A draft decree on “Clean Water Production, Supply and Consumption” was finalized early in 2006 and is expected to be approved by mid-year. Preparation has started on a similar decree for sewerage and drainage.

On a broader level, central government’s policy of increasing decentralization to the three lower levels of government - the provinces, districts and communes, or wards in urban areas - is having a profound effect on urban development. Vietnam is divided into 64 provinces, ranging in population from approximately 6 million to 0.3 million. Included in these 64 are the five largest cities which have provincial status: Hanoi, Ho Chi Minh City, Hai Phong, Danang and Can Tho. The provinces are subdivided into 643 districts, which, in turn, are subdivided into 10,602 communes/wards. Smaller cities and towns have “district” status.

A cornerstone of the decentralisation program was approval of the 1996 State Budget Law, which was further amended in 2002. The result has been a substantial and growing level of fiscal decentralization, with the share of local governments in total expenditures increasing from 26 percent in 1992 to 48 percent in 2002. The Budget Law distinguishes three types of revenue: taxes assigned 100 percent at the central level; taxes assigned 100 percent at the provincial level; and shared taxes. The revenue sharing rate is determined by a formula, based on estimates of the gap between expenditure needs and revenue capacity. In Vietnam, all tax collections are centralized. The General Taxation Department collects all domestic taxes and the Customs Department collects all import taxes. Only minor fees and charges are collected by financial agencies and service providers, mainly at the provincial level. Tax administrators report to both levels of government. In terms of State Budget revenues (central and provincial governments combined), the provincial governments’ share is estimated to have grown to 30% in 2004 from a fairly steady 25% for the 1997-2002 period. One limitation of current revenue assignments is the lack of any material revenue autonomy by local governments. Like many other countries Vietnam suffers from fiscal imbalances. These are addressed through equalization, or balancing transfers, which are unconditional grants, determined using a formula. This remains fixed in nominal terms for periods of three-to-five years. The formula is based on the difference between estimated expenditure needs and revenue capacity, or potential.
Significant reforms were also introduced through three new laws in 2004: the Land Law, the Construction Law, and the Law on People’s Committees and People’s Councils. Key features of the new Land Law include: formal recognition of real estate markets (Government has previously attempted to control the supply and cost of land); devolution of responsibility to local governments for land administration and registry and promulgation of local single points of contact for land registration; the adoption of land values that are close to market values instead of being set administratively by government - this allows fairer compensation for land that is compulsorily acquired; and some limited public participation in planning, including public notification of approved plans.

The most important changes introduced by the new Construction Law (2004) are incorporated within the new Decrees on Planning and on Construction Investment Project Management, both of which were enacted in early 2005. The main new features of the Planning Decree are: decentralization of the responsibility for preparing spatial plans for most cities and provinces to Peoples Committees (however, they are still subject to approval by central government); review of plans by elected Peoples Councils; the addition of regional planning requirements; coverage of the redevelopment of existing urban areas (instead of just new construction); and the introduction of public consultation (though the extent is still rather limited) in the planning process. Whilst the new Planning Decree introduces several worthwhile improvements, and the spatial planning process remains largely top-down. The Construction Law and Investment Project Management Decree cover technical standards, project management, and procurement. The ceilings for infrastructure projects that can be approved at the local level have been increased and the Investment Decree requires more detailed preparation of proposals infrastructure projects at the feasibility stage. Unfortunately the opportunity was not taken to streamline the multiple and often redundant reviews that cause significant delays in the approval of most infrastructure projects.

The Law on People’s Councils and People’s Committees outlines the functions, responsibilities and authority of these organs for all three local government levels. The Law was revised in 2004 to strengthen the supervision powers of People’s Councils and to increase the authority and more precisely define the functions and responsibilities of People’s Committees.

The changes described above are very positive, but much more needs to be done, particularly in terms of giving local governments more power to raise revenues, to control spatial planning, and to approve projects. The main challenges are in building the necessary capacities in local governments and in changing the attitude of local government officials from their current largely passive role, to a more proactive one.

**Infrastructure Needs Access, and Financing Requirements**

While looking to the future, Vietnam faces a major challenge in dealing with a past legacy of urban neglect. The poor are particularly disadvantaged. Access to basic services needs to be extended to all urban residents.

- Statistics vary on water supply coverage, but a benchmarking survey carried out in 2002 of all of Vietnam’s Water Supply Companies revealed that only 50% of urban residents had access to piped water that meets national standards. Coverage rates vary from an average 67% in the larger cities to only 11% in small towns.
- None of Vietnam’s cities or towns treats wastewater, though this is a stated Government priority. In 2005 plants were
under construction in Danang, Halong, Ho Chi Minh City (Binh Chanh), Hanoi (West Lake), Da Lat, Hue, and Buon Ma Thuot and project preparation was under way in several other cities including Can Tho, Soc Trang and Bac Ninh. Serious environmental degradation and health concerns are caused by water pollution from untreated human waste and unregulated discharge of industrial wastewater.

- Solid waste collection is generally fairly well managed in Vietnam. However, safe disposal is becoming a major issue in the largest cities. Government has classified fifty urban dump sites as environmental hazards.

- Vietnam has reportedly the highest per capita motorbike ownership in the world. Rapid motorization with resultant congestion is choking city streets and increasing air pollution. Public transport is underdeveloped in the largest cities and needs to be given higher priority. Road safety also needs to be given increased priority to deal with the very high traffic accident rates (Vietnam has on of the highest rates in the world).

- Vietnam has largely emerged from its legacy of dilapidated state housing from the central planning era. Many housing units were sold to tenants. Prior to the new Land Law of 2004, around eighty percent of housing was owner constructed. Most was built on an informal basis outside planning and building regulations and without adequate supporting infrastructure. Housing is cramped with 30% of the population having less than 3m2 per capita. Around 25% of housing is classified by Government as substandard, or temporary. The Land Law of 2004 coupled with Vietnam’s rapid economic growth has provided incentives for property developers, the majority of which are still state owned, to build planned developments. However, making affordable housing available for low income people, including students and those requiring resettlement arising from development projects, remains a major challenge for Government.

- In 2004, the in-situ incremental improvement of existing slums (urban upgrading) was recognized by Government as an appropriate policy for improving low-income areas. The World Bank supported Urban Upgrading Project is funding such improvements in Can Tho, Haiphong, Ho Chi Minh City and Nam Dinh and preparation of a National Urban Upgrading Program to scale this up, was started in 2005.

Government has set some very ambitious (and sometimes inconsistent) targets in various policy documents such as the Comprehensive Poverty Reduction and Growth Stratetgy, the Vietnam Development Goals, and the various "Orientation Master Plans" for urban development; water supply; drainage and wastewater; and solid waste management. None of the documents attempts to cost, or prioritise, the objectives. Estimates (see Chapter III) of the financing needs to meet the urban infrastructure coverage targets set by Government for 2010 suggest that around $26 billion would have to be mobilized. This would require an annual rate of investment several orders of magnitude higher than that achieved in the late 1990s. Such levels are clearly beyond what can be financed from the State budget. Other sources of finance that can be mobilized are described below and in Chapter V.

Urban Planning and Management

The responsibilities for urban planning in Vietnam are much more fragmented than in western countries. The fragmentation occurs
between ministries and also between the different levels of government. Three types of plans, each the responsibility of different ministries, are prepared for cities and provinces: socio-economic development, for which the Ministry of Planning and Investment is responsible; spatial (also called construction or master plans) for which the Ministry of Construction is responsible; and sector development, for which respective line ministries are responsible. The intended sequence of planning with spatial plans following socio-economic plans and sector plans does not always occur.

Most plans are prepared by a few central Government planning institutes. They tend to promulgate official political ideals and Government mandated production targets, rather than responding to measured demand and market signals. There is very limited public participation, or even consultation, in the process.

Most entities with planning responsibility have a dual reporting relationship, a vertical relationship to the central ministry and a horizontal relationship to the appropriate Peoples Committee, the executive level of city and provincial governments. Government and the Party also have parallel policy guidance and reporting requirements. Most important planning decisions are taken at the central government level, but without effective cross-sector coordination. It is a very top down process. The widely dispersed responsibilities without clear procedures and decision making authority to bring the various different views together to form a broad consensus makes effective urban planning, as understood in western countries, a challenge in Vietnam.

Spatial planning in Vietnam was designed for the era when all construction was carried out by the state. Spatial plans are prepared in four levels of detail: orientation plans (national policy), regional plans (introduced in 2005), master plans (province or city), and detailed area plans (ward, industrial zone, or project). Most are prescriptive for specified land uses in specific locations, rather than permissive as in Western land use planning. It is master plans that have the greatest impact on urban development. It is widely acknowledged that the current master plans prepared for Vietnam’s cities are not effective. There is a large disconnect between the beautifully drafted idealized plans that hang in the offices of Peoples Committees and the reality of urban development on the ground. They tend to be representations of what the planning experts and city administrators would like their city to become if there were unlimited resources. Unfortunately that is never the case. To become more effective, firstly, spatial plans need to be better coordinated with socio-economic plans and sector plans; secondly they should be more strategic and less prescriptive; thirdly all stakeholders, including residents and private investors, should be allowed to participate in their preparation; and fourthly they need to be based on levels of resources that are likely to be available for the time period they cover.

The master plans are unfortunately driven by rigid technical standards, which result in unrealistic and unaffordable “ideals” that cannot be implemented and are consequently largely ignored. It would be better to replace these with performance standards e.g. road widths should relate to estimated traffic projections rather than pre-defined dimensions for a particular classification of city. The performance standards can be increased step-by-step over time in line with economic growth. Current master plans lack the phasing and the incremental development mechanisms necessary to translate them to the reality of a market economy where development is likely to occur on a more piecemeal and unpredictable basis governed by the availability of land and capital to the developer.
Detailed area plans predetermine the specific uses of urban space and include the quality, quantity and position of each development type and building footprint. Unfortunately they are often prepared before the necessary funding for their implementation has been secured. As a result development is either constrained, or proceeds in a manner that is inconsistent with the approved plans. Many of the residential areas in Vietnam’s cities have developed on an ad-hoc basis as tightly packed warrens of narrow, twisting lanes, without properly functioning drainage or sewerage systems, or open spaces for recreation. Installing properly designed infrastructure after unplanned development has taken place is significantly more expensive, because of land acquisition and resettlement costs and the difficulties of working in confined space, than would have been the case if it had been built at an earlier stage.

Local governments need to be given more authority to adjust spatial plans quickly to meet changing needs. In most industrialized countries, central Governments delegate considerable responsibility for spatial planning to local Governments. The central Government typically retains control over planning related to defense and national security; national transport links; and national parks. Local Governments prepare and implement consistent land use plans (equivalent to detailed area plans in Vietnam) and ensure adequate infrastructure provision. The land use plans specify permissible uses and standards establish the impacts those uses are allowed to have (e.g., traffic impact, surface water runoff, height, health standards, etc.). Generally, local plans do not have to be approved by higher levels of government. Individual projects are subject to rigorous permitting and inspection. The legal system is used to ensure that local plans meet the guidelines, standards and policies of higher levels of government i.e. if someone feels a plan doesn’t meet these guidelines they can challenge it in court.

Development in the peri-urban fringes of large cities and in the highly populated rural areas of the Red River and Mekong deltas where population densities in towns and villages are approaching those of cities, presents special challenges. Over 100 km2 of rural land is reportedly being urbanized every year. Informal urbanisation takes place in an ad hoc, unregulated manner, where local authorities are not well prepared, or inclined, to manage the urban expansion. Rapid, unplanned growth is in many instances leading to serious environmental degradation. Fortunately there have in the past five years been some good examples of well planned peri-urban areas, such as the Tu Lien and Ciputra developments in Hanoi and Phu My Hung, in Ho Chi Minh City. These examples need to be replicated in all new development areas.

As already noted above several policy reforms relating to spatial planning were introduced in 2004 under the Construction Law, its related Planning Decree and the Land Law. Under the Land Law, all land continues to be owned by the State, but land regulation and management have become more market oriented. The streamlined land registration procedures introduced will facilitate the sequencing of land allocation, which did not necessarily follow the development proposed in spatial plans, the provision of infrastructure, and the timing of the financial allocations for state sector activity. The move towards pricing land based on market values, should reduce speculative development that was not synchronized with infrastructure provision. The previous price distortion promoted corruption and also created significant delays to investment projects arising from protracted negotiations of compensation for land acquisition. The Planning Decree introduces some public consultation in planning but there
are still no specific requirements or mechanisms to promote active public participation in the process.

The new requirement for regional planning is a useful step. It will promote more rational utilization of scarce resources. One consequence of the lack of regional planning has been the proliferation of industrial zones throughout the country, many of which are under-utilised. In 2005 a start was made on preparing regional plans from the greater metropolitan areas of Hanoi, Ho Chi Minh City and Danang. So far this is being limited to spatial planning. It needs to be better integrated with socio-economic and sector planning. Also, the establishment of an effective institutional framework to implement the plans will be essential.

The weakness of urban management in Vietnam will need to be overcome to enable more effective planning to contribute to better urban development. The best plans are useless if they are not, or cannot be, followed. While the Ministry of Construction and its Departments of Construction at the city/provincial level are nominally responsible for urban management, many other ministries and their departments have overlapping responsibilities. In western countries at the city/province level the various sector departments report to a mayor or governor, whose office is responsible for coordinating the various inputs and taking decisions. The previously referred to dual reporting requirements of sector departments in cities and provinces means that Peoples Committees do not have sufficient power to efficiently fulfill this coordination and management role. Thus, to promote more effective urban development, it will be necessary to delegate more authority to local governments for urban management, as well as urban planning, and to give Peoples Committees clearer responsibility for urban management. The first step must be to change spatial planning along the lines described above. In parallel it will be essential to significantly strengthen the capacity of local governments to enable them to deal with the increased responsibilities that will be delegated to them. Improved governance arrangements, with appropriate checks and balances to make local government officials accountable for their decisions, will also have to be introduced. An important step will be to allow much greater public participation.

**Municipal Finance**

As Vietnam prepares to meet the demand for increased investment, it needs to reduce its reliance on the state budget and to start preparing for the transition away from concessional donor financing for urban infrastructure services. The necessary transition strategy must involve diversification of financing sources for infrastructure development, focusing on increasing the role of the private sector as a source of finance for infrastructure and as a developer of infrastructure. The strategy must also recognize the increasing role of local governments in promoting infrastructure investments in accordance with government’s decentralization policy. The increased participation of the private sector in financing infrastructure in coordination with local governments will support decentralization and improve the efficiency of infrastructure investments. However, the success of this new trend rests very critically upon continued improvements in the corporate governance environment at the local government level. Budget resources, which currently are for the most part passed on as grants, will have to be used more strategically in the future and used only for investments with a high social rate of return for which full cost recovery is not feasible e.g. wastewater treatment, or for social equity. Even in these cases budget resources should to the extent possible be used to leverage other sources of finance.
With the rising affluence of people in cities there is scope to significantly increase the finance raised by local governments by increasing user charges for infrastructure services e.g. water supply, car parking etc. This will open up the possibility for alternative financing sources that rely on future revenue streams. Local taxes could also be introduced such as a single property tax to replace the many overlapping fees on different real estate assets and transactions and perhaps also a local income tax that could be efficiently collected together with national income tax. It is likely that the revenues collected through the sale of land use rights to property developers, the so called “land for infrastructure” deals, could also be increased if more transparent and competitive procedures were adopted.

Further sources of finance are briefly described below. All, perhaps with the exception of equitizing state-owned enterprises, will require local governments to demonstrate that they are credit worthy by making their budgets and accounts open to public scrutiny, including independent auditing. Local governments will also have to improve their efficiency by adopting more transparent procurement of public works and by developing a track record for the timely processing and implementation of infrastructure projects. A major step towards achieving this would be for cities and provinces to obtain independent credit ratings.

Potential additional sources of finance include:
- Government investment funds - Development Bank and Local Development Infrastructure Funds
- Private investment
- Bond Issues
- Commercial Banks
- Equitisation of State-Owned-Enterprises

The Development Bank (DB), formerly the Development Assistance Fund, at the national level and Local Development Infrastructure Funds (LDIFs) at the provincial level (thirteen provinces have established LDIFs so far), can provide loans for infrastructure investments that generate sufficient revenues to repay the loans. This should include for example most water supply investments, strategic roads and bridges that can be tolled. The LDIFs offer the greatest potential for local governments. In 2004 the total operating capital of LDIFs was approximately $300 million and the top seven funds invested almost $100 million, which represented an increase of 118% from 2002. A distinctive feature of the LDIFs is that they can develop joint ventures with private investors and make equity contributions to projects. Some weaknesses in the governance and transparency of LDIFs are being addressed under a new decree being prepared by the Ministry of Finance.

There is great potential for increased private investment in infrastructure. Private investment, including foreign private investment, offers a virtually limitless source of financing, and could go far towards meeting the infrastructure investment agenda. So far however, private sector investment in Vietnam’s urban infrastructure has been weak. Investors need to earn a return on the capital invested commensurate with the risks undertaken, but this needs to be balanced with the protection of consumers from the market power of privatized infrastructure. This balancing act must be implemented in transaction documents (legal contracts, licenses, and laws established to induce the initial investments) and in an appropriate regulatory environment. To get all of this right is a highly complex affair, requiring skilled economists, accountants, and lawyers, as well as careful political guidance. The best way of establishing these skills would be through experience, which suggests that Vietnam should seek to establish pilot projects at the local government level with private sector
participation in a range of urban infrastructure sectors. The Song Da Build Own Operate (BOO) Water Treatment Plant project in Hanoi being promoted by Vinaconex, a SOE owned by the Ministry of Construction, will provide some useful lessons. However, projects involving private companies, rather than SOEs and private sources of finance, rather than state owned banks, would be even more useful in terms of providing potential access to much greater sources of finance.

Government has been working to develop the government bond market, in part to directly finance investment, including infrastructure, and more broadly to serve as a benchmark for broader capital market development. At the provincial level, the first municipal bonds were issued by Ho Chi Minh City in 2003, in the form of a general obligation bond, raising US$ 127 million. In 2004, the Ho Chi Minh City Infrastructure Fund (HIFU), which is wholly owned by HCMC Peoples Committee, managed the issue of another US$ 127 million of municipal bonds. Disclosure rules for the public offerings either do not exist, or are very weak. Overall the market for bonds is poised for significant development but important institutional reforms, addressing governance and transparency in particular, are required to permit this potential to be realized. The stock of local government debt in Vietnam is not currently a threat to fiscal stability, but care will need to be exercised through national oversight to ensure borrowing, with the contingent liability it imposes on the national government, is kept within prudent limits.

The mismatch between the long-term financing needs of infrastructure investment and the short-term deposits held by state-owned commercial banks (SOCBs) means that banks are not the ideal financing institutions for infrastructure. Nevertheless, by pooling their contributions in investment consortia the banks could play an important role in infrastructure financing if their financing was directed towards projects with the highest returns. Vietnam’s financial sector is currently dominated by four major SOCBs, accounting for about 80% of the capital, lending and assets of the banking system. Over the past decade the SOCBs have evolved from specialized policy-lending vehicles to more commercially oriented financial intermediaries. However, much more needs to be done to reform the banking sector before it can be appropriately utilized to finance urban infrastructure development.

Internationally, many governments have used the sale of shares of state-owned enterprises as a means of raising substantial revenue. To date, Vietnam’s equitization of state-owned enterprises appears to have been directed at expected efficiency benefits, rather than as a major revenue-raising device. But as Vietnam confronts the financing challenges of its major investment program, equitization could provide an additional source of finance. For the equitization program to raise significant revenues improvements will need to be made: on the disclosure of information about the accounting and business position of companies; to corporate governance, particularly the protection of minority shareholder rights; and the listing of companies shares on a stock exchange to facilitate trading.

In order to successfully diversify the sources of municipal finance, local governments will have to develop the technical capacity and the appropriate policy and operational frameworks to work with the private sector via direct (public-private-partnerships, management contracts, etc.) and indirect (municipal bonds, revenue bonds, bank loans, etc.) financing structures. The central government will also have to play an active role in a) providing the appropriate incentives to the local governments and the private sector to focus on urban infrastructure development, and b) establishing clear and
consistent regulatory frameworks for urban infrastructure finance involving direct and indirect private sector participation. The success of the emerging municipal finance model will in particular depend upon the quality of the corporate governance environment at the local government level.

**Recommendations for Improving Urban Development**

In terms of policy, the *Orientation Master Plan for Urban Development to 2020* needs to be updated because it has become out of date since it was approved in 1998. It should be revised to reflect the country’s move towards a market oriented economy and to recognize the changes that have arisen from the increased decentralization that is taking place. The draft *Urban Water Supply Decree* that is expected to be approved by mid 2006 sets a good example of a policy document that provides a solid framework to guide sub-sector growth. Similar initiatives are required for wastewater and drainage, solid waste management and urban transport. Particular issues that need to be addressed in these sub-sectors include guidance on carrying out the economic and financial appraisal of high cost urban mass transit systems and mechanized recycling and composting processes for solid waste; and transparent procedures to safeguard the social and environmental interests of people affected by the construction of new wastewater treatment and solid waste disposal facilities. Other broader policy areas such as Decentralisation and Financial Sector Reform are having a profound impact on urban development. Decentralisation requires a huge capacity building effort to strengthen the managerial and technical skills of staff at the local government level. Further decentralization of authority for revenue generation, urban planning and the review and approval of projects would be beneficial. In particular the often redundant multiple reviews currently required for investment projects need to be streamlined.

Given the enormous demand for basic infrastructure and the limited financial resources available, it will be vitally important to prioritise investments more effectively through more systematic economic and social cost benefit analysis. The design horizons and technical standards adopted for new investments should be changed. In most cases it would be best to adopt a more incremental approach with a relatively short initial design horizon of 10 to 15 years. This reduces initial investment needs thereby enabling more people to benefit. Technical standards should be performance based, as described above. Adopting demand driven approaches with beneficiary participation throughout all stages of the investment cycle would make prioritization easier.

In terms of relative priority across sub-sectors, it is probably most important to ensure that all urban residents have access to piped water that meets national standards. Fortunately cost recovery levels for water supply are already fairly high and it should be relatively easy to mobilize finance from the capital markets and the private sector. The demand for wastewater collection and treatment, improved drainage and the safe disposal of solid waste is increasing as people become better-off and more informed about the health effects of environmental pollution. With this increased awareness people will be willing to pay higher charges for wastewater and solid waste collection and disposal. Government’s policy of prioritizing the largest cities will deliver the highest level of cost/benefit. For these sub-sectors most of the funding, at least in the next 5 to 10 years, will have to come from the State budget (including ODA). To enable as many urban residents as possible to be covered, it will be necessary to progressively increase
wastewater and solid waste charges, so that they can begin to contribute towards investments costs. Also the current policy of providing full grant financing from the State budget should be changed. Wealthier cities should be required to mobilize part of the funding on a matching basis. The need to address traffic congestion is becoming increasingly important in the largest cities. City planners will need to balance the need for more road and parking space against conflicting demands to preserve the historic character and attractive human scale of Vietnam’s cities. Introducing improved public transport systems should be given high priority to offset the demand for more roads. This should focus initially on the introduction of bus-based systems, which are much more cost-effective than rail systems. It is likely that public transport will have to be subsidized, but this can be kept to a minimum by competitively contracting out the right to operate routes. Taxes associated with car ownership and parking fees should be used to manage demand.

Making affordable housing available, given the very high cost of land in Vietnam’s main cities, is a major challenge. The solution lies in providing the necessary incentives to private sector developers and to encourage landlords to invest in rental property. In parallel it will be important to develop the housing finance market as part of the broad financial sector reform. ADB is providing support for this. A very cost-effective and socially benign way to improve living conditions and housing for poor people is through the in-situ incremental improvement, or urban upgrading, of existing low-income areas. Research from other countries shows that residents will invest up to 7 times in their houses what the city invests in infrastructure.

Urban planning needs to be improved. There should be much closer coordination amongst Ministries and local government departments responsible for socio-economic plans, sector plans, and spatial (master or construction) plans. All of the plans and spatial plans in particular should be based on the level of investment that is realistically likely to become available in the time period they cover. Spatial plans need to become more strategic and less prescriptive. They also need to be able to respond much more rapidly to market signals. There should be much higher levels of consultation with all stakeholders. To achieve this, planning should be increasingly decentralized. At the same time, local Governments should be made more accountable. In particular there must be much stricter enforcement of planning controls. Performance standards for infrastructure tailored to local situations should replace prescribed national standards. The development of peri-urban areas presents special challenges. Ideally the infrastructure should be constructed ahead of industrial, commercial and residential development. The establishment of effective institutional arrangements by cities to manage the development of peri-urban areas will be of key importance.

In 2005 Government recognised the importance of regional planning and a high level steering committee chaired by a Deputy Prime Minister was established to oversee the preparation of plans for the greater Hanoi and greater HCMC regions. So far this has focused primarily on spatial planning. It needs to be broadened to ensure coordination socio-economic and sector planning. One of the most important matters that will have to be addressed is the establishment of an effective institutional framework to ensure that the plans can be implemented.

Mobilising additional sources of finance for urban development is the most pressing requirement that Government should address. The financing needs of urban infrastructure are
well in excess of State budget resources. Government should empower cities/provinces to mobilize more funds from sources such as: national development funds, or banks, such as the Development Assistance Fund; Local Development Infrastructure Funds (LDIFs), such as HIFU; municipal bond issues; and commercial banks. Cities should also be empowered to increase their self-generated revenues. Government should prioritise use of the limited State budget resources that are available for urban development: to leverage other sources of finance; for pilot investments to demonstrate new ideas and policies; to support the most disadvantaged urban areas; and to address problems that directly affect the health of large numbers of people, such as high levels of environmental pollution.

Cities/provinces should give priority to developing an appropriate enabling environment to attract investment in infrastructure from the capital markets and the private sector. To do so cities will need to make themselves more credit-worthy - ideally by obtaining a credit rating from an independent agency. City finances and also their procurement practices will need to become more transparent and subject to independent audit in order for this to happen. Cities should increase their self generated revenues by raising user charges for infrastructure services so that they eventually cover the cost of investment as well as operation and maintenance. Surveys indicate that people are generally willing to pay more than authorities have been prepared to charge. Measures will however need to be taken to protect the poor and disadvantaged. In the case of wastewater charges, Decree 67 on Environmental Protection needs to be amended to remove the limitation it places on wastewater tariffs not exceeding 10% of the water tariff, with half of the revenue raised being transferred to Central Government. The very high value of land and property in Vietnam’s main cities is a potential source of additional revenue that is utilized in many other countries throughout the world. Consideration should be given to introducing taxes related to property values.

The rules for issuing municipal bonds need to be strengthened by developing disclosure rules and giving greater emphasis to repayment planning. LDIFs should focus on lending on full commercial terms, either entirely, or in parallel with a grant provided from a separate funding source. In cases where parallel loans and grants are adopted the eligibility criteria and process should be fully transparent.

Vietnam has made great strides in urban development since the "doi moi" reform initiatives were introduced in 1987. However much remains to be done to enable its cities and towns, which are the nation’s main engines of growth, to compete more effectively in the global market place. Adoption of the recommendations outlined above would make a significant contribution towards achieving this.
Introduction

Two major transitions are taking place in Vietnam’s economy - one is the movement from a rural to an urban base and the other from central planning to a market oriented economy. Both trends are mutually reinforcing. Vietnam’s future economic growth will depend on its ability to develop competitive, market driven industrial and service sectors. These are primarily urban-based activities. Already Vietnam’s cities and towns account for about 70% of total economic output. Most FDI is directed toward cities. Economic opportunities in urban areas are propelling rapid growth in the urban population with significant rural to urban migration. Urban growth is in turn creating economic growth prospects.

Vietnam is at a crucial point where its continued development and dramatic progress on poverty alleviation is dependant on long term stable development. Adequate infrastructure is essential to alleviate poverty, improve the quality of life and expedite sustainable economic development. Sound development is dependant on managing urbanization effectively, greater decentralization, and provision of the levels of access to basic infrastructure necessary to support economic growth and improve the quality of life of urban residents.

"Urbanisation has a well known positive association with long-term economic growth. Nations with higher levels of urbanisation invariably have higher levels of per capita income.¹ Urban areas are the engines for GDP growth. In Vietnam they generate approximately 70% of GDP. Urban areas support an inherently more diverse economy including increased domestic consumption and are more resilient and resistant to external dislocation as change or contraction ripple through the global economy. A sound and pragmatic urban policy is necessary to balance growth and its potential consequences. In Vietnam’s case, particular challenges arise from a legacy of urban neglect.

Vietnam’s situation can be summarized as follows:

In 2005 about a quarter of the urban population lives in substandard housing;
- Basic infrastructure is deficient: according to benchmarking studies of all provincial water companies carried out in 2004 only around 61% of urban residents had access to treated piped water; no cities treat wastewater; few have safe solid waste disposal facilities and transportation services are limited;
- Serious environmental degradation and health problems are caused by untreated human waste and unregulated discharge of industrial wastes;
- Growing motorization and the resultant congestion is threatening urban transport and increasing air pollution;
- Planned and unplanned growth is rapidly occurring at the peri-urban fringes of cities, often without adequate infrastructure. Retro-fitting infrastructure into unplanned developments is much more expensive than constructing it as an integral part of the developments.

Vietnam requires a more coherent and integrated urban strategy to more effectively promote economic growth and poverty alleviation through better management of the urbanization process. The case for a strong urban strategy is particularly acute in Vietnam because Government has established very ambitious urbanisation objectives, but has not yet developed a practical time-bound plan to achieve them.

**Political Context of Urbanization**

Government places strong emphasis on data collection, quantification of production targets, and statistical comparisons. This tends to obscure more analytical views of reality and often overshadows the need for more coherent strategies and programs to achieve change. Data is often inaccurate, or manipulated in various ways by for example frequently changing classifications and assumptions. Statistics and data need to be more objectively and candidly analyzed.

Some of the factors that complicate an objective comparison of urban performance include:
- The primary urban policy document - the Orientation Master Plan for Urban Development to the Year 2020 - prescribes population targets with a strong emphasis on managed demographic distribution that is already out of date.
- Targets for basic infrastructure coverage are unrealistic. The orientations for water supply, drainage and wastewater as well as the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) all set impossible targets e.g. by 2010 all urban areas to have 100% piped water, 100% of all wastewater treated, 100% of all solid waste collected and disposed of safely and all slums and temporary houses eradicated.
- Official population data does not include unregistered migrants, who account for at least 15% of residents in the larger cities.
- The definition of "urban" is changed periodically and geographical boundaries are frequently modified for administrative purposes
- There are strong incentives for local governments to exaggerate or distort statistical data to try and increase their allocation of the state budget from central government

**Historical Legacy:** Under the socialist system adopted in the 1950s in northern Vietnam, cities were seen as centers of production and were planned and managed as production resources without regard for secondary impacts. The urban development strategy was essentially a list of public works projects approved by Government. Public benefit was measured in terms of production.
There was little evaluation of the cumulative effect of decisions and no strategic view for a city, or cities, in general. Cities in Vietnam have entered the 21st century without the urban policy, management, governance, or infrastructure to fulfill the role cities typically play in a market economy.

Urban planning in the Democratic Republic of Vietnam (DRV) was intended to eliminate the contradictions of capitalism through integration of urban and rural areas and agricultural and industrial sectors and to relocate up to one fifth of the population. In practice this meant that a mixture of industrial facilities, housing blocks for workers and other state employees, parks and recreational areas, long-established villages, and rice fields and gardens were retained within designated urban areas. Infrastructure improvements gave priority to defense, or the various forms of agricultural and industrial production. Urban management and planning were guided by a need to resolve immediate problems regarding food and national security.

Rural urbanisation was promoted by attempting to create 500 urban industrial centers at the district level and by establishing a new rural town for every 5,000 people that were resettled. By 1984, 2.4 million people had been resettled. Political hegemony also drove urbanisation. A boundary expansion of Hanoi in 1979 that added one million people to the city’s census was appears to have been motivated by the desire to bring Hanoi’s official population closer to that of Ho Chi Minh City.

"If the process of urbanisation in the north could be characterized as deliberate planning, the south could be characterized by its absence"². City authorities in the former Republic of Vietnam were faced with the need to accommodate large numbers of refugees from rural areas. Providing basic infrastructure in these circumstances was not given high priority and cities such as Ho Chi Minh City are still having to deal with the legacy of this problem. For example many of the city’s canals are still lined with ramshackle slums which have no basic services.

Doi Moi - The renovation process of Doi Moi adopted by Government in 1987 followed on the heels of a decade of policy emphasis on collective agriculture and integration of the south into the social, economic and political philosophy of the country. Doi Moi effectively ended a period of urban neglect. The policy changes that accompanied Doi Moi made cities more acceptable and attractive as centers of formal and informal economic activity and opportunity. Controls on official migration continued but were less strictly enforced over time. It became politically and socially acceptable to move to a town or city, although ties to the place of origin remained strong. The income difference between urban and rural area increased, further stimulating migration and urbanization. Government policies continue to try to balance development and investment between urban and rural provinces.

GDP Growth and Economic Change

Vietnam’s progress in terms of economic growth and poverty alleviation has been dramatic. The average annual GDP growth rate over the decade from 1994 to 2003 was about 7.4%. Vietnam has the eighth fastest growing economy in the world.³ About 70% of GDP is generated in urban areas. Due in large measure to the economic growth, Vietnam has managed
to lift 20 million people out of poverty since 1993. The official percentage of urban poor declined from 25% in 1993 to 3.6% in 2004. However, if unregistered migrants had been included, the percentage of urban poor in 2002 would likely have been closer to 15%. The housing of about 25% of the urban population in 2002 was classified by government as slums or temporary housing.

The economically dynamic cities of Ho Chi Minh City, Hanoi, Da Nang, Can Tho, Hai Phong, Ha Long, Vung Tau and Nha Trang have seen the most dramatic urban population growth. City economies are gradually shifting from manufacturing toward services. The increase in the service sector has accelerated since 2000. National macroeconomic policy is just beginning to consider service-based and knowledge-based sectors of the economy. These sectors are urban based. The shift has been driven by a mix of non-state investment, foreign investment, state promotion of the service sector, and demand for services and consumer goods that have accompanied the rise in non-state investment and personal disposable income.

Economic productivity of the major cities in Vietnam exceeds their proportionate share of the population. As the table below indicates it is in a similar range to other major cities in the developing countries of East Asia.

### Classification of Cities

Urban areas in Vietnam are categorized in accordance with two classification systems: urban hierarchies, and administrative level. The urban classification of cities is a cornerstone of urban policy and management in Vietnam. Urban places are officially designated and classified by MOC. There are six classes of urban center (see table below and Annexes 1A and 1B). The classification is based on physical criteria, population, population density, level and nature of economic activity, GDP, and infrastructure provision. Class V marks the demarcation between urban and rural. Class V towns are required to have a population of more than 4,000 with over 65% employed in non-agricultural sectors. Striving for higher classification standards is a major preoccupation of local government authorities as the higher classifications receive a larger share of state resources. The classification system provides incentives for cities to try to move to a higher class. Cities often make

---

6. The percentage of slum population targeted by the WB Urban Upgrading Project in Can Tho City is 16%. The corresponding percentage in Hai Phong is 31%, and for Nam Dinh is 10%.
7. The state-owned sector in Hanoi’s economy declined from 72.9 percent of GDP in 1990 to 63.1 percent in 2000. The foreign direct investment increased from zero in 1987 to 13.3 percent of the city’s GDP in 2000. Between 1990 and 1997, total investment in Hanoi was about US$4.76 billion with 14.6 percent from non-state sources and 56.3 percent from foreign sources. The state sources represented only 29.1 percent of the new investment. (HSO [1995 and 2001])
investments in infrastructure to enable them to meet the requirements of the next classification level, rather than in direct response to the immediate needs of the population. For example a city or town may invest in road expansion when there is only limited traffic demand, instead of expanding piped water supply, where clear need exists.

The role and responsibilities of local authorities are designated by administrative level. The five Special and Class I cities have provincial status. Class II, III, and some Class IV cities have the same status as districts and come under the authority of provincial authorities. The remainder of Class IV and Class V urban areas have commune status and also come under the authority of provincial authorities. The classifications are dynamic as Government adds provinces and reclassifies cities. For example Can Tho became a Class 2 city in 2004. Chapter IV provides more detail.

Based on the Orientation Master Plan to 2020, MOC expects the population and distribution of cities by class to remain basically unchanged. In fact, the projections made when the Plan was approved are already out of date because of continuing reclassifications, migration to larger urban areas, and under-counting of envelopment and increased density of existing cities towns and villages. The average population of each urban classification is expected to triple over the 20 years covered by the plan (see Annex 2).

Historically, Government has promoted urbanization of district towns and the urbanization of some rural areas as a means of trying to reduce migration to the large cities. However future urbanization projections show a decreasing proportion of the urban population is expected to live in district centers and towns despite the fact that the number of centers and towns is expected to increase by a factor of three. This is probably realistic as experience from other developing countries indicates that it is virtually impossible to control migration to large cities, which offer the best opportunities for employment and at least perceived improvements in the quality of life. From the

<table>
<thead>
<tr>
<th>Urban Class</th>
<th>1998</th>
<th></th>
<th></th>
<th>2020</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(as of January 2005)</td>
<td>Cities</td>
<td>% Urban</td>
<td>Cities</td>
<td>% Urban</td>
<td>Cities</td>
<td>% Urban</td>
</tr>
<tr>
<td>Hanoi &amp; HCMC - Special Cities</td>
<td>2</td>
<td>37%</td>
<td>2</td>
<td>39%</td>
<td>2</td>
<td>40%</td>
</tr>
<tr>
<td>National Cities - Class I</td>
<td>3</td>
<td>9%</td>
<td>3</td>
<td>10%</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>Regional Cities - Class II</td>
<td>12</td>
<td>15%</td>
<td>12</td>
<td>16%</td>
<td>12</td>
<td>17%</td>
</tr>
<tr>
<td>Provincial Cities - Class III</td>
<td>16</td>
<td>7%</td>
<td>18</td>
<td>8%</td>
<td>20</td>
<td>9%</td>
</tr>
<tr>
<td>District Towns - Class IV</td>
<td>58</td>
<td>14%</td>
<td>62</td>
<td>13%</td>
<td>66</td>
<td>12%</td>
</tr>
<tr>
<td>Townlets - Class V</td>
<td>612</td>
<td>18%</td>
<td>1172</td>
<td>14%</td>
<td>1831</td>
<td>11%</td>
</tr>
<tr>
<td>Total Urban Centres</td>
<td>703</td>
<td></td>
<td>1269</td>
<td></td>
<td>1934</td>
<td></td>
</tr>
</tbody>
</table>

8. According to the 1992 Constitution, there are four level of State Administration, namely, (i) Central Government; (ii) Province (including cities under direct Central Government); (iii) District (including provincial cities and towns); and (iv) Sub-district (urban wards, townlets and rural communes).

perspective of the city authorities, migrants should be seen as a valuable resource to their economies, rather than a problem. It would seem advisable to place more focus on meeting the basic infrastructure needs of poor residents, including migrants, in the large cities where there is likely to be high growth, than on district towns where the rate of growth could well be much lower than expected. It is clearly important that the patterns of urban growth should be carefully monitored to ensure optimal use of limited investment resources. Account also needs to be taken of urbanization that occurs through the densification and envelopment of villages located within the zone of influence of large cities and in regions with high average population densities such as the Red River and Mekong Deltas.\textsuperscript{10}

**Urban Population Growth and Migration**

In 2003 it was estimated that the urban population, including an allowance for unregistered migrants, accounted for about 25 percent of the total population of Vietnam. The percentage of urban residents is lower than most other countries in Southeast Asia due to the legacy of the war, subsequent relocation programs, and the limited economic growth between 1975 and the beginning of \textit{Doi Moi} in 1987.

Although there are different forecasts, Vietnam’s urban population (official and unofficial) is set to increase rapidly over the next 15 to 30 years - more than doubling by 2020. Most analysts agree that at least 1 million people will be added annually to Vietnam’s urban areas to the year 2020\textsuperscript{11} changing the urban population from 20 million in 2000 to at least 40 million by 2020. The Ministry of Construction’s official population targets acknowledge dramatic growth in Ho Chi Minh City and Hanoi even though the official policy initiatives of Government are directed toward controlling growth and preventing “mega cities”. The Orientation Master Plan for Urban Development to the year 2020, which was approved in 1998, lays out the geographic parameters for the Hanoi and Ho Chi Minh City metropolitan areas as having a radius of 30 to 50 km.

The Ministry of Construction predicts the urban population will account for 45% of the total by 2020. The General Statistics Office has prepared three different forecasts, with the median set projected an urban population of 33% by 2020. The variation is largely explained by the inclusion or exclusion of unregistered migrants. Migration statistics in Vietnam are obscure, in part because unregistered migrants are not counted in the national census. The actual population, including unregistered migrants, is 10 - 15 percent higher than the official population in the larger cities. A census carried out in 2004, which for the first time included unregistered residents, found that the population of Ho Chi Minh City was 6.2 million. This compares with the General Statistical Office’s estimate, based on the 1990 census, of 5.8 million. Hanoi’s official population was 2.84 million in 2001. Hanoi and Ho Chi Minh City attracted 40% of inter-provincial migration during the period 1994-1999. Authorities in Ha Long, one of the fastest growing cities in the nation, estimate that 20-25% of the city’s population are recent migrants, who are not registered.


There are different opinions about the impact that migrants have on the economy of cities. Some see them as a vital resource necessary to maintain a high rate of economic growth, while others see them as problem. To quote Guest: "Many of the problems that planners believe migrants bring to the city - increased poverty, participation in marginal and/or illegal occupation, increases in the stock of sub-standard housing, greater crime - could be reduced by removing institutional constraints against their full participation in the social and economic life of the cities." As a self-selected and highly motivated group, research indicates that the probability of migrants improving their economic status is high. Only 12% of recent migrants are reported as living in poverty; a percentage comparable with the underlying poverty rates. Again to quote Guest: "Migrants to Ho Chi Minh City and Hanoi have higher labour force participation rates than non-migrants living in those cities, they are also much better off than they were in rural areas. Migrants use family and social networks to obtain employment and spend little time looking for work. Because migration is selective of young adults who are attempting to maximize saving, migrants consume relatively few urban resources and have high levels of savings."13

### Comparative Urbanisation

The table below illustrates that Vietnam is less urbanised than most of its neighbours in Southeast Asia.

### Incidence of Poverty

The percentage of people in poverty, using any of the standard poverty classifications (international, national, or nutritional poverty), is lower in urban areas in Vietnam than in rural and remote districts. However, while the percentage of population classified as poor in predominantly rural provinces is higher, the absolute number of poor is greater in cities and urbanized provinces, as illustrated in the poverty density map below. The number of poor in cities will increase, at least in the medium term, as more of the rural poor migrate. The economies of scale and agglomeration that underpin the

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>2.4</td>
<td>17.5</td>
<td>6.4</td>
<td>3.5</td>
<td>36.1</td>
</tr>
<tr>
<td>China</td>
<td>471.9</td>
<td>36.7</td>
<td>3.5</td>
<td>2.2</td>
<td>59.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>90.4</td>
<td>42.1</td>
<td>4.2</td>
<td>2.4</td>
<td>63.7</td>
</tr>
<tr>
<td>Mongolia</td>
<td>1.5</td>
<td>56.6</td>
<td>0.9</td>
<td>1.4</td>
<td>66.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>45.8</td>
<td>59.4</td>
<td>3.6</td>
<td>2.3</td>
<td>75.1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>19.4</td>
<td>24.5</td>
<td>3.1</td>
<td>3.0</td>
<td>41.3</td>
</tr>
</tbody>
</table>

existence and growth of cities mean that poor people can be raised out of poverty more cost effectively in urban areas than in rural areas. Urban areas also offer greater economic growth potential to move families out of poverty. The extent to which urban areas are going to be home to an increasing percentage of the population of Vietnam calls for a greater focus on urban areas and more investment in their infrastructure.

Slum areas near new high rise housing
Urban Policy Priorities

There are a wide range of laws, decrees and orientations with related guidance notes that relate to policy in urban areas. Those with the greatest impact on the infrastructure aspects of urban development include: the Budget Law (2002); the Law on People’s Councils and People’s Committees (2004), the Land Law (2004), and the Construction Law (2004). The national Five Year Socio-Economic Development Plans (SEDP) and the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) also influence urban policy as do sector plans and/or orientations, such as the Orientation Master Plan for Urban Development to 2020 referred to above. While these cover the whole country, cities and provinces also develop specific sectoral master plans e.g. for urban transport, drainage and sewerage etc, all of which have a policy element.

The official urban policy is the Orientation Master Plan for Urban Development to 2020 prepared by the Ministry of Construction. The main elements of the Master Plan are:

- Establish population targets for cities and district towns in an urban growth hierarchy
- Limit growth of Hanoi and Ho Chi Minh City and reduce population densities in the center of the primary cities
- Create satellite cities for Hanoi and Ho Chi Minh City
- Encourage growth at the urban fringe
- Promote the development of medium and small cities and district towns
- Create new urban areas in the more remote provinces and in proximity to major cities as a means of controlling growth of the larger cities
- Preserve agricultural land and plan rural development

In addition, other broad Government policies, priorities of other sector ministries, and the record of Government investment contribute the following to the urban agenda:

- Achieve industrialization by 2020
- Increase GDP
- Balance investment and development between regions
- Maintain social stability in the major cities
- Develop three major growth triangles with urban focal points - northern triangle based on the Hanoi/Haiphong axis; central triangle based around Danang; and the southern triangle centred on greater HCMC
- Move "polluting" industries away from existing residential areas
- Encourage cities to become engines of growth by promoting financial self-sufficiency
- Utilise urban areas as sources of increased state revenues

The Ministry of Construction is responsible for urban policy and development. Its principal policy initiative of record explicitly addresses urbanisation through demographics by designating the hierarchy of urban places.

16. CPRGS states this is a purpose for vigorously pursuing land registration.
described in Chapter 1. However, it falls short in providing meaningful strategies to achieve urban objectives, or for managing urban places. The strategies are dominated by outmoded top-down central planning targets dependent on state-run construction, specific land use controls through allocation of land, and centrally planned uses. Very little guidance is given on how to achieve the targets.

The urban hierarchy and plans are not well linked to other urban activities in the macroeconomic strategy and are a remnant of an era with a more static economy and less mobility. There is no apparent linkage between the Orientation Master Plan and the financing needed to implement it.

**Decentralization**

Vietnam has four levels of government. The country is divided into 64 provinces, ranging in population between approximately 6 million and 0.3 million. Included in these 64 are the five largest cities which are granted provincial status: Hanoi, Ho Chi Minh City, Hai Phong, Danang and Can Tho. The provinces are subdivided into 643 districts, which, in turn, are subdivided into 10,602 communes. Class II, III and some Class IV cities/towns have "district" status.

At the central level, legislative power resides with the National Assembly which, according to Article 84 of the Constitution, approves the State Budget (which comprises the central government budget plus the consolidated provincial-district-commune budgets). On the executive side, the Prime Minister is the head of the government and he and the rest of the government are appointed by the National Assembly. The Communist Party operates in parallel to the government structure at all levels of government. At each lower level of government there is an elected assembly, the People’s Council, and an executive authority, the People’s Committee, which is appointed by the People’s Council.

The management of decentralization to local government is a challenge in many countries around the world. Decentralization of fiscal authority to local government presents some major opportunities: local management of the budget can result in better mobilization and allocation of resources, and in the delivery of services which are more appropriate and responsive to the needs and wishes of local people. Equally, there are significant threats: of duplication, weakened coordination, and even growing inequity and the deterioration of service delivery in critical sectors.

Over the past decade, Vietnam has embarked on an extensive decentralization program. A cornerstone of this program was the approval of the 1996 State Budget Law. In 2002 a new State Budget Law consolidated the reforms and went further by giving provincial governments much greater discretion over the budgets of districts and communes under their authority. This provides the opportunity for more efficient and equitable resource mobilization and allocation. The result has been a substantial and growing level of decentralization, with the share of local governments in total expenditures increasing from 26 percent in 1992 to 48 percent in 2002. This positions Vietnam amongst some of the most highly decentralized countries.

The Budget Law distinguishes three types of revenue: taxes assigned 100 percent at the central level, taxes assigned 100 percent at the provincial level, and shared taxes. The tax revenues assigned 100 percent to the central government include export and import taxes, VAT and excises on imports; taxes and other revenues from the petroleum industry; and corporate income tax on enterprises with uniform accounting. Those assigned 100 percent to the local level include land and housing taxes, natural resource taxes excluding those on petroleum activities, license tax, tax on transfer of land use rights, fees on land use, land rent, revenues from the leasing and sale of publicly
owned dwellings, and registration fees and other fees and charges. Shared taxes include all VAT receipts with the exception of VAT on imported goods; corporate income tax with the exception of receipts from enterprises under the whole-unit accounting system; personal income tax; tax on profits remitted abroad excluding tax on overseas remittances of the petroleum industry; excise taxes on domestic goods and services; and gasoline and oil fees.

The State Budget Law does not specify the sharing rates between the center and the provinces. They can differ by province and are calculated as part of the budget process over "stability periods" of 3 to 5 years. The revenue sharing rate is determined by a formula, which estimates the gap between expenditure needs (estimated on the basis of norms) and revenue capacity (estimated on the basis of past revenues). In the stability period ending in 2003, the sharing rate for the 56 poorest provinces was 100 percent. For the other 5 provinces, the sharing rate in 2004 ranged from 24 percent to 53 percent.

In Vietnam, all tax collections are centralized. The General Taxation Department collects all domestic taxes with offices that extend through the provinces and the districts, and the Customs Department collects all taxes falling on imports. Only minor fees and charges are collected by financial agencies and service providers. This has many advantages: it simplifies cash management, facilitates coherent implementation of tax policy throughout the country and limits undesirable local interference. One problem with centralized tax collections is the potential lack of incentives that central government bureaucrats may have to mobilize and collect local revenues. But in Vietnam, there is de facto dual subordination of tax administrators to the central administration and the local authorities, meaning that provincial and district officials can have a recognizable influence on the decisions and activities of tax administrators. The important role played by local incentives for tax collection is captured by the practice of letting local authorities retain a share of the collections above the targeted amount for taxes. Currently, the retention rate is 100 percent for Hanoi and HCM City and 30 percent for all other provinces.

In terms of (consolidated) State Budget revenues (central and provincial governments combined), the provincial government's share for the 1997-2002 period was a fairly steady 25%. The expectation is that provincial revenues will grow faster than central revenues and that by the end of 2004, about 30 percent of state budget revenues will be derived from provincial governments.

One limitation of current revenue assignments in Vietnam is the lack of any material revenue autonomy by local governments. The only form of revenue autonomy for district and commune governments that currently exists is the ability to introduce certain fees; for example, waste collection fees. The full benefits of fiscal decentralization in terms of greater expenditure efficiency are only likely to arise if local governments are able to become more accountable and responsive to the needs and preferences of taxpayers by granting them a more meaningful degree of tax autonomy.

Like many other countries Vietnam suffers from fiscal imbalances. Imbalances are generally addressed through a system of transfers. Vietnam has a system of equalization transfers (the "balancing transfer"), which plays an important role in reducing otherwise significantly larger disparities. Large disparities in public funds arising from the assignments of shared taxes (a difference between maximum and minimum per capita revenue values of 47-fold) and from taxes assigned 100% to local governments (a difference between maximum and minimum per capita values of 20-fold) are significantly reduced after transfers. Total revenues per capita, which include revenues from transfers, show a difference
between maximum and minimum per capita values of less than 5. Thus, significant equalization takes place.

The "balancing transfers" (equalization transfers) from the central government are unconditional grants, determined using a formula, and which remain fixed in nominal terms for "stability periods" of three-to-five years. The current system of equalization transfers represent a significant improvement over the "gap filling" ad hoc negotiated transfers used prior to the 1996 law. The formula uses the difference between estimated expenditure needs and revenue capacity or potential. The minimum expenditure needs of the provincial governments are derived on the basis of expenditure norms, and are intended to cover all current and capital expenditures.

There are also conditional transfers. These are principally transfers for the implementation of "National Target Programs," such as those for rural water supply and sanitation. These National Target Programs are a key tool by which central government can ensure the delivery of key national initiatives at the local level in a fiscally decentralized system.

Vietnam does not have an explicit separate system of capital transfers. The bulk of the funds that can be used by local governments for investment in capital infrastructure is included in the balancing, or equalization transfer, although some of the conditional grant funds are also for investment in infrastructure. From 1997 to 2004, capital expenditures at the local level have represented between 75 percent and 100 percent of recurrent expenditures.

The new Land Law introduced in 2004 (see Chapter IV for more information), also delegates increased responsibilities to local governments. These additional responsibilities include: land allocation, titling, land administration, land registry, and the creation of formal real estate markets. The new Construction Law delegates approval of higher levels of capital investment to the local governments. The promulgation of standards for construction and urban planning are retained at the central level, while approval of plans and projects is being progressively decentralized to Peoples Committees.

The most significant changes introduced by the new Construction Law (2004) are incorporated within the new Decrees on Planning and on Construction Investment Project Management, both of which were enacted in early 2005. The main new features of the Planning Decree are: decentralization of the responsibility for preparing spatial plans to Peoples Committees for most cities and provinces (except inter-provincial cities, high tech and special economic zones); decentralization of the approval of plans for Class III and IV cities to Provincial and District Peoples Committees; review of plans by elected Peoples Councils; addition of broader brush "Orientation Plans" covering 20 year periods for Special, Class I and Class II cities; the addition of regional planning requirements; coverage of the redevelopment of existing urban areas (instead of just new construction); and the introduction of greater, though still rather limited, consultation in the planning process. Generally the new Planning Decree introduces some worthwhile improvements. However, the process of developing spatial plans for cities and provinces remains largely top-down. The Construction Law and Investment Project Management Decree combine aspects of project management, procurement and technical standards. The Construction Law increases the ceiling that can be approved at the local level for most infrastructure projects to VND 400 million (around $25 million) and VND 600 billion (around $40 million) for housing. The most significant change arising from the Decree relate to a requirement for more detailed preparation of investment proposals.
General

While looking to the future, Vietnam still faces a major challenge in dealing with the past legacy of urban neglect. The poor are particularly disadvantaged. Access to basic services needs to be extended to all urban residents.

- Only 61% of urban residents in 2004 had access to treated piped water that meets national standards.\(^{17}\)
- None of Vietnam’s cities or towns treats wastewater. Serious environmental degradation and health concerns are caused by water pollution from untreated human waste and unregulated discharge of industrial wastewater.
- More than 50% of Vietnam’s solid waste disposal dumps have been officially declared environmental hazards that must be closed as soon as possible.
- Rapid motorization with resultant congestion is choking city streets and increasing air pollution.
- Housing is cramped and around 25% is classified by Government as sub-standard or temporary. Roughly 300,000 people live in slums in Ho Chi Minh City;
- Eighty percent of housing is owner constructed, most on an informal basis outside planning regulations and without adequate supporting infrastructure;
- No provision is being made to make housing available for low-income earners.

The adequacy and condition of infrastructure facilitates economic development and is capable of shifting comparative advantage from one region to another. Economic growth, in turn, facilitates moving people out of poverty. The direct provision of infrastructure, particularly basic infrastructure such as water supply, drainage, sewerage, paved access, solid waste management, schools and health facilities, also plays a major role in lifting disadvantaged sections of communities out of poverty.

The Orientation Master Plan for Urban Development to 2020 identifies urban infrastructure goals. It also incorporates construction master (spatial) plans for Hanoi and Ho Chi Minh City through the year 2020. These plans delineate expansion areas for the cities and are replete with lists of projects across all sectors. Industrial zones and major infrastructure investments in the three regional economic growth triangles are also included. The Plan, however, does not define priorities for investment nor does it indicate the costs, or sources of funding. Where implementation strategies are mentioned, the plan seldom goes beyond direction to “construct” a list of specific state sector facilities.

In addition to the urban targets in the Orientation Master Plan, infrastructure goals,

---

17. Benchmarking survey by VWSA in 2004. The Vietnam Household Living Standards Survey indicates urban access to the lower definition of “improved” water sources is 82%
targets, and priorities are set forth in several other Government policy documents, including the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), and Vietnam’s Millennium Development Goals (VDG), which are similar to the international Millennium Development Goals. There are also sector-specific goals and targets, including the Ministry of Planning and Investment’s Ten Year Infrastructure Plan, and Government’s Environmental Strategy to 2010. Not all the documents are consistent.

Access to basic services, even in Vietnam’s largest cities, is far from being comprehensive. This places constraints on local economic growth and the poor face a disproportionate burden arising from incomplete coverage. Data on coverage is often contradictory and incomplete. For example a benchmarking survey of all water supply companies carried out by the Vietnam Water Supply Association with World Bank funding in 2002 indicated that piped water coverage in urban areas is only around 50%, while official data published by the Ministry of Construction claims 76% coverage. Some of the variations are explained by different definitions e.g. MOC refer to "clean" water sources, which aren’t necessarily piped to users. It is clearly important to develop more reliable data collection to enable investments to be more effectively targeted and prioritized.

Water Supply

As noted above, in 2002 only about half the population had regular access to piped water that meets national standards. The proportion of the population with access has increased at around 2.5% per year. The data show that there has been a slight decline in the availability of water to the urban population (on a percentage basis), indicating that the level of investment in new facilities has not been adequate to keep pace with the rate of urbanisation. As noted above, the benchmarking survey and other research reveal significant differences in the levels of access. On average, in 2002 large cities had 67.3% coverage, while small towns had only 10.6%. Even amongst the larger cities there are significant differences. Haiphong has close to 100% coverage, while in Danang, coverage is less than 50%.

The goals and targets for water supply in the CPRGS are:

- Complete water supply networks for major and heavily-populated cities
- Double supply capacity for urban and industrial centers to 5 to 5.5 million cubic metres per day by 2010
- Reach 90% of urban dwellers with clean water by 2010
- Reduce unaccounted-for-water from 39.4% to 30% by 2010

19. Clean water is defined as all "bought water" and excludes all water from "hand-dug wells".
20. 95% according to Government’s Environmental Strategy and 80% by 2005 according to VDG.
● Train water supply staff in management, and maintenance
● Provide soft credit for water supply systems

The cost and availability of water in major cities is an issue for the poor. In terms of percentage of household income, the poor spend more than twice that of the better off (see table below). When unable to secure water connections, the poor must buy water from those with connections, or from water sellers, usually at many times the rate charged by the public water company.  

Water supply and drainage are express priorities of Government for major urban areas: "projects in major cities and industrial areas such as Hanoi and HCMC will receive higher priority in order to meet the demand for drinking water and step by step solve flood issues in these cities."  

This statement is one of the very few direct indicators in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) giving specific priority to urban areas.

### Drainage, Wastewater Collection and Wastewater Treatment

The "Orientation for the Development of Urban Sewerage and Drainage to the Year 2020", approved by the Prime Minister in March 1999, sets out Government’s policy. Generally it is very sound and aims to: (a) put sector financing on a new footing by gradually eliminating the need for subsidies for operation and maintenance through the introduction of wastewater charges; (b) reduce flooding by allocating more resources to increasing the capacity, and expanding the coverage, of drainage; (c) gradually introduce wastewater collection and treatment; and (d) strengthen institutional and human resource capacity. The largest cities, where the problems are most acute, are to be given highest priority.

"Environmental quality and urban sanitation are major problems facing Vietnam’s cities, especially the larger ones, exacerbated by the high densities" in the city cores. Only around 68% of the urban population

---

21. Charges of seven or eight times the official rate are cited in Participatory Poverty Assessment.
23. CPRSG.
was reported to have access to hygienic latrines in 2002. In 2004 none of Vietnam’s cities collected or treated municipal wastewater. However wastewater treatment plants were under construction in Danang, Halong, Hanoi (West Lake), Ho Chi Minh City (Binh Chanh), Da Lat, Hue, and Buon Ma Thuot and project preparation was under way in several other cities including Can Tho, Soc Trang and Bac Ninh. Residential and commercial premises are required to have on-site septic tanks. Unfortunately they are rarely properly designed, constructed or maintained. Effluent from septic tanks either soaks into the surrounding soil thereby polluting groundwater, or finds it’s way to drains, which are only designed to cope with rainwater runoff, causing pollution in canals and rivers. In smaller towns, where population densities are low and soil and water table conditions are suitable, septic tanks can be an acceptable treatment solution. However, as urban areas expand and become denser, septic tanks can not adequately handle the quantity and pollution load of wastewater discharged. Instead, wastewater needs to be collected and transferred to a central location where it can be safely treated in an environmentally acceptable way.

Some industrial zones have wastewater treatment facilities, but few operate effectively and there is very little enforcement by city authorities of the quality of effluents that factories discharge to public drains or sewers. In the competition to attract investment, cities seem to give greater priority to providing favorable financial conditions for investors and the requirement for pre-treatment facilities for treating effluents before they are discharged to public sewers is often neglected. “In Hanoi, 300 factories discharge untreated waste including chemicals and some heavy metals directly into water bodies but the city has no wastewater treatment facilities”

Drainage systems also need greater attention. All of Vietnam’s largest cities are subject to flooding during the rainy season. They are built on flat land only a few metres above the level of the large rivers on which they are sited, or the sea. Prior to development the land was swamps with many natural water channels and lakes. As the cities have grown and water courses and lakes have been filled in, the natural drainage systems were disrupted and have been replaced with concrete or brick drains and culverts. The natural topography of the cities and the fact that rainfall in Vietnam comes in relatively short duration, high intensity storms, means that drains have to be larger than would be the case if there were natural slopes and less intense

rainfall. Alternatively large pumps need to be installed to drain the networks. Pumped systems are however very expensive to operate and need good management to ensure the pumps function when required. Drainage systems have not kept pace with expansion of the cities and those that are built are often not planned as part of an integrated city network. Construction quality also needs to be improved to ensure systems operate effectively.

Government gives high priority to constructing drainage and wastewater systems in urban areas. The target of achieving 100% coverage in urban areas by 2010 must however be regarded as impossible to achieve, given the very low starting point.

Towns and villages generally lack organized wastewater collection and treatment systems. In smaller towns and villages, with low population densities and which remain predominantly agricultural in character, this does not create serious problems. However, as the towns grow and densities increase properly designed systems become necessary.

**Solid Waste Management**

Vietnam has put in place sound policies for solid waste management that specifically address guidelines for the management and disposal of all waste streams. The main policy document is the “Strategy for the Management of Solid Waste in Vietnam Cities and Industrial Parks” that was approved by the Prime Minister in 1999. A "National Strategy for Environmental Protection" approved in 2003 also includes coverage of solid waste management. The solid waste strategy promotes a comprehensive approach to solid waste management. Key features include: legal reform, increased awareness and training, increased cost recovery from users, encouragement of private sector participation, and the adoption of appropriate modern technologies.

MOC report that 65% of domestic waste was collected in 2004. The 2010 Environmental Strategy sets targets of 90% solid waste collection in urban areas and the safe disposal of 60% of "dangerous waste" from industry, hospitals, etc. The Vietnam Development Goals target of 100% collection is even more ambitious. In this case finance in not really a serious constraint in terms of purchasing the necessary equipment and constructing safe disposal facilities. However, generating the necessary revenues to operate and maintain equipment and properly manage sanitary landfills is a problem because People’s Committees and People’s Councils are reluctant to raise user charges to the necessary levels.

Safe disposal of solid waste is becoming a major issue in Vietnam, particularly in the larger cities. Resident’s living in the vicinity of waste dumps in Hanoi, Ho Chi Minh City and Haiphong have blocked access out of concern about the environmental pollution that was taking place. Only 17 out of a 91 disposal facilities in the country are reported to be properly designed sanitary landfills with leachate collection and treatment facilities.
Government has designated 50 waste dumps as environmental hazards that should be closed as soon as possible. Constructing environmentally safe disposal facilities is one of Government's priorities. Ministry of Construction recommends the adoption of sanitary landfills as the most appropriate disposal solution. A number of composting facilities have been constructed e.g. in Nam Dinh and Hue, but they have not proven to be financially viable because there is no demand for the compost when it is priced at the cost of production.

Smaller towns also face increasing problems of solid waste management. In recent years, as greater proportions of their population have turned to non-agricultural work and as consumption standards have changed, traditional waste recycling programs - systems that recycled organic wastes back into the agricultural environment - are becoming overloaded with wastes that pose risks both to the land and to human health.

**Urban Transport**

Vietnam has the highest motorbike ownership per capita in the world and is experiencing exponential growth in motorbike ownership. More than 1.5 million motorbikes are registered in Hanoi and 2.5 million in HCMC. Hanoi has recently prohibited motorbike registration in three inner urban districts, but the regulations are easily evaded. Over the past decade people have rapidly switched from bicycles to motorbikes. Now people in the large cities are beginning to move to automobile ownership. The price of the cheapest car is only about twice the cost of the more expensive motorbikes. Fortunately the motorbikes are overwhelmingly four-stroke models with attendant low emissions. They are also relatively quiet compared to two-stroke models. Motorbike and automobile parking has significantly infringed on pedestrian space.

Road safety is a major issue in Vietnam. It has one of the highest traffic accident rates in the world. In recent years efforts have been made to improve road safety as evidenced by crackdowns on vehicle registration, unlicensed drivers, and poorly maintained vehicles. Helmets are required on national highways and the incidence of use has improved to some extent in the last three years. More rigorous helmet use enforcement was announced in July 2004. However, helmet wearers are still a significant minority in urban areas.

Although congestion in Hanoi and HCMC does not reach the levels experienced in Bangkok, Manila, or Jakarta, it is beginning to have an impact on economic efficiency. Both cities are actively pursuing public transport as a solution. Ho Chi Minh City is in the final stages of preparing a feasibility study for urban rail transit. In Hanoi, bus ridership dramatically increased from 2002 to 2004 with new buses and routes being introduced. The World Bank is working with the city authorities on a project to develop a Bus Rapid Transit system, which will have road encroachment for commercial purposes on Hai Ba Trung Street in Hanoi.
lanes dedicated to buses. The French Government is also supporting the development of a tram system.

In Hanoi, 11% of the city land area is reported to be devoted to transport facilities. Newly proposed standards project increasing this to 25%. In reality, space allocated to transport is used for other purposes. Many of the urban, suburban, village and inter-city roads suffer from diminished capacity as a result of encroachment into the rights-of-way. Encroachment is typically for commercial activity, but also for dwellings.

**Housing**

It was reported that about 25% of the urban population was living in substandard, or temporary, houses in 2002. Housing conditions differ significantly between northern and southern Vietnam. This is largely due to available building materials and climate. The quality of housing also varies with income level. The incidence of slums is higher in the south. Ho Chi Minh City Land and Housing Department estimates that 300,000 people live in slums. Hanoi officials estimate that 30% of their population lives in very crowded conditions (as little as 3 m² per person). By comparison, Ministry of Construction standards have set a target of 14 m² per person.

The CPRGS priorities for housing are: the provision of safe housing in flood prone areas, calamity-affected areas in the North, the highlands in the South, the coastal areas in the Central Region and the Mekong Delta; and housing in new urban areas and industrial zones.

Prior to the Land Law of 2004 between 75 and 85% of new residential construction was built informally without legal construction approval and frequently without land use certificates. The new Land Law coupled with Vietnam’s rapid economic growth has provided incentives for property developers, the majority of which are still state owned, to build planned developments.

Where planned housing developments occur, they have shifted from state-driven to a more market-driven paradigm. This has created a housing boom in the major cities. State owned companies are now taking on the role of commercial developers and building significant numbers of houses, particularly high-rise apartment blocks e.g Tu Lien in Hanoi. The current boom is geared largely to middle and upper income earners e.g. Ciputra development in Tay Ho, Hanoi and Phu My Hung in South Saigon. It is fueled by increased disposable income, increased savings, changes in lifestyle such as a decline in the role of the extended family, and rapid inflation of housing and land prices. However, the provision of appropriate housing for low-income people, including students and those requiring resettlement arising from development projects, remains a major challenge for Government. While incomes of the lower quartile of urban dwellers are too low for them to be able to afford housing, the Government is reluctant to re-embark on subsidized state housing because it has only recently extracted itself from many of the problems associated with poorly managed state housing provision e.g. poor housing management, insufficient cost recovery for adequate maintenance etc. However, the reality is that increasing numbers of poor people are moving to cities, where they are an important part of the country’s rapid economic growth. Meeting their housing needs is an issue that needs serious consideration. In 2003 there were roughly 300,000 people live in slums in Ho Chi Minh City. In 2004, the in-situ incremental improvement of existing slums, or urban

upgrading, was recognized by Government as an appropriate policy for improving low-cost housing. The World Bank supported Urban Upgrading Project is funding such improvements in Can Tho, Haiphong, Ho Chi Minh City and Nam Dinh and preparation of a National Urban Upgrading Program to scale this up, was started in 2005.

The provision of affordable housing for low and middle income groups is unfortunately constrained by land speculation. Large amounts of money are made in the conversion of land from rural to urban use. Unfortunately the beneficiaries tend to be neither the original users of the land, nor the purchasers of the new housing built on it (the purchase cost of the land is up to ten times higher than the compensation paid to previous occupiers). This has in fact resulted in a “freeze” in the real estate market since mid 2004 causing serious financial problems to housing developers. Housing that is built is too expensive for low income earners and no provision is being made for simple housing that could be incrementally extended over time e.g. a core house built on a serviced site.

Traditionally housing has been financed on a cash basis, often through borrowing from the extended family. Loans and mortgage financing for housing are still new, but the demand for housing finance is rapidly increasing. The ADB is supporting the Government through a Housing Finance Project to promote a more active housing mortgage finance market. The World Bank supported Urban Upgrading Project includes a component to support low-income residents improve their houses. This comprises micro-finance schemes, which make available loans of around VND10 million, or USD 620, for incremental improvements to houses.

**Estimated Future Financing Requirements for Urban Infrastructure**

It has not been possible within the limited scope of this study to make a detailed assessment of the future finance requirements for urban infrastructure. However, some indicative estimates for different sub-sectors are provided below. All estimates are based on per capita unit rates derived from recent investment projects. It is clear that in order to achieve the rather ambitious targets for access to infrastructure set by Government that annual finance levels of several orders of magnitude higher than what was mobilised in the 1990s will be required.
Urban Water Supply, Wastewater Collection & Treatment, and Drainage

The estimates below to achieve 100% coverage are based on MOC’s population projections, and the average cost/capita from several donor financed projects carried out in the late 1990s, early 2000s. MOC report much lower per capita costs on Government funded projects, but it has not been possible to obtain full cost information on these projects, or to check if they are based on the full economic cost of inputs. Water coverage levels were obtained from a benchmarking survey carried out in 2002 of all provincial water companies. For wastewater collection and treatment and drainage, account has been taken of existing coverage in the cost estimates.

The estimated annual financing requirement to achieve the 2010 to 2020 is $377.5 million.

### Urban Water Supply: Estimated Future Financing Requirements

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Urban Population</td>
<td>19,000,000</td>
<td>32,000,000</td>
<td>46,000,000</td>
</tr>
<tr>
<td>Urban population with piped water in 2000 (48%)</td>
<td>9,120,000</td>
<td>9,120,000</td>
<td>9,120,000</td>
</tr>
<tr>
<td>Population requiring piped water</td>
<td>9,880,000</td>
<td>22,880,000</td>
<td>36,880,000</td>
</tr>
<tr>
<td>Estimated cost/capita in 2000 prices ($)</td>
<td>US$165</td>
<td>US$165</td>
<td>US$165</td>
</tr>
<tr>
<td>Funds required for 100% coverage ($ million)</td>
<td>US$1,630</td>
<td>US$3,775</td>
<td>US$6,085</td>
</tr>
</tbody>
</table>

### Wastewater Collection and Treatment: Estimated Future Financing Requirements

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population of all urban areas</td>
<td>19,000,000</td>
<td>32,000,000</td>
<td>46,000,000</td>
</tr>
<tr>
<td>Average cost/capita in 2004 prices for wastewater collection ($)</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Average cost/capita in 2004 prices for wastewater treatment (based on oxidation ditches) ($)</td>
<td>57.5</td>
<td>57.5</td>
<td>57.5</td>
</tr>
<tr>
<td>Average total cost/capita ($)</td>
<td>87.5</td>
<td>87.5</td>
<td>87.5</td>
</tr>
<tr>
<td>Cost of providing wastewater collection &amp; treatment to entire urban population ($ million)</td>
<td>1,663</td>
<td>2,800</td>
<td>4,025</td>
</tr>
</tbody>
</table>

### Drainage: Estimated Future Financing Requirements

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population of all urban areas</td>
<td>19,000,000</td>
<td>32,000,000</td>
<td>46,000,000</td>
</tr>
<tr>
<td>Average cost/capita in 2004 prices for primary, secondary and tertiary drains ($)</td>
<td>53.3</td>
<td>53.3</td>
<td>53.3</td>
</tr>
<tr>
<td>Average cost/capita in 2004 prices for canal rehabilitation (Special &amp; Class 1 cities only - say 40% of population) ($)</td>
<td>53.4</td>
<td>53.4</td>
<td>53.4</td>
</tr>
<tr>
<td>Cost for primary, secondary &amp; tertiary drains ($ million)</td>
<td>1,015</td>
<td>1,709</td>
<td>2,456</td>
</tr>
<tr>
<td>Cost for canal rehabilitation for 40% of the population ($ million)</td>
<td>406</td>
<td>684</td>
<td>983</td>
</tr>
<tr>
<td>Total Cost ($)</td>
<td>1,420,440,000.00</td>
<td>2,392,320,000.00</td>
<td>3,438,960,000.00</td>
</tr>
</tbody>
</table>
This compares to average annual expenditure in the 1990s of only around $100 million. Of this, around 80% came from ODA contributions and around 40% of the investments were made in the four largest cities.

Urban Transport: Estimated Future Financing Requirements

It is more difficult to derive per capita investment requirements for urban transport. The needs are large and growing as a result of the combined impact of rapid urbanization and rapid motorization. Within the next decade Ho Chi Minh City and Hanoi will need to develop effective mass transit systems and significantly expand their highway networks. This will be costly. The recently prepared transport master plans for Ho Chi Minh City and Hanoi estimate the financing requirements to 2020 at $13.5 billion and $5 billion respectively. The Class I cities, Haiphong, Danang and Can Tho and the largest Class II cities will also need to start making significant investments over the same time frame.

Housing for Low-Income Residents: Estimated Future Financing Requirements

As previously noted, housing is predominantly privately financed. However, it is clear that low-income households, say 25% of urban residents, can not afford housing. Of these 60% (15% of urban population) may need social housing. The other 40% could be assisted through the provision of microfinance to enable them to incrementally improve their existing houses. There are obviously several variables affecting the cost of social housing: the size of town/city, it’s location within the country, the location of housing within the city and the size and type of house/apartment. The following table calculates the weighted average cost/capita of social housing throughout the country and the next table the estimated cost of providing social housing.

While the above estimates are only indicative of the level of financing necessary to meet Government’s stated targets, the projections to

<table>
<thead>
<tr>
<th>City/Town</th>
<th>Percent of National Urban Population</th>
<th>Cost of Walk-Up Apartment ($)</th>
<th>Cost per capita ($)</th>
<th>Weighted cost/capita ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCMC/Hanoi</td>
<td>13.7</td>
<td>10,000</td>
<td>2000</td>
<td>1087</td>
</tr>
<tr>
<td>Class I</td>
<td>5</td>
<td>8,000</td>
<td>1600</td>
<td>317</td>
</tr>
<tr>
<td>Class II</td>
<td>3.3</td>
<td>7,000</td>
<td>1400</td>
<td>183</td>
</tr>
<tr>
<td>Class III &amp; IV</td>
<td>3.2</td>
<td>6,000</td>
<td>1200</td>
<td>152</td>
</tr>
<tr>
<td>Average cost/capita</td>
<td></td>
<td></td>
<td></td>
<td>1740</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low-Income Housing: Future Financing Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
</tr>
<tr>
<td>Total Urban Population</td>
</tr>
<tr>
<td>Estimated weighted cost/capita in 2000 prices ($)</td>
</tr>
<tr>
<td>Funds required assuming 15% of population need social housing ($ million)</td>
</tr>
</tbody>
</table>
2010 of around $17.3 billion for water supply, wastewater collection and treatment, drainage and social housing alone, plus a further $8-9 billion for urban transport, are daunting. This reinforces the critical importance of mobilizing additional financial resources beyond the state budget and ODA, which have financed most infrastructure in the past.
It is widely acknowledged that the current spatial, or master, plans of Vietnam’s cities are not effective. There is a large disconnect between the beautifully drafted idealized master plans (often referred to locally as “Quy hoạch treo”), that hang in the offices of Peoples Committees and the reality of urban development on the ground. Firstly, spatial plans need to be more effectively coordinated with socio-economic and sector plans; secondly they should be more strategic and less prescriptive; thirdly all stakeholders, including residents and private investors, should be allowed to participate in their preparation; and fourthly they need to be based on levels of resources that are likely to be available for their implementation. Finally, once effective plans are put in place, they need to be implemented and enforced through a more effective system of urban management. This will require clearer designation of decision making authority, greater delegation of authority to local governments, and the adoption of a governance structure for local government with appropriate checks and balances to prevent the abuse of power. The most effective way of doing this is to have extensive public participation and to make all decisions public.

Overview of the Vietnamese Planning System

Planning in Vietnam is in the process of slowly evolving from a highly prescriptive model based on central control to a more flexible and adaptable system with considerable authority delegated to local governments. The main challenges are in building the necessary capacities in local governments and in changing the attitude of local government officials from their current largely passive role, to one that is much more active.

In Vietnam the responsibilities for urban planning are much more fragmented than in western countries. Three types of plans, each the responsibility of different ministries, apply to urban areas: socio-economic development; spatial (also called construction or master plans), and sector development.

- **Socio-economic development plans** - are development strategies, but they also set precise development and investment targets and combine (often without prioritizing) proposals contained in sector plans (e.g., transport, industry, education, health). They are prepared at all levels of government including wards and communes and consolidated at higher levels.

- **Spatial plans** - commonly referred to as "master" or "construction" plans, or as "detailed area plans" for sub-divisions of urban areas, or specific projects. They present the proposed spatial arrangement of land uses, building footprints and infrastructure for a province, city, district, or development site in progressively greater detail.

- **Sector development plans** - are production targets and strategies for output of...
individual sectors e.g. water supply, urban transport, main industries and agriculture.

In the Vietnamese language, two terms with distinct meanings, are used for "plan" or "planning". "Quy hoạch" means long-term planning, either socio-economic, spatial, or sector. "Kế hoạch" means short or medium term planning. It covers plans that have real standing and/or a high probability of implementation. The term "quy hoạch treo", which translates as "hanging plan", is used for those plans that look beautiful hanging on the wall of the office of a high level official, but which are rarely implemented.

Planning of all types is carried out both horizontally and vertically within government. Most entities with planning responsibility have a dual reporting relationship, a vertical relationship to the central ministry and a horizontal relationship to the appropriate executive level of government. Government and the Party also have parallel policy guidance and reporting requirements. Most important planning decisions are taken at the central government level, but without effective cross-sector consultation and discussion. It is a very top down process. The widely dispersed responsibilities without clear procedures and decision making authority to bring the various different views together to form a broad consensus makes effective urban planning, as understood in western countries, a challenge in Vietnam.

### Socio-economic Planning

The five-year Socio-economic Development Plan (SEDP) has been the main pillar of Vietnam’s strategic planning architecture for many years. The last five year planning period (2001-2005) involved the production of both a SEDP and a Comprehensive Poverty Reduction and Growth Strategy (CRPGS), the latter described as an "action plan" for the SEDP by the Ministry of Planning and Investment (MPI) and accepted as a poverty reduction strategy by the international donor community. These two planning instruments will be merged for the 2006-2010 planning period.

SEDPs are prepared after formal consultation within Government and Party structures. MPI has the primary role in coordinating and ultimately producing the SEDP. At the provincial level, the Departments of Planning and Investment (DPI) take the lead role. Each level of local government (communes, districts, provinces) submits proposals to the next level where they are screened, consolidated and passed on up eventually to MPI. Past practice has been for the SEDPs to set out goals and detailed production targets for all geographical regions and productive sectors of the economy. Economic, social and poverty data underpinning the SEDP and used as a basic for

Master (spatial) Plan for Danang
projections are drawn from government sources. Once an SEDP is approved, it becomes the basis for the annual budget proposals from ministries and local governments.

The CPRGS, approved by the Prime Minister in 2002, has not had the same central role in directing the activities of government but it has pioneered some new approaches to socio-economic planning, both in terms of process and substance. Consultations were broader, involving actors outside government including local organizations and some poor communities. The CPRGS presents a stronger analytical framework for growth and poverty reduction than was included in the SEDP and made use of a wider range of credible data from both inside and outside government. Achievement of strategic outcomes - rather than production targets - motivates the policy measures and public actions identified in the CPRGS. The CPRGS also outlines mechanisms to monitor progress, framed around the Vietnam Development Goals (VDGs, localized versions of the Millennium Development Goals).

As noted above, Government decided to merge the CPRGS and SEDP for the 2006-2010 planning period. Guidance for preparation required that some of the participatory approaches to planning that characterized the preparation of the CPRGS be adopted. The guidelines specifically require that the five year plan should address the VDGs, which should result in a more outcome-focused plan. They also require that the analysis used to underpin the plan should make use of international methods and standards, which will allow a broader range of robust data to inform the development of the plan. This is important, since one strength of the CPRGS lay in its openness in bringing some sensitive issues to the debates on poverty reduction, issues such as migration that have not been covered by SEDPs in the past.

SEDPs don’t appear to be subjected to rigorous economic and financial analysis, nor do they take much account of the resources likely to be available. There is a general tendency to optimistically approve plans and related lists of projects in the hope that funding will become available. They are essentially driven by production targets. There is also a tendency not to take adequate account of potential social and/or environmental impacts. For example implementation of aspects relating to urban development may be undertaken without taking due account of integrated infrastructure networks, or proper budget support, resulting in delays, low efficiency, and environmental impacts and costs.

One of the most significant manifestations of economic expansion and socio-economic planning in Vietnam has been the proliferation of special purpose planned industrial zones to attract FDI and locate domestic investment. While some industrial zones have been an unquestionable success, many others, particularly in more remote provinces, are seriously under-utilised. "If the experience of
other Asian countries is relevant to Vietnam, the general tendency of these overtures is for a limited number of sites, especially around major metropolitan areas, to be successful, while others experience substantial difficulty in attracting branch plants and other footloose investments. Research on this question shows FDI to be much more spatially concentrated than domestic investment in the same sectors."27 The spatial dimension of the investment and production mix is a critical factor. The synergy and complementarities of cluster locations and the corresponding competitiveness are diminished by forced location to inappropriate industrial zones.

**Spatial Planning**

It is spatial plans, master plans in particular, that have the greatest impact on urban development. Spatial planning in Vietnam was designed for the era when all construction was carried out by the state. With the move towards a market economy, the spatial planning system is undergoing revision. In 2004 a new Land Law and a new Construction Law, which incorporates a Planning Decree, were issued. This demonstrates Government’s commitment to improving the planning and urban management systems, but much remains to be done to enable Vietnam’s cities to compete effectively in the global economy and to improve the lives of their residents.

In terms of administrative responsibility, the Ministry of Construction (MOC), or subordinated departments of construction at the province and city level undertake spatial planning i.e. master, or detailed area plans. Most plans are prepared by the National Institute of Urban and Rural Planning Institute (NIURP) or it’s sister organization in the south, NAGECO. Both are subsidiaries of MOC. Only the four ten largest provinces/cities have their own planning institutes.

Spatial plans are prepared in four levels of detail: orientation plans (national policy), regional plans (introduced in 2005), master plans (province or city), and detailed area plans (ward, industrial zone, or project). Most are prescriptive for specific land uses in specific locations, rather than permissive as in Western land use planning. The intended sequence of planning with spatial plans following socio-economic plans and sector plans does not always occur. In fact, spatial plans are required to have a longer time horizon than the socio-economic plans, or sector plans, for which they provide the physical and spatial component.

The lack of coordination in sequencing is probably exacerbated by the fact that the planning institutes tend to overlook economic and social dimensions, while the socio-economic planners (equivalent institutes affiliated with MPI) seem to overlook the spatial and environmental implications of investment programs. The result is that spatial plans are too abstract with insufficient attention given to the “real world”. The poor nexus between socio-economic and spatial planning is reflected in other problems related to the overlapping responsibilities of central and local agencies. These include: complicated procedures for project assessment and approval (investments require up to fourteen separate official approvals, which can take upwards of one year to obtain); difficulties in sharing information within and amongst agencies; and weak human resource capacity - staff have not been trained to carry out rigorous project appraisal e.g financial and economic analyses.

Until the Planning Decree was issued in early 2005, no consideration was given to

regional planning i.e. there was no coordination amongst neighboring provinces. As noted above, one consequence of this is the proliferation of industrial zones throughout the country. A start has been made on preparing regional plans from the greater metropolitan areas of Hanoi, Ho Chi Minh City and Danang. Unfortunately, so far this is being limited to spatial planning. It is however a step in the right direction towards more rational utilization of resources. The establishment of an effective institutional framework to implement the plans will be essential.

Master plans are required to include long and medium term direction for physical development and the arrangement of urban space and infrastructure networks and facilities. They also cover the characteristics of urban areas, population size, land use, resettlement, redevelopment, conservation, and zoning. The Prime Minister approves the master plans for Special, Class I and Class II cities. A map is the principal element of the plan. They must assure that prescribed technical standards are met. The technical master planning specifications (Ministry of Construction, Circular 322 BXD/DT)\(^\text{28}\) that drive plan design, city investment priorities, and city classification reduce local flexibility. They stifle creative or strategic thinking and often lead to the inefficient use of capital. The technical standards should have only a limited and guiding role in a reformed planning system that will allow greater flexibility and adaptability to local situations and demand. In the current system a formal and arduous process must be followed to obtain approval to modify technical standards to officially allow infill development, urbanisation of villages, or the upgrading of existing urban areas, without requiring for example maximum (standard) street widths, specified floor area ratios, or standardized floor area per occupant.

Master plans in Vietnam tend to be idealized top-down representations of what the planning experts and city administrators would like their city to become if there were unlimited resources. Unfortunately that is never the case. The plans also have a serious limitation in that they only take account of the views of a fairly narrow range of stakeholders, primarily government and party officials. The opinions of ordinary residents and private investors are rarely sought. They lack the phasing and the incremental development mechanisms essential to translate them to reality in a mixed economy where development is more likely to occur on an incremental basis directed by decisions made by investors rather than government planners. In most industrialized countries, central governments delegate considerable responsibility for spatial planning to local governments. Box 1 outlines how the responsibility for planning is typically delegated in North America.

These idealized master plans can result in the wholesale clearance of communities and housing to permit redevelopment to a higher technically mandated standard. This often results in the destruction of tightly knit communities with their own carefully developed economic and social support systems that have evolved over many years. Experience from other countries, including many in Western Europe and the United States, indicates that demolishing such neighborhoods, often with the best intentions, results in irreparable damage to the social fabric and well being of the residents. Housing prices in the newly created development will often be well beyond the affordability of those displaced. Experience in many other countries such as Indonesia and

\(^{28}\) Revision of the circular to coincide with the new Construction Law and Planning Decree is under consideration in May 2004.
Brazil demonstrates that it is usually better on cost effectiveness and social grounds to adopt an incremental approach developed with the active participation of the beneficiaries. An investment in basic infrastructure by the city can leverage investments up to seven times higher in property improvements from the residents themselves. This approach is recognized in the 2005 Planning Decree and investments that adopt the approach are under way in Can Tho, Haiphong, Ho Chi Minh City and Nam Dinh.

Detailed area plans, prepared under the guidance of provincial/city People’s Committees, are a requirement for urban development schemes. They predetermine the specific uses of urban space and include the quality, quantity and position of each development type and building footprint. An urban design element to express architecture, built form, construction heights and landscape of each urban area and street was introduced by the 2005 Planning Decree. Unfortunately they are often prepared before the necessary funding for their implementation has been secured. As a result they do not provide a development control framework for all stakeholders and potential developers and therefore often fail to produce usable guidelines for channeling urban expansion. Consequently much growth takes place in unauthorized and unplanned areas. Many of the residential areas in Vietnam’s cities have developed on an ad-hoc basis as tightly packed warrens of narrow, twisting lanes, without properly functioning drainage or sewerage systems, or open spaces for recreation. Because of the rigid way they are prepared, area development plans must either be amended, or ignored, to accommodate new, market driven proposals where development occurs on a more flexible and dynamic basis governed by the availability of land on the market, and capital to the developer. Amending the plans is bureaucratically complex and time-consuming. As a consequence, public infrastructure (water supply, solid waste management, drainage and sewers) and the provision of recreational space often have to follow after development has occurred, at much greater cost.

**Sector Planning**

The overall goal of sector planning is the maintenance of the socialist market-oriented
economy, particularly for major industries and agriculture. Sector plans are also prepared for infrastructure e.g. transport, water supply etc. The main planning functions are divided between ministries at the national level, departments at the provincial level, and some of the large State Owned Enterprises (SOEs). Under central planning, one of the roles of sector planning was to define targets for the production of large SOEs and to ensure the availability of raw materials and the means of production. As the market economy takes hold and SOEs have to respond to demand, costs related to physical location, design, or proximity to either suppliers or users will have to be borne by the SOE themselves, and not the state at large. Prescriptive sector plans are likely to hamper industries in the new market oriented era.

Government also uses sector planning to try and manage the geographic allocation of state resources to balance development in all regions. Showcase, or national self-sufficiency projects remain the responsibility of sector planning. Unfortunately many are inefficient and have to be protected by tariffs and subsidized in other ways. They are often a significant drain on national resources and divert capital from more economically viable investments.

Unfortunately sector plans and spatial plans for the same location are often not coordinated in phasing, finance or implementation. For example the drainage included as part of a transport master plan may not be coordinated with the separate drainage and sewerage master plan. In some cases they may even propose conflicting strategies. Land use plans formulated by local Natural Resources and Environment Departments are also frequently inconsistent with detailed construction plans. The solution lies in allocating specific responsibility within the city, or provincial administration, for coordination.

The Challenge of Peri-Urban Development

Vietnam currently transforms 10,000 hectares of agricultural land to urban use every year - mostly at the peri-urban fringe. Interestingly this appears to contravene national policies against loss of prime agricultural land and preservation of food security. The largest cities (Hanoi, HCMC and Haiphong) are all located on fertile river deltas. Fortunately advances in agriculture production which enable more intensive use of land, mean that increases in production are keeping ahead of demand.

The formal and the informal sectors are both at work in peri-urban development. Informal urbanisation takes place in an ad hoc, unregulated manner, where local authorities are not well prepared, or inclined, to manage the urban expansion. Densities increase in towns and villages without geographic expansion as new residents and new families seek accommodation. This is a function of additional crowding by extended families, or the renting out of rooms, and also, more recently, through new construction and infill.

In the past the delay in issuing land use certificates contributed to urban sprawl, through lack of control. It provided a rationale for permissive officials to ignore informal construction. Densities have reached levels that overwhelm the sanitary and flood control methods that functioned in an agricultural environment. There is also a cumulative negative impact from many small manufacturing facilities discharging wastes and effluents that are often highly toxic e.g. from tanning, dyeing and metal working, directly to the environment. There has however been a major initiative started in 2003 to issue LURCs for all urban land. Coverage in the major cities was reported to have increased from below 20% to well over 60% by 2005.

Urbanisation takes place both at the urban
fringe where suburban communes and previously discrete villages face envelopment into cities and towns. It also occurs through the densification of rural towns and villages. This affects the ways in which infrastructure services need to be provided. This has a significant impact on urban provision. For example a rural water supply project being supported by the World Bank for the Red River Delta has, because of the growing population densities, many of the characteristics of an urban water supply project. Central treatment and piped supply is economic and there are sufficient economies of scale to organise management on a utility basis. Household who previously obtained water from wells within their properties are now willing and able to pay for treated piped water. In many cases, because the groundwater had been polluted by increasing levels of domestic and industrial wastewater discharges arising from densification, they have little choice. Techniques for wastewater and solid waste collection and disposal that were adequate for rural settlements have been overwhelmed, as has the ability of the local administrations to protect the health and welfare of the residents.

Not all development in peri-urban areas is unplanned. Many of the SOEs owned by the Ministry of Construction and large city authorities are active housing and multi-use developers e.g. the Tu Lien district in Hanoi. Private developers including foreign investors are also active e.g. Ciptura in Tay Ho District, Hanoi and Phu My Hung in South Saigon.

**Land Law 2004**

The new Land Law which came into effect on July 1, 2004 is having a significant effect on urban planning and urban management. Under the law, all land continues to be owned by the State, but land regulation and management will become more market oriented.

The law delegates the responsibility for land administration and registry to local governments. This has already reduced the long delays in issuing land use right certificates (LURCs) by Government to companies and individuals, which created problems in terms of them not being able to provide collateral for loans and in enabling the timely provision of
infrastructure. The sequencing of land allocation did not necessarily follow the development proposed in spatial plans, the provision of infrastructure, or the timing of the financial allocations for state sector activity. The law also moves closer to adopting land pricing based on market values, rather than it being set administratively by government. Significant differences between the administrative price of land and the price on the informal, but vibrant, real estate market, contributed to speculative development that was not synchronized with the provision of infrastructure. The price distortion promoted corruption and also created significant delays to investment projects arising from protracted negotiations of compensation for land acquisition. The new Land Law should improve coordination, governance, planning, management and the ability to provide infrastructure. The following is a summary of the key improvements introduced:

- Modernization of state land ownership and administration
- Use of market values for establishing compensation, taxes, and fees (given the imperfect mechanics of the current market, it is however difficult to identify a true "market" rate)
- Recognition of real estate markets
- Devolution of responsibility to local levels for land administration and registry and promulgation of uniform standards and local single points of contact for land registration
- Greater availability of land registration information
- Public participation (though still rather limited) in planning and public notification of approved plans
- Consolidation of land use right certificates into a single type
- Improvements in compensation procedures for expropriated land
- Local officials to become more accountable
- Long term leases for foreigners and overseas Vietnamese to become transferable

As understanding and training increase, these changes should facilitate the work of departments responsible for urban infrastructure and reduce delays and uncertainties. In the short term, lack of sufficiently detailed mapping systems in medium and smaller cities and towns may delay progress. The land administration component of the World Bank Urban Upgrading Program will provide technical assistance and capacity building to land registration offices in HCMC, Hai Phong, Can Tho, and Nam Dinh that will facilitate the granting of land use rights and issuing certificates and the subsequent management of land.

The effectiveness of the new law will depend in part on the response of financial institutions that will need to develop lending procedures, risk assessment skills, and mortgages to provide loans for housing and small businesses. The ADB is supporting a “Housing Finance Project” to pilot procedures for the development of a broader based housing finance market.

**Construction Law (2004)**

The most significant changes introduced by the new Construction Law (2004) are incorporated within the new Decrees on Planning and on Construction Investment Project Management, both of which were enacted in early 2005. The main new features of the Planning Decree are:

- Decentralization of the responsibility for preparing spatial plans to Peoples Committees for most cities and provinces.
- Decentralization of the approval of plans for Class III and IV cities to Provincial and District Peoples Committees respectively
- Review of plans by elected Peoples Councils
- Addition of broader brush "Orientation
Plans" covering 20 year time periods for Special, Class I and Class II cities

- Addition of regional planning requirements. This is a useful step towards helping deal with rapid urbanization. However, no guidance is given on the administrative structure that will be necessary to implement regional planning.

- Coverage of the redevelopment of existing urban areas (instead of just new construction). This is significant. It requires that spatial plans should take account of areas that can be upgraded rather than focusing only on re-development which has been the case in the past.

- The addition of an urban design component to detailed construction plans. This is intended to address the lack of an effective development control framework for the urban form, architectural patterns and landscape.

- Introduces consultation in the planning process - People’s Councils are required to review plans and the plans must be put on public display. However, there are still no specific requirements or mechanisms to promote active public participation in the process.

The new Planning Decree introduces worthwhile improvements. However, the process of developing spatial plans for cities and provinces still remains largely top-down and is likely to continue the tendency to create idealized, rather than strategic and practical visions of the future. The opportunity has not been taken to promote meaningful coordination and integration with socio-economic planning and sector planning.

The Construction Investment Project Management Decree combines aspects of project management, procurement and technical standards. The most significant changes relate to the procedures for large investment projects. Pre-feasibility studies will be replaced by "Investment Reports". The content however remains largely the same. Feasibility Studies will be replaced by Project Investment Formulation Reports. The latter require a higher level of technical detail, referred to as "basic design" than was formerly the case.

**Urban Management**

The weakness of urban management in Vietnam needs to be overcome before effective planning will be able to contribute to urbanization. The best plans are useless if they are not, or cannot be followed.

In Vietnam the term "quan ly do thi", loosely translated as urban management, is used to cover a broad mix of activities including: administration; coordination; planning; building and construction controls; enforcement of regulations; fiscal control; and the maintenance of facilities; that make urban areas function. The Ministry of Construction and Departments of Construction at the provincial/city level are nominally responsible for state management related to construction and urban development, housing, architecture, technical infrastructure development and related public services. However, several other ministries and departments have overlapping responsibilities in areas such as: land management, transportation, environmental protection, finance and budget allocation, socio-economic planning, and the management of State Owned Enterprises (SOEs). A table showing the various responsibilities for urban issues among ministries is presented in Annex 3. In western countries at the city/province level the various sector departments would report to a mayor or governor, whose office would be responsible for coordinating the various inputs and taking decisions. In Vietnam, where sector departments at the city/province level report vertically to central ministries as well as horizontally to Peoples
Committees the latter do not have sufficient power to efficiently fulfill this coordination and management role.

The lack of clearly designated authority and limited local autonomy make urban management difficult. Each functional department or entity protects its independence and autonomy. Strengthening and rationalizing urban management through both institutional and cultural change is the most important task for successful urban management. The Government’s attention and its urban policy tend to be focused on master planning and large scale projects. Much less attention is directed on how to make urban areas more functional and efficient. In the smaller cities and towns (Class II and lower), which report to provincial authorities, urban management is stymied because of their limited powers and the inability to cooperate across district lines with adjacent rural districts.

In addition to delegating authority for urban management to Peoples Committees, as indicated in the sections above, the form of master plans and the way they are prepared needs to be changed and much greater responsibility for detailed planning, including the flexibility to regularly adjust plans within a broad approved framework, also needs to be delegated to local governments. This will enable local governments to better cope with the demands of a market economy and the rapid pace of urbanization in a proactive way. This will need to be done within an effective governance structure with appropriate checks and balances to ensure local officials do not abuse the authority delegated to them. The most effective way to do this is to allow extensive public participation in urban planning and management processes and to make all decisions public.

Interestingly, the traditional urban management systems of China and Vietnam, based on Confucian principles, vested local official, then mandarins, with a high moral authority to make decisions on behalf of the common people. They had a mandate to manage. Despite adoption of the Soviet model of socialism in the 1950s, this traditional form of management effectively persisted at the district and ward/commune level, albeit informally as a management principal in regard to land issues. Such a decentralized system has advantages and disadvantages; the main advantage being that it brings decision making close to those affected, thereby allowing greater participation. The disadvantages include fragmentation, diminished cooperation and coordination, and the risk of self-serving and "rent-seeking" behavior. It is therefore very important to ensure that effective governance structures are put in place.

Infrastructure Development and Investment Approval

The infrastructure and development approval procedure in the country is very complicated and subject to the nature and size of project (projects are classified as A, B or C), the investment capital status (private, foreign direct investment, ODA, state enterprises, and/or individual), and the category of land use right. There are three types of development approval and most projects require all three:

- Investment approval
- Issuance of land use right certificate
- Development approval and building or construction certificate.

Investment projects that require land allocation for development go through a pre-planning process with the local Department of

29. John Gillespie, 22 March 2004
Planning and Investment for investment approval and the local Department of Construction for guidance on the project location. After approval, the project proponent negotiates the compensation and resettlement plan. For large projects, initially an "Investment Report" (formerly a pre-feasibility report) is required by the Ministry or Department of Planning and Investment. Subsequently a more detailed "Project Investment Formulation Report" and a basic design has to be submitted. Group A projects funded from foreign sources need approval by central government. After getting the investment approval, the proponent submits a request for land allocation to the local Department of Natural Resources and Environment. A construction permit based on detailed design of the project is also required. Under the new Construction Law 2004, construct permits are issued either by the provincial Department of Construction, or the District People’s Committee, depending on the complexity of the project. In some cities, for relatively small investments, the process has been consolidated into a "one stop shop".
Strategic Change in the Infrastructure Financing Model

As Vietnam prepares to meet the demand for increased investment, it needs to reduce its reliance on the state budget and to start preparing for the transition away from concessional donor financing for urban infrastructure services. The necessary transition strategy must involve diversification of financing sources for infrastructure development, focusing on increasing the role of the private sector as a source of finance for infrastructure and as a developer of infrastructure. The strategy must also recognize the increasing role of local governments in promoting infrastructure investments in accordance with government’s decentralization policy. The increased participation of the private sector in financing infrastructure in coordination with local governments will support decentralization and improve the efficiency of infrastructure investments. However, the success of this new trend rests very critically upon continued improvements in the corporate governance environment at the local government level.

Key reforms related to the planning and management of infrastructure services can also improve the financing possibilities. The authorization by central government to allow local governments to borrow up to 30% of their annual budget for development investments (100% in the case of HCMC and Hanoi) was a step in the right direction. It will be important for local governments to develop their credit-worthiness by ensuring, to the extent possible, cost-covering tariffs (operation, maintenance and investment costs) for infrastructure services and by developing new sources of revenue. Improved cost recovery will provide infrastructure enterprises with the possibility of self-financing using retained earnings, and open the possibility...
for alternative financing sources that rely on future revenue streams. The development of new sources of revenue such as a broad based property tax and/or a local income tax would provide further opportunities.

**Financing Sources**

Sources of finance are described below. All, with the exception of budget funding and equitizing state-owned enterprises, will require local governments to demonstrate that they are credit worthy by making their budgets and accounts open to public scrutiny, including independent auditing. Local governments will also have to improve their efficiency by adopting more transparent procurement of public works and by developing a track record for the timely processing and implementation of infrastructure projects. A major step towards achieving this would be for cities and provinces to obtain independent credit ratings.

Potential sources of finance include:

- Budget transfers and local revenues
- Government investment funds - Development Bank and Local Development Infrastructure Funds
- Private investment
- Bond Issues
- Commercial Banks
- Equitisation of State-Owned-Enterprises

**Budget Transfers and Local Revenues:** The limited funding available for urban infrastructure from budget transfers from the national government and local fees and charges needs to be allocated to its most productive uses. Since budget funds are drawn from tax revenues and taxation imposes welfare costs on the economy, there is a real cost imposed on the economy whenever budget funding is used. Hence, it is desirable to use alternative financing sources to the maximum extent possible, and to limit the use of budget funding to only those projects for which other financing sources are not available or appropriate.

Considerations of externalities, or social equity, involved in the provision of urban infrastructure services can in some cases justify the provision of government funds, without a requirement of full repayment. For example, private individuals’ willingness to pay for treatment of waste water may be low, but there are public health and environmental benefits for the entire population of the city that would frequently be sufficient to justify investments in waste water treatment plants. Ideally, the set of projects eligible for budget support should be limited to projects where:

- Cost recovery through user charges is achieved to the maximum extent possible, but this is not sufficient to ensure financial viability of the project using non-budgetary financing; and
- The social benefits of the project have been shown to exceed private benefits by reason of externalities or social concerns.

At the local government level, decentralization has increased their spending obligations. As decentralization has progressed, the share of local governments in total government expenditures has risen from 26% in 1992 to 48% in 2002. As noted in Chapter 3, during 2006-2010 annual requirements will be of the order of US$ 378 million for urban water supply, US$ 280 million for wastewater collection and treatment, US$ 239 million for drainage including canal rehabilitation, and around US$ 800-900 million

---

30. General government revenue amounts to about 23% of GDP, of which tax revenue constitutes about 57% and oil revenues about 30%. When the Government seeks to adjust its level of spending it must ultimately adjust its tax collection, since its sales of oil are driven by commercial conditions. Consequently the marginal dollar of budget revenue is usually thought of as being derived from taxes.
for urban transport. This gives a total of US$ 1.7 to 1.8 billion annually, or around 3.7% of GDP over the period 2001-2010. In addition, annual required spending on low income housing in urban areas has been estimated at US$ 835.4 million, or 1.8% of GDP.

This has increased the urgency of local governments to mobilize financing. The 2005 PER-IFA (Public Expenditure Review - Integrated Fiduciary Assessment) examined the challenges inherent in assigning adequate revenues to local governments. One potential area for reform is greater revenue autonomy at local level. At present all taxes are centrally collected. The revenues from some taxes are retained 100% at the central level, some other taxes are assigned 100% to provinces, and revenues of remaining taxes are shared between the central government and the provincial governments where the taxes are collected. District and commune governments can collect certain fees such as waste collection and school tuition fees, but there are no local taxes. The PER-IFA suggested the possibility of permitting provincial governments to introduce local income taxes that could be collected together with the existing national income tax, and of introducing a modern property tax at district and commune levels. At present there are many overlapping fees on different real estate assets and transactions, which could be consolidated in a single more efficient property tax. Since property development is a strong driver of demand for municipal infrastructure, property taxes are frequently seen as an efficient form of cost recovery for publicly provided infrastructure. There may also be the potential for greater cost recovery for a range of municipal services (e.g. parking fees).

At present municipal governments frequently raise revenue through deals with private property developers, particularly through the sale of land use rights. As provincial governments do ad hoc deals with the private sector under less than ideal disclosure environments, possibilities exist for inappropriate behavior. There is a need for a basic framework at the provincial level that makes public the operational standards of the provincial government for partnering with developers, both from the private and public sectors. Ideally, the standards should be developed by each local government and announced to the public; alternatively, they may be proposed by the central government. These standards should impose an obligation to use competitive bidding, and should establish a transparent procedure for dealing with unsolicited proposals.

**Government Investment Funds:** In recent years specialist government investment funds have been created at the national and provincial level, with significant roles in infrastructure financing. At the national level, the key public financing institution for infrastructure is the Development Bank (DB) formerly the Development Assistance Fund (DAF), established in 2000, with branches throughout the country. At the local government level, twelve provinces have followed the lead of Ho Chi Minh City in establishing Local Development Investment Funds (LDIFs). These investment funds serve as mechanisms for aggregating and managing funds from a variety of sources, to finance a range of projects focused primarily on infrastructure development. An important difference between the DB and the LDIFs is that the DB raises its funds solely from public sources, and lends to public enterprises. One of the motivations for the LDIFs is to provide a legal structure for organizing joint ventures with private investors. The LDIFs can also make equity contributions to projects. The financial resources involved in the government investment funds are considerable:

- The DB is the biggest financial institution in the country. In 2004, the DB stock of loans
outstanding was around 12 percent of GDP, and its capital amounted to VND 94,145 billion (US$ 6 billion), including contributions from ODA (39.9%), Government bonds (14.8%), domestic trust funds (12.1%), social security fund (10.2%), postal savings (5.9%), Treasury bills (4.2%), state budget (3.6%), capital mobilized by DB’s branches (3.1%) and State credit (1.4%). Of the resources mobilized domestically, about 80 percent has been on-lent to SOEs.

- In 2004 the total operating capital of LDIFs in Vietnam was approximately US$ 300 million, and the trend of provincial governments using LDIFs to increase investment in infrastructure is rising. Available data indicate that the top-seven LDIFs invested approximately US$98 million in 2004, reflecting an investment increase of 118% for these funds over the 2002 level."

Because these institutions are fairly new, their governance arrangements have not been fully developed.

- The DB formally reports to the Prime Minister, but is also subject to oversight through its Board of Management by the Minister of Finance, State Bank of Vietnam, and the Ministry of Planning and Investment. The combination of these various lines of authority mean the DB suffers from mixed management incentives, weak accountability, and limited supervision.

- The DB has no reserves for bad debts, no mechanism for evaluating the credit-worthiness of loans, no portfolio limits on weighting for individual sectors or companies, and no external audits.

- Many operational aspects of the institutions, including the LDIFs, are still at an early stage of development, including credit risk appraisal and management.

Decree 106/2004/ND-CP is a recent improvement in the DB’s regulatory framework. It narrows the list of eligible borrowers, and states that only projects that are capable of direct repayment, are socio-economically efficient and have feasible business plans are eligible for DB support. Project assets are to be used as security, and those assets cannot be assigned until loans are fully repaid. An element of risk-sharing, through co-payments by other government bodies or by commercial banks, is also required. DB investment lending and credit guarantee cannot exceed 70% of the total capital of a project. These measures, if effectively implemented, will increase the probability that debts will be serviced and fiscal costs minimized. But other problems of governance and transparency remain.

The same general weaknesses in governance and transparency exist in the case of the LDIFs. The Ministry of Finance, the lead agency for municipal finance, has plans to legislate in this area, and a new decree envisaged in the 2001 Public Administration Reform Master Program is in draft form and currently under government review. The absence of central regulation on governance has been a source of flexibility, allowing provinces to experiment with different structures. It is important that if, or when, the central government legislates, the best features of each LDIF be retained. At the same time, legislation on crucial features such as governance of the funds should help to provide confidence that investors’ rights will be protected, helping the funds to raise more long-term capital. The LDIFs have to date not been able to appropriately leverage their initial charter capital.

The most fundamental issues that need to be addressed in the new legislation include:

- While the decisions regarding how the provincial governments use the LDIFs is appropriately left to the provincial
governments, the framework has no incentive structure (through the budget allocation process, for example) to discourage provinces from using the LDIFs for policy lending purposes.

- Repayment planning is not adequately emphasized in provincial government borrowing. Absence of an independent credit rating agency is a key problem.
- There is a perception at the provincial government level that successful issuance of municipal bonds may result in a decline in budget support to the province by the central government.
- The rules for issuance of municipal bonds are not yet clear, and they do not always provide the right incentives to the issuers. For example, the tenure and the coupon rates of the bonds are largely determined by the MoF. In addition, disclosure rules for the public offerings either do not exist, or are very weak.

Overall, these funds are helping to fill the gap in long-term finance in Vietnam’s capital markets, but they also pose some important risks. In particular, they pose a risk to the fiscal positions of local governments and given the unitary nature of Vietnam’s government structure they may well impose a contingent liability on the national government. Given the magnitude of their operations there is a need to develop governance structures that places the institutions at arms’ length from the national and local governments, to discourage false expectations that projects are ultimately backed by government. Various governance and transparency reforms are required to lessen these risks. Government appears well aware of the associated risks. In particular, government is taking significant actions with the support of donors to provide the appropriate incentives to the provincial governments and to establish an appropriate regulatory framework to support the development of LDIFs.

**Private Investment:** There is great potential in Vietnam for increased private investment in infrastructure. Private investment, including foreign private investment, offers a virtually limitless source of financing, and could go far to meeting the infrastructure investment agenda. As the table below indicates, over the period 1997-2003 private investment in infrastructure amounted to about 15% of the total infrastructure investment - or only 8.5% if one large US$ 1.3 billion gas field and pipeline project is excluded. Private sector participation in urban infrastructure (water, solid waste, and other development infrastructure sectors) financing has been particularly weak.

A wide range of modalities exist for private sector participation, from simple service contracts, or management contracts where the

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ports</td>
</tr>
<tr>
<td>1994</td>
</tr>
<tr>
<td>1995</td>
</tr>
<tr>
<td>1996</td>
</tr>
<tr>
<td>1997</td>
</tr>
<tr>
<td>1998</td>
</tr>
<tr>
<td>1999</td>
</tr>
<tr>
<td>2000</td>
</tr>
<tr>
<td>2001</td>
</tr>
<tr>
<td>2002</td>
</tr>
<tr>
<td>2003</td>
</tr>
<tr>
<td>2004</td>
</tr>
</tbody>
</table>

Source: PPI database, except for telecommunications, where BCC network investments are drawn from USAID (2005).
private sector partner provides only their expertise to more complicated build, own and operate (BOO) schemes where the private sector provides all of the investment and remains the owner and operator of the facilities.

Involving the private sector in undertaking significant investments in infrastructure is a fairly complicated task. To attract private finance, investors need to earn a fair return on their capital invested commensurate with the risks undertaken, but these need to be balanced with the protection of consumers from the market power of privatized infrastructure. This balancing act must be implemented in transaction documents (legal contracts, licenses, and laws established to induce the initial investments) and in an appropriate regulatory environment. To get all of this right requires skilled professionals, as well as careful political guidance. The best way of establishing these skills is through pilot transactions. Ho Chi Minh City Infrastructure Fund (HIFU) is promoting the Thu Duc BOO Water Treatment Plant deal worth around $100 million and in Hanoi another similar deal for the Song Da BOO Water Treatment Plant was signed with Vinaconex, a SOE owned by the Ministry of Construction. These transactions involving SOEs and mainly state owned banks will provide some useful lessons. However, pilot projects involving private companies, rather than SOEs, and private sources of finance, rather than state owned banks, would be even more useful in terms of opening up access to much greater sources of finance.

**Bond Issues:** The national Government has been working to develop the government bond market, in part to directly finance investment, including infrastructure, and more broadly to serve as a benchmark for broader capital market development. It plans to raise VND 63 trillion (US$ 4 billion) by 2010 to be used mainly to finance infrastructure and education projects. In 2004 the Government issued about VND 5 trillion of bonds for infrastructure development and VND 2.5 trillion for the education sector, representing about 0.7% of GDP. Bonds of 2 years and 5 years maturity have carried coupons of around 8%. In October 2005 the Government issued its first overseas government bonds, raising US$ 750 million at a rate of 7.125%.

The bonds are kept off-budget, to comply with the State Budget Law’s limit on the budget deficit of 5% of GDP. Including off-budget bonds and state-owned commercial banks (SOCBs) recapitalization would raise the official level of public debt by about 3 percentage points, from its current level of around 33% of GDP. The overall level is not currently worrying from the viewpoint of macroeconomic stability, but as the bond program expands the contribution to the level of public debt will increase. Clearly the bond issues should be reflected in official statistics of public debt, and if the bonds make economic sense, the State Budget Law’s limit on the deficit should be amended.

The principal purchasers of bonds have been SOCBs and insurance companies. To ensure full subscription, the government has directed SOCBs to purchase bond issues. Insurance companies are obliged to invest in bonds or bank deposits. These investors would, if they could, seek alternative investment opportunities. Obliging financial intermediaries to invest in bond issues is not the ideal fashion to ensure the highest returns for the country’s savings.

At the provincial level, the first municipal bonds were issued by the Ho Chi Minh City government in 2003, in the form of a general obligation bond, raising US$ 127 million. In 2004, HIFU managed the issue of another US$ 127 million of municipal bonds for the city. The rules for issuance of municipal bonds are not yet clear, and they do not always provide the right...
incentives to the issuers. Disclosure rules for the public offerings either do not exist, or are very weak. The stock of local government debt in Vietnam is not currently a threat to fiscal stability, but care will need to be exercised through national oversight to ensure borrowing, with the contingent liability it imposes on the national government, is kept within prudent limits.

Issuance of corporate bonds for infrastructure development was pioneered by Electricity of Vietnam (EVN), which issued bonds for the development of the Ialy hydroelectric power plant in 2001. On May 5, 2005 EVN began issuing bonds to raise VND 200 billion to finance a 500 kV transmission line project in the Central Highlands region. The coupon rate is 8.8% for the first year of the five-year bond, while in the following years the interest rate will be equivalent to the average interest rate of the four major SOCBs plus 1.1%. Between now and 2010, EVN plans to sell more than US$ 1.6 billion worth of registered bonds on local and international markets. In the future water companies, or groups of water companies working in conjunction with a financial institution, should also be able to issue bonds.

Overall the market for bonds is poised for significant development but important institutional reforms, addressing governance and transparency in particular, are required to permit this potential to be realized.

**Commercial Banks:** The mismatch between the long-term financing needs of infrastructure investment and the short-term deposits held by banks means that banks are not the ideal financing institutions for infrastructure. Nevertheless, by pooling their contributions in investment consortia the banks can play an important role in infrastructure financing if their financing is directed towards projects with the highest returns. Vietnam’s financial sector is currently dominated by four major (SOCBs), accounting for about 80% of the capital, lending and assets of the banking system. Over the past decade the SOCBs have evolved from specialized policy-lending vehicles to more commercially oriented financial intermediaries. However, much more needs to be done to reform the banking sector before it can be appropriately utilized to finance urban infrastructure development.

Infrastructure enterprises have to date not borrowed large amounts from the SOCBs, with the exception of construction companies in the transport sector where the SOCBs and contractors are facing significant financial problems as a result of a mismatch between planning and financing approvals, combined with the failure of SOCBs to provide credit on strictly commercial criteria. The practice of informally directing SOCBs for purposes of government policy, and the limited credit analysis capacity of SOCBs has led to the accumulation of non-performing loans (NPLs), amounting to about 18% of outstanding loans at the end of 2003. A large proportion of NPLs were accumulated during the period 1995-98 when policy loans were made to inefficient state-owned enterprises. Since then: the State Bank of Vietnam has applied stricter control, including increased reserve requirements to account for NPLs: the banks have improved their credit analysis; the Government has provided state budget resources to resolve NPLs of state-owned enterprises, and has established the DB as a specific vehicle for policy lending and the Debts and Assets Trading Company to help finance SOEs that can still trade their way out of debt. However, more progress is required as the practice of directed credit continues, and the SOCBs are carrying low average capital adequacy ratio (equity/risk assets) of 3.5% (compared to the international standard of 8%).

**Equitization of State-Owned Enterprises (SOEs):** Internationally, many governments
have used the sale of shares of state-owned enterprises as a means of raising substantial revenue. To date, Vietnam’s equitization program appears to have been directed at expected efficiency benefits, rather than as a major revenue-raising device. But as Vietnam confronts the financing challenges of its major investment program, equitization could provide an additional source of finance.

The equitization program is a process of diversification of ownership of state-owned enterprises by sale of shares. For the most part, equitization has involved sales of shares to workers, and has been attributed with increasing workplace productivity by providing stronger worker incentives. Equitization can also entail sale to another SOE, so it is not necessarily equivalent to privatization. Equitization frequently entails a sale of as little as 15% of the shares, with the State remaining the dominant owner.

In 2003, about 450 SOEs were equitized, and a further 700 in 2004. Surveys conducted in 850 equitized SOEs found that businesses which successfully completed restructuring increased their capital by 44%, turnover by 24% and labor income by 12%. Most of the equitized enterprises have been small, with capital under VND 5 billion (US$ 300,000). Firms with over VND 10 billion capital accounted for only 13% of the equitized companies in 2004.31

Rules related to the equitisation of companies involved in urban infrastructure under Decision 155 of 2004 include:

- The national electricity transmission system will remain State owned, but distribution and generation are open to equitization of up to 49%.
- Management and maintenance of the national railway network are to remain State owned, as are large airports and seaports, sewage treatment works in big cities and public lighting.
- The State will retain at least 50% of capital in large urban water companies.
- The State will retain at least 50% of the companies operating in the management and maintenance of important roads, waterways, boats and bus stops.
- Construction companies no longer appear on lists of SOEs where the State will retain at least 50% of the capital.

Thus the new Decision and the new Decree provide a legal basis for the equitization of some infrastructure SOEs.

Several features of the current equitization program reduce its financing benefits. Investors will reduce the amount they are willing to pay for shares in a company if:

- There is inadequate disclosure of information about the accounting position and the business risks;
- An underdeveloped corporate governance regime does not provide adequate shareholder rights to direct managers, or does not protect minority shareholders’ rights to a proportional share of profits;
- Investors in infrastructure are not able to obtain management control;
- Shares are not listed on a stock exchange, reducing the ease with which shares can be sold. Only a small proportion of equitized companies are listed. In 2005 only 28 equitized SOEs were listed on the Ho Chi Minh stock exchange, out of more than 2,400 equitized SOEs.
- Sales are frequently restricted to managers and workers, who may be willing or able to pay less for particular shares than general investors.

As the equitization process expands in size and scope, these problems need to be remedied.

This could, in part, be achieved by a new comprehensive law on equitization (or on equitization of infrastructure firms), dealing with the methods of sale, legal rights of redress of minority shareholders etc. Alternatively, the government could start with pilot projects, and improve its practice as it goes on.

Requirements for Success in Diversifying Municipal Finance

The primary factors that will determine the magnitude and quality of municipal finance mobilized at the provincial government level include:

- **Technical Capacity:** Local government capacity to undertake innovative municipal finance will greatly limit the extent to which provincial governments can take advantage of the new municipal finance tools - such as issuance of municipal bonds and partnerships with the private sector. In the future, the difference in local government technical capacity may result in greater disparities in economic growth and living standards across the country.

- **Disclosure Standards:** The absence of appropriate and consistent disclosure standards for provincial government operations is, and will continue to become, a significant bottleneck to the emerging decentralized municipal finance system. Lack of disclosure affects citizens’ trust in the local government, undermines investor confidence in government’s investment vehicles/agencies, and limits the ability of local government to form partnerships with professional private sector players.

- **Public Private Partnerships Framework:** As provincial governments do ad hoc deals with the private sector under less than ideal disclosure environments, possibilities exist for inappropriate behavior. Hence, there is a need for a basic framework at the provincial level that makes public the operational standards of the provincial government for partnering with the private sector. Ideally, the PPP standards should be developed by each provincial government and announced to the public; alternatively, they may be proposed by the central government.

- **Focus on Debt Repayments:** The incentive structure at the provincial government level must emphasize the need for developing comprehensive financing plans that can match investment needs with repayments. Recovering costs, to the extent possible, through user charges will be a key part of this as will the establishment of mechanisms for prioritizing investments and sound credit management policies.
It is very important for Government to deal proactively with the rapid pace of urbanization in order to maintain the high rate of economic growth (cities are the primary engines of growth) and to help alleviate poverty as increasing numbers of the rural poor migrate to the cities. Although there are pockets of poverty spread throughout cities, Vietnam has so far managed to avoid the vast sprawling slums that have developed in the large cities of other developing countries in Asia like the Philippines and India. Government should give priority to ensuring that all urban residents, including the poor, have access to basic infrastructure services and affordable housing.

Guiding Policies

With regard to policies that are specific to the urban sector, the Orientation Master Plan for Urban Development to 2020 needs to be revised because it has become out of date since it was approved in 1998. It should reflect the country’s move towards a more market oriented economy and recognize the changes that have arisen from the increased decentralization that has taken place. In particular it should take account of the change of Central Government’s role from that of directly controlling development to that of facilitating, guiding and regulating it. The Orientation should also be more realistic on what can be achieved within the time-frame it covers, given the constraints that exist on financial resources. The draft Urban Water Supply Decree that is expected to be approved by mid 2006 sets a good example of a policy document that provides a solid framework within which the sub-sector can grow. Similar initiatives are required for wastewater and drainage, solid waste management and urban transport. Particular issues that need to be addressed in these sub-sectors include guidance on carrying out the economic and financial appraisal of high cost urban mass transit systems and mechanized recycling and composting processes for solid waste; and transparent procedures to safeguard the social and environmental interests of people affected by the construction of new wastewater treatment and solid waste disposal facilities. The need for policy guidance on urban transport is particularly critical given the high growth rate of car ownership and the moves being made to develop high cost mass transit systems in Hanoi and Ho Chi Minh City.

Other broader policy areas such as Decentralisation and Financial Sector Reform are having a profound impact on urban development. Transferring greater responsibility to the administrative levels closest to the residents of urban areas through decentralization is obviously a positive step in terms of being able to respond more quickly and effectively to their needs and desires. However, this is a fundamental change in the way the country is administered and requires a huge capacity building effort to strengthen
managerial and technical skills at the local Government level. Further decentralization of authority for urban planning and for the implementation of projects is also likely to be beneficial. Project implementation suffers unnecessary delays in the approval of feasibility studies, designs and the procurement process because of multiple, often redundant, reviews at both local and central Government levels. These reviews need to be streamlined with as much responsibility as possible delegated to the local Government level. Financial sector reforms will enable city and provincial Governments to mobilize additional resources for development (see below).

**Needs, Access and Goals**

The percentages of urban residents with access to basic infrastructure services given in Chapter 3 indicate there is much still to be done to catch up on the remaining backlog and to address the needs arising from rapid urban growth. The cost estimates presented in Chapter 5 indicate that the funding requirements are enormous. Mobilising additional sources of finance will be essential. It will be vitally important to effectively prioritise investments within the constraints of what can realistically be financed. This should include selecting appropriate design horizons and technical standards for new investments. For many infrastructure projects such as urban roads, water, and wastewater treatment plants etc, it would be best to adopt an incremental approach with a relatively short initial design horizon of 10 to 15 years. This would minimize initial investment needs thereby enabling more people to benefit. It would also allow designs to be better tailored to meet the demand that actually materializes in the future. Where the incremental cost of providing additional capacity is small, for example large drains and sewers, it is more appropriate to adopt longer term design horizons. Adopting demand driven approaches with beneficiary participation throughout all stages of the investment cycle would make prioritization easier. It should also make it easier to mobilize additional financing by increasing beneficiaries’ willingness to pay. This is demonstrated by the World Bank supported pilot water supply projects in District Towns in Haiphong and Bac Ninh and the initial stages of the Urban Water Supply Development Project, all of which adopt a demand driven approach with intensive beneficiary consultation. This has resulted in the acceptance of full cost recovery tariffs that are much higher than the tariffs being paid in nearby cities.

In terms of relative priority across sub-sectors, it is probably most important to ensure that all urban residents have access to piped water that meets national standards. Fortunately, it is easier to attract private sector participation and to mobilize domestic capital for the water supply sector, than for most other infrastructure sub-sectors. Use of the state budget should therefore be limited to providing transparent subsidies to the poor and for making investments in poor provinces, where attracting others sources of finance will be difficult.

Government has correctly been giving priority to dealing with environmental

New water Treatment Plant at Nam Du, Hanoi
pollution and flooding, which is worst in the largest cities, where the densities of people and industry are highest. The costs from flooding, in terms of property damage, are also highest in the largest cities. The demand for wastewater collection and treatment, improved drainage and the safe disposal of solid waste increases as people become wealthier and better educated (Vietnam’s literacy rate is very high). Government’s policy in prioritizing the largest cities will deliver the highest level of cost/benefit. It will be more difficult to mobilise other sources of finance for these sub-sectors and for at least the next 5 to 10 years funding will have to come primarily from the State budget (including ODA). Currently all funding for environmental sanitation, with the exception of equipment for solid waste management, is provided by Central Government as grants. It will be necessary to change this to make the State budget go further by requiring wealthier cities to mobilize part of the funding, possibly on a matching basis e.g. the city/province is required to match every VND 1 billion grant provided by Central Government with VND “x” billion from their own resources. Cities/provinces would need to increase wastewater and solid waste charges for this to happen.

The need to address urban transport problems is becoming increasingly important in the largest cities. Car ownership growing at around 10% per year is giving rise to congestion creating demand for more road and parking space. City planners will need to balance this against conflicting demands to preserve the historical character of cities such as Hanoi and Hue, which make them so attractive to tourists who bring in substantial revenues. Care also needs to be taken to preserve the pleasant human scale and vibrancy of Vietnam’s cities. Introducing improved public transport systems should be given high priority to offset the demand for more roads. This should focus initially on the introduction of bus-based systems. In most cities around the world public transport has to be subsidized to some extent to make it affordable. Subsidies can be minimized by contracting out the right to operate routes on a competitive basis and by adopting least cost options - usually bus-based systems. Where roads have to be widened, or car parks provided, car owners should contribute towards their cost through taxes and parking fees. Taxes and fees should also be used to manage demand.

Making affordable housing available, given the very high cost of land in Vietnam’s main cities, is a major challenge. The provision of

New wastewater Interceptor Tunnel under Nhieu Loc Thi Nghe Canal, Ho Chi Minh City

New Solid waste Landfill being built in Danang
social, or public, housing by Governments has generally not been successful in most countries. The solution is in providing the necessary incentives to private sector developers and to encourage landlords to invest in rental property. In parallel it will be important to develop the housing finance market as part of the broad financial sector reform. Borrowing will become more affordable with increased competition and through longer lending terms, which will become feasible as the capital market matures. A very cost effective and socially benign way to improve living conditions and housing for poor people is through the in-situ incremental improvement, or urban upgrading, of existing slums. This involves the city investing in the comprehensive improvement of tertiary level infrastructure (drains, sewers, water supply, paved roads/alleys, street lighting etc), providing householders with security of tenure (land use right certificates), and making small loans available to enable residents to improve their houses. Research from other countries shows that residents will invest up to 7 times in their houses what the city invests in infrastructure. The World Bank is supporting this type of urban upgrading in Can Tho, Haiphong, Ho Chi Minh City and Nam Dinh and the preparation of a National Urban Upgrading Program for the entire country.

**Urban Management and Planning**

There needs to be much better coordination amongst Ministries and local Government departments responsible for socio-economic plans; sector plans; and spatial (master or construction) plans. All of the plans and spatial plans in particular should be based on the level of investment that is realistically likely to become available in the time period they cover. Spatial plans need to become more strategic and less prescriptive. They also need to be able to respond much more rapidly to market signals. Attracting investment in a global market economy is unpredictable. Cities, in order to compete effectively, must be able to quickly adapt their plans, within an overall strategic framework, to meet the needs of investors. There should be much higher levels of consultation with all stakeholders (residents, businessmen and investors) during the preparation of plans to ensure the plans respond to their needs. The approval of planning applications also needs to be made more transparent, with affected residents given the right to participate in the process.

Planning should be increasingly decentralized and subject to more local control. In parallel with the delegation of increased authority to local Governments there must be greater accountability. In particular there must be much stricter enforcement of planning controls. The most effectively prepared city master plan is worthless if the strategies presented are not enforced. Performance standards for infrastructure that fit and benefit local situations should replace the practice of adopting prescribed national standards. Such performance standards should be applied to road capacity, wastewater treatment standards, the provision of open space, height limits, setbacks, mixed use compatibility, noise levels, etc. This would allow the incremental development approach to infrastructure referred to above to be adopted. Provided land reservations are made for the ultimate projected need the physical infrastructure can be developed gradually over time as needed e.g. an arterial road that ultimately is expected to require six lanes could start off with the construction of only two and be expanded as traffic grows.

The development of peri-urban areas presents special challenges. Ideally the infrastructure should be constructed ahead of industrial, commercial and residential
development, or at least on a "just-in-time" basis. It is however always difficult to mobilize the necessary finance when it is needed. Enforcing the protection of road and utility reservations over long time periods is also a challenge. To address these matters it is vital that: all the different forms of planning are coordinated; the plans take a realistic account of the level of funding likely to be available for infrastructure; and the funding is effectively prioritized. The establishment of effective institutional arrangements by cities to manage the development of peri-urban areas will be of key importance.

In 2004 Government recognized the importance of regional planning by establishing a Steering Committee chaired by a Deputy Prime Minister to oversee their preparation. So far this has focused on spatial planning. It needs to be broadened to ensure coordination of the different types of planning and an effective institutional framework put in place to ensure that the plans can be implemented.

**Municipal Finance - Resources and Needs**

As already noted, the financing needs of urban infrastructure are well in excess of State budget resources. The cost estimates provided in Chapter III indicate that investment levels for the two decades from 2000 to 2020 need to be several orders of magnitude higher than they were for the 1990s if all urban residents are to receive access to basic infrastructure by 2020. To meet these needs Government should empower cities/provinces to mobilize more funds from sources such as: national development funds, or banks, such as the Development Assistance Fund; Local Development Infrastructure Funds (LDIFs), such as HIFU; municipal bond issues; and commercial banks. Cities should also be encouraged to increase their self-generated revenues.

Within the inter-Governmental transfer arrangements that apply to the State budget, Government should use the scarce resources available for urban development: to leverage other sources of finance; for pilot investments to demonstrate new ideas and policies; and for the most disadvantaged urban areas. Wealthier cities and provinces should be able to mobilise other sources of finance. The current inter-Government budgetary transfer mechanism described in Chapter 2 should be reviewed and possibly modified to ensure that there are positive incentives to encourage the mobilization of additional funds.

Cities/provinces should give priority to developing an appropriate enabling environment to attract investment in infrastructure from the private sector. To attract finance, cities will need to make themselves more credit-worthy - ideally by obtaining a credit rating from an independent agency. City finances and procurement processes will need to become more transparent and subject to independent audit in order for this to happen. In addition, a basic framework of regulations is required to guide public private partnerships to avoid actual, or perceived, conflicts of interest.

Cities should increase their self generated revenues by raising user charges so that they fully cover the cost of providing infrastructure services, including some, or all, of the capital costs (through depreciation including loan repayments). People’s Councils tend to be reluctant to approve the levels of increase necessary, despite the fact that surveys indicate that people are generally willing to pay more than authorities are prepared to charge for a decent level of service. Research is required to determine the impact that full cost recovery would have on the poor and disadvantaged and to identify how they can be protected. Water tariffs are already close to full cost recovery levels in a few cities such as Hanoi, Haiphong and Halong. However, more needs
to be done in other cities/provinces. Solid waste and wastewater charges are well below full cost recovery levels in all cities/provinces. In the case of wastewater charges, Decree 67 on Environmental Pollution needs to be amended to remove the limitation it places on wastewater tariffs not exceeding 10% of the water tariff, with half of the revenue raised being transferred to Central Government. For urban transport, care will need to be taken in setting fare levels to establish the appropriate balance between achieving cost recovery and attracting passengers away from personal forms of transport to alleviate congestion.

The very high price of land and property in Vietnam’s main cities is a potential source of revenue that is utilized in many other countries throughout the world. City authorities should seek to mobilize some of this value through stricter enforcement of transfer taxes and the introduction of annual taxes based on property values.

The rules for issuing municipal bonds need to be strengthened by developing disclosure rules and giving greater emphasis to repayment planning. LDIFs should focus on lending on full commercial terms, either entirely, or in parallel with a grant provided from a separate funding source. In cases where parallel loans and grants are adopted the eligibility criteria and the process should be fully transparent. The practice of using LDIFs to manage other sources of money on a "pass-through" basis should be stopped.

Vietnam has made great strides in urban development since the "doi moi" reform initiatives were introduced in 1987. However much remains to be done to enable its cities and towns, which are the nation’s main engines of growth, to compete more effectively in the global market place. Adoption of the recommendations outlined above would make a significant contribution towards achieving this.
ANNEX 1A: City Classification and Decentralized Responsibilities
ANNEX 1B: Current City Classification (2006)
ANNEX 2: Official MOC Urban Population Forecasts
ANNEX 3: Central Governmental Responsibilities for Urban Issues
### ANNEX 1A: City Classification and Decentralized Responsibilities

<table>
<thead>
<tr>
<th>Urban Administrative Classification</th>
<th>Number of Cities/Towns</th>
<th>Classification Characteristics</th>
<th>Administrative Responsibilities</th>
</tr>
</thead>
</table>
| Special Cities (Hanoi and Ho Chi Minh City) | 2 | Largest cities with populations over 1,500,000 | • Socioeconomic plans, investment plan and budgets  
• Plan and manage infrastructure investment  
• Prepare and manage the land use plan in the locality  
• Manage small and middle size SOEs  
• Organize the implementation and construction of planned industrial or processing zones  
• Plan & manage infrastructure -- local transport system (excluding national roads and railroads) highways, water supply, drainage and sewage system  
• Manage high schools, vocational schools, clinics, heritage sites  
• Decide state investment project (classes B and C)  
• License foreign investment projects with the registered capital no more than US $ 5 million (for Hanoi and HCM City the project size is no more than US $ 10 million)  
• Allocate and lease land for organizations and foreigners  
• Register non-state enterprises  
• Approve & manage the housing development and state owned housing stock |
| National Cities - Class I | 3 | Cities with populations from 500,000 to 1,500,000 | • Generally same as Special Class Cities and Provinces with lower financial limits |
### ANNEX 1A: City Classification and Decentralized Responsibilities (continue)

<table>
<thead>
<tr>
<th>Urban Administrative Classification</th>
<th>Number of Cities/Towns</th>
<th>Classification Characteristics</th>
<th>Administrative Responsibilities</th>
</tr>
</thead>
</table>
| Regional Cities - Class II         | 12                     | Cities with populations from 250,000 to 500,000 | ● City socioeconomic and physical plans  
● Local fund budgets  
● Local land use plans (usually through contract with the National Urban and Rural Planning Institute)  
● Allocate and lease land for households and individuals  
● Manage craft villages  
● Control local construction (i.e., district clinics, unpaved and small roads, district cultural structures, primary and secondary schools)  
● Manage the internal road network  
● Manage the social infrastructure (i.e., district clinics, primary and secondary schools)  
● Issue the land use certificates  
● Monitor the operation of family owned businesses  
● Approve investment projects (using state budget capital) delegated by the provincial authorities  
● Allocate land for individuals and households |
| Provincial Cities - Class III      | 16                     | Cities with populations from 100,000 to 250,000 | ● Same as class II, smaller scale, with lower financial limits |
| District Towns - Class IV         | 58                     | Cities with populations from 50,000 to 100,000 | ● Sub-district socioeconomic plans & budgets  
● Allocate land for the public service in the sub-district  
● Kindergartens, cultural structures, & small health centers  
● Improve local infrastructure (i.e., small alleys, roads, sewage and drainage systems) |
| Townlets - Class V                | 612                    | Cities with populations from 4,000 to 50,000 | |
### Annex 1B: Current City Classification (2006)

<table>
<thead>
<tr>
<th>Urban Classification</th>
<th>Number of Cities /Town</th>
<th>Classification Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Cities</td>
<td>2</td>
<td>National center to promote national development</td>
</tr>
<tr>
<td>(Hanoi and Ho Chi Minh City)</td>
<td></td>
<td>More than 90% of non-agricultural labor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Basically completed infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population over 1,500,000 people</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population density over 15,000 people / km²</td>
</tr>
<tr>
<td>Class I (Haiphong, Danang and Hue)</td>
<td>3</td>
<td>National center to promote national or regional development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 85% of non-agricultural labor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Completed infrastructure in many aspects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population over 500,000 people</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population density over 12,000 people / km²</td>
</tr>
<tr>
<td>Class II (Thai Nguyen, Nam Dinh, Viet Tri, Ha Long, Thanh Hoa, Vinh, Quy Nhon, Nha Trang, Buon Me Thuot, Dalat, Bien Hoa, Vung Tau, My Tho and Can Tho)</td>
<td>14</td>
<td>Regional center to promote inter-regional or some sector development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 80% of non-agricultural labor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Relatively completed infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population over 250,000 people</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population density over 10,000 people / km²</td>
</tr>
<tr>
<td>Class III (Vinh Yen, Bac Ninh, Hai Duong, Thai Binh, Lao Cai, Lang Son, Yen Bai, Bac Giang, Cam Pha, Dien Bien Phu, Son La, Hoa Binh, Dong Hoi, Tam Ky, Quang Ngai, Tuy Hoa, Pleiku, Phan Rang, Phan Thiet, Long Xuyen, Rach Gia, Soc Trang, Ca Mau)</td>
<td>23</td>
<td>Regional or provincial center to promote a provincial or some sector development within province</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 75% of non-agricultural labor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Completed infrastructure in certain aspects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population over 100,000 people</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population density over 8,000 people / km²</td>
</tr>
<tr>
<td>Class IV</td>
<td>54</td>
<td>Provincial center to promote the provincial development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 70% of non-agricultural labor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Completed infrastructure in certain aspects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population over 50,000 people</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population density over 6,000 people / km²</td>
</tr>
<tr>
<td>Class V</td>
<td>622</td>
<td>Provincial center to promote the district and/or rural center development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 65% of non-agricultural labor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Infrastructure in development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population over 4,000 people</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Population density over 2,000 people / km²</td>
</tr>
<tr>
<td>Total</td>
<td>718</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Class Cities</td>
<td>4,403,000</td>
<td>10,017,000</td>
<td>16,500,000</td>
<td>5,614,000</td>
<td>6,483,000</td>
<td>128%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>3,252,000</td>
<td>7,000,000</td>
<td>12,000,000</td>
<td>3,748,000</td>
<td>5,000,000</td>
<td>115%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Ha Noi</td>
<td>1,151,000</td>
<td>3,017,000</td>
<td>4,500,000</td>
<td>1,866,000</td>
<td>1,483,000</td>
<td>162%</td>
<td>13.5%</td>
</tr>
<tr>
<td>National Cities – Class I</td>
<td>1,230,740</td>
<td>2,586,000</td>
<td>4,225,000</td>
<td>1,337,000</td>
<td>1,657,000</td>
<td>135%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Hoa Binh</td>
<td>70,000</td>
<td>150,000</td>
<td>200,000</td>
<td>80,000</td>
<td>50,000</td>
<td>114%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Total Special Class Cities</td>
<td>7,388,000</td>
<td>15,999,000</td>
<td>25,765,000</td>
<td>8,610,860</td>
<td>9,766,530</td>
<td>117%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Class II Cities</td>
<td>2,805,540</td>
<td>5,324,000</td>
<td>7,991,480</td>
<td>2,273,140</td>
<td>2,667,480</td>
<td>81%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Class IV Cities (Towns)</td>
<td>809,000</td>
<td>1,231,000</td>
<td>1,389,000</td>
<td>485,000</td>
<td>550,000</td>
<td>85%</td>
<td>7.1%</td>
</tr>
<tr>
<td>District, Rural Centers (Class V)</td>
<td>3,697,880</td>
<td>6,486,000</td>
<td>7,965,990</td>
<td>2,788,120</td>
<td>1,479,990</td>
<td>75%</td>
<td>6.3%</td>
</tr>
<tr>
<td>20 New Urban Cities</td>
<td>32,000</td>
<td>476,000</td>
<td>785,000</td>
<td>450,000</td>
<td>300,000</td>
<td>133%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Total Urban Viet Nam</td>
<td>14,700,560</td>
<td>23,863,000</td>
<td>38,008,520</td>
<td>15,718,020</td>
<td>15,600,000</td>
<td>107%</td>
<td>8.9%</td>
</tr>
<tr>
<td>% Urban Viet Nam</td>
<td>23%</td>
<td>32%</td>
<td>40%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

33. 1999 City classifications
## ANNEX 3: Central Governmental Responsibilities for Urban Issues

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Urbanisation Functions and Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communist Party</td>
<td>● Policy guidance</td>
</tr>
<tr>
<td></td>
<td>● Published party priorities minimally address urban issues</td>
</tr>
<tr>
<td>National Assembly projects</td>
<td>● Approves budget, sets expenditure priorities, prioritizes major projects</td>
</tr>
<tr>
<td></td>
<td>● Controls decentralization</td>
</tr>
<tr>
<td></td>
<td>● Sets formulae for local retention of revenue</td>
</tr>
<tr>
<td>Prime Minister</td>
<td>● Manages conflicting policies and agendas of ministries</td>
</tr>
<tr>
<td>Finance (MOF)</td>
<td>● Proposes budget (rural/urban priorities)</td>
</tr>
<tr>
<td></td>
<td>● Allocates resources for state investments</td>
</tr>
<tr>
<td></td>
<td>● Manages decentralization of revenues</td>
</tr>
<tr>
<td>Planning and Investment (MPI)</td>
<td>● Plans the state (or city, province or region) economy</td>
</tr>
<tr>
<td></td>
<td>● Prioritizes sectors and major project locations</td>
</tr>
<tr>
<td></td>
<td>● Integrates sector plans into overall socio-economic plan</td>
</tr>
<tr>
<td></td>
<td>● Picks state investment projects</td>
</tr>
<tr>
<td></td>
<td>● Seeks and approves FDI and ODA projects</td>
</tr>
<tr>
<td>Construction (MOC)</td>
<td>● Designated responsibility for urban issues</td>
</tr>
<tr>
<td></td>
<td>● Prepared Urban Development Orientation Plan for 2020</td>
</tr>
<tr>
<td></td>
<td>● Spatial (physical master plans) planning to locate projects</td>
</tr>
<tr>
<td></td>
<td>● Sets standards for city classifications and approves advancement</td>
</tr>
<tr>
<td></td>
<td>● Prepares spatial plans for most cities and provinces through the National Urban and Rural Planning Institute(^{34})</td>
</tr>
<tr>
<td></td>
<td>● Controls urban water and sanitation projects</td>
</tr>
<tr>
<td></td>
<td>● Controls SOEs doing construction and builds major projects</td>
</tr>
<tr>
<td></td>
<td>● Controls permission for large building projects</td>
</tr>
<tr>
<td></td>
<td>● Runs civil engineering and architectural universities</td>
</tr>
<tr>
<td>Transportation (MOT)</td>
<td>● Major transport projects (ports, rail, airports, national roads)</td>
</tr>
<tr>
<td></td>
<td>● Road priorities and design</td>
</tr>
<tr>
<td></td>
<td>● Controls SOE’s that build transport facilities</td>
</tr>
<tr>
<td>Natural Resources and Environment (MONRE)</td>
<td>● Responsible for land allocation</td>
</tr>
<tr>
<td></td>
<td>● Sets regulations for allocation of urban land</td>
</tr>
<tr>
<td></td>
<td>● Responsible for environmental regulations and controls</td>
</tr>
<tr>
<td>Industry</td>
<td>● Responsible for power generation and electricity management</td>
</tr>
<tr>
<td></td>
<td>● Responsible for the management of energy SOEs</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>● Responsible for the management of telecommunications</td>
</tr>
<tr>
<td></td>
<td>● Issue regulation for the operation in the telecommunication sector</td>
</tr>
<tr>
<td>Trade, Industry, Commerce Sectors</td>
<td>● Plans and runs industrial and production sector economy</td>
</tr>
<tr>
<td></td>
<td>● Owns and operates sectoral SOEs</td>
</tr>
<tr>
<td>Rural Development</td>
<td>● Management of agriculture and rural production and development</td>
</tr>
<tr>
<td></td>
<td>● Set regulations and plan the agricultural cultivation zoning</td>
</tr>
<tr>
<td></td>
<td>● Responsible for the forest and water resources management</td>
</tr>
<tr>
<td></td>
<td>● Responsible for rural water supply and sanitation.</td>
</tr>
</tbody>
</table>

\(^{34}\) Only the largest cities Special and most Class I have their own planning institutes and even they are not autonomous.