

Combining Advisory Services with Lending Operations: *PPP Financing Framework in Vietnam*

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PPP Financing Framework in Vietnam Presentation Agenda

Part A. Context for the WB Engagement on PPPs

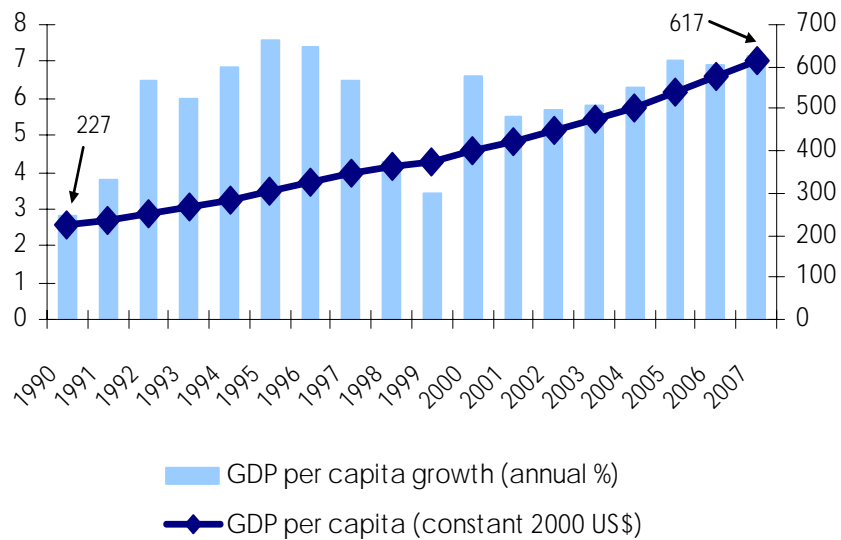
Part B. Engagement Strategy and Structure

Part C. Key Lessons

Part A. Context for the WB Engagement on PPPs

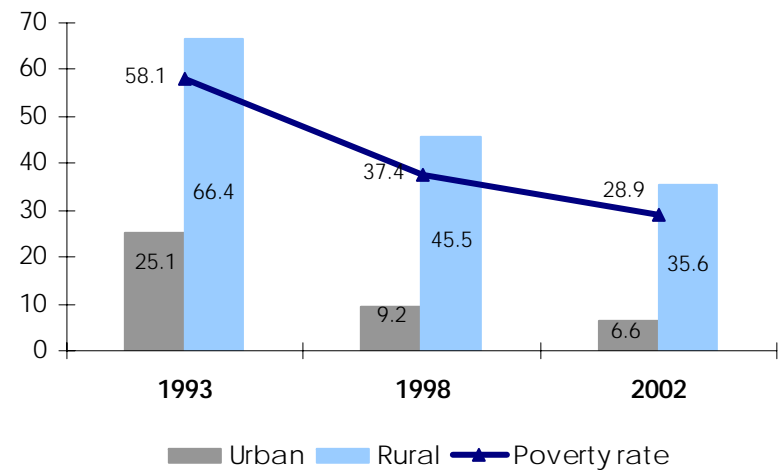
Vietnam presents a remarkable development story...

Vietnam has achieved high rates of growth...



Source: World Development Indicators

...accompanied by remarkable poverty reduction



Source: Vietnam Development, 2004

- ❑ **Infrastructure has played a key role** in Vietnam's development
- ❑ **GOV has invested 9-10% of GDP** over the last 10 years in infrastructure

... but challenges remain in infrastructure financing and provision

- ❑ Vietnam is on the threshold of becoming a Middle Income Country (MIC), and is facing increasing complexity in the provision of infrastructure services
 - ❑ addressing needs of rapidly growing urban centers, trade, financial services and other MIC activities ...
 - ❑ ... while providing access to basic infrastructure services to rural areas
- ❑ Growing infrastructure financing gap (currently estimated to be more than 2 percentage points of GDP annually)
- ❑ The government views increased investment in infrastructure as a key element of its strategy to address the global financial crisis
- ❑ Need for a market-oriented infrastructure finance system that can leverage multiple sources of funds
 - ❑ public budget + private investments + ODA resources
 - ❑ Can ODA steer the other sources of funds towards good investments?

Bank had established credibility with MOF and MPI by delivering results in the area of municipal finance

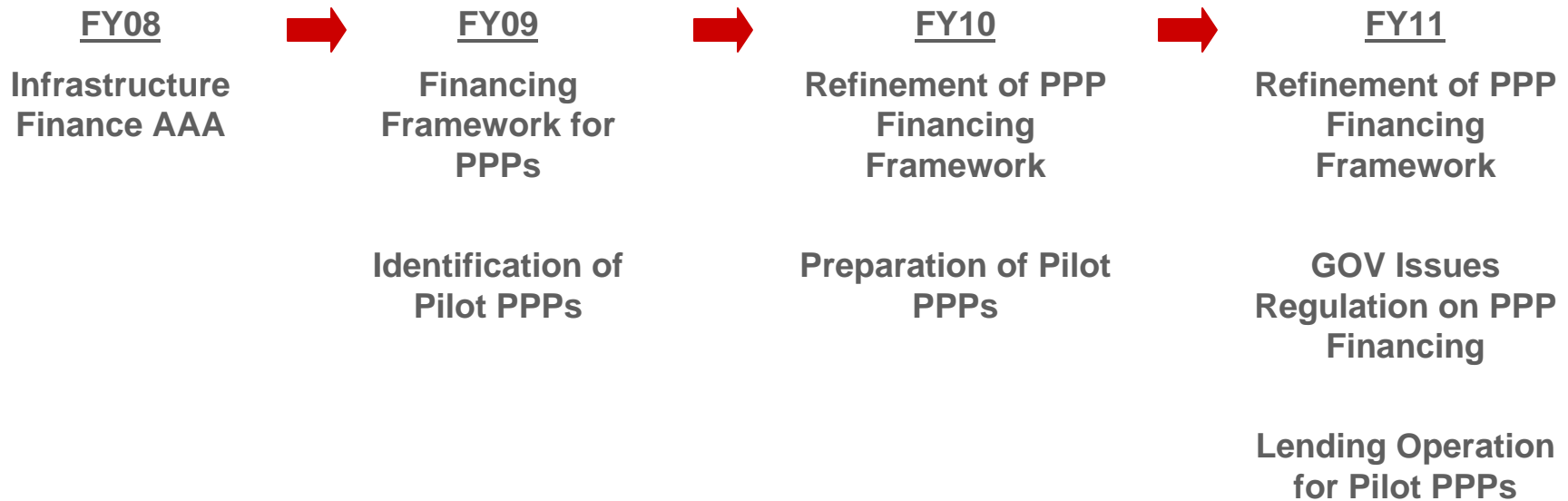
- ❑ Local Development Investment Funds are provincial infrastructure funds which receive equity from provincial governments and raise capital from domestic banks to invest in municipal projects

- ❑ AAA on LDIFs – FY'07
 - ❑ Bank established itself as the subject expert and advisor of choice to the GOV
 - ❑ GOV used the AAA to develop national policy and a new law on LDIF operations

- ❑ HIFU Development Project (HDP) – FY'08
 - ❑ \$50 million Financial Intermediary Loan with HIFU – the LDIF in HCMC
 - ❑ IDA funds used by HIFU to make debt or equity investment in private sector financed projects
 - ❑ Rated Highly Satisfactory project vis-à-vis achievement of DOs and disbursement
 - ❑ 20% of total credit disbursed via 5 subprojects in the first year of implementation

- ❑ Local Development Investment Funds Project (LDIFP) – FY'09
 - ❑ \$150 million FIL will expand the HDP model to all LDIFs which can meet the qualification criteria
 - ❑ Policy component involves assistance to MOF in developing regulations on accounting rules, investment policy and other key LDIF functions which are required to implement the new law

The Bank's strategy for engaging the GOV on PPPs



Part B. Engagement Strategy and Structure

Step 1: Identify champions for the cause ... and start to establish Bank's credibility

PPP Study Tour for GOV officials to South Africa – FY07

- ❑ ...the Bank worked with South African Treasury and Vietnam MOF to organize a study tour for senior GOV officials to learn about the SA PPP program
 - ❑ Participants from MOF, MPI and the PMO carefully selected by Bank team in collaboration with key MOF counterparts

- ❑ The tour focused on PPP projects at national, provincial and municipal government levels. Participants visited a number of PPP sites, including:
 - ❑ Bakwena Toll Road Concession Company
 - ❑ Rapid rail Gautrain PPP project
 - ❑ 720 bed Inkosi Albert Luthuli PPP Hospital
 - ❑ Chapman's Peak Toll Road
 - ❑ Cradle of Humankind Eco-tourism PPP
 - ❑ Bloemfontein Maximum Security PPP prison
 - ❑ State Vaccine Institute
 - ❑ Department of Trade and Industry campus

Step 2: Establish credibility for the Bank as a global thought leader and operational expert

AAA Analyzing the channels of private capital flows into infrastructure – FY08

- ❑ “Infrastructure Financing in Vietnam: The Evolving Role of Banks, Capital Markets, Infrastructure Funds, and PPPs” delivered in close collaboration with the Ministry of Planning and Investment (MPI) and the MOF
- ❑ Key points
 - ❑ Vietnam’s needs a transparent system for providing subsidies for well prepared PPPs
 - ❑ MOF must have a contingent liability management system in place to support PPPs
 - ❑ The role of SOEs in infrastructure finance must be better defined
 - ❑ Model transactions are necessary to build private sector trust in the system
- ❑ High-level national workshop organized jointly by WB, MPI, MOF chaired by Standing Deputy Prime Minister Nguyen Sinh Hung
 - ❑ International experts from the UK, South Africa, and India commented on the report
- ❑ Following this, the Minister of MPI officially requested Bank assistance in developing the PPP financing framework

Step 3: Establish a practical roadmap which is broadly shared by the client

Establish a PPP Financing Framework (agreed with MPI, MOF and the PMO) – FY09

Key Components

Decree & legal documents governing PPPs	Use international best practices to prepare Guidance Circulars and other administrative rules MPI must issue to implement and improve Decree 78 (BOT Decree)
Viability Gap Financing Mechanism	Design and implement a market-based system for providing GOV subsidy for well prepared PPPs which cannot be 100% financed out of project revenues
Fiscal Risk Management Framework	FRM framework to identify and manage fiscal obligations made by the Ministry of Finance with appropriate risk management and reporting systems
Establish a Knowledge Platform	Establish a Vietnam PPP website to provide latest information on the PPP program to the public, and transfer global knowledge about PPPs to practitioners and stakeholders

Vietnam PPP financing framework: Results to date

- ❑ PPP Unit established within MPI by the order of the PM
 - ❑ Staff from MPI, MOF and sector agencies
 - ❑ Bank arranged a PPIAF grant of US\$500,000 to help MPI develop the PPP Unit

- ❑ Global expert group organized to provide guidance to GOV
 - ❑ William Dachs, PPP Unit, Soth Africa
 - ❑ Ed Farquharson, Partnerships UK
 - ❑ Glenn Maguire, Partnerships Victoria
 - ❑ TBD, World Bank GET on PPP and Infrastructure

- ❑ International consultants mobilized to assist MPI on key program elements
 - ❑ US\$800,000 for the development of PPP Framework

- ❑ Identification of pilot projects currently underway (water and toll road sector)

Step 4: Demonstrate results (put your money where your mouth is ...)

Pilot project preparation and financing – FY10 through FY11

- ❑ Bank Group to help GOV prepare pilot PPP projects to be passed through the new PPP financing framework
 - ❑ To demonstrate results (i.e., prove that the system can work)
 - ❑ To help refine the system based on practical experience

- ❑ Multi-sector Bank Group team to assist GOV in project preparation
 - ❑ EAP Infrastructure Finance Practice Group (core Task Team)
 - ❑ IFC Advisory Services
 - ❑ GET on PPP and Infrastructure
 - ❑ Sector Teams (water and transport)

- ❑ Bank has committed to provide a loan of upto US\$ 1 billion in support of pilot PPPs
 - ❑ Provided the PPP financing framework is in place

Part C. Key Lessons

Recap: The Bank's Engagement Strategy

- ❑ **Step 1.** Identify champions for the cause ... and start to establish the Bank's credibility
- ❑ **Step 2.** Establish the Bank's credibility as a global thought leader and operational expert with concrete intermediate results
- ❑ **Step 3.** Establish a practical roadmap which is broadly shared by the client – and stick to it
- ❑ **Step 4.** Demonstrate results (put your money where your mouth is...)

Key Lessons: Develop a strategic, long-term engagement

- ❑ **Target a specific area** of development importance
 - ❑ Early client buy-in
 - ❑ Country and sector management commitment
- ❑ Establish **credibility**
 - ❑ Demonstrate by doing (advisory services and lending); deliver outputs
 - ❑ Bring in external and internal global expertise to provide cutting-edge advice tailored to the country context
- ❑ Stay focused on **client capacity**
 - ❑ Conduct informal seminars, training sessions on relevant topics
- ❑ Build a **Bank team across sectors** to ensure strong in-house technical capacity (and buy-in), and maintain close coordination among Govt. ministries/agencies

Key Lessons: Stay focused on solutions

- ❑ Focus on **key issue**
 - ❑ Designing mechanism for ODA + PB + PF to finance infrastructure

- ❑ Don't shy away from identifying **key problems**
 - ❑ Infrastructure PPPs will continue to be financially unviable for several years – Vietnam needs a transparent system to provide subsidies for well prepared PPPs
 - ❑ Overwhelming presence of SOEs in BOT transactions – the Bank cannot finance projects unless the role of SOEs is clarified

- ❑ Provide detailed **“How to” solutions**
 - ❑ Detailed regulations, guidance and procedures to improve and implement PPP laws and procedures (need lawyers and practitioners on Bank team)
 - ❑ Transparent subsidy mechanism to make well-prepared PPPs viable (Bank team must understand the details of government systems on budgeting, etc.)
 - ❑ Comprehensive fiscal risk management framework (simple but practical)