Assessment of Public–Private Partnerships in Viet Nam

Constraints and Opportunities

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Contents

Tables and Figures

Tables

Figures

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(as of 11 July 2010)

Currency Unit	=	dong (D)
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$1.00	=	D22,622.00

Abbreviations

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement
BOT	–	build–operate–transfer
EVN	–	Electricity Company Viet Nam
GDP	–	gross domestic product
MW	–	megawatt
MOF	–	Ministry of Finance
MPI	–	Ministry of Planning and Investment
ODA	–	official development assistance
PMC	–	Phu My Bridge Corporation
PPP	–	public–private partnership
SEDP	–	Socio-Economic Development Plan
SOE	–	state-owned enterprise
TA	–	technical assistance

Acknowledgment

This paper was written by a team comprising Jon D. Lindborg, former public–private partnership (PPP) advisor, ADB Southeast Asia Department; Frédéric Thomas, senior investment specialist (PPP), ADB Private Sector Operations Department; Eric Francoz, senior investment officer, Agence Française de Développement (AfD), Bangkok; and Jérémie Dumon, senior investment officer, AfD, Bangkok.

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Executive Summary

Key Findings

Viet Nam faces substantial challenges in providing new and improved infrastructure for its growing economy. Industrialization and urbanization rates are rising rapidly, even by Asian standards, and they are driving intense demands for new and improved infrastructure and related services. Government investment programs for infrastructure are articulated in long-term investment plans. The total investment requirement for infrastructure is estimated to be $150 billion–$160 billion over the next 10 years. Infrastructure investment is state-led, and rates as a percentage of gross domestic product (approximately 10% per year) are relatively high by international standards. Investment in infrastructure has been sourced primarily through state-owned enterprises (SOEs), which have been constrained by the stage of development of the primarily state-owned banking sector.

Government and official development assistance (ODA) funding resources are widely acknowledged as insufficient to meet Viet Nam's huge infrastructure funding needs. Hence, there is a growing recognition by a wide range of stakeholders that there is no choice but to promote and leverage private sector investment in infrastructure through public–private partnership (PPP). Another commonly cited rationale for advancing PPP is the concern about the possibility of reduced access to ODA as Viet Nam moves to middle-income country status. To a lesser extent, PPP is also viewed as a means to improve efficiency and service delivery to citizens and gain access to new expertise and technology.

However, for an economy the size of Viet Nam and with its increasing openness to private sector participation, private investment in infrastructure has been very limited. Government approvals and support have been uncertain. Competitive bidding processes have not been the norm. To date, there are limited major public investments involving foreign investors and far more limited cases of PPPs with foreign investors. The government currently lacks a credible PPP project pipeline. The private sector sees the government as "stop and go" when it comes to PPP policies and actions. The private sector views PPP bidding and negotiation processes as unpredictable and lengthy, nor is the private sector entirely confident that the government can carry out credible (pre)feasibility studies for PPP projects.

The government is now developing an improved enabling framework for PPP in Viet Nam. Championed by Vice-Minister Dang Huy Dong in the Ministry of Planning and Investment (MPI), the government is taking steps to address existing legal, regulatory, institutional, and financial constraints. The Vice-Minister wants to put the government in the "driver's seat" for PPP and build credibility with the private sector that the government is serious about establishing an overall strategic approach and ensuring competitive, transparent processes to a standard capable of attracting qualified international and domestic bidders. MPI is also in the process of developing a dedicated PPP unit that will be responsible for developing an initial pipeline of PPP projects to be competitively tendered. However, MPI, line ministries, and state agencies face institutional and capacity issues in terms of dedicated staff and budget support for PPP.

For the priority sectors of power, transport, and water, challenges remain with respect to making projects bankable without addressing underlying low tariff issues or providing viability gap financing, particularly for transport and water projects. Given the uncertainty about its commitment to address tariff issues and users' willingness to pay, it will be important for the government to consider various options to provide viability gap financing (e.g., making land available or providing grants financed through ODA financing) to make projects financially viable and bankable. Otherwise, prospects for PPPs in Viet Nam will remain limited.

While MPI is committed to ensuring that SOEs compete on a "level playing field" for PPP opportunities, there are still private sector concerns about bidding transparency and SOE access to state-directed and/or preferential financing (i.e., the "crowding out" effect). Here, continued reform and improved corporate governance of SOEs will be important.

More broadly, the government needs to recognize that the efficiency and improved infrastructure services gains that can be accrued through successful PPPs are, over the long-term, more important than the simple objective to mobilize private investment and help fill a public sector budget gap. Furthermore, and in the context of the government's strategy to promote private sector–led growth, the government needs to ensure greater policy clarity and consistency with respect to opening up more private sector participation opportunities, including PPP. In turn, this needs to translate into better government understanding of private sector concerns about PPP constraints and a realistic appreciation of appropriate risk sharing between the public and private sectors. Given a conducive, clear, and consistent PPP-enabling framework, followed through by predictable and transparent execution of PPP-related processes, the private sector will certainly respond if they see reasonable PPP opportunities to make a fair return on their investment capital.

Finally, the lack of development of dong-denominated long-term debt limits bankability for projects. The finance sector in Viet Nam is still relatively underdeveloped and unable to provide sufficient long-term capital needed by investors. Foreign banks are the most reliable source of medium- and long-term lending. For foreign-denominated debt, lenders are looking for credit enhancements and guarantee mechanisms, e.g., through export credit agencies. With few exceptions, most observers believe that until Viet Nam has a more established track record for PPP, credit enhancements and guarantees will be important to making PPP projects bankable.

Next Steps

With a renewed commitment by the government to ramp up PPP efforts and a strong and committed PPP champion at MPI, there appears to be a good opportunity for increased PPP engagement by the Asian Development Bank (ADB) and Agence Française de Développement (AFD). Sectors of primary interest would include power, transport (i.e., toll roads, seaports, and airports), and water. PPP opportunities for education and/or health would appear to be limited at this stage, although the higher education subsector may provide opportunities in the future. Next steps include the following.

Continue to Support Sector-Level Work in Transport and Power Sectors

Ongoing technical assistance (TA) and project support efforts represent an important mechanism to advance the PPP agenda. The considerable experience of ADB and AFD in both the power and transport (particularly roads and urban transport) sectors provide opportunities to engage the Government of Viet Nam in at least promoting private sector participation (e.g., operation and maintenance management contracts as a first step) and potential PPP transactions. However, there are substantial sector reform and financial viability gap issues that need to be addressed. In the water sector, targeted water sector interventions should be considered that might help move the PPP agenda along, but recognizing the significant tariff issues and the generally unsuccessful record for water PPPs in Viet Nam to date. In particular, encouraging opportunities for integrated water sector PPPs that include not only bulk water supply but also network and distribution operations is what the private sector sees as the way forward.

Public–Private Partnerships as a Key Strategic Program Modality

ADB and AFD need to ensure that PPP approaches are incorporated and mainstreamed in project preparation, as appropriate, as well as enhance coordination between public and private sector operations. With the upcoming development of ADB's country partnership strategy, this will represent an opportune time to look at how PPP approaches could be mainstreamed, and to seek synergies to promote sector and policy reforms and provide capacity building support, while private sector operations provide assistance to catalyze private sector investments.

Monitor Private Sector Companies' Involvement in Public–Private Partnership Transactions

ADB's Private Sector Operations Department should ensure contact is maintained on a periodic basis with private sector companies involved in PPP in Viet Nam (e.g., Chevron, EDF, Veolia, and Manila Water) to ensure adequate monitoring of the latest developments.

Encourage the Ministry of Planning and Investment to Convene Donors' Discussion or Working Group for Public–Private Partnerships

As MPI moves forward with the government's pilot PPP program, it would be useful to have a more coordinated approach among the principal donors, particularly in terms of TA and pilot projects. This initiative will address one of the key concerns outlined by MPI.

Technical Assistance, Training, and Project Development Facility

Dependent on funding availability, ADB should consider a capacity development TA project ($2 million) for 2011, focused on supporting MPI with short- and long-term advisory services and pilot transaction support. AFD could assist with in-country PPP-related training. Alternatively, and depending on government interest, ADB may want to consider offering a longer-term TA loan for developing a project development facility that would provide a more robust source of funding to support the development of a PPP project pipeline and pilot transactions. However, critical to any sustained PPP effort in Viet Nam will be securing a very strong commitment by the government to provide substantial funding and staff support for an empowered and effective PPP unit at MPI.

Viability Gap Funding Issue

Given tariff issues, identifying viability gap funding options will be critical in moving forward with bankable PPPs. A PPP approach can help the government engage in a process to consider new tariff policies (e.g., targeted at the poor) in key sectors such as water and power. It would be unrealistic to expect a substantial mobilization of private sector investment if fundamental tariff issues are not addressed. The ongoing World Bank–funded initiative looking at viability gap financing issues will be useful in informing the government in this area. Depending on the structure of such mechanisms, this may represent an opportunity to consider how our public sector lending window might provide government viability gap support for PPP projects.

Infrastructure Financing Facility Options

On the horizon is the issue of addressing the lack of long-term financing for private sector sponsors. In this regard, options over the next 2 years should be considered developing a long-term infrastructure financing facility, similar to what ADB has supported in India and Indonesia.

Background

Rationale for Public–Private Partnership Assessment Mission and Purpose

In March 2010, the Asian Development Bank (ADB) and the Agence Française de Développement (AFD) concluded a new partnership framework agreement for 2010–2016. The partnership framework agreement aims to strengthen institutional and operational cooperation between the two organizations and provides an opportunity to explore new areas of collaboration, including sovereign, nonsovereign, subsovereign, and private sector financing. In this regard, public–private partnership (PPP)[1] represents an important modality for the ADB–AFD sector and thematic cooperation as both institutions seek to identify opportunities for promoting and increasing PPP-related operations.

In subsequent ADB–AFD discussions regarding the practical implementation of the partnership framework agreement with the respective country directors for ADB's Viet Nam Resident Mission and AFD/Viet Nam, it was agreed that a joint ADB–AFD PPP assessment mission would be carried out in Viet Nam during 4–7 May 2010. The purpose of this mission was to:

- Review the overall enabling environment and business climate for PPPs in Viet Nam (i.e., strategy, policy, legal, regulatory, and institutional factors), project development support, PPP financing issues, and specific PPP transactions.
- Identify PPP constraints and opportunities in Viet Nam.
- Identify potential areas and activities for further consideration for ADB and/or AFD cooperation and/or assistance.

The assessment was also intended to help inform ADB and AFD in advancing their respective programs in Viet Nam by providing inputs to strategic planning, including the ongoing ADB country partnership strategy 2011–2015 process.

[1] For the purposes of this report, ADB's definition of PPP is used. A PPP includes all modalities that assume some form of partnership/contractual relationship between the public sector and private entities with the aim of delivering infrastructure and other services through service and management contracts; leases; build–operate–transfer (BOT) projects, and other forms of concessions; and joint ventures. A strong PPP allocates the tasks, obligations, and risks among the public and private partners in an optimal way.

Approach and Methodology

Given the relatively brief time period available for this mission, this report provides a broad overview of the PPP situation and issues in Viet Nam. In carrying out the mission, the team conducted a desktop review of other reports on PPP that are listed in Appendix 2. In addition, the team conducted a series of focused meetings and interviews with a variety of officials from ADB, AFD, other donors, the government, and the private sector. An analysis of Public–Private Partnership Decree 108 is presented in Appendix 3. ADB–AFD comments on the Draft Public–Private Partnership Regulation for Viet Nam are presented in Appendix 4. Details on the ADB–AFD cofinancing pipeline for Viet Nam are provided in Appendix 5. An indicative list of potential ADB Public–Private Partnership-Related Projects for Viet Nam for the period 2010–2012 is detailed in Appendix 6.

Development Strategy Context for Public–Private Partnership in Viet Nam

The Government of Viet Nam's 2006–2010 Socio-Economic Development Plan (SEDP) established the overarching goal of reducing poverty incidence by 10%–11% by 2010. The government has made substantial progress in this area, bringing down the share of the population below the poverty line from 58% in 1993 to 15% in 2008. Despite the global economic crisis, the country boasted an average annual growth rate of 6.6% during 2007–2009. Gross domestic product (GDP) growth is expected to accelerate to 6.5% in 2010. The SEDP stresses the important role of business development, a level playing field for all businesses, increased competitiveness, and increased private sector investment in generating economic opportunities and employment. The ongoing efforts under the National Public Administrative Reform Project (Project 30) is a high-profile initiative by the government to reduce regulatory costs and risks for businesses and citizens through a comprehensive reform of administrative procedures. The government is now formulating the SEDP for 2011–2015. Continued strong emphasis on private sector investment and associated opportunities for PPP is anticipated.

A new Associated Press–GfK poll, one of the most exhaustive surveys to date of contemporary Vietnamese attitudes, underscored how rapidly life has changed in Viet Nam. Of the total respondents, 85% said the economy is stronger than it was 5 years ago, 87% expect it to be even stronger in another 5 years, and 81% said the country is moving in the right direction. The survey showed strong support for private enterprise, especially among the young, and 56% favored more private ownership of business, compared to only 25% in favor of more government ownership.

ADB's current country strategy and program for Viet Nam 2007–2010 places a strong emphasis on business-led, pro-poor economic growth that helps the government establish the foundations for increased private sector investment and employment. The country strategy and program includes measures to better integrate PPP approaches, particularly with respect to infrastructure development. Opportunities are sought to improve the policy and regulatory environment for private investment in infrastructure, and to maximize private capital in all relevant operational activities such as clean and efficient energy, power generation and transmission, transport including urban mass transit systems, and ports. As noted before, ADB is now in the process of developing a new country partnership strategy. It is expected that PPP will remain an important modality for promoting inclusive economic growth and supporting ADB's overall Strategy 2020[2] goal of 50% of operations in private sector–related program areas.

AFD's strategy in Viet Nam is already supporting key infrastructure investments, notably in the energy (i.e., power transmission and production), transport (i.e., Ha Noi MRT Line 3), and water sectors (i.e., network development and water production in the Mekong Delta). This approach will be confirmed in the future strategy of the group that will be prepared to cover the period 2011–2015. The amounts of funding that will be necessary to cover the investment needs for infrastructure development in Viet Nam in the coming years are huge. Meanwhile, AFD recognizes that, under certain conditions, PPP approaches can increase performance and efficiency of public services and investments. That is why AFD considers that PPP should be looked at as an opportunity for developing infrastructure financing. In this context, AFD is committed to support PPP approaches, keeping in mind that a differentiated approach will have to be considered for each specific sector. A direct-lending methodology, which is being developed as part of the Huoi Quang Hydropower Project with the state-owned Electricity Company Viet Nam (EVN), may serve as a new channel to fund the huge investments needed by Viet Nam in association with PPP mechanisms.

Overall Economic Policy and Business Climate Context for Public–Private Partnership

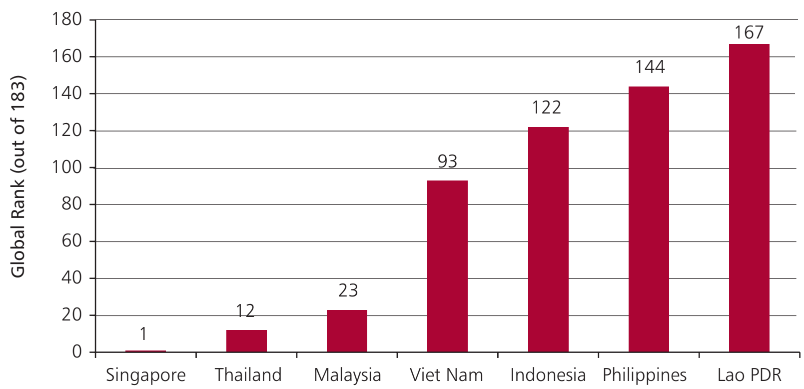
Viet Nam is one of the best performing economies in the world over the last decade. Viet Nam has become increasingly integrated with the world economy. Exports have been the main drivers for growth, and foreign investments have been buoyant in recent years. Growth is driven by the rising importance of the private sector. There has been significant progress in public financial management. The National Assembly is now responsible for the approval of the budget, including allocations to lower levels of government. Decentralization is another important aspect of an ongoing institutional transition. The planning process has also become increasingly participatory.

The government's current major economic policy challenge is containing inflation and stabilizing the exchange rate while promoting economic growth. In terms of fiscal policy, the budget deficit (9% of GDP in 2009) is expected to remain relatively high for 2010–2011 as the government continues to spend heavily on infrastructure and social welfare programs. Although the budget deficit is expected to narrow in 2010–2011, to an average of 7.5% of GDP, there are serious concerns about how the government will finance this, as it is already borrowing heavily to fund off-budget stimulus programs. In late January 2010, the government raised $1 billion through an international sovereign bond issue (10-year tenor) with a spread of 333 basis points over the 10-year benchmark United States Treasury. This was its first overseas bond since 2005. Meanwhile, the government continues to seek substantial concessional financing from international donors. Viet Nam received $2.7 billion in official development assistance (ODA) in 2008 and an estimated total of $3.3 billion in 2009. Projected ODA levels for 2010 and 2011 are estimated at $3.2 billion for each year.

[2] ADB's Strategy 2020, approved in April 2008, sets out its long-term strategic framework for 2008–2020.

Despite gradual progress in privatization and official pronouncements in support of deregulation and liberalization, observers note that suspicion of private enterprise remains a challenge among some in the bureaucracy, political circles, and financial institutions in Viet Nam. This, in turn, affects the overall enabling environment for PPP. Still, the public sector role in economic output has declined significantly in recent years. Constitutional changes in 2001 legally ended official discrimination between the public and private sectors, and the Uniform Enterprise Law (July 2006) established norms for all firms. Viet Nam's private sector has expanded rapidly since these changes occurred. Activities that are to remain exclusively in state control include national defense, cigarette production, power transmission, and public utilities. In practice, however, there has been some opening of power generation and telecommunications to foreign participation. According to the World Bank/International Finance Corporation Doing Business 2010 report, Viet Nam is ranked 93 out of 183 economies in terms of the ease of doing business. Figure 1 compares Viet Nam to other selected countries in Southeast Asia.

Figure 1 Viet Nam Ease of Doing Business Compared to Other Countries in Southeast Asia

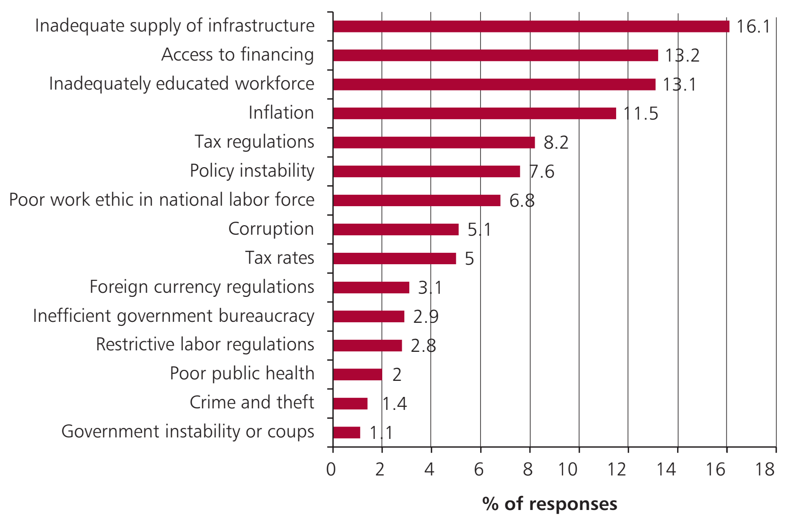


Lao PDR = Lao People's Democratic Republic.
Source: World Bank/International Finance Corporation Doing Business 2010 report.

Under the terms of Viet Nam's accession to the World Trade Organization in 2007, state-owned enterprises (SOEs) are committed to conduct commercial business without government interference. Although the government has steadily removed formal subsidies to the SOEs, it has continued what the World Bank identifies as "subsidy-like budget expenditures" for SOEs. Viet Nam prefers to maintain government majority control of SOEs in a process of partial privatization that it calls "equitization" through which the government transforms SOEs into shareholding (i.e., joint stock) companies and then distributes or sells shares in these companies. Foreign investors may buy strategic shares in equitized firms. The combined equity stake of all foreign investors may not exceed 49% of an SOE (except for banks). Still, the process is important in terms of making the SOEs more efficient and streamlining Viet Nam's large state-controlled sector. At present, SOEs account for about 40% of Viet Nam's economic output.

According to the Economist Intelligence Unit Country Commerce Report for 2009, regulatory conditions and market access for foreign investors have continued to improve in recent years, reflecting Viet Nam's efforts to fulfill its World Trade Organization obligations and the bilateral trade and market-access agreement with the United States implemented in December 2001. However, Viet Nam remains a challenging business environment. Relative political and economic stability must still be weighed against problematic factors for doing business, most notably an inadequate supply of physical infrastructure and access to financing, as shown in Figure 2 from the World Economic Forum Global Competitiveness Report 2009–2010 for Viet Nam. Both of these factors

Figure 2 Most Problematic Factors for Doing Business in Viet Nam



Source: World Economic Forum Global Competitiveness Report 2009–2010 for Viet Nam.

present major implications for PPP prospects in terms of the clear need for improved infrastructure coupled with the associated challenge of access to finance.

Viet Nam faces substantial challenges in providing new and improved infrastructure for its growing economy. Industrialization and urbanization rates are rising rapidly, even by Asian standards, and they are driving demand for infrastructure. Infrastructure investment is state-led, and rates as a percentage of GDP (approximately 10% per year) are relatively high by international standards. Investment in infrastructure has been sourced primarily through SOEs, which have been constrained by the stage of development of the primarily state-owned banking sector. Investment programs for infrastructure are articulated in long-term investment plans of 10–20 years. Despite progress, investment is not sufficient.

Local private sector financing of infrastructure in Viet Nam is reported to be widespread. These projects are relatively small and generally involve direct appointment or negotiation by the government of project investors involving mainly SOEs. Design and service standards are usually not adequately defined and enforced and contracts not adequately regulated. The lack of a systematic approach to structuring these transactions probably makes it difficult for local authorities to have a clear picture of the benefits or the value added to the public sector and the overall cost effectiveness of the investment.

Data from the World Bank's Private Participation in Infrastructure Projects Database (Tables 1 and 2) show that during 1990–2008, there were a total of 30 PPP projects in Viet Nam. Slightly over half of them were in the energy sector, representing nearly 50% of total investment.

Table 1 Viet Nam – Total Number of Public–Private Partnership Projects by Type and Primary Sector, 1990–2008

Sector	Concession	Divestiture	Greenfield Project	Management and Lease Contract	Total
Energy	1	7	10	0	18
Telecommunications	1	0	2	0	3
Transport	0	0	7	0	7
Water and sewerage	0	0	2	0	2
Total	**2**	**7**	**21**	**0**	**30**

Source: PPI Database.

Table 2 Total Public–Private Partnership Projects by Primary Sector and Subsector, 1990–2008 ($ million)

Sector	Subsector	Number of Projects	Total Investment
Energy	Electricity	17	1,783
	Natural gas	1	1,300
	Total energy	18	3,083
Telecommunications	Telecommunications	3	2,013
	Total Telecommunications	3	2,013
Transport	Airports	1	15
	Roads	1	133
	Seaports	5	732
	Total transport	7	880
Water and sewerage	Treatment plant	2	213
	Total water and sewerage	2	213
Total		**30**	**6,189**

Source: PPI Database.

ADB and AFD Public–Private Partnership-Related Activities in Viet Nam to Date

ADB and AFD PPP-related activities to date have been limited.

ADB's experience during 1996–2008 includes the following public sector (total of $27.8 million), technical assistance (TA) (total of $10.4 million), and private sector projects (total of $181 million), as detailed in Tables 3–5.

Table 3 ADB Loan with Public–Private Partnership Content, Public Sector Window

Sector	Project Name	Amount ($ million)	Date Approved
Power	Mong Duon Thermal Power	27.8	Oct 2007

Source: ADB.

Table 4 ADB Technical Assistance with Public–Private Partnership Content

Sector	TA Name	Amount ($ '000)	Date Approved
Power	Mong Duon Thermal Power Generation	400	Oct 2005
Power	Mong Duon Thermal Power Generation (supplementary)	150	Dec 2005
Power	Preparing the Support for Public–Private Development on the O Mon Thermal Power Complex	1,700	Jan 2008
Power	Preparing the Support for Public–Private Development on the O Mon Thermal Power Complex (supplementary)	740	Jan 2008
Roads	Development of Expressway Network Development Plan	850	Nov 2005
Roads	Development of Expressway Network Development Plan (supplementary)	300	Dec 2005
Roads	Development of Expressway Network Development Plan (supplementary)	600	Apr 2007
Roads	Development of Expressway Network Development Plan (supplementary)	200	Dec 2007
Water	Hue Water Supply	1,500	Jun 2008
Water	Ho Chi Minh City Water Supply	1,500	Jun 2008
Water	Da Nang Water Supply	1,500	Oct 2008
Gas	Support for Public–Private Development of the O Mon Gas Pipeline	975	Mar 2007

TA = technical assistance.
Source: ADB.

Table 5 ADB Private Sector Public–Private Partnership Portfolio

Sector	Project Name	Loan ($ million)	Guarantee ($ million)	Total ($ million)	Status
Water	Lyonnaise Viet Nam Water Company	31	0	31	Cancelled
Power	Mekong Energy Limited (Phu My 2.2 Power)	50	25	75	Operating
Power	Phu My 3 Power	40	35	75	Operating

Source: ADB.

AFD's experience during 1994–2010 includes only one private sector project (total of $40 million) implemented by AFD's private sector subsidiary, Proparco, and cofinanced by ADB (Table 6).

Table 6 AFD Private Sector Public–Private Partnership Portfolio

Sector	Project Name	Loan ($ million)	Guarantee ($ million)	Total ($ million)	Status
Power	Mekong Energy Limited (Phu My 2.2 Power)	40	0	40	Operating

AFD = Agence Française de Développement.
Source: AFD.

By cofinancing the Phu My 2.2 build–operate–transfer power project, ADB and AFD have participated in the first project (i) carried out with an international project financed structure in Viet Nam, and (ii) resulting from an international tender for a privately owned power project. With this project, ADB and AFD (through its private sector subsidiary Proparco), as well as the other donors involved (such as the World Bank and the Japan Bank for International Cooperation), aimed to stimulate direct foreign investment into Viet Nam. Considering the limited number of PPP transactions to date, it is worth noting that this objective has not been fully met and that the number of Vietnamese transactions structured on a PPP scheme is lower than contemplated. However, this first experience can be used as a benchmark for other co-generation power plants in terms of plant efficiency, environmental and social standards, maintenance of the plant, and staff management. More broadly, it is possible to build on this first experience to try to identify new mechanisms to promote PPP in Viet Nam.

Relevant Public–Private Partnership Global Experience and Lessons Learned

In considering the scope for increased PPP opportunities in Viet Nam, it is useful to briefly summarize global PPP experience, lessons learned, and best practices.

Motivation for Public–Private Partnership: Why Consider Public–Private Partnership?

While the rationale for governments to consider PPP modalities can vary widely, ADB's Public–Private Sector Handbook cites three main factors that motivate governments to enter into PPPs for infrastructure and related services.

Leverage and Mobilization of Private Capital

Governments face an ever-increasing need to find sufficient financing to develop and maintain infrastructure and the related services required to promote economic growth and provide services to growing populations or previously unserved or underserved areas. Furthermore, government infrastructure services are often provided at an operating deficit, which is covered only through subsidies, thus constituting an additional drain on public resources. Infrastructure competes for access to public funds with other pressing needs such as basic social services. PPPs have become one of the few public financial instruments to leverage available public money for infrastructure by mobilizing additional private capital.

Public–Private Partnership as a Tool for Improved Service Delivery and Efficiency

The efficient use of scarce public resources is a critical challenge for governments—and one in which many governments fall far short of goals. PPP allows the government to pass operational roles to more efficient private sector operators while retaining and improving focus on core public sector responsibilities, such as regulation and supervision. Properly implemented, this approach should result in a lower aggregate cash outlay for the government and better and cheaper service to the consumer. This should hold true even if the government continues to bear part of the investment or operational cost since the government's cost obligation is likely to be targeted, limited, and structured within an overall "whole-of-life-cycle" financing strategy. PPPs may also present business opportunities in sectors from which the private sector has previously been excluded.

Public–Private Partnership as a Catalyst for Broader Sector Reforms

Governments sometimes see PPP as a catalyst to provoke the larger discussion of and commitment to a sector reform agenda, of which PPPs are only one component. Implementing a specific PPP transaction often forces concrete reform steps to support the new allocation of sector roles such as legal and/or regulatory reforms and establishment of separate regulatory mechanisms or bodies.

Relevant Lessons Learned from Global Experience: What Makes Public–Private Partnership Successful?

More than 50 countries have started PPP programs. Not all have been successful in terms of investments made and outcomes. Countries with strong public sector institutions have typically performed best. Global PPP experience in both developed and emerging markets over the past 20 years provides the following relevant lessons learned.

Recognition that Public–Private Partnerships Are not a Universal Solution

While PPPs are gaining international recognition as an important means for mobilizing private sector capital and expertise, they are not a universal solution to underlying sector investment and performance problems. The respective costs and benefits (including determining "value for money") associated with traditional public sector procurement and the use of PPP modalities have to be established. PPPs are not easy to develop or execute. Governments remain central to the delivery of infrastructure services, both as enablers for PPPs and providers through traditional public sector approaches. No actor can replace government.

Need for Government Political Will and Public–Private Partnership Champion

The role of "political economy" considerations in moving forward with a PPP program needs to be recognized. There is a clear need for strong political commitment on the part of senior government political leaders to champion, promote, and advance PPPs. Political and public sector support to the strategic decisions related to PPPs have to be sustained. The government must adequately support, budget, and staff PPP institutions and efforts.

Clear Public Sector–Enabling Framework Policies and Guidelines

The government needs to take a strategic approach to PPP, preferably in the form of an overall PPP policy statement, relevant sector policies, and comprehensive planning. The government has to take the lead in developing clear and conducive legal, regulatory, and financial frameworks supporting the development and implementation of PPPs. Clear rules of government fiscal support, management of risk and government contingent liabilities, and oversight are important. In terms of procurement and tendering processes, there should be a strong preference for competitive bidding with multiple bidders. If unsolicited proposals are allowed, there need to be clear policies and procedures for ensuring they are in the best interest of the government and subject to some form of market scrutiny through either a "Swiss challenge" or some other similar mechanism.[3] Once PPP projects are awarded, contracts must be enforced and honored. Dispute resolution and arbitration mechanisms must also be addressed and honored.

Strong Institutional Support – Dedicated Public–Private Partnership Unit(s) and Project Development Facility

While the form, location, and functions of dedicated PPP unit(s) and an associated project development facility vary globally, it is clear that having strong institutional support for planning and carrying out effective project preparation is an important success factor. There is no single design of a PPP unit, and each country needs to customize the design of the PPP unit according to the local context. Such unit(s) help develop a pipeline of bankable projects through (pre)feasibility studies; facilitate the development of standard project templates or documents; and ensure the PPP structures and processes (including procurement) are streamlined and consistently applied across government line ministries, departments, and entities. Government must provide for sufficient budget resources to support project development activities in the form of a project development facility. The facility's project development expenses can then be partially recovered from successful bidders.

Ensuring Sufficient Financing Support

Successful PPP programs include mechanisms for the government to provide multiyear commitments (beyond the budget cycle), creditworthy support, and prudent management of the fiscal obligations (both cash and contingent) created by PPPs. Recognizing that full cost recovery in infrastructure is often difficult because of tariff

[3] A Swiss challenge is a form of public procurement that requires a government authority that has received an unsolicited bid for a public project to publish the bid and invite third parties to match or exceed it.

and/or demand considerations, governments are exploring new mechanisms to bring down costs and risks for infrastructure investors through (i) capital grants to PPP projects (e.g., India Viability Gap Funds); (ii) dedicated annuity funds to provide sustainable funding for the government's annual service or availability payments to PPPs (e.g., India Central Road Fund); (iii) credit guarantees for construction costs and minimum revenue guarantees; and (iv) infrastructure finance facilities to provide long-term capital to PPPs (e.g., Indonesia Infrastructure Finance Facility).

Public–Private Partnership Enabling Environment and Selected Sector Issues

Public–Private Partnership Overview and Enabling Environment in Viet Nam

For an economy the size of Viet Nam and with its increasing openness to private sector participation, private investment in infrastructure has been very limited. Historically, significant investment by SOEs in infrastructure projects has had a tendency to crowd out the private sector, which has been further complicated by the weak governance structures of SOEs. Government approvals and support have been uncertain. Competitive bidding processes have not been the norm. To date, there are limited major public investments involving foreign investors and far more limited cases of PPPs with foreign investors. Only two operational build–operate–transfer (BOT) projects have been competitively bid out (Phu My 2.2 and Phu My 3 thermal power plants, both of which were supported through ADB private sector operations; AFD supported Phu My 2.2). These projects operate under contracts reflecting standard international project agreements and include central government guarantees.

Recent years have seen a number of important reforms. The Government of Viet Nam is now in the process of developing an improved enabling environment for PPP. Recognizing the limited success in carrying out PPPs to date, specific actions are being taken to address existing legal, regulatory, institutional, and financial constraints.

Legal and Regulatory Issues

In January 2010, the Government of Viet Nam, through the Ministry of Planning and Investment (MPI), issued a new PPP decree, Decree No. 108, which regulates investment in infrastructure projects built under BOT, build–transfer–operate, and build–transfer contracts (each individually a “project contract”). For more information on Decree No. 108, see Appendix 3. The decree replaces the previous Decree No. 78 that was issued in 2007. Decree No. 78 was acknowledged to lack detailed guidelines regarding project preparation, tendering processes, when to grant government guarantees, and a basis for tariff setting and adjustment. Also, Decree No. 78 did not provide guidelines for other forms of PPPs such as performance-based contracts, leases, and concessions.

During the course of the assessment mission, the team learned that MPI has now decided to abandon Decree No. 108, which the Vice-Minister for MPI responsible for PPPs described as “not optimal.” Vice-Minister Dang Huy Dong is an articulate and strong champion for PPP. He is now leading a government effort to develop an improved enabling framework for PPP. Recognizing the limited success in carrying out PPPs to date, specific actions are being taken to address existing legal, regulatory, institutional, and financial constraints. The Vice-Minister wants to put the government in the "driver's seat" for PPP and build credibility with the private sector that the government is serious about PPP in terms of the overall strategic approach and ensuring competitive, transparent processes to a standard capable of attracting qualified international and domestic bidders. The Vice-Minister also plans to centralize five initial PPP pilot projects through MPI in each of the relevant sectors (primarily transport, water, power, and possibly education and health care in the future). MPI intends to establish a task force empowered to engage consultants and necessary budgets for feasibility studies, perform "value for money" analyses, develop standard 20- or 30-year contracts, and study options for and mobilize the government contribution (or viability gap financing).

However, MPI, line ministries, and state agencies face capacity issues in terms of dedicated staff and budget support for PPP. Vice-Minister Dong was very vocal in requesting the various donors to provide MPI with a united pool of resources, empowering MPI to access the inputs he requires, as he felt that so far donors have been pushing their own PPP models and agendas. The Vice-Minister was equally adamant that the nongovernment-funded portion of the financing be provided on a nonrecourse basis, i.e., that no government guarantees be provided.

MPI has now drafted the new Regulation on Public–Private Partnership Investment Piloting. Compared to Decree 108, the new regulation is much more general in terms of its approach, setting a broad, overall framework for PPP. It also centralizes the PPP program in MPI. Once the elements of the PPP framework are in place, pilot projects will be selected for the program. MPI expects the regulation to be approved by the Prime Minister by the end of 2010. The regulation would be revised in the future as the government gains experience with competitively bid PPPs. At MPI's request, the ADB–AFD team, in consultation with an international lawyer who specializes in PPP practice, reviewed the draft regulation and provided comments separately (see Appendix 4).

The regulation defines a PPP as a "form of investment in which the State and the investor coordinate to implement infrastructure development or public service supply project on the basis of the Project Contract." The state's contribution can be in a wide range of forms including capital, investment preferences, or subsidies as regulated by related financial laws and policies, or land and resettlement-related costs. However, the state's contribution cannot be in the form of equity. The total value of the state contribution shall not exceed 30% of the total project investment except as otherwise decided by the government.

The project sponsor's equity is expected to account for at least 30% of the private sector investment in the project. The investor may finance the remainder of the project costs through debt financing, but this will be on a nonrecourse basis (i.e., no government guarantee). The government anticipates developing a pipeline of PPP projects for bidding out based on (pre)feasibility studies. Investors will be selected on a competitive basis in compliance with Viet Nam's laws and "international customs and practices." The regulation also provides for a process to review unsolicited proposals, although more clarity would be helpful in this area (see Appendix 4 comment).

Pilot PPP projects are defined in the following areas:

- Roads, bridges, tunnels, and ferries
- Railways (light and heavy), railway bridges, railway tunnels and related equipment, stations, and depots
- Urban transport
- Airports, seaports, and riverports
- Freshwater supply systems
- Power plants
- Other infrastructure development and public services supply projects as decided by the Prime Minister

The mission recognizes that the draft regulation provides an overall framework for moving forward with the government's PPP pilot program and that it will be revised as the government gains experience with pilot transactions. On the issue of government guarantees, there may be some need to consider further flexibility, depending upon the specific project. It is also presumed that future revisions to the regulation will include tender evaluation criteria and procedures. Other comments on the draft regulation are included in Appendix 4.

At a more general level, lenders' security and step-in rights for PPP projects also remain a concern. Creditors' rights have traditionally been very limited under Vietnamese law. In a PPP project context, a lender's step-in rights must be preapproved by the relevant "authorized state body (ASB)" counterparty. However, legal experts note that, in practice, it may be difficult for lenders to obtain consent to cover all circumstances where a lender may wish to step into a project in distress. Another concern is the inability of foreign lenders to take security over the land-use rights or the structures on the land constructed by a project company unless they have a foreign bank branch in Viet Nam. A number of BOT projects have failed to be bankable in light of this restriction.

Investors also note concerns with respect to dispute resolution and arbitration. The Government of Viet Nam recognizes the need to amend the provisions of various laws to strengthen arbitration procedures. The Uniform Enterprise Law, in force since 2006, provides for the settlement of disputes involving, or between, international investors by one of four means: (i) Vietnamese arbitrators, (ii) a Vietnamese court, (iii) international arbitration, or (iv) other mutually agreed arbitration procedures. However, arbitration, both international and domestic, is not yet a popular choice for dispute settlement in Viet Nam. This is partly attributed to a prohibition against the appointment of foreign arbitrators where a dispute involves only Vietnamese parties. Since joint-venture companies and wholly foreign-owned firms may be considered Vietnamese companies, the arbitration centers are unattractive to many enterprises. Although international arbitration is perceived to lead to a fairer outcome, there are persistent fears that the award may be difficult to enforce. Nevertheless, in November 2007 the Ho Chi Minh City Court recognized a Republic of Korea judgment in Viet Nam, a decision upheld by the Court of Appeal of the Supreme Court. The case was considered a significant step forward in allaying investor fears about recognition and enforcement of foreign arbitration awards in Viet Nam.

Institutional and Capacity Issues

To date, there has been a lack of government capacity (e.g., ability to prepare quality feasibility studies and carry out effective, competitive tender processes) to develop a pipeline of bankable PPP projects. Hence, building up the government's technical and management capacity is a clear prerequisite for an effective PPP program in Viet Nam. The government is now in the process of strengthening its institutional capacity to manage its PPP program. With assistance from a number of donors, MPI is establishing a centralized PPP unit to provide overall guidance and support for PPPs in Viet Nam. MPI had previously announced a World Bank-supported initiative to advance PPPs in Viet Nam, including a pilot PPP project to be bid out by the Ministry of Transport, the D14.3 trillion Dau Giay–Phan Thiet Expressway Project in southern Viet Nam that will connect Ho Chi Minh City and Binh Thuan Province's Phan Thiet City. However, MPI has now decided to not proceed with this project, given the fact that it is based on an unsolicited proposal, among other concerns. In addition to this project, concurrent with the issuance of Decree No. 108 in January 2010, the Ministry of Transport had proposed seven other expressway projects, a port project (Hai Phong International Port), and a high-speed railway project (Ho Chi Minh–Can Tho) as potential PPPs. The status of these PPPs in relationship to the new draft PPP regulation is unclear.

Another institutional issue is the widespread dominance of SOEs as project investors. This can create confusion as to their role in PPPs regarding the allocation of risk and the transparency of contractual arrangements. Existing PPPs involving SOEs as investors have usually involved negotiated or direct appointment contracts rather than the type of competitively bid contracts that are associated with international best practices.

Financing Issues

The lack of financial viability of many potential PPP projects without special arrangements being put into place and the lack of local long-term sources of capital, including long-term debt financing instruments, constrain the development of bankable PPPs in Viet Nam. The generally poor financial viability of potential PPP projects is due to the widespread existence of low tariffs in Viet Nam for project outputs, which usually results in an inadequate cash flow to support the revenue stream needed by the investor in utility-type projects. Tariff levels in Viet Nam are set at comparatively low levels when compared internationally and are often not even able to cover operation and maintenance costs.

As noted before, the World Bank is currently in the process of assisting the government in developing options for a viability gap financing approach for projects that are not financially viable. As part of this process, the Ministry of Finance (MOF) has been assessing how it would manage potential contingent liabilities under various viability gap schemes. MOF officials believe that direct government funding for PPP projects, whether through up-front capital expenditure grants or through annuity payment arrangements, would not necessarily contravene the government's budget law. However, until this is studied in more detail, it remains unclear how a viability gap scheme might actually work in Viet Nam. Regardless, officials at both MPI and MOF stated a strong preference for various government in-kind contributions to a PPP project through, for example, the provision of land or support for the costs associated with the resettlement of people affected by a project. Another potential option to reduce the viability financing gap could be to authorize a special tax incentive regime for some PPPs.

The finance sector in Viet Nam is still relatively underdeveloped and unable to provide sufficient long-term capital needed by investors. Foreign banks are the most reliable source of medium- and long-term lending. The larger domestic banks also offer long-term lending; although their capacity is small, it is increasing. In the past few years, the four biggest domestic banks have been able to finance larger developments beyond their individual capacity, sometimes lending more than $100 million in total via syndicated loans. Foreign banks are now showing increasing interest in syndicated loans, sometimes with local partners, but it could be difficult to raise funds for long-term maturities.

Corporate bond issues were boosted by Decree 52 in May 2006, which aims to help non-state firms, including foreign-invested enterprises, access capital sources derived from bond issues. The decree created basic regulations on responsibilities and obligations of the parties in the corporate debt market. Previously, all such bond issues required approval from the central bank. Nevertheless, Viet Nam's bond market remains small.

Lenders seek credit enhancements and guarantee mechanisms for foreign-denominated debt, e.g., through export credit agencies. With few exceptions, most observers believe that until Viet Nam has a more established track record for PPP, credit enhancements and guarantees will be important to making PPP projects bankable. This stands in contrast to MPI's stated preference that it will not enter into guarantees except on a case-by-case basis.

The exchange risk will also have to be addressed. Many PPPs will generate a source of revenue in dong, while a substantial part of the debt will be in foreign currencies (mainly US dollars). Some form of an exchange guarantee mechanism provided by the public partner is an issue raised by potential private sector sponsors.

Land Issues

There is no system of private property in Viet Nam. The state owns the land, and residents and investors buy and sell the rights to use it with a type of freehold title. Land-use rights can be bought, sold, inherited, and used as collateral for a loan; nevertheless, the state can reclaim any land at any time. Hence, investors and developers generally acquire land in two ways: (i) receiving an assignment of a land-use right (i.e., assignment method) or (ii) paying compensation to land users (i.e., compensation method). Only local companies may use the assignment method; both local and foreign-invested companies may use the compensation method. The National Assembly passed a comprehensive land law in 2003. The law prevents foreigners (apart from those with Vietnamese origins) from owning land-use rights: they must either lease their land from the state or enter into a joint venture with a local partner that provides the land-use rights. Difficulties in finding and preparing a site are one reason that many investors have preferred to arrange a joint venture, with the local partner contributing the land and arranging clearance from local authorities for its use.

As noted before, government processes and procedures for BOT project implementation are still complicated, presenting obstacles to project implementation with respect to land. While there is a requirement for obtaining site clearance prior to construction, it has been difficult to implement. The responsibility for compensating displaced and/or affected parties lies with the government and, in particular, local governments. Where land is scarce and a valuable resource, especially in urbanizing areas, tension arises when local government officials are affected privately. Conflict of interest with respect to the level of compensation and the political will to implement it becomes an issue. This is currently a problem for the Ha Noi–Hai Phong Expressway Project, where resettlement has to be dealt with in the four provinces that the highway traverses.

Selected Sectors and Public–Private Partnership

This section provides a brief overview of PPP-related issues and opportunities in selected infrastructure sectors.

Power Sector

Robust economic growth in Viet Nam over the past decade has resulted in significant demand for electricity throughout the country, with electricity demand growth averaging approximately 16% per year. The high demand for electricity has been triggered by ongoing electrification in new areas, expansion of the transmission and distribution network, and the demand from the new industrial zones and enterprises throughout the country. To address a looming electricity deficit, an increase of the generating capacity from 15,060 megawatts (MW) in 2008 to 40,000 MW in 2015 and 60,000 MW in 2020 is planned.

The government is committed to encouraging PPP in power generation. Viet Nam must mobilize about $4 billion a year for the power sector for the period up to 2015. Under the government's investment plan, state-owned EVN is to mobilize and finance about two-thirds of the investment in generating plants. The other one-third is to be mobilized by local and foreign investors in the form of independent power producers and BOT schemes.

The two existing BOT power plants (Phu My 2.2 and Phu My 3.0) are seen by the government as unsatisfactory, and the government would like to modify substantially the risk-sharing mechanism between the private and public partners. Private partners share concerns also, but for different reasons. Reconciling these different points of view is crucial to build a more effective PPP framework. In this regard, it could be useful to evaluate these existing BOT projects to better understand the "perception gap" between private and public partners.

Viet Nam allows private sector participation in power generation. Of the total installed capacity, EVN's share is about 66%, with the remaining 34% being independent power producers (domestic non-EVN investors, both private and SOEs) and BOTs (primarily foreign investors). The government has adopted a unique PPP approach, where one power complex hosts both an EVN-owned plant and a private sector-owned plant, with the sites and common facilities prepared by EVN with public sector financing. This approach is seen to create incentives for private sector investors, who can utilize the common site facilities. This approach is being used at the O Mon thermal power complex, where EVN will invest (with ADB financing) in O Mon IV and, in turn, invite private sector investors to invest in the O Mon II plant. ADB plays a key facilitating role in PPP for the development of the O Mon thermal power complex, particularly by helping EVN finance O Mon IV and assisting the Ministry of Industry and Trade, through ADB's Private Sector Development Operations Department, in bidding out O Mon II.

The Ministry of Industry and Trade has initiated a tender process to select an investor for the 1,200 MW Nghi Son 2 coal-fired power project. The Nghi Son 2 project will be implemented on a 20-year BOT basis. One of the tender's new features is that bidders must agree on a set of the contractual arrangements up front with the government before the submission of their bids. Bidders will then be selected on a single-bid parameter, the lowest level tariff.

ADB is also looking at supporting the development of a 400-kilometer gas pipeline that will transport natural gas produced offshore to the gas distribution center at the O Mon thermal power complex. The pipeline is a joint venture between Chevron and state-owned Petrovietnam, where Petrovietnam has a 51% ownership, while Chevron and other investors hold the remaining share. ADB's participation in this PPP would be through a political risk guarantee of commercial bank lending to Petrovietnam, with a proposed counterguarantee to be provided by the Government of Viet Nam.

Given the continued growth of electricity demand and the need for private investment in the sector, there would appear to be substantial opportunities for ADB and AFD to play an important role in promoting PPPs in this sector through upstream and downstream activities, both in terms of sovereign operations and nonsovereign operations.

Transport Sector

The current transport infrastructure in Viet Nam is inadequate to meet Viet Nam's rapidly growing needs. Projections indicate that transport infrastructure industry investment will see its share of total infrastructure investment rising over the coming decade. The Government of Viet Nam estimates that the capital needed for the development of the national highways for 2002–2010 would be $8.7 billion. For urban transport systems, the Japan International Cooperation Agency estimated that for 2005–2015, $18 billion in investment will be needed in Ha Noi and Ho Chi Minh City. In the ports subsector, the government estimates that Viet Nam's seaports require immediate investments of nearly $2 billion. According to the government, during 2011–2020, nearly $5 billion in railway investment is required. For airports, the government estimates investment needs of nearly $1.5 billion.

The government has made improvements in the transport sector a priority, and therefore private investment is being sought in a range of transport subsectors including roads, ports, railways, and airports. In this regard, it is interesting to note that all of the 10 projects recently listed by MPI for priority PPP investment are in the transport sector, seven of which are toll roads. However, optimism for PPP in the transport sector is tempered by the weak regulatory environment governing long-term private participation in the sector and probably unrealistic expectations as to the appetite for such projects by the private sector without substantial government viability gap funding and/or guarantees. Toll road projects are among the most difficult to finance worldwide and to accurately estimate future traffic flows and associated revenue streams. Private sector participation in toll road and/or expressway projects is at a nascent stage. No tolled expressway is fully operational in Viet Nam, and the public's willingness to pay tolls is uncertain. Recognizing that toll roads and expressways are clearly one of the development priorities of the government, they still present a wide range of challenges in structuring as bankable PPPs and may prove to be difficult candidates as pilot PPP projects.

The development by the Phu My Bridge Corporation (PMC) of the $104 million Phu My Bridge spanning the Saigon River in Ho Chi Minh City will form part of a new ring road currently under construction. PMC is a private consortium comprising Cienco 620, CII, Investco, Hanoi Construction Company, and Thanh Danh Co. The bridge was officially opened to traffic in September 2009. PMC has a 30-year BOT license to operate the bridge, which was privately financed by PMC along with export credit guarantees from Australia, France, and Germany. This project certainly represents a potential model for future transport-related projects in Viet Nam. Phu May Bridge BOT Joint Stock recently secured government approval to sell $700 million in US dollar bonds in international markets to raise funds for other transport projects.

As an interim step to deepen private participation, ADB is exploring opportunities to engage the private sector in the operation and maintenance of expressways under the ADB-financed Noi Bai–Lao Cai Highway and Ho Chi Minh City–Long Thanh–Dau Giay Expressway projects. The private sector will also participate in the operation of the toll facility and expressway maintenance, via a concession contract, for the Ben Luc–Long Thanh Expressway Project under consideration. The government has requested ADB's assistance in developing the My Thuan–Can Tho expressway on a PPP basis. Through a proposed capacity development TA activity, ADB anticipates supporting an initial assessment of PPP feasibility and funding arrangements. If the result shows that a PPP is viable, it may be further developed as a project.

Given the above, ADB and AFD will need to be selective in looking at PPP opportunities in the transport sector. It is likely that significant TA and sector reform efforts will be required to ensure a PPP transport project is ultimately bankable in light of legal, regulatory, institutional, and financial challenges.

Water Sector

Most of Viet Nam's population, especially in rural communities, does not yet have access to safe drinking water. Although service coverage has reached 60%–70% of households in the major cities, coverage in medium-sized and small cities is only 50% and 30%, respectively. The government has formulated a two-stage water sector development strategy. The first stage focuses on system rehabilitation and institutional strengthening of urban and rural water suppliers. The second stage addresses demand and capacity expansion. According to government estimates, the investment capital required in Ha Noi and Ho Chi Minh City alone is $2 billion. Over the past decade, it is estimated that nearly 85% of all investments in the water sector have been funded through ODA.

The water sector in Viet Nam is highly decentralized, as is the case in many other countries. National ministries retain authority over water sector policy and approval of major projects, while the provincial people's committees are responsible for the smaller water supply services in their respective jurisdictions. The government encourages private bulk water development through BOT schemes with various forms of take-or-pay arrangements, particularly for the industrial sector. Whether a BOT project needs to be approved by the national or by a provincial government depends primarily on the capital investment involved in the project. Most of the BOT water projects currently in the pipeline are large, so they require the approval of the national government.

Water tariffs in Viet Nam remain heavily subsidized and are not market-oriented. Within the system, there are considerable cross-subsidies between different classes of consumers. The Ministry of Construction has indicated that on average, the tariffs approved by provincial people's committees reach only 60%–70% of the level that would be required to cover capital and operating costs and to service debt obligations.

Foreign private investment in Viet Nam's water sector is low, nor has past experience been conducive in providing investor confidence as to the policy and regulatory environment. A BOT bulk water supply project negotiated in 1994 between the Ho Chi Minh City Water Supply Company as off-taker and Binh An Water Corporation Limited, a special purpose vehicle owned 100% by a Malaysian consortium acting as the BOT company, proved unsuccessful. Key challenges included various project approval and construction delays, cumbersome land access and resettlement negotiations, lack of enforceable guarantees, and unrealistic risk allocation. The project was taken over by the Ho Chi Minh City Water Supply Company in 2004. Another BOT water project (Thu Doc Project) licensed in 1997, also in Ho Chi Minh City, proved unsuccessful, in this case involving a BOT project company consortium established by Lyonnaise Viet Nam Water Company and a Malaysian construction company. ADB, through its private sector operations window, had anticipated providing a $31 million loan to the project company, as well as potential guarantees for the commercial bank lending for the project. The project was later abandoned in 2003 by the foreign consortium due to contract disputes (primarily related to off-take price issues) with the Ho Chi Minh City Water Supply Company.

Looking forward in terms of potential ADB and AFD PPP-related opportunities in the water sector, it is clear that policy and regulatory issues, particularly in terms of the water tariff structure, will continue to constrain the bankability of PPP water projects. In this regard, further TA may be required to consider how viability gap financing might be provided to make the projects bankable. Accordingly, ADB and AFD would have to look carefully at any involvement with individual water sector PPP transactions, notwithstanding the strong development rationale to be engaged in this sector.

Findings and Next Steps

Findings

Viet Nam is at a crossroads with respect to PPP. It faces a significant infrastructure financing gap, estimated to be $150 billion–$160 billion over the next 10 years. However, Viet Nam has demonstrated very limited success in planning and implementing successful PPP transactions and faces a number of PPP-enabling framework challenges. Key findings include the following:

Few Public–Private Partnership Transactions to Date

For an economy the size of Viet Nam and with its increasing openness to private sector participation, private investment in infrastructure and PPPs have been very limited. Government approvals and support have been uncertain. Competitive bidding processes have not been the norm. Only two operational BOT projects have been competitively bid out (Phu My 2.2 and Phu My 3 thermal power plants, both with ADB private sector operations support). These projects operate under contracts reflecting standard international project agreements and include central government guarantees. However, investors in the Phu My 2.2 and 3 projects spent 7 years reaching power purchase agreements with EVN, the sole power buyer and distributor in Viet Nam. There is currently a lack of a credible PPP project pipeline. The private sector sees the government as "stop and go" when it comes to PPP policies and actions, and it views PPP bidding and negotiation processes as unpredictable and lengthy. Nor is the private sector entirely confident the government can carry out credible (pre)feasibility studies for PPP.

Recognition that Public-Private Partnerships are Vital to Address Huge Infrastructure Financing Gap

There is a clear consensus among a wide range of stakeholders (i.e., government, private sector, and other donors) that there is no choice but to advance PPP, especially in light of huge infrastructure needs. Another reason commonly cited is the concern about the potential for reduced access to ODA as Viet Nam moves to middle-income country status. To a lesser extent, PPP is also viewed as a means to improve efficiency and service delivery to citizens and to gain access to new expertise and technology.

Rationale for Public–Private Partnership and Appropriate Risk-Sharing Arrangements

The government needs to recognize that the efficiency and improved infrastructure services gains that can be accrued through successful PPPs are, over the long term, more important than the simple objective to mobilize private investment and to help fill a public sector budget gap. Furthermore, and in the context of the government's strategy to promote private sector-led growth, the government needs to ensure greater policy clarity and consistency with respect to opening up more private sector participation opportunities, including PPP. In turn, this needs to translate into better government understanding of private sector concerns about PPP constraints and a realistic appreciation of the appropriate risk sharing between the public and private sectors. Given a conducive, clear, and consistent PPP-enabling framework, followed through by predictable and transparent execution of PPP-related processes, the private sector will certainly respond if they see reasonable PPP opportunities to make a fair return on their investment capital.

Strong Champion at the Ministry of Planning and Investment

The MPI Vice-Minister, Dang Huy Dong, is an articulate and strong champion for PPP. He is now leading a government effort to develop an improved enabling framework for PPP. Recognizing the limited success in carrying out PPPs to date, specific actions are being taken to address existing legal, regulatory, institutional, and financial constraints. The Vice-Minister wants to put the government in the "driver's seat" for PPP and build credibility with the private sector that the government is serious about PPP in terms of the overall strategic approach and ensuring competitive and transparent processes to a standard capable of attracting qualified international bidders. The Vice-Minister also plans to centralize five initial PPP pilot projects through MPI in each of the relevant sectors (primarily transport, water, power, and possibly education and/or health care in the future). MPI intends to establish a task force empowered to engage consultants and necessary budgets for feasibility studies, perform "value for money" analyses, develop standard 20- or 30-year contracts, and study options to mobilize the government contribution (or viability gap financing). However, MPI, line ministries, and state agencies face capacity issues in terms of dedicated staff and budget support for PPP. Vice-Minister Dong was very vocal in requesting the various donors to provide MPI with a united/unified pool of resources, empowering MPI to access the inputs he requires as he felt that so far donors have been pushing their own PPP models and agendas. Vice-Minister Dong was equally adamant that the nongovernment–funded portion of the financing be provided on a nonrecourse basis, i.e., that no government guarantees be provided.

An Evolving Public–Private Partnership Framework

MPI is now in the process of developing the new Regulation on Public–Private Partnership Investment Piloting. The regulation would replace Decree 108 on PPP, which was only recently promulgated in January 2010. The new regulation takes a much more general approach to PPP, in comparison to Decree 108, providing broad guidelines for projects to be undertaken as pilot PPPs. Once the new regulation is approved by the Prime Minister by the end of 2010, it is anticipated the regulation would be revised in the future as the government gains experience with competitively bid PPPs. At MPI's request, the ADB–AFD team reviewed the draft regulation and provided comments separately.

Tariff Issues

For the priority sectors of power, transport, and water, challenges remain with respect to making projects bankable without addressing underlying low tariff issues or providing viability gap financing, particularly for transport and water projects. Given the uncertainty about the government's commitment to address tariff issues and users' willingness to pay, it will be important for the government to consider various options to provide viability gap financing (e.g., making land available or providing grants financed through ODA financing) to make projects financially viable and bankable. Otherwise, prospects for PPPs in Viet Nam will remain limited.

State-Owned Enterprise "Crowding Out" Concerns

While MPI is committed to ensuring that SOEs compete on a "level playing field" for PPP opportunities, there are still private sector concerns about bidding transparency and SOE access to state-directed and/or preferential financing (i.e. "crowding out" effect). Here, continued reform and improved corporate governance of SOEs will be important.

Consensus among Key Donors as to Public-Private Partnership Constraints and Issues

An informal working group of the "6 Banks" (i.e., ADB, AFD, JICA, KfW, Korea Eximbank, and World Bank) in Viet Nam has carried out a series of discussions related to PPP issues, including a joint PPP review in October 2009 and a recent follow-up discussion in April 2010. This group represents an excellent platform for forging a common approach to PPP and could be expanded to include other key bilateral donors who have PPP-related activities (e.g., Australian Agency for International Development, Department for International Development of the United Kingdom, and the United States Agency for International Development).

Limited Access to Long-Term Project Financing

The lack of development of dong-denominated long-term debt limits bankability for projects. The finance sector in Viet Nam is still relatively underdeveloped and unable to provide sufficient long-term capital needed by investors. Foreign banks are the most reliable source of medium- and long-term lending. For foreign-denominated debt, lenders are looking for credit enhancements and guarantee mechanisms, e.g., through export credit agencies. With few exceptions, most observers believe that until Viet Nam has a more established track record for PPP, credit enhancements and guarantees will be important to making PPP projects bankable.

Next Steps

With a renewed commitment by the government to ramp up PPP efforts and a strong and committed PPP champion at MPI, there appears to be a good opportunity for increased PPP engagement by ADB and AFD. Sectors of primary interest would include power, transport, and water. PPP opportunities for education and/or health would appear to be limited at this stage, although the higher education subsector may provide opportunities in the future. Next steps include the following.

Continue to Support Sector-Level Work in Transport and Power Sectors

Ongoing TA and project support efforts represent an important mechanism to advance the PPP agenda. The considerable experience of ADB and AFD in both the power and transport (particularly roads and urban transport) sectors provide opportunities to engage the government in at least promoting private sector participation (e.g., operation and maintenance management contracts as a first step) and potential PPP transactions. However, there are substantial sector reform and financial viability gap issues that need to be addressed.[4] ADB may also want to reconsider if it should be involved in port and airport projects, as these represent some of the most financially viable PPPs. In the power sector, ongoing work on the proposed O Mon Gas Pipeline Project (ADB support would be in the form of a guarantee for commercial bank loans to the state-owned Petrovietnam—this transaction is being coordinated between ADB's Southeast Asia Energy and Water Division and the Private Sector Operations Department's PPP Advisory Services) provides an opportunity to support an innovative PPP transaction. It also provides an avenue for addressing broader sector reform issues. Likewise, anticipated BOT power plant tenders provide an opportunity for potential nonsovereign and private sector operations. In the water sector, targeted water sector interventions should be considered that might help move the PPP agenda along, but recognizing the significant tariff issues and the generally unsuccessful record for water PPPs in Viet Nam to date. In particular, encouraging opportunities for integrated water sector PPPs that include not only bulk water supply but also network and distribution operations is what the private sector sees as the way forward.

Public–Private Partnership as a Key Strategic Program Modality

The PPP approach should be incorporated and mainstreamed in project preparation, as appropriate, as well as good coordination between public and private sector and nonsovereign operations. With the upcoming development of ADB's country partnership strategy, this will represent an opportune time to look at how PPP approaches could be mainstreamed, and to seek synergies to promote sector and policy reforms and provide capacity building support, while private sector operations provide assistance to catalyze private sector investments.

Monitor Private Sector Companies Involvement in Public–Private Partnership Transactions

The Private Sector Operations Department should ensure contact is maintained on a periodic basis with the private sector companies involved in PPP in Viet Nam (e.g. EDF, Veolia, etc.), to ensure adequate monitoring of the latest developments.

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[4] The Southeast Asia Department Transport and Urban Planning Division's anticipated capacity development TA for the proposed My Thuan–Can Tho Expressway PPP Project will be very useful in identifying and resolving a range of PPP constraints and issues with respect to expressway projects.

Encourage the Ministry of Planning Investment to Convene Donors' Discussion or Working Group for Public–Private Partnership

As MPI moves forward with the government's pilot PPP program, it would be useful to have a more coordinated approach among the principal donors, particularly in terms of TA and pilot projects. This initiative will address one of the key concerns outlined by MPI. The Viet Nam Resident Mission and AFD/Viet Nam will be sending a joint letter to MPI to promote this approach.[5]

Technical Assistance, Training, and Project Development Facility

Dependent on funding availability, the Southeast Asia Department and Viet Nam Resident Mission should consider a capacity development TA ($2 million) for 2011, focused on supporting MPI with long- or short-term advisory services and pilot transaction support. AFD could assist with in-country PPP-related training. Alternatively, and depending on government interest, the Viet Nam Resident Mission may want to consider offering a longer-term TA loan for developing a project development facility that would provide a more robust source of funding to support the development of a PPP project pipeline and pilot transactions. However, critical to any sustained PPP effort in Viet Nam will be securing a very strong commitment by the government to provide substantial funding and staff support for an empowered and effective PPP unit at MPI.

Viability Gap Funding Issue

Given tariff issues, identifying viability gap funding options will be critical in moving forward with bankable PPPs. The ongoing World Bank-funded TA project[6] looking at viability gap financing issues will be useful in informing the government in this area. Depending on the structure of such mechanisms, this may represent an opportunity to consider how our public sector lending window might provide government viability gap support for PPP projects.

Infrastructure Financing Facility Options

On the horizon is the issue of addressing the lack of long-term financing for private sector sponsors. In this regard, ADB and AFD may want to consider options over the next 2 years for developing a long-term infrastructure financing facility, similar to what ADB has supported in India and Indonesia.

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5 In a debrief by the mission team, the Viet Nam Resident Mission and AFD/Viet Nam requested that the team draft a letter that addresses a number of PPP issues, including potential additional support and comments on the draft PPP regulation.

6 TA is being carried out by the India-based CRISIL Infrastructure Advisory Services.

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Appendix 2

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Appendix 3

Scope of a Law on Concessions: International Best Practice

Public–Private Partnership Decree 108 Background and Analysis

In January 2010, the Government of Viet Nam, through the Ministry of Planning and Investment (MPI), issued a new public–private partnership (PPP) decree, Decree 108, which regulates investment in infrastructure projects built under build–operate–transfer (BOT), build–transfer–operate, and build–transfer contracts (each individually a "project contract"). The decree replaces the previous Decree 78 that was issued in 2007. Decree 78 was acknowledged to lack detailed guidelines regarding project preparation, tendering processes, when to grant government guarantees, and a basis for tariff setting and adjustment. Also, Decree 78 did not provide guidelines for other forms of PPPs such as performance-based contracts, leases, and concessions.

Decree 108 regulates investment sectors, conditions, procedures, incentives, as well as rights and responsibilities of the parties to a project contract. For the purposes of Decree 108, a build–transfer–operate contract means a contract signed between competent state authorities with investor(s) to build and operate an infrastructure facility within a certain period of time. At the expiry of such time, the investor(s) will transfer such facility to the state without compensation. Under a BTO contract, investor(s) will be given the right to operate an infrastructure facility within a certain period of time after transferring the built infrastructure facility to the state. For a build–transfer contract, on completing the construction of an infrastructure facility, the investor will transfer the facility to the state, and the state (i) will facilitate implementation of other project(s) by the investor(s) to recover the investment capital and earn profit, or (ii) make payments to the investor(s) under the agreement in the contract.

The government encourages the implementation of projects for (i) constructing, operating, or managing new infrastructure facilities; or (ii) renovating, expanding, modernizing, operating, or managing existing facilities in the following sectors:

- Roads, bridges, tunnels, and ferry landings
- Railways, railway bridges, and railway tunnels
- Airports, seaports, and river ports
- Clean water supply systems, drainage systems, and waste or sewage collection and treatment systems

- Power plants and power transmission lines
- Other infrastructure facilities as decided by the Prime Minister

The main issues addressed and key changes brought about by Decree 108 include the following.

Investor Selection

Relevant ministries will publish lists of projects calling for PPP investment in January each year. The general rule for selection of investors to participate in infrastructure projects is selection through competitive domestic or international bidding. The former Decree 78 was faulted for failing to set out detailed and transparent processes for selecting investors. Decree 108 requires MPI to draft implementing regulations to address this issue with a view toward streamlining tender processes. Aside from the preferred investor selection method through open tendering, projects may also be proposed by investors on an unsolicited basis or through direct appointment. With respect to projects proposed by investors, these projects will be published on a public list with a time period allowed for other potential investors to present alternate proposals. Under the direct negotiation appointment method, it is only permitted where only a single investor registers for the project or where there is an urgent need for an infrastructure facility (proposed by the relevant ministry or provincial people's committee) and as approved by the Prime Minister.

Authorized State Body for Negotiation of Public–Private Partnership Contract

An authorized state body (ASB) can be a ministry, a ministerial-equivalent government body, a provincial people's committee, or an authorized subsidiary body of these state authorities. Previously, only MPI had the right to approve projects. Under Decree 108, MPI's authorizing role is limited to projects of (i) national importance, (ii) projects in which a ministry or branch of a ministry is the ASB, and (iii) projects that cover an area in two or more provinces. Provincial-level people's committees will authorize remaining projects, with a view toward speeding up investment licensing procedures for PPPs.

Capital Requirement, Construction Security, and Limitation on State Capital

Decree 108 retains provisions requiring investors to meet a minimum equity ratio (10% or 15% depending on the total investment capital), representing a reduction from Decree 78 equity requirements of 20%–30%. As under the former decree, Decree 78 requires investors to provide a security payment to guarantee implementation of the project contract. Previously, capital contribution by state-owned enterprises was limited to 49% of the equity of the project company. Under Decree 108, state capital must now not exceed 49% of total investment capital for the project.

Project Transfer and Amendment of Project Contract

Decree 78 failed to address procedures for transfer of a project to another part. Decree No. 108 addresses this issue stipulating provisions on the transfer of rights and obligations provided that the transfer does not adversely affect the objective, size, technical criteria, and implementation schedule. The project transfer must be approved by the ASB. In addition to the transfer of the project contract, investors are permitted to amend the project contract due to changes in project scale, technical specifications or investment capital, and force majeure events.

Government Guarantee and Investment Incentives

A previous requirement to obtain the Prime Minister's approval of a guarantee prior to contract negotiations has been eliminated with Decree 108. Thus, the government has more latitude in now considering and granting a government guarantee, ideally spelling them out in project documentation before the start of the bidding process. To date, the two BOT power projects that have been internationally financed (Phu My 2.2 and Phu My 3) were both supported by central government guarantees. PPP project companies are entitled to a set of corporate income tax incentives and exemption from applicable land-use fees or land rent, and exemption from import duties on goods imported to implement the project.

Appendix 4
ADB–AFD Comments on Draft Public–Private Partnership Regulation for Viet Nam

Chapter I, Article 3, Clause 2 – Private Sector Contribution to Project

We would suggest adding the following sentence: "Capital may also be mobilized by loans, equity, guarantees or other instruments provided by multilateral or bilateral financial institutions."

Chapter I, Article 3, Clause 3 – Investor's Equity Capital

While we recognize that the proposed minimum equity requirement of 30% for the private sector sponsor of a public–private partnership (PPP) project may help screen the less serious and experienced project sponsors, there could indeed be projects that might warrant more flexibility. Accordingly, we would respectfully recommend that you consider a range for private investor equity capital, for example 15%–30%, or that you allow equity to consist of both shareholder capital and subordinated debt. Alternatively, you might consider stating a strong preference for at least 30% equity, but with the stipulation that lower equity ratios would be considered on a case-by-case basis, but not less than 15%.

Chapter I, Article 5 – Criteria for Project Selection

It may be useful to include other criteria for project selection including suitability of the project for PPP, feasibility of the project, acceptability of project risk(s) to be taken on by the government, and potential environmental impact of the project.

Chapter I, Article 6, Clause 2 – Cost for Preparing Feasibility Study Report

This clause could be improved by including a clearer statement of how the feasibility study is to be funded, per the preceding Clause 1. It is presumed that for a competitively bid PPP, a government-funded (pre)feasibility study will have been completed. Subsequently, the investor could undertake a full feasibility study, for which the costs could be recovered as stated in Clause 2. Alternatively, if you mean that the selected investor would be expected to reimburse the cost of the government's (pre)feasibility study, then this should be stated more clearly.

Chapter III, Article 14, Clause 2 – Unsolicited Proposal

This clause might be improved by including some further elaboration on whether an unsolicited proposal would receive some additional evaluation weighting as part of the evaluation process per the preceding Clause 1. If not, this may serve as a disincentive for unsolicited proposals. However, if this is the stated policy preference (i.e., to minimize unsolicited proposals), then Clause 2, as drafted, accomplishes this, but at the risk of potentially discouraging innovative proposals.

Chapter IV, Article 19, Clause 1 – 30 Days to Complete Project Contract Negotiations

While it is good to establish a very aggressive time period for completing post-bid negotiations, 30 days to do so may not be realistic. Alternatively, we would suggest within, for example, 6–12 months.

In addition to the above specific comments on the draft regulation, there are two other areas that you may wish to consider:

Bid Bonds

Decree 108 had specific requirements for bid bonds or initial security deposits. Is it the intent of the new regulation not to require such? If so, that should be made explicit.

Prequalification of Bidders

The draft regulation could be improved, we believe, by including some general processes for prequalification of bidders.

Appendix 5

ADB–AFD Cofinancing Pipeline for Viet Nam

Prospects for Loan Cofinancing in 2010–2012 as of 4 March 2010 ($ million)

Approval Year	Project Name	ADB OCR	ADB AFD Loan	ADB AFD Grant	AFD OCR	AFD Board Approval	ADB Loan Contribution	Total ADB AFD AFD Board Approval	Comment
2010	SME Development Phase II		40.0		40.0	Sep 2010	27.2	Mar 2010	AFD loan (€20 million)
2010	Strengthening Water Management and Irrigation Systems Rehabilitation		100.0		100.0	Apr 2010	28.3	Feb 2010	AFD cofinancing (€20.8 million)
2010	Hanoi Metro Rail System	293.5			293.5	Sep 2010	135.0		AFD loan (€80.5 million) 2006; supplementary loan approved Nov 2009 – cofinanced with Ministry of Finance of France (€200 million + €50 million) and EIB (€73 million)
2010–2011	Water supply and sanitation projects in selected cities (Danang, Hai Phong, Ho Chi Minh City, and Hue) MFF	127.0			TBD	Oct 2010	TBD		Preliminary discussion with AFD Ha Noi office
2011	Phuoc Hoa Water Resources (supplementary loan)		60.0		60.0		27.2		
2011	SME Development Phase III	60.0			60.0		30.0		AFD could be interested
2011	Microfinance Sector Development	40.0			40.0		TBD		"
2011	Energy Efficiency Program in the Industry Sector	40.0			40.0		TBD		"
2011	Power Transmission Sector Project (MFF $1.5 billion)	110.0			110.0		100.0		"
2011–2012	GMS Corridor Towns Development	22.0			22.0		TBD		"
2012	Power Interconnection (Ban Sok Pleiku)	30.0			30.0		60.0		"

ADB = Asian Development Bank, AFD = Agence Française de Développement, EIB = European Investment Bank, GMS = Greater Mekong Subregion, MFF = multitranche financing facility, OCR = ordinary capital resources, TBD = To be determined, VIE = Viet Nam.
Sources: ADB and AFD.

Appendix 6

ADB Indicative Public–Private Partnership-Related Projects for Viet Nam, 2010–2012

PROJECT TITLE	GMS Ben Luc–Long Thanh Expressway Project
Sector	Transport
Summary Description	The project will construct an expressway between Ben Luc and Long Thanh. Viet Nam Expressway Corporation (the executing agency) will undertake procurement of a service contract for O&M of the expressway.
ADB Assistance Approach/ Modality	OCR
ADB Funding	$300 million
Non-ADB Funding	Cofinanced with JICA (estimated at $850 million)
Remarks	
PROJECT TITLE	**Ho Chi Minh City Mass Rapid Transit Line 2 Project**
Sector	Transport
Summary Description	The project will develop Mass Rapid Transit Line 2 in Ho Chi Minh City, with full integration with the city's urban transport system to support its 2020 public transport targets. The executing agency will undertake a turnkey contract and O&M contract with the private sector.
ADB Assistance Approach/ Modality	OCR (MFF) and ADF
ADB Funding	$520 million
Non-ADB Funding	KfW to finance ∈280 million and EIB ∈150 million.
Remarks	PPTA for due diligence activity is being conducted.
PROJECT TITLE	**Hanoi Metro Rail System Project**
Sector	Transport
Summary Description	The project will develop the first light rail transit pilot line in Ha Noi. The line extends over 12.5 kilometers from Ga Ha Noi Station in the city center to Nhon depot west of the city. O&M and commercial facility service might be sourced out to the private sector after a stabilization of the system operation.
ADB Assistance Approach/ Modality	OCR

continued on next page

Table continued

ADB Funding	$293 million
Non-ADB Funding	Government of France ∈200 million, AFD ∈120 million, and EIB ∈73 million.
Remarks	PPTA for due diligence is being conducted.
PROJECT TITLE	**O Mon Gas Pipeline Project**
Sector	Energy (Gas Pipeline)
Summary Description	The project will finance the construction of a 400-kilometer-long gas pipeline that will transport natural gas produced offshore at the central production platform of Block B to the gas distribution center at O Mon District, Can Tho Province. Ninety percent of the gas supplied will be used to fuel the four power plans at the O Mon thermal power complex. The remaining gas will be supplied to Petrovietnam's Ca Mau 2 combined cycle power plant. The pipeline is a joint venture between Chevron and Petrovietnam, where Petrovietnam has a 51% ownership, while Chevron holds the remaining share. Electricity Company Viet Nam is the off-taker of the gas.
ADB Assistance Approach/ Modality	OCR
ADB Funding	$256 million (guarantee, through commercial banks)
Non-ADB Funding	KfW $100 million and Chevron $490 million
Remarks	PPTA was completed in 2008. Due diligence of technical, financial, and social and environment safeguards is being conducted.
PROJECT TITLE	**Guarantee to the Socialist Republic of Viet Nam for a Commercial Loan to Hanoi Power Company**
Sector	Energy
Summary Description	The project comprises 26 subprojects that can be categorized as those to (i) increase the power transformation capacity of existing substations (2 subprojects), (ii) rehabilitate 110 kV substations and transmission lines (9 subprojects), (iii) construct new 110 kV transmission lines (3 subprojects), (iv) construct new 110 kV substations (8 subprojects), (v) construct new 110 kV underground transmission cables (3 subprojects), and (vi) rehabilitate and upgrade medium-voltage and low-voltage distribution networks in Ha Noi (1 subproject).
ADB Assistance Approach/ Modality	OCR
ADB Funding	$85 million (guarantee, through commercial banks)
Non-ADB Funding ($)	
Remarks	Due diligence of technical, financial, and social and environment safeguards to be conducted in June 2010.

ADB = Asian Development Bank, ADF = Asian Development Fund, AFD = Agence Française de Développement, EIB = European Investment Bank, GMS = Greater Mekong Subregion, JICA = Japan International Cooperation Agency, kV = kilovolt, MFF = multitranche financing facility, O&M = operation and maintenance, OCR = ordinary capital resources, PPTA = project preparatory technical assistance.
Source: ADB.

Assessment of Public–Private Partnerships in Viet Nam
Constraints and Opportunities

This report is a diagnostic assessment of the readiness of Viet Nam to develop and manage public–private partnerships (PPPs). It was prepared jointly with the Agence Française de Développement (AFD), and it is part of a series of studies being prepared by the Southeast Asia Department of the Asian Development Bank (ADB). The study sets out the development strategy context for PPPs, reviews the enabling environment, and provides a gap analysis of current arrangements relative to international best practices. The analysis considers arrangements that can be put in place at the national and subnational levels, and identifies areas where AFD and ADB could provide assistance. The preparation of this assessment is an integral part of ADB's planning process to ensure coordination between the government's priorities and those of ADB, especially as regards ADB's Strategy 2020 and the PPP Operational Plan.

About the Asian Development Bank

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