

## STRATEGY FOR VIET NAM URBAN AND WSS SECTOR

The following are some of the main issues listed as key development objectives in the latest Country Strategy and Program (2007–2010).

### A. Background

1. The Ministry of Construction (MOC) is responsible for sector development planning and policy formulation, regulations, training, and technology transfer at the national level. The provincial people's committees (PPCs) are responsible for urban infrastructure development, including water supply, sanitation, and drainage development in the provinces. The town people's committees (TPCs) are usually responsible for administration of the town urban infrastructure, water supply and sanitation services. Drainage, wastewater treatment and solid waste services are provided by the urban environmental corporations (URENCOs) in the largest cities. Decree No. 131 (2006), "Regulation on Management and Utilization of ODA" provides legal power to the line agencies including PPC to take the lead role in appraising and requesting ODA projects, making investment decisions, selecting contractors, and monitor/supervise the performance of project owner within the parameter of existing legal regulations on investment and construction management.

### B. ADB Program

2. The CSP will focus on targeted infrastructure investments in small and medium-sized towns in the central region and along GMS economic corridors. The CSP will also help promote decentralized urban governance and capacity building, reforms for improved urban management and cost recovery of urban services, and environmental improvements. ADB's support will include the comprehensive socioeconomic development of selected small and medium-sized cities such as Thanh Hoa to strengthen development links with their rural hinterlands, and to reduce environmental pressures on the large cities. Urban infrastructure also needs to be developed in Hanoi and Ho Chi Minh City, especially in urban transport, where the Government is developing plans for rapid mass-transit systems.

3. ADB's strategy for urban water supply and sanitation sector seeks to use the water financing program, which aims to (i) support the rehabilitation, upgrading, and expansion of water supply and sanitation in urban centers to improve the investment environment; (ii) ensure equitable access to safe water supply and sanitation facilities and improve the health profile of the urban residents; and (iii) encourage policy changes and institutional reforms at central and provincial levels to enable sustainable development. This will help the Government achieve its targeted outcomes specified in the SEDP and sector development strategies. Emphasis will also be placed on private sector and community participation in planning and management of all urban development and environment initiatives. All urban projects will seek to minimize resettlement, enhance women's role in urban management and institutions, and apply affordable technical standards for infrastructure development.

### C. Sector Issues and Challenges

4. **Urban infrastructure, water and sanitation, and public services.** Most urban infrastructure is old and deteriorating due to inadequate capital investments and maintenance and inefficient public utility service provision. This results both from limited financial resources for capital investments and operation and maintenance (O&M), and weaknesses in the overall framework for provision of public services, and weak governance and capacity at the provincial

and town levels due to limited managerial, technical and administrative capacity, and limited participation of the private sector and civil society. Viet Nam is in a transition period for the provision of infrastructure and public services, especially in the water and sanitation sector. Faced with a disengagement from the private sector, the country is seeing an emergence of public private partnerships. From a World Bank Study on benchmarking carried out in 2002, it is estimated that only 50% of the urban population has access to piped and safe water supply. Larger cities benefit from a coverage of over 67%, while the small towns can hardly reach above 10% coverage. Sanitation is a Government priority, yet no capital investments are made outside the major cities. One of the major issues will be to deliver urban services and infrastructures to the new peri-urban areas.

5. **Funding for capital investments and O&M.** Mobilization of financial resources for capital investments and O&M in urban infrastructure have not kept pace with urban growth and industrialization, and resulting increases in demand for urban drainage, wastewater, sanitation, and solid waste systems. As a result, urban infrastructures are not developed in a sustainable manner with a very low efficiency, a lack of performance, a low staffing capacity. As a general rule, the municipal and provincial services involved in public service are under-budgeted, without any provision for debt service, making difficult borrowing for required coverage expansion, rehabilitation of infrastructure, replacement of equipment and water quality and other performance indicators' improvement.

6. **Planning framework.** Urban development is most often undertaken in a piecemeal fashion. In general, there is need for an integrated framework to link the planning of utilities and services with master plans and land-use spatial plans. Planning and budgeting functions need to be decentralized to PPCs, with central authorities providing regulatory oversight and technical assistance. Water supply companies (WSCs) need to be transformed from subsidized entities to more commercial entities that mobilize resources for capital investments and O&M from user charges, and which are accountable to their customers. The role and function of TPCs need to be strengthened to generate revenues needed to finance urban infrastructure investments. At the town and district levels, ambiguities about the respective roles of the TPCs and the PPCs departments of construction are also problematic.

7. **Institutional and policy reforms.** In 1998, the Government approved the Orientation Master Plan for Urban Development to 2020, which is outdated since it is based on the former central planning concept. Furthermore, the policy document does not take into consideration the move toward decentralization. The upcoming urban water supply decree planned for 2006 would provide a good framework for the development of the sector. A new decree is under preparation for urban sewerage and drainage. Legislative and institutional reforms are needed to enable government entities at various levels to effectively plan, develop, and manage urban infrastructure and related assets in line with user demands. The reforms should also prevent inherent conflict of interest and a proper regulatory framework assigning different responsibilities for planning, project implementation and operation. Mechanisms need to be established to ensure the sustainability and proper provision and functioning of public services with an appropriate tariff and municipal finance reform, building on the ongoing decentralization reforms. The Government must also ensure that its policies are mutually supportive, resource-efficient, and bring maximum benefits, including to the poor, taking special consideration for women and ethnic minorities changing its policy from blanket subsidies to targeted subsidies.

8. **Cost recovery and tariffs.** Government policies support the autonomy of WSCs and URENCOs, full cost recovery for water supply, and tariff guidelines. However, existing tariff levels in water supply are not sufficient for long-term financially sustainable operations. MOC

guidelines for water supply and drainage tariffs allow PPCs to set tariffs, but implementation details are lacking, including a lack of performance indicators, available from recent benchmarking studies. Also, there is an obvious conflict of interest in the decision making process for the PPC to allow a tariff increase to their WSCs. In addition, the current limitation of 10% of the water supply tariff for sewerage and drainage is not sufficient considering the higher capital investment required in these sub-sectors compared with water supply, resulting in a limited number of cities capable of financing debt service and O&M for wastewater management. This issue should be addressed during the preparation of the new decree on sewerage and drainage. Tariffs for waste management are set at levels that do not allow sufficient funds to be collected for proper O&M. More work is also needed to assess impacts of tariffs on the poor. Through the decentralization reform, the central Government is gradually eliminating subsidies in the water sector and promoting full cost recovery through direct charges to improve the financial autonomy and the sustainability of the urban service providers. Benchmarking and definition of performance indicators are necessary to ensure the efficiency of the service providers.

9. **Solid waste management.** Increased waste generation is a challenge for communities accustomed to open dumping, and burying or burning waste. Waste disposal sites in the large cities are nearing their carrying capacities; this presents a management challenge for O&M as well as a requirement to find alternative disposal sites or alternative disposal methods, including recycling in a context of increase pressure on land compensation in peri-urban areas and resistance of the population to live near a waste land field. It may be more economical for small towns to plan for regional landfills and organize collectively waste collection and disposal. Waste collection is usually well managed in the cities, but further effort is needed to improve waste disposal and treatment; to strengthen waste management institutions; and to promote public awareness on the importance of sanitary hygiene. Interventions need to recognize that women are responsible for a variety of tasks relating to sanitation and waste collection at the community and household levels, and comprise more than half of URENCO staff, employed in the lowest category of street sweepers and waste collectors. The size of the informal waste pickers has not been quantified, but is expected to show a gender bias.

10. **Technical and managerial capacity.** Limited institutional capacity is a major impediment to effective and responsive services. Planning and budgeting expertise are limited at the provincial level, while district and towns lack accounting, technical engineering, planning and supervisory skills. Development of technical guidelines, training materials, and other technical assistance are greatly needed to improve capacity and services. Even though there are legal provision for women equality and a promotion of gender balance in Vietnam, most women still occupy low level jobs on urban institutions and WSCs and lack opportunities and capacities to occupy senior or management positions. Enhancing women's role in the planning and management of urban, water supply and sanitation services is also needed and ensure that the system designed and the level of services are demand driven.

11. **Private sector participation.** There is only limited private investment in the urban and water sectors. Attracting private investments for urban infrastructure development will require improvements in the regulatory framework and business environment, and greater accountability. A new concession law is being drafted and due in 2006; it should provide the basis for enabling the public private partnership and private sector participation. Pending the application of the Concession Law and the Decree on Urban Water Supply, the water sector is in transition mode with a emerging framework in place to support private sector participation through state-owned enterprises setting-up joint-stock companies to supply bulk water sale in Hanoi and Ho Chi Minh City.

12. **Community awareness and participation.** Limited community awareness and participation in planning and management of urban services constrains efficient provision of urban infrastructure and water supply and sanitation services, especially in small and medium-sized towns. The challenge is to change attitudes to investing in household sanitation facilities and change water use and hygiene practices. A enforcement of the policy on full cost recovery would promote a change of attitude in the water use. Thus, physical investments and tariff increase of services need to be accompanied by client-oriented services and culturally appropriate education awareness programs, such as communication plan on how the providers performed, including a presentation on investment and maintenance programs done during the year as well as future investments and target increase in the level of service by the providers.