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SUPPLY MANAGEMENT MODELS FOR COMMUNITY GROUPS IN TIEN GIANG PROVINCE – SOUTH OF VIETNAM

(Best practice from Tien Giang Province of Viet Nam)

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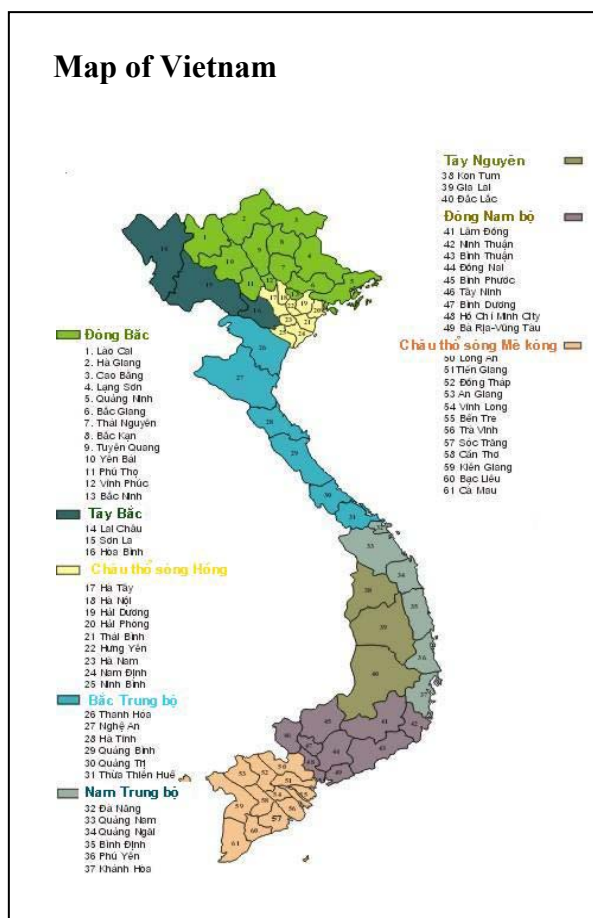
1. General information:

Located in Mekong River Delta, Tien Giang borders Long An province to the North and Ho Chi Minh City to the Northeast and Ben Tre, Vinh Long provinces to the South, Dong Thap province to the West and East sea to East. It has natural surface of **2,236** Sq. km with administratively 7 districts, one Town and one City (My Tho City).

The population of Tien Giang is estimated of about **1,665,288** people (2005), of which 235,000 are urban and **1,430,000** are rural inhabitants. The average GDP growth is about 9.5% per year . Tien Giang is real farming province (about 80% of the population are farmers), where wet rice is key production for the province with 73% of the population is under the labour force of the province.

2. Status of water supply in Tien Giang province:

- **Before 1998:** Tien Giang is the province has lowest rain water level in Mekong River Delta, however, it is bestowed with plentiful source of surface water and the crossed by a number of big rivers such as Tien river, Soai rap river. Tien Giang also has good ground water source both in term of quality and quantity. Due to geographical and topographical conditions, Tien Giang is lied at the end of the downstream, flood often occurs later than it does with other Mekong Delta provinces, as result, waste and garbage from upstream block up. In the inner fields, was badly polluted by domestic waste from human and animal disposals. Due to the long traditional



and bad habit of using water from small channels with simple treatment and using fishpond latrines had been the main reasons for many water and sanitation related diseases, such as typhoid, diarrhea, eyes sore etc.

The coverage of rural water supply of rural population is estimated of about 30% of provincial population, and 40% of rural households have some kind of latrines.

- **From 1998 to Present:** Since 1990, United Nation Children Fund (UNICEF) has started to support Tien Giang in improvement of rural water supply. The support is provided in kind and technical support through technology transferring in using hand pump for exploitation of underground water. By 1998, about 10,000 wells with hand pump were completed which provide 30% of rural inhabitants.

The use of water from boreholes has created a good habit of using underground water and helped to improve water supply situation in the province. However, uncontrolled drilling and exploitation of water has led to the fact that many boreholes can not be used due to low reserve or poor water quality.

3. Investment for RWSS: Investment in rural water supply facilities is from various finance sources: Government budget (central and local governments), user's contribution or private investment. Annually, government fund is allocated to partly support the construction of infrastructure of piped water supply scheme such as: drilling borehole, construction of water tower, purchasing pumps which accounts for (30 – 40)% of total investment cost. User's contribution which accounts for (60-70)% of total investment cost will be used for transmission pipeline, household connection and water meter. By the end of 2004, 523 piped water supply systems were completed and put into operation with total investment cost more than 120 billion Vietnamese Dong (equivalent to about \$ 8 Million) of which support from government was about 40.0 billion VND, the rest was from user's contribution through various management models such as Cooperative groups, Cooperative or Private Enterprises.

4. Results obtained: Since 1998, rural water supply in Tien Giang has developed remarkably in term of piped water supply schemes. By end of 2003, about 71% of rural population has access to water sources, of which 46% of the population has access to the 458 piped water supply schemes and only 25% has access to individual water sources. By the end of 2004, there are 523 piped water supply schemes in the province which provide water to 77% of provincial rural population.

The main reasons that lead to success of water supply in Tien Giang is

The development of piped water schemes in the period of 1997 – 2004.

Totals by end of year:	1997	1999	2001	2002	2003	2004
Number of RWS systems organized as/managed by:	174	268	366	415	458	523
• Cooperatives	4	26	27	27	28	30
• Cooperative groups	157	157	235	260	291	340
• Private enterprises	10	40	69	73	81	90

• State owned enterprises	3	25	35	55	58	63
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4. Existing supply management models:

One of the orientations of the National Strategy on rural clean water supply and sanitation up to 2020 which approved by Prime Minister by Decision 104/2000/QĐ -TTg dated 25 August, 2000 is to promote internal forces of inhabitants and inhabitant groups and speed up the socialization in the investment and construction. In which, the very users will decide management models for the supply of clean water on the basis of their financial and management abilities. Therefore, a good management model shall play a very important role in assisting users to ensure their demand for clean water supply.

As a representative of users, management models are organized to carry out the following:

- (i) Mobilization of capital, (ii) Construction and maintenance, (iii) Collection of fees for refunding the invested capital, (iv) Ensuring the equality of users in the water supply.

Unlike traditional business forms in the market economy, models for management of clean water supply schemes shall have the following characteristics:

- Not for profit purposes;
- The number of people participating in the management may be very high;
- The investment is long term and directly relating to the basic demand of many users;
- Management skill is not high;

Therefore, management models must be selected and implemented to meet the following objectives:

- Ensuring the mobilization of capital for construction of schemes;
- Ensuring the users to take part in the management and ownership of water supply facilities;
- Minimizing management expenses;
- Collecting fees sufficient to refund the initial investment capital and maintain the normal operations of the schemes;and
- Ensuring the sustainable development of the water supply service.

According to prevailing laws and regulations, various models mentioned below (both for rural and urban) may be used for supply management of the schemes: (i) State-owned enterprises, (ii) Cooperatives, (iii) Joint stock companies, (iv) Limited liability companies with one member; (v) Limited liability companies with two members or more, (vi) Private enterprises, (vii) Business households; (viii) Cooperative groups and (ix)Enterprises with foreign-invested capital.

For improvement of rural water supply situation in the province, Tien Giang Provincial People Committee (PPC) and State Management Departments had issued the following documents:

- Directive No. 16/ CT-UB dated 8 August 1998 of PPC on Management of Rural Water Supply.
- Decision No. 2420/1998/QĐ-UB dated 8 September 1998 of PPC on provisional stipulations on Management, Exploitation, and Trading of rural water supply;
- Guideline No. 31/ HD-NN-PTNT dated 18 January 1999 by Department of Agriculture and Rural Development (DARD) guiding on Management, Exploitation, and Trading of rural water supply;
- Letter No.216/TC dated 4 May,1999 of the Ministry of Finance guiding on Management, Exploitation, and Trading of rural water supply
- Letter No.347/NN-PTNT dated 1st June, 2000 of DARD introducing RWSS pilot projects;

- Proposal 125/TT-NN-PTNT dated April, 2001 by DARD on issuing business license for rural water supply for domestic purposes etc.
- Decision No.29/2005/QD-UB dated 12 July, 2005 of PPC on adjustment water tariff in Tien Giang province.

These legal documents created good conditions for development of water supply in the province..

In Tien Giang the following supply management models for RWSS are widely developed:

MODEL 1: COOPERATIVE GROUPS

Establishment. Cooperative group is established under the Civil Code of S.R of Vietnam, based on the basic of a cooperation contract which is certified by the Commune People Committee (CPC). A cooperative group includes 3 individuals or more. Group members contribute assets and labors to carry out a certain work.

Main characteristics

- All right and obligations and other relevant issues are stipulated in the cooperation contract.
- Group members contribute assets and labors and enjoy the result of the cooperation in accordance with the signed cooperation contract;
- Liabilities of the group shall be jointly and severally incurred by all group members;
- Cooperative groups do not have a legal entity status. However, cooperative groups may carry out civil transactions on their behalf as a group.

Owners/members

Members of a cooperative group are individuals, who are 18 years old or more. A cooperative group is also entitled to sign labor contracts with persons, who are not members of the cooperative group, to carry out certain work for the group

Liabilities

Cooperative groups bear unlimited liabilities. Group members shall jointly and severally incur all debts and other financial obligations of the group in cases where the assets of the group are not sufficient to pay debts or fulfill financial obligations.

Management

The management of a cooperative contract shall be agreed by the group members in the cooperation contract. Head of the cooperative group is appointed by group members and represents the group in all civil transactions. Head of the group may authorize a group member to carry out certain work.

Capital considerations

Assets (including cash, equipment, machinery and so on) of a cooperative group may be mobilized either from the capital contributed by group members, loans obtained from various sources or donations from a third person.

With respect to the management of piped water supply schemes in rural areas, cooperative groups have the following advantages and disadvantages:

Advantages

- The management and operation of the cooperative are flexible, because (i) the establishment procedure is simple, (ii) all matters relating to the operation and management of the cooperative may be flexibly agreed in the cooperation contract;
- Water exploited by the group and consumed by its members shall not be subject to value added tax (VAT);

Disadvantages

- Management of a cooperative group may face difficulties, because (i) legal framework is not well defined and (ii) provisions mentioned in the contract are unlikely to cover all aspects of operations of the cooperative groups;
- Difficult to sign contracts, mobilize capital and admit members and operate large scheme (more than 1,500 households for example).

Assessment

In comparison with other business entities, Cooperative Groups has a number of disadvantages, especially in case of management of big water supply schemes. However, this management model may be effective in cases, where a group of users enters into a cooperative contract to raise fund for installing a piped water scheme. I

MODEL 2: COOPERATIVES

Establishment. A cooperative is established under Cooperative Law by laborers, who share common need and interests and volunteer to contribute capital and labor to bring into play the combined strength of the collective and of cooperative members.

The establishment of a cooperative may be divided into the following steps:

Firstly,

- Prior approval by Commune People Committee;
- First meeting of cooperative members;
- Business registration.

After the prior approval by the People's committee is made, founding members organize the first meeting of cooperative members for passing the cooperative charter and other important issues in connection with the establishment and operation of the cooperative.

Finally, the cooperative is registered its business at the District People Committee (DPC) of the district where the head office is to be located. The business registration dossier includes:

- An application form for business registration;
- Minute of the first meeting;
- Cooperative charter;
- List of members of the executive committee and inspection committee.
- List of cooperative members;
- Business plan of the cooperative.

The establishment of cooperatives is highly appreciated in Vietnam. Local authorities have the duty to campaign, assist and facilitate the formation and development of cooperatives in their localities.

Mass organizations may be allowed to operate in cooperatives, namely the Communist Party of Vietnam, trade unions, farmers' associations, militia and self-defense forces and other socio-political organizations. However, these organizations must operate in accordance with laws and their charters. The Government shall promulgate model charters for various types of cooperatives suitable to the features of each branch and each field of the national economy.

Main characteristics

- DPC approves the establishment of cooperative
- It is a self-governing economic organization established by laborers;
- Cooperative is an independent legal entity and enjoys limited liability regime;
- Profit is not the primary purpose of cooperative members.
- The number of members of a cooperative may be high.
- The division of profit in cooperative is not only based on the capital contributed by each member but also based on his or her labor and his or her use of services of the cooperative;

Owners/members

Owners of the cooperative are the very cooperative members. However, in some cooperatives, the State may subsidize a part of capital or there may be some assets and infrastructure used for the public community under the management of the cooperative. These capital and assets shall still belong to the State or the community.

Liabilities

Liabilities of a cooperative are only limited to the capital contributed by cooperative members. Each cooperative member shall be liable toward the cooperative and a third person within his or her contributed capital.

Management

A cooperative is managed by the Congress of cooperative members, executive committee, inspection committee and the cooperative manager. The Congress of cooperative members shall have the highest power. Cooperative manager is appointed by the Congress of cooperative members to represent and manage daily works of the cooperative.

Capital considerations

Capital of a cooperative may be mobilized from the following sources:

- Capital contributed by cooperative members;
- Loans borrowed from cooperative members;
- Loans obtained from banks and State funds; and
- Capitals and assets subsidized and donated by the State, local and foreign individuals and organizations.

Presently, there is no requirement on the minimum capital with respect to cooperatives operating in the field of clean water supply. However, since the cooperative is subject to the prior approval of the CPC, therefore, a capital amount appropriate to the business plan should also be taken into consideration. It is also worth noting that the capital contributed by each member may not be lower than the minimum level, which is stipulated in the cooperative charter. On the contrary, a member may not contribute more than 30% charter capital of the cooperative.

Accordingly, cooperatives are obliged to establish the following compulsory funds: (i) production development fund, (ii) training fund, (iii) stand by fund and (iv) welfare fund.

Advantages

- The cooperative may mobilize capital from various sources;
- People in rural areas of Vietnam are quite familiar with this management model;
- Easy to collect service fees since the service is provided to cooperative members;
- The division of profit based on capital, labor and the use of the cooperative's service encourages members to attach themselves to the cooperative;
- The establishment and operations of cooperative is appreciated by the State and local authorities.

Disadvantages

- The mobilization of capital of a cooperative is somewhat limited due to (i) democratic principle in the management; (ii) a cooperative member may not contribute more than 30% of the capital of a cooperative;
- The management in a cooperative is complicated, because (i) the number of number of a cooperative often is high; (ii) a cooperative must establish many compulsory funds;
- The selection of good employees is limited because of the fact that priority must be given to the employment of cooperative members.

Assessment

With respect to the management of rural piped water schemes, the *cooperative model should be carefully considered*. Even though cooperatives have a lot of advantages, the democratic principle

in the management of this model have made it less attractive, especially in the current situation where the economy is market oriented.

MODEL 3: PRIVATE ENTERPRISE

Establishment: Private enterprise is an enterprise owned by one individual, who shall be liable for all activities of the enterprise to the extent of all his or her assets. Private enterprise is established under the Law on Enterprises.

To register the business of the enterprise, the enterprise owner prepares an application form, which contains the following main contents:

- Personal data of the enterprise owner;
- Name of the enterprise;
- Address of the office;
- Line of business;
- Investment capital.

The application form shall be lodged with the business registration body at the district level. The business registration certificate shall be issued within 15 days.

Main characteristics

- All assets of the enterprise are wholly owned by one individual;
- The enterprise owner is liable for all activities of the enterprise by all his or her own assets;
- Private enterprises do not legal entity status.

Owners/members

The owner of a private enterprise is an individual, who is concurrently the legal representative of the enterprise.

Liabilities

The enterprise owner shall be liable for all activities of the enterprise by all his or her own capital. Accordingly, in cases where the capital of the enterprise is not enough to pay debts, which become dues, the enterprise must pay such debts by his or her own assets.

Management

The owner of a private enterprise shall have total discretion in making all business decisions of the enterprise. The enterprise owner may directly manage and administer the business operations or employ other person to do so. Where another person is employed as the director to manage the enterprise, the enterprise owner must declare this employment with the business registration body and shall remain responsible for all business activities of the enterprise.

Capital considerations

Capital of a private enterprise may be mobilized from (i) the investment capital of its owner, or (ii) loans obtained from banks or a third person.

During the course of operation, the enterprise owner may increase or reduce the capital invested in the enterprise. The enterprise owner may only reduce the investment capital below the amount of registered investment capital after declaration with the business registration body.

The tax regime applicable to private enterprises is the same as that of a joint stock company.

Advantages & Disadvantages

- The management is simple because the enterprise owner may decide (i) all business activities and (ii) mode of management;
- The establishment procedure is rather simple, the enterprise owner needs only to register its activities at the business registration body without the preparation of any charter.
- There is no conflict of interest among the enterprise members;
- The enterprise owner may flexibly increase or reduce investment capital of the enterprise.

- Private enterprise cannot admit new members;
- Being a business entity, private enterprises must pay taxes;
- It is difficult for private enterprise to collect fees from users;
- The enterprise owner must bear all responsibilities with respect to the operation of the enterprise.

Assessment

In general, *private enterprises are not appropriate for the management of water supply schemes* since this model contains many constraints in term of the number of participants, the possibility to mobilize capital and the ability to manage projects.

However, this model may be selected in cases where the investor has capital sufficient to invest into a water supply scheme and then provide the service to other users. In the case, when the enterprise acts as a contractor providing construction, installation, maintenance or other related services to a group of water users this model may be useful.

MODEL 4: STATE OWNED ENTERPRISES

Establishment: State owned enterprise “SOE” is an economic organization, the capital of which is wholly owned by the State. The establishment, management and operations of SOEs are basically governed by the Law on State Owned Enterprises. The establishment of an SOE may be classified into two steps as follows:

Step1: State competent bodies consider the feasibility study of the project and issue the decision on establishment of an SOE for implementation of such project.

Step 2: Representatives of the enterprise register its business at Provincial Department of Planning and Investment. The application dossier for business registration includes¹:

- Establishment decision of the enterprise;
- The enterprise’s charter;
- Certificate on the right of use of the head office; and
- Decision to appoint the chairman and members of Board of management and director (or general director).

Main characteristics

- It is an economic organization invested and established by the State;
- All assets of an SOE belong to the State;
- SOEs are directly or indirectly managed by the State. Accordingly, the State may assign SOEs with specific tasks, appoint and/or dismiss directors, chairman and members of Board of Management (BOM)ther important managing positions of the enterprise.
- SOEs are recognized as independent legal entities and enjoy limited liability regime.

Owners/members

Owner of an SOE is the State. The State may appoint/dismiss the chairman and members of BOM, director or other important managing position of the enterprise.

According to Art. 15 of the Law on State Owned Enterprises, the bodies directly in charge of establishment and management of an SOE may be (i) the Government represented by the Prime Minister, (ii) various ministries and (iii) People’s committees of provinces and cities under the Central authorities.

Liabilities

An SOE has the legal entity status and takes responsibility for all its activities in business operation within the limit of the capital placed under its management.

Management

The mode of management of an SOE shall be basically decided by the State as an owner. The State may manage its SOEs as follows:

- Decide to establish, dissolve, divide or merge enterprises;
- Set out business objectives, plans and strategies of each enterprise;
- Appoint/dismiss important managing positions of the enterprise.

Depending on their business scale, SOEs may be managed in accordance with the following models:

- BOM and Inspection Committee
- Director (general director) and assisting apparatus;

regarding the first model, BOM manages the activities of the enterprise and is responsible to the State for the development of the enterprise in accordance with the objectives assigned by the State.

In the second model, the director (general director) is to be appointed by the person having decided on the establishment of the enterprise. The director is the legal representative of the enterprise and responsible before the person having appointed him or her for the administration of the business operations of the enterprise.

Capital considerations

Capital of SOEs shall be invested by the State. In addition, SOEs may obtain loans from various sources.

Tax considerations

With respect to SOEs, the following taxes may be taken into consideration: (i) Value Added Tax (hereafter “VAT”), (ii) Corporate Income Tax (hereinafter “CIT”), and (iii) Licence Tax.

Regarding VAT, the clean water shall be subject to a VAT rate of 5%.

Besides the above taxes, SOEs are also obliged to pay the State the charges on the use of the State’s capital depending on their business performance.

Advantages

- Major capital necessary for the schemes may be funded by the State;
- Easy to obtain loans from credit institutions by guarantees of the State;
- Losses during the course of operation may be subsidized by the State;
- Easy to collect fees from users since many measures may be taken against those, who fail to pay fees on time;
- Being able to manage a big and very big schemes;
- Being able to operate in far and remote areas where users are unable to mobilize capital to invest their own water supply schemes or other business entities are reluctant to invest in.

Disadvantages

- The management is complicated and not flexible since main business operations of the enterprise are more or less decided by the State;
- Since all assets of SOEs belong to the State, operations of SOEs are subject to frequent examination and inspection of the State bodies, which shall create difficulties for the enterprises themselves;
- Presently, SOEs are only established in case of necessity;
- SOEs may not decide on the water supply fees by themselves but collect the fees in accordance with fee levels pre-set by the State;

Assessment

SOEs have been a traditional form for management of projects for public interest purposes like piped water supply schemes. In fact, most water supply companies in cities and in a number of provinces of Vietnam are now running under the form of SOEs, which receive quite a big investment from the State.

However, in recent years, the State has determined to socialize the water supply service. Therefore, *SOEs may not be considered as a fundamental choice*. The State only establishes SOEs in cases where it is necessary, thus paving the way for the involvement of enterprises and business entities belonging to other economic sectors.