

## SECTOR ASSESSMENT (SUMMARY): TRANSPORT

### Sector Road Map

#### 1. Sector Performance, Problems, and Opportunities

1. Development of transport infrastructure has driven Viet Nam's economic growth. The country's gross domestic product (GDP) has increased 3.2 times since 1997, and GDP per capita reached \$2,389 in 2017. Transport demands for passenger and freight have grown at double the pace of GDP growth. However, there was a downturn in both transport investment and economic growth during 2011–2015 compared to 1995–2010 because the Government of Viet Nam had limited budget for transport sector investment, which serves as a deterrent and restrains economic development. To maintain its growth momentum and to boost economic development during 2022-2028 the government needs to maintain an adequate level of investment in the transport sector.

2. As of 31 December 2017, the total length of country's road network was 289,870 kilometers (km), including 815 km of expressways (0.28%), 22,783 km of national highways (7.86%), 27,176 km of provincial roads (9.37%), 57,274 km of district roads (19.76%), 173,294 km of commune roads (59.78%), and 8,528 km of special roads (2.94%).<sup>1</sup> Road transport has been growing rapidly since 1997. As of 31 December 2017, there were 2,948,923 vehicles in the country, including 155,064 buses and 1,084,581 trucks.<sup>2</sup> In 2017, the share of road transport for passenger traffic was 94.14% and 77.64% for freight traffic. From 2000 to 2017, passenger transport grew by an annual average of 10.96% and freight transport by 12.46%.<sup>3</sup>

3. **Unbalanced strategy for sector development.** Although the geographical features of Viet Nam offer strong comparative advantages for railways, inland waterways, and maritime shipping, the bulk (about 87.6%) of total transport expenditure during 2001–2010 was allocated to the road subsector. As a result, consistent with the flow of investments, the current modal shares of the transport subsectors became unbalanced, with a bias toward roads, and the perennial issues of underutilized inland waterways and railways modes remained unresolved.

4. **Inadequate road connectivity and intermodal linkages.** The connectivity index is 0.81 for roads and 0.064 for national highways, including expressways.<sup>4</sup> A comparison between the demand side (population density) and the supply side (road network density) in Viet Nam and other developing countries in the region shows that the road and highway network in Viet Nam is relatively weak. To improve connectivity, expressways should be effectively linked with ports and the railway network, and the ring roads in Ha Noi and Ho Chi Minh City (HCMC) must be completed. These measures will improve the performance of the road network and strengthen intermodal transport in urban areas.

5. **Lack of road traffic safety.** The average annual growth rate of registered motorcycles and cars was approximately 14% during 2000–2015. The numbers of accidents and injuries sharply declined during 2012–2015, with the number of injuries exceeding 20,000 in 2015. The

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<sup>1</sup> Government of Viet Nam, Ministry of Transport (MOT), Directorate for Roads of Viet Nam. [http://drvn.gov.vn/thong-tin-thong-ke/-/view\\_content/content/512935/](http://drvn.gov.vn/thong-tin-thong-ke/-/view_content/content/512935/).

<sup>2</sup> Government of Viet Nam, MOT. 2018. *Annual Report 2017*. Ha Noi

<sup>3</sup> Government of Viet Nam, General Statistics Office. Statistical Data. Transport, Postal Services and Telecommunications. [http://www.gso.gov.vn/default\\_en.aspx?tabid=473&idmid=3](http://www.gso.gov.vn/default_en.aspx?tabid=473&idmid=3).

<sup>4</sup> The connectivity indexes are calculated as follows: (i) total road network length (km)/total country area (square km), and (ii) total length of the national highways and road expressways (km)/total country area (square km).

number of fatalities began declining gradually in 2007, to about 15,000 in 2015. Nevertheless, road safety still remains one of the major issues of the transport sector. Road accidents account for 97.8% of the total number of accidents in the transport sector, and 96.6% of total fatalities in all transport modes. About 62% of road accidents are attributed to road users.<sup>5</sup> To reduce accidents and fatalities, a binding code of ethics must be developed by the Government to enhance professionalism in policy development, engineering issues (including reengineering of accident black spots), and regulated business operations.

6. **Inadequate transport operation control and management.** During 2006–2015, transport volumes increased by about 9.5% per year nationwide, transport business entities grew by about 14%–17%, the number of buses increased by 5%, and the number of trucks increased by 15%.<sup>6</sup> These developments created “excessive competition in business environment.” The Transport Development and Strategy Institute under the Ministry of Transport (MOT) reported unethical practices by transport operators, such as operation of illegal buses and unplanned bus stations, unsafe pickups and stops for passengers, speeding, and overloaded trucks (footnote 2). The government needs to address these issues up front to ensure fair business competition, good service quality, and improved road safety standards.

## 2. Government’s Sector Strategy

7. The government approved the revised transport sector development strategy up to 2020 and vision to 2030 (footnote 6), together with a master plan for roads development, on 25 February 2013. The strategy emphasizes priorities on sustainability of investment, promotion of the country’s geographical location and national resources, multimodal transport, adoption of modern technology to provide sustainable transportation at reasonable costs, regional integration and international cooperation, safe and convenient mass transit systems, improvement of local transport network, and planning and reservation of land. A set of goals was formulated for implementing these priorities, which included the following: (i) balanced transport development, (ii) infrastructure development, (iii) urban transport development, (iv) rural transport development, and (v) transport industrial development. To achieve the goals, various measures were planned, including mobilization of finance, priority development and connectivity improvement, balanced transport policy formulation, effective traffic safety policy, transport sustainability, restructuring and equitization of state-owned enterprises, and human resource development.

8. In response to the strong demand for the sector’s restructuring and development, the Prime Minister approved the strategy for transport operations, including a proposal for restructuring the sector, in July 2014. This strategy consists of priorities, goals, and measures for streamlining the transport sector. The major goals were planned up to 2020 and with vision to 2030, including (i) planned transport demand of passenger and freight, (ii) shares of transport modes, (iii) shares of urban public transport in Ha Noi and HCMC, (iv) logistics cost to GDP ratio, and (v) reduced traffic accidents. Furthermore, strategic development approaches were formulated for the road, rail, inland waterway, maritime, and aviation subsectors, which included development of the transport market, transport vehicles, and transport operation business. Implementation measures included policy improvement, priority investment for infrastructure, transport operation control and enforcement, human resource development, transport operation safety, and international cooperation. The passenger transport share is expected to be 93.71%

<sup>5</sup> Government of Viet Nam, Vietnamese Traffic Police (Cuc Canh Sat Giao Thong). Situation of Traffic Accidents in 2015. <http://www.csqt.vn/tintuc/4653/Tinh-hinh-tai-nan-giao-thong-nam-2015.html>.

<sup>6</sup> Government of Viet Nam. 2013. *Decision No. 356/QĐ-TTg. 2013: Adjusted Planning for Road Traffic Development in Viet Nam by 2020 and the Orientation towards 2030*. Ha Noi.

for 2020 and 95.36% for 2030. The freight transport share is expected to be 58.36% for 2020 and 57.8% for 2030. To cope with such increased transport demand, the strategy proposed to improve national highways, expressways, and network connectivity. In addition, investments in main corridors of railways and inland waterways are planned, and development and efficient usage of major ports such as Lach Huyen, Cai Mep, and Thi Vai are proposed.

9. In March 2016, the master plan for road expressway development (nationwide) to 2020 and the vision for 2030 was approved by the Government. The master plan's key goals are to improve national and regional linkage, which would help promote social and economic development and intermodal transport, and reduce traffic congestion in major cities. The master plan aims for the development of a total of 6,411 km of expressways on the north–south routes (east and west sides), northern region network, Central and Highland regions, southern region, and ring roads of Ha Noi and HCMC. The master plan proposed financing these improvements by state budget, public–private partnerships, and official development assistance. In total, 2,703 km will be built by 2020, requiring investment of D342,585 billion, and an additional 2,699 km will be built during 2020–2030, requiring investment of D599,186 billion.

10. The MOT continues to emphasize development of road and highway infrastructure. On 28 September 2016, the MOT submitted a proposal to the Prime Minister to develop the north–south route (eastern side) from Ha Noi to HCMC. Development of 1,372 km of expressway has been proposed during 2017–2022 at a total estimated cost of D229,826 billion (\$10 billion). Of the 20 total sections, build–operate–transfer and build–transfer arrangements are proposed for 18. However, to mitigate the risk of increasing Viet Nam's public debt, which reached about 61.8% of GDP in May 2017, the government has reduced the allocation for infrastructure construction under the national budget. The ruling party has issued a resolution to keep the public debt threshold below 65% of GDP during 2016–2020 and below 60% during 2020–2030.<sup>7</sup> Given such resource constraints, the government has agreed to develop just 713 km of the planned 2,703 km of expressways during 2017–2020, of which 40% is expected to be financed by public funding, with the remaining resources mobilized from private sector investments.

11. As part of the overall road subsector reform process and the transition to a more sustainable maintenance program, the government in 2012 abolished the toll collection system on the national highway network and established the Viet Nam National Road Maintenance Fund to be financed by revenues from annual vehicle registration fees and budgetary allocations. During 2013–2014, the National Road Maintenance Fund's revenue increased from D6.9 trillion to D8.0 trillion. To improve efficiency in the delivery of road maintenance services, the government decided to undertake road maintenance through performance-based contracts. Since 2014, the government has awarded several performance-based contracts for priority maintenance works. In parallel, to protect the road network against premature deterioration by overloaded vehicles, the government in October 2012 approved a master plan to install weighbridge stations along the national road network by 2030 to control vehicle axle loads. To date, the MOT has provided 63 weigh scales to provincial departments of transport.

12. The MOT issued the Action Plan on Climate Change and Green Growth during 2016–2020, which aims to take the initiative in developing a synchronous, sustainable, and environmentally friendly transportation system and reducing greenhouse gas emissions. The detailed objectives of the action plan are to (i) integrate climate change and green growth in updating and building all transport development strategies and planning; (ii) integrate appropriate

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<sup>7</sup> DTI News (DANTRI International), Business: Concern on Public Debt Management, <http://dantri.com.vn/kinh-doanh/bo-chinh-tri-chi-vay-trong-kha-nang-tra-no-2016112106170219.htm>

measures to raise climate change resilience in investment projects and construction of transport infrastructure, especially in the northern mountainous areas, central coastal areas, and Mekong Delta; (iii) restructure transportation to achieve a sustainable transport market share among transport modes by 2020; (iv) promote the use of renewable energy, clean energy, and high energy efficiency equipment technologies in transport; and (v) build the capacity for managing and inventorying greenhouse gas emissions from transportation activities.

### **3. Asian Development Bank Sector Experience and Assistance Program**

13. Since 2002, a key challenge has been to achieve transport sector outcomes that sustain Viet Nam's growth and development, as well as increase the country's regional and global competitiveness. The Asian Development Bank (ADB) has supported improvement of national and regional connections mainly through enhancement of Greater Mekong Subregion (GMS) corridors, national highways, and rural road networks. Since ADB resumed its operations in Viet Nam in 1993 until December 2014, ADB's cumulative loan assistance for development of Viet Nam's transport sector amounted to \$4.3 billion, including \$3.4 billion for the road subsector. Recognizing that improvement of Viet Nam's transport infrastructure is the engine for the country's economic development, ADB scaled up related assistance. The first and second loans for improving provincial and district roads in the northern region and central region were completed by 2011. Two GMS loan projects were completed during 2007–2010, and three other loans are ongoing. ADB assisted the government prepare a master plan and implement the national expressway network. ADB has financed one project in the maritime subsector, one project for upgrading of railways, and two projects for development of Viet Nam's urban transport.

15. ADB has effectively coordinated with other major development partners to mobilize resources through cofinancing for development of Viet Nam's transport network, as well as carried out policy dialogue for sector and institution reforms. The annual consultative group meetings chaired by the Ministry of Planning and Investment jointly review the progress and issues related to infrastructure and socioeconomic development. ADB supported the government in organizing the Viet Nam Development Partnership Forum in 2013 and led the forum in carrying out policy dialogue on infrastructure financing, institutional reform, efficient service delivery, and private sector development.

16. Lessons from past projects indicate that project preparation and implementation should be improved to support timely achievement of project outcomes. Project start-up delays can be reduced by streamlining the conditions of loan effectiveness and applying advance actions and retroactive financing for procurement. Land acquisition and resettlement activities are often delayed because counterpart funding is not available and implementation capacity is inadequate. Delayed project implementation, coupled with high rates of domestic inflation, has directly contributed to significant cost overruns. Key to solving these issues is strengthening the institutional capacity of executing and implementing agencies for better management of consultants, contractors, and improved monitoring of safeguard compliance. ADB is improving project readiness and project implementation performance in Viet Nam's transport sector by (i) delivering policy, advisory, and capacity building support; and (ii) closely coordinating with counterparts in project identification, preparation, and implementation.

17. Improvements in the GMS transport corridors with ADB's assistance have triggered a significant increase in cross-border trade with other GMS countries. Rehabilitation of national highways and trunk and rural roads has contributed to a rapid increase in traffic volume, adding to economic growth. However, management of the transport sector is still handicapped by capacity constraints, resulting in implementation delays and higher transport costs.

## Problem Tree for Transport Sector

