

Capital Mobilization of PPP for Sustainable Transport Development in Vietnam

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Abstract: This article presents views and research on PPP implementation in transport infrastructure development in Vietnam. In the context of infrastructure demand in Vietnam grows rapidly, meanwhile government budgets and donors are limited, public-private partnership (PPP) is considered as a lever for financial resources and expertise from the private sector to improve the quality and expand the coverage of infrastructure services in Vietnam today.

Key word: Public Private Partnership, Build Operate Transfer, Build Own Operate, Private Sector Participant.

1. THE NECESSARY OF RESEARCH

Currently, due to the limitation of investment capital, management, exploitation and operation capacity of the public sector, that has led to a cooperation between the private and the public sector, which is a form of public- private partner (PPP: Public-Private- Partner).

In public expenditure, PPP (Public - Private Partner) is a partnership of public – private - from which the state allows private investors to participate in services or public constructions of the state. With PPP, the State will set up the criteria on service supply and encourage private sector supply under the payment mechanism based on quality of service. This cooperation is to optimize investment efficiency and provide high-quality public services, and it will be beneficial for both the state and the people due to taking the advantage of financial resources and management capacity from private sector, while ensuring benefits to the people.

Public – private investment is the state and investors together to implement infrastructure development projects, providing public services based on project contracts. PPP implies the co-operation between the state and private sectors, seem clearly as a sense of a joint – venture. *Although Vietnam has a temporary definition of public – private partner investment form (PPP) since 2010, but so far there are several interpretations, different concepts for this form of investment in Vietnam. Somewhere, sometimes, the PPP projects are considered as socialization projects or state - people working projects together. At one moment time, the public-private partnership projects were considered merely as the profitable investment projects of private sectors. Therefore it is needed to make a study comprehensively and perspectively on PPP, learning from world experience to propose the effective application for Vietnam*

2. RESEARCH METHOD

Study on world experience in the field of PPP for transport infrastructure.

Analyze, evaluate practical application in Vietnam

Make some recommendations for practical application in Vietnam.

2.1 The PPP Models in the World

There are five popular models in the world today:

- First, private service contract (or franchise) model is the form in which the government builds and owns infrastructure, then transferring to private sectors for operating and exploiting. This form is often through auctions.
- Second, Build - Operate – Transfer (BOT) model is the form in which the private sectors build and operate a project in a certain period of time, then transferring project entirely to the state. This form has been implemented popularly in Vietnam.
- Third, Build - Transfer – Operate (BTO) model is the form in which the ownership of infrastructure is transferred to the state immediately after construction completion, but project implemented company retains the right to operate the construction.
- Fourth, Design- Build - Finance – Operate (DBFO) model is the form in which the private sectors build, finance and operate infrastructure, which is still owned by the government.
- Fifth, Build - Own – Operate (BOO) model is the form in which project implemented company will build, own, and operate construction. BOO form is very popular for power plants in Vietnam and in the world.

Private service Contract	Design Build (DB)	Build Operate Transfer (BOT)	Design Build Finance Operate (DBFO)	Build Own Operate (BOO)	Privatize
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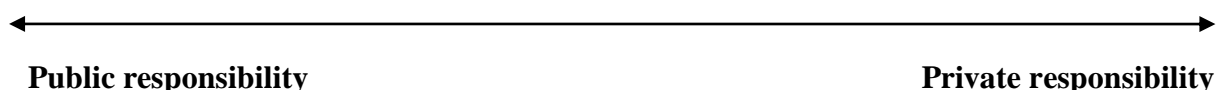
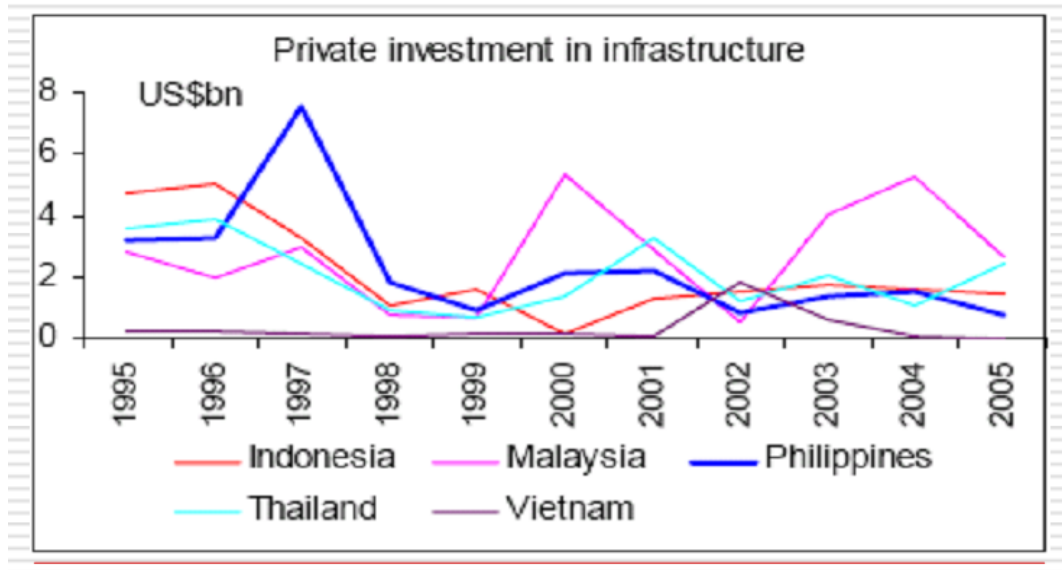


Figure 1: Overview of responsibility of state and private investment

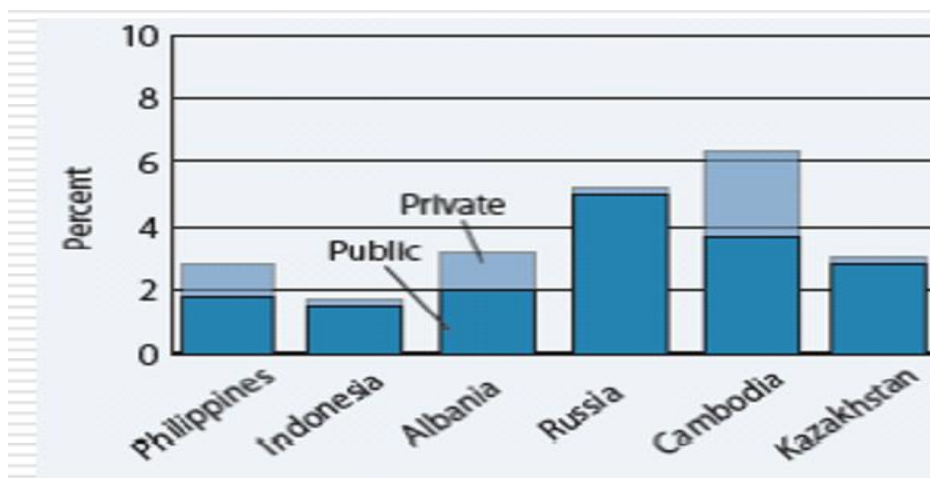
The difference between the models is financial responsibility and risk responsibility of the private sector and government at various levels.



Source: www.fetp.edu.vn; Vu, Thanh Tu Anh.

Figure 2: Private investment in infrastructure in some countries

In the figure 2, private investment in infrastructure is rather high in Philippines, Malaysia, Thailand, Indonesia, while Vietnam is still low in comparison with the countries in the same region. However, private investment in infrastructure of those countries has fluctuation in different periods. The figure 3 shows the level of private investment in infrastructure is important in Cambodia, Albania, and Philippines.



Source: www.fetp.edu.vn ;Vu, Thanh Tu Anh

Figure 3: Private investment in infrastructure in period 1991 – 2000, % GDP

2.2 Practical Application of PPP in Vietnam:

In Vietnam, according to the statistic of World Bank, in the period of 1994 – 2006, there were 18 BOT contracts and business contracts, of which the private sectors accounted for 15% of total investment capital in infrastructure. The state budget still had a very important role, accounting for more than half of total investment capital (Rach Mieu Bridge, Highway No. 2 from Noi Bai to Vinh Yen)

In the period of 1994 – 2009, 32 projects had been implemented according to the PPP model with the total committed capital of approximately 6.7 billion USD. The same as other

countries, BOT and BOO models accounted for the major part, mostly concentrating on two fields of electricity and communication.

Many PPP projects have been implementing such as BOT Co May Bridge, BOT Phu My Bridge, BOT Phu My electricity, and many small and medium power plant projects have been implementing BOO model. There are 26 BOT projects.

Table 1. Foreign direct investment in Vietnam, accumulated projects valid until December 21, 2010

No.	Investment type	Project quantity	Total of registered investment capital (million USD)	Charter capital (million USD)
1	100% foreign capital	9,599	119,251.5	39,257.9
2	Joint-venture	2,209	60,585.6	16,963.8
3	Business cooperation contract	223	5,052.9	4,573.9
4	Joint stock company	193	4,795.5	1,404.6
5	BOT, BT, BTO contract	11	3,5898.8	903.1
6	Parent company	1	98,008.0	82.9
	Total	12,236	193,382.3	63,186.2

Source: Foreign Investment Department. DiaOcVietOnline.

Table 1 shows the foreign direct investment projects in Vietnam, in which cooperation projects account for about 22% of total investment capital. Particularly in 2010, according to statistics of Foreign Investment Department, the total number of new foreign direct investment projects is 969 projects, of which BOT, BT, BTO model have 6 projects, accounting for 1% of total new projects. BOT, BT, BTO contracts increase and develop in a positive direction. PPP investment has begun to progress in comparison with other forms of investment under the supervision and support of the state

Especially after the Decision 71/2010/QD-TTg on promulgating Investment Pilot Regulation with PPP model promulgated and come officially into effect from January 15, 2011, many foreign and domestic investors have been attracted and pay their attention into state – private cooperative model (or public – private partner model PPP).

Currently, according to the Ministry of Finance, with plan of transport infrastructure development up to 2020, the state budget only meets about 30% - 40% of the total capital requirement. Lack of capital is the biggest obstacle for the development of transport infrastructure. Transport infrastructure has a particularly important role, the weakness of transport infrastructure system is a major hindrance to economic and social development, constrains the circulation of resources in the whole economy and, limits the capacity of investment capital absorption of the economy.

In the past few years, with infrastructure development policy one step ahead, ensuring to achieve the goal of socio-economic development, the government has invested in development of transport infrastructure system with the large total of capital investment. Besides capital investment budget accounts for more than 50%, the state has given priority of ODA for transportation and encourage FDI and private capital mobilization in the forms of public-private partner.

The main issue is to mobilize different resources of investment capital, which are out of the state budget, to implement and promote investment form of public - private partnership (PPP) rapidly. However, to attract investors, it is needed to improve the legal conditions to

protect them, issue mechanism to enhance financial resources helping to mobile capital for developing transport infrastructure.

According to the General Statistic Office, in the year of 2012, the investment capital of the whole society is about 989,300 billions VND, equals 33.5% of GDP and increases by 7% compared to 2011. In which, state sector’s investment capital accounts for 37.8% of the total capital. Implemented capital of Ministry of Transportation ranks the first with 7,525 billions VND, increases by 18%.

The following table 2 presents proposed investment capital for the period 2011-2020, in which investment capital for transport infrastructure ranks the first, with an average of about 16 billion VND per year.

Table 2. Proposed investment capital for infrastructure in period 2011 – 2020

Unit: Billion USD

Investment areas	Total investment capital	Average capital per year
Transportation	160.0	16.00
Electricity	46.5	4.65
Irrigation	11.5	1.15
Water supply and drain	16.6	1.66
Education infrastructure	8.5	0.85
Health service infrastructure	8.5	0.85
Information and communication	15.0	1.50
Urban and rural infrastructure	28.5	2.85
Total	295.1	29.51

Source: www.fetp.edu.vn, Vu, Thanh Tu Anh. (2012) Private Sector Participation (PSP) or Public Private Partner (PPP).

In order to promote the role of the PPP, the government has issued PPP pilot areas, according to the Decision 71/2110/QĐ-TTg, including:

- o Roads, bridge - tunnels – road refry
- o Railways, bridge - railway tunnel
- o Urban transport
- o Airport, harbor, inner port
- o Clean water supply system
- o Power plant
- o Health (hospital)
- o Environment (waste treatment plant)
- o Infrastructure projects, other public service projects as decided by the Prime Minister

Ministry of Planning and Investment has made a PPP pilot list of 24 for transport infrastructure constructions.

Since 2010, the government has assigned the Ministry of Transport to implement the pilot PPP model in the highway project Dau Giay - Phan Thiet. The Ministry of Transport has established interdisciplinary working group with the participation of the Ministry of Planning and Investment, Ministry of Finance and the State Bank to develop the projects with the support of the World Bank (WB). This is a key project belong to the highway system of North - South, with a total length of 100km. This highway design is classified as category A, the designed speed of 120km / h, the cross-section of 33 meters with 6 lanes, investment of phase 1 is 4 lanes.

2.3 The Challenges in Applying the PPP Model in Vietnam

PPP involves public sector lost control of its entire management directly, so sometimes it is hard to be accepted, and whether there are sufficient capacity and skills to establish a legal environment to encourage appropriate application of PPP model? Does the private sector have the technical capacity to ensure the implementation of PPP? In particular, are State's legal issues attractive to attract foreign and domestic investors? According to the statistics, the models which are applied popularly in Vietnam in the form of BOO and BOT are still too modest. Therefore it is needed to take improvement measures in order to take well advantage of capital source from foreign investors as well as domestic investors effectively and beneficially for both parties best.

The experience of PPP implementation in many countries in the world shows that, the lack of synchronized laws, lack of guidelines for satisfactory performance are the factors that contribute to the failure of PPP projects. It should be paid special attention to the regulation on financial responsibility for the financial support from the Government, the mechanism of interest rate. In addition, the prerequisite issue for investors implementing the PPP model is the opportunity to make a profit from the project. Some businesses are concerned about binding guarantee of government's loans and capital contributions rate 30-70 in a PPP project.

3. SOME RECOMMENDATIONS FOR APPLYING PPP MODEL

3.1 Synchronized Measures Needed for Applying PPP Form in Vietnam Effectively are as follows

First, the legal framework and contract enforcement policy and contract dispute resolution, law BOT / PPP, regulatory framework for the sectors must be clear and should include two basic elements: effective performance contracts to increase investment value and a favorable environment for PPP management, in which one of the basic contents of the environmental factor is just the fully, stably institutional and legal framework. This will help to reduce transaction costs, increase transparency for the PPP model and encourage private investors to participate more actively.

Second, about investment form: in the context of Vietnam, with a shortage of investment capital to develop infrastructure such as current, it should have policies to encourage private investors to focus on the public-private partner model (PPP), in which private investors take parts in the project.

Third, about the scale of investment: foreign investors with strong capital potential can do alone by themselves or coordinate two, three private investors together participate in public-private partner. The domestic private investors should combine companies in the form joint stock companies in order to overcome the limitations of scale, financial capacity and minimize investment risks.

Fourth, about investment contracts, due to transport infrastructure projects under the impacts of policies and social circumstances, therefore the terms of the contract should be flexible, adjustable to avoid damage and loss for investors as well as government.

Fifth, about supports and implement of the government's commitments to PPP: the contract signed between the government and investors should be clear, transparent. This is a prerequisite to ensure government benefits investors, a basis for public authorities to utilize

mostly efficiently dynamic and competition from private sector and contribute to saving the cost of the infrastructure of the whole society.

3.2 Solutions to Mobilize Financial Sources for Transport Infrastructure

To raise funds for developing transportation infrastructure, according to the experience of the countries in the world, the solutions include:

- 1) Selling collection right of toll road fees of transport infrastructure projects that are capable and conditional of making profit in the direction of allowing economic sectors to participate in business activities.
- 2) Leasing operation right of transport infrastructure projects in the direction of allowing economic sectors to re-rent operation rights of transport infrastructure.
- 3) Transferring trebly transport infrastructure for the transport infrastructure in a certain period of time, that would help investors invest initiatively in construction. The State shall protect the rights and legitimate interests of investors as operating, maintaining and protecting transport infrastructure; the investors are permitted to collect toll fees after obtaining the agreement from the authorities.
- 4) Exploiting two-road-side land to raise a fund for transport infrastructure development.
- 5) Exploiting services along the road in the direction of assigning organizations, units or individuals to exploit the services along the route such as petrol stations, car stop station, advertising, etc...

According to calculations by the Ministry of Finance, in the period 2011 - 2020, if all mentioned solutions above are synchronously implemented, the state budget will reduce the investment cost of about 520,870 billions VND. This is a great source, approximately 50% of total investment capital for the development of transport infrastructure in the period 2011-2020.

4. CONCLUSION

PPP will help a lot in (i) mobilizing capital from the private sector by promoting service investment for a fee; (ii) contributing to budget stabilization; reducing investment expenditures and permanent spending in public areas; (iii) allowing to increase public expenditure on the social issues, increasing state budget through tax revenues and fees; (iv) improving business performance, cutting down the costs, increasing business efficiency through the competition; improving the quality and service access, contributing to economic growth; (v) improving administrative and managerial activities, transferring risk to a partner, which is able to manage better, increasing transparency and accountability, reducing corruptions.

From the actual experiences, some significant efficiency gained from transportation, electronics, telecommunications, etc., should be promoted more widely applicable for sustainable transport development.

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