

## SECTOR ASSESSMENT (SUMMARY):

### TRANSPORT, TOURISM AND PUBLIC SECTOR MANAGEMENT

#### Sector Road Map

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

1. **Transport.** Viet Nam has an extensive road network and a relatively high overall road density, comprising more than 291,000 kilometers (km).<sup>1</sup> However, this network is falling behind the needs of the country's modernizing economy and the population's travel needs. In 2015, the number of vehicles in Viet Nam was estimated at 43.0 million, comprising 40.5 million motorcycles and 2.5 million cars, trucks, and buses. The number of traffic accidents is rising, with motorcyclists especially at risk. Viet Nam's national and subregional transport networks are largely incomplete, being characterized by (i) limited institutional, financial, and operational capacity to support socioeconomic development; and (ii) low levels of traffic safety and environmental sustainability.

2. Improving the transport network will (i) enhance overall economic efficiency, (ii) increase regional and international integration and competitiveness, (iii) reduce logistics costs, (iv) increase foreign investment, (v) strengthen value chains, (vi) reduce urban congestion and environmental and social degradation, and (vii) make transport systems safer. Improving transport infrastructure will contribute to inclusive economic growth by connecting poor persons and disadvantaged groups to economic and social opportunities and services.

3. **Tourism.** The number of international tourists in Asia and the Pacific increased by 7% in 2012, reaching 234 million and generating \$324 billion in revenues and 79.8 million jobs. The Greater Mekong Subregion (GMS) has a strong comparative advantage in tourism due to its strategic location, diverse tourism assets, good air and land connectivity among gateway destinations, and effective visa policies, as well as the surging demand for leisure travel. The number of international visitors to the GMS, which reached 44.8 million in 2012, is increasing by 12.4% each year, generating about \$44.3 billion in annual revenue from accommodation, food and beverages, and shopping, and directly sustaining 7.1 million jobs. The number of domestic tourists in Viet Nam alone reached 32.5 million in 2012.

4. Among GMS countries, Thailand currently earns \$25.4 billion from international tourism, while Cambodia, the Lao People's Democratic Republic, and Viet Nam earn less than \$10.5 billion combined. Per capita tourism revenue in Thailand is \$411, compared to \$90 in Viet Nam. In the GMS, about \$6,200 of tourist spending sustains one tourism-related job, making tourism one of the most labor-intensive sectors in the country. Although women account for over half of GMS tourism workers, many are employed in relatively low-skill, low-wage jobs and are underrepresented in management positions.

5. **Public sector management.** Since 1986, Viet Nam has remained on a path of market-based economic reform, which has unlocked its comparative advantages of a young labor force, abundant natural resources, and strategic geographic location. A diverse range of interventions by the Government of Viet Nam—including creating an enabling policy and regulatory environment, and providing adequate physical and social infrastructure—are necessary to enhance Viet Nam's competitiveness in a dynamic and quickly changing environment. While significant progress has been made in improving the transparency and accountability of public

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<sup>1</sup> The road network, of which 61% is unpaved, comprises (i) 580 km of expressways (0.2%); (ii) 21,700 km of national highways (7.5%); (iii) 25,500 km of provincial roads (8.8%); (iv) 51,700 km of district roads (17.8%); (v) 175,400 km of commune roads (60.2%); and (vi) 17,000 km of urban roads (5.8%).

service delivery, public sector management (PSM) is becoming more complex, as the rise of new industries linked to global value chains contributes to the proliferation of regulations and policies. The continued devolution of administrative and fiscal powers to provincial governments compounds these challenges. The quality of governance varies considerably among provinces, as does their degree of adherence to national policies. Stronger provincial institutions have generally succeeded in encouraging greater private sector development and enhanced service delivery. However, in weaker provinces government regulation of private operations is often minimal. Limited public administrative capacity, especially among mid- and lower-level civil servants, also constrains the implementation and quality of public spending in some provinces.

## II. Government's Sector Strategy

6. **Transport.** In 2013, Adjustments to the Transport Development Strategy up to 2020 with a Vision toward 2030 (Transport Strategy 2020) was approved, with the following major principles: (i) transport is an important part of national infrastructure and should be prioritized sustainably; (ii) the development of the nation's transport system should promote the country's geographical location and national resources; (iii) transport infrastructure will be developed in a coordinated and rational manner, linking different transport modes and all regions of the country, and stressing the importance of maintenance and sustainable operations; (iv) modern technology should be applied to deliver safe, high-quality, and environmentally responsible transport at reasonable costs; (v) regional and international cooperation in transport and transport systems will be promoted; (vi) safe and convenient mass transit systems will be developed to reduce urban traffic congestion (initially in Ha Noi and Ho Chi Minh City); and (vii) all potential infrastructure investment sources will be mobilized. The strategy also identified seven areas around which specific policies and strategies will be formulated: (i) transport development, (ii) the raising of capital, (iii) transport industry development, (iv) international integration and competition, (v) reform, (vi) new science and technologies, and (vii) human resource development.

7. From 2016 to 2020, the Ministry of Transport will require the mobilization of about \$43.4 billion (an annual capital investment of 4.7% of the country's gross domestic product) to develop the planned infrastructure.<sup>2</sup> The proposed financial sources are the sale of government bonds, private participation, and the establishment of a credit package for infrastructure.

8. Viet Nam is one of the countries most vulnerable to the impacts of climate change, which could cost it the equivalent of 6%–7% of its annual gross domestic product. The government has addressed climate change as a key issue by approving the National Target Program to Respond to Climate Change in 2012–2015, and the Ministry of Transport prepared an action plan to respond to climate change during 2011–2015 that covers both mitigation and adaptation. Transport projects in vulnerable areas should be “climate-proofed”, by taking into consideration the uncertainties of these impacts.

9. **Tourism.** The Strategy for Tourism Development in Viet Nam to 2020, Vision to 2030 (STDV) forecasts 10.5 million international arrivals and \$19 billion in tourism revenues in 2020. The 2005 Tourism Law provides the legal basis for the STDV, by mandating that the Ministry of Culture, Sports, and Tourism and its specialized technical agency, the Viet Nam National Administration of Tourism, encourage environmentally and socially sustainable tourism by protecting, promoting, and developing cultural and historical tourism, with the broad participation of all economic sectors. The STDV aims to (i) develop tourism into a leading economic sector; (ii) improve quality, efficiency, brand recognition, and competitiveness within the sector; (iii)

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<sup>2</sup> The allocation per subsector is (i) \$29.1 billion for roads; (ii) \$5.3 billion for rail; (iii) \$4.5 billion for aviation; (iv) \$3.0 billion for maritime; and (v) \$1.5 billion for inland waterways.

promote international and domestic tourism, with a focus on high-spending international visitors; (iv) protect cultural, historic, and natural resources; and (v) increase domestic and international tourism investment. The Ministry of Culture, Sports, and Tourism recognizes the need to effectively coordinate many agencies and ensure that the private sector provides quality services. The STDV intends to (i) provide public agencies with a blueprint for prioritizing investments in transport, urban development, education, and training; and (ii) enhance policies to facilitate private investment in tourism infrastructure and related services. Seven priority programs cover all subnational areas.<sup>3</sup>

10. **Public sector management.** Viet Nam's socio-economic development strategy, 2011–2020 identifies public and institutional reform as a central strategy for promoting faster socioeconomic development in Viet Nam. The Ministry of Finance's Finance Sector Strategy (2012–2020) highlights the following four government priorities in meeting this objective: (i) making the mobilization of national financial resources and expenditure more efficient and effective, including strengthening the capacity of provincial governments; (ii) creating the necessary regulatory and legal conditions for private development, with an emphasis on small and medium-sized enterprises; (iii) restructuring state enterprises to enhance the market mechanism and facilitate the growth of private enterprise; and (iv) enhancing the quality and depth of financial intermediation to promote private investment and deepen capital markets. In support of these strategies, the government passed the Public Investment Law (2014) and State Budget Law, among others, which aim to incorporate international best practices in Viet Nam's public financial management system. These include (i) introducing medium-term expenditure and revenue planning; (ii) increasing the fiscal autonomy of provincial governments, especially with regard to debt management); (iii) introducing output-based budgeting practices; (iv) reducing off-budget expenditure; (v) strengthening public asset management; and (vi) enhancing budget accountability and transparency.

### III. ADB Sector Experience and Assistance Program

11. **Transport.** The Asian Development Bank (ADB) has been financing expressways, highways, roads, a railway upgrading, and urban mass rapid transit projects. To ensure ADB's continuous involvement and the achievement of outcomes, ADB must improve its project implementation performance, especially in procurement, resettlement, consultant management, and safeguard compliance. Institutional development and capacity enhancement are important to ensure that relevant government agencies understand ADB procedures and become familiar with emerging needs, such as mainstreaming climate change, sustainable transport, public–private partnerships, and social issues. ADB will continue to coordinate closely with, and be responsive to, the needs of executing government agencies.

12. Based on ADB's assessment of the transport sector and Viet Nam's Transport Strategy 2020, the next transport strategy will focus on improving planning, implementation, and operational efficiency throughout the sector. The strategy proposes three key strategic investment areas: (i) intercity expressways and urban ring roads, (ii) national highways along GMS corridors and in remote areas, and (iii) urban mass rapid transit systems in Ha Noi and Ho Chi Minh City. Common binding strategies are to (i) improve subregional and domestic transport efficiency; (ii) strengthen the institutional, organizational, and financial development of government transport entities; (iii) promote traffic safety and social sustainability; (iv) mainstream climate change mitigation and adaptation in the sector; (v) mainstream gender in transport projects to promote safe and convenient access to markets and services, employment

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<sup>3</sup> These programs aim to enhance (i) tourism product development; (ii) infrastructure and facilities; (iii) tourism-related human resources; (iv) marketing, promotion, and branding; (v) investment promotion and policy enhancement; (vi) international cooperation; and (vii) public management of tourism.

opportunities; and (vi) mitigate negative impacts on local communities (e.g., road accidents, HIV/AIDS transmission, human trafficking) during and after construction.

13. **Tourism.** ADB has mainly supported Viet Nam's tourism industry through the GMS program. Key lessons include the need to (i) conduct detailed analysis of tourism demand during project preparation, (ii) improve cross-sector coordination to build synergies within ADB and among development partners active in this sector, (iii) support policy dialogue to facilitate simplified border-crossing arrangements, and (iv) promote enterprise development alongside infrastructure to increase the proportion of destination spending that reaches the poor. Lessons to improve project design embrace the need to (i) select relevant subprojects, (ii) ensure that sustainable operation and maintenance systems are in place prior to project closure, and (iii) utilize private expertise to market and promote tourist destinations. ADB will remain involved in tourism given its experience successfully financing projects with substantial positive development impacts, such as creating employment for the poor and improving environmental performance in tourism destinations. Consistent with the GMS Tourism Sector Strategy, GMS Strategic Framework 2012–2022, and national tourism development plans, ADB's tourism assistance will continue to focus on (i) improving last-mile access infrastructure, sanitation, water supplies, and other public infrastructure in secondary tourist destinations; (ii) promoting micro- to medium-sized tourism enterprises; (iii) building the capacity of public officials; (iv) offering vocational training in tourism; and (v) creating a policy dialogue to reduce nonphysical barriers to crossing borders. The proposed projects and technical assistance aim to maximize synergies with other ADB investments in the transport, urban, and social sectors.

14. **Public sector management.** Since 2009, ADB has supported the implementation of a multitranche financing facility in support of state-owned enterprise reform (the State-Owned Enterprise Reform and Corporate Governance Facilitation Program). In the previous country partnership strategy, 2012–2015 for Viet Nam, ADB also prioritized support for a range of public capacity building and technical assistance activities, which aim to (i) enhance the efficiency of externally financed public investments; (ii) improve civil service capacity and management; (iii) strengthen monitoring and evaluation systems with more accurate and timely performance monitoring; and (iv) support the preparation of the government's Socio-Economic Development Plan, 2016–2020. As part of these efforts ADB has helped the government formulate a new civil service law and implement a merit-based human resources management system, as well as drafting the amended competition law and the revised procurement law. Lessons learned from ADB's previous and ongoing support for PSM include (i) the importance of a sequential, long-term program of support, rather than ad-hoc responses to requests; and (ii) the need to harness ADB's financial, leverage, and knowledge resources to maximize the value that it adds to the sector. Continuing to enhance PSM will be a vital component of ADB's strategy to help Viet Nam achieve inclusive economic growth and meet the demands of an emerging, dynamic market economy. In line with the government's reform priorities and ADB's own comparative advantages, ADB will aim to develop a long-term programmatic approach to its support, by encouraging deeper staff engagement on key policy issues and utilizing a combination of technical assistance and policy-based lending resources.

### Problem Tree for Transport, Tourism, Public Sector Management

