

SECTOR ASSESSMENT (SUMMARY): WATER AND OTHER URBAN INFRASTRUCTURE AND SERVICES ¹

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Viet Nam is one of the most rapidly urbanizing countries in Southeast Asia. Viet Nam's current population of 86 million is 30% urban; this proportion is expected to rise to 37% (35 million) by 2020. Most urban growth is in the metropolises of Ha Noi and Ho Chi Minh City, followed by Hai Phong, Da Nang, and Can Tho. The employment and income opportunities found in the next tier of secondary cities are less attractive than the opportunities in the large cities, slowing secondary-city growth and resulting in significant migration to the large urban centers, which are experiencing increasing congestion and serious social and environmental problems.

2. **Urban infrastructure and services.** Viet Nam's urban areas are centers of economic growth, generating 70% of gross domestic product (GDP). This growth has enabled significant improvements in infrastructure during the last decade. The water service coverage rate averages 73% nationally, and is 75%–90% in the major cities. Average water consumption is 90 liters per capita day (lpcd), and is higher (110–130 lpcd) in large cities than in small towns (70–80 lpcd). Surface water accounts for 70% of water sources, with the remaining 30% supplied by groundwater. There are 68 water supply companies serving clean water to urban areas, and more than 420 water supply systems, with a total water supply design capacity of 5.9 million cubic meters per day.² The average nonrevenue water rate has been reduced considerably—from 40% in 2000 to 30% in 2009—but remains high.³

3. **Urban planning.** The Law on Urban Planning stresses decentralization of urban planning responsibility to all government administration levels, and requires stakeholder consultation.⁴ A major challenge in realizing decentralization is the lack of experience below the national level with urban planning and management, and municipal financial management. Delegation to provincial and city governments is not yet matched with improved accountability regarding compliance with agreed regulations and standards, and delivery of adequate services to users or consumers.

4. Urban and provincial development is controlled or guided by three types of plans: (i) provincial socioeconomic development plans (SEDPs) prepared by provincial planning and investment departments, which reflect the national SEDP; (ii) spatial plans, also known as construction master plans, prepared at four levels of geographic detail; and (iii) sector development plans corresponding to the areas of concern of line ministries. Provincial or city construction master plans guide the planning and implementation of infrastructure projects, but are not necessarily in line with the sector development plans. Master plans are prescriptive rather than permissive for land use, and are not linked to funding or financing realities

¹ This summary is based on the *Sector Assessment (Summary): Water and Other Urban Infrastructure and Services* for the ADB Country Partnership Strategy for Viet Nam 2012–2015. <http://www.adb.org/sites/default/files/linked-documents/cps-vie-2012-2015-ssa-05.pdf>. An updated strategy is forthcoming.

² Data in this paragraph is from benchmarking surveys by Viet Nam Water Supply & Sewerage Association. 2010. *Report on Benchmarking Study on Urban Water Supply Utility Performance in Viet Nam for the Period 2007–2009*. Water and Sanitation Program–World Bank. Hanoi.

³ The government has announced a \$500 million program to reduce nonrevenue water from 2011 to 2025.

⁴ Law No.32/2009/QH12 on urban planning.

5. **Key legislation.** The key legislation on urban water supply is Decree 117/2007/ND-CP, supplemented by Decree 124/2011/ND-CP, demanding that water supply companies operate with full cost recovery and a reasonable profit, with connection costs included in the tariff. The parallel Decree 88/2007/ND-CP for wastewater management defines the principle of cost recovery, with connection costs to be borne by households. These decrees provide the basis for setting realistic water supply and wastewater tariffs. Supporting circulars provide implementation guidelines and specify water quality requirements.⁵ Further decisions add ambitious targets for water supply coverage (100% by 2025 for all urban areas, with 24 hour continuous supply), reduction of nonrevenue water to 15% by 2025, and wastewater collection and treatment coverage (70% in provincial towns and higher by 2025).⁶ Decree 59/2007/ND-CP covers solid waste, with target indicators set in two phases: 2011–2015 and 2016–2020.⁷

6. **City and town classifications.** Urban areas in Viet Nam are categorized by administration and hierarchy. Under the administrative classification, 9 cities have provincial status and are administered directly under the central government, 99 have district status under the provincial governments, and the remaining 646 have commune status under district governments. Hierarchical classification is based mainly on population but with additional parameters such as population density and economic activity. Hanoi and Ho Chi Minh City are recognized as special cities, above the seven Class I cities, which include Da Nang, Hai Phong, Can Tho. The 14 Class II cities (those with a population over 250,000) have slower growth rates, and show signs of stagnation in contrast to the very rapid growth of the largest cities.

7. **Financial sustainability.** The state budget is the main source of financing to meet investment needs for the delivery of urban services. Investment needs are significant compared with the local revenue base. There are overlapping fees on real estate transactions but no single property tax, which traditionally is an important revenue base and could reflect property value increases that accompany public investment in infrastructure and services.

8. The financial sustainability of water companies has been hampered by low tariffs. Local political considerations often prevent the timely application of tariff adjustments. Surveys of affordability and willingness to pay indicate that consumers are prepared to pay for improved services. Tariffs for wastewater connection are charged only in certain cities where sewer projects have been completed. Urban water supply systems are therefore still subsidized to a large extent by governments on a non-targeted, default basis.

9. **Opportunities for reform to support economic growth.** The ongoing expansion of the economy presents a substantial opportunity in Viet Nam's urban areas. The growing population has increasing expectations with respect to infrastructure and services, intensifying the pressure on urban management agencies. The challenge for both central and local governments is to actively and constructively manage this transformation. The urban sector requires access to public and leveraged private sector funding, as well as new skills, to meet these expectations.

2. Government's Sector Strategy

10. The Strategic Economic Development Plan (2011–2015) includes initiatives on urban development and highlights the importance of realizing the Millennium Development Goals and national goals on water and sanitation.⁸ Government plans stress institutional reform, including

⁵ Circular No. 32/2009/QH12 on water supply and Circular No. 09/2009/TT-BXD on wastewater.

⁶ Orientation Plans No. 1929/2009/ND-TTg, for water supply and No. 1930/2009/NC-TTg for wastewater.

⁷ Decision No. 798/QĐ-TTg on approving the program for investment in solid waste treatment during 2011–2020.

⁸ Socialist Republic of Viet Nam. 2010. *Viet Nam's Socio-Economic Development Strategy for the Period 2011–2020*. Hanoi.

restructuring of the Ministry of Construction to refocus on effective policy formulation, guidance, and monitoring; developing the capacity of subnational government agencies; and encouraging urban services to operate as businesses. Government policies on urban infrastructure development are presented in the Orientation Plan for Urban Development to 2025 and Vision to 2050, which emphasize the role of comprehensive town development projects in promoting socioeconomic growth.

3. Asian Development Bank Sector Experience and Assistance Program

11. **Overview.** The strategic thrust of Asian Development Bank (ADB) urban and water operations will continue to follow the government's sector strategies, as well as the ADB Urban Operational Plan (2012–2020), Water Operational Plan (2011–2020) and Urban Development Strategy and Roadmap for Viet Nam.⁹ Investments projects will continue to be in line with the ADB country partnership strategy for Viet Nam (2012–2015).¹⁰ The project will also follow the Greater Mekong Subregion (GMS) strategy to transform transport corridors into economic corridors, as identified in the GMS Strategic Framework (2012–2022).¹¹ The strategic framework is anchored to the corridor development approach, and focuses on multi-sector investments that are designed to foster economic corridor development, with a focus on stronger cross-sectoral linkages, better consideration of regional economic development's spatial aspects, more local stakeholder involvement, and more effective monitoring and evaluation.

12. **ADB program to date.** As a lead partner in the urban and water sectors, ADB has significant experience in Viet Nam. Following resumption of operations in Viet Nam in 1993, ADB has supported more than \$1 billion in loans to the urban and water sectors, as well as grants and technical assistance projects totaling more than \$20 million. Starting with the Ho Chi Minh City Water Supply and Sanitation Project in 1993, ADB's development assistance has responded to the government's need to rehabilitate (and later expand) water supply and sanitation systems¹². Geographically, there has been a gradual shift from the major cities of Ho Chi Minh City and Hanoi to secondary growth centers. ADB operations have focused on water supply systems, including through a large-scale, long-term engagement in the water sector through the Water Sector Investment Program multitranche financing facility (MFF) approved in 2011.¹³

13. **ADB support to the urban sector.** Geographically, funding has shifted from Ho Chi Minh City and Hanoi to secondary growth centers in GMS economic corridors in line with the decentralization of administrative responsibility. The comprehensive socioeconomic development series of projects present a new approach to urban development that links planning and investment, and is recognized by the government as a model for future urban development.

14. New urban projects will include components to (i) develop more inclusive urban, peri-urban, and rural linkages and access to services and infrastructure improvements to better distribute the benefits of economic growth; (ii) help the government effectively and competitively

⁹ ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila; ADB. 2011. *Water Operational Plan, 2011–2020*. Manila; ADB. 2012. *Viet Nam: Urban Development Sector Assessment, Strategy, and Road Map*. Manila.

¹⁰ ADB. 2012. *Country Partnership Strategy for Viet Nam, 2012–2015*. Manila.

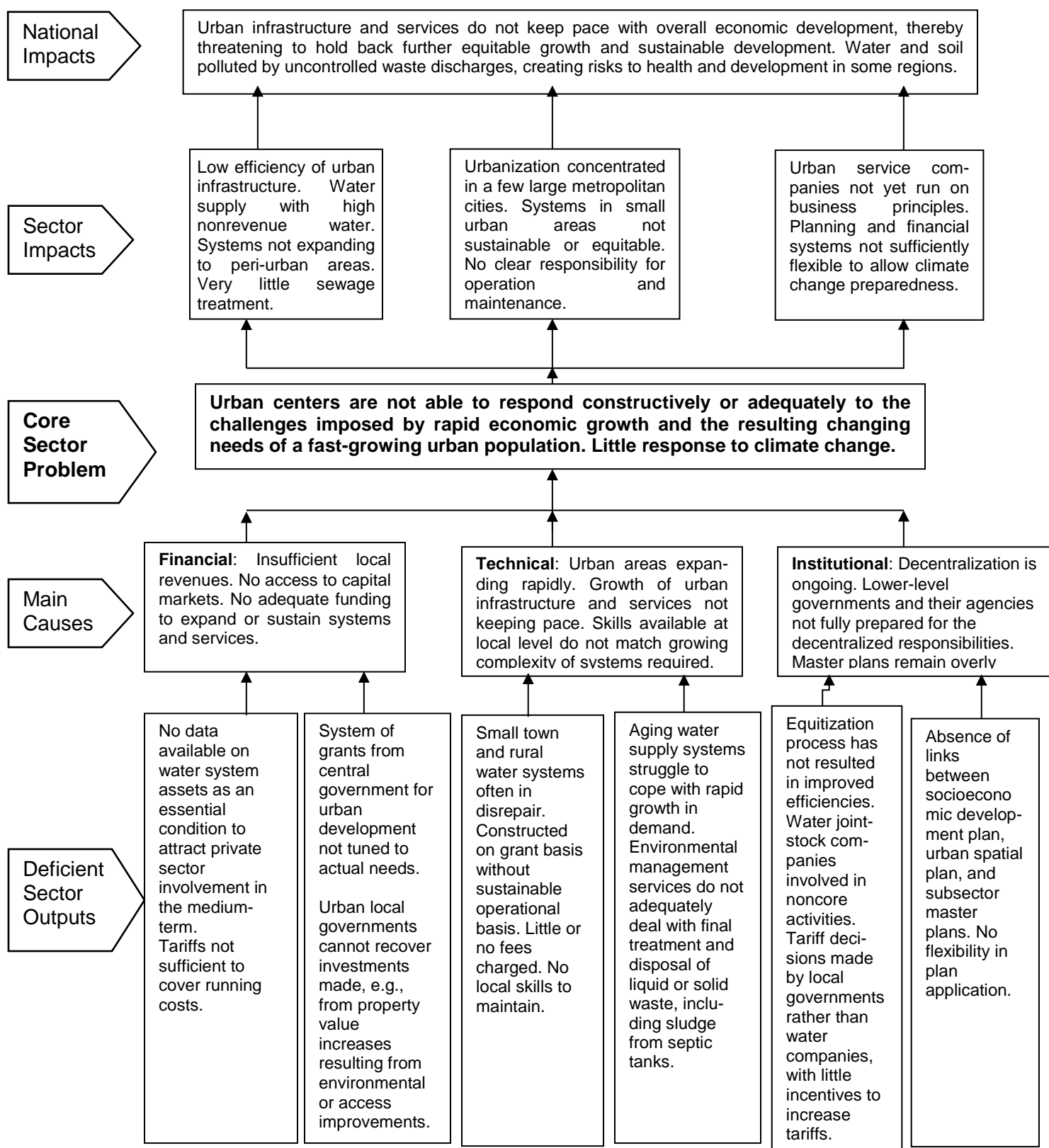
¹¹ ADB. 2011. *The Greater Mekong Subregion Economic Cooperation Program Strategic Framework: 2012–2022*. Manila.

¹² ADB. 2004. *Project Completion Report on the Ho Chi Minh City Water Supply and Sanitation Project*. Manila

¹³ ADB. 2011. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility to the Socialist Republic of Viet Nam for the Water Sector Investment Program*. Manila.

manage urbanization by expanding local revenue sources while introducing stronger budgeting and financial management procedures and financial mechanisms that can leverage co-financing and private sector investment, in particular from targeted ordinary capital resources lending and by setting up local development investment funds; (iii) encourage green development through reduction of (a) the carbon and water footprints by improving liquid and solid waste management, and (b) the impact of waste generated by the urban economy to reverse environmental degradation; and (iv) help enhance the resilience of cities to climate change impacts by identifying climate change adaptation and mitigation measures, introducing climate change-resilient spatial planning and infrastructure designs, and developing and implementing urban climate change adaptation and mitigation plans. The urban poor can help manage environmental impacts in degraded areas, where they often reside, through activities such as waste recycling, watershed management, and citizen-monitoring of local service provision.

Problem Tree for Water Supply and Other Municipal Infrastructure and Services Sector



Source: ADB. 2012. *Sector Assessment (Summary): Water and Other Urban Infrastructure and Services* from the ADB Country Partnership Strategy for Viet Nam 2012–2015. Manila.

Sector Results Framework (Water and Other Urban Infrastructure and Services, 2011–2015)

Country Sector Outcome		Country Sector Outputs		ADB Sector inputs	
Outcomes with ADB Contributions	Indicators with Targets and Baselines	Outputs with ADB Contributions	Indicators with Incremental Targets (baselines zero)	Planned and ongoing ADB Operations ^a	Main Outputs Expected from ADB Interventions ^a
Increased access to basic urban services	<p>1. Urban water supply Urban population in cities (Class III and above) with access to improved drinking water to increase from <60% in 2010 to 90% in 2015</p> <p>2. Drainage, sewerage and sanitation Household access to the collection and treatment of domestic wastewater to rise from 10% in 2010 to 20% in 2015</p>	Water supply, sanitation, and other urban infrastructure expanded, maintained, and well managed	<p>Access to 120 liters per capita per day of safe drinking water in urban areas and 50 liters per capita per day in rural areas by 2015</p> <p>Nonrevenue water reduced from 30% to 25% by 2015</p> <p>Additional 5 million people connected to a central sewerage system</p>	<p>Planned key activity areas WSS (60%) Urban sector development (40%)</p> <p>Planned key activity areas WSS (60%) Urban sector development (40%)</p> <p>Pipeline projects with estimated amounts Urban Environment and Climate Change Adaptation (2015): \$100 million Second Secondary Cities Development – Green Cities (2015): \$160 million Second GMS Corridor Towns Development: \$100 million (2015) MFF Water Supply Sector Investment, PFR4 (2015): \$170 million</p> <p>Ongoing projects with approved amounts Central Region Small and Medium-Sized Towns: \$53 million Thanh Hoa Comprehensive Socioeconomic Development: \$72 million Central Region Rural Water Supply and Sanitation: \$45 million MFF Water Supply Sector Investment PFR1: \$138 million Comprehensive Socioeconomic Urban Development in Viet Tri, Hung Yen and Dong Dang: \$70 million MFF Water Supply Sector Investment PFR2: \$212 million GMS Corridor Towns Development: \$131 million Secondary Cities Development Project: \$95 million MFF Water Supply Sector Investment, PFR3: \$250 million</p>	<p>Planned key activity areas Expanded coverage and improved efficiency of basic urban services</p> <p>Pipeline projects Improved urban services in secondary and corridor towns Implementation of resilient urban infrastructure investments; Increased community awareness for improved environmental practices</p> <p>Ongoing Projects Acceptance of improved systems and procedures for urban wastewater management Increases in women's participation in community planning of urban infrastructure investments Subnational climate change mitigation strategies and low-carbon technology driving employment opportunities Introduction of improved asset management and control systems Technical support through the Ministry of Construction to selected water companies to achieve nonrevenue water targets Strengthened role for the Ministry of Construction and VWSA in monitoring the performance of water supply companies Formal guidance for water supply companies on equitization.</p>

ADB = Asian Development Bank, GMS = Greater Mekong Subregion, MFF = multitranché financing facility, PFR = periodic financing request, VWSA = Viet Nam Water Supply & Sewerage Association, WSS = water supply and sanitation.

^a Updated on 7 July 2015. Does not include urban transport information.

Source: ADB. 2012. *Sector Assessment (Summary): Water and Other Urban Infrastructure and Services* from the ADB country partnership strategy for Viet Nam 2012–2015. Manila.