

SECTOR ASSESSMENT (SUMMARY): TRANSPORT¹

A. Sector Performance, Problems, and Opportunities

1. The annual government allocation to the transport sector in Viet Nam from the state budget and through government bonds is expected to be maintained at 3.5%–4.5% of the country's gross domestic product (GDP) up to 2020. In addition, the government aims to improve the investment environment and encourage different financing modalities such as build–operate–transfer, build–transfer, build–transfer–operate, and public–private partnership. From the time the Asian Development Bank (ADB) resumed operations in Viet Nam in 1993 until December 2014, ADB's loan assistance had amounted to \$13.34 billion. Of this amount, the transport sector's share was the largest, with a cumulative lending amount of \$4.3 billion (32.28%), of which \$3.38 billion had been invested in the road subsector.

2. The government's Five-Year Socio-Economic Development Plan, 2011–2015 identifies transport development as key to sustaining socio economic development.² In 2009, the Ministry of Transport (MOT) submitted its 5-year plan for inclusion in the Five-Year Socio-Economic Development Plan, 2011–2015. In the MOT's plan, which is updated on an ongoing basis to reflect changes in investment and rehabilitation programs, the MOT identified five core transport problems: (i) an incomplete and disintegrated institutional system and development plans; (ii) unsatisfactory quality, capacity, and operation and maintenance of transport services; (iii) poor quality and quantity of transport infrastructure in urban and rural areas, including multimodal transport systems; (iv) insufficient state budget and other financing; and (v) complications from the regional and global economy. These problems, along with ongoing policy, and institutional and operating inefficiencies are causing environmental and social degradation and hampering socioeconomic development.

B. Government's Sector Strategy

3. The Five-Year Socio-Economic Development Plan, 2006–2010 laid out for the first time a path to transition from a rigid, centrally controlled economy to a market economy.³ It also highlighted for the first time the national importance of transport in promoting economic growth, poverty reduction, safety enhancement, environmental protection, and human resource development. The plan envisioned a transport system that would promote competitiveness, integration and inclusion, and sustainability and safety. The development strategy for the transport sector until 2020 is best summarized in a 2004 decision by the Prime Minister, which refers to the need to (i) minimize transport costs; (ii) pursue a synchronous, rational, and gradual modernization program; and (iii) maintain the existing transport infrastructure.⁴

4. The Five-Year Socio-Economic Development Plan, 2011–2015 places greater emphasis on (i) overall protection of the environment, (ii) improvement of the business environment, and (iii) the need for more effective management of the transport sector. During 2011–2020, the planned development of infrastructure is expected to require about \$16 billion annually, or about 20% of GDP. Based on current estimates, less than half of that amount is projected to be available. The

¹ This summary is based on Asian Development Bank (ADB). 2012. *Viet Nam: Transport Sector Assessment, Strategy, and Road Map*. Manila

² Government of Viet Nam. 2011. *Resolution No. 10/2011/QH13. 8 November. National Assembly approval of 2011–2015 Socio-Economic Development Plan*. Ha Noi.

³ Government of Viet Nam. 2009. *Resolution No. 56/2006/NQ-QH. 29 June. National Assembly approval of 2006–2010 Socio-Economic Development Plan*. Ha Noi.

⁴ Government of Viet Nam. 2004. *Decision No. 206/2004/QĐ-TTg. 10 December. Approval of Viet Nam Transport Master Plan by 2020*. Ha Noi.

government's primary source to make up this very significant shortfall is the private sector. Thus on 14 February 2015, the Prime Minister issued decision to promote public-private partnership.⁵

5. In March 2009, the Prime Minister approved Adjustments to the Transport Development Strategy up to 2020 with a Vision toward 2030 (Transport Strategy 2020).⁶ To implement the strategy, seven parallel areas were identified by the Prime Minister, around which specific solutions and policies were to be formulated: (i) transport development, (ii) raising of capital, (iii) transport industrial development, (iv) international integration and competition, (v) reform, (vi) new sciences and technologies, and (vii) human resource development. The government designated the MOT to implement the Transport Strategy 2020.

6. In 2009 and 2010, the Prime Minister issued two decisions that contained project details in support of the policies outlined in Transport Strategy 2020.⁷ The Road Transportation Development Plan established a road development concept that sets out a series of planning and policy components for the road subsector. It designated 114 specific national highway, ring road, expressway, provincial and rural transport projects to be implemented by 2020, and additional urban road projects to be implemented in Ha Noi and Ho Chi Minh City. The Detailed Master Plan for the North–South Expressway—Eastern Side divided the 1,811-kilometer expressway into 16 sections, approved the alignment and technical standards, and provided details of required land acquisition. The decision set a 14-year schedule for implementation (2010–2023). The master plan is expected to cost about \$17.9 billion, or about \$10 million per kilometer, and will require an average annual investment of about \$1.3 billion during implementation. Very few details are included in the decision on an appropriate investment plan for a project of this size and complexity, except that funding is expected to come from both the public and private sectors.⁸ To respond to changing circumstances, the Prime Minister issued a decision in February 2013 approving adjustments to Transport Strategy 2020.⁹ According to these adjustments, the priorities are (i) early completion of improvement and expansion of Highway 1 to a four-lane configuration, and (ii) improvement of connectivity along other key national highways.

7. As part of the overall road subsector reform process and the transition to a more sustainable maintenance program, in 2012 the government abolished the toll collection system on the national highway network and established the Viet Nam National Road Maintenance Fund (VNRMF) to be financed by revenues from annual vehicle registration fees and budgetary allocations.¹⁰ During 2013–2014, revenue of the VNRMF increased from D6.9 trillion to D8.0 trillion. To improve efficiency in the delivery of road maintenance services, the government made a decision to undertake road maintenance through performance-based contracts, several of which have been piloted under the Road Network Improvement Project financed by the World Bank for the rehabilitation of 302 kilometers of roads in Viet Nam¹¹. Since 2014, the government

⁵ Government of Vietnam. 2015. *Decree No. 15/2015/ND-CP. 14 February. Approval of Public-Private Partnership Investment*. Ha Noi .

⁶ Government of Viet Nam. 2009. *Decision No. 35/QD-TTg. 3 March. Approval of Adjustments to Viet Nam Transport Development Strategy up to 2010 with a Vision toward 2030*. Ha Noi.

⁷ Government of Viet Nam. 2009. *Decision No. 1327/QD-TTg. 24 August. Approval of Vietnam Road Transportation Development Plan by 2020 and Vision toward 2030*. Ha Noi; and Government of Viet Nam. 2010. *Decision No. 140/QD-TTg. 21 January. Approval of the Detailed Master Plan for North–South Expressway–Eastern Side*. Ha Noi.

⁸ The decision establishes that the sources of investment will be (i) state budget through loans or loan guarantees; and (ii) investors under build–operate–transfer, build–transfer–operate, build–transfer, or public–private partnerships, including partial funding from state budgets.

⁹ Government of Viet Nam. 2013. *Decision No. 355/QD-TTg. 25 February. Approval of Adjustments to Viet Nam Transport Master Plan by 2020 and Vision toward 2030*. Ha Noi.

¹⁰ Government of Viet Nam. 2012. *Decree 18/2012/ND-CP on Establishment of Road Maintenance Fund Issued on 13 March by the Prime Minister*. Ha Noi; Government of Viet Nam. 2012. *Circular 197/2012 on Road Fee Collections Issued by Ministry of Finance on 15 November*. Ha Noi.

¹¹ World Bank. 2003. *Road Network Improvement Project (IDA-38430)*. Viet Nam.

has awarded several performance-based contracts for priority maintenance works. In parallel, to protect the road network against premature pavement damage caused by overloaded vehicles, in October 2012, the government approved a master plan¹² to install weigh stations by 2030 along the national road network to measure vehicle axle loads. To date, 63 weigh scales have been provided to provincial departments of transport by MOT.

C. ADB Sector Experience and Assistance Program

8. From 1993 to 2002, the primary challenge in the transport sector was to restore infrastructure damaged during the Viet Nam War. Since 2002, challenges are to achieve sector outcomes that will sustain Viet Nam's growth and development, as well as increase the country's regional and global competitiveness. The primary goals of investments in the transport sector are to elevate the country's competitive performance and to adopt international best practice. ADB has supported improvement of national and regional connections mainly through enhancement of Greater Mekong Subregion (GMS) corridors, national highways, and rural road networks.

9. Since 2006, ADB experience in Viet Nam has mainly involved (i) project preparatory and project advisory technical assistance, (ii) implementation of expressway and road projects, and (iii) a railway upgrading project. The first of a series of loans for improving provincial and district roads in the northern region was completed in 2009.¹³ A second loan for improving roads in the central region was completed in 2011.¹⁴ Two GMS loan projects completed during 2007–2010,¹⁵ and three other loans approved during this same period, are being implemented.¹⁶ ADB is one of the first development partners to initiate and assist the government in developing a master plan and implementing a national expressway network. The technical assistance and investment projects are for the GMS Noi Bai–Lao Cai Highway Project, and the Ho Chi Minh City–Long Thanh–Dau Giay and GMS Ben Luc–Long Thanh sections under the North–South National Expressway axis.¹⁷ ADB has financed one project in the maritime subsector dealing with capacity constraints at Saigon Port;¹⁸ one project for railways for the Yen Vien–Lao Cai Railway

¹² Government of Viet Nam. 2012. *Decision 1502/QD-TTg on Master Plan For Weigh Stations Along The National Road Up To 2020 With The Vision Toward 2030 Issued on 11 October 2012 by the Prime Minister*. Ha Noi.

¹³ ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Provincial Roads Improvement Sector Project*. Manila.

¹⁴ ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Central Region Transport Networks Improvement Sector Project*. Manila.

¹⁵ ADB. 1998. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Greater Mekong Subregion Phnom Penh–Ho Chi Minh City Road Improvement Project*. Manila; ADB. 1999. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Greater Mekong Subregion East–West Corridor Project*. Manila.

¹⁶ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Socialist Republic of Viet Nam for the Greater Mekong Subregion: Kunming–Hai Phong Transport Corridor—Noi Bai–Lao Cai Highway Project*. Manila; ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Kingdom of Cambodia and Socialist Republic of Viet Nam for the Greater Mekong Subregion Southern Coastal Corridor Project*. Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Grant, and Administration of Loan to the Lao People's Democratic Republic and Socialist Republic of Viet Nam for the Second Northern Greater Mekong Subregion Transport Network Improvement Project*. Manila.

¹⁷ ADB. 2007. *Technical Assistance Project to the Socialist Republic of Viet Nam for the Ho Chi Minh–Long Thanh–Dau Giay Technical Assistance Project*. Manila; ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Ho Chi Minh–Long Thanh–Dau Giay Project*. Manila; ADB. 2008. *Technical Assistance Project to the Socialist Republic of Viet Nam for the Ben Luc–Long Thanh Technical Assistance Project*. Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Ben Luc–Long Thanh Project*. Manila.

¹⁸ ADB. 1996. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Saigon Port Project*. Manila.

Upgrading Project;¹⁹ and two projects for urban transit, the Hanoi Metro Rail System Line 3 (Nhon-Ha Noi Station Section), and the Sustainable Urban Transport for Ho Chi Minh City MRT Line 2.²⁰

10. 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 procedures and regulations required for loan effectiveness, applying advance actions and retroactive financing, and approving detailed design and procurement. Efforts are also needed to minimize procurement inefficiencies that are often caused by inadequate packaging of contracts, substandard bidding documents, unclear eligibility criteria, and cases of underbidding. Land acquisition and resettlement activities are often delayed because of unavailability of counterpart funding, ill-defined implementation responsibilities, and inadequate implementation capacity. The execution of contracts has proved problematic because of resettlement implementation delays, and contractor cash flow and performance problems. Delayed project implementation, coupled with high rates of domestic inflation, has directly contributed to significant cost overruns. An essential part of the solution to these issues lies in strengthening the institutional capacity of executing and implementing agencies for better management of consultants, contractors, and safeguard compliance monitoring. 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, design, and implementation.

11. Improvements in the GMS transport corridors have led to a significant increase in cross-border trade between Viet Nam and other GMS countries. Rehabilitation of national highways and trunk and rural roads has contributed to rapidly increasing traffic volume. However, management of the transport sector is still inefficient, and transport costs are relatively high. Large-scale projects, such as expressways and urban mass transit, generally do not progress as rapidly as planned.

12. The Japan International Cooperation Agency (JICA) has been, and continues to be, a major bilateral funding agency for transport in Viet Nam, supporting policy issues and infrastructure development. ADB and JICA are cofinancing the Ho Chi Minh City–Long Thanh–Dau Giay Expressway, and the GMS Ben Luc–Long Thanh Expressway.²¹

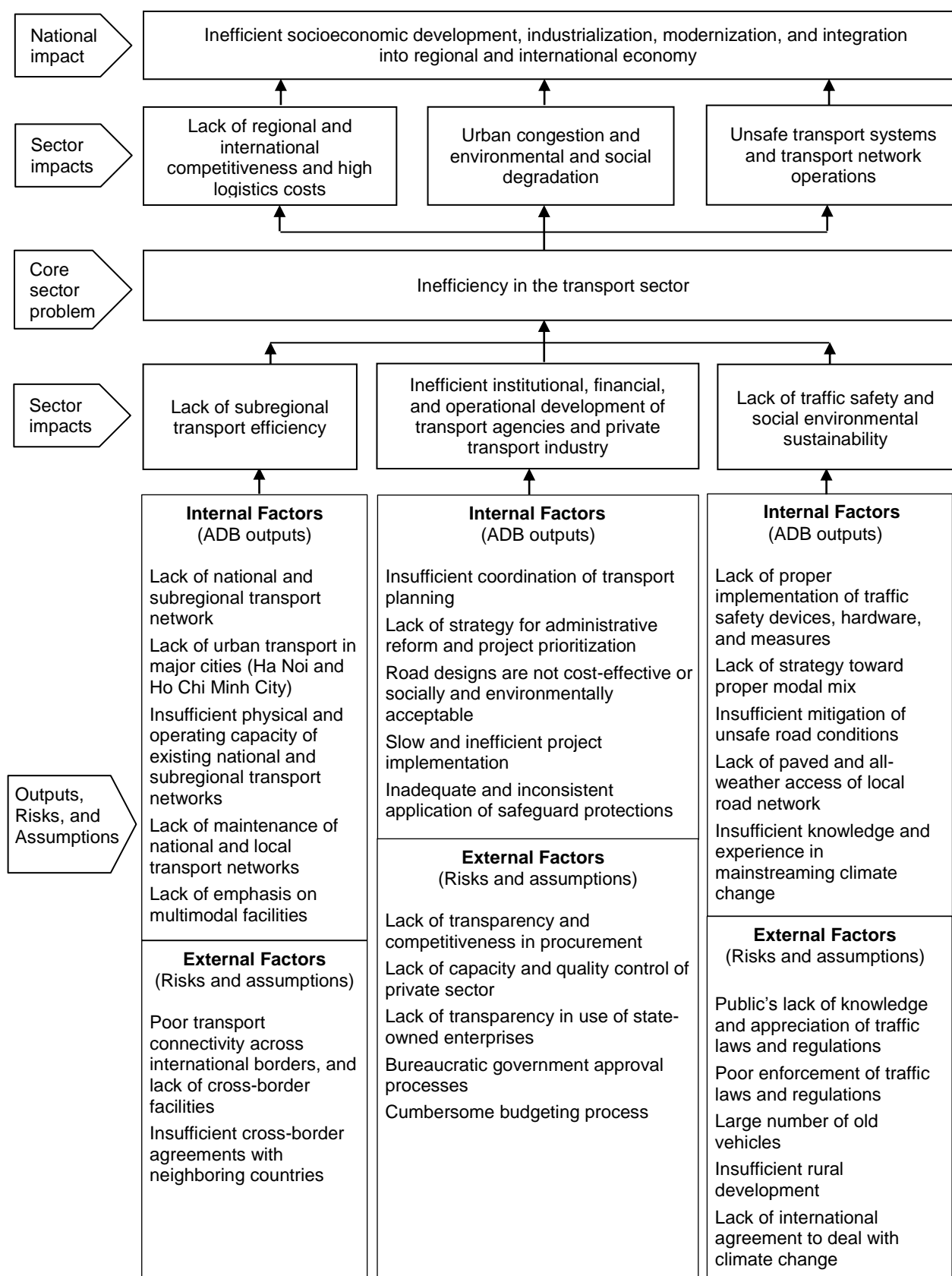
13. ADB's active cooperation with other development partners in the transport sector in Viet Nam is also significant, including cofinancing with (i) Agence Française de Développement (AFD) and Direction Générale du Trésor on the GMS Yen Vien–Lao Cai Railway; (ii) the Government of Australia and the Export-Import Bank of Korea on the GMS Southern Coastal Corridor, and Mekong Delta Connectivity; (iii) AFD, Direction Générale du Trésor, and the European Investment Bank (EIB) on Ha Noi Metro Line 3; and (iv) the EIB and German development cooperation through KfW on Ho Chi Minh City Metro Line 2.

¹⁹ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan from Agence Française de Développement to the Socialist Republic of Viet Nam for the Greater Mekong Subregion Kunming–Hai Phong Transport Corridor: Yen Vien–Lao Cai Railway Upgrading Project*. Manila.

²⁰ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Hanoi Metro Rail System Line 2 Project (Nhon-Ha Noi Station Section)*. Manila; ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Ho Chi Minh City MRT Line 2 Project*. Manila.

²¹ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Ho Chi Minh–Long Thanh–Dau Giay Expressway*. Manila; ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Greater Mekong Subregion Ben Luc–Long Thanh Expressway Project*. Manila.

Problem Tree for the Transport Sector



ADB = Asian Development Bank.

Transport Sector Results Framework (2011–2015)

Country Sector Outcome		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contributions	Indicators with Targets and Baselines	Outputs with ADB Contributions	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Contributions
Increased efficiency in the transport of goods and people	All national highways are upgraded to class III ^a or above by 2020	Subregional and national transport networks are improved	Length of expressway 2,381 km by 2020 (2010 baseline: 0 km)	Planned key activity areas Expressways (49% of funds)	(Planned key activity areas) 540 km of expressway constructed; 3,500 km of national and provincial roads constructed or rehabilitated; 450 km of railways rehabilitated; 20 km of MRT lines constructed Pipeline projects Construction of 180 km of expressway; construction or rehabilitation of 2,000 km of national and provincial roads; rehabilitation of 160 km of railways; construction of 13 km of MRT lines Ongoing projects Construction of 360 km of expressway; construction or rehabilitation of 1,500 km of national and provincial roads; rehabilitation of 285 km of railways; construction of 10 km of MRT lines
	All district and commune roads are accessible all year by 2020 (2004 baseline: 83.5%)	Transport agencies and private transport industry are developed and strengthened institutionally, financially, and operationally	Expressway management streamlined through establishment of VEA by 2011 ^b	National and provincial roads (20% of funds) Railways (4% of funds)	
	Passenger share of public transit in Ha Noi and HCMC increases to 22%–26% by 2015 (2010 baseline: 3%–14%)	Traffic safety and social and environmental sustainability are improved	Road maintenance fund established by 2011 and a PPP project begun by 2015 (2010 baseline: none) ^c	Urban transit (27% of funds) Pipeline projects with estimated amounts GMS expressway projects (\$1.0 billion) GMS railway project (\$80 million)	
	Passenger share of rail increases to 8.0% by 2020 (2007 baseline: 6.5%)		Traffic accident fatalities reduced by 23%–30% by 2015 (2007 baseline: 12,800) ^d	Ha Noi and HCMC MRT projects (\$1.5 billion) Ongoing projects with approved amounts GMS expressway projects (\$1.4 billion)	
	Cargo share of rail increases to 2.0% by 2020 (2007 baseline: 1.6%)		Gender target in civil works will be considered in ADB projects based on gender assessment of the project area	GMS railway project (\$160 million)	

ADB = Asian Development Bank, GMS = Greater Mekong Subregion, HCMC = Ho Chi Minh City, km = kilometer, MRT = mass rapid transit, PPP = public–private partnership, VEA = Vietnam Expressway Administration.

Sources: Government of Viet Nam. 2009. *Decision No.1327/QĐ-TTg. 24 August. Approval of Vietnam Road Transportation Development Plan by 2020 and Vision toward 2030*. Ha Noi; ADB. 2009. *Key Indicators Key Indicators for Asia and the Pacific 2009*. Manila.

ADB estimates.

^a Vietnam's road design standards refer to six road classes (I to VI). Class I road has higher design speed and serves for more traffic.

^b The Expressway Management Department was established on 21 October 2013, under Directorate for Road of Viet Nam.

^c In March 2012, the Viet Nam National Road Maintenance Fund was established.

^d The 3,735 fatalities were recorded as of May 2015; the number of fatalities was reduced by 29% compared to 2007.