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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT
(APPROVAL STAGE)

FOR
A PROPOSED CREDIT
IN THE AMOUNT OF US\$125 MILLION

TO

THE SOCIALIST REPUBLIC OF VIETNAM
FOR THE FIRST HO CHI MINH CITY
DEVELOPMENT POLICY OPERATION

April 19, 2019

Governance Global Practice
Macroeconomics, Trade and Investment
Vietnam Country Management Unit
East Asia and Pacific Region

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VIETNAM-GOVERNMENT FISCAL YEAR

JANUARY 1 – DECEMBER 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 28, 2019)

Currency Unit	Vietnamese Dong
US\$1.00	VND23,200

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Assistance	MCPT	Management Center for Public Transport
ADB	Asian Development Bank	MTIP	Medium-Term Investment Plan
CIT	Corporate Income Tax	MTFBP	Medium-Term Financial and Budget Plan
CPC	City's People's Committee	MOF	Ministry of Finance
CPF	Country Partnership Framework	MPI	Ministry of Planning and Investment
DA	Deposit Account	NA	National Assembly
DeMPA	Debt Management Performance Assessment	NPLs	Non-performing Loans
DOC	Department of Construction	ODA	Official Development Assistance
DOF	Department of Finance	PCI	Provincial Competitive Index
DOHA	Department of Home Affairs	PAML	Public Asset Management Law
DOIT	Department of Industry and Trade	PDML	Public Debt Management Law
DOT	Department of Transport	PEFA	Public Expenditure and Financial Accountability
DPA	Department of Planning and Architecture	PER	Public Expenditure Review
DPI	Department of Planning and Investment	PFM	Public Financial Management
DPO	Development Policy Operation	PIM	Public Investment Management
EBF	Extra-Budgetary Fund	PM	Prime Minister
FDI	Foreign Direct Investment	PPC	Provincial People's Committee
GCS	General Corporations	PPP	Public Private Partnership
GDP	Gross Domestic Product	PTA	Public Transport Agency
GDT	General Department of Taxation	RGDP	Regional Gross Domestic Products
GDRM	Government Debt and Risk Management	SBV	State Bank of Vietnam
GOV	Government of Vietnam	SBL	State Budget Law
GSO	General Statistics Office	SCI	Smart City Initiative
GRS	Grievance Redress Service	SECO	Swiss State Secretariat for Economic Affairs
HCMC	Ho Chi Minh City	SEDP	Socio-Economic Development Plan
IBRD	International Bank for Reconstruction and Development	SEGs	State Economic Groups
IDA	International Development Association	SOEs	State-Owned Enterprises
IMF	International Monetary Fund	UCCI	Urban Civil Works Construction Investment Management Authority
JICA	Japan International Cooperation Agency	VAT	Value-Added Tax
LCL	Lower Concessional Loans	WTO	World Trade Organization
MAUR	Management Authority for Urban Rail		

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**VIETNAM
FIRST HO CHI MINH CITY DEVELOPMENT POLICY OPERATION**

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SUMMARY OF PROPOSED CREDIT AND PROGRAM

SOCIALIST REPUBLIC OF VIETNAM FIRST HO CHI MINH CITY DEVELOPMENT POLICY OPERATION

Borrower	The Socialist Republic of Vietnam	
Implementing Agency	Ho Chi Minh City's People's Committee	
Financing Data	Credit from IDA Transitional Support Window Amount: USD 125 million Terms: Commitment-linked credit, based on six-month LIBOR plus an additional fixed spread. (Credits from IDA Transitional Support Window are offered at IBRD flexible loan terms)	
Operation Type	First Development Policy Operation in a programmatic series of two operations. Single tranche.	
Pillars of the Operation And Program Development Objective	The operation supports HCMC to strengthen institutional foundations for sustainable urban development. Specifically, the development objectives of the series are to contribute to (i) Integrated and transparent spatial information for urban management; (ii) Strengthened management of public assets and liabilities; and (iii) Enhanced delivery of priority municipal services.	
Result Indicators	Expected results	Result indicator
	Integrated and transparent spatial information for urban management	
	Improved information sharing for integrated and evidence-based urban planning and management.	Topography and cadastral maps (updated by DONRE), land zoning maps (updated by DPA), and transport map (updated by DOT) digitized in interoperable formats and accessible by authorized staff of at least the above-mentioned agencies (by 2021).
	Enhanced transparency of urban zoning information provided to citizens, making zoning more credible by allowing external scrutiny.	Number of mobile application users of the zoning plans disclosed on the website of the City (cumulative). (Baseline: 0 in 2017; Target: 250,000 in 2020) Number of mobile application sessions performed on the zoning plans website of the City (cumulative). (Baseline: 0 in 2017; Target: 2,500,000 in 2020)
	Strengthened management of public assets and liabilities	
	Improved financial sustainability for the provision of wastewater, drainage and flood control services.	Level of recovery for operation and maintenance costs for drainage system and wastewater treatment services. (Baseline: 45% in 2017; Target: 60% in 2021)
	Consolidated and professionalized management of commercial housing assets as the basis for better revenue management.	Rate of rental price increase per square meter of state commercial houses, compared to CPI rental component: (Baseline: tbd in 2019; Target: tbd in 2021)

	Better coordinated debt management functions for both domestic and external borrowings.	Online publication of an annual debt bulletin covering all public debt, with basic cost-risk indicators (by 2021).
	Expected results	Result indicator
	Enhanced delivery of priority municipal services	
	More simplified and efficient procedures to legally start and operate a business.	Number of days taken to start and operate a business. (Baseline: 22 in 2017; Target: 15 in 2021)
	Strengthened management capacity towards more efficient use of resources for and improved services quality of public transport.	Interoperability of fare collection systems across mass transit systems under development achieved (by 2022).
		Share of passengers satisfied with services provided by bus drivers and staff. (Baseline: tbd in 2019; Target: tbd in 2021)
Climate and disaster risks (required for IDA countries)	<p>(i) Are there short and long-term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)?</p> <p style="text-align: center;">Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>If yes, (ii) summarize briefly these risks in the risk section and what resilience measures may help address them?</p>	
Overall risk rating	Substantial	
Operation ID	P160480	

**IDA PROGRAM DOCUMENT FOR A PROPOSED
FIRST HO CHI MINH CITY DEVELOPMENT POLICY OPERATION
TO THE SOCIALIST REPUBLIC OF VIETNAM**

I. INTRODUCTION AND COUNTRY CONTEXT

1. **This proposed First Ho Chi Minh City Development Policy Operation (DPO) initiates a new programmatic series of two single-tranche operations, aimed at reinforcing institutional reform priorities of HCMC.** Firmly anchored in the development plan of Ho Chi Minh City (HCMC or City) for 2016-20, the operation is supporting the City in identifying, prioritizing, and implementing reform measures to lay the institutional foundations for sustainable urban development. Specifically, the series aims to contribute to (i) Integrated and transparent spatial information for urban management; (ii) Strengthened management of public assets and liabilities; and (iii) Enhanced delivery of priority municipal services. The proposed programmatic design with two consecutive operations provides for a strategic, medium-term policy engagement with sequenced reform measures moving from policy commitment and formulation to implementation. While supporting key institutional reforms, the first operation provides financing in the amount of US\$125 million to help meet some of HCMC’s significant development financing needs.

2. **This DPO—the first subnational DPO in Vietnam—is designed to address complex institutional bottlenecks that require integrated, cross-sectoral solutions.** Aligned with the Vietnam Country Partnership Framework 18-22, the operation is the lynchpin of the World Bank’s evolving subnational engagement with HCMC, which is shifting from sector-specific investments to supporting cross-cutting policy and institutional reforms. It leverages the Bank’s knowledge and convening power to establish, for the first time, a city-wide, integrated policy dialogue to facilitate coordination among various departments of the City and contribute to timely decision making and implementation. As such, the operation synergizes with and complements existing sectoral investments and advisory services in land governance, public transport, water management, fiscal management and regulatory reforms. Moreover, in developing, testing and demonstrating feasible and scalable institutional and policy innovations, the impact of the DPO series is expected to radiate to other provinces. As such, the operation is expected to contribute not only to improved urban governance in HCMC itself, but more broadly to the urbanization and municipal governance agenda in Vietnam.

3. **HCMC is the largest and most populous city in Vietnam and a key growth pole driving economic modernization.** Today, about 10 million people reside within the City’s boundaries with inflows of about half a million additional migrants per year. The City is Vietnam’s economic powerhouse accounting for nearly one quarter of national GDP, 15 percent of the FDI stock and 18 percent to total export earnings of Vietnam. Underpinned by a dynamic urban service economy, GDP growth in HCMC has consistently exceeded 9 percent over the past five years, contributing significantly the national growth. As a systemically important city with strong spill-over effects and linkages to the rest of the economy, HCMC’s ability to sustain rapid growth and development will impact not only the quality of life for its residents and the urban environment but have a bearing on Vietnam’s overall economic competitiveness and hence progress in reducing poverty and boosting shared prosperity.

4. **While HCMC holds significant promise to become a leading and globally competitive city, it also faces significant pressures to manage rapid urban growth and deliver vital urban infrastructure and services within a fiscally constrained environment.** Without effective and integrated urban planning and adequate investment in urban infrastructure and service delivery, HCMC could see many of the positive impacts of urbanization reverse course. Indeed, while urbanization initially achieved high levels of density, HCMC is showing signs of unprecedented (and in some cases uncoordinated) land expansion, which threatens to erode agglomeration benefits. Because of its rapid growth, HCMC is also experiencing increasing traffic congestion and pressure on other core municipal services. Importantly, these demands will have to be met within a constrained fiscal environment, reinforcing the need for efficient resource mobilization, planning and implementation of investment and spending programs within a medium-term framework that ensure long term fiscal sustainability.

5. **This DPO is designed to reinforce critical institutional reforms addressing the most pressing urban governance challenges in HCMC.** The policy program is prioritizing institutional strengthening in areas that are crucial for HCMC’s urban development, including land use planning, fiscal governance, waste water management, public transport and economic competitiveness. Under pillar 1, the program supports enhancing operational integration of key spatial information systems, which will underpin more integrated and evidence-based urban planning and management—a key condition for ensuring an efficient spatial footprint of the city. Under pillar 2, the program supports more effective management of the City’s fiscal assets and liabilities, which is expected to enhance returns on municipal assets while ensuring prudent management of rising public debt and contingent liabilities. Under pillar 3, the program supports reforms to support more efficient delivery of priority public services in public transport and business registration which is a critical enabler for enhanced competitiveness.

6. **The operation is ambitious and subject to several risks.** While HCMC leadership has adopted a comprehensive reform program, implementation of the identified institutional changes is complex and may be hampered by resistance, administrative inertia and rigidities in the national legal framework which may stifle local innovation and reforms. These risks are mitigated by focusing the series on reform actions where ownership is relatively strong and progress is feasible without changes to national legislation. In addition, several prior actions are complemented by technical assistance to strengthen institutional capacity and reinforce the impact of the DPO. The second risk arises from the tight level of control of the central government over the organizational structure and staffing of subnational governments. The risk is mitigated by focusing less on the form of the supported institutions, and more on their functions. In several cases in the DPO, the new institutions and functions are created in an employment-neutral way without affecting the total staffing level of the City.

II. MACROECONOMIC POLICY FRAMEWORK

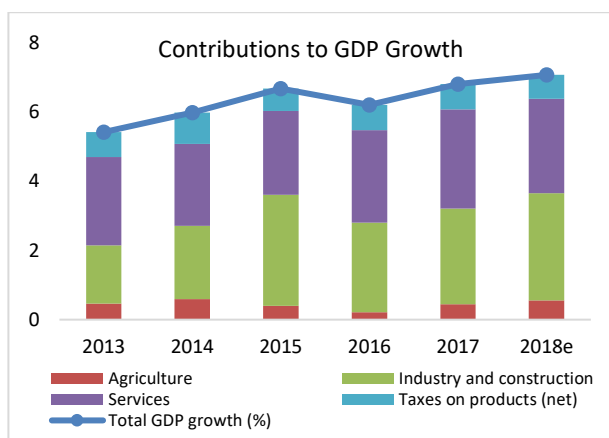
2.1. RECENT ECONOMIC DEVELOPMENTS IN VIETNAM

7. **Vietnam’s economy continues to show fundamental strength, supported by robust domestic demand and export-oriented manufacturing.** Following 6.8 percent growth in 2017, preliminary data indicate that Vietnam’s GDP growth accelerated to 7.1 percent in 2018, underpinned by a broad-based pickup in economic activity. The agriculture, forestry, and fishery sector recorded growth of 3.8 percent, a significant acceleration from 2.9 percent in 2017. The industrial and construction sectors expanded by 8.9 percent, driven by robust growth of 13 percent in manufacturing which benefitted from healthy

external demand. The services sector posted 7 percent growth, supported by sustained strength of domestic consumption and tourism activities.

8. **Inflationary pressures remain moderate.** After accelerating in the first three quarters of 2018 on the back of hikes in administered prices (for electricity and health services), headline CPI moderated significantly in the last quarter of 2018 due to softer food and fuel prices. For the year as a whole, the headline CPI came in at 3.6 percent well below the State Bank of Vietnam’s inflation target of 4 percent. Annual average core inflation remained subdued – rising slightly from 1.4 percent in 2017 to 1.5 percent in 2018.

Figure 1: A broad-based acceleration of GDP growth



Source: GSO

Figure 2: Accompanied by moderate inflation

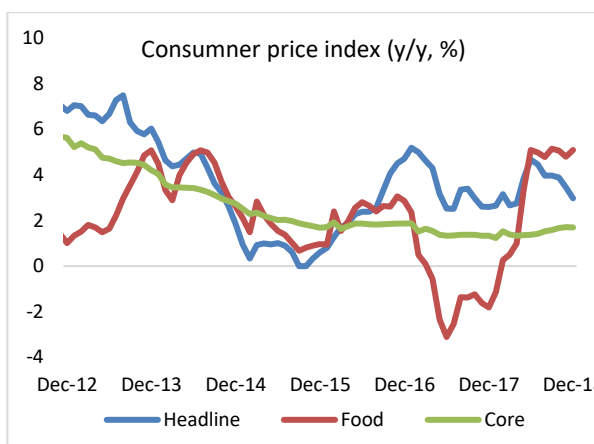
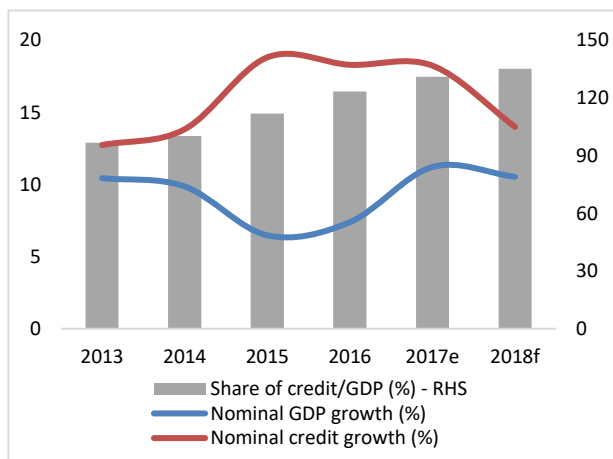


Figure 3: Credit growth is declining in 2018



Source: GSO and SBV

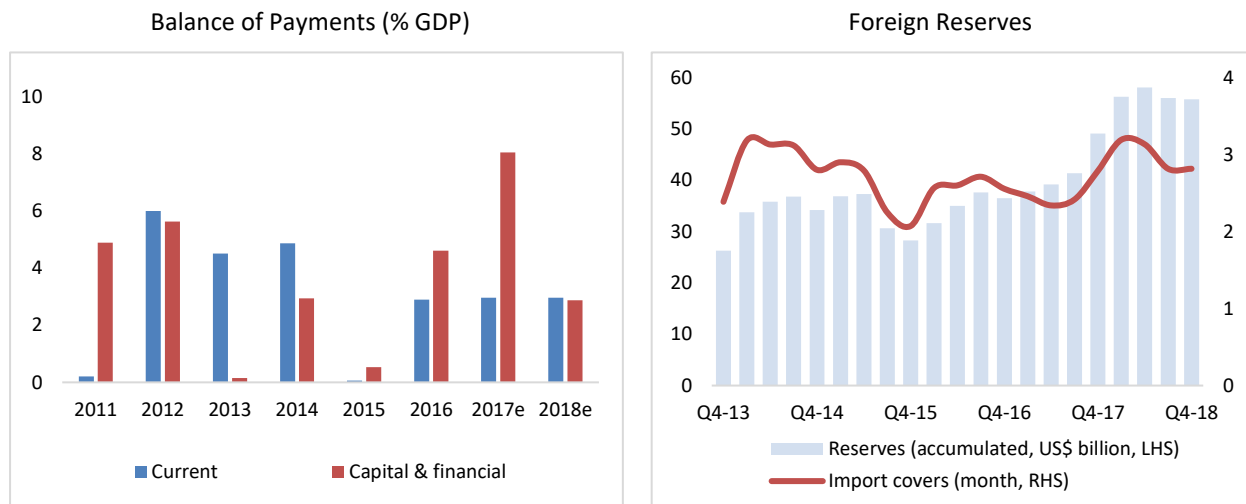
9. **Against the backdrop of moderate inflationary pressures, monetary policy continues to balance SBV’s dual focus on maintaining stability while supporting economic growth.** While the monetary policy stance remains broadly accommodative, the State Bank of Vietnam (SBV) tightened macro-prudential norms in 2018, setting credit growth limits for commercial banks and controlling lending to high risk sectors (real estate, securities, and consumer lending). Liquidity in the banking sector also tightened markedly due to slower deposit growth pushing up short term interbank interest rates. Amidst tighter financing conditions, credit growth moderated to about 14 percent (year-on-year) in 2018 (down from 18 percent in

2017). Nevertheless, corporate and household balance sheets are increasingly leveraged with Vietnam’s credit-to-GDP ratio standing at 135 percent. This leaves the economy more vulnerable to shocks and potential financial market stress, especially against a backdrop of legacy NPLs and relatively thin capital buffers in some banks.

10. **The resolution of nonperforming loans (NPLs) continued, however, at a slow pace despite the efforts of Vietnam Asset Management Company (VAMC).** The officially reported NPL ratio in the banking system fell to 2.1 percent in June 2018, down from 2.5 percent at the beginning of 2017. Using a broader measure which includes VAMC assets and other problem loans, NPLs were estimated by the government at about 6.5 percent of all outstanding loans in mid-2018, down from 10 percent in December 2016, reflecting both the improved macroeconomic environment as well as stepped up efforts in NPL resolution through debt collection and the sale of collateral.

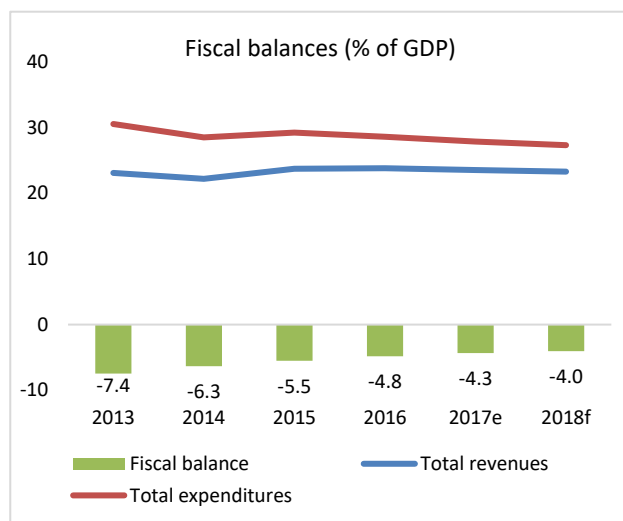
11. **Vietnam external balances continued to improve in 2018 despite uncertain global trade developments.** Vietnam’s total exports are estimated to have expanded by 13.2 percent in 2018 which is slower than 21.8 percent recorded in 2017 but significantly outperforming global trade growth. Meanwhile import growth also slowed to 11.1 percent in 2018 compared to 21.9 percent in 2017, reflecting a slowdown in imports of investment and intermediate goods. With export growth outpacing import growth, Vietnam’s trade balance posted a record surplus of about US\$7.2 billion in 2018. Vibrant trade activity has positioned Vietnam as one of the most open economies in the world, with trade to GDP ratio reaching about 200 percent for the year. Strong exports also helped Vietnam to sustain a current account surplus for 8 consecutive years. Meanwhile, Vietnam’s capital account surplus also remains sizeable owing to consistent FDI inflows. These developments eased foreign exchange pressures and helped the SBV build up international reserves, which went from 2.1 months of import cover at the end of 2015 to about 2.8 months by the end of 2018.

Figure 4: External position has strengthened



Source: SBV, IMF and WB

Figure 5: Fiscal consolidation in progress



Source: World Bank Staff based on official data

12. **Vietnam’s fiscal stance has improved in 2018 thanks to consolidation efforts.** The overall fiscal deficit is estimated to have narrowed to an estimated 4 percent of GDP in 2018 from 4.3 percent in 2017 and 4.8 percent in 2015 (IMF GFS definition). Preliminary figures show that total revenues remained at 23.6 percent of GDP in 2018 – at about the level reported in 2015 and 2016, supported by a cyclical recovery in major tax revenues, including Value-added tax (VAT), Corporate Income Tax (CIT) and Personal Income Tax (PIT) which recovered on the back of strong consumption and income growth. Over the same period, total expenditures have gradually declined to 27.6 percent of GDP from 28.5 percent in 2016 and 27.8 percent in 2017, reflecting to a large extent lower capital expenditure and rationalization of other discretionary spending

items. These measures, while effective in the short term, could hamper needed investments for infrastructure and human capital development. The Government’s commitment to strengthen budgetary discipline, therefore needs to be balanced with reforms that create fiscal space to maintain critical investments in infrastructure and spending on essential public services. The quality of the adjustment, including a balanced combination of revenue and expenditure measures and a strong focus on spending efficiency gains—as opposed to across-the-board curtailment of discretionary spending and investment—remains therefore important.

13. **After a decade of steady increases in the public-debt-to-GDP ratio, 2017-18 saw a welcome reversal in the public debt trajectory.** The lower fiscal deficit in 2017 together with a reduction in government guarantees and significant privatization proceeds helped contain further increases in public and publicly guaranteed debt. Overall, public and publicly guaranteed debt (government definition) declined to 61.4 percent in 2018 from the peak of 63.7 percent in 2016, remaining below the statutory limit of 65 percent of GDP. During the same time, government’s debt fell slightly from 52.8 percent to 51.7 percent of GDP and remains above the 50 percent statutory limit for direct public debt. Meanwhile, the government refrained from issuing new guarantees which resulted in decline in the stock of public guaranteed debt from 10.2 percent in 2016 to 8.8 percent in 2018. In the IMF GFS definition, overall public and publicly guaranteed debt declined to an estimated 57.8 percent of GDP in 2018, down from a recent peak of 59.7 percent in 2016.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. **Vietnam’s medium-term outlook remains positive.** Vietnam’s economic fundamentals continue to remain solid, reflecting positive momentum especially of export-oriented manufacturing and agriculture. Growth is expected to moderate slightly with real GDP projected to expand 6.6 percent in 2019 and 6.5 percent in 2020. The slowdown in the outer years reflects the envisaged cyclical moderation of the global economy which is expected to dampen external demand as well as tighter monetary and fiscal policies in Vietnam.

15. **Inflation is expected to remain moderate.** We expect inflation to remain around the 4 percent government target. This is predicated on sufficient tightening of the monetary stance to counter price pressures that may reemerge over the medium term because of domestic input price pressures and/or rising global commodity prices.

Table 1: Vietnam Key Economic Indicators

	2016e	2017e	2018f	2019f	2020f	2021f
<i>Real economy</i>						
Real GDP (% change)	6.2	6.8	7.1	6.6	6.5	6.5
Agriculture	1.4	2.9	3.8	3.0	2.8	2.8
Industry and construction	7.6	8.0	8.9	8.4	8.3	8.3
Services	7.0	7.4	7.0	6.6	6.5	6.3
<i>Prices</i>						
Consumer price index (% change, annual average)	2.7	3.5	4.0	4.0	4.0	4.0
GDP deflator (% change)	1.1	4.1	3.3	3.8	4.0	4.1
<i>Fiscal balance (% GDP)</i>						
Total revenue and grants	23.7	23.5	23.6	23.4	23.3	23.3
Total expenditure (including off-budget items)	28.5	27.8	27.6	27.4	27.2	27.1
Fiscal balance	-4.8	-4.3	-4.0	-4.0	-3.9	-3.8
Public and publicly guaranteed debt (by MOF)	63.7	61.4	61.4	61.3	61.2	61.0
<i>External Balance</i>						
Exports of goods (fob, % GDP)	87.7	97.6	101.3	104.8	108.9	113.3
Exports of goods (% change)	9.0	21.8	13.2	13.0	13.5	13.7
Imports of goods, (cif, % GDP)	86.8	96.6	98.4	102.7	107.9	113.6
Imports of goods (% change)	5.1	21.9	11.1	12.5	13.8	14.5
Foreign direct investment (Inflows, US billion)	11.6	14.6	16.3	17.6	18.3	19.2
Current account balance (% GDP)	2.9	3.0	3.0	2.7	2.5	2.2
Reserves, including gold (\$US billion)	35.8	49.4	55.4	67.0	78.3	90.0
Reserves (in months of imports)	2.5	2.8	2.8	3.0	3.0	3.0
<i>Financial Markets</i>						
Credit to the economy (% change, period-end)	18.8	18.2	14.0	14.0	14.0	14.0
Short-term interest rate (3-M deposits, period-end)	4.9	5.0	---	---	---	---
Memo:						
GDP (nominal, trillion dong)	4,503	5,006	5,535	6,126	6,788	7,521

Source: Bank staff, based on official data.

Note: cif = cost, insurance, and freight; fob = free on board, GFS=Government Financial Statistics

16. **On the external front, we expect the current account balance to remain in surplus but start narrowing from 2019 reflecting widening deficits on the income and services accounts.** While the merchandise trade surplus will continue to be supported by rising exports of the foreign-investment-driven manufacturing sector, imports of capital and intermediate goods will also continue to grow rapidly, as Vietnam's export sectors rely on imported capital goods, components and raw materials.

Table 2: Balance of Payments Financing Requirements and Sources (US\$, billions)

	2016	2017e	2018e	2019f	2020f	2021f
Financing requirements	24.9	25.9	28.6	28.8	29.4	29.1
Current account deficit	-5.8	-6.5	-7.1	-7.0	-7.0	-6.8
Long-term debt amortization	5.2	5.5	9.3	10.3	11.3	11.1
Short-term debt amortization	17.4	15.6	13.5	12.4	10.6	9.5
Other capital outflows (incl. deposits)	8.1	11.3	12.9	13.1	14.5	15.2
Financing sources	24.9	25.9	28.6	28.8	29.4	29.1
FDI and portfolio investment (net)	11.8	16.6	18.6	20.0	20.8	22.7
Long-term debt disbursement	8.7	13.5	14.4	15.1	14.1	13.5
Short-term debt disbursement	23.5	23.6	14.8	9.0	9.0	6.3
Other capital inflows (incl. deposits)	-4.0	-5.7	-5.2	-3.8	-3.2	-1.7
Change in the reserves	-7.2	-13.7	-6.0	-11.6	-11.3	-11.7
Errors and Omissions	-7.9	-8.5	-8.1	0.0	0.0	0.0

Source: World Bank staff estimates, based on official data

17. **Fiscal consolidation is expected to contain fiscal deficits and public debt over the projection period.** The fiscal deficit is projected to remain at 4.0 percent of GDP in 2019, before narrowing in 2020 to 3.9 percent, reflecting continued implementation of the Government's fiscal consolidation plans. Fiscal consolidation will be implemented against the backdrop of robust nominal GDP and consumption growth which is expected to bolster revenue performance while expenditure growth will be contained by the government's commitment to rein in inefficiencies.

Table 3: Key Fiscal Indicators (% of GDP)

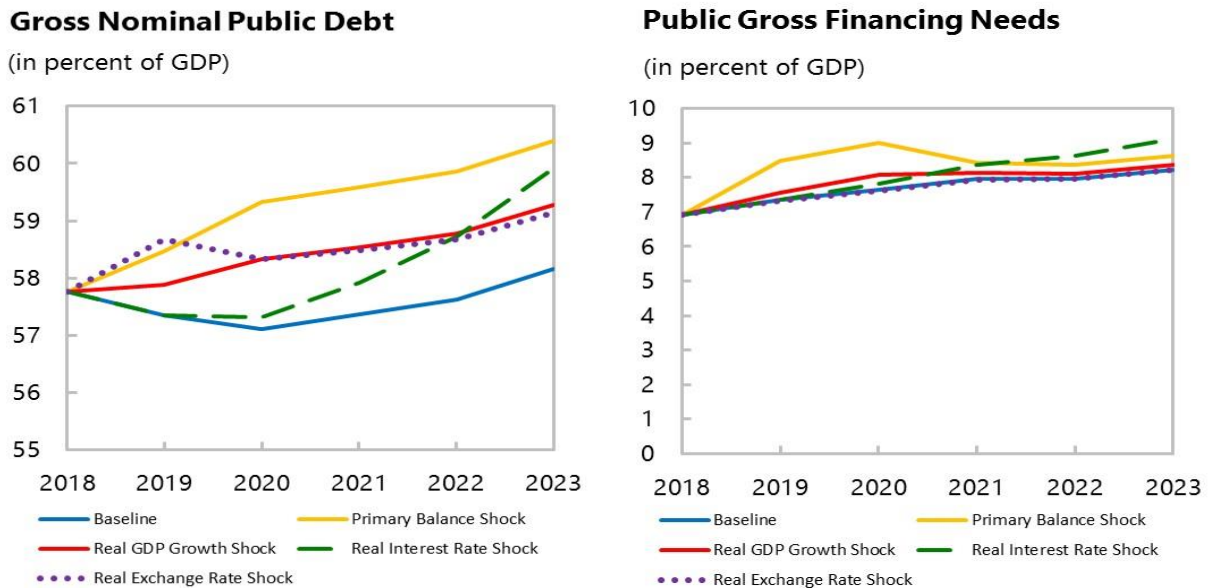
	2016	2017e	2018e	2019f	2020f	2021f
Total revenue and grants	23.7	23.5	23.6	23.4	23.3	23.3
Revenue (excluding grants)	23.5	23.4	23.5	23.4	23.2	23.3
Tax revenue	17.9	18.8	19.0	19.1	19.0	19.2
Oil revenues	0.8	0.9	0.7	0.7	0.6	0.5
Non-oil tax revenues	17.1	17.9	18.4	18.4	18.4	18.7
Corporate income tax	4.5	4.5	4.6	4.7	4.8	4.9
Trade taxes	2.0	2.0	2.1	2.2	2.1	2.1
VAT	6.5	6.9	7.0	7.2	7.3	7.3
Non-tax and capital revenues	5.6	4.7	4.4	4.3	4.2	4.0
Grants	0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure	28.5	27.8	27.6	27.4	27.2	27.1
Current	21.1	20.7	20.4	20.3	20.2	20.2
Administrative	2.6	2.5	2.4	2.4	2.2	2.1
Economic	2.0	1.8	1.8	1.7	1.8	1.9
Social	9.3	9.1	9.0	9.0	9.0	9.0
Education and training	4.3	4.2	4.2	4.2	4.2	4.3
Health and population	1.7	1.6	1.6	1.7	1.8	1.8
Pension and Social protection	2.7	2.5	2.5	2.5	2.5	2.6
Interest payment	1.9	2.0	2.0	2.0	2.0	1.9
Development investment	7.4	7.1	7.2	7.1	7.0	6.9
Overall fiscal balance	-4.8	-4.3	-4.0	-4.0	-3.9	-3.8
Primary deficit	-2.9	-2.3	-2.0	-2.0	-2.0	-1.9
Disinvestment proceeds/1		0.7	0.2	0.5	0.5	0.5

Source: Bank staff estimates based official data

Note: 1/ Proceeds from SOE equitization, state sector disinvestment and sale of state assets

18. **Public debt sustainability hinges on continued implementation of the envisaged fiscal consolidation program and remains subject to risks.** In the baseline scenario, which is based on the overall macroeconomic framework and predicated on implementation of a gradual fiscal adjustment, including some use of (non-debt creating) privatization proceeds for deficit financing, public debt is projected to decline to 57 percent of GDP in 2020, but start rising gradually from then onwards as fiscal deficits reemerge. This baseline assessment is subject to considerable risk, including in particular delays in fiscal consolidation and persistent primary deficits exceeding the debt stabilizing level, shortfall in privatization proceeds as well as growth and exchange rate shocks.

Figure 6: Debt Sustainability Analysis



Source: World Bank Staff based on official data and IMF

19. **Despite improved short term prospects, risks remain significant.** Despite improved short-term prospects, there are significant downside risks. Domestically, a slowdown in the restructuring of the state-owned enterprise (SOE) and banking sectors could adversely impact the macro-financial situation, undermine growth prospects, and create public sector liabilities. Further fiscal consolidation through the continued contraction of public investment could undermine long-term development objectives. Vietnam’s economy also remains susceptible to further volatile developments in the global economy, given its high trade openness and relatively limited fiscal and monetary policy buffers. External risks include escalating trade protectionism, heightened global and regional geopolitical uncertainty, and continued tightening of global financing conditions that could lead to disorderly financial market movements.

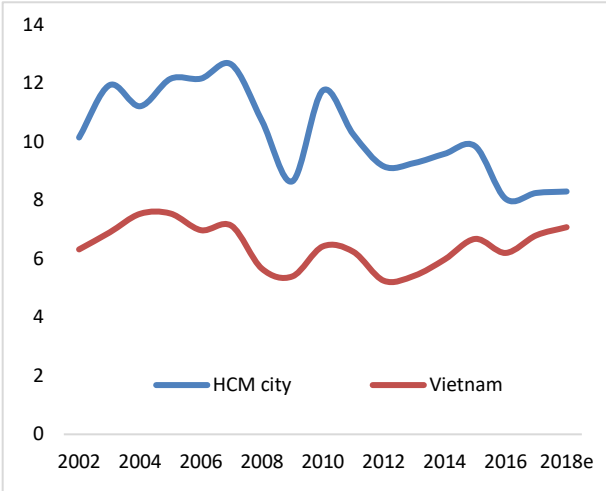
20. **The macroeconomic policy framework is deemed adequate for this operation.** Economic growth has been resilient and macroeconomic stability has been broadly maintained. While relatively high public debt, rapid credit growth and balance sheet weaknesses in the banking and SOE sector remain key macroeconomic vulnerabilities, the Government has started to address these. Increased exchange rate flexibility introduced in early 2016 and gradual foreign exchange reserve accumulation have

bolstered resilience against external shocks, especially in the context of anticipated strengthening of the US dollar. While credit growth remains elevated, the recent moderation signals a shift towards a more stability-oriented monetary stance. With regard to fiscal policy, the government has started to implement a gradual fiscal consolidation. Sustaining the resolution of balance sheet weaknesses in the SOE and banking sector would also be important to contain medium-term macroeconomic risks.

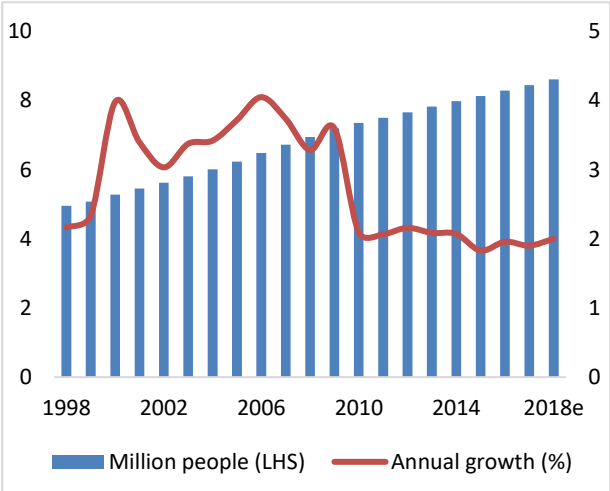
2.3. THE SUBNATIONAL CONTEXT

21. **Ho Chi Minh City is a dynamic business hub and an important growth pole for Vietnam.** Its average GDP growth rate of 9.1 percent during 2011-2018 has consistently outpaced the national average of 6.2 percent. Today, the City accounts for about 21 percent of Vietnam’s GDP and its per capita GDP—estimated at nearly 5,890 USD in 2018 (at current exchange rate)—is about 2.3 times higher than Vietnam’s average. HCMC’s economy is concentrated in the service and industrial sectors, which accounted for 55 percent and 29 percent of GDP in 2018, respectively. The City’s economy is increasingly driven by a dynamic private sector which accounts for over 80 percent of the economy (compared to less than 70 percent for the country as a whole). HCMC is also a leading destination for FDI, accounting for about 13 percent of Vietnam’s FDI stock and strong exporter contributing almost 16 percent to the total export earnings of Vietnam in 2018. Attracted by this dynamic economy, HCMC’s population has continued to expand at average rate of around 2 percent annually over the past decade.

Figure 7: GDP growth: HCMC vs. Vietnam



Population level and growth



Source: GSO and HCMC Authorities

22. **HCMC’s revenue performance is robust.** HCMC revenue base comprises shared taxes, central government transfers and own source revenue. Shared taxes (trade tax, Corporate Income Tax (CIT) and Value Added Tax (VAT)) account for about 80 percent of the City’s total revenue. Own-source revenue from various land-related sources¹ as well as user fees and charges are relatively constrained (due to limited revenue autonomy in Vietnam’s intergovernmental framework, discussed in more detail in the subsequent section) and accounts for less than 15 percent of total revenue. Finally, central government transfers account for a relatively small share—about 3 percent—of total revenues in 2018. Overall revenue performance has been relatively steady in recent years.

¹ These include Land and Housing Tax; Natural Resource Tax (except petroleum); Tax on Transfer of Land-Use-Rights; Registration Fees; Licensing Fees; Rental of Land and Water; Transfer of Land Use Rights; Sale of State Property.

Table 4: HCMC Fiscal Aggregates (% RGDP)

	2015	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
Local Receipts	7.7	8.5	7.7	6.6	6.5	6.4	6.4	6.3	6.3
Decentralized revenue	6.3	7.2	6.9	6.3	5.1	5.0	5.0	4.9	4.8
Central targeted transfers	0.6	0.3	0.8	0.2	0.3	0.3	0.3	0.3	0.3
Others	0.8	1.0	0.1	0.1	1.0	1.1	1.1	1.2	1.2
Total Local Expenditure	7.4	6.8	6.2	5.0	5.0	5.2	5.4	5.4	5.5
Capital expenditure	3.7	3.3	2.5	2.1	2.3	2.5	2.7	2.7	2.8
Recurrent expenditure	3.6	3.5	3.6	2.9	2.7	2.7	2.7	2.7	2.7
Fiscal Balance	0.4	1.7	1.5	1.6	1.5	1.2	1.0	0.9	0.8
Augmented fiscal balance 1/	0.3	-0.2	0.0	0.0	-0.3	-0.7	-0.3	-0.3	-0.2

Note: 1/ estimated from change in public debt stock

Source: HCMC Authorities and WB estimates

23. **At the same time, HCMC faces significant social and infrastructure spending needs to meet the demands of a rapidly growing urban population and dynamic economy.** Overall spending capacity in HCMC is high, with per capita spending in HCMC at almost double the national average and the highest in Vietnam. However, because of constrained fiscal space and rapid population growth, per capita budgetary spending in HCMC has been growing at a slower pace than that in other provinces. In terms of spending composition, human capital spending (education and health expenditure) absorbs about 33 percent of total spending—higher than the national average (27 percent). Despite a slight downward trend in recent years, capital spending—in particular in public transport, waste water and flood management—accounts for more than 45 percent of local spending, also well above the national average (29 percent) and among the highest across provinces.

24. **Aside of budgetary outlays, there are several extra-budgetary activities.** These off-budget activities include spending financed from lottery receipts, ODA (including significant investment in the metro system, financed by on-grant ODA)², extra-budgetary funds (EBFs), and fully state-owned municipal SOEs. HCMC operates 16 EBFs (table 5) for a variety of purposes—infrastructure development investment (3 funds), social protection (8), social security (2), science-technology-environment (3), and business support (1). Specific purposes include development investment, credit guarantees, land development, housing, farmer support, cooperative development support, and others. Of these the HCMC Financial Investment Corporation (HFIC) is by far the largest, accounting for nearly 75 percent of the total subscribed capital. It undertakes infrastructure development projects on behalf of the City.

² Per the SBL (2015), spending financed by lottery receipts and ODA/concessional lending has been brought on-budget since 2017.

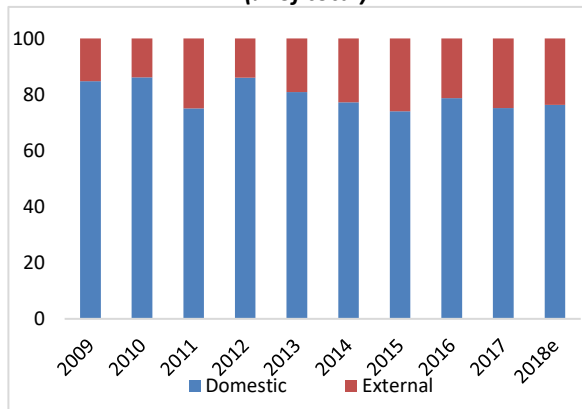
Table 5: Extra-Budgetary Funds in Ho Chi Minh City

Name	Capital (billion dong)	% of RGDP
1 HCMC Financial Investment Corporation (HFIC)	7,177	0.67
2 Housing Development Fund	921	0.09
3 National Fund for Employment	360	0.03
4 Job Training Fund for Land-lost People	313	0.03
5 Poverty Reduction and Hunger Eradication Fund	298	0.03
6 Land Development Fund	200	0.02
7 Road Maintenance Fund	160	0.01
8 Farmer Assistance Fund	108	0.01
9 Others	220	0.02
Total	9,757	0.91

Source: HCMC Authorities

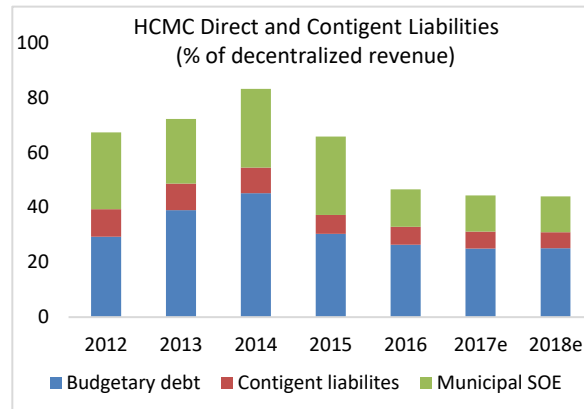
25. **HCMC has maintained fiscal discipline and municipal debt remains low.** HCMC has maintained an average budget deficit (augmented fiscal balance) of roughly 0.1 percent of RGDP between 2009 and 2018. This has helped to keep borrowing at relatively low levels. Nevertheless, HCMC is the most active local governments in Vietnam in terms of local borrowing. Overall, budgetary debt was estimated to stand at just about 25 percent of decentralized revenue in 2018, much below the 70 percent statutory limit for HCMC stipulated in the budget code. HCMC financing needs were met by domestic bond issuances—about 76.3 percent of total outstanding municipal debt, 2018) and on-lent official project financing—about 23.7 percent of total outstanding municipal debt, 2018 (figure 8). Given HCMC’s low debt stock, debt service payments are relatively contained amounting to around 5.2 percent of revenue.

Figure 8: Public Debt Composition by Sources (% of total)



Source: HCMC Authorities and WB estimates

Figure 9: Broad Municipal Exposure

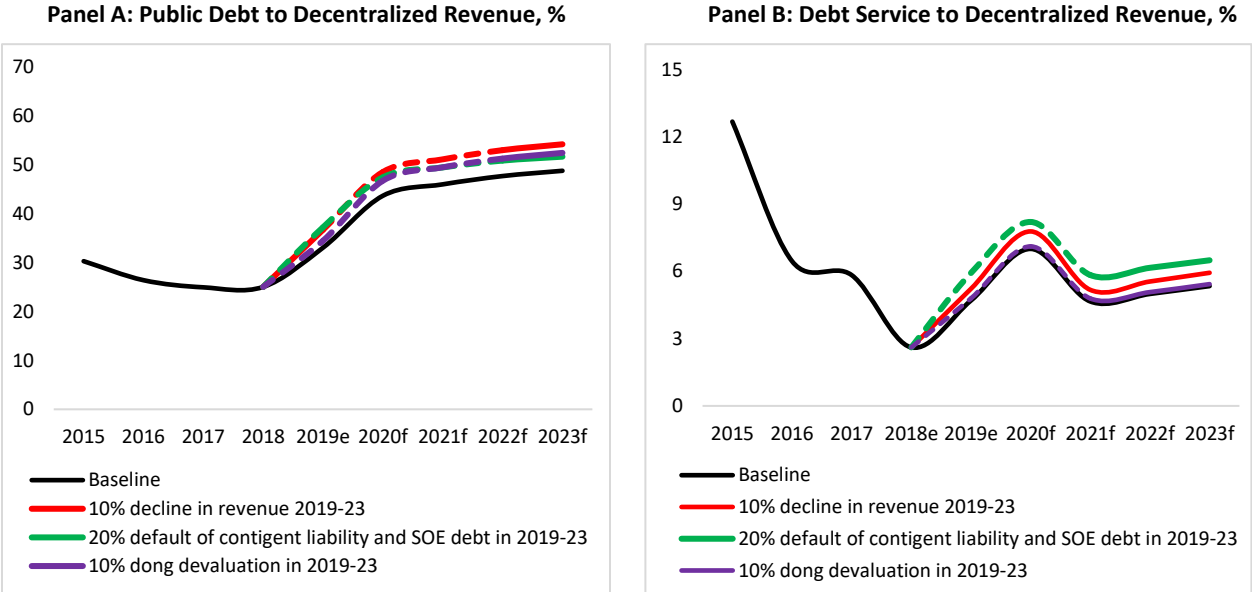


Source: HCMC Authorities and WB estimates

26. **In addition, there is off-budget borrowing through various municipal SOEs.** While these liabilities are not explicitly guaranteed by the PPC they may pose implicit contingent liabilities, including HFIC project financing and borrowing by municipal SOEs. Together the stock of these implicit contingent liabilities accounts for about 38 percent of decentralized revenue in 2018. This debt is serviced by the borrowing entities and not subject to explicit guarantees by the HCMC government. However, since HCMC is the ultimate owner of the borrowing entities, these liabilities pose some of risk to the City’s overall fiscal sustainability.

27. **HCMC’s public debt is assessed as sustainable.** Given the City’s large financing needs, public debt is expected to expand gradually over the coming few years. The City’s financing plan envisages the needs to be met by external debt (both project financing and quick disbursing budget support, including from this operation) and domestic bond issuances. As a result, the public-debt-to-revenue ratio is projected to rise but to remain below 50 percent (figure 10) by 2023 under the baseline scenario, as the statutory limits on subnational borrowing in the budget code and on-lending decree will restraint HCMC’s overall debt exposure. To assess the impact of potential fiscal risks, the baseline scenario was exposed to several shocks: (i) 10 percent decline in revenue; (ii) 10 percent devaluation of Vietnam Dong; and (iii) default of 20 percent of the city’s contingent liabilities including implicit liabilities and SOE debt. The combined shocks could raise the debt level by about 12.7 percentage points from 48.8 percent (baseline scenario) to 61.5 percent of RGDP in 2023. The debt trajectory is particularly sensitive to revenue shocks that would affect the repayment capacity of the City.

Figure 10: HCMC Debt Projections



Source: HCMC Authorities and WB estimates

28. **This DPO will contribute to the significant development financing needs of the city.** The financing provided by the DPO will fully be on-lent to HCMC at the original terms, e.g. HCMC fully assumes repayment obligations for the credit. Expected disbursement from this operation amounts to US\$125 million. This the equivalent to about 5 percent of HCMC decentralized revenue. The disbursement is programmed as part of the City’s 2019 budget financing and can be accommodated within the existing overall debt limit of the city (see box 1). Since the on-lending terms are equivalent to the original lending terms, the DPO financing will help extend the maturity of the HCMC debt portfolio, while HCMC will have to manage the foreign exchange and interest rate risks associated with the original lending terms.

Box 1. Statutory Limits on HCMC Public Debt

While the 2015 budget code has provided for more autonomy in terms of subnational borrowing, borrowing space is subject to statutory limits. These limits are calibrated to the varying fiscal capacity of subnational governments. In addition, the decree on on-lending sets out statutory limits for debt service payments. For HCMC City the following fiscal rules apply:

- Debt stock limit: The State Budget Law of 2015 (which came into effect on January 1, 2017) stipulates that total outstanding debt must not exceed 70 percent of the decentralized revenue that a PPC may retain (Art. 7.6)³. Government Decree No. 48 (dated April 2017) raises the debt threshold to 70 percent of decentralized revenue (Art. 5.4). National Assembly Resolution No. 343 (January 2017) stipulates that, within the national and subnational debt stock thresholds, the National Assembly, as part of the annual budget process, decides on the level of fiscal deficit hence net financing for each (city) province.
- Golden rule: The State Budget Law of 2015 also restricts use of borrowing to financing of capital spending.

29. **Overall, the City's fiscal framework is assessed as adequate for this operation.** Under the baseline scenario, the City's medium-term fiscal framework will continue to mobilize enough resources to meet spending needs, including substantial capital investment needed to meet the needs of HCMC's growing population and economy. Debt is expected to rise moderately but stay within the prudent limits, established in the legislative framework, even under various shock scenarios. In addition, the DPO policy program will help strengthen the debt management capacity of HCMC which will help mitigate risks associated with the city's growing and more diversified debt portfolio.

30. **There are however several risks that could impair long term fiscal sustainability of HCMC.** HCMC's spending needs are expected to grow rapidly. The City is experiencing significant investment in infrastructure assets, including the metro system which will require future operations and maintenance spending. In addition, HCMC's population is also projected to expand, resulting in increased pressure on social services and associated public spending. Reforms measures supported by this DPO program, will help enhance asset management practices and contribute to improved financing and management of core services, including public transport and flood management, thereby mitigating some of these risks. Finally, the City's revenue autonomy is limited and retention rates for shared taxes beyond 2020 are uncertain, posing risks to achieving commensurate revenue mobilization to balance spending needs and financing capacity. Planned steps to introduce recurrent property taxation and broader revenue autonomy would mitigate these risks, but uncertainty about the specific design and timing of these policy changes, which are dependent on legal changes from the central level, remains high.

2.4. INTERGOVERNMENTAL RELATIONS

31. **Functional devolution: Over the past three decades, Vietnam's move from a highly centralized hierarchical state designed for central planning toward a nimbler set of arrangements suited for markets has included the decentralization of responsibilities and powers to lower levels of government.** The first decade after Doi Moi, from the late 1980s, was the era of devolution of economic power, from central planners to farmers and enterprises. The second decade saw significant devolution of powers and responsibilities to the provinces, and stronger accountability for communes. More recently, functional devolution to service delivery units has improved results even while raising new challenges in aligning accountability with incentives.

³ PPCs that have overdue on-lending debt of more than 180 days are automatically disqualified from applying for a foreign funded sub-loan.

32. **The extent of devolution from the national government to the provinces in Vietnam has been substantial, both geographically and functionally.** With new authority, the provinces are, more so than in the past, able to align their mix of services with local priorities. This has been quite evident as nowadays, SNGs are responsible for the prime delivery of key public services including business promotion, education, health, and local infrastructure development and operation.

33. **Vietnam's devolution has shown many positive results in service delivery, local governance, and oversight.** Also, competition among the provinces is driving them to improve their business environments. Eased entry for non-state providers of services and greater autonomy for the management of state facilities are supporting innovation and increasing the variety of services. However, as Vietnam endeavors to develop into a modern middle-income country, people are becoming more demanding—the pressure for better services, and more voice and participation is getting stronger. It cannot be expected that the same institutional approach will continue to serve the country well as Vietnam becomes a full middle-income country.

34. **Responsibilities have also been devolved along functional lines to units providing services.** The tension between autonomous service provision and the desire for uniform standards of quality for services that are accessible to the whole population, set by national and subnational governments, presents a challenge for which there is no magic formula. Experimenting with the mechanisms for balancing autonomy and accountability has been a feature of Vietnam's development for some time.

35. **As the central government granted additional powers and responsibilities to provincial and lower levels of government, they strengthened the manner and degree of potential oversight.** New systems of accountability are being put in place, although often with a lag and not always of the best form. In any case, information plays a central role in any system of accountability. The shifting landscape of devolution and accountability is neither linear nor predetermined. Indeed, the Vietnamese approach to reform, searching step-by-step for solutions to society's problems, is one of experimentation. Some initiatives are more successful than others, but the spirit of experimentation and the willingness to push the boundaries are the common features.

36. ***Fiscal decentralization: Accompanying the substantial economic, functional, and geographical devolution, there has been significant fiscal decentralization in Vietnam over the past twenty years, both in terms of spending assignments and autonomy over resource allocation decisions.*** The State Budget Law establishes the key principles for spending assignments, revenue arrangements, and intergovernmental fiscal transfers. It also grants provincial authorities a fair degree of autonomy to determine fiscal relationships with districts and communes within their jurisdiction. The current system allows a reasonable level of differential treatment across provinces to take account of their specific circumstances.

37. **As a result, subnational governments (SNGs) are now responsible for over 55 percent of general government spending, which is high by international standards.** Subnational spending also accounts for over 70 percent of total public investment, 60 percent of transport expenditure, 90 percent of education expenditure and 80 percent of health sector expenditure. Decentralization within provinces, down to district authorities has also increased – in half of the 63 provinces, district spending represents more than 45 percent of total subnational spending. With decentralized revenue and unconditional balancing transfers covering more than 75 percent of core spending on average across all provinces, subnational authorities have had a high level of discretionary resources at their disposal.

38. Vietnamese SNGs have seen increased levels of local revenue to match spending decentralization, but continue to have little to no autonomy over revenue policy and administration.

Two main sources of revenue for SNGs outside of transfers from upper tiers of government include (a) revenue retained 100 percent by SNGs, which is the closest to “own source revenue” (this includes revenue related to land and houses and charges of selected local services such as business registration or stamp); and (b) revenue that is shared with upper tiers of government, which are pooled and redistributed across the country (this includes the major sources of revenue such as value-added tax (VAT), corporate income tax (CIT), personal income tax (PIT), excise tax and environment tax). Tax-sharing ratios are transparently defined for each “Stability Period”⁴ (that for HCMC for 2017-20 is 18 percent).

39. Another concern is the high dependence of SNGs on revenue related to sale, leasing and renting of land and houses, which averaged 10 percent of total revenue in the past decade⁵.

In a number of urban cities, this source of revenue accounted from about 15 percent (e.g. in Da Nang City) to 20 percent (e.g. in HCMC) of total subnational revenue. However, the finite supply of land and houses coupled with the volatility in the real estate markets pose significant challenges on fiscal sustainability at subnational level.

40. Intergovernmental fiscal transfers are mostly rule-based and equalizing both from the center down to provinces, but also from provinces down to local levels (districts/wards).

Strong empirical evidence shows that fiscal decentralization policies have helped to channel more spending to the poorest parts of the country where development needs and costs of service delivery are higher. This has helped to close large imbalances across provinces and across districts, promoting equity and social inclusion. This in turn has contributed significantly to development particularly in the poorer provinces.

41. Both State Budget Law (SBL) and Public Debt Management Law (PDML) stipulate the “golden rule” that provincial governments can only borrow to meet capital investment expenditures.

The SBL 2002 required local authorities to maintain balanced budgets, but at the same time allowed SNGs to temporarily borrow to meet below 30 percent of annual capital budgets (except for HCMC and Hanoi for whom the ceiling is 100 percent of annual capital budget), which meant that subnational borrowing was treated off the balance sheet. Subnational borrowing has remained very low (less than 3 percent of GDP). The five largest cities account for just over 40 percent of total local debt. SNGs have several sources of debt financing including domestic development banks (about 38 percent), local bonds (22 percent), central government on-lending (10 percent), and short-term borrowing from state treasury (30 percent). Aside from direct debt liabilities, SNGs also have indirect and contingent liabilities, potential sources of which include: financial funds; local SOEs; and banking sector stress from payment arrears to contractors.

42. Since 2017, the Budget Law for the first time allows SNGs to run fiscal deficit and requires prudent monitoring of subnational debt stock against decentralized revenue.

The debt thresholds vary by different groups of provinces, depending on their fiscal capacity, with the highest level of 60 percent of decentralized revenue applied to HCMC and Hanoi. The fiscal landscape and debt profile at both central and local levels are evolving, with central government facilitating appropriate “enabling environment” to ensure smooth supply of loanable funds for the frontier provinces, while promoting ODA on-lending in net budget recipient provinces. The increasingly vibrant subnational borrowing will require timely enhancement to subnational debt management capacity and reporting.

⁴ In Vietnam, intergovernmental fiscal principles are defined in State Budget Law, while the actual standards/ norms defining core spending needs of a province and the ratios for revenue sharing to SNGs are identified for each “Stability Period” which usually vary from three to five years.

⁵ Vietnam practices considers proceeds from sale of land (or so-called transfer of land-use rights) or of public houses, together with land leases and house rents, as above-the-line revenue rather than as a below-the-line financing item.

43. **Going forward, to make subnational finance more sustainable, it will be important to address the lack of taxation autonomy and the heavy reliance on the sale of public assets.** Evidence shows that the current revenue arrangements do not have a discernable negative impact on revenue collections. Yet providing local authorities better access to some revenue handles at the margin will strengthen fiscal responsibility and accountability, as it promotes linkages between the financing of local spending decisions and those that benefit from these expenditures.

44. **Some gradual steps have therefore been recommended for Vietnam to consider phasing in some independence for SNGs on revenue policy decisions,** including more autonomy over fee setting (to better balance the revenue from fees against the cost of fee collection and service provision) and introduction of a system of surtaxes (e.g. on personal income and excise taxes). The central government is considering the full introduction of modern property taxation, which would be beneficial to SNGs in both terms of increased revenue mobilization and better incentives for more efficient use of property resources. However, given the complexities of a modern property tax system, including the lack of up-to-date cadastral information system, this may take a while to introduce.

45. **Finally, it will be important for SNGs to find ways to sustain assets-based revenues to finance infrastructure.** To meet capital investment requirements, some municipalities charge betterment levies or land value capture taxes which are directly levied owners of property whose value has improved because of the government's investment in nearby public infrastructure, such as roads or metro or bus rapid transit. However, more time will be needed for central government, National Assembly included, to discuss and agree on possible options going forward.

46. ***Human resources management: Despite broad delegation of functional and financial responsibility to SNGs, the central government still retains the overall management of human resources functions in the administration.*** This involves from setting the organizational structure uniformly to all SNGs, the staffing quotas for individual SNGs, as well as salary schemes and payment for public sector employees. There are few exceptions for HCMC and Hanoi, including the unique establishment of the Department responsible for urban planning and architecture and ad-hoc provisions on staffing quotas per the cities' requests.

47. ***Overall: Inter-governmental arrangements are assessed as adequate for this operation to proceed.*** Significant functional, financial and human resources management responsibilities at the subnational level provide for adequate scope for SNGs to enhance policy implementation and strengthen service delivery. While there are areas for improvement in terms of the fiscal framework, there is a predictable and relatively equitable system of intergovernmental transfers and shared taxes which principally ensures adequate resources to meet the functional mandates assigned to subnational government. SNGs are allowed to borrow but tight fiscal rules contain risks of subnational over-indebtedness.

2.5. IMF RELATIONS

48. **While there is currently no active IMF program, the IMF maintains regular macroeconomic surveillance and policy dialogue in the context of its Article IV consultations.** The previous IMF Poverty Reduction and Growth Facility ended in April 2004. Since then, the engagement with the IMF has focused on regular macroeconomic surveillance, policy dialogue and technical assistance support, including in fiscal policy, debt management, banking sector supervision, macroeconomic modeling and monetary policy. The World Bank and the IMF team are collaborating and regularly exchanging views on pertinent fiscal and macroeconomic policy issues.

III. HO CHI MINH CITY’S PROGRAM

49. **As HCMC emerges into an Asian “megacity”, it is confronting a host of challenges common to large urban areas across the developing world.** It is fundamental to transform the economy and improve its competitiveness, which will require cultivation of new drivers for growth, substitution of labor-intensive manufacturing for higher value-added knowledge and technology intensive activities. At present the City’s infrastructure is stretched to the breaking point; efficient, well-planned interventions are urgently needed if the traffic-choked fates that have befallen other Southeast Asian cities are to be avoided. As a low-lying metropolis located in the Mekong Delta, HCMC faces significant and growing flood risk. According to recent studies, up to 60 percent of HCMC’s built-up area will be exposed to a 100-cm sea level rise in the next 20 years.⁶

50. **HMC’s policy priorities and programs directly respond to these challenges.** In late 2016, the City adopted seven “breakthrough programs” for the 2016-20 period, aiming to (i) enhance quality of growth and economic competitiveness; (ii) improve quality of human resources; (iii) reform public administration systems; (iv) urban regeneration and development; (v) reduce traffic congestion and accidents; (vi) mitigate urban flooding; and (vii) lower environment pollution (figure 11). With slowing budget revenue growth and little revenue autonomy, the City is also keen to unlock the value of public assets as a core urban strategy, consider other sources of revenue mobilization and/or borrowing while ensuring prudent liabilities management.

Figure 11. HCMC seven breakthrough programs



51. **The program on quality of growth and economic competitiveness—operationalized through CPC Decision 5880 (2016)—is expected to deliver sustained, high quality growth for the City.** To do so, it aims to diversify the economy into higher productivity and knowledge-intensive activities, attract innovative start-ups, and at the same time improve environmental and social protection for its citizens. More concretely, the program sets out to achieve by 2020: an 8-8.5 percent annual GRDP growth rate; annual growth in labor productivity of at least 6.5 percent; 500,000 enterprises operating formally, of

⁶ World Bank. 2013. *4 degrees, Turn Down the Heat, Climate extremes, regional impacts and the case for Resilience*. Washington DC: World Bank Group.

which, 30-35 percent would engage in innovation; and a yearly reduction in poverty rates of 1 percent on average. The program envisions both cross-cutting investment climate, service delivery reforms and sector-specific solutions to achieve these goals. To create a favorable business environment, the program focuses on administrative reforms to ease the burdens for business entry and operations. Through process simplification and ICT applications, it aims to reduce the time spent on business registration, stamp and bank account registration by 50 percent, the approval time for investment licensing by 30 percent, and the time to receive and review customs dossiers by 50 percent.

52. In close complementarity with the City’s economic competitiveness agenda, the public administrative reform program—based on CPC Decision 6119 (2016)—aims to simplify and improve transparency of administrative processes, and ultimately increase efficiency of public service delivery.

The program focuses on organizational restructuring, reforms of administrative procedures, upskilling the public agencies’ workforce, public finance reform, and process modernization through ICT applications. To improve the implementation quality of administrative procedures, the program proposes ambitious measures to increase transparency through information disclosure, the use of user feedback to monitor reform progress, and changes to performance evaluation of public agencies towards output-based indicators that are tied to budget allocation decisions. In concrete terms, the program aims to achieve, by 2020: satisfaction of businesses and citizens at 80 percent; on-time processing of administrative procedures at 90 percent; 30 percent of business registration and 10 percent of investment licensing processed online; and putting the city’s administrative reform index (PAR Index) among top 5 of the country.

53. In the program on flood mitigation— adopted through CPC Decision 6261 (2016) – HCMC has identified several core areas of interventions including improvements and upgrading of storm water drainage, canal embankment, water supply and wastewater network in all districts. In the past, the city has invested significantly to meet the demands in the wastewater and flood protection sectors. These interventions have contributed to the reduction of flood hot spots in the inner districts of the city from over 100 to 7 by 2015. However, with increased urbanization in outer districts, there is a need to sustain the high level of investment, which is expectedly to be financed by various sources including city budget, private sector participation and concessional financing. The city is focusing on improving coordination across various departments through enhanced information sharing for emergency planning and response and also coordinate planning of urban development in high-risk areas.

54. In the program on traffic congestion (PPC Decision 6204/2016), HCMC puts high priority on the development of public transport systems, including both new mass transit systems and improvement of the regular bus services. Delivering on high-quality integrated public transport services is critical to alleviating traffic congestion caused by rapid increase in car ownership and dominance of motorbikes as the mode of choice. In the city of more than 10 million inhabitants, there are about 7 million registered motorbikes and about 574,000 passenger cars, the latter of which is growing rapidly at a rate of 15% per annum.⁷ In contrast, the public transport network is under-developed and dominated by bus services on routes that have not evolved to meet the current trip patterns; public transport carries only about 6-7% of the total motorized trips made in the city. In fact, HCMC is among the few cities of such size in the region that lack high-capacity mass transit systems that operate on trunk routes, such as metros and bus rapid transit (BRT). This has resulted in burgeoning traffic congestion in the city center, causing significant costs in form of time loss, air and noise pollution, fuel costs, and fatalities and injuries.

⁷ Ho Chi Minh City Department of Transport (2016), “Report on HCMC Transport Situation in the Period of 2011-2015 and directions for the period of 2016-2020”.

55. **HCMC is looking to leverage ICT technologies to help deliver on its seven breakthrough programs.**⁸ The City has issued Decision 6179 (2017) adopting a Smart City Initiative (SCI) aiming to make city governance leveraging digital technologies for better information sharing, evidence-based policy making and data-driven urban management of the city, and improved e-services to businesses and citizens. The SCI implementation roadmap is phased in three periods. The first phase (2017-2018) aims to lay the foundation for smart city by establishing shared data and technology platforms. The second phase (2019-2020) aims to implement smart city solutions in meeting the pressing needs of the City based on the common technology platform of the City. The last phase (2020-2025) will continue to expand the application of ICT solutions and invest in the data infrastructure to other areas of the city urban development. The SCI will be implemented by the Department of Information and Communication (DIC), as a standing agency, and all concerned departments in the City, with the guidance of an Executive Board headed by the Chairman of the People’s Committee and represented by key departments.

56. **Effective policy and institutional reforms are considered foundational and essential prerequisite for delivering these programs.** Further success would require concerted actions in the areas of urban planning, municipal finance, quality of basic and advanced services, infrastructure development and poverty and social development. Indeed, these areas will exert a determinative impact on HCMC’s future competitiveness and its capacity to remain a zone of opportunity for Vietnamese people.

IV. THE PROPOSED OPERATION

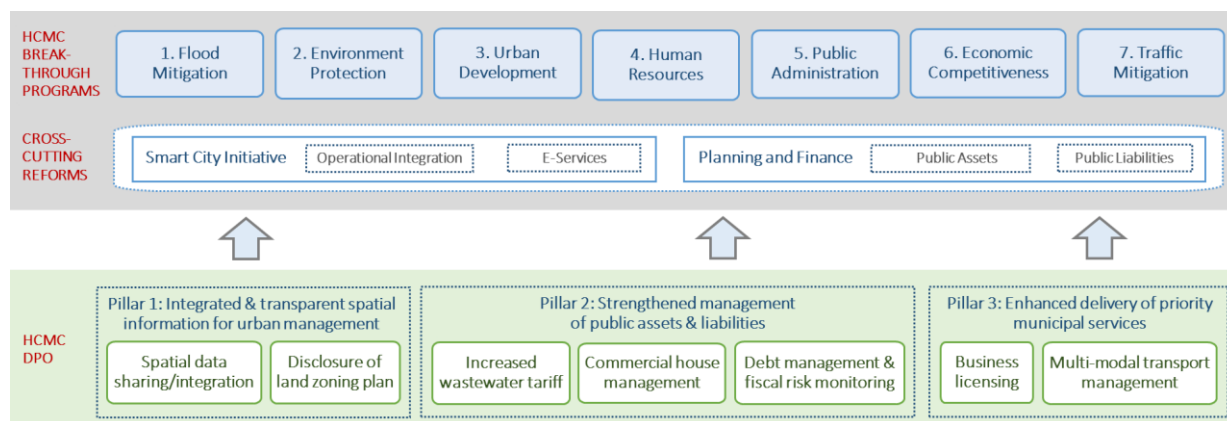
4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

57. **Aligned to HCMC’s targets and measures, the DPO is structured around three main pillars:** (i) Integrated and transparent spatial information for urban management; (ii) Strengthened management of public assets and liabilities; and (iii) Enhanced delivery of priority municipal services. The prior actions under these three pillars reinforce institutional reforms anchored in six out of seven breakthrough programs of HCMC (except the human resources development one) and cross-cutting reforms, laying the foundations for more effective urban governance and service delivery (figure 12).

58. **Strong linkages and synergies between the policy actions are expected to enhance program impacts.** Improving information sharing to underpin integrated and evidence-based urban planning (supported in pillar 1) also strengthens investment planning in public transport infrastructure especially around key corridors driving the footprint of the City (supported in pillar 3), and in wastewater drainage and treatment systems (supported in pillar 2). These will all enable more efficient distribution of economic and social activities. Expanding the wastewater drainage in a fiscally affordable manner to strengthen city resilience to climate change impacts (supported in pillar 2) and reducing transaction costs in business entry and access to key land zoning information (supported in pillars 3 and 1) will contribute the City’s competitiveness and economic growth. Underpinning efforts to strengthen efficiency in the management of public assets including land and houses, and transport and wastewater infrastructure (supported in pillars 2 and 3) integrate well with actions to manage debt and emerging fiscal risks more prudently (supported in pillar 2).

⁸ HCMC has been a pioneer in digital transformation in Vietnam. This is against the backdrop of Vietnam today being ranked among the top 5 countries with fastest growing ICT industry in the world. Vietnam is ranked #21 out of 193 countries by number of broadband internet subscriptions with high-speed connection, higher than in the Philippines, India and Indonesia. Vietnam is the third fastest growing smartphone market in the world. A third of its population (about 30 million) are 3G subscribers, a 29.6 percent year-on-year increase. Active mobile social-media accounts rose 41 percent, faster than China, India or Brazil. Vietnam has the 4th highest ICT Development Index in Southeast Asia and ranks 12th out of 27 Asia-Pacific countries.

Figure 12. Synergized actions supporting HCMC reform agendas



59. **Recognizing that institutional fragmentation is a fundamental obstacle to the issuance of good policies and their effective implementation in HCMC, the DPO proposes to address the fragmentation in a number of areas.** This is undertaken essentially either through inducing effective coordination of functions or phasing in the critical functions that do not exist at the current moment. The constraints to implementation is not only capacity but also about generating commitment and coordination. While a TA instrument is to assist in capacity building, the DPO aims to prioritize and reinforce commitment and coordination. Therefore, one of the selection criteria for prioritizing actions has been the focus on the areas where high potential impact is expected but implementation requires high-level commitment and cross-departmental coordination.

60. The DPO series aims to support policy and institutional reforms in HCMC in three primary ways:

- (a) **assisting HCMC to address key “complex bottlenecks” through supporting integrated actions across core policy areas.** To increase policy feasibility and effectiveness, the DPO supports institutional functions to enable commitment, enhance coordination, and induce cooperation (3Cs) among relevant players. Examples of these include increased coordination among urban planning, land zoning/administration, and infrastructure/transport planning and investment, which involves at least four departments under the leadership of the Department of Information and Communication, who will perform a function of a Chief Information Officer (CIO); or the timely establishment of the Public Transport Agency (PTA) which is authorized and capable to plan and oversee the operation of all modes of public transport in HCMC in an integrated manner.
- (b) **assisting HCMC to prioritize and yield some “quick wins” from selected reform measures that would also illustrate the benefits of the more complex measures discussed in (a).** These include the on-line disclosure of land-use zoning plans to inform thousands of commercial and residential construction permit applicants every year, as a demonstration for practical effect of “smart city” initiative; or the improvement in the management of bus network and operation to deliver better services to users and enhance financial viability, as a demonstration of PTA functionality; or the improved management of public housing assets, as a demonstration for the benefits of unlocking the value of public assets as a core urban strategy, starting with pooling and professionalization of management of all public assets including land and built infrastructure.

- (c) **assisting HCMC to balance its focus on improving “back-office” governance functions and “front-office” administration-citizens interface.** The latter has been recognized as a longstanding weakness in Vietnam. The DPO series proposes to support the latter through enhancing e-services and completing the “feedback loop” in a number of areas. These include: easier access to and verification mechanism on land zoning information by construction permit applicants; consolidated entry procedures and reinforced feedback mechanism for business registers; and strengthened complaint collection and handling systems on bus services.

61. **The program design takes into account feasibility and implementation capacity within the authorized mandates of SNGs.** The program is explicitly focused on actions that are both technically desirable and politically feasible, as suggested by relevant analytical underpinnings. Both program and individual actions were designed to align with government priorities and ensure sound implementation. For example, given the unitary nature of the government, broader tax policy and autonomy reforms, including the introduction of property tax, will need to be addressed at the central-government level first. To prepare for future introduction of property tax, the DPO supports the establishment of the foundational cadastral information system, which is essential for well-functioning administration of the tax. Careful considerations were given to land related policy actions and triggers, such as improving land use right transfers through auctions or capturing better land values with transparent land pricing, which would have potentials for generating more revenues for the city. However, given the lack of technical readiness and in the absence of credible commitments from key concerned agencies, these policy actions were not included in the program. Individual prior actions were also calibrated to the specific context. For example, the chosen strategy for the establishment of the debt management office (DMO) explicitly recognizes the need to manage a transition of responsibilities from provincial departments of finance. Overall, this resulted in a pragmatic but substantive set of prior actions that could be effectively implemented and sustained through the operation.

62. **The DPO is also helping to tackle implementation gaps in reform initiatives introduced by central government.** Specifically, this DPO series supports: (a) the disclosure of land-use zoning plans, which was mandated in the Land Law (2013) but had been poorly implemented at local levels; (b) the introduction of new tariff structure for selected public services (wastewater drainage and treatment), mandated in Government Decree 80 (2014), but technically very challenging particularly in urban cities; (c) the improvement in public asset management, as required in the Public Asset Management Law (2017); and (d) the improvement in subnational public debt management, as mandated in the Public Debt Management Law (2017). The operation supports a demonstration effect, which will expectedly have significant positive externalities across other SNGs. Experience from pioneering provinces will also provide feedback to central government for possible improvements to national policies and design, and then share the knowledge more broadly across the nation. Relevant central ministries (including ministries of finance, planning and investment, environment protection and natural resources, and industry and trade) have shown appreciation over the Bank’s support to SNGs on the implementation of these important reform initiatives.

63. **The DPO builds on extensive experience and reviews of previous DPO series at the national level in Vietnam and at subnational level in selected countries (e.g. China, India, Nigeria, and Brazil as presented in box 2) and lessons from DPO Retrospectives.** The Poverty Reduction Support Credit (PRSC) Implementation Completion Review noted that the series provided a strong basis for policy dialogue, enabled better alignment of donor programs to government priorities and, as a result, leveraged more resources for the country. However, some of the challenges in the latter part of the series included: maintaining momentum and commitment across the entire breadth of the program. While the more

recent Economic Management and Competitiveness Credit (EMCC) series was more focused, compared to the PRSC, it was still relatively broad covering banking sector, SOE, fiscal management and regulatory reforms. This DPO is more focused on key, interrelated reforms covering a shorter series of just two operations. As such, it supports follow-through implementation of new policy and institutional reforms with a strategic focus on key reform priorities where the DPO instrument could add most values.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

64. **The policy program is underpinned by a comprehensive and deep policy engagement, analytical work and technical assistance.** Notably, the Integrated Strategy Report (ISR) 2014, the flagship Vietnam Urbanization Review (VUR) 2010, the HCMC Debt Management Performance Assessment (DeMPA) 2014, the joint Public Expenditure Review (PER) 2016 with HCMC, the flagship Vietnam 2035 “Towards Prosperity, Creativity, Equity, and Democracy” (Vietnam 2035) 2016, and the ongoing Land ASA provide a broad perspective on the host of challenges that City is facing as well as offer a number of practical measures to address them. The World Development Report (WDR) 2017 “Governance and the Law” also provided a useful strategic engagement framework around commitment, coordination, and cooperation for shaping up the prior actions during the policy discussions under the program. In addition, the program is complemented by a series of technical assistance programs focusing on public financial management (PFM AAA program), debt management (GDRM program), and public transport (through the Green Transport Development Project).

Table 8: Prior Actions and Analytical Underpinnings

Proposed prior actions	Analytical underpinnings	
	Title	Key findings informing the program’s design
Pillar 1: Integrated and transparent spatial information for urban management		
1. HCMC’s People’s Committee has issued Decision No. 6179/QĐ-UBND, dated November 23, 2017, adopting a plan for the development of HCMC as a smart city, and adopted Plan No. 1008/KH-UBND, dated March 14, 2018, for the establishment of a shared data warehouse and development of an open data ecosystem.	Vietnam 2035 “Towards Prosperity, Creativity, Equity, and Democracy” 2016, Integrated Strategy Report (ISR) 2014, Smart Nations Program, E-Government Reform ASA 2019.	The Vietnam 2035 and the ISR 2014 reports highlighted issues of fragmentation in information sharing and policy making horizontally among agencies. The issues are applicable to central-level ministries and provincial level-departments. The reports recommended that effective information sharing across agencies will be critical for improving coordination and evidence-based policy making.
2. HCMC’s Department of Planning and Architecture has disclosed vector-based zoning plans of the Central Business Districts and Thu Duc District on-line.	Anticorruption Diagnostics (ACD) 2013, Land Transparency Survey (LTS) 2014, Land Governance ASA 2017-2019.	According to the ACD 2013, land was among the top five sectors prone to corruption and lack of transparency was one of the factors contributing to corruption. The LTS 2014 showed poor disclosure of land related information including land zonings in HCMC. Where zoning information was made available, the quality of disclosure was very poor, i.e. land use maps were disclosed in pdf format which did not allow for further referencing.

Proposed prior actions	Analytical underpinnings	
	Title	Key findings informing the program's design
		The Land Governance ASA (2017-2019) laid out key options and recommendations on credible planning/zoning, enhanced lease revenues/value capture, improving commercial and residential titling and construction permits services, advancing a nascent dialogue on local property taxation, improvements in the foreign and domestic investment prospects in HCMC, as well as citizens' perceptions of land market governance.
Pillar 2: Strengthened management of public assets and liabilities		
3. HCMC's People's Committee has instructed HCMC Steering Center of Urban Flood Control Program (SCFC) to take the lead in the development of a tariff schedule for wastewater and drainage services using the cost recovery approach set forth in Decree 80 (2014), as evidenced by its Decision No. 6261/QD-UBND, dated November 30, 2016.	Integrated Strategy Report (ISR) 2014, Urban Wastewater Review (UWR) 2015, Vietnam Water Utilities Reform 2015, HCMC Environmental Sanitation Project ICR 2012.	The ISR 2014 underscored the issues of climate change and flood risk including from the perspective of preservation of urban infrastructure. The latter reviews highlighted the urgent need to expand the coverage of networked wastewater drainage and treatment, to improve quality of life of HCMC citizens and contribute to mitigate flood risk. At the same time, they underscored the need to reduce the currently significant operational and maintenance deficits which may in turn affect asset maintenance and ultimate service cost and quality. The studies benchmarked tariffs for wastewater in HCMC to countries with similar level of development and recommended cost-recovery approach as appropriate for networked wastewater services.
4. HCMC's People's Committee has issued Decision No. 3555/QD-UBND, dated July 7, 2017, assigning the management of state-owned commercial housing assets to the House Management and Construction Supervision Center.	Fiscal Decentralization Review (FDR) 2015, HCMC Public Expenditure Review (PER) 2016.	The FDR 2015 highlighted the need to address the heavy reliance of SNGs on the sale of public assets while finding ways to sustain assets-based revenues to finance infrastructure. The PER 2016 underscored the importance of enhancing returns on municipal assets especially given the limited revenue autonomy while ensuring prudent management of rising public debt and contingent liabilities will contain a key source of fiscal risk to the City. It also took stock of the various types of public assets owned by the City and suggested professionalization of the management of commercial house assets as a first step, providing demonstration for other types of public assets of the City (including land and transport waste treatment infrastructure).
5. HCMC's People's Committee has issued Decision No. 2885/QD-UBND, dated June 5, 2017, establishing a task force for subnational debt management; and HCMC's Department of Finance has	HCMC Debt Management Performance Assessment (DeMPA) 2014, HCMC PER 2016, Public Debt	The DeMPA 2014 noted that while subnational authorities in Vietnam were entitled to borrow domestically and externally (via on-lending mechanism), subnational debt management was still at a very nascent stage. In particular, back office functions are incomplete, as no proper recording of domestic and on-lent loan agreements is undertaken,

Proposed prior actions	Analytical underpinnings	
	Title	Key findings informing the program's design
issued Decision No. 1689/QD-STC, dated March 21, 2019, adopting the operational regulations for the IT, Statistics, and Subnational Debt Management Division.	Management Law (PDML) review 2017.	thereby require an immediate improvement. The PER 2016 reinforced these points and urged a creation of a formal coordination mechanism between DOF, DPI and State Treasury with regard to subnational debt management activities. The PER process facilitated agreement by relevant entities towards a greater coordination of HCMC borrowing activities. Another immediate priority agreed was to establish consolidated debt database including both domestic and external on-lent debt at DOF. The PDML review 2017 also highlighted the need to strengthen subnational debt management capacity and reporting.
Pillar 3: Enhanced delivery of priority municipal services		
6. HCMC's Department of Planning and Investment (DPI) has issued Plan No. 8308/KH-SKHDT, dated September 5, 2017, consolidating procedures, and Decision No. 15/QD-SKHDT, dated January 9, 2018, enhancing on-line processing, to shorten time to start a business.	Provincial Competitiveness Index (PCI) 2017, Doing Business (DB) 2018.	Both PCI 2017 and DB 2018 recorded a recent deterioration in HCMC's results in national and international business environment indexes. Nationally, PCI reported that 16 percent of firms in HCMC had to wait for more than one month to complete all steps necessary to start operations, compared to 13 percent in the median province. Internationally, the Doing Business 2018 results highlighted Vietnam's inefficiencies as reflected by HCMC in several indicators, including "starting a business", which ranked 123 rd out of 190 economies. Both prior action 6 and trigger 6 specifically address these shortcomings – the prior action (online registration) aims to reduce the scope for face interactions and corruption opportunities; and the trigger aims to improve implementation and increase transparency to enhance business confidence.
7. HCMC's People's Committee has issued Decision No. 79/QD-UBND, dated January 9, 2018, assigning the management of the integrated operation of all modes of public transport to HCMC's Management Center of Public Transport (MCPT); and HCMC's Department of Transport has issued Decision 2294/QD-SGTVT, dated May 11, 2018, regulating the organization and operation of MCPT.	Integrated Strategy Report (ISR) 2014, Advisory report on the establishment of HCMC public transport authority (TA project) 2017.	The ISN 2014 proposed to develop an approach for cost benefit analysis of integrated modal interventions to enable the efficient spatial development of HCMC. This would link up several of the elements in urban transport as well as land use planning. It recommended HCMC to factor future climate impact into the prioritization of its future investment including in public transport network. Both reports strongly support the need to establish a PTA based on international experiences and the current status of development of public transport in HCMC, and warned of the negative consequences of inaction. The advisory report also proposed a few alternative organizational models that can feasibly be implemented in HCMC, considering their respective advantages and disadvantages.

Pillar 1 | Integrated and transparent spatial information for urban management

Improved information sharing for integrated and evidence-based urban planning and management

65. **Rationale: HCMC leadership recognizes that better information sharing and enhanced collaboration across the City's government will be critical to achieving its breakthrough programs.** Fragmentation of data is particularly evident in the case of key urban spatial data for planning, zoning, and infrastructure investment prioritization. Spatial data such as the master plan, transport sector plan, zoning and land use plans, or cadastral information are not being integrated across agencies or levels of government (down to and across 24 districts). The official city-wide cadaster map has not been formally and fully updated since 2005, therefore failing to capture rapidly changing land use patterns and subdivisions in HCMC and making it a challenge to compare the urban master plan for 2011-2020 to actual developments. Equally, the transport master plan did not factor in projected urban zoning parameters. Lack of digital data maintenance, sharing and integration impedes decision-making for urban planning, investment, and regulation, and reduces the quality of information available to the public. Priority will need to be given to updating these databases in digital formats and creating a platform for integrating and sharing these databases among city departments for informed day-to-day decision making on urban governance.

66. **Prior action #1: DPO-1 supports the adoption a plan for the development of HCMC as a smart city and a plan for the establishment of a shared data warehouse and development of an open data ecosystem.** The City's Decision No. 6179, issued in November 2017, puts in place an overall architecture and development plan for a "smart city", which aims to strengthen the generation, integration, and disclosure of priority information for informed decision making in urban planning, citizen feedback, and the provision of e-services. It endorses a two-pronged strategy to improve the condition of key geospatial data to meet the demand of urban management: developing and enforcing open data standards across agencies and districts, and strengthening on-line disclosure of especially zoning data to allow for better comparisons across the city and among different layers of information. Further to Decision No. 6179, in March 2018, the City issued Decision No. 1008 with a plan to integrate and ensure interoperability of sectoral platforms, prioritizing sharing, using, and gaining value from data asset. These decisions require departments to change their operational practices and behaviors, not only in updating and sharing data in a regular manner, but also in paying more attention on ensuring data quality (more updated and consistent) under cross-verification, while maximizing the use of the common data asset.

67. **Indicative trigger #1: DPO-2 will support the adoption of a regulation for the integration of data in and operation of a shared data warehouse with corresponding technical guidelines.** The trigger will yield the implementation of a Spatial Data Architecture & Infrastructure (SDA-I) to bring together these layers for smart urban planning decisions. The shared data warehouse and open data ecosystem, when put in place, will enable agencies to coordinate, utilize and cross-reference city's common data assets for effective urban governance. Also, this integration will enable key departments to collaborate in a common platform more effectively in order to serve the public better. The indicative trigger will mesh well with the timing of the 2020-2030 master planning process, and allow the HCMC authorities to review and consolidate key decision-making information in the finalization of the plan.

68. **Expected results:** It is expected that the topography and cadastral maps, land zoning maps, and transport map will be digitized and updated in interoperable formats and accessible by authorized staff of key agencies. Integration of these maps in common standards would enable interactive and integrated planning and infrastructure investment, including between land-use and transport development, which

is critical to sustainable urban development and longer-term management of traffic congestion. This important first step in the four foundational areas that will expectedly have critical demonstration effect for further scale-up to other information areas (for example wastewater drainage system).

Enhanced transparency to inform commercial and residential construction permit applicants and make zoning more credible by allowing external scrutiny

69. **Rationale: Zoning is one of HCMC’s most important instruments to effectively manage spatial development.** The planning and zoning processes set key parameters for land use and infrastructure development, as well as for issuance of both commercial and residential construction permits. Zoning plans are prepared at the district level, but must be reviewed and approved at the city level by the Department of Planning and Architecture (DPA). Public disclosure, as required by the 2013 Land Law, has been limited with districts providing zoning maps only with delays and in disparate paper-based and digital formats, making them cumbersome to validate and difficult to overlay to basic spatial reference layers (as supported under prior action #1 and trigger #1). As a result, citizens, firms, and even city administrative agencies (e.g., Department of Construction or Transport) are not always able to access consistent and up-to-date zoning information. This has several consequences. Due to the lack of information on the zoning plans, citizens and firms would inevitably apply for construction parameters that are inconsistent with prevailing zoning plans. As the zoning plans are opaque, it may also give local officials more discretion to alter the zoning parameters without being detected and held accountable for in a timely manner. Public disclosure of zoning plan information would not only help reduce transaction costs in granting construction permits, it would also enable non-state actors to monitor non-compliance with zoning parameters and provide timely feedback to local authorities, thus contributing to make zoning more credible.

70. **Prior action #2: DPO-1 supports the City to disclose vector-based zoning plans of the Central Business Districts and Thu Duc District on-line.** The disclosed zoning information provides transparently key dimensional parameters allowed, such as maximum building height or land-use coefficients including maximum lot coverage and setbacks, in a visually and user-friendly manner. The disclosure is accompanied by well-defined technical standards and update mechanism. The required vector-based, standardized formats of the disclosed zoning plans enable the interoperability of the information with other urban management information layers. During the pilot disclosure in the subject districts, the DPA is also developing more formal guidelines and workflows, which will eventually provide a mechanism for other districts to prepare, get approved by the City’s authorities, and share valid zoning information to the public.

71. **Indicative trigger #2: DPO-2 will support further on-line disclosure of zoning plans of additional districts toward citywide coverage.** It will also support the issuance of the guidelines for disclosing zoning plans online in inter-operable formats. This would reduce significantly transaction costs for firms and citizens and processing time for local officials. The trigger will also enable stakeholders to monitor the compliance of urban zoning plans, close the feedback loop and lead to more credibility and quality of urban planning. In line with implementation of the smart city initiative, the City is also providing mobile application to facilitate user access to the zoning information.

72. **Expected results:** It is envisaged that the cumulative number of users of the mobile application to access the disclosed zoning plans will surge to 250,000 in 2020. Moreover, as many of them will expectedly access the information for multiple times, DPA also targets that the number of mobile application sessions performed will reach 2,500,000 in 2020 (i.e. on average, each user access the zoning

information 10 times in three years). This would demonstrate the usefulness and quality of the disclosed zoning information.

Pillar 2 | Strengthened management of public assets and liabilities

Improved financial sustainability for the provision of wastewater, drainage and flood control services.

73. **Rationale: Currently, HCMC collects a general environmental protection charge of 10 percent of water tariff (excluding tax), irrespective of the actual costs of wastewater services, in accordance with Decree 25 (2013) of the central Government.** As a result, the collected fee can only cover partially the cost of wastewater management and treatment. The environmental fee is collected from users, regardless of whether they are connected to networked wastewater services. In addition, the HCMC Steering Center of Urban Flood Control Program (SCFC) receives funding from HCMC to cover part of the debt service for wastewater and flood management expenditures. Given the low service coverage, SCFC has so far been able to cover the operating costs for wastewater services. However, the City has an ambitious plan to increase networked wastewater coverage. This will significantly increase the total operational costs for the system and without increased revenue this would lead to significant operational and maintenance deficits, which may in turn affect asset maintenance and ultimate service cost and quality. The existing tariffs for wastewater in HCMC are low compared to countries with similar level of development. In 2014, the central Government issued Decree No. 80 on drainage, sewerage and wastewater treatment, requiring that the wastewater tariff be determined based on the principle of recovery of actual operation and maintenance costs for drainage and sewerage systems. The wastewater tariff per Decree 80 (2014) is more appropriate to be applied for centralized networked sewerage and drainage collection and treatment systems which have high capital investment expenditures (CAPEX) and operation expenditures (OPEX), as compared to the invariably much lower general environmental protection fee. As a result, there is a potential to gradually increase the tariff to meet the growing operational costs for the expanding networked wastewater system in HCMC.

74. **Prior action #3: DPO-1 supports the City in instructing the SCFC to take the lead in the development of a tariff schedule for wastewater and drainage services using the cost recovery approach set forth in Decree 80 (2014).** This was evidenced by the City's Decision No. 6261 dated November 30, 2016. Such a tariff schedule is expected to phase-in full cost recovery for the centralized networked sewerage and drainage system. It is intended that this tariff schedule (and associated implementation roadmap), once enacted, will be gradually introduced into areas/locations in tandem with the expansion of centralized networked sewerage and drainage systems, supplanting the current environmental charges in these areas/locations. This should help address and eventually reverse the deteriorating financial sustainability of providing wastewater and drainage services to the growing number of users. As a follow-up to the City's assignment (in November 2016) on the development of the schedule, SCFC was provided with funding to engage with a consultant to help develop a draft proposal in 2017. During February-May 2018, SCFC undertook preliminary consultation with relevant city agencies and central line ministry on a draft new tariff schedule and associated phases in increasing the tariff levels. Finalization of the draft will require further study of international experience, requirements for compliance with national framework, assessment of required operation and maintenance costs, assessment of potential impact on the poor and disadvantaged households, and public consultation.

75. **Indicative trigger #3: DPO-2 proposes to support the adoption of an increased tariff schedule for wastewater and water drainage services 2019-2021⁹,** as a next step to prior action #3. Affordability will be an important factor to be considered. As such, it is likely that the tariff increase will be gradual as centralized networked sewerage and drainage expands into an area/location. For the remaining areas not yet reached by the costlier direct services, a reasonable approach would be adopted i.e. to continue with the application of the environmental protection fee. Consideration will also be given with reference to peer experience in several other provinces (including Binh Duong and Nha Trang) which have made similar efforts in the past few years.

76. **Expected results:** Level of recovery for operation and maintenance costs for drainage system and wastewater treatment services: Baseline: 45 percent of operation and maintenance costs (2017). Target: 60 percent (2021).

Consolidated management of commercial housing assets as the basis for better revenue management

77. **Rationale: HCMC holds significant public assets that could potentially yield higher returns.** HCMC reported public assets of about US\$4 billion in 2015, of which 78 percent are lands and 18 percent are houses. Public assets are reported at book value, valued at historic costs, rather than at market value. While HCMC's reported asset value is already three times larger than its direct liabilities, the current valuation is likely understating the true value of at least some of these assets. Better management of these assets will not only generate more resources for capital investment, easing the borrowing pressure, but also reduce risk of resources leakage and corruption, especially during the rapid course of ownership conversion of the assets. Enhancing public asset ownership governance could also be an important factor to accelerate the process of restructuring the economy toward more market orientation and boost confidence of the public in the State. Part of the City's assets are about 19,000 public houses, about 1,800 of which are for commercial purposes. They are currently managed by 24 State-owned enterprises (SOEs) at the district level, without a common management framework. Consequently, sale of houses (and associated land) in many cases are not undertaken through auctions. Rent prices of houses are usually assigned by the SOEs at the allowed minimum level and often significantly below market reference. Unclear distinction between ownership and management functions of public assets in these SOEs risks potential loss of state assets as the SOEs are being equitized.

78. **Prior action #4: DPO-1 supports the City's decision assigning the management of state-owned commercial housing assets to the House Management and Construction Supervision Center.** The center, operating under direct guidance of the Department of Construction and the Department of Finance, will (a) help distinguish clearly the ownership and management of public assets, preventing revenue leakage during the SOE equitization process; (b) pool the management of the majority share of HCMC's houses portfolio, under a consistent management framework which enables commercial assets of the public sector to be managed under the same legal and institutional framework as for assets of other sectors in the market, as needed by market economy; (c) reduce the operating costs needed for house management in the City (it is expected that the house management staffing will be reduced in half); and (d) professionalize the management of commercial houses.

⁹ It is noted that such adoption of the new tariff schedule will expectedly require prior concurrence of the City's People's Council.

79. **Indicative trigger #4: DPO-2 proposes to support the undertaking of competitive bidding process for new lease of selected state-owned commercial housing assets, with an aim to increase recurrent rent revenue for the City.** As a next step to prior action #3 (pooling of commercial assets), the House Management and Construction Supervision Center (HMCSC) will conduct competitive bidding would foster increase in rent revenue of state houses by aligning it closer to market levels, moving away from the current assigned level of the City.

80. **Expected results:** Consolidated and professionalized management of commercial housing assets will serve as the basis for better revenue (and to a lesser extent expenditure) management. This could be monitored against the intermediate indicator of rental revenue per square meter of commercial property, which is expected to increase in real terms over the years¹⁰. These actions will also offer demonstration effect to the benefits of professionalized management of public assets. As such, similar consolidation, market-orientation, and transparency principles could later on be applied to other types of public assets including land and infrastructure.

Better coordinated debt management functions for both domestic and external borrowings

81. **Rationale: With increased subnational authority to borrow, effective public debt management is becoming more critical for sustainable public finances.** Effective public debt management requires a sound governance framework and capacity to underpin debt management strategies, increase efficiency, reduce operational risk, and access a broader range of financial instruments to reduce cost and improve risk management. HCMC has been active in borrowing through local bond issuances, State Treasury advances, loans from Vietnam Development Bank, and ODA on-lent by the central government and other sources. However, as evidenced by the Debt Management Performance Assessment (DeMPA) carried out by the World Bank in 2014, HCMC lacks adequate capacity to effectively manage its public debt. There is no dedicated unit to manage public debt, several entities are involved in subnational debt management activities, and formal coordination processes are missing. Basic back-office functions, such as maintaining up-to-date and reliable records of outstanding debt and associated cash flows, are incomplete and require an immediate improvement. In addition, there is no strategy defining the cost-risk profile that the government wants to bear and debt operations tend to be defined on an ad-hoc basis, exposing the government to potentially suboptimal debt portfolio choices. The absence of a planning function for public debt management, as well as a consolidated database of outstanding debt, is reflected in poor debt reporting. Given the importance of public debt as government liability and its impact on current and future generations, all these functions should be strengthened.

82. **Prior action #5: DPO-1 supports the establishment of a task force for subnational debt management and the adoption of the operational regulations for the dedicated IT, Statistics, and Subnational Debt Management division under the Department of Finance.** The high-level task force is led by the Vice Chairman in charge of planning and finance of the City's People's Committee, and consists of directorial members from various departments which are involved in domestic and external borrowing activities. The task force will oversee the development of the annual borrowing plan, make decision on borrowing activities, monitor the implementation of related projects and disbursement progress and advise the City's leadership on related matters. To support this high-level task force, the Department of Finance, has dedicated debt management functions to and strengthened the manpower of a focal

¹⁰ It has been agreed that the House Management and Construction Supervision Center and the Department of Finance of HCMC will compile data on baseline (2019) rental prices of existing commercial houses after transfers of these assets to the Center which is planned to take place in mid-2019, and then set the target for 2021.

division which is expected to ultimately perform front, middle and back-office functions in the management of the City's debt.

83. Indicative trigger #5: DPO-2 proposes to support the establishment of collaboration regulation between the IT, Statistics, and Subnational Debt Management division and relevant agencies, and processes for consolidating debt information, and standardizing reporting formats for all public debt and selected contingent liabilities. The trigger will support the strengthening of the basic back-office function of having a reliable, complete, and up-to-date database of debt records. A sound database is the foundation for debt management, providing the government with accurate information on overall debt levels and associated debt service payments. The trigger will also support enhancing transparency and risk management of public debt management through the development and publishing of a debt management bulletin. The bulletin shall cover the total public debt portfolio, bring basic cost-risk indicators, and refer to a medium-term debt management strategy which will be developed through complementary technical assistance¹¹. In addition, DPO-2 will also support the City's efforts to start monitoring subnational fiscal risk in a more comprehensive manner, including both direct debt as well as contingent liabilities including those that may arise from local SOEs and selected subnational government financing platforms such as Public-Private-Partnership (PPPs).

84. Expected results: The DPO series aims to support strengthening reliability, timeliness, and transparency in recording and reporting of outstanding debt and debt servicing obligations. Intermediate indicator to monitor the expected result is the online publication of an annual debt bulletin covering all public debt, with basic cost-risk indicators, starting in 2020. Ultimately, the supported actions should help HCMC to reduce its borrowing costs and strengthen fiscal sustainability through stronger debt management institutions and risk management capacity.

Pillar 3 | Enhanced delivery of priority municipal services

More simplified and efficient business and investment licensing procedures

85. Rationale: To meet its ambition of becoming a regional destination for investments and business start-ups, HCMC needs to improve its business environment to match international peers.¹² However, HCMC enterprises today face increasing barriers in doing business, compared to not only international peers but other top performing provinces in Vietnam. Internationally, the Doing Business 2018 results for Vietnam—which is heavily driven by HCMC's performance—highlighted large efficiencies in “starting a business”, ranking at 123rd out of 190 economies. Nationally, HCMC's Provincial Competitiveness Index (PCI) ranking has dropped in the last two years out of the top five, to eighth in 2016 and 2017, out of 63 provinces and cities. In 2017, 16 percent of firms in HCMC had to wait for more than one month to complete all steps necessary to start operations, compared to 13 percent in the median province. These perception surveys suggested that rent seeking is popular in the discretionary handling of administrative procedures and that policies at city level, even well-formulated, are not

¹¹ The TA will support creating the basic middle-office function of developing a strategy to manage debt in the medium-term, based on sound cost-risk analysis, the macroeconomic environment and the degree of development of the market for government securities.

¹² According to HCMC People's Committee Decision No. 5880 (2016) on the City's enhanced growth quality and competitiveness, the City has set challenging targets to have at least 500,000 enterprises in formal operation as well as 65 percent of GDP and 64 percent of total investment capital contributed by the private sector by 2020.

implemented well at the district level or by different departments.¹³ More comprehensive measures to remove business constraints and address implementation gaps must gain traction if HCMC is to realize its potential. Besides introducing more e-services to businesses, HCMC has attempted to provide assistance and engage in dialogue with businesses through face to face meeting between the city government and representatives of the business community, support hotlines, and online feedback channels¹⁴. However, these efforts remain ad-hoc in the absence of an evidence-based mechanism to continuously gauge reform performance and identify problems.

86. Prior action #6: DPO-1 supports the consolidation of procedures and enhancement of on-line processing to shorten time to start a business. To achieve this, the City issued Decision No. 5880 dated November 9, 2016 and the Department of Planning and Investment (DPI) issued Plan No. 8308, dated September 5, 2018, consolidating procedures for seal making and publication of enterprise seal sample and registration of a business in one step. An enterprise will receive the business registration certificate, enterprise's seal at the same time of publication of its seal sample in the national business registration portal. Coupled with promotion of online business registration, as specified in Decision No. 15/QD-SKHTD, dated January 9, 2018, all these initiatives helped more than halve the time needed to complete these three procedures, from nine to four working days. In addition, this reform helps improve the transparency and consistency in business registration, reduce direct interaction between businesses and government officials, thereby eliminates opportunities for corruption.

87. Indicative trigger #6: DPO-2 supports the establishment of a mechanism to continuously assess the implementation quality of business entry procedures based on user feedback and internal review process. Once developed, such a mechanism could be employed for regular quality assessments of other government-to-business (G2B) services in HCMC in the future. As such, it addresses one of the major shortcomings of regulatory agencies in HCMC, that is, their limited ability to collect relevant data on the quality and predictability of services it provides to the private sector. It will develop objective indicators based on user feedback, internal review processes, and other administrative data, to monitor bottlenecks and identify underlying causes of delays or other problems along the service delivery chain.¹⁵ This evidence will permit the City to efficiently allocate resources to resolve the implementation challenges outlined above and improve service delivery. Institutionalization of this mechanism to apply to other G2B services will help generate regular information on reform progress, improve transparency, and confidence in the business environment.

88. Expected results: The DPO series aims to strengthen the business environment in HCMC through specific support for business entry procedures and overall support for a mechanism to measure implementation quality of G2B services. The prior action will help reduce time to open a business in HCMC while the trigger will help reduce gaps between business entry reforms and their implementation. Tangible progress will translate and be monitored through a reduction in days taken to legally start and

¹³ According to the 2017 PCI, almost 64 percent of firms agreed or strongly agreed that rent-seeking is popular in handling administrative procedures for businesses. It also found that more than 59 percent of firms considered preferential treatment to big companies an obstacle to their business operations. 83 percent and 72 percent of firms in HCMC agreed or strongly agreed that good initiatives exist at the city level but not well implemented at the department and district level.

¹⁴ These include initiatives adopted in Decision No. 3293 (2016) to improve the City's investment climate and PCI ranking, Decision No. 3907 (2016) and Decision No. 6119 (2016) to implement Central Government's Resolution No. 35 on enterprise support and administration reform.

¹⁵ A TA will be provided for this activity to identify, collect, and analyze relevant data. Likely data sources include administrative data at the regulatory agencies and business feedback collected through multiple channels such as voice-based mobile surveys, SMS, online platforms, etc.

operate a business (from 22 in 2017 to 15 in 2021), expectedly resulting in savings of about 84 thousand working days for the private sector.

Strengthened management capacity towards more efficient use of resources for and improved services quality of public transport

89. **Rationale: The ongoing programs towards tackling traffic congestion face various challenges.** The current institutional arrangements are fragmented largely by transport mode, with the Management and Operation Center for Public Transport (MOCPT) under the Department of Transport (DOT) responsible for bus-based systems and the Management Authority of Urban Rails (MAUR) for rail-based modes. Making it more complicated, several mass transit projects that are under implementation, including two metro lines and one BRT line, are financed by different funding sources, employing somewhat variant technical specifications and operating plans that are being developed separately. In addition to the challenges of integrating modes, this fragmented institutional structure tends to focus attention on supply of capacity rather than on meeting the mobility needs of male and female city residents. Experience in other cities internationally suggests that physical and operational integration across modes of public transport, through which they complement rather than compete with each other, is a necessary condition for success. The city needs to build both the institutional foundation and technical capacity in the next few years, so that by the time that construction of metro and BRT projects reaches completion (expected in 2020-2021), route networks, service patterns, ticketing and passenger information can be delivered in an integrated way.

90. **Until the full implementation of mass transit systems, regular bus services will continue to be the primary mode of public transport.** Moreover, even when these mass transit services are in operation, bus will continue to have an essential role in serving large parts of the metropolitan area and as feeder services to the new modes. The current bus system is rapidly losing passengers: the number declined by around 3-5 percent in 2016 and this decline is likely to continue due to increasing congestion, deteriorating service quality, including poor vehicle conditions and unreliability of scheduling, and public concerns about personal security, particularly for female riders of public buses¹⁶. The existing bus operating contracts compensate operators based on vehicle-kilometers operated, regardless of the number of passengers carried, so as bus services lose customers, the subsidies provided by the City increase. The annual subsidy in 2017 reached VND 1.2 trillion (about US\$60 million). Such misalignment of incentives has created a vicious cycle of poorer service quality leading to lower passenger numbers, then to lower revenues, and then to lack of resources to invest in service improvement. Moreover, the current fare box revenue and subsidy are insufficient to invest in quality maintenance facilities, which is likely to result in reduced reliability and shorter useful life for the bus fleet. Additionally, there is little to no competition among existing operators, and when the city attempted competitive tendering for some routes, they received bids only from the existing operators of those routes.

¹⁶ Recent studies—UN Women (2018), *Baseline Report for HCMC Safe City Program 2017-2021*; UN Women (2017), *Scoping Study for HCMC Safe Cities and Safe Public Spaces Global Initiative*; and Action Aid and CGFED (2014), *For Women and Girls: Can Dreams Come True?* Policy Brief—have provided statistical and anecdotal evidence for public concern about unsafe public transport for women. A baseline survey conducted by HCMC Department of Labor, War Invalids and Social Affairs and UN Women in 2017 found that transport-related areas, including buses, bus stops and bus interchange, are among the top three unsafe public spaces for women and girls in terms of risks and prevalence of sexual harassment.

91. **Prior action #7: DPO-1 supports the decision to assign the management of the integrated operation of all modes of public transport to HCMC's Management Center of Public Transport, and the regulation on the organization and operation the Center.** The Breakthrough Program on Traffic Congestion already recognizes the need for integrated management of all modes of public transport. The detailed proposal defines all functions to be performed by a public transport agency and a roadmap for phased implementation during the period of 2018-2022. The proposal has been adopted in the Decision No. 79/QĐ-UBND by the People's Committee, dated January 9, 2018, in which a clear mandate and sufficient authority to perform the critical tasks for full integration of public transport systems is assigned to HCMC's Management Center of Public Transport (MCPT), reformed from MOCPT with expanded responsibilities. Those tasks include devise route plans (in case of bus services), plan and integrate service plans (both for bus and metro services), enter into and manage contracts with operators and maintenance companies, monitor and enforce performance standards, require project implementing units to ensure physical integration among systems and require developers/operators to provide interoperability of ticketing, fare collection, and passenger information systems. Further specifics on the organization and operation of MCPT are defined in the Decision 2294/QĐ-SGTVT by the City's Department of Transport, dated May 11, 2018.

92. **Indicative trigger #7: DPO-2 will support the definition of allocation of responsibilities and the establishment of a coordination mechanism between MCPT and public transport operators to facilitate the integrated operation of all modes of public transport by MCPT.** Public transport operators include metro company, bus operators and operators of other public transport modes.

93. **Expected result #7:** A proxy indicator was chosen to demonstrate an immediate and visible result of the integrated management of all modes of public transport, which is the interoperability of fare collection systems across mass transit systems under development has been achieved due to active intervention by the PTA (by 2020). MCPT, assigned to perform as a public transport agency will ensure service plans for various mass transit systems are well coordinated for better integration, in a timely manner before launching these systems. In the longer-term, it will be further strengthened to perform route planning, tendering and contract management with operators, and service quality monitoring, to support integrated public transport system that nimbly responds to changing user demands.

94. **Indicative trigger #8: DPO-2 will also support the undertaking of competitive tendering for selected bus routes on which multi-year contracts will be applied with provisions on strengthened service quality standards and monitoring and enforcement mechanisms.** To improve the bus services, DOT and MCPT will perform a network review to identify new routes that have potential to increase patronage, on which competitive tendering will be piloted. The MCPT will prepare a tender package, which will feature two elements: the service quality standards, both as criteria for procurement and contractual requirements, and multi-year contracts. By clearly specifying the service quality standards both during procurement and contract duration and devising a clear mechanism for enforcement, MCPT will strive to be more effective in ensuring high quality services to be delivered by operators. The service quality standards will be established with regards to vehicle conditions, reliability/safety of operation, customer services, including awareness on and response mechanism to address sexual harassment and other incidences that threat personal security/safety of bus users. Operators will be contractually required to take necessary measures, including development of an adequate vehicle maintenance regime and a safety management system, handling of customer relations, and adequate training of operators and conductors. Competitive tendering and multi-year contracts will provide incentives to bus operator to improve cost-efficiency and service quality.

95. **Expected result #8:** Improved regulation of bus services will give adequate incentives to operators to provide more cost-efficient and competitive services. This would result in greater ridership and modal share of public transport, compared to the case when various public transport modes are not well integrated. By granting multi-year contracts and rewarding them for good performance, these regulations should break the “vicious cycle” of poor service quality, decreasing passenger numbers, and deteriorating fare-box revenues. Mandatory training of drivers and conductors would result in reduced risk of sexual harassment for girls and women and eventually their increased autonomous mobility in the city using public bus services. Intermediate results could be measured through the improvement of the service quality of competitively tendered routes, with respect to service reliability, vehicle condition, and satisfaction of both female and male users. Lastly, these actions will contribute to improving the quality and efficiency of public transport services in a fiscally sustainable manner, which should also be reflected in the increased share of passengers satisfied with services provided by bus drivers and staff¹⁷.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

96. **The proposed DPO is closely aligned with the Country Partnership Framework (CPF) 2018-22.** The operation underpins a core strategic thrust of CPF to engage comprehensively and strategically with key subnational governments across Vietnam and to provide integrated, cross-sectoral support. As such, the operation supports several CPF objectives. It directly contributes to enhanced urban governance, better, more integrated urban planning, more efficient resource use, including of urban land and improved service delivery in HCMC and through potential demonstration effects across the country (CPF objective 4). The operation also contributes to strengthened fiscal management and competitiveness at the city level (CPF objective 1 and 2).

97. **The proposed DPO series builds on a long history of partnership between the Bank and HCMC.** Since the 1990s, the Bank has engaged through a series of investment lending and technical assistance operations focusing on urban upgrading, water supply and sanitation, bus rapid transit, and infrastructure financing. The operations, totaling more than US\$ 1 billion, several of which considered highly performing, have benefited millions of citizens (figure 12)¹⁸.

98. **By providing a platform for policy dialogue on institutional reforms, the operation synergizes with national investments and advisory services, helping to strengthen their effectiveness and sustainability, and leverage the Bank’s partnership for greater and more sustainable development impact.** These include investment lending operations, on urban management, public transport and land administration. Specifically, it complements the (a) national fiscal governance DPO series including on public debt management, and public asset management; (b) HCMC green transport development IPF project; and (c) other national reform initiatives, e.g. land administration reform (supported via Land administration IPF and ASA), business climate improvement (supported via ASA on strengthening country competitiveness), selected tax policy initiatives (including the set-up of the foundational cadastral information system to prepare for future introduction of property tax).

¹⁷ It has been agreed that the baseline survey will be undertaken in 2019 by the City with support from the World Bank.

¹⁸ Specifically, HCMC has benefited from eight World Bank-supported projects, to a total of about US\$ 1.156 billion, including: HCMC Environment Sanitation (US\$248 mil., closed); Vietnam Urban Upgrading Project (US\$257 mil, closed); Urban Water Supply Development (US\$27 mil., closed); HCMC Investment Fund for Urban Development (US\$50 mil., closed); Second HCMC Environmental Sanitation Project (US\$450 mil., on-going); and HCMC Green Transport (US\$124 mil., on-going).

4.4. CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

99. **Broad consultations and partnerships helped build the policy program.** Extensive consultations were held both during design and implementation of the program, including with concerned line departments. Moreover, individual policy measures supported are undergoing extensive consultations with a wide range of stakeholders. Draft regulations are circulated within government agencies but also published on the City's or department websites for public comments. The City's People's Committee, relevant departments, and the World Bank have also held dedicated seminars and workshops with relevant stakeholders on key prior actions. The consultations have brought about practical comments on the technical and political feasibility of the proposed policy options, as well as the critical elements needed to ensure successful implementation. For example, the consultation workshop on the disclosure of zoning plans provided inputs on the types and forms of information that would benefit commercial and residential construction permit applicants. The consultation process with DOF, DPI and State Treasury and development partners induced agreement among relevant government agencies on the need to create a formal coordination mechanism with regards to subnational debt management activities, but also on related challenges. The consultation workshop the public transport agency received substantial comments on the alternative organizational models that can feasibly be implemented in HCMC, considering their respective advantages and disadvantages, particularly within the organizational constraints set by national government.

100. **The operation supports institutional changes that help strengthen the effectiveness and sustainability of investment projects supported by other development partners,** in particular the metro development ones financed by KfW, ADB and JICA. Regular consultations have been held with relevant partners, including IMF, ADB, JICA, SECO and the EU. This has helped align policy messages, build consensus on and reinforced support for reforms among the country's main development partners around a core set of reform measures.

V. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

101. **Poverty:** Most of the proposed actions are distribution neutral, but there are two areas where more information is required, and distributional effects are to be determined, namely zoning and public transportation.

102. A number of proposed prior actions and triggers are distribution neutral, some with potential for positive welfare spillovers. **Prior Action 1** and **Prior Action 5** and related triggers (#1, 5, and 6) are both distribution neutral. Their implementation improves efficiency and transparency in the planning and fiscal management of the city. Their benefits to the population are symmetrical. **Prior Action 6** is also distribution neutral, but with potential for significant positive welfare effects as simplification of business licensing procedures should level the playing field for the private sector thereby encouraging private investment and stimulating job creation.

103. However, some of the prior actions have winners and losers, but with varying degrees of welfare impact. Implementation of **Prior action 4** and trigger 4, would likely lead to an increase in rentals for businesses operating from city owned commercial housing. This will increase their operating costs, though not by a high enough margin to threaten viability of the enterprises. How the additional revenues

are distributed will determine the overall welfare effect of the prior action. To the extent that the additional revenue is used to improve service provision for the poor, the policy would consequently have a positive welfare distribution favoring the poor. It becomes a redistributive tool from implicit rent subsidies to commercial enterprises to more benefits for poor households. However, no significant impact on household welfare would be expected if the additional revenues just add to the fiscal system without altering the structure of the budget.

104. The first order effects of **Prior action 2** and trigger 2 are positive, but they have asymmetric and negative second order distribution effects, so the overall impact is yet to be determined. The on-line disclosure of land-use and construction zoning plans, following well-defined technical standards has clear benefits to household building new homes. The transparency this brings reduces rent-seeking opportunities for public officials dealing with permits, thus reducing informal payments and reducing permit processing time for households. However, this transparency makes it easier to identify houses that are in violation of zoning rules and regulations. Households in this category will incur losses either from resultant penalties levied by the city to violators or reduced valuation of their properties. The net welfare effect will thus depend on the number of households deemed to be in violation, the penalties to be levied and anticipated impact on the valuation of the properties. These will be analyzed in due course based on estimates of affected households. Appropriate mitigation measures will be proposed if the negative welfare impact is projected. Currently, no displacement of households is expected since no significant reclassification of zones is expected, limiting the impact to only those households whose structures are in violation of technical specifications for their zones.

105. With adequate mitigation measures, **Prior Action 7** and related triggers (#7, 8) is expected to have a net positive welfare effect. The proposed policy measures will improve the quality of public transportation services provided, and also reduce congestion in the city. Service provision will be delinked from tariff setting. The city will continue to set the tariffs independently of the contractual terms of new bus routes. Contracts resulting from competitive tendering will be on the gross-cost basis, thus the operators will be paid on the basis of their operating inputs (vehicle-km) and service outputs (service quality delivered, including reliability, safety, etc.), while the fare box revenues will be captured by the city, from which it will pay the operator together with subsidies if the revenues are insufficient. The upcoming introduction of electronic ticketing system will allow the city to better target their subsidies, by directly supporting lower-income users, rather than subsidizing the operators. That will mitigate against any impact of potential fare increases on the welfare of the poor. Additionally, route re-organization will be based on an accessibility analysis, with an aim to improve access to jobs/markets/services for as many people as possible, and thus, the re-arrangement will improve accessibility for the vast majority of the users. It is possible that some people will get worse off due to the re-arrangement, but these are likely to be in low density areas where bus ridership is low, while service provision in high density areas where the poor live will likely expand. This prior action is thus expected to result in greater benefits for the poor.

106. **Gender:** A baseline survey conducted in 2017 in HCMC found that transport-related areas, including buses, bus stops and bus interchange, are among the top three unsafe public spaces for women and girls in terms of risks and prevalence of sexual harassment.¹⁹ Another scoping study in 2017 showed

¹⁹ UN Women, 2018. The baseline study was conducted by HCMC's Department of Labor, War Invalids and Social Affairs with technical support by UN Women, for HCMC Safe and Friendly City and Public Space Program.

that public transportation can be unsafe for women.²⁰ Female respondents reported that they experienced verbal and physical forms of sexual harassment while riding a bus, while bus drivers found sexual harassment very prevalent in buses.²¹ A 2014 street survey shows that 9 in 10 women in Ho Chi Minh City have experienced sexual harassment in the public space, broadly defined as including public buses.²² Under the DPO's Trigger #8, the City's DoT will include staff training on sexual harassment and personal safety issues in the key performance indicators (KPI) and contractual conditions for bus operation. Mandatory training of drivers and conductors would result in reduced risk of sexual harassment for girls and women and eventually their increased ridership and autonomous mobility in the City.²³

5.2. ENVIRONMENTAL ASPECTS

107. As per the environmental screening exercise, the DPO-1 is unlikely to cause significant negative or positive effects on HCMC's environment, forests and other natural resources, therefore no further analysis was required. Overall, the prior actions will likely lead to positive environmental outcomes, and so the net effect of the DPO reforms is expected to be positive. Implementation of these prior actions would lead to better management of land use and zoning (**Prior Actions 1, 2, 4 and 7**), which is crucial to avoid environmentally- and economically-costly urban sprawl; environmental saving from avoiding packing, transport, material production and reduction of physical space (**Prior Actions 1 and 2**); reduction of water/air pollution, health risks and impacts of flooding, due to an increase of treated wastewater and improved water drainage services (**Prior Action 3**); and reduction of air pollutants, level of noise and acoustic contamination from vehicle sources (**Prior Action 7**). All these potential positive environmental effects are not likely to be significant.

108. Some anticipated environmental adverse effects are related to the operation, maintenance and disposal of ICT equipment (**Prior Action 1**); poor households not be able to afford increased tariff schedule and related services, increased pressure on water resources and limited access to improved sanitation (**Prior Action 3**); and potential environmental issues due to speeding up of business start-up times and licensing procedures (**Prior Action 6**). Although the outcome of the screening exercise that these effects are not likely to be significant, the analysis also provides some recommended actions to avoid or reduce such effects. For example, i) encouraging environmental enhancements in designing the activities related to Prior Action 1 (electronic applications and information sharing). This includes ICT equipment that is sustainable produced, lasts longer, wastes less energy, used in an efficient way, and encourages reuse and recycling; ii) increasing tariff schedule in combination with enforcing wastewater treatment and not to raise costs so much that poor households cannot afford the services (Prior Action 3). Implementing social protection programs should be considered; and iii) shortening processing time to start a business (Prior Action 6) should not be done at the expense of proper environmental standards and due diligence. Overall, managing any potential environmental effects will depend on the legal and institutional capacity to enforce environmental laws and regulations and to the extent to which DONRE

²⁰ Survey data in Vietnam does not include information on the share of men experiencing sexual harassment in public transport. Meanwhile, there is clear recognition globally and nationally for the need to reduce women's experience of GBV in public transportation services; that GBV in public places negatively influence women's economic empowerment opportunities and; reduce use of public transportation not only by women, but also children and elderly. Women are at greater risk of violence than men from strangers on public transportation and walking to and from transportation. E.g. World Bank: VAWG Resource Guide for Transport; Un Women, 2017. Scoping Study – Ho Chi Minh City Safe Cities and Safe Public Spaces Global Initiative

²¹ Un Women, 2017. Scoping Study – Ho Chi Minh City Safe Cities and Safe Public Spaces Global Initiative, p. 31.

²² Action Aid and CDFED, 2014. Safe Cities For Women and Girls Policy Brief.

²³ UN Women, 2011. Safe Cities Free of Violence for Women and Girls Program Document, p. 16.

and other relevant environmental authorities have resources available for proper environmental management. In addition, these measures should be in line with the HCMC program adopted to reduce environmental pollution, which was mentioned in section III of this Program Document.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

109. The analytical work assessing the PFM system of HCMC particularly and Vietnam country generally²⁴ show the significant improvements in the country PFM system in the recent years, in which HCMC is considered the best sub-national government in implementing and enforcing the recent reform in PFM policies. Budget formulation and budget execution reports are detailed by each activity and each implementing agency. Budget approval is made within December of the previous year. Yearly budget execution report is approved by PPC and audited by supreme auditor within 12 months after financial year end, compared to 18 months required by Budget Law.

110. The key remaining areas to improve are: i) budget links to priorities in the medium term development plan; ii) debt and contingent liability management; iii) capability to prepare national government and sub-national government financial statements in accordance with international public sector financial reporting standards; iv) capability of supreme audit institution and its regional office to form the audit opinion on the government financial statements; and v) capability of to analyze reported figures for budget control purposes of the oversight bodies. The first two areas will be addressed particularly for HCMC through triggers of this DPO. The remaining is being addressed by an ongoing Bank managed donors trust fund and other analytical work of the Bank provided to the Government, to set standards of the public financial reporting and auditing for the whole country.

111. The risk to proper use, control and reporting of funds that are managed through HCMC PFM system is assessed at Moderate, lower to the country PFM/fiduciary risk of Substantial.

112. Fund flow through Dedicated Foreign Currency Bank Account (DA). The Recipient, through MOF will open and maintain a DA at SBV in US dollars for the Recipient's use once the Credit is approved by the Board. The DA will form part of the country's official foreign reserves.

113. Upon each deposit of an amount of the Credit into the DA, MOF will transfer the amount to HCMC foreign currency account at state treasury. HCMC may use the proceeds to make eligible budgeted payments.

114. As the City uses the credit proceeds, they become a part of the City's budget resources. Upon receipt of the Credit, the City promptly accounts for the receipt of the Credit in the country's budget management system, in an account used to finance budgeted expenditures using the country's regular or established procedures for such accounting.

115. If after deposit in the DA, the proceeds of the Credit or any part thereof are used for ineligible purposes, as defined in the Financing Agreement, the Bank will request the Recipient to refund the amount directly to the Bank. Amounts refunded shall be cancelled.

²⁴ Including the HCMC Public Expenditure Review (PER) 2017, the HCMC Subnational Debt Management Performance Assessment (DeMPA) 2014, Vietnam CPIA 2015, Vietnam Fiscal Decentralization Review (FDR) 2015, Vietnam Fiscal Transparency Review (FTR) 2013, and Vietnam Public Expenditure and Financial Accountability (PEFA) assessment 2013.

116. Through MOF, the Recipient will report the exact sum received into the DA, ensure that all withdrawals are for “eligible” expenditures, indicate to the Bank details of HCMC’s Treasury account to which the Credit proceeds will be credited, confirm that the Credit proceeds were received into an account of the government that is part of the country’s foreign exchange reserves and submit a report on receipts and disbursements for the DA. The Government will, if considered necessary by the Bank, allow an independent external audit of the dedicated foreign currency DA.

117. The proposed operation will follow IDA disbursement procedures for DPOs, and the Credit proceeds will be disbursed in compliance with the stipulated release conditions. Disbursement will not be linked to any specific purchases and no procurement requirements will have to be satisfied.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

118. **Monitoring and evaluation of the program is expected to be undertaken as part of regular progress reviews tied into the programmatic framework.** Through the preparation of the series, in consultation with the authorities, an initial set of indicators were identified together with baselines and targets to assess the impact of the policy program. These include indicators that have been drawn directly from the HCMC’s own strategies, progress reports, and independent sources and surveys. Jointly with the HCMC Department of Finance and concerned line departments and agencies, regular progress reviews will be undertaken as part of the preparation cycle, focusing on both completion and follow up of prior actions as well as progress toward the agreed result indicators. The operation builds on the existing monitoring and evaluation systems of the City, to ensure that program performance is monitored at no additional burden to the institutions. At the same time, as the agreed indicators will be mainstreamed into the City’s own monitoring systems thereby contributing to its improvement. After completion of this operation, the entire series will also be subject to the implementation completion and results review.

119. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org”.

VI. SUMMARY OF RISKS AND MITIGATION

120. **The overall risk to PDO achievement is assessed as substantial, reflecting high implementation risks.** The key risks are highlighted below:

121. **Institutional capacity for implementation and sustainability risks are high.** Despite broad commitment to the principal reform agenda, supported by this operation, impact of the series could be undermined by piecemeal reform implementation. While the PPC has adopted a comprehensive reform

program, implementation of the identified institutional changes is complex and may be hampered by resistance, administrative inertia and rigidities in the national legal framework which may stifle local innovation and reforms. While the program is explicitly focused on supporting implementation-oriented measures, the impact of these measures will depend on the quality of implementation, sustained support beyond the life of the operation and complementary capacity building measures. These risks are mitigated by focusing the series on reform actions where ownership is strong and progress is feasible without changes to national legislation. In addition, several prior actions are complemented by technical assistance to strengthen institutional capacity and reinforce the impact of the DPO. The second risk arises from the tight level of control of the central government over the organizational structure and staffing of SNGs. The risk is mitigated by focusing less on the form of the supported institutions, but also on their functions. In several cases in the DPO, the new institutions and functions are created in an employment-neutral way without affecting the total staffing level of the City.

122. **Fiduciary risks are moderate.** As outlined in detail in section 5.3 there are several weaknesses in the current financial arrangement including lack of consolidated government financial statements and external audit. The financial management arrangement underpinning this operation mitigate these risks through a dedicated Foreign Currency Bank Account for the proceeds; government submitting reports on receipts and disbursements for the Dedicated Accounts to the Bank; and Supreme Audit Institution moving forward INTOSAI implementation with supports from the Bank and other development partners.

Table 9: Risk ratings

Risk Categories	Rating
1. Political and governance	Moderate
2. Macroeconomic	Moderate
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	High
6. Fiduciary	Moderate
7. Environment and social	Moderate
8. Stakeholders	Moderate
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

DPO-1 Prior Actions	DPO-2 Triggers	Results
Pillar 1: Integrated and transparent spatial information for urban management		
<p>1. HCMC’s People’s Committee has issued Decision No. 6179/QD-UBND, dated November 23, 2017, adopting a plan for the development of HCMC as a smart city, and adopted Plan No. 1008/KH-UBND, dated March 14, 2018, for the establishment of a shared data warehouse and development of an open data ecosystem.</p>	<p>1. Adopt a regulation for the integration of data in and operation of a shared data warehouse and corresponding technical guidelines.</p>	<p>Improved information sharing for integrated and evidence-based urban planning and management.</p> <p><i>Results indicator 1:</i> Topography and cadastral maps (updated by DONRE), land zoning maps (updated by DPA), and transport map (updated by DOT) digitized in interoperable formats and accessible by authorized staff of at least the above-mentioned agencies (by 2021).</p>
<p>2. HCMC’s Department of Planning and Architecture has disclosed vector-based zoning plans of the Central Business Districts and Thu Duc District on-line.</p>	<p>2. Disclose vector-based zoning plans of additional districts toward citywide coverage on-line.</p>	<p>Enhanced transparency of urban zoning information provided to citizens, making zoning more credible by allowing external scrutiny.</p> <p><i>Results indicator 2 (cumulative):</i> Number of mobile application users of the zoning plans disclosed on the website of the City. Baseline: 0 (2017) Target: 250,000 (2020)</p> <p><i>Result indicator 3 (cumulative):</i> Number of mobile application sessions performed on the zoning plans website of the City. Baseline: 0 (2017) Target: 2,500,000 (2020)</p>

DPO-1 Prior Actions	DPO-2 Triggers	Results
Pillar 2: Strengthened management of public assets and liabilities		
<p>3. HCMC’s People’s Committee has instructed the Steering Center of Urban Flood Control Program (SCFC) to take the lead in the development of a tariff schedule for wastewater and drainage services using the cost recovery approach set forth in Decree 80 (2014), as evidenced by its Decision No. 6261/QD-UBND, dated November 30, 2016.</p>	<p>3. Adopt an increased tariff schedule for wastewater and water drainage services 2019-2021.</p>	<p>Improved financial sustainability for the provision of wastewater, drainage and flood control services.</p> <p><i>Results indicator 4:</i> Level of recovery for operation and maintenance costs for drainage system and wastewater treatment services. Baseline: 45% (2017) Target: 60% (2021)</p>
<p>4. HCMC’s People’s Committee has issued Decision No. 3555/QD-UBND, dated July 7, 2017, assigning the management of state-owned commercial housing assets to the House Management and Construction Supervision Center.</p>	<p>4. Undertake competitive bidding process for new lease of selected state-owned commercial housing assets.</p>	<p>Consolidated and professionalized management of commercial housing assets as the basis for better revenue management.</p> <p><i>Results indicator 5:</i> Rate of rental price increase per square meter of state commercial houses, compared to CPI rental component. Baseline: tbd (2019)²⁵ Target: tbd (2021)</p>
<p>5. HCMC’s People’s Committee has issued Decision No. 2885/QD-UBND, dated June 5, 2017, establishing a task force for subnational debt management; and HCMC’s Department of Finance has issued Decision No. 1689/QD-STC, dated March 21, 2019, adopting the operational regulations for the IT, Statistics, and Subnational Debt Management Division.</p>	<p>5. Establish collaboration regulation between the IT, Statistics, and Subnational Debt Management Division and relevant agencies, and processes for consolidating debt information, and standardizing reporting formats for all public debt and selected contingent liabilities.</p>	<p>Better coordinated debt management functions for both domestic and external borrowings.</p> <p><i>Results indicator 6:</i> Online publication of an annual debt bulletin covering all public debt, with basic cost-risk indicators (by 2021).</p>

²⁵ It has been agreed that the House Management and Construction Supervision Center and the Department of Finance of HCMC will compile data on baseline rental prices of existing commercial houses after transfers of these assets to the Center which is planned to take place in mid-2019.

DPO-1 Prior Actions	DPO-2 Triggers	Results
Pillar 3: Enhanced delivery of priority municipal services		
6. HCMC’s Department of Planning and Investment (DPI) has issued Plan No. 8308/KH-SKHDT, dated September 5, 2017, consolidating procedures, and Decision No. 15/QD-SKHDT, dated January 9, 2018, enhancing on-line processing, to shorten time to start a business.	6. Establish a mechanism to continuously assess the implementation quality of business entry procedures based on user feedback and internal review process.	More simplified and efficient procedures to legally start operating a business. <i>Results indicator 7:</i> Number of days taken to start operating a business. Baseline: 22 (2017) Target: 15 (2021) ²⁶
7. HCMC’s People’s Committee has issued Decision No. 79/QD-UBND, dated January 9, 2018, assigning the management of the integrated operation of all modes of public transport to HCMC’s Management Center of Public Transport (MCPT); and HCMC’s Department of Transport has issued Decision 2294/QD-SGTVT, dated May 11, 2018, regulating the organization and operation of MCPT.	7. Define the allocation of responsibilities and establish a coordination mechanism between MCPT and public transport operators in line with Decision 79/QD-UBND, dated January 9, 2018, to facilitate the integrated operation of all modes of public transport by MCPT.	Strengthened management capacity towards more efficient use of resources for and improved services quality of public transport. <i>Results indicator 8:</i> Interoperability of fare collection systems across mass transit systems under development achieved (by 2022).
	8. Undertake competitive tendering for selected bus routes on which multi-year contracts will be applied with provisions on strengthened quality standards and monitoring and enforcement mechanisms.	<i>Results indicator 9:</i> Share of passengers satisfied with services provided by bus drivers and staff. Baseline: tbd (2019) ²⁷ Target: tbd (2021)

²⁶ As indicated Doing Business (2018) and Doing Business (2022) Reports respectively.

²⁷ It has been agreed that the baseline survey will be undertaken in 2019 with support from the World Bank.

ANNEX 2: FUND RELATIONS ANNEX

Vietnam—Assessment Letter for the World Bank

April 1, 2019

I. BACKGROUND AND RECENT DEVELOPMENTS

On June 8, 2018, the IMF's Executive Board concluded the Article IV Consultation with Vietnam and endorsed the staff appraisal without a meeting. In recent years Vietnam has demonstrated its commitment to macroeconomic stability and private sector-led growth. Inflation has declined to low single digits as credit and monetary policies were tightened and growth has reached a decade high of about 7 percent. The new government which took office in 2016 implemented measures to curb the budget deficit and public debt. Modernization of the monetary framework is in its early stages. Privatization of blocks of government-owned shares of companies in non-strategic sectors continues. The authorities intend to adopt Basel II standards by 2020 and to recapitalize State Owned Commercial Banks (SOCBs). They are also continuing to address governance. But important risks and implementation challenges remain.

Vietnam remains resilient thus far to global trade tensions and elevated financial volatility. Its economy grew by 7.1 percent in 2018. The broad-based expansion was fueled by growth in incomes and consumption and by strong trade, tourism and remittances. Manufacturing surged, the trade surplus widened, and direct investment inflows remained strong. Despite the resilience to date, rising trade tensions and higher volatility in emerging economies in 2018 were felt in Vietnam, including through a stock market correction from previously overvalued levels. Headline inflation averaged 3.5 percent and core inflation 2 percent in 2018.

Vietnam's external position in 2018 remained substantially stronger than warranted by fundamentals and desirable policies. Vietnam's Current Account (CA) gap in 2018 reached 7 percent of GDP and exchange rate undervaluation 9 percent. International reserves amount to 76 percent of the IMF's reserve adequacy metric at end-2018. The CA gap reflects domestic policy distortions that discourage domestic investment. The gap should be addressed through more ambitious reforms to strengthen private investment and improve the efficiency of public investment. Greater two-way exchange rate flexibility would reduce the need to build buffers.

II. OUTLOOK AND RISKS

A soft landing of growth is expected in 2019, to 6.5 percent, as credit growth tightens, and trading partner growth decelerates. Potential growth of 6.5 percent is also expected over the medium term, supported by improvements in the quality of the capital stock from strong FDI inflows; higher productivity from the ongoing shift of labor out of agriculture; and a better business climate. Implementation of free trade and investment agreements could usher in gains in medium-term growth. Headline inflation for 2019 is projected at 3.1 percent, and core inflation at 2.7 percent, rising to 3.5–4 percent over the medium term. The CA surplus is expected to decline over the medium as structural reforms boost investment and real exchange rate appreciation resumes its secular trend.

Downside risks have risen. The U.S. and China are important trade and investment partners. Global trade tensions and elevated trade policy uncertainty will likely weigh on Vietnam’s highly open economy through trade, financial and confidence channels. The threat of cyber security attacks is elevated. Domestically, banking sector fragilities continue to pose risks; lack of adequate financial buffers and a still rigid exchange rate framework limit the flexibility of policy responses. Investment could also be impacted by bottlenecks related to the anti-corruption campaign.

III. MACROECONOMIC POLICIES

The government which took office in 2016 implemented significant fiscal consolidation during 2016–2018. The state budget deficit (Government Finance Statistics Manual basis for central and provincial government but excluding extrabudgetary funds (EBFs)) has stabilized at 4.7 percent of GDP in 2017–18, close to target. When the surplus of Vietnam’s pay-go Social Security System (VSS) and other EBFs is included, the general government deficit is about 3 percent of GDP in 2017– 18. A strong economy and better tax administration helped buoy 2018 revenues, while tight disbursement of public investment helped contain spending. The deficit is projected to decline to 4 percent in 2020 (2.6 percent with EBFs). Gross public and publicly guaranteed (PPG) debt declined to 56.5 percent of GDP at end-2018; it is expected to fall below 55 percent of GDP by end-2024. The government is not granting any new sovereign guarantees. The IMF’s recently completed Fiscal Space Assessment for Vietnam signals that Vietnam currently has some fiscal space.

Monetary, exchange rate and credit policies are aimed at cementing macroeconomic stability in the face of heightened external volatility. The SBV guided the Dong lower in 2018, maintaining orderly market conditions and ample liquidity amidst heightened volatility in emerging markets; it also continued to accumulate reserves as conditions permitted. All in all, the Dong depreciated by 2.5 percent vis-à-vis the U.S. dollar in 2018, although it appreciated by 3.6 percent in REER terms, reflecting depreciation of the Renminbi.

Modernization of Vietnam’s monetary framework and greater exchange rate flexibility will be useful in achieving price stability and absorbing external shocks. In the near term, it would be useful to allow greater exchange rate flexibility within the existing band. The SBV should also consider re-centering the band if the currency faces persistent large shocks and widen the band if currency volatility rises permanently. Gradual reserve accumulation should continue. Over the medium term, the exchange rate band should be widened until the shift to inflation targeting (IT), with market-based exchange rates. Fund technical assistance is expected to play a key role in building SBV capacity in modernizing Vietnam’s monetary framework.

Credit growth has come down but legacies of loose financial conditions in the past are still being worked out. In recent years, the authorities have gradually lowered credit growth, to 17.4 percent in 2017 and less than 15 percent in 2018. The SBV plans to remove credit ceilings for banks that meet Basel II standards. Tighter credit growth targets and the intention to replace administrative credit allocation with market-based mechanisms as Basel II comes into effect are both welcome.

Bank performance has improved significantly in recent years and bank recapitalization is on the agenda. Bank earnings have risen in response to a shift to retail lending and consumer finance. Banks have also stepped up the resolution of legacy loans, aided by the strong economy and rising real estate prices. NPL ratios have been declining and banks have aggressively resolved NPLs with the

Vietnam Asset Management Corporation (VAMC). Strengthening bank capital is an urgent priority. As the January 1, 2020, deadline for implementing Basel II rules, approaches, the authorities formulated a bank-by-bank strategy for recapitalizing large SOCBs, using private money where possible and making available equitization proceeds as needed. The progress in NPL resolution notwithstanding, however, NPL ratios remain high and there is a risk that it could be interrupted by a downturn in real estate prices. Bank balance sheets are still vulnerable to shocks and could be a risk to macroeconomic stability. SOCB recapitalization must not be delayed.

IV. ASSESSMENT

In recent years Vietnam has made impressive strides in maintaining macroeconomic stability and private sector-led growth. But the window to address long-term challenges—including rapid prospective population aging, climate change and digitalization—is narrow. Fiscal consolidation must become of higher quality; macroeconomic institutions modernized; and governance strengthened.

The reduction in the budget deficit is welcome but the quality of fiscal consolidation should improve. Strong domestic revenue mobilization (state budget: 24 percent of GDP; including EBFs; 31 percent) must be preserved in light of declining official development assistance and lower oil and trade revenues. Fundamental tax reform to broaden tax bases and reduce informality incentives will be crucial. The public sector wage bill must be rationalized and investment efficiency raised.

Vietnam must also prepare for longer term fiscal challenges. Demographics have been favorable to date. But pension and health spending will begin rising in the next decade. Under current policies, VSS outlays will overtake revenues by 2030. Pension reforms are needed to address unfunded pension liabilities, by improving the coverage, adequacy, sustainability and intra- and intergenerational fairness of the pension system. EBFs should be consolidated into the government's fiscal reports and included in Vietnam's macro-fiscal framework.

Boosting infrastructure and health spending will be important to meeting Sustainable Development Goals (SDGs). Vietnam's growth has been inclusive to date. But social spending has declined somewhat and the SDG costing exercise points to gaps of 6.5 percent of GDP in health and infrastructure spending. The focus on primary and secondary schools is appropriate; access to tertiary education should be maintained; tertiary institutions should work with government and industry to reduce skills mismatches.

Vietnam needs to strengthen its governance. Since 2016, the government has started tackling grand corruption. The 2018 anti-corruption law strengthened the system for the declaration of income and wealth, but further improvements could be made. Additional efforts should prioritize: control of corruption; stronger fiscal transparency and public investment management; stronger AML/CFT framework and execution.

Table 1. Vietnam: Selected Economic Indicators, 2014–20 1/

	2014	2015	2016	Est	Projections		
				2017	2018	2019	2020
Output							
Real GDP (percent change)	6.0	6.7	6.2	6.8	7.1	6.5	6.5
Prices (percent change)							
CPI (period average)	4.1	0.6	2.7	3.5	3.5	3.1	3.3
CPI (end of period)	1.8	0.6	4.7	2.6	3.0	3.2	3.4
Core inflation (end of period)	2.7	1.7	1.9	1.3	1.7	1.6	1.9
Saving and investment (in percent of GDP)							
Gross national saving	35.9	32.5	36.0	36.3	36.3	35.4	34.9
Gross investment	31.0	32.6	33.0	33.3	33.3	33.0	32.9
Private	18.6	20.2	20.7	21.4	21.7	21.2	21.1
Public	12.4	12.4	12.4	11.9	11.6	11.8	11.8
General government finances (in percent of GDP) 2/							
Revenue and grants	22.2	23.8	24.0	23.5	23.5	23.5	23.5
<i>Of which: Oil revenue</i>	2.5	1.6	0.9	0.9	1.0	0.9	0.8
Expenditure	28.5	30.2	27.8	28.4	28.2	28.0	27.6
Expense	20.4	21.4	20.4	20.7	20.8	20.4	20.1
Net acquisition of nonfinancial assets	8.1	8.8	7.4	7.7	7.4	7.5	7.5
Net lending (+)/borrowing(-) 3/	-6.3	-6.4	-3.9	-4.8	-4.7	-4.5	-4.1
Net lending /borrowing including EBFs	...	...	...	-3.2	-2.9	-2.7	-2.6
Public and publicly guaranteed debt (end of period)	54.7	57.1	59.7	58.2	56.5	56.3	55.8
Money and credit (percent change, end of period)							
Broad money (M2)	17.7	16.2	18.4	15.0	12.6	12.5	12.6
Credit to the economy	13.8	18.8	18.8	17.4	14.4	14.0	13.9
Interest rates (in percent, end of period)							
Nominal three-month deposit rate (households) 4/	5.0	4.8	4.9	5.9	5.9	...	...
Nominal short-term lending rate (less than one year) 4/	8.5	7.2	7.2	8.7	8.7	...	...
Balance of payments (in percent of GDP, unless otherwise indicated)							
Current account balance (including official transfers)	4.9	-0.1	2.9	3.0	3.0	2.3	2.0
Exports f.o.b.	80.9	84.7	87.7	97.1	101.2	105.7	110.0
Imports f.o.b.	74.3	80.8	82.2	91.9	93.8	98.9	103.5
Capital and financial account 5/	3.0	0.5	4.6	8.1	-0.6	0.4	0.6
Gross international reserves (in billions of U.S. dollars) 6/	34.5	28.5	36.8	49.4	55.2	62.2	69.3
In months of prospective GNFS imports	2.4	1.9	2.0	2.4	2.4	2.4	2.3
Total external debt (end of period)	38.3	42.0	45.0	49.1	48.2	49.6	50.3
Nominal exchange rate (dong/U.S. dollar, end of period)	21,200	21,951	22,372	22,709	23,175	...	...
Nominal effective exchange rate (end of period)	93.9	97.6	97.7	91.2	93.1	...	...
Real effective exchange rate (end of period)	124.7	129.8	134.0	126.2	131.0	...	...
Memorandum items:							
GDP (in trillions of dong at current market prices)	3,938	4,193	4,503	5,006	5,535	6,040	6,613
GDP (in billions of U.S. dollars)	185.8	191.3	201.3	220.4	241.3	259.3	280.9
Per capita GDP (in U.S. dollars)	2,047	2,086	2,172	2,353	2,551	2,715	2,914

Sources: Vietnamese authorities; and IMF staff estimates and projections.

1/ The national accounts has been re-based to 2010 from 1994 by the authorities.

2/ Follows the format of the *Government Finance Statistics Manual 2007*.

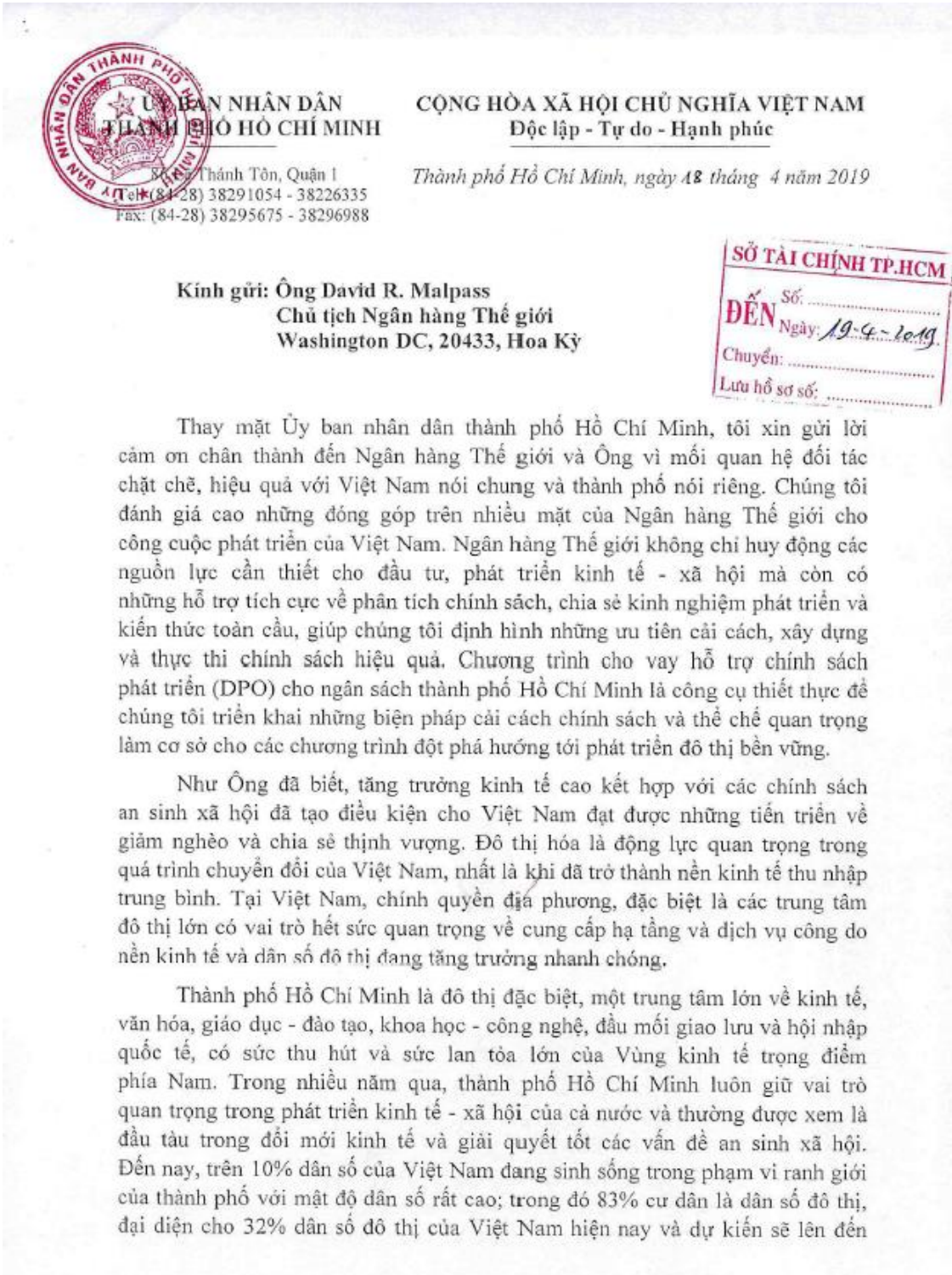
3/ Excludes net lending of Vietnam Development Bank and revenue and expenditure of Vietnam Social Security.

4/ Latest available for 2018.

5/ Incorporates a projection for negative errors and omissions going forward (i.e. unrecorded imports and short-term capital out).

6/ Excludes government deposits.

ANNEX 3: LETTER OF DEVELOPMENT POLICY



40% vào năm 2020. Thành phố đóng góp đến gần 23% GDP của quốc gia, 15% vốn đầu tư trực tiếp nước ngoài (FDI), 20% doanh số của khu vực ngân hàng và 18% tổng thu từ xuất khẩu của Việt Nam. Mặc dù thành phố đang có tốc độ tăng trưởng cao hơn cả nước, xu hướng này đang chững dần trong những năm gần đây. Trong bối cảnh thành phố đang đô thị hóa nhanh chóng và sắp trở thành một siêu đô thị, việc thành phố đạt được tốc độ tăng trưởng cao trong ngắn hạn và trung hạn không chỉ tác động đến chất lượng sống của cư dân và môi trường đô thị trên địa bàn mà còn ảnh hưởng đến năng lực cạnh tranh kinh tế và triển vọng chung của cả nước thông qua các kết nối và hiệu ứng lan tỏa.

Đánh giá cao vai trò của thành phố, Chính phủ Việt Nam đã đặt ra tầm nhìn tham vọng cho tương lai của thành phố. Nghị quyết số 16-NQ/TW của Bộ Chính trị đã xác định mục tiêu “*xây dựng thành phố Hồ Chí Minh văn minh, hiện đại hóa, đóng góp ngày càng lớn với khu vực và cả nước; từng bước trở thành trung tâm lớn về kinh tế, tài chính, thương mại, khoa học – công nghệ của đất nước và khu vực Đông Nam Á; góp phần tích cực đưa nước ta cơ bản trở thành nước công nghiệp theo hướng hiện đại vào năm 2020*”. Nghị quyết đồng thời khẳng định về chất lượng và cơ cấu tăng trưởng, phát triển hạ tầng và đổi mới sáng tạo, kết quả đạt được của thành phố “*chưa tương xứng với vị thế, vai trò và tiềm năng của thành phố.*”

Với mục tiêu tăng trưởng của thành phố gấp 1,5 lần mức bình quân của cả nước đang đặt ra áp lực lớn cho lãnh đạo thành phố. Thành phố có nhiều tiềm năng trở thành một thành phố tiên phong và có năng lực cạnh tranh toàn cầu, nhưng đồng thời cũng phải đối mặt với những áp lực lớn về quản lý đô thị, cung cấp các dịch vụ và hạ tầng đô thị thiết yếu trong bối cảnh hạn chế về tài khóa. Việc giải quyết những thách thức liên quan đến năng lực cạnh tranh kinh tế, tốc độ đô thị hóa cao, nguy cơ biến đổi khí hậu là hết sức quan trọng để duy trì tăng trưởng bền vững dựa vào năng suất và cải thiện chất lượng sống. Đại hội Đảng bộ thành phố lần thứ X đã thông qua 07 chương trình đột phá giai đoạn 2016 – 2020 nhằm: (i) nâng cao chất lượng tăng trưởng, năng lực cạnh tranh của kinh tế thành phố đáp ứng yêu cầu hội nhập; (ii) nâng cao chất lượng nguồn nhân lực; (iii) cải cách hành chính; (iv) chỉnh trang và phát triển đô thị; (v) giảm ùn tắc giao thông, giảm tai nạn giao thông; (vi) giảm ngập nước; và (vii) giảm ô nhiễm môi trường.

Để đạt được mục tiêu và yêu cầu phát triển như trên, thành phố đang rất cần các cơ chế, chính sách mang tính đột phá, những ý tưởng mới và các hoạt động cải cách hệ thống và đồng bộ, góp phần hoàn thiện thể chế, tăng cường hiệu lực và hiệu quả quản lý nhà nước.

Chương trình DPO là một trong những mục tiêu và lĩnh vực hợp tác được ghi nhận trong Biên bản ghi nhớ giữa Ủy ban nhân dân thành phố Hồ Chí Minh và Ngân hàng Thế giới về quan hệ đối tác toàn diện thành phố Hồ Chí Minh – Ngân hàng Thế giới cho liên kết chiến lược 2018 – 2021.

Thông qua việc tạo nền tảng để đối thoại chính sách về cải cách thể chế, Chương trình DPO cấp địa phương có sự cộng hưởng với các chương trình cho vay phát triển chính sách, cho vay tài trợ dự án đầu tư và hỗ trợ phân tích và tư vấn cấp quốc gia, giúp tăng cường hiệu quả và bền vững cho các chương trình này, đồng thời phát huy quan hệ đối tác giữa thành phố và Ngân hàng Thế giới nhằm đem lại tác động phát triển lớn hơn và bền vững hơn.

Sau thời gian nghiên cứu, thảo luận và tham vấn về chương trình trong năm vừa qua, các chuyên gia Ngân hàng Thế giới cùng chúng tôi đã xác định được khung hành động chính sách cho Chương trình DPO, tập trung vào các chính sách và thể chế nhằm quản lý đô thị tích hợp và minh bạch hơn, quản trị điều hành tài khóa hiệu quả hơn, đồng thời nâng cao chất lượng cung cấp một số dịch vụ công ưu tiên cho người dân và doanh nghiệp. Các hành động cụ thể của Chương trình DPO xoay quanh ba trụ cột: (i) Tích hợp và minh bạch thông tin về không gian phục vụ công tác quản lý đô thị; (ii) Cải thiện công tác quản lý tài sản công và nợ chính quyền địa phương; và (iii) Tăng cường thực hiện một số dịch vụ công được ưu tiên. Các trụ cột này sẽ hỗ trợ thành phố tạo nền tảng thể chế để cung cấp dịch vụ và quản lý đô thị hiệu quả hơn, cụ thể như sau:

- Tại Trụ cột 1, chúng tôi đã thông qua Đề án xây dựng thành phố Hồ Chí Minh trở thành đô thị thông minh và ban hành kế hoạch xây dựng kho dữ liệu dùng chung và phát triển hệ sinh thái dữ liệu mở. Đây là những hành động quan trọng nhằm cải thiện chia sẻ thông tin làm cơ sở để thực hiện quy hoạch và quản lý đô thị dựa trên bằng chứng và tăng cường công khai giám sát từ bên ngoài. Trong hành động này, chúng tôi tiến hành số hóa và cập nhật hệ thống thông tin không gian chủ chốt như bản đồ địa hình, địa chính, quy hoạch sử dụng đất chi tiết và bản đồ giao thông theo các định dạng cho phép tương tác liên thông để các cơ quan có thể truy cập thuận lợi. Đồng thời, chúng tôi đã công khai trực tuyến các bản quy hoạch chi tiết của các quận trung tâm và quận Thủ Đức để cung cấp thông tin cho người dân khi xin giấy phép xây dựng nhà ở và kinh doanh, nâng cao tính minh bạch và độ tin cậy của quy hoạch. Trong giai đoạn tiếp theo, chúng tôi sẽ theo dõi chặt chẽ số lượt truy cập các bản quy hoạch được công khai trên trang điện tử của thành phố và tăng cường cơ chế thu thập ý kiến phản hồi của doanh nghiệp và người dân về chất lượng và mức độ tuân thủ các bản quy hoạch được công khai.

- Tại Trụ cột 2, chúng tôi đã tiến hành các hành động tăng cường quản lý hiệu quả tài sản và nợ chính quyền địa phương của thành phố nhằm góp phần cải thiện quản lý tài khóa. Cụ thể, chúng tôi đã ban hành Quyết định xây dựng biểu phí các dịch vụ nước thải và thoát nước theo phương án bù đắp chi phí được quy định tại Nghị định số 80/2014/NĐ-CP. Việc ban hành Quyết định này là cần thiết để cải thiện bền vững tài chính trong cung cấp các dịch vụ nước thải, thoát nước và kiểm soát ngập. Qua đó, chúng tôi dự kiến phạm vi xử lý nước thải và khả năng trang trải cho chi phí vận hành và bảo trì các hệ thống thoát nước và dịch vụ xử lý nước thải sẽ tăng lên trong những năm tới. Ngoài ra, chúng tôi đã giao Trung tâm Quản lý nhà và Giám định xây dựng quản lý các tài sản nhà thuộc sở hữu nhà nước sử dụng cho mục đích kinh doanh. Đây là một phần nỗ lực của chúng tôi nhằm hợp nhất và chuyên nghiệp hóa công tác quản lý tài sản nhà phục vụ mục đích kinh doanh làm cơ sở để quản lý thu tốt hơn. Nâng cao lợi tức tài sản đô thị là giải pháp quan trọng để khai thác, quản lý tốt nguồn thu trong bối cảnh nguồn thu chúng tôi được hưởng theo phân cấp còn hạn chế. Bên cạnh đó, chúng tôi đã thành lập Tổ công tác quản lý nợ chính quyền địa phương, bổ sung các chức năng về quản lý nợ chính quyền địa phương cho Sở Tài chính; giao cho Sở Tài chính thành lập bộ phận chuyên trách quản lý nợ chính quyền địa phương tại Sở cùng với quy chế làm việc cụ thể, chức năng, nhiệm vụ rõ ràng theo thông lệ tốt quốc tế và phù hợp với điều kiện của thành phố. Việc tập trung đầu mối quản lý nợ chính quyền địa phương tại Sở Tài chính giúp chúng tôi quản lý chặt chẽ, chủ động các khoản nợ của thành phố (gồm cả nợ trong nước, nợ nước ngoài và các nghĩa vụ nợ dự phòng) có nguy cơ gây rủi ro tài khóa cho thành phố.

- Tại Trụ cột 3, chúng tôi đã tiến hành những hành động hướng tới nâng cao hiệu suất cấp các dịch vụ công ưu tiên về đăng ký thành lập doanh nghiệp và giao thông công cộng. Cụ thể, chúng tôi đã hợp nhất thủ tục và đẩy mạnh xử lý trực tuyến để rút ngắn thời gian thành lập doanh nghiệp, góp phần đơn giản hóa và nâng cao hiệu suất cho các thủ tục cấp phép kinh doanh và đầu tư. Qua đó, chúng tôi dự kiến số ngày để thành lập doanh nghiệp sẽ được rút ngắn từ trung bình 22 ngày năm 2017 xuống còn 15 ngày vào năm 2021. Đồng thời, chúng tôi đã giao Trung tâm Quản lý Giao thông Công cộng (MCPT) quản lý vận hành tích hợp toàn bộ các phương thức giao thông công cộng. Trên cơ sở đó, chúng tôi đã ban hành quy định về cơ cấu tổ chức và hoạt động của Trung tâm, gồm các nhiệm vụ quy hoạch, tích hợp và xây dựng kế hoạch dịch vụ cho các dịch vụ tàu điện ngầm (metro) và xe buýt, quản lý hợp đồng với các đơn vị vận hành vận tải và các công ty bảo trì, theo dõi và thực thi hiệu lực các tiêu chuẩn về kết quả thực hiện công việc, đảm bảo tích hợp giữa các hệ thống, yêu cầu các nhà

đầu tư/đơn vị khai thác vận tải đảm bảo tương tác liên thông trong các hệ thống bán vé, thu vé và thông tin hành khách. Việc thành lập MCPT sẽ tăng cường năng lực quản lý, hướng tới nâng cao hiệu suất sử dụng nguồn lực và cải thiện chất lượng dịch vụ giao thông công cộng.

Bằng thư này, chúng tôi đề nghị Ngân hàng Thế giới hỗ trợ khoản vay Chương trình DPO-1 cho thành phố để cung cấp nguồn tài chính dài hạn đáp ứng các nhu cầu vốn của ngân sách và thực hiện các cải cách về cơ chế, chính sách.

Cuối cùng, một lần nữa tôi gửi lời cảm ơn sâu sắc đến Ngân hàng Thế giới vì sự hỗ trợ về tài chính và chính sách dành cho Việt Nam. Chúng tôi đánh giá cao quan hệ đối tác chặt chẽ của chúng ta và tin tưởng sẽ tiếp tục nhận được sự hỗ trợ của Ông và Ngân hàng Thế giới trong thời gian tới. Tôi chúc Ông sức khỏe, hạnh phúc và thành công. Chúc Ngân hàng Thế giới đạt được những thành tựu quan trọng trong sứ mệnh giảm nghèo và chia sẻ thịnh vượng.

Trân trọng./.



Lê Thanh Liêm
Phó Chủ tịch Thường trực
UBND thành phố Hồ Chí Minh

Bản sao gửi:

- TTUB: CT, PCT/DA;
- Ngân hàng Thế giới tại VN;
- Sở: TC, NgV, KHĐT, GTVT;
- VPUB: CVP;
- Phòng DA, KT, TH;
- Lưu VT (DA/LĐH)./v

LETTER OF DEVELOPMENT POLICY (UNOFFICIAL TRANSLATION)

Mr. David R. Malpass
President, The World Bank
Washington DC, 20433, USA

On behalf of the People's Committee of Ho Chi Minh City (HCMC), I would like to express my sincere gratitude to the World Bank and to you personally for the very effective and strong partnership with the City. We greatly value the World Bank's manifold contributions to Vietnam's development and to our efforts to reduce poverty and achieve shared prosperity. The World Bank is not only mobilizing critical resources for social and economic investments, but providing valuable policy analysis, global knowledge and development experience that is helping us shape our reform priorities and design and implement effective policies. This new Development Policy Operation has become an effective tool for us to anchor key institutional and policy reform measures to underpin our reform breakthrough programs towards sustainable urban development.

As you may already know, rapid economic growth together with socially oriented policies enabled Vietnam to achieve remarkable progress in poverty reduction and shared prosperity. Urbanization is an important driver of Vietnam's economic transformation, especially as an emerging middle-income economy. In Vietnam, subnational governments, especially in large urban centers, play a crucial role in delivering infrastructure and public services to the growing urban population and economy.

HCMC is a uniquely important metropolitan area and center of economic, cultural, education, and science and technology activities, a focal center for international integration, with significant spill-over effects in the key growth pole in the south of the country. In many years, HCMC has played a critical role in the socio-economic development of the country, and often been considered as the trailblazer in reform. Today, more than one in ten Vietnamese citizens are estimated to reside within the City's boundaries. It is a very densely populated city. 83 percent of the its population are classified as urban, representing 32 percent of Vietnam's urban population today and expectedly 40 percent in 2020. The City accounts for nearly 23 percent of national GDP, 15 percent of FDI stock, 20 percent of banking sector revenue, and 18 percent to total export earnings of Vietnam. While HCMC has been growing much faster than the whole country, the trend has slowed in recent years. As the City is rapidly urbanizing and becoming a mega-city, how the City harnesses this rapid growth in the short and medium-term will impact not only the quality of life for its residents and the urban environment, but affect Vietnam's overall economic competitiveness and prospects through spill-over effects and linkages.

Cognizant of HCMC's importance, the Government of Vietnam (GOV) has set out an ambitious vision for its future. The high bar the Government has set for the City is captured in the Politburo's Resolution 16-NQ/TW. The resolution calls on the City to "build a civilized, modern Ho Chi Minh City, making ever greater contributions to the region and the country; incrementally becoming a large economic, financial, commercial, science and technology center for the country and East and Southeast Asia; positively contribute to our country becoming a modern industrial country by 2020." The Resolution, meanwhile, asserts that in areas including the quality and composition of growth, infrastructure development, and innovation, HCMC's performance is "not yet commensurate with its position, role, and potential."

The target for HCMC to grow at 1.5 times more than the national average is putting significant pressure on HCMC's leadership. HCMC holds significant promise to become a leading and globally competitive city, but also faces significant pressures to manage rapid urban growth and deliver vital urban infrastructure and services within a constrained fiscal environment. Addressing challenges relating to economic competitiveness, rapid urbanization, and climate change vulnerability will be crucial to sustaining productivity-led growth and improving quality of life. The City's 10th Party Congress adopted seven breakthrough programs for the 2016-20 period, aiming to (i) enhance quality of growth and economic competitiveness; (ii) improve quality of human resources; (iii) reform public administration systems; (iv) urban regeneration and development; (v) reduce traffic congestion and accidents; (vi) mitigate urban flooding; and (vii) lower environment pollution.

To achieve the set objectives, the City needs to implement policy and institutional reform breakthroughs, in a holistic and systemic manner, in order to strengthen the effectiveness of state governance institutions.

The proposed DPO is an integral part of the partnership between HCMC People's Committee and the World Bank, as recognized in the Memorandum of Understanding on our Strategic Partnership in the 2018-2021 period.

By establishing a platform for policy dialogue on institutional reforms, this subnational DPO operation synergizes with the national DPO, sectoral investments and advisory services, reinforcing the impact and sustainability of these programs, and of the partnership between the City and the Bank.

After a process of research, discussion and consultation on this program over the past year, we have worked with experts from the World Bank to set out prior actions for the DPO program of our city. The Program is supporting these efforts and provided us a platform for policy dialogue with development partners while leveraging financial and technical support to bolster reform momentum. The prior actions under the DPO are designed to respond to the challenges around three main pillars: i) Integrated and transparent spatial information for urban management; (ii) Strengthened management of public assets and liabilities; and (iii) Enhanced delivery of priority municipal services. These will support HCMC to lay the institutional foundations for more effective urban management and service delivery. More specifically:

Under pillar 1, we have adopted an initiative for the development of HCMC as a smart city, accompanied by a plan to establish a shared data warehouse and an open data ecosystem. These are critical actions in improving information sharing to underpin more integrated and evidence-based urban planning and management. The issuance of the decision will be accompanied by our own investment in updating and digitalizing a number of key spatial information systems such as topography, cadastral, land zoning, and transport maps in interoperable formats and make them accessible by relevant agencies. At the same time, we have disclosed on-line the zoning plans of the central business districts and Thu Duc district. This is a key step in enhancing transparency to inform commercial and residential construction permit applicants and make zoning more credible by allowing external scrutiny. As a related next step, we will monitor closely the number of visits to the zoning plans disclosed on the website of the City, and strengthen the mechanism to get feedback on businesses and citizens on the quality of and compliance to the disclosed plans.

Under pillar 2, we have taken actions to strengthen effective management of the City's fiscal assets and liabilities, which is expected to contribute to better fiscal management. As such, we have made a decision to develop a tariff schedule for wastewater and drainage services using the cost-recovery approach set forth in Decree 80 (2014). This is a critical step to improve financial sustainability for the provision of wastewater, drainage and flood control services. As a result, we expect that the coverage for wastewater treatment and the level of recovery for operation and maintenance costs for drainage system and wastewater treatment services will increase in the coming years. In addition, we have assigned the management of state-owned commercial housing assets to the HCMC House Management and Construction Supervision Center. This is part of our efforts to consolidate and professionalize the management of commercial housing assets as the basis for better revenue management. Enhancing returns on municipal assets is crucial especially given the limited revenue autonomy. At the same time, we have established a task force for subnational debt management, added subnational debt management functions to the department of finance, and adopted operational regulations and strengthened the manpower for the dedicated debt management unit under the department. This is a critical first step in ensuring prudent management of rising public debt, both domestic and external, and contingent liabilities which will contain a key source of fiscal risk to the City.

Under pillar 3, we have taken actions towards more efficient delivery of priority public services in business registration and public transport. As such, we have consolidated procedures and enhanced on-line processing to shorten time to start a business. This will contribute to more simplified and efficient business and investment licensing procedures. As a result, we expect that the number of days taken to start a business will reduce from an average of 22 in 2017 to 15 days in 2021. In parallel, we have assigned the management of the integrated operation of all modes of public transport to the Management Center of Public Transport (MCPT). Subsequently, we have issued a regulation on the organization and operation of the Center around its mandates to, among other things, plan, integrate, and devise service plans for bus and metro services, manage contracts with operators and maintenance companies, monitor and enforce performance standards, ensure physical integration among systems, and require developers/operators to provide interoperability of ticketing, fare collection, and passenger information systems. The establishment of the MCPT will expectedly strengthen our management capacity significantly towards more efficient use of resources for and improved services quality of public transport.

With this letter, we request the World Bank's assistance through this First Ho Chi Minh City DPO to support our key policy and institutional reforms and provide long term affordable financing to help us meet our overall fiscal financing needs.

Let me close by reiterating my deep appreciation for the financial and policy support extended by the World Bank to Vietnam. We greatly value our strong partnership and trust on continued support from you and the World Bank. We wish the Bank all the best in your course for poverty reduction and shared prosperity.

Sincerely,
(Signature)

Lê Thanh Liêm

First Vice Chairman of the People's Committee of Ho Chi Minh City

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<p>1. HCMC’s People’s Committee has issued Decision No. 6179/QD-UBND, dated November 23, 2017, adopting a plan for the development of HCMC as a smart city, and adopted Plan No. 1008/KH-UBND, dated March 14, 2018, for the establishment of a shared data warehouse and development of an open data ecosystem.</p>	<p><i>Positive</i> – Overall, it would result in positive environmental effects by supporting better management of land use and zoning, which is crucial to avoid environmentally- and economically-costly urban sprawl. Changing physical processes to virtual ones will also involve environmental savings from avoiding packing, transport, material production and reduction of physical space. Such effects are not likely to be significant.</p> <p>Some anticipated adverse effects are related to the operation, maintenance and disposal of ICT equipment, including increased energy and power consumption, increased resources, pollution from e-waste material. Due to the nature of this prior action, these effects are likely to be low to moderate. Recommended mitigating actions for these effects are described in the detailed environmental screening report.</p>	<p><i>None</i> – improves efficiency and transparency in city planning with across the board benefits.</p>
<p>2. HCMC’s Department of Planning and Architecture has disclosed vector-based zoning plans of the Central Business Districts and Thu Duc District on-line.</p>	<p><i>Positive</i> – Like prior action 1, it would result in positive environmental effects by supporting better management of land use and zoning, which is crucial to avoid environmentally- and economically-costly urban sprawl. In addition, better information and smoother communication would not only enhance transparency and credibility in the permits and urban planning process but also would improve efficiency by reducing processing time for both public officials and citizens/firms to ensure compliance with the zoning plan. These positive effects are not likely to be significant.</p>	<p><i>To be determined</i> – there are offsetting effects, with gains from reduced rent seeking by officials in charge of permits but losses for households whose properties are in violation of technical specifications for their zones. At present, no household displacement is expected, but these will be verified within two years of implementation of the prior action, to monitor actual losses for households whose properties are in violation of technical specifications.</p>

Prior actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<p>3. HCMC's People's Committee has instructed the Steering Center of Urban Flood Control Program (SCFC) to take the lead in the development of a tariff schedule for wastewater and drainage services using the cost recovery approach set forth in Decree 80 (2014), as evidenced by its Decision No. 6261/QD-UBND, dated November 30, 2016.</p>	<p><i>Positive</i> – The action is expected to generate positive environmental effects by supporting the increase of treated wastewater (currently it reaches only about 1/10 total amount of daily wastewater) and improved water drainage services. The reduction of water and air pollution will lead to reduction of health risks. In addition, improved water drainage services would contribute to flood control in the city.</p> <p>The action might also result in some indirect adverse effects such as poor households not be able to afford these services, increased pressure on water resources and limited access to improved sanitation (Recommended actions to avoid and reduce potential adverse effects are described in the detailed environmental screening document).</p> <p>Due to the nature of the prior action, the level of significance of these effects is difficult to predict at this stage of the process. However, the above recommendations can contribute to mitigate the adverse effects.</p>	<p><i>To be determined</i> – the welfare impact will depend on the proposed tariff structure, with possibilities of having a cost recovery tariff structure that places a smaller burden on the poor than the non-poor. A distributional impact analysis will be done when options for the tariff structure under the revised schedule are presented, to select a tariff structure that meets revenue mobilization targets while minimizing the impact on the poor before the end of 2019.</p>
<p>4. HCMC's People's Committee has issued a Decision No. 3555/QD-UBND, dated July 7, 2017, assigning the management of state-owned commercial housing assets to the House Management and Construction Supervision Center.</p>	<p><i>Positive</i> – Considering that part of the city's assets are about 19,000 public houses (2,000 of which are for commercial purposes), the prior action would result in positive environmental effects. Supporting a better management of houses (and associated land) would contribute to avoid environmentally- and economically-costly urban sprawl. Due to the nature of the prior action (supporting of the establishing of the HCMC Construction Service and Information center), the potential effects are not likely to be significant.</p>	<p><i>None</i> – the action may ultimately result in some rents increase, but only applicable to the commercial building and housing assets which would be leased to businesses, not likely household businesses and certainly not the poor households. Consolidated management of these public assets would serve as a basis for better revenue generation, which could later on be used by the City to enhance social support to the poor.</p>

Prior actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<p>5. HCMC’s People’s Committee has issued Decision No. 2885/QD-UBND, dated June 5, 2017, establishing a task force for subnational debt management; and HCMC’s Department of Finance has issued Decision No. 1689/QD-STC, dated March 21, 2019, adopting the operational regulations for the IT, Statistics, and Subnational Debt Management Division.</p>	<p><i>None</i> – Due to the type and nature of this prior action (establishing a debt management task force and technical division to improve public debt management), potential environmental effects are not likely to occur.</p>	<p><i>None</i> – efficiency in debt management, but no significant direct welfare impact.</p>
<p>6. HCMC’s Department of Planning and Investment (DPI) has issued Plan No. 8308/KH-SKHDT, dated September 5, 2017, consolidating procedures, and Decision No. 15/QD-SKHDT, dated January 9, 2018, enhancing on-line processing, to shorten time to start a business.</p>	<p><i>Potentially adverse</i> – The potential environmental effects of this prior action are likely to be adverse and level of significance, uncertain at this stage of the process. There have been problems in the past with the speeding up of business start-up times and licensing procedures. Where the primary investment sectors and/or operations are likely to have major environmental impacts (because of the size, type of business, etc.), it is not appropriate to require these to be done hastily. This applies especially to areas such as mining and forestry, which is not applicable in this DPO. Proper procedures in these sectors normally take time so shortening processing times in such cases would not be suitable.</p> <p>The recommendation for addressing these potential issues would be to ensure that this is not done at the expense of proper environmental standards and due diligence.</p>	<p><i>Positive</i> – but distribution neutral benefits from increased private investment and job creation.</p>

Prior actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<p>7. HCMC’s People’s Committee has issued Decision No. 79/QD-UBND, dated January 9, 2018, assigning the management of the integrated operation of all modes of public transport to HCMC’s Management Center of Public Transport (MCPT); and HCMC’s Department of Transport has issued Decision 2294/QD-SGTVT, dated May 11, 2018, regulating the organization and operation of MCPT.</p>	<p><i>Positive</i> – It would result in positive environmental effects by contributing in delivering the much-needed high-quality integrated public transport services that would alleviate traffic congestion caused by rapid increase in car ownership and dominance of motorbikes. It would result in reduced congestion and enhanced urban mobility, leading to a reduction in GHG emissions and local pollutants from vehicle sources; reduced level of noise and acoustic contamination is also expected. These effects are not likely to be significant.</p> <p>The possible adverse environmental effects of this action would be low, if any, and would be mitigated by ensuring that all related activities and projects incorporate environmental criteria at design stage and develop environmental management plans in accordance with national environmental regulations and standard environmental practices.</p>	<p><i>Positive</i> – with likely more benefits for the poor who are likely to see an increase in service due to route re-organization. Traffic increases to be offset by targeted subsidies for the poor.</p>