

VIETNAM: TRANSPORT SECTOR BRIEF

East Asia and Pacific Region Transport Sector Unit

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1. BRIEF DESCRIPTION OF THE SECTOR

The Socialist Republic of Vietnam (Vietnam), surrounded by China in the north, Laos and Cambodia in the west, is located in the eastern part of the Indo-China peninsula. Its land area of 331,688 km², stretches over 1,650 km from north to south and 600 km from west to east, and it has 2,260 km long S-shaped coast lines. In 2002, with an annual growth rate of 1.2 per cent the country had a population of 80 million located in the two large delta areas developed in the plains along the Mekong river in the south, the Red river in the north and along the coast. About three fourths (76%) of the population live in rural areas and the urban population accounts for about one fourth (24%). The major urban centers include Hanoi and Hiphong in the north, Ho Chi Minh (HCMC), My Tho, and Can Tho in the south, and Hue, Da Nang, Nya Trang, Qui Nhon, Camran and Vung Tau along the coast.

During the 1990-2000 period, Vietnam moved from a food deficit nation to become the second largest exporter of rice. In this decade the real economy in Vietnam doubled its size, while the rate of poverty was halved from 70% to 35%, saving rates rose six-fold to around 25% of GDP, and exports rose by an average of 25% per year. Social indicators improved markedly and across a broad front there were widespread and visible improvements in the lives of Vietnamese citizens.

The transport infrastructure was in a poor state after the war damages and subsequent years of economic stagnation. Road, railway, inland waterway, coastal and sea shipping, and aviation play important roles in the transport sector. For long distance passenger transport the key modes are highways, railways, and aviation, while for freight transport road, rail and waterways. The transport sector grew significantly during the 1990s. For instance, inter-provincial traffic flow between 1992 and 1999, doubled (2.1) the number of passengers and almost tripled (2.9) the tonnage of goods.

Public investment priority has been to rehabilitate and upgrade the main long-distance and international links, especially roads and ports, where growth in demand has been particularly great, while relatively small amounts have been allocated to other modes. The transport sector needs are enormous. For the 2001-2010 decade the VITRANSS Study estimated in US\$14.2 billion the funding requirement that includes maintenance, or roughly US\$1.4 billion per year. This is equivalent to 2.8% of cumulative GDP for the ten year period. Historically, Vietnam has spent about 1.8% of its GDP on public expenditures in the transport sector although this figure has steadily increased to a 2002 level of 3.5%.

Transport infrastructure continues to be predominantly financed, built and operated by the public sector, either directly through the government or by quasi-independent SOEs, while transport services are also dominated by SOEs. Vietnam Airlines is government owned, and all rail services in the country are provided by Vietnam Railways, a public enterprise. There is also state control of some trucking and barge enterprises but the role of the private sector is becoming increasingly important and now probably provides the dominant share. Bus services in Hanoi are presently provided by a public sector operator, but in HCMC many private operators supply service.

* The views expressed in this transport sector brief are those of the author, based on previous work and contributions from the staff of the Transport Unit for the East Asia and Pacific Region (EASTR), and they do not necessarily reflect the views of the World Bank.

The development of transport infrastructure and major reforms in the regulation of the sector, resulted in the growth of the private sector and commercialization of the state sector. Various new services were introduced such as container transport on road, rail and waterways, schedules liner operation in coastal shipping, and liberalized transit transport.

Roads. In 2000, there were roughly 215,000 km of road network in Vietnam, of which 16,000 km of the total are designated to be national roads, 21,000 km provincial; 46,000 district; and 7,000 urban roads. The remaining, 125,000 km of the total are classified as special, village and subdivision roads. Roughly 60% of the national roads are paved (concrete/AC/asphalt), while only 27% of the provincial roads, and 10% of the district roads are paved. Almost all roads are two-lane and major constraints include narrow widths, poorly designed junctions, and restrictive vehicle weight limits. Main road conditions are generally reasonable but many rural roads, particularly those in mountainous areas, are in very poor condition.

The administration of the road sector is complex with different agencies responsible for the financing and implementation and others for investment and maintenance. For national roads, investment finance is approved by the Ministry of Planning and Investment (MPI), implementation is the responsibility of the Project Management Unit (PMU) of the Ministry of Transport (MOT), and maintenance is undertaken by the Vietnam Roads Authority (VRA) with funds channeled through the Ministry of Finance (MOF). For regional roads, the complexity of the institutional arrangements is greater with the involvement of the provincial departments of transport (PDOTs).

Road traffic is mainly concentrated on national roads and around the major urban centers. Even though vehicle ownership is rising very quickly, car ownership is still low and road traffic is dominated by motorcycles. Rising levels of motorization is a major challenge to transport planners and policy-makers, especially in large urban areas and primary intercity roads. The number of traffic accidents reported has been increasing sharply throughout the 1990s. In the past ten years reported fatalities have increased from 2,755 in 1992 to about 13,000 in 2002 although it is thought that there is significant under reporting in these numbers.

Inland Waterways. Vietnam has rivers with a total length of 41,900 km, of which 8,013 km are used for inland water transport, including 6,231 km managed by the central government through Vietnam Inland Waterways Administration (VIWA) and 1,782 km by local governments. Due to favorable geographical conditions, inland waterway transport has played an important role, especially for freight transport. In the north the Red (Hong) and Thai Binh rivers are two large natural river systems, while in the south the Mekong and Dong Nai rivers conform a remarkable waterway transport network.

Major constraints on development of inland waterways include weak waterway management, poor data on existing conditions of waterways and facilities, inadequate maintenance dredging and navigational aids to allow safe 24 hour operation of efficient, large vessels, and poor ports facilities and services.

Significant transport services are provided by state operators in the north (usually large vessels with capacity of between 100 and 400 tonnes). Private operators predominate in the south (usually using small vessels of less than 100 tonnes). Inland water services have increased and improved significantly partly due to increased private sector investment.

Ports. Vietnam's ports are under MOT's jurisdiction through the Vietnam National Maritime Bureau (VINAMARINE). Few ports (Nghe Tinh, Quy Nhon and Nha Trang) are managed directly by VINEMARINE, while most of the ports are owned and operated by the state sector. These include the ports (Haiphong, Saigon, Danang and Can Tho) managed by the Vietnam National Shipping Lines, and other SOEs of local governments and ministries, other than the MOT. The main gateway ports suffer from shallow water depth, inadequate infrastructure and cargo handling equipment. In spite of these constraints, cargo traffic has been constantly increasing, and port productivity increased by over 50% between 1995 and 2000.

Productivity is hampered by the port conditions, but progress is being made. Port fees have been reduced and are now competitive with those of neighboring countries, custom services have improved and paper work reduced, IT systems are being introduced. The main constraint, in HCMC is now on the land side due to road congestion and prohibition of trucks through the city during daylight hours, thus increasing operating costs.

Ocean freight costs to and from Vietnam are high because traffic volumes are still relatively low and transshipment in hub ports (Singapore and Hong Kong) is needed because ports are estuarine with low depth and need for dredging of channels. MoT will continue port development in the Northern and Southern economic zones, including Cai Lan and Cai Mep, to provide access to larger ships.

Ocean and coastal shipping. Shipping services are provided by different types of Vietnamese operators such as state-owned operators, local government-owned operators, joint venture operators, and private operators.

Vietnam has a total of 1.1 million DWT (Dead Weight Tonnage) of cargo vessels, of which 80% are mainly for ocean-going and the rest for domestic coastal shipping. The average vessel size for the former is 7,500 DTW and for the latter, 600 DWT.

About ten of these Vietnamese shipping companies provide international services, competing with about 25 foreign shipping operators. In container shipping, Vietnamese seaports are currently linked with Asian hub ports through regional feeder routes. In 1999, there were 26 feeder container ships per week from Vietnamese seaports of which about 50% came from HCMC. Vietnamese shipping companies carry only about 21% of the total foreign trade due to stiff competition from foreign operators.

Domestic shipping is composed of sea-cum-river shipping and coastal shipping, carrying mainly agricultural, mining and industrial products. Container traffic for coastal shipping is gradually becoming more significant.

The performance of ports and shipping are related. The small capacity and low efficiency of ports discourage shipping operators from assigning modern vessels to routes serving these ports.

Railways transport. Railways operate over a 2,600 km route, comprising seven main lines and several branch lines. The network is all of single track, mainly with 1,000 mm gauge, but also with some 1,435 mm gauge and dual-gauge sections. In the 1990s, the former Ministry of Railways was reorganized into a series of SOEs including 3 regional operating companies, 20 enterprises for infrastructure and a number of industrial SOEs covering repair and construction of rolling stock, tourism services, cargo services and education, including a junior college and a railway technical school. In 2003, the sub-sector was reorganized again into a Railway Authority in charge of policy, regulation and safety matters and Vietnam Railway Corporation (VR) in charge of rail operations. VR now consists of 3 rail transport companies, two for freight and one for passengers and a number of financially independent SOEs, which will gradually become joint stock companies. Government is responsible for financing VR's infrastructure, and collects 10% of VR's operating revenue for use of the infrastructure. The railway has about 41,600 staff but their productivity is low compared with other countries in the region.

In 2000, VR operated 65 passenger trains and 91 freight trains daily. It had 377 locomotives (337 diesel), 887 passenger cars and 4,455 freight cars. Rail traffic volumes of both passenger and goods have been gradually increasing. Passenger traffic density is high on the Hanoi-Saigon and Hanoi Haiphong lines. In terms of freight transport, the railway carries mainly bulky cargoes such as ore, cement and fertilizer. Cargo traffic density is high on the Hanoi-Lao Cai line. VR transported 9.7 million passengers (3.1 billion passenger-km) and 6.2 million tones (1.9 billion tonne-km) in 2000. Track, tunnels, bridges, signals, stations, depots, workshops, and rolling stock are generally in poor condition, often obsolete, and utilization is very low. Nevertheless,

VR is relatively well operated technically and between 1999 and 2003 saw revenues increase 15% per annum..

Air transport. The Civil Aviation Administration of Vietnam (CAAV) handles civil aviation and is under direct authority of the government. There are 135 airports/airstrips for civil, military and police use in the country. The CAAV is responsible for 18 airports and air navigation services. The airports in the north, central and south handled 1.7 million, 0.8 million and 3.1 million passengers in 1998, respectively, which have been increasing rapidly to 2.5 million, 1.2 million and 5.1 million in 2002, respectively.

Air traffic grew sharply during the 1990s until the region was hit by subsequent financial and economic crisis. The volume of air passenger in 1998 was 2.3 million international and 3.3 million domestic passengers. In 2002, the HCMC and Hanoi airports (Tan Son Nhat and Noi Bai) reached a total of 8 million commercial passengers, of which 4.2 million were international and 3.8 domestic. In 1998, approximately 60,000 and 47,000 ton of air freight were carried by international and domestic flights respectively. In 2002, both international airports handled a total of 190,000 tons (including 2,000 tons of mail), 110,000 tons of international freight and 78,000 domestic freight. As the economy further diversifies and international regional linkages are strengthened, the demand is expected to increase sharply.

International airfares are proposed by the airlines and ratified by CAAV. There are two different domestic airfares: one is applicable to foreign citizens and overseas Vietnamese and other is for local Vietnamese. The maximum airfare to Vietnamese passengers on domestic flights between Hanoi and HCMC is decided by CAAV and the Government Pricing Committee and approved by the Prime Minister.

Two airlines, both members of Vietnam Airlines Corporation (VAC), operate in the country. The dominant one is Vietnam Airlines, which accounts for 37% of international traffic to and from Vietnam and 94% of the domestic demand. The other significant operator is Pacific Airlines operates mainly between Hanoi and HCMC. It was established in 1995 and is jointly owned by VAC and several other companies.

Urban Transport. Large urban areas, particularly Hanoi and HCMC, have been experiencing worsening urban transport problems. HCMC is estimated to have nearly 7 million and an average annual growth of 2.37% during the 1989-99 period while the population of Hanoi is estimated in 3 million and a growth rate of 2.22 %. Both cities have ambitious plans to build ring and radial systems to increase road availability, but the complex institutional arrangements for land use planning in the major cities delays all these processes.

While implementation of policy for urban transport is a matter for the cities, the central government retains great influence as the approving authority for large investment plans and major investments. The central government as well as city governments, have started to implement various urgent measures, such as road and bus service improvements, traffic management, and safety campaigns. Urban transport problems in secondary cities such as Danang and Haiphong are also becoming policy concerns.

Vehicular movement in the large and medium sized cities is dominated by two wheelers. In 2001, there were only 100,000 four wheelers in Hanoi compared with 1.5 – 1.6 million motorcycles and a rather smaller number of bicycles. Motorcycles account for about 60% of the traffic in the major conurbations and bicycles about 30%.

Rural Transport. Most passengers and goods in rural areas move by road, mainly by bicycle (owned by nearly three quarters of households) or motorcycle, though slow moving and cheap locally produced light trucks known as Cong Nongs are used for heavier loads of 2-4 tons. The fleet of these vehicles is growing rapidly. Transport services within the provinces are dominated by small-scale private sector services, though some highly unprofitable services are provided at controlled rates by SOEs in remote areas. In the Mekong and Red river deltas, local movement use also inland waterways.

Logistics. Seamless transport services at reasonable cost to make the transport sector more competitive has become an increasingly critical objective, both for international and inter-provincial transport of goods. The multimodal transport concept is being recognized as important in Vietnam, but services are still very much constrained due to various physical and non-physical factors. Consequently, there is lack of guaranteed scheduled services on trunk modes such as coastal shipping and railways, which allow predictable delivery times of shipments, inadequate user information systems which can offer information about the whereabouts of the customer's cargoes at any particular time, and inadequate customs facilities and services that allow efficient handling of goods at ports.

2. MAIN ISSUES

Vietnam's transport infrastructure and services are still weak and there are a number of areas that need immediate attention as summarized below.

Roads

- Despite earlier investments in the strategic highway network, further improvement and rehabilitation of key road sections are essential to increase its quality, capacity, and connectivity with the secondary and tertiary networks. Many secondary roads are in poor condition because of the lack of maintenance systems, while many tertiary and rural roads effectively only exist on the map, or are just narrow tracks.
- Insufficient funds are allocated to maintenance, there is weak monitoring of fund allocation and no reliable basis for forecasting future funds. Despite the various technical assistance programs to address major issues on road maintenance, stable maintenance system is yet to be established. The priority for available funds has been given to emergency and routine maintenance works, while under-funding of periodic maintenance.
- Maintenance is implemented primarily through SOEs. The focus of MOT's SOE reform has so far been limited to the equitization of the smaller enterprises but they have plans to equitise some of the SOEs involved in highway maintenance.
- Weak infrastructure management and lack of capacity for planning, guiding, controlling, and monitoring infrastructure is particularly evident at the provincial level, which is further complicated by cumbersome decision-making processes. The fragmentation of responsibility for roads generates confusion with regard to road planning, inefficient allocation of funding; inconsistent technical standards, and limited access to off-budget finance.
- Land use and land acquisition for infrastructure development is getting more difficult as land prices increase and there is insufficient enforcement over encroachment. The provision of resettlement areas, and environmental procedures currently in practice need substantial improvements.
- Road safety is a well identified and documented problem for which a concrete program of cross sectoral improvements has been defined, but implementation is seriously lacking. Road accidents are caused by: road users that do not comply with traffic rules, weak enforcement of traffic regulations, inadequate management of vehicle inspection, driver licensing and training, and by rapid growth of motor vehicles, particularly motorcycles and insufficient and inadequate road infrastructure.

Inland waterways

- There is no inland water act and implementing regulations and there is no clear division of responsibility for management between VINAMARINE and VIWA. There is only a provisional decree defining the organization of VIWA, and many gaps in definitions and procedures for waterways management.
- The inadequate dredging and navigational aids of inland waterways seriously constrains the 24 hour use of large vessels.

- Inland waterway ports are generally small, in poor condition, and provide poor services. There are very few ports equipped with proper loading and unloading facilities. Most loading and unloading is undertaken on the river bank. The capacity of the warehouses is insufficient, facilities are mostly outdated and incomplete. Most small ports are poorly connected to the national transportation system.
- The inland waterways major traffic is handled mostly by SOE, or recently equitised operators under long-term contracts which have not been awarded competitively, and their overall performance low
- The management of waterways infrastructure is weak, it needs to strengthen its capacity in planning, guidance, control and monitoring. Current statistics are considered unreliable due to unclear methodology in collecting and compiling data.
- The financing source for improvement and rehabilitation of existing infrastructure is not sustainable. Additional financing is required for maintenance and the levels of finance are not predictable.

Ports and ocean shipping

- The legal framework is incomplete. VINAMARINE has insufficient planning authority. The regulations defining ship inspections and handling compensation claims for oil spills need substantive improvement. Virtually no regulations or guidelines exist for infrastructure maintenance, and infrastructure management is inadequate.
- The competition in coastal shipping is limited as most traffic is carried by the members of VINALINES. Vietnamese ship managers lack the experience to compete with foreign operators.
- Ocean port services are inadequate, ships spend excessive times in ports, and often cargo is lost or damaged. Port charges are not directly related to costs incurred for port services. Lack of modern equipment and more efficient handling methods result in long times loading and unloading.
- Most of the shipping fleet is obsolete and in poor condition and cannot operate efficiently. Inadequate dredging, and draft limitations restrict the size of vessel and times of sailings deterring investment in modern vessels.

Railways

- The railway company does not have a market orientation, it is mainly driven by production concerns, and is not successful in finding new markets. With much equipment unserviceable the levels of utilization of assets, the track and overall staff productivity is low.
- There is a huge backlog of infrastructure maintenance as the funds available have been used just to sustain operations in the short-term. Past neglect increased the resources to repair tracks, bridges and tunnels and most of the track needs replacing or major rehabilitation.
- In the absence of modern business tools, the management cannot assess the costs and revenues of carrying particular traffic, introduce new arrangements for utilizing assets, or forecast the financial effects of alternative business strategies.
- The financial and performance agreements between railway and government are inadequate. The infrastructure payment is not directly related to variable maintenance costs or cost variations on different railway lines. There is no long-term agreements on investment, subsidy or operating and financial performance.

Air transport

- Since most airports in Vietnam were constructed more than 20 to 30 years ago, the facilities in the airports have deteriorated and become outdated. Airside pavement, runway, passenger

terminal buildings, and cargo-handling facilities are now facing a capacity problem. Insufficient capacity and inadequate design of passenger terminals constrain service levels.

- Regulatory and commercial activities have not been separated within the airport authorities. The competition among airline operators is limited, since they are part of VAC, while there is no competition in supply of support services in airports.
- Weak planning capacity and coordination procedures, in addition to weak infrastructure management and lack of commercial orientation, result in poor plans and excessive costs.
- Airport and air traffic management charges are not related to costs of infrastructure provision and there is no sustainable financing source for investments in the sector.

Urban transport

- The sharp increase in traffic demand using private transport, especially motorbikes, reduce the effects of various counter measures. The current situation requires strong policy commitment on effective management of motorbikes and cars, expansion of public transport services, citizen's awareness enhancement on traffic rules and safety, and more effective enforcement.
- A long-term strategy to improve the situation is needed, but institutional co-ordination is a problem. The respective roles of the Ministries of Transport and Construction are not always clear, nor its relation with the local authorities. There is not enough financial and fiscal planning associated with the land use plan for the growth of infrastructure.
- The mix of two and four wheelers with non-motorized vehicles in the major cities generate congestion problems and has substantially increased the frequency of road accidents. This situation will get worse as four-wheeler ownership increases with income and with the increasing traffic flows.
- Though reliable, high-frequency bus routes have been implemented, speeds remain low, and the network remains congested. The increase in ridership has resulted in an increasingly burdensome operational subsidy.

Rural Transport

- Major efforts have been made in rural transport and significant progress in providing basic road access to all communities. Despite these efforts many provinces still have important transport links that are impassable during the rainy season, and a road network in need of substantial further investment to link the rural and national road systems.
- Substantial differences in costs of rural road construction and maintenance among regions result in significant spatial differences in the financial burden of roads, with the highland and Mekong Delta areas being the most expensive to serve, putting a much higher burden on the incomes of the poor than of the relatively richer areas.
- There has been a big push to increase the emphasis on maintenance in provinces, particularly at lower levels of the network (commune and district roads) where most roads are in poor condition. Communes often provide "labor days" for routine maintenance tasks, but periodic maintenance is often under-funded. Provinces need to divert some resources from new construction to maintenance.
- The central government is poorly informed of the current condition of the rural transport network as the actual expenditures on rural transport are determined by the provinces and districts. The existing arrangements for providing technical support to lower tiers of government on rural transport issues are inadequate.

3. MAIN POLICY RECOMMENDATIONS

Despite the dramatic increases in infrastructure services over the 1990's, which have contributed to the country's rapid growth, international trade, and poverty reduction; compared with other countries in the region, Vietnam still lags behind in terms of transport indicators. If the Government is to improve the efficiency of the transport sector, it should consider adopting the following policies.

- Articulate the current transport programs and projects and maximize its contribution in supporting growth and poverty reduction. Develop transport infrastructure to serve national and international markets. Create strategic capacity, remove bottlenecks within economic nodes (i.e. ports and urban centers) and regions and build an integrated multi-modal network.
- Prioritize the ambitious government's transport investment plan for the short and medium terms. Identify and fund a core high priority program that is clearly affordable and realistic. Establish a clear link between long-term physical planning and short-term budget allocation, and approve realistic plans according to the resources available. Improve the planning capacity of the provinces by developing provincial strategies and policies, and translate them into provincial transport plans.
- Diversify the financing sources for investments and establish a user-supported resource mobilization framework. Develop a sustainable infrastructure maintenance system and mobilize domestic credit resources. Seek private participation as an alternative source of financing to mobilize foreign direct investment.
- Continue the equitization and commercialization plans for SOEs under the responsibility of the Ministry of Transport. Reduce substantially the SOE's intervention in the provision of transport infrastructure and services. Improve the transport sector governance and implement the regulatory reforms in service provision to promote competition and efficiency in the sector.
- Support the emerging private sector at the local level, further develop its capacity in the construction and maintenance of transport infrastructure, and in the provision of passenger and freight transport services. Enhance cost recovery, create level playing field for private participation, and strengthen the decentralization process and human resource development.

Roads

- Further develop the strategic highway network, and rehabilitate key road sections which are essential to increase its quality, capacity, and connectivity with the secondary and tertiary networks.
- Develop the road network based on sustainable road maintenance system and adequate financing mechanisms. Increase and stabilize road maintenance funding. Develop efficient pavement maintenance management system.
- Reduce the heavy dependence on international donors to finance large road investments. Gradually decrease the need for external support for periodic maintenance. Improve the management of the road sector and develop a stronger commitment to routine maintenance.
- Continue the SOE reform with the equitization of the medium-size enterprises, and include those large SOEs involved in highway maintenance.
- Improve the performance of the local construction industry, develop business skills in the transport industry and apply new efficiency enhancing technologies.

Ports and Waterways

- Improve major waterways (Mekong River and Red River) to facilitate trade not only for Vietnam, but also for neighboring countries (Cambodia, China, Lao and Thailand) to achieve regional growth.

- Pursue the concessioning of terminal operations or equitization of existing facilities.
- Further explore opportunities for attracting and tapping foreign investment in modern port facilities and in the provision of port services. Invite the private sector to develop new facilities only after full capacity of existing facilities has materialized.
- Decentralize and deregulate port tariffs to encourage competition and eliminate cross-subsidization. Introduce new management systems to increase revenue collection and to obtain and register accurate data on traffic volumes.

Railways

- Promote a market orientation to increase the level of utilization of assets and the overall staff productivity. Introduce modern business tools to forecast the financial effects of alternative business strategies.
- Introduce long-term agreements between railway and government on investment, subsidy and financial performance.
- Continue with the unbundling process, separate non-integral services from core operations and equitize non-core assets, such as hotels and rolling stock manufacturing.???

Air Transport

- Gradually expand and improve the runways and selectively increase the capacity of taxiways, aprons, and terminal buildings according to the growing demand for air transport.
- Consider concessioning terminal operations and/or airside services, and conclude pending transactions of key airports. Allow private operators to manage and invest in existing terminals and runways at publicly owned airports under a lease or concession agreements.
- Introduce new air traffic management systems, and higher technical and environmental standards to comply with international agreements.

Urban Transport

- In the large cities, in addition to improving traffic management, emphasize the need for increased road capacity and for developing an effective public transport service.
- In the medium-size cities, given the little prospect for public transport, emphasize the need for better traffic management and road maintenance as the core of the strategy.
- Provide operational priority to buses in the network, promote a sustainable growth of the bus service and introduce alternative sources of supply for service.
- Aim at substantially reducing the frequency of road accidents through increased citizen's awareness on safety measures, improved management of motorbikes and cars, expansion of public transport services, and more effective enforcement on traffic rules.

Rural transport

- Redistribute the investment among the regions, by giving greater priority and raising the share of the budget allocated to rural transport. Focus on providing basic motor vehicle access roads to poor rural communities.
- Develop and improve –not only infrastructure– but also transport infrastructure services for those living in remote and rural areas.
- Reduce the local financial burden on poorer areas, by requiring lower levels of contributions –in the form of labor and materials– than in the relatively wealthier areas.
- Continue supporting the decentralization process, improve the consultation with communities to identify priority routes, and increase the transparency on all operations.

4. BANK AND OTHER DONOR ACTIVITIES

There is a large and committed donor community in the transport sector in Vietnam. The donors that provide the largest share of financial resources are the World Bank, the Asian Development Bank and Japan. Other active donors include Australia, Canada, France, Germany, the Netherlands, and the United Kingdom.

Most of the funding has been concentrated in investments and technical assistance for highways and much lower levels of financial support for the other transport modes. About 90% of the commitments from the largest donors were used for construction, rehabilitation and maintenance of road and bridges and the remaining for railways, waterways, ports and airports.

After IDA lending for Vietnam resumed in FY94, Vietnam has become the largest IDA-only borrower. As of April 2004, the Bank has approved eight projects for US\$964 million and has four projects in the pipeline for US\$460 million.

Three projects have been closed and there are five under implementation covering a wide range of modes. They include highways, inland waterways and ports, urban transport, rural transport and a multimodal operation.

- The recently approved Road Network Improvement project addresses several of the key problems set out above. Its development objective is to improve the national road network through increased preventive maintenance and selective upgrading, and an increase in the level of resources available for road maintenance. It also includes strengthening the institutional capacity for planning, budgeting, and monitoring of road assets.
- The Mekong Transport and Flood Protection project will upgrade Vietnam's transportation backbone (Highway 1) and increase the efficiency of the surface transportation system in the Mekong Delta. It will also improve access to rural areas by connecting them to the main trade and movement corridors, and ensure access to regular flood-prone areas.
- The Second Rural Transport project will improve the access of rural communities in the project provinces to markets, off-farm economic opportunities, and social services. It will develop central, provincial and local capacity to improve and sustain the level of service of the rural transport network, and will foster the development of small-scale private contractors.
- The overall objective of the Urban Transport project is to increase operational efficiency and safety on selected corridors and in the central areas of Hanoi and HCMC. It will introduce a package of traffic engineering and management measures to improve traffic flows. This involves redesigning junctions, providing new traffic signals and controls, segregating two- and four-wheeled traffic, and improving facilities for pedestrians. In addition, transport and urban public works services and traffic police departments in both cities will be strengthened in areas of traffic management and enforcement with training and necessary equipment.
- The Inland Waterways project's objective is to enhance the capacity, efficiency and safety of the two main inland waterways that connect the Mekong Delta with HCMC. It includes the rehabilitation and improvement of the port in Can Tho to improve the efficiency of cargo transshipment and distribution, as well as an institutional development component to help the institutions to better plan, administer, operate and maintain inland waterways.

THE WORLD BANK'S TRANSPORT SECTOR PORTFOLIO IN VIETNAM

Date: As of April - 2004

#	PROJECT NAME	SUB-SECTOR	LOAN/CREDIT AMOUNT (1)	STATUS	APPROVAL DATE (2)
1	Highway Rehabilitation Project	Highways	159	Closed	Oct-93
2	Rural Transport Project	Rural Transport	55	Closed	Dec-96
3	Second Highway Rehabilitation Project	Highways	196	Closed	Apr-97
3 Closed Projects		Sub-Total	409	29%	
4	Inland Waterways and Port Rehabilitation	IWW & Ports	73	Active	Nov-97
5	Urban Transport Improvement Project	Urban Transport	43	Active	Aug-98
6	Second Rural Transport Project	Rural Transport	104	Active	Dec-99
7	Mekong Transport and Flood Protection Project	Highways	110	Active	Dec-00
8	Road Network Improvement Project	Highways	225	Active	Dec-03
5 Active Projects		Sub-Total	555	39%	
9	Road Safety Project	Highways	25	Pipeline	Sep-04
10	Third Rural Transport Project	Rural Transport	100	Pipeline	Jun-05
11	Mekong Transport Infrastructure Development Project	Multimodal (3)	200	Pipeline	Mar-06
12	Hanoi Urban Transport Project	Urban Transport	135	Pipeline	Jun-06
4 Pipeline Projects		Sub-Total	460	32%	
TOTAL for 12 Projects			1,424		

(1) Amounts in million US Dollars

(2) Approval Dates for Pipeline projects are latest estimates.

(3) Multimodal includes primarily Highways and Waterways

5. STATUS OF BANK DIALOGUE

It is important that the Bank continue to maintain and strengthen its dialogue with the government in those areas where continuing needs are perceived. The most critical areas include the following.

- Provision of sustainable transport services. Regulatory reforms in service provision (trucks, buses, railways, inland waterways and air transport), SOE reforms including equitization and commercialization, business skill development in the transport industry and application of new efficiency enhancing technologies.
- Provision of sustainable transport infrastructure to serve national and international markets. Create strategic capacity and remove bottlenecks within economic nodes (i.e., urban centers) and regions and build an integrated multi-modal network. Logistic reform, modernization of custom and commercialization of transport service industries.
- Improve Vietnam's major waterways transportation, Mekong River and Red River Waterways for trade facilitation not only for Vietnam, but also for neighboring countries, Cambodia, China, Lao and Thailand, to achieve regional growth.
- Establishment of a sustainable and user supported resource mobilization framework. This would include discussion of means of developing a sustainable infrastructure maintenance system, mobilizing domestic credit resources, and gradually decreasing the need for external assistance support for periodic maintenance.
- Improving sector governance and regulation. Enhance cost recovery, create level playing field for private participation, improve safety and environment regulations and enforcement, strengthen sector management and administration through decentralization, separation of commercial SOEs and human resource development, and improve performance of construction industry.
- Assessment of the progress achieved by Vietnam Railways, toward the reforms promised at the Asian Railway Roundtable sponsored by the Bank in September, 1999.

Interlocutors at the Central, Provincial and local Levels

- Ministry of Transport (MOT)
- Vietnam Road Administration (VRA)
- Vietnam Inland Waterways Administration (VIWA)
- Project Management Unit 1 (PMU 1)
- Project Management Unit 18 (PMU 18)
- Peoples Committees (PCs) of Hanoi and Ho Chi Minh (HCMC) City

6. SELECTED REFERENCES AND BANK'S TRANSPORT SECTOR TEAM

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