

**PEOPLE'S COMMITTEE
OF HO CHI MINH CITY**

DEPARTMENT OF
PLANNING AND INVESTMENT

SOCIALIST REPUBLIC OF VIETNAM
Freedom – Independence - Happiness

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REPORT

**On utilization of Ho Chi Minh City's budget and directions to mobilize PPP
resources to invest in infrastructure development of the City**

I. Estimated usage of investment funds of the City during the 2016-2020 period:

It is estimated that to facilitate the City's economic development rate of 8% - 8.5% annually, the City needs a total amount of investment fund VND 1,829,385 billion (with an average annual growth rate of 8.4%) which increases by 53.3% compared to that of the 2011-2015 period. Of which:

** In terms of sources of funds:*

(1) Investment funds from the public sector is projected to be VND 376,221 billion (about USD 16.21 billion), with an average annual growth rate of 9.3%, accounting for 20.6% of the total investment funds of the City. Investment funds from state budget accounts for 43.5% public sector's investment fund and 9% of the City's total investment funds and increases at annual rate of 9.1%.

(2) Investment funds from the non-state sector, mostly from enterprises, is estimated to be VND 1,120,598 billion (about USD 48 billion), accounting for 61.2% of the total investment funds of the City and growing at a rate of 8.2% annually.

(3) Investment funds from foreign sector (FDI) is projected to be VND 332,567 billion (about USD 14.3 billion), accounting for 18.2% of total investment funds of the City and increasing 8.4% annually.

*** Total investment funds of the City in 3 years 2016-2018.**

From 2016 to 2018, total investment funds of the City was about VND 1,111,486 billion, with an average growth rate of 8.4% per year and accounted for about 30% of the Gross regional domestic product (GRDP) of the City. In particular:

(1) Investment funds from non-state sector: mostly from enterprises, was about VND 730,679 billion, accounting for 65.7% of the City total investment funds

(2) Foreign investment (FDI): was about VND 184,371 billion, accounting for 16.6% of the City total investment funds.

(3) Investment capital from the public sector: was about VND196,434 billion, accounting for 17.7% of the City total investment funds; in which the total investment fund from the State budget was VND82,438 billion, accounting for 7.4% of the City total investment funds.

II. Mobilization of funds for development investment of the City

To complete the City's 5-year socio-economic development plan (2016-2020), the total investment capital demand from the budget from 2016 to 2020 is VND 326,556 billion (about USD 14.04 billion). Meanwhile, the State budget can only accommodate VND 171,895.758 billion (about USD 7.41 billion) which is 52% of investment demand. Of which: Central budget capital is 21,895.758 billion VND (the central budget supplementary target is 8,487.764 billion VND, allocated central budget ODA is VND13,407.994 billion); The city's budget capital is VND150,000 billion (including 10% of the contingency plan of VND15,000 billion).

During the 2016-2018 period, in addition to the City's earned budget revenues in line with budget decentralization, the City focused on mobilizing funds in various forms and implemented many solutions to create resources for development investment, specially:

2.1. Issuance of municipal bonds:

During the 2016-2018 period, for the first time in its bond issuing history, the City successfully sold the whole issuance of municipal bonds worth of VND 5,800 billion with maturities of 15, 20, and 30 years.

2.2. On-lending of foreign loans from the government (ODA and concessional loans from foreign donors)

During the past years, ODA and concessional loans from foreign donors have contributed to infrastructure development, urban rehabilitation, sewage treatment and environment of the City. ODA projects have also supported the City in capacity building, transfer of modern science and technology, and advanced management experience.

Currently, the City has been monitoring the implementation and repayment of loans for 11 ODA projects. During the 2016-2018 period, the City has disbursed VND 8,950 billion (about USD 0.38 billion).

2.3. Revenues from buildings and land

To collect revenues from buildings and land, the City has implemented various measures, including: Revoke land in accordance to land use master plan and plans, creating "clean" land fund to auction for land use rights or bids for projects that use land; lease land with annual rent collection or one time rent payment for the whole renting period; create land fund for infrastructure and urban rehabilitation projects; disposition of state owned buildings and land. According to the statistics, total revenues from selling buildings and transferring land use rights, changing land use purpose since the implementation of Decision No. 09/2007/QĐ-TTg (now Decree No. 167/2017/NĐ-CP) to 2018 was VND 21,615.341 billion (about USD 0.93 billion).

2.4. Mobilization of other sources of funds for development investment:

Besides funds mobilized from municipal bond issuance, buildings and land, the City has implemented other investment methods for infrastructure development including investment using PPP method; investment resources mobilized from the society (Investment Stimulus Program); mobilization of loans to build public preschools; implementation of the drainage and flood protection program of Ho Chi Minh City etc.) These measures has helped to reduce the pressure on investment fund balance of the City.

2.5. Mobilization of PPP funding sources for development investment:

Since 2004 until now, there have been 23 projects that signed PPP agreements with total investment funds of VND 71,127 billion; of which 17 are transportation projects, 03 are technical infrastructure projects; 02 are environment projects and 01 is culture project.

Besides those, the City has implemented 130 projects (currently at investment preparing stages such as drafting and approving project proposals, drafting and approving feasibility study reports; auctioning to choose investors; negotiating and signing project agreements) with total investment funds estimated to be VND 380,947 billion.

III. Judgement:

Public investment in Vietnam in general, Ho Chi Minh City in particular is indispensable. It plays an important role in developing technical, economic and social infrastructure systems, creating a driving force development of the City. In terms of scale, in the period of 2016-2020, the total investment fund is expected to increase 1.5 times compared to the period of 2011-2015 (up from VND 1,192,983 billion to VND 1,829,385 billion) while the proportion of investment capital from the state budget on total investment fund in the period of 2016 - 2020 decreased compared to the period 2011-2015 (down from 9.2% to 8.9%).

Ho Chi Minh City is facing many challenges such as the need to build the infrastructures to support the growing population, higher living standards, the need for urbanization, rehabilitation of aged infrastructures and public services; while the availability of state capital is limited. How the City can utilize the City Budget to attract investment fund from non-state sector and foreign investors is a big challenge.

According to the data on the proportion of social investment capital, the city budget in recent years only plays the role of bait capital (to develop infrastructure to attract investment). With the total investment fund amounting to VND 1,829,385 billion, City budget accounts for only about 8% of the City's total investment fund.

While the state investment fund cannot increase because of objective factors, such as: the majority of the budget is spent on administrative expenditures, and the small remaining is allocated for investment; Government bond will lead to national

debt and so will the ODA loans; hence they are not sustainable development source. Therefore, the development and promotion of calling for investment in the form of public-private partnerships is an inevitable.

The implementation of PPP model will help the authorized state agencies learn the technological advancement, management experience of the private sector, especially foreign investors in order to contribute to develop public infrastructures and services. The role of the private sector in public-private partnerships is not only a matter of providing capital to public sector, it also help to create initiatives to solve a projects' problems, modern technical solutions, and effective management, operation of projects, improving operational efficiency and increasing the quality of public services

IV. Investment demand in line with Socio-Economic Development Plan (2016-2020) of the City

In order to implement the 5-year Socio-Economic Development Plan (2016-2020) of Ho Chi Minh City, the total investment funds needed from non-state budget (i.e social funding from PPP projects) is VND 154,571 billion (about USD 16.4 billion). In the period from the early 2000s to now, despite many efforts to mobilize investment resources, the actual ability to mobilize PPP capital of Ho Chi Minh City has always been in great shortage compared to the demand. Therefore, in order to promote the PPP model for Ho Chi Minh City in the upcoming time, the City needs to build solutions as the following orientations:

V. Directions and measures to mobilize PPP resources to invest in infrastructure development of Ho Chi Minh City:

To ensure the completion of the Socio-Economic Development Plan, the City must mobilize VND 154,571 billion from other sources such as PPP. State funds cannot be increased due to objective constraints, specifically: State budget is mainly spent for administrative agencies with the remaining small proportion used for development investment; government bonds will lead to national debt and cannot be issued continually, ODA borrowings will also increase national debt and is constrained by national financial security limit.

For the first stage from 2000 up to now, despite various efforts to mobilize investment resources, the mobilizing capacities of the City have always been lower than investment demand. Therefore, to enhance the implementation of PPP model for the City in the future, it needs to develop measures in line with the following directions and opinions:

+ PPP is a fair partner relationship among parties engaging in the agreement.

+ PPP is a long-term contract (20-30 years), with many potential risks in the future, thus needs a careful step-by-step method, sufficient investment funds, clear and stable policies.

+ PPP investors must have profits when making investments but at the same time, balancing the benefits between the State and the investors must be ensured.

+ PPP project implementation needs to be market-based, competitive, fair and transparent.

In the future, therefore, Ho Chi Minh City implements mechanisms and measures to mobilize investment funds, including the following main measures:

1. Improvement of the legal framework on management of PPP investments in the City:

The Government issued Decree No. 63/2018/NĐ-CP dated May 4, 2018 on investment in the form of public-private partnership. Accordingly, in order to increase the efficiency of public administration of its PPP projects, the City is drafting the regulation on PPP project management (including BT contracts) with the direction of increasing decentralization, delegation and accountability of competent state agencies responsible for project implementation, from calling for investments, deciding investment directions, mobilizing funds, appraising projects, choosing investors, monitoring project implementation, and operating the projects in line with the contracts and the law. In addition, there will be a detailed regulation on the coordination procedure and responsibilities of the Office of the City's People's Committee, related departments and agencies, time for document handling etc. so that investors and related departments and agencies can keep track of and monitor project implementation.

After the Government issues the regulation guiding Decree No. 63/2018/NĐ-CP on investment in the form of public-private partnership, the City will refine its regulation on investment management of PPP projects for immediate implementation.

2. Development of preferential investment mechanisms and policies

- The City will continue to research and reform Decision No. 39/2015/QD-UBND on the mechanism of exemption or reduction of land rent for socialized institutions with the intention to exempt institutions operating in education and training, vocational training, health care, sport, environment in order to ensure the implementation feasibility of their projects, increasing socialized funds.

- The City issues the time line for increasing sewage treatment fee (currently only equal to 10% of the clean water price), prices of health care services as well as tuition fees of schools built by PPP projects to make them market-based etc. and thus, improving their financial feasibility, attracting more investors. The Government will directly support beneficiaries of social welfare in line with the time line for increasing prices of public services; restructure public service providers, grant appropriate autonomy, improve administrative capacity and efficiency in terms of task execution, organization, human resource and finance.

3. Collection of revenues from state owned buildings and land to make state capital contributions in PPP projects:

Develop plans for disposition and management of state owned buildings and land in accordance with the Law on management and use of public properties, Decree No. 167/2017/NĐ-CP dated December 31, 2017 of the Government on disposition of public properties with the following direction:

- Organize auctions for state owned buildings and land to pay for PPP projects in the forms of Building - Transfer - Lease contracts (BTL contracts) or Build - Lease - Transfer contracts (BLT contracts).

- Review and develop mechanism for using land included in the List of factory areas approved by the 167 Steering Committee in order to pay for investors of PPP projects and public services in the form of Build - Transfer contracts (BT contracts)

- Review and list buildings and land managed by public service providers and organizations with financial autonomy that want to create partnership, joint ventures as the basis for considering and approving partnership, joint venture proposals as prescribed by Decree No. 151/2017/NĐ-CP dated December 26 by the Government on guiding the implementation of the Law on management and use public properties.

4. Develop a list of projects calling for investment in the form of PPPs, ensuring transparency throughout this process:

- Based on the mid-term public investment plan and other resources, the municipal government continues to review projects proposed to be switched from public investment to PPP, serving as a basis for investment attraction. Prioritize projects which can generate revenue from users. It is only when it is impossible to select investors via competitive bidding then budget investment will be considered.

- Promoting publicity and transparency of PPP projects by publishing the information on projects calling for investment, the process of selecting investors, selection results select Investors, Project contract information, etc (in both English and Vietnamese) regularly on the City's PPP website managed by Department of Planning and Investment (www.ppp.tphcm.gov.vn) and on National bidding network system.

- Taking advantage of technical assistance (non-refundable) of international donors (JICA, ADB, UK ...) to screen and develop a list of projects that can be implemented under PPP form. At the same time, supporting the City to carry out the pre-feasibility study report, feasibility study report, investor selection, contract negotiation, ...

5. Promote investment in the form of BTL/BLT:

Regarding the definition, Construction - Transfer - Service Lease Contract (hereinafter referred to as BTL contract) is a contract signed between a authorized state agency and an investor/a project enterprise to build the infrastructure; after completion of the project, the investor/the project enterprise shall transfer the infrastructure to the authorized state agency and be entitled to provide services on the basis of operating that project within a certain period; authorized state agencies hire the service and pay the investors/project enterprises.

BTL contracts can be used for projects that are unable to collect fees directly from end-users (such as drainage system, urban roads, buildings of state agencies, dykes...). In particular, investors will be responsible for construction, operation and maintenance; The authorized state agencies pay the investors an annual payment

within the term of the Contract. This payment is from public service revenue or city budget or combined.

At the same time, the city budget will be able to finance more public projects implemented under PPP form than under traditional public investment form because the City can stretch the payment schedule. Specifically, the payment term of a project in the form of BTL / BLT can be 20-30 years while under public procurement, the City has to pay the contractor in full when they complete constructing the project. Recently, the Ministry of Transport has sent a report to the Prime Minister on the pre-feasibility study of the Ho Chi Minh City highway construction project - Moc Bai in the form of public-private partnerships (BTL contract) with an estimated total investment of VND 10,688 billion.

6. Pilot a number of PPP projects:

In order to build and promote PPP investment environment in the city, in the coming time, the City will focus on completing the investment preparation procedures for one or two pioneering projects in the field of wastewater treatment and health and recover the capital expenditures from public service revenues; thereby replicating the model and calling for investment in similar projects.

7. Take advantage of ODA-PPP hybrid mechanism:

For some large-scale PPP projects (Xuyen Tam canal, etc.) with spreading impacts, there should be a mechanism to combine and prioritize the allocation of public investment capital; including state budget sources and possibly concessional loans from international organizations (JICA PSIF fund, ADB AP3F fund, etc.), to ensure viability of the financial plan.

The State's support will serve as the seed capital, demonstrating the State's political will to accompany the investors in preparing investment projects; the goal is to contribute to the successful implementation of a key PPP project, affirm their implementation capacity and enhance the interest of investors.