

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 135901
May 3, 2018

Operation Name	First Ho Chi Minh City Development Policy Operation
Region	EAST ASIA AND PACIFIC
Country	Vietnam
Sector	Governance (30%), Macroeconomics and Fiscal Management (20%), Social, Urban, Rural and Resilience (10%), Trade and Competitiveness (15%), Transport and ICT (15%), and Treasury (10%).
Operation ID	P160480
Lending Instrument	Development Policy Lending
Borrower(s)	THE SOCIALIST REPUBLIC OF VIET NAM
Implementing Agency	Ho Chi Minh City's People's Committee
Date PID Prepared	May 3, 2018
Estimated Date of Appraisal	May 18, 2018
Estimated Date of Board Approval	September 30, 2018
Decision Review Decision	Following the decision review, the decision was taken to proceed with the appraisal and negotiation of the operation.

I. Key development issues and rationale for Bank involvement

1. Despite significant achievements over the past years, challenges remain in HCMC. As the City emerges into an Asian “megacity”, its leaders are confronting a host of challenges common to large urban areas across the developing world. The City has adopted seven breakthrough programs aiming to (a) enhance quality of growth and economic competitiveness; (b) improve quality of human resources; (c) reform public administration systems; (d) develop and gentrify urban settlement; (e) reduce traffic congestion and accidents; (f) mitigate urban flooding; and (g) lower environment pollution. The City is also putting serious efforts to harness its expanding ICT infrastructure and create an effective digital government and open data driven innovation ecosystem, to serve its millions of citizens and businesses.

2. Effective policy and institutional reforms are considered foundational and essential prerequisite for delivering the programs. But 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. With slowing budget revenue growth and little revenue policy and administration autonomy, it will be key 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.

3. The policy program supported by this operation is designed to reinforce targeted institutional reform measures in six out of seven breakthrough programs. At the same time, it supports cross-cutting and underpinning digital transformation and fiscal governance reforms, which lay the foundations for more effective urban governance and service delivery.

II. Proposed Objective(s)

4. 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.

III. Preliminary Description

5. The proposed policy program currently includes 7 prior actions for DPO1 and 8 potential triggers for DPO2. The policy and institutional actions aim to: for pillar (i) – improve information sharing for integrated and evidence-based urban planning and management; and enhance transparency to inform commercial and residential construction permit applicants and make zoning more credible by allowing external scrutiny; for pillar (ii) – improve financial sustainability for the provision of wastewater, drainage and flood control services; consolidate and professionalize management of commercial housing assets as the basis for better revenue management; better coordinate debt management functions for both domestic and external borrowings; and for pillar (iii) – simplify procedures to legally start operating a business; and strengthen management capacity towards more efficient use of resources for and improved services quality of public transport. Prioritization of the policy actions supported by the program is based on the expected impact, ownership within the government, and feasibility of proposed measures within the indicative timeframe for the DPO series.

6. The policy program is underpinned by a comprehensive and deep policy engagement, technical assistance and analytical work. The program design takes into account political and technical feasibility, and implementation capacity. Both program and individual actions were designed to align with government priorities and ensure implementability. Individual prior actions were also calibrated to the specific context. Overall, this resulted in a pragmatic but substantive set of prior actions that could be effectively implemented and sustained through the operation.

7. The DPO builds on extensive experience and reviews of previous DPO series in Vietnam – including the Poverty Reduction Support Credit (PRSC), the Public Investment Reform (PIR), and the Economic Management and Competitiveness Credit (EMCC) DPOs – and of subnational DPOs in other countries, and lessons from the Retrospectives and Good Practice Notes for Development Policy Lending at both national and subnational levels.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

8. 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.

9. A number of proposed prior actions and triggers are distribution neutral, some with potential for positive welfare spillovers. Their implementation improves efficiency and transparency in the planning and fiscal management of the city, and simplifies business licensing procedures that should level the playing field for the private sector thereby encouraging private investment and stimulating job creation. Their benefits to the population are symmetrical.

10. Some of the other prior actions may have varying degrees of welfare impact. Appropriate mitigation measures will be proposed if the negative welfare impact is projected.

11. First, an increase in rentals from city owned commercial buildings and houses will increase operating costs for selected businesses, though 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. 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.

12. Second, the first order effects of the on-line disclosure of land-use and construction zoning plans has clear benefits to household building new homes, therefore have positive impact. But they have asymmetric and negative second order distribution effects, so the overall impact is yet to be determined. 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. The net welfare effect with 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. 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.

13. Third, with adequate mitigation measures, the proposed policy measures to improve the quality of public transportation services provided are expected to have a net positive welfare effect. The upcoming 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.

Environment Aspects

14. Policy actions supported by this DPO series are unlikely to cause significant negative or positive effects on HCMC's environment.

15. 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. In particular, implementation of the prior actions related to the smart city initiative, disclosure of land zoning plans, improvement in management of commercial housing assets, and integrated management of all modes of public transport would lead to better management of land use and zoning, which is crucial to avoid environmentally – and economically – costly urban sprawl; environmental saving from avoiding packing, transport, material production and reduction of physical space. The prior action on wastewater tariff would reduce water/air pollution, health risks and impacts of flooding, due to an increase of treated wastewater and improved water drainage services. The prior action on integrated management of all modes of public transport would reduce air pollutants, level of noise and acoustic contamination from vehicle sources. All these potential positive environmental effects are not likely to be significant.

16. Some anticipated environmental adverse effects are related to the operation, maintenance and disposal of ICT equipment (prior action on smart city initiative); 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 on wastewater tariff); and potential environmental issues due to speeding up of business start-up times and licensing procedures (prior action on business licensing procedures). Although the outcome of the screening exercise that these effects are not likely to be significant, there have been some recommended actions to avoid or reduce such effects.

V. Tentative financing¹

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	125
Borrower/Recipient	
Total	125

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