

A Firm Commitment to Water Delivery in Vietnam: A View from the Private Sector

Water supply outages and poor water quality are already impacting Vietnam's private sector. If left unaddressed, it will act as a drag on Vietnam's economic growth

A thriving private sector has been the engine of growth driving a dramatic economic transition over the past three decades in Vietnam. Vietnam's water resources have played an important role in this transition, not just for improving health and human capital, but also for powerful industry.

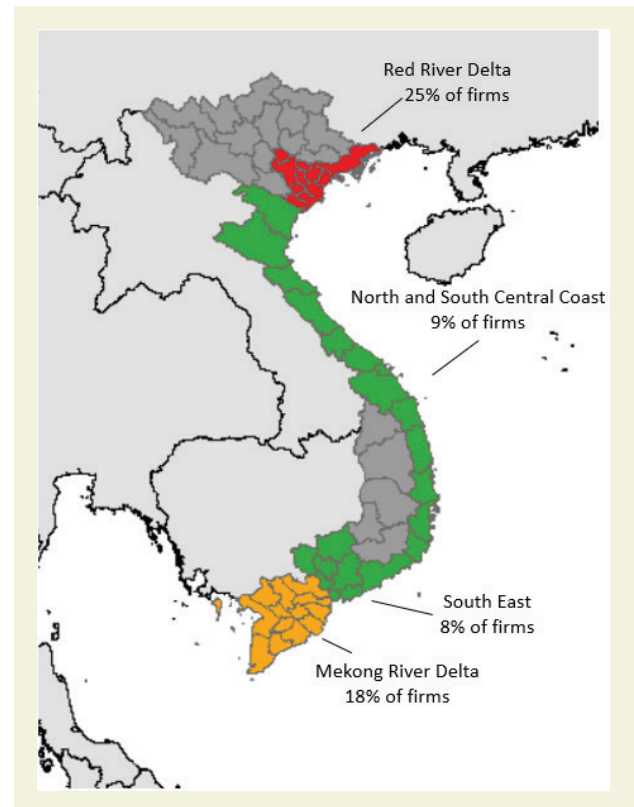
Water is a crucial input for most sectors of the economy and over 80 percent of firms in Vietnam rely on reliable and clean water supplies piped from water utilities. Well managed water utilities and water supplies are therefore crucial to continued economic growth in the country.

For most firms, water supplies are highly reliable with only 8 percent of firms experiencing water outages in the past year. Nevertheless, in some regions such as in the Mekong River Delta, this number can reach as high as 27 percent (see figure 1a). These outages can have big impacts, costing firms on average VND 104 million (4,459 USD) per year.¹

Many firms appear to have found ways to adapt to these water outages by investing in equipment. In the past 5 years, 12 percent of firms have purchased water related equipment (tanks, pumps, etc.), spending on

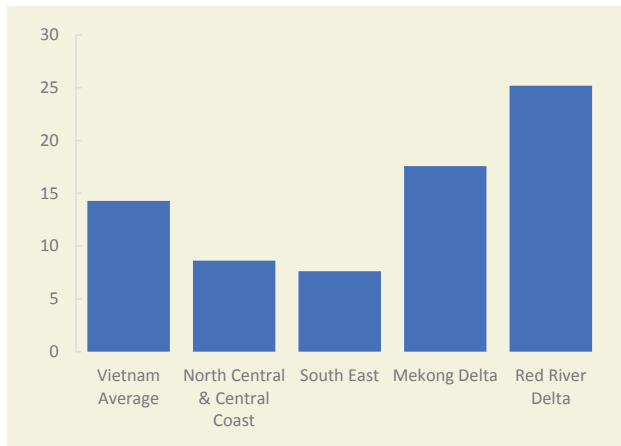
average VND 5 million (215 USD). Water outages have no impacts on the costs of these firms, implying these firms have successfully adapted to the unreliable water supplies.

FIGURE 1A: Percentage of firms experiencing water outages, by region



¹ Exchange rate of 1 USD = 23,323 VND used.

FIGURE 1B: Percentage of firms reporting water quality is a major or very severe obstacle to business operations



A more concerning issue than water reliability is poor water quality with 14 percent of firms reporting that poor water quality is a major or very severe obstacle to business. This is particularly problematic in the Red River Delta and Mekong Delta regions, where a confluence of over-extraction, industrial wastewater, pollution from agricultural runoff, and seawater intrusion are all leading to serious water pollution (see figure 1b). For some firms, poor water quality is impacting sales by up to nearly 50 percent.

Declining Water quality presents a major hurdle for Vietnam's businesses. Addressing this issue will require targeted investments, smarter incentives, and new innovations

Investments

Recommendation 1: You can't manage, what you don't measure. Currently, water quality monitoring is low and disjointed. Investments in the **collection and sharing of information are imperative**. A nationwide database would allow information to flow freely between all stakeholders and allow stakeholders to hold polluters accountable.

Recommendation 2: Greater investment in water supply are sorely needed in the Mekong River Delta. Current high levels of outages are hampering businesses development, and they will only increase further as salinity intrusion is exacerbated by reduced freshwater flows and sea level rise.

Recommendation 3: Investments in domestic wastewater collection, treatment, and reuse represent an

important business opportunity. The private sector can play a key role here if risks are reduced and fair investment returns are made possible, while regulations are put in place to allow for wastewater reuse.

Incentives

Recommendation 1: Enforcement is currently too low to incentivize industry to comply with environmental regulations. Given infrequent and plannable inspections, the cost of complying is often higher than expected penalties for non-compliance.

Recommendation 2: Information is a powerful tool to inform intra-provincial mechanisms for planning and investment. **Publishing and disseminating data on water quantity and quality can inform basin-wide plans and shine a spotlight on polluters**, empowering consumers to make more sustainable choices.

Recommendation 3: Businesses are often the victim of poor water quality, which affects their bottom line. Buy-in from businesses for increasing non-compliance and environmental protection fees for wastewater discharge could be achieved by **enforcing that the revenues from these fees will be earmarked for local use**, resulting in direct benefits to companies.

Innovation

Recommendation 1: The tariff structure for wastewater must be reviewed and revised to attract private-sector innovation. This can help generate competitive markets for wastewater treatment which companies can bid for.

Recommendation 2: Vietnam's policymakers should also learn from successful global examples like China's successful *Three Red Lines* policy for water resource management. **Pollution target levels set at the provincial and local levels can lead to better local accountability** and incentivize action and investment towards water pollution management.

Recommendation 3: Payment for Ecosystem Service (PES) Schemes can be useful tools for reducing non-point source pollution from farms. Vietnam has already successfully implemented such a scheme focused on mitigating climate change and protecting forest and biodiversity. **Similar PES schemes should be developed for protecting water resources.**