

Japan International Cooperation Agency (JICA)
Ministry of Transport, Socialist Republic of Vietnam (MOT)
Transport Development and Strategy Institute (TDSI)

**THE STUDY ON THE
NATIONAL TRANSPORT DEVELOPMENT STRATEGY
IN THE SOCIALIST REPUBLIC OF VIETNAM
(VITRANSS)**

**Technical Report No. 12
TRANSPORT SECTOR
FUNDING**

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PREFACE

During the period of the Study on the National Transport Development Strategy in Vietnam (VITRANSS), various technical papers have been prepared by different Study Team members in various occasions to facilitate the discussions with counterpart team, concerning subsector agencies and to document major findings and outputs produced in the process of the Study. These papers have been organized into a series of technical reports (See Table A below) which intend to provide more detailed background information for descriptions and discussions made on key study components and issues. These technical reports are working documents of the Study which, however, will be useful for further reference, by the counterpart team and related subsector agencies.

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No. 2	Main Commodities Analysis and Freight Transport
No. 3	Transport Cost and Pricing in Vietnam
No. 4	Transport Sector Institutions
No. 5	Road and Road Transport
No. 6	Railway
No. 7	Inland Waterway
No. 8	Port and Shipping
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No. 10	Rural Transport and Cross Border Transport
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Technical Report No. 12

TRANSPORT SECTOR FUNDING

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Glossary

BA	British Airways
BNR	British National Railway
BOT	Build-Operate-Transfer
BT	Build - Transfer
BTO	Build-Transfer -Operate
CAAV	Civil Aviation Administration of Vietnam
CPF	Counterpart Fund
DSF	Development Support Fund
EU	European Union
FILP	Fiscal Investment and Loan Program
GDP	Gross Domestic Product
GNP	Gross National Product
GOV	Government
JBIC	Japan Bank for International Cooperation
JNR	Japan National Railways
JR	Japan Railways
MOF	Ministry of Finance
MOT	Ministry of Transport
MOTAC	Ministry of Transport and Communications
MPI	Ministry of Planning and Investment
MRT	Mass Rapid Transit
ODA	Official Development Assistance
OECF	Overseas Economic Cooperation Fund
OOF	Other Official Flow
PFI	Private Sector Financing Initiative
PSB	Postal Savings Bank
PSC	Postal Savings Company
SA	Structural Adjustment
SOE	State-owned Enterprises
TEDI	Transport Engineering Design Incorporate
TMT	Telegraphic Money Transfer
VNA	Vietnam Airlines
VR	Vietnam Railways

1 BRIEF OVERVIEW OF TRANSPORT SECTOR FUNDING IN VIETNAM

Until 1990 budgetary allocations for transport infrastructure development was very minimal. However, from 1991, there has been a yearly increase in allocations. The rate of increase is very rapid - 1998 budget of VND 700 billion or US\$500 M, is seven times bigger than the 1991 year budget with an annual growth rate of more than 30%. This, though, does not mean sufficiency in budgetary allocation.

All the more, back logs caused by the long time continued neglect on rehabilitation maintenance and renewing of the existing transport infrastructures are also quite large and therefore improvement of them are not in smooth progress with all the effort of the country.

Transport sector investment in the year 1998 was VND 7,075 billion. Out of this amount, VND 6000 billion (approximately 85%) was provided for new construction and the remaining was for maintenance and rehabilitation. (See Table 1.1)

Table 1.1
 Transport Sector investment

(VND billion)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
New construction and improvement	540.6	752.6	1408.6	1889.9	3089.9	4286.7	4921.9	5645.2	6000.0
Maintenance and rehabilitation	200.0	220.0	294.1	458.8	577.0	749.0	870.4	959.3	1075.0
Total	740.6	972.6	1702.8	2348.3	3669.0	5025.7	5792.3	6604.5	7075.0

Out of the total development budget, 60% is from foreign fund (mostly ODA) while the remaining 40% is from government revenue. However, the government is obtaining funds from the private sector in the form of private borrowing or development bond issuance. The portion from genuine government revenue is considered to be very small.

Since 1994, ODA has increased significantly and this has been the basis of rapid increase in development budget in the succeeding years. Over reliance to ODA will pose a danger causing serious problems from the long-range viewpoint. Therefore, measures should be taken to increase genuine revenue for development budget. In 1998, out of VND 7,075 billion, VND 5,645 billion was foreign fund (mostly ODA). It means that 80% of development budget was from ODA. (See Table 1.2)

Table 1.2
 ODA Fund for Transport Sector Investment

	(VND billion)							
	1990	1991	1992	1993	1994	1996	1997	1998
Local government	329.8	455.4	851.5	991.2	1971.2	2262.0	2536.0	2959.8
MOT	210.8	297.2	557.1	898.3	1117.8	2014.7	2319.4	2685.4
Total	540.6	752.6	1408.6	1889.5	3089.9	4276.7	4855.4	5645.2
(%) to GNP		1.00	1.30	1.40	1.81	1.90	1.80	1.8

Among all the transport sector investment overwhelmingly large share has been provide for road. The share for road was app 83% and the amount was VND 4725 billion in the year 1997. The share for railway was only app 2%, VND 126 billion and port and waterway app 15% VND 796 billion. Since 1995 no fund has been allocated for airport. It means, all the fund is expected through PFI for the time being.

Table 1.1
 Transport Sector Investment

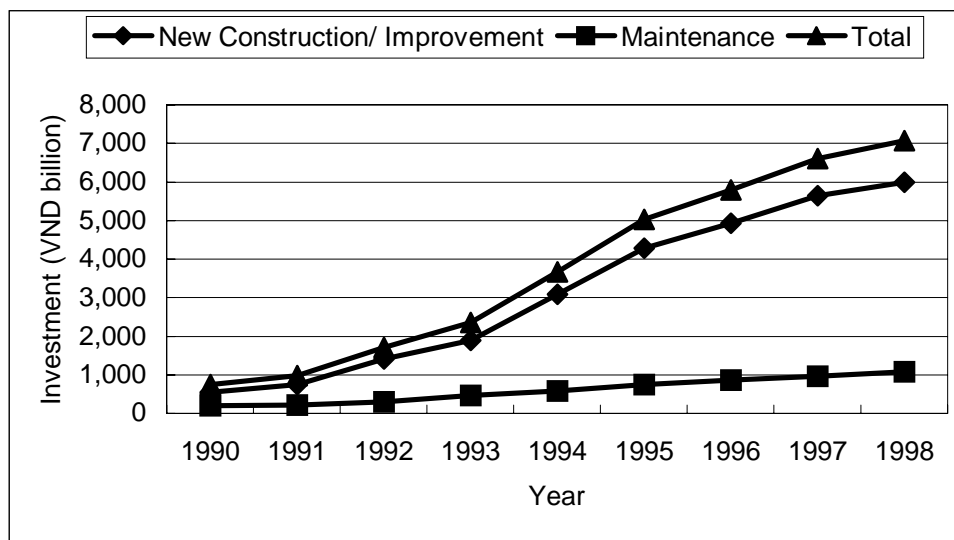


Table 1.3
 Transport Sector Investment Trend by Central Government 1991~1998

	(VND billion)						
Sector	1991	1992	1993	1994	1995	1996	1997
Total	752.6	1408.6	1889.5	3089.9	4276.7	4855.4	5645.2
Railway	117.6	131.9	79.1	219.9	227.8	137.8	125.8
Road	498.1	952.3	1692.1	2253.3	3859.2	4502.5	4725.2
Inland Waterway Transport	21.6	11.4	19.5	33.7	61.6	98.7	61.0
Sea transport	66.3	169.5	33.4	196.0	125.3	99.8	735.2
Airport	46.8	142.2	60.3	345.6			
Pipe line						16.7	

Table 1.4
 Central and Local Government Budget for Transport Infrastructure
 Maintenance and Rehabilitation

(VND billion)

Source	1991	1992	1993	1994	1995	1996	1997	1998
MOT budget	132.0	173.1	303.7	380.0	552.0	650.0	719.3	775.0
Railway	n.a	n.a	n.a	n.a	140.0	179.0	180.0	190.0
Road	122.0	159.6	285.7	350.0	412.0	450.0	479.3	515.0
Waterway	10.1	13.5	18.0	30.0	40.0	50.0	60.0	70.0
Local gov. Budget	88.0	121.0	155.0	197.0	197.0	220.4	240.0	300.0
Total of	220.0	294.1	458.8	577.0	749.0	870.4	953.3	1075.0

Compared with the central government budget, local government budget is even smaller. Due to an absence of reliable revenue for the budget, local budget is unstable. Only a few provinces have substantial amount of its genuine income, and the rest need central government budgetary support. In case of infrastructure investment, including transport infrastructure sector in most provinces, it is very difficult to implement it without support from the central government. In other countries, by shifting some income tax from the central government to the local government, the latter can initiate infrastructure building. However, in Vietnam, adoption of this method would lead to an extremely unbalanced distribution of infrastructure. If the local government is entitled to issue development bond, only very rich provinces will be able to do so and the unbalance will be further expanded. In the meantime, the present system should be maintained and should any changes be adopted careful attention should be given to this matter.

2. FUNDING SYSTEMS IN FOREIGN COUNTRIES

Prior to proposing a suitable funding system for Vietnam, several funding systems of other countries were analyzed. In this chapter, the Japanese systems are discussed. A comparative analysis is conducted on the responsible bodies for development and operation of transport facilities and on its fund sources of Japan, Korea and some European countries.

2.1. Funding System in Japan

1) Responsible Bodies

Transport facilities are developed and operated by a variety of organizations in Japan as shown in Table 2.1.1. Its characteristics can be summarized as follows:

A. Various types of organizations are involved, viz:

- National government
- Local government (s)
- Municipal corporation (independent budget of local government)
- Public corporation
- Third sector (joint venture of public and private sectors)
- Private company

B. Transport facilities are not regarded as public goods. The extent of recognition as public goods is different depending on the historical background of each transport facility.

C. Some transport services are provided independently from the development of transport facility (e.g. road transport vs. road, aviation vs. airport, shipping vs. port), while transport services and infrastructure development/ maintenance are managed in an integrated manner in some cases (e.g. most railways).

D. If transport services are provided separately from the infrastructure management, infrastructure is developed by the public sector as a social capital, and the services are offered by the private sector in the market mechanism.

E. The dominance of private transport gives a continuous pressure on transport businesses.

Table 2.1.1
 Transport Operating Bodies in Japan

Transport Facility	Type of Transport Service	Responsible Body
Railway	Urban high speed rail	Public corporation, Private company, Municipal corporation, 3 rd sector, JR
	Local railway	Public corporation, Private company, 3 rd sector, JR
	Intercity railway	Public corporation, Private company, JR
Airport	Main airport	Central government, Public corporation, 3 rd sector
	Other airport	Central government, Local government
	Commuter airport	Local government
	Heliport	Local government
	Air lane	Central government
	Terminal	Private company
Port	Main facilities	Central government, Local government, Public corporation, Private company
	Other facilities	Local government
	Preparation of port site	Local government
Road	National road	Central government, (Partly local government)
	Prefectural road	Prefecture government and city government
	City and village road	City and village government
	Intercity toll road	Public corporation, 3 rd sector
	Urban toll road	Public corporation
	Other toll road	Public corporation, City and village government
	Toll bridge	Prefecture, city and village government
Street	Street	Local government, Public corporation, 3 rd sector
	Kukakuseiri. Town redevelopment	Individual, Association, Local government, Public corporation
Monorail, GRT		Local government, 3 rd sector,

2) Fund for Transport Facility Development

Due to the diversified operating bodies and the different historical background of transport facilities, fund sources for developing transport infrastructure are also varied.

In general, the fund sources for investment are three-fold as shown in Table 2.1.2.

Table 2.1.2
 Fund Sources for Transport Facility Development

Responsible Body	Fund Source
Central government	General purpose tax. Special purpose tax. User fee. Postal saving. National insurance. Pension. National bond.
Local government	General purpose tax. Special purpose tax. Local bond
Transport enterprise	Revenue. Capital. Investment and loan by central and local government and private sector. Subsidy by central and local government.

A. Fund Source for Central Government

Fund sources for the national government are general budget, special-purpose budget and treasury investment and loan. The general budget is collected from various taxes, other non-tax revenues, national bond, etc. Special-purpose budget is established when the interrelation between payers and beneficiaries is clearly defined. Thus the sources of the special-purpose budget are taxes earmarked for specific purpose, tolls and charges of specific facilities, etc. The sources of the treasury investment and loan are postal savings, pension funds, national insurance funds, etc., and they are invested when the benefit of transport infrastructure development can be enjoyed by two or more generations.

(a) Fund Source for Local Government

In Japan, local finance can be divided into general account and municipal corporation account. The former comes from local taxes, subsidy from national government, local bonds, etc., while the latter is collected as revenues for services provided by local government, local bonds and transfers from the general account.

(b) Fund Source of Transport Enterprise

Excluding the case that national or local government directly operates transport services (but including the case that public organization establishes a separate account), the fund sources are fare revenue, capital (including those from national and local government), contribution from beneficiaries, government subsidy (including those for loan interest), loan, etc.

The final payers of these funds are summarized in Table 2.1.3.

Table 2.1.3
 Final Payers of Funds for Transport Facility Development

Enterprise	Financial resource	Final payer
Central government	General purpose tax	A nation
	Special purpose tax	Beneficiaries
	User fee	User
	Post office saving	Depositor
	National insurance. Pension	Subscriber
	National bond	Purchaser.
Local government	General purpose tax	Residents
	Special purpose tax	Beneficiaries
	Local bond	Purchaser
Transport enterprise	Revenue	User
	Capital	Investor
	Investment and subsidy by central and local government.	A nation. Residents
	Investment by private sector	Private sector
	Loan from central and local government and private sector.	User

3) Notable Examples

A. Special Account for Road Development

Development of roads in Japan has been accelerated by the Special Account for Road Development coupled with the Toll Road System. This account adopts two principles, i.e.; “Beneficiaries should pay” and “Damage should be compensated by damage makers”. Thus the tax revenues built in this account are earmarked for the specific purpose of road development.

(a) Revenue for the Special Account

The taxes for the national government are gasoline tax, oil and gas tax and vehicle weight tax. For local government, there are transfers from the national government of the above mentioned taxes, oil dealing tax and vehicle excise duty.

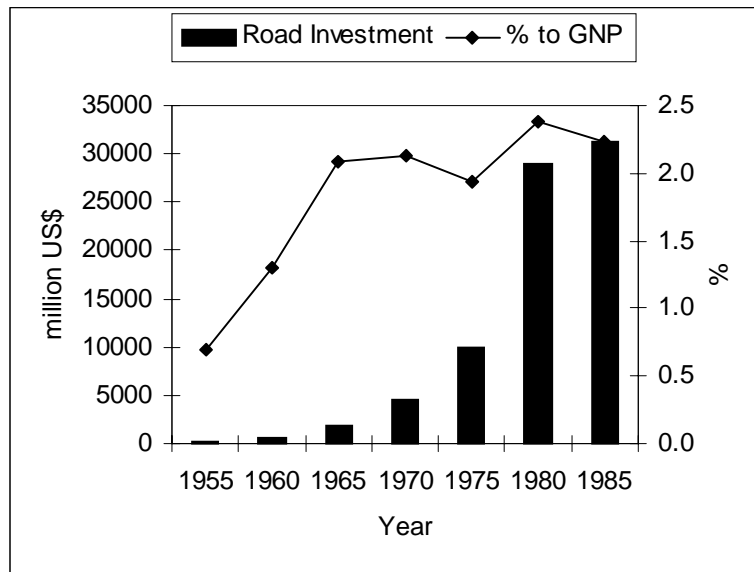
Table 2.1.4
 Earmarked Taxes for Special Account for Road Development.

	Tax	Rate
Central government	Gasoline tax	48.6 yen/liter
	Oil and gas tax	17.5 yen/kg
	Vehicle weight tax	Example: 12,600 yen/ton/year (private car)
Local government	Transfer of gasoline tax from central government (Separately earmarked)	5.2 yen/liter
	Transfer of oil and gas tax from Central Government	Same as oil and gas tax
	Transfer of vehicle weight tax from Central government	Same as vehicle weight tax
	Oil dealing tax	32.1 yen/liter
	Vehicle excise duty	3% of vehicle purchase price

(b) Past Trends of Investment Amount

Due to this special account, road development has been conducted in a large scale in Japan. Its investment size has grown rapidly in parallel to the motorization, and its ratio to the GNP has been 2.0 to 2.5% since 1965 as shown in Figure 2.1.1.

Figure 2.1.1
 Past Trends of Road Investment in Japan



(c) Advantages of Special Account

The Special Account has the following advantages:

- **Efficiency**
 Investment is made in the market mechanism reflecting the need for road development.
- **Impartiality**
 Beneficiaries are charged depending on the benefit they receive and the loss they cause on roads as well as the energy consumption. Under the administrative system in Japan, “free ride” is impossible.
- **Stability**
 Social capital, including roads, should be developed continuously based on long-term plans and policies. Due to the independent characteristics of the Special Account, road development can be pursued regardless of current recession and financial situation.
- **Perception**
 Since the purpose of the Special Account is specific (i.e. for road development), tax payer’s understanding is easily reached.

Special accounts of this type has been introduced in many countries and has contributed largely to the development of roads as well as public transport. Particularly in developing countries where funds are limited, this can be an effective measure for infrastructure

development. In Vietnam, some of the road-related taxes are also used for road development. Although its magnitude is still small, the amount will increase rapidly as people's income grows and motorization proceeds. It is important for Vietnam to secure funds for transport infrastructure development based on road vehicle related taxes and duties. However, attention must be given on the following:

- Since special accounts are earmarked for specific purpose, flexibility of finance becomes less as a whole.
- Road traffic problems such as congestion and environmental degradation cannot be solved solely by road development. The fund should be invested not only for roads but for public transport and other possible measures based on a long-term and comprehensive point of view.

B. Treasury Investment and Loan

Treasury Investment and Loan is defined as a government activity of finance mediation. More specifically, it is the investing and lending activities of the national government of Japan using public funds produced from the postal savings, pension funds and insurance funds in order to accomplish predetermined policy objectives (e.g. strengthening of social capital, stimulation of domestic demand).

(a) Fund Source and Use

The fund sources of the Treasury Investment and Loan are postal savings, pension fund, insurance fund, government guaranteed bond, etc. The use of this fund is three-fold. First is finance for financial deficiencies of national and local governments. Second is public loan represented by the housing loan given to the citizens through government financing organizations. Third is finance for public investment on the projects that generate revenues. This includes finance for public investment by special accounts and public corporations, purchase of bonds for public investment, etc. In the field of transport, loans are provided, for instance, to public corporations and other organizations when they construct toll roads, railways and airports.

(b) Characteristics of Treasury Investment and Loan

The characteristics of the Treasury Investment and Loan in Japan are:

- Most of the source funds should be repaid with an interest of a certain level since they are collected from postal savings, pension fund, insurance fund, etc. Hence the projects to be financed should generate revenues.

- This fund can be used at the discretion of the administrative organizations within a certain level without the approval of the Diet. Thus, it becomes possible to quickly respond to the current economic situation.
- Since transport infrastructure is used for a long time, it is logical to construct on loans and to repay the loan through user charges of succeeding years.

It may be considered effective in developing countries where financial resources are scarce to establish a system like postal savings and pension fund and to make use of them as a resource to develop transport infrastructure.

2.2. Comparative Analysis on Funding Systems of Selected Countries

This section compares the responsible organizations for development and operation of intercity transport and their funding systems in UK, Germany, France, Korea and Japan.

1) Responsible Organizations for Development and Operation

Table 2.2.1. summarizes the organizations responsible for development and operation of transport infrastructure in several countries.

- Japan maintains the ownership structure of the age when transport facilities were rapidly developed (i.e. ownership structure is varied influenced by the socio-economic conditions of the past). Reflecting the change in national financial situation, however, the participation of the private sector has been vigorously pursued, such as the privatization of the Japan National Railways (JNR) and the airport development by the private sector. Deregulation is also ongoing.
- In European countries, towards the realization of EU, liberalization of transport inside EU and privatization of transport services are noticeable. Particularly in UK, central government enterprises have been remarkably privatized for the financial reform advocated by the former Prime Minister Thatcher. British National Railways (BNR) and British Airways (BA) are outstanding examples.
- As for roads, national and local governments generally take responsibilities for development and operation in every country. For toll roads, however, public corporation is in charge in Japan, while public corporation as well as the private sector have the responsibility in France.
- Railway has been privatized in many countries. Japan privatized JNR and divided it into regional companies. UK divided BNR into an infrastructure company and many operating companies. In Germany, the railway was privatized as an infrastructure company and an operating company.

- As for ports, situation is different by country. In Germany and France, national or local government plays the major role. In Japan, main facilities including wharf and breakwater are developed by national government, and transferred to the local government for minor facility development and operation. The role of the private sector is large in UK.
- With regard to airport, the responsible body is different between UK and other countries. UK spearheaded the privatization of airports in the world. In Germany and France, the involvement of the public sector is strong; national and local government and public corporations are mostly responsible for development and operation. The airports in Japan have different characteristics depending on the socio-economic conditions of the time of development (particularly major airports including Haneda, Narita and Kansai).

Table 2.2.1
Developer, Owner and Operator of Transport Facilities by Nation

	Japan	UK	Germany	France	Korea
Road	National road: Central government Other roads: Local government Highway: Public corporation	National road: Central government Other roads: Local government Highway: Central government	Highway: Central government National road: Central government Other roads: Local government	Highway: Public corporation (SEM) Private company National road: Central government	Highway: Public corporation Private company National road: Central government Other roads: Local government
Railway	Shinkansen: Public corporation, JR Other trunk line: JR, Private company	Private company (Rail truck co.)	Private company (DB)	Public corporation (SNCF)	High speed railway: Public corporation Conventional railway: Central government
Port	Basic facilities: Developed by central government and operated by local government Other facilities: Local government Public corporation	Company ports: Private company Local authority ports: Local government Trust port	Local government Public limited company	National interest port: Developed by central government Operated by chamber of commerce Autonomy port: Local government	Central government Private company (Pusan)
Airport	Large airport: Central government, Public corporation, 3 rd sector Local airport: Local government	Private company Public limited company 3 rd sector Local government	Large airport: Central government, Public limited company Local airport: Local government	Central government Public corporation (Paris) Local government Chamber of commerce	Public corporation

2) Fund Sources

Table 2.2.2 shows the fund sources for transport infrastructure development of the selected countries.

- As for roads, most of the countries adopt the “beneficiaries-pay” principle, and special accounts for road development are provided based on vehicle-related special-purpose taxes. Germany established the oil tax at an early stage to secure the fund for road development. UK also had a special account before, but this was abolished and the necessary fund comes from the general budget at present. General budget provides the fund also in France. The German oil tax is used also for urban public transport. In Korea, the Special Account for Transport was established in 1994 based on the introduction of the Transport Tax. This account is not only for roads but also for railway, airport and port.

In general, vehicle-related special-purpose taxes coupled with special account system has contributed largely to the development of roads. As for expressways, Japan and France adopt the self-finance system that construct toll roads on loans and to repay them by fare revenues. In addition, the loan to construct toll roads in Japan is mostly financed by the treasury investment and loan.

- With regard to railway, Germany and France take the shared responsibility system between the central government and the private sector. In Germany, infrastructure is provided by the national government and the private sector takes the responsibility for operation. Also in France, TGV was constructed in a joint venture of the public and the private sector where the government (national and local) subsidizes to the extent predetermined for the private sector to secure a certain profitability. In Korea, the national government takes the full responsibility. Compared to these countries, the responsibility sharing between the public and the private sector is not clearly defined in UK. The privatized infrastructure company and operating companies in UK are not yet convinced to survive without subsidies from the government.
- As for port, the role of national government is outstanding in Korea and Japan. In Japan, major infrastructure is developed by a special account of the national government supported by local bond and beneficiaries' contribution. Korea makes use of the Special Account for Transport explained earlier. In Germany, local government is responsible and its general account is used. UK takes the self-finance system where port operator develops ports on its own capital and loan, and repays the loan by user charges. In France, port operator develops ports similarly to UK though with government subsidies.

Table 2.2.2
Financial Resources of Development of Transport Infrastructure in Several Countries

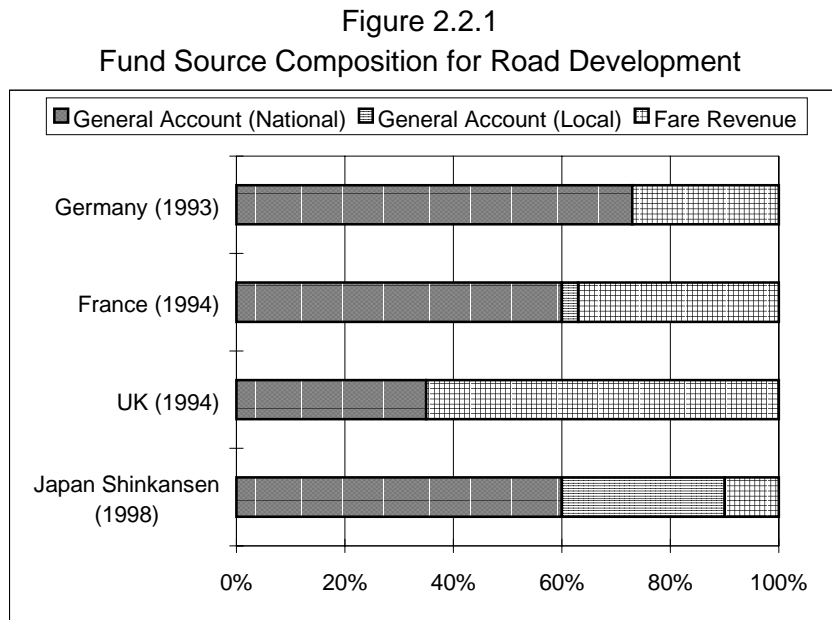
	Japan	UK	Germany	France	Korea
Road	Road: 1. Special purpose budget Fuel tax (Gasoline, Oil, Gas) 2. General purpose budget Vehicle weight tax. Expressway 1. Private loan 2. Treasury investment and loan. 3. Bond 4. Special purpose budget (Subsidy for the part of interest)	1. General purpose budget of central government Resource: Car tax. Vehicle excise tax. Fuel tax. VAT. 2. General purpose budget of local government Rate support grant Transport supplement grant 3. Municipal bond	1. Special purpose budget of central government Resource: Oil tax 2. General purpose budget of central government 3. Bond (Issued by OFFT) 4. General purpose budget of local government Resource: Car tax	Road 1. General purpose budget of central government Resource: Driver's license tax Vehicle register tax Vehicle excise duty Body corporate car tax Fuel tax Toll road 1. self-finance 2. Loan	1. Special purpose budget Resource: Fuel tax Vehicle excise special tax Interest Transfer from general budget
Railway	Shinkansen 1. General purpose budget of central government. 2. Infrastructure user fee from JR Trunk line railway 1. General purpose budget of central government 2. Self-finance of JR	1. Self-finance. 2. Private loan	1. Loan without interest by central government 2. General purpose budget of central government	TGV 1. Self-finance of SNCF 2. Loan 3. Corporate bond 4. EC fund 5. Subsidy by central government	1. Special purpose budget Resource: Fuel tax Vehicle consumption tax Interest Transfer from general budget
Port	1. Special purpose budget of central government 2. General budget of local government 3. Burden by beneficiaries	1. Self-finance 2. Private loan	1. General budget of local government	1. Self-finance 2. General budget of central government 3. Loan	Special purpose budget Resource: Fuel tax Port use fee interest Transfer from general budget
Airport	Airports developed by central and local government 1. Special purpose budget of central government (Source: Infrastructure user fee from airlines and treasury investment and loan Airports developed by public corporation 1. Investment by central government 2. Bond 3. Self-finance Airports developed by 3 rd sector 1. Investment by central and local government and private sector 2. Treasury investment and loan. 3. Private loan	Large airport 1. Self-finance 2. Private loan Local Airport 1. Self-financial 2. Subsidy by local government	1. Investment by central government 2. Self-finance 3. Loan	Airport developed by central and local government 1. loan 2. Subsidy by central government 3. Subsidy by local government 4. Subsidy by EU Airport developed by public corporation 1. Self-finance 2. Loan	Special purpose budget Resource Fuel tax Airport user fee Transfer from general budget Interest

- As for airport, UK again takes the self-finance system (i.e. development by loan and repayment by user charges). Germany is the same as UK, however, the government may provide capital to airport operators. France subsidizes development of airports controlled by national/ local government. However, the Charles de Gaule Airport was developed on loans and is operated by public corporation. Japan develops airports mainly on a special account (from Treasury Investment and Loan and user charges) and general account of local government in combination with other financial measures such as bond issuing and loans.

3) Comparison of Fund Sources

A. Road

Figure 2.2.1. compares the fund source composition for road development among UK, Germany and Japan.



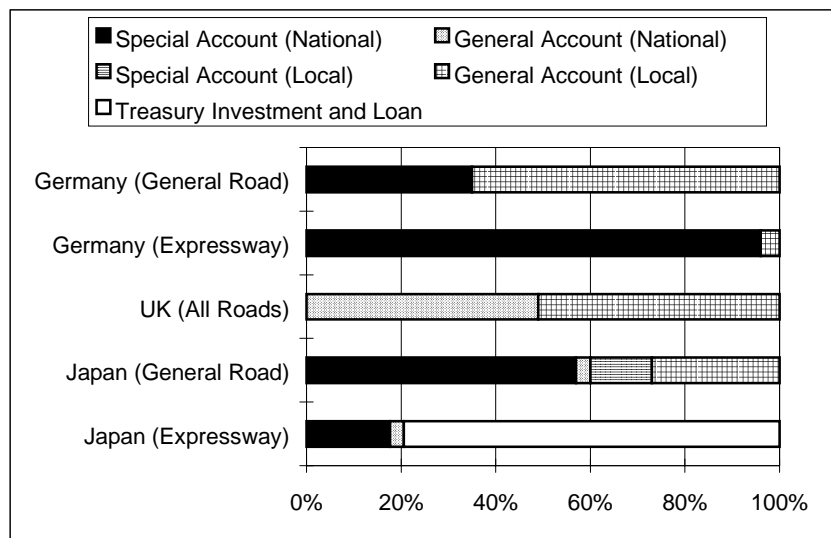
In every country, general roads are funded by national and local government, although special account plays a major role in Germany and Japan. The share of national government is larger in Japan than in Germany. In UK, the role of national and local government seems to be equal. As for expressways they are all toll roads and repaid by toll revenue in Japan (Japan Highway Public Corporation borrows the fund from the Treasury Investment and Loan, and repays it by toll revenue). The national government subsidizes a part of its interest cost from the Special Account for Road Development. In contrast,

expressways are free of charge in Germany, and they are developed by the national special account (based on oil tax).

B. Railway

Figure 2.2.2. illustrates the fund source composition for railway development of Germany, France, UK and Japan (Shinkansen).

Figure 2.2.2
 Fund Source Composition for Railway Development



Note: Only capital cost is included for Japan while operating cost is added for other countries

In Japan, the first Shinkansen (Tokaido) was constructed solely by JNR's own finance (World Bank loan, etc.). Since then, however, funding from the national and local government has increased. Infrastructure is constructed by the Japan Railway Construction Public Corporation, and is financed by national/ local government and the Corporation's bond issuance. The funding ratio of national and local government is 2:1. The operator (JR: Japan Railway) pays the track access fee to the Corporation, while the corporation repays the bond by this fee.

Although direct comparison is difficult between Japan and other countries due to the difference of data basis, user's payment seems to be larger in UK and smaller in Germany.

3. DEVELOPMENT BUDGET: PROBLEMS AND POSSIBLE SOLUTIONS

3.1 Basic Problem - Unbalance Between Huge Demand and Tiny Resource

1) Small development budget

The most serious problem in the development budget of Vietnam is that it is too small. This is simply because the size of total budget itself is small due to the insufficient resource-tax revenue system of the country.

Due to insufficient revenue, government finds it difficult to formulate the budget even for recurrent items such as expenditures for government administration, education, medical care and similar services which are vital for the country. As a result, the development budget is always crowded out in favor of other expenditures, and is reduced to the minimum.

With a very low per capita GDP, the taxable amount from the people's income is proportionally low. Thus, it may be difficult to immediately increase the government budget substantially without creating an adverse impact on the people's lives and further the development of the country.

2) Delay in infrastructure building

In the case of Vietnam, the long war damaged much of their infrastructure. After the war, the prolonged economic recession made it difficult to provide sufficient funding for the rehabilitation and maintenance of the damaged or degraded infrastructure.

This means that the backlog for rehabilitation of infrastructure is so large that it has been difficult to provide sufficient funding from the development budget for the new construction even of important projects.

In Vietnam, it is widely recognized that the single most serious bottleneck of country's economic and social development is its underdeveloped infrastructure.

At present, there are only a few big cities which can offer useful infrastructure for modern industries which can produce exportable products, high value-added technology intensive or large capital-intensive industries. These can develop only when the country's GNP can be upgraded substantially.

More importantly, even primitive industries can not grow in almost 80-90% of the country due to the absence of necessary infrastructures. Almost half of country's population is said to reside in these places. It means that even under the Doi Moi Policy, only half of the total population can actually participate.

Lack of infrastructure is the result of under investment of the government over a long period of time. In spite of the very high quality of Vietnamese workers (highly disciplined, diligent, intelligent and adaptable to any new jobs), meaningful industrial development throughout the country has never been observed, except in limited areas.

It has already been demonstrated almost without exception that where there is new infrastructure, new industries are established.

3) Imbalance between the small size of development budget and the big demand for infrastructure

At present, the available development budget is far less than the demand. For example, it is said that in order to construct roads for all the rural areas of the country, it is necessary to invest US\$2 billion every year over 20 years. (FAO) The actual fund allocated for the rural development is only about 10% of this amount. It means that 200 years is necessary to reach this target.

4) Integration of development budget into very poor general budget

At present, the development budget is not separated from recurrent budget items. Therefore, the development budget tends to be sacrificed within the general-budget by these recurrent budget items.

There is an opinion that the development budget should be separated from the recurrent budget and these should be based upon a special account, which is drawn from a special purpose tax, such as a Petroleum tax or car tax.

However, these taxes already represent an important portion of revenue for the government budget and it may not be easy to set these aside from the general budget. In Vietnam, these taxes, though relatively small, are the most reliable source of revenue for the budget. Once withdrawn from revenue, the government budget as a whole would not be maintained.

Car related taxes or charges are used as revenue for special accounts such as road construction and maintenance in many countries. However, considering the structure of present revenue and expenditure of the government budget, this method should not be introduced to Vietnam too quickly.

In case a special account will be introduced in Vietnam, the revenue should be made from an incremental portion of taxes, either from an increased tax rate or increased taxable targets.

While it may be true that gasoline taxes and vehicle taxes (including those for motor-bikes or bicycles) are still low, there is stillroom for increasing these in Vietnam. The consumption of gasoline or the number of registered vehicles will further increase and so will the revenue from the taxes imposed on them.

As a long range strategy, this matter should not be disregarded. In our study, it is estimated that with only a 10% additional surcharge on the present fuel price, US\$2.2Billion during 2000~2010 period, and US\$3.6Billion during the 2011~2020 period can be collected. Likewise, with a levy worth only 10% of vehicle price, 7.5B\$ during the 2000~2010 period, and US\$9.2Billion during the 2011~2020 period can be collected.

In addition, the land or real estate value added tax from the value added from improvements to the property, or in the new construction of roads as well as toll fees from road users can fully be counted as revenue for the special account for roads.

However, precautionary measures should be taken in order not to suppress the development of industries or endanger peoples' quality of life in case the tax rate increases rapidly. It means that even if a special account will be established, the revenue itself should gradually be increased.

5) Absence of fiscal investment and loan program (FICP)

In order to supplement the insufficiency in the development budget, government has been issuing development bonds.

Apart from this, no other means have been provided for this purpose until this year. Theoretically, social security and Pension Funds can be used similarly for development financing.

However, the fund is not large enough and is strictly controlled for use only in safe investments. This makes it an ineffective investment fund for development.

However, since August 1999, the Postal Savings company was launched and the fund is stipulated for development funding. From Jan 2000, the Development Support Fund (DSF), which is considered as an equivalent to the FILP, is expected to mobilize funds from bond issuances, postal savings or social security and pension funds.

It is expected that this system will contribute greatly to development funding.

6) Difficulty in reducing subsidies to SOEs

For the rationalization of the budget, the privatization of government entities including SOEs has been intensively pursued. Government has been trying to reduce the level of subsidies and is trying to get capital gains by selling the shares of these entities to the private sector.

SOEs which are not privatized are also required to improve their management and are trying to reduce the level of government subsidies to a minimum.

However, the efforts of government are not yet fully successful.

If the government sells a state-owned public utilities company to the private sector, the government will not only acquire capital gains from the sale, but in doing so, it will be unnecessary to provide a development budget to the entities thereafter. This may be an effective way to reduce the burden of the development budget.

However, public utilities companies are not always saleable to private sector. Many of them do not always become profitable even after they are privatized. On the other hand, many SOEs which can be profitable after privatization, are profitable even under public sector ownership and control.

This means that the reduction of the development budget through the privatization of SOEs may not be as significant as expected while making these SOEs render their present level of services. If the service level is degraded through privatization, then the privatization is not successful.

In order to ensure that these SOEs keep their service level as high as possible, and increase productivity and profitability while further reducing operational losses, it is necessary for the government to take an active role in improve their management even after privatization and if it is necessary, institutionalize a regulatory framework for their activities.

7) Condition of expanding development budget.

The most important task in improving the content of the development budget is to increase the development budget without giving any adverse impact to budget soundness. Likewise, this should also be done without increasing the burden to people and business, and should be formulated towards making it effective for the country's development.

In order to reach the above targets, it is necessary to rationalize the present development budget by maximizing it while ensuring the effectiveness of the development budget expenditures.

This can be done through the following: the increase of ODA, the introduction of the OOF, the strengthening of beneficiary-pay concepts (i.e. toll road), expansion of peoples contribution, activating private borrowing, the conversion general purpose tax to special purpose taxes (i.e. petroleum tax) or institutionalizing new taxes (environment protection tax, etc.), issuing construction bonds (development bond), utilization of the government savings bank fund or government insurance and pension fund, etc.

It is expected that much more fund shall be provided through newly institutionalized Development Support Fund (DSF).

3.2. ODA

1) Excessive reliance of development budget on ODA

At present, the development budget consists of approximately 10% of the general budget of the country. ODA as well as government domestic borrowing adds to this, each of which roughly equating the each of which is app. as big as this genuine development budget of the country.

It means approximately 30% of the general budget is actually expended as development budget. However, the amount of ODA is much less than the expected amount due to delay in disbursement. Therefore, much bigger portion is expected for ODA in the future.

The importance of ODA cannot be denied. However, if the country is too dependent on it, the stability of the budget may be affected. In this, the various risks which are accompanied with it will enlarge and endanger the smooth implementation of development projects.

ODA is also influenced by the policy of donor countries. Though most of the policy changes made by donors are presented sincerely and in good faith, these changes sometimes are not easy for recipient countries to follow. This is acute most especially if recipient countries do not have their own development fund and all the funds are sourced from ODAs. As a result, developing countries have to modify internal policies frequently and abruptly at a time when different policies are presented by donor countries.

In the case of Vietnam, it is commonly observed that the development projects are postponed or suspended due to delays in the commitment or disbursement of ODA funds. This means that the smooth implementation of the development projects is unattainable due to excessive reliance on the disbursement of foreign funds. If sufficient local funds were available, the implementation of the projects would not have been hampered.

If one country relies on foreign assistance for too long, the economy of the country will become dependent on the foreign economy. Especially, in case of ODA loan, if it is used for non - income generating or less profitable development projects, it will make the country difficult to repay the loan. This will cripple the economic management of the country in the future.

2) Insufficiency in counterpart fund for ODA financed project

ODA fund itself will also be more effectively utilized if sufficient local funding is provided. In recent years, donor countries tend to cover 60 – 80% of total cost by ODA fund considering the difficulty in providing the local fund by recipients. However, ODA funds usually can not be provided for tax, land acquisition,

compensation or government administrative services, although, they are indispensable for the realization of development projects. There are many cases where due to local fund shortages, these items are not properly covered and the progress of the projects themselves are in jeopardy. In Vietnam, the increasing cost of land acquisition and the shortage of local funds often affect the smooth implementation of projects.

Other than the above-mentioned matters, it is to be noted that project preparation, such as F/S or MP studies, cannot be conducted properly due to insufficient local funds. After the projects are identified, foreign aid can be provided to include studies, engineering or technical assistance. However, before they are identified, aid fund cannot be provided. Such front-end fees can only come from local funds. This means that if local funding is not provided, the development projects cannot begin. If these projects are forcibly implemented under such a situation, projects can not be implemented smoothly. These projects can be subject to frequent changes of content due to inadequate surveys or later may be criticized.

In recent years, there have been moves to further increase the foreign currency portion of ODAs. Whatever increase of the foreign portion, front-end fees cannot be covered by this. Thus, the above-mentioned problems will not be solved. Moreover, if the importance in providing local funds were disregarded along with the increase in the foreign currency portion, smooth implementation of development projects would become more difficult.

It must also be understood that the decrease in the local fund share will adversely diminish the self-help doctrine and further, may result in impositions of projects, which may not really be required by the recipients. There is no such a case observed in Vietnam so far.

In order to undertake the most necessary projects, and to be able to construct the cheapest, best and most useful projects, painstaking effort should be made by recipients to provide the own fund for the project. If not, huge bad debts would be piled up by the country by undertaking useless projects.

3) Delay in commitment and disbursement of ODA

In the case of ODA, the realization of ODA funds itself takes a lot of time. It requires the preparation of F/S documents for the project and further appraisal by experts is required and authorized by both the donor and recipient governments. It usually takes 3 – 6 years from the request to the final decision (signing of loan agreement) for the provision of funds.

Even after all the procedures for loan agreements are finished, it usually requires another procedures for the actual fund disbursement. If these matters are not well taken into account, fund disbursement will seriously delay and hamper project implementation.

As was mentioned, the ODA is not a stable fund. It is greatly influenced by the diplomatic relations with other countries and is also affected by the economic situation of donor countries. It is therefore necessary to not be overly dependent on it. Utmost effort should be made to secure the genuine fund, their own fund for the development budget.

However, it does not mean that ODA is not necessary. On the contrary, not a small portion of ODA are grants and in the case of loans, these are usually very soft, with a grant element of 60 – 80%.

ODA is also effective in supporting the balance of payments situation of the country. Therefore, the effort should be made to keep the level of ODA as high as possible. It does not however mean that recipients should become ODA dependent.

Other than diplomacy, the most effective way to increase ODA is to utilize the fund as quickly as possible and let the ODA funded project achieve the most success and be effective for the country's development. If the implementation of the ODA funded projects are delayed, the succeeding phase of the project will be delayed and so will be the commitment of the next phase of the ODA. If the ODA funded project is found to be ineffective, ODA for the next phase of the project will be difficult to provide. Worse, it will create an adverse impact on the provision of next phase ODA for all other sectors. (Unfortunately, delayed implementation of ODA financed projects are commonly observed in Vietnam and this is considered to be one of the most important reasons that ODA commitment is delayed or not increased as expected)

One of the most important reasons for the delay of projects or the bumpy implementation of projects is the insufficient survey or inadequate preparation of the project. The other reasons are the delay in acquisition of right of way of land or the delay in settlement of compensation packages for house clearing. This is quite often exacerbated by the inadequate data or information based on insufficient surveys.

This means that for the smooth implementation of an ODA project, it is necessary to work out a master plan, a priority rating system or a careful feasibility study. This is vital to ensure the effectiveness of the ODA.

3.3. Government Investment Fund

1) Insufficient fund for SOEs

At present, there is a strong move to privatize SOEs. However, it does not mean that all the SOEs shall be sold out or abandoned.

On the contrary, there are many SOEs which can still be held by the government and even be strengthened. These are destined to benefit a wide range of people and to contribute to the country's social and economic development. However,

unfortunately, these SOEs are not given sufficient government support in the form of government investments partly because of privatization moves and partly because of the very poor government development budget.

In broader terms, investment funds are one of the fund appropriations or subsidies. However, in this article, we shall refer to government investment fund for SOEs.

The insufficiency in government investment fund for SOEs is the most significant among all the development fund of the government.

In the case of public utilities, SOEs or government – private sector Joint ventures are unfortunately not sufficiently profitable, though many of them contribute greatly to the country. These include toll roads, railways, ports, airports, water supply and sewerage systems, and rural electrification, etc.

In most developed countries, in order to support these entities, the government provides equity funds to construct the necessary facilities or infrastructure. These entities are only required to balance operational revenue and expenditure.

In the case of Vietnam, due to insufficiency in government equity funds, these SOEs are mostly in a difficult position and even very important facilities can not be constructed. As a result, the operation as well as management of many SOEs are not smooth. They can not offer satisfactory services to the people. These entities find it difficult to balance their accounts.

It is considered one of the most important task of the newly established DSF to provide sufficient capital for these socially and economically important SOEs as well as improve their management and operations.

2) Inadequate government fund appropriation and subsidies

If the privatization of SOEs is in progress, the government looks as if it can save subsidies proportional to the progress of the development. However, the entities which could have been privatized successfully are usually the same SOEs which used to be basically profitable and have not required a large amount of subsidies and SOEs which are getting a substantial amount of subsidies may not be easily privatized.

It means that through privatization, reduction of subsidies can not be attained so quickly. Improvement of their management to the maximum extent together with the rationalization of regulations, the simplification of decision making systems, delegation of autonomy, provision of incentives to SOEs while they are under the public sector is, together, a more effective and realistic approach for the reduction of subsidies while letting them keep the present level of services.

Regarding the grant or subsidies to the local government, the most effective way to reduce these may be to give them necessary incentives by granting financial autonomy while keeping their service level satisfactory and maintaining the quality of development projects high.

There are many development projects which are implemented by the local government have that have significant impacts on the development of the whole country. For these projects, the central government provides fund appropriations, grants or subsidies. However, the amount and the ratio is decided on a case by case basis at present, diminishing any need for them.

Although it is difficult to decide the amount and the ratio of the grant or subsidies uniformly, it may be necessary to establish certain criteria for them, considering the nature, size, impact, etc. of the project.

3) Insufficient introduction of OOF

Other Official Flow (OOF) which is also quite effective for the development of the country is not sufficiently used in Vietnam.

The interest rate of international currencies have lowered these days and so it is with the interest rate of foreign loans to Vietnam. In the case of Yen, the interest rate of non-ODA loan is also very low. The Japan – EXIM or OECF PFI fund (many of them are OOF) is almost as low as ODA loans. (Newly established Japan Bank for International Cooperation -JBIC will handle both ODA and OOF fund from now on).

Therefore, for the certain type of projects, introduction of this type of loan-OOF is worth recommended.

Unlike ODA, the OOF provides support not to the government, but to the private sector entity. Therefore, feasibility as well as profitability of the project is very important and capability as well as accountability of project owner is at a stake.

It means that in depth studies for the feasibility of the project and confirmation of the reliability as well as capability of the implementing organization is crucial.

In case the above are confirmed, OOF can be made available for wide range of ventures, such as toll roads, railways, shipping systems, air transportation, telecommunication, power or water supply and sewerage projects.

For OOF funded projects, more CPF than ODA is necessary. Therefore, a sufficient development budget should be allocated for the implementing agencies.

At present, only foreign companies are using this fund extensively. It is expected more public utilities companies, both public and private sector will utilize this fund for their projects.

3.4. People's Contribution

Compared with other developing countries, few projects in Vietnam are considered useless by the local people.

This may be due partly to the existence of a people's contribution or beneficiary – burdening policy. The development budget can be used effectively and there will be no mistake in priority rating of the project if it is implemented through this method.

Though it is not very large, the contribution needs due attention. Since even poor people with marginal incomes living in the countryside must contribute, even this minimum contribution sometimes can be a great burden to them. This situation should be taken into account.

In the case of rural road construction, it is said that usually the government supplies only the asphalt, fuel and the pavement machine. On the other hand, the local people contribute land and offer all the manpower for the project. No allowance is paid to them. This seems to be an unbalanced obligation for the local people.

As is mentioned, the peoples' contribution creates a positive impact for the implementation of development projects in two aspects. The first is by providing a counterpart fund for the development projects and the second is by eliminating unnecessary expenditures.

In order to improve the situation, it is recommended that the central or provincial governments provide compensation or subsidy to the people's contribution, such as 2-3 kg of rice for 1Man day of work or to pay a certain amount of cash for the land or construction materials. Instead of a subsidy or grant, a long-term soft loan may be given to the contributors.

It may also be necessary to review the range of government services vis-à-vis the peoples contribution. For example, the roadwork should be expanded by the government to include the equipment cost for earthwork, transportation expenses or the materials cost for concrete works.

Under such a condition, more effective cooperation between the government and the people may be attained.

3.5. Difficulties In Implementing Development Project by Local Government

1) Problems in government fund appropriations or subsidies

Central government funds to local government is a fund appropriation or grant rather than a subsidy or equity investment.

If the project which is considered to be important for the country is implemented by the province, it applies for the fund with the central government. If the central government agrees, the central government's fund is provided for the project. This is similar to an equity investment or subsidy by the central government. However, a better term for this would be a fund appropriation or grant from the central government. (Compared with Japan, if this is equity an investment, ownership is joint between the central government and province. Operation and maintenance funds should also be provided for based upon the share of the ownership.)

District projects are similarly funded by the central, provincial and district governments. Commune projects are also similarly funded by the central, provincial, district and commune government.

The share or the amount of appropriated funds is decided upon considering of the nature of project, the intention of project owner or the budgetary situation. It seems that the share or the amount is decided case by case. For some projects, almost 100% of the project cost is covered by the central government budget. For other projects, the central government budget covers only 10% and the remaining share is covered by the provincial, district and commune funds including the peoples' contribution.

In the former, project implementation is easy but due to the small size of the project, the impact of the project remains low. In the latter case, the project tends to be delayed, and the quality low. Likewise, the people suffer from excessive contributions.

As a whole, fund appropriation or subsidy tends to be provided in too many sectors and for too many projects, since it is based upon the receipt of requests from many people and various organizations.

2) Shortage of development budget of local government

In the case of Vietnam, the local government budget is even more insufficient than the central government budget. Unlike most developed countries, the income tax is not a mainstay of tax system. The share of income tax is very small. Furthermore, actual income tax payers are very few in number, being concentrated in a few provinces. Similarly, the corporate tax is limited to only a few exceptional provinces, which contain the main concentration of big and affluent business.

Therefore, most provinces have no other way but to rely on government fund appropriations, subsidy or equity investments. What is actually provided to the provinces, however, is usually much smaller the amount which are originally requested.

One of the crucial reasons why big modern industries cannot locate in the countryside is the poor infrastructures, which can be traced to the lack of sufficient funds for construction. This means that poor infrastructure is the result as well as the cause of a lack of business development in the countryside.

On top of these, there are other serious problems in the local budget. Even for projects which the central government decides to fund, the province pays the initial expenditures for later reimbursement. This makes the province financially vulnerable.

For the purpose of strengthening local budget systems, it is necessary to transform grants or subsidies of central government into the genuine budget of the local government. However, considering the present imbalance in the budgetary situation between rich and poor provinces, this method may also have problems.

Therefore, in order to keep the balance among all the provinces, it may be inevitable that the central government holds the revenue and distributes it as grants or subsidies to the local government, including revenue from ODA.

The issuance of local government bonds may eventually be an effective way for the local government to acquire their own development budget in the form of local special accounts, though at present, it is considered to be too premature, since local governments are not well prepared for such initiatives.

3) Delay in rural development, rural infrastructure improvement

In order to bring about countryside development through increased agricultural productivity and to develop new industries to create additional job or income opportunities, large investments for rural public utilities and infrastructures are necessary.

At present, the development budget is allocated mainly for projects such as trunk roads or railways, major ports, large scale irrigation or power stations, and water supply stations for big cities, most of which are located at close to population center. This policy cannot be denied considering that a large population benefits from such projects.

However, if the impact of these projects remain within the developed area and cannot trickle down to the rural areas in projects such as rural roads, feeder ports and waterways, rural electrification or through rural water supply and irrigation, it is not possible to expect the industrialization and increased GDP of the country as a whole.

If such rural infrastructure was developed only after the completion of major infrastructure, it would take a long time for nationwide industrial development as well as an increase in GDP to take place.

Therefore, a realistic policy may be to develop rural infrastructures side by side with major infrastructures. In order to make it possible, it is necessary to strengthen the financial position of local governments from the province to the commune level.

3.6. Delay In Utilization and Disbursement of Allocated Fund For Development Project

1) Delayed implementation of the development project

There are not a few cases where, though the fund allocation is decided, the fund disbursement is delayed or the disbursed amount is less than the decided amount. If the fund is actually not distributed as decided, the project is delayed or not implemented as planned. If the project is not implemented as planned, a satisfactory development impact cannot be expected. On top of budget insufficiencies, this delay in implementation creates an adverse impact on the country. A one-year delay in fund use is equivalent to an unused development budget for the year. It is said that one of the best ways to improve the management of company is to keep the dead stock of the product at a minimum. This fact is well applied to the government budget.

2) Delay in ODA fund disbursement

In the case of funds from ODA, the delay and the change of amounts tends to be more significant than the genuine budget of the country. As is mentioned, however, it is not easy to expedite ODA fund disbursement. Therefore, remedial measures should be provided for the delay.

3) Delay in fund disbursement for local government project

When the central government fund is provided for the local government, the disbursement of this fund is sometimes delayed. If the fund originates from ODA, the delay is often more significant.

It is necessary for the central government to take necessary action not to delay fund disbursement. However, it is not so easy to do it perfectly. The best way to deal with this matter may be to provide some advanced payment to the local government.

In the case of local government projects, the local government usually should pay necessary expenses on their own purse for later reimbursement by the central government. The reimbursement, however, tends to be very late. If the fund from the central government originates from ODA, the delay is usually more serious due to additional procedures.

4) Method to expedite fund utilization and disbursement

The most important and effective measure to solve the above mentioned problems is the strengthening of counterpart's ODA fund.

There is insufficiency of local counterpart fund as elucidated in the situations mentioned in (3).

Delay or insufficiency of surveys are primarily caused by the insufficiency or non – existence of a local survey fund. This is especially important for the front-end survey which is necessary before the commitment of ODA.

It means even with an increased ODA share, the absence of a sufficient local counterpart fund can mean that projects cannot be implemented smoothly. Utmost efforts should be made to secure a local counterpart fund (CPF) even if sufficient ODA fund can be used for local currency financing.

Among others, the most important task of a local fund is to balance the fluctuation of ODA commitments and supplement the fund requirement caused by the delay of its disbursement. If there is no sufficient local fund, delayed ODA fund releases can hamper project implementation. This means that the most important way to avoid excessive reliance on ODA is to provide a sufficient local budget for the project's implementation. This is also one way to use the ODA fund effectively.

3.7. Lack of Consideration on Nature of Fund

1) Non Demarcation between grant and loan fund allocation

At present, a great part of the development budget is based upon grants except for the ODA loan, as well as the limited amount from the development bond. However, in the future, development bonds, postal savings, insurance and pension funds will be added to the development budget. In addition, OOF or private bank loans can also be mobilized for the development fund.

Under such a situation, it will become necessary to demarcate the sectors funded by grant or by loan.

Basically, the demarcation may be that even if the economic or social benefit is large, less financially profitable projects shall be funded by a grant fund or soft loan with a large portion of grant element, while financially profitable project shall be funded by the ordinary loan fund.

This means that rural roads, tertiary waterways, small scale irrigation, rural water supply, rural electrification, waste water treatment systems, disaster prevention programs, and environmental improvement projects should be covered by a grant or soft loan. On the other hand, trunk roads such as be it toll or free roads, MRT (Mass railway transit) systems, power plants, telecommunication systems, water

supply station for big cities and large scale irrigation projects should be covered by the ordinary loan. (In the case of roads, even if it is not a toll road, sufficient amount of investment fund can be recovered through a petroleum tax).

In the case of project for which a loan fund is provided, economic as well as financial feasibility should be confirmed. If the loan fund is provided for less profitable projects or for project for which returns are not secured, the government should pay due attention on how to recover the cost for repayment of the project.

2) Use of foreign loans for rehabilitation project

The shift in priority from new construction to maintenance and rehabilitation, has also resulted in a shift in foreign assistance (including foreign loans) from new construction to maintenance and rehabilitation.

Though maintenance and rehabilitation are important, foreign assistance, especially loans should not be provided for such activities. If foreign loans are provided for maintenance and rehabilitation, it means the country has to shoulder two loans for one project, and, if yet another loan is provided for maintenance and rehabilitation of the same project later, there will have been three loans or even more for one project. Such a policy will surely lead to a debt burden problem. The country will eventually be unable to repay its foreign loans.

However important, maintenance and rehabilitation should be carried out entirely using the country's own budget. That is, the beneficiary should shoulder the cost. In many developing countries, there is a danger that foreign assistance for maintenance and rehabilitation will have a bad effect on people, causing them to forget their own responsibilities.

Foreign assistance should be provided only for new capital expenditures which can not be provided by the country even though economically justified at the time of construction.

3) Use of loan fund for non profit making project

At present, a government bond is being planned for use in financing non-income generating rural development projects.

Regarding postal savings funds or insurance and pension funds, there is no clear and rational regulation to decide what projects they shall be used for.

If in the future, these funds are used for non-income generating projects, the budgetary burden by the government to repay the borrowing will become huge and the government will find difficulty repaying them. In case the fund is invested in less profitable projects though they have strong impact to the country's

economy or people's lives, there will be a similar problem if the government will not take necessary remedial measures.

In order to avoid such a scenario, it may be necessary to use such funds for the profit making development projects, such as power stations, telecommunication projects, railways, toll roads, etc. The fund from taxes or charges which do not need capital recovery should be used for social projects or rural development projects which are, though important, financially not profitable.

3.8. Consideration on the Life Cycle Cost of The Project

There are various ways to reduce the cost of development projects. The ways and the methods are different and it is not adequate to mention them one by one.

However, there is one principle which is common to all kinds of the projects: that it is not the initial cost but the life cycle cost which should be minimized. It is nonsense to say that through initial cost saving, the life cycle cost becomes larger. In many developing countries, there are many cases that show that in order to save initial cost, inferior quality products are procured. This makes the project uneconomical due to increased maintenance and rehabilitation cost.

Both international organizations and the development co-operation agencies of developed countries have long been advising developing countries that in view of the limited funds available, higher priority should be given to maintenance and rehabilitation of infrastructure than to new infrastructure construction. This policy may be right, theoretically, because, if facilities which have been constructed using larger amounts of funds do not function properly, it becomes a total waste of money, time and effort.

However, this policy has been found to have an unexpected impact on development strategy. A policy which intends to provide more funds for maintenance and rehabilitation than for new construction is seen as implying that maintenance and rehabilitation are more important than new construction, and further, it may send the message that developing countries should think only about maintenance and rehabilitation and forget about new construction. The result is disastrous; the quality of new construction work has been degraded.

This policy has serious adverse effects on maintenance and rehabilitation, as well. If the quality of new construction is poor, the cost of its maintenance and rehabilitation will increase proportionally.

For example, road pavement can last 10 years if it is built properly, but, in many places, road pavement has deteriorated seriously within a mere 2-3 years. The rehabilitation required in the former case is usually light surface treatment, requiring minimum expenditure, but rehabilitation in the later case is quite often large-scale rehabilitation work, or worse, reconstruction may be needed, with the cost being almost as high as new construction. This is totally economically unacceptable.

It is recommended that the best way to maintain a construction product is to construct a high – quality product, paying due attention to the construction itself. (Who buys Travanda instead of Mercedes because the former is cheaper than the later?)

3.9. Improvement Of Operation and Management of the Project

If the project financed by development budget does not function well or its effect is less than expected, it should be concluded as an ineffective use of fund or loss of fund. It is also noted that it will surely result in unnecessary increase in a demand on the development budget.

In order not to increase development budget beyond its limit, it is necessary to make all the development projects function to their maximum extent. (If a pier with 20 vessels per day capacity can handle only 4 vessels a day, four more piers should be constructed. If two-lane road which theoretically can accommodate 10,000 cars can actually accommodate only 2,000 cars per day (quite often observed), nine more two lane roads should be constructed.

These facts show how the operation as well as management is important for development projects.

Marketing for newly developed projects also seems to be insufficient in many cases. Marketing effort is not taken parallel with the development investment. In the case of railways, even though the capacity of railways is increased through the improvement of track or signal systems, as long as ticket sales remain as is, (return ticket can not be purchased before passengers' starting their trips) no additional demand is expected.

The railway which can easily transport 100,000 tons of freight per day actually carries only 10-20% due mainly to insufficient exploitation of demand, which is filled by much more costly road transportation. Unbalance between the capacity of track and rolling stocks is also derived from insufficient marketing activities.

When the development investments are planned, due attention should also be paid for operation, management and marketing improvement.

Regarding the revenue from public utilities services, such as road toll, electricity charges, water charges, railway fares, etc. collection is no problem in Vietnam. Although most public utilities facilities are obsolete, operational efficiency is low and technical loss is large, there is almost no institutional loss, such as non-payment of bills, illegal connections of electricity or water supply, free rides on railways or "face pass" in toll roads. This situation is really exceptional in developing countries where these institutional loss is a problem which is much more difficult to overcome than technical losses.

3.10. Support for Development of Related Industries

When development projects are planned, it is also necessary to plan the development of related industries, which construct, maintain, rehabilitate, manage or supply equipment and materials to the projects.

If these are not developed, the development itself will become unsustainable. For example, if there are no road rehabilitation and maintenance companies, constructed roads cannot be maintained in good condition after completion.

On the other hand, it is an important fact that not a few big industries in developed countries have their history of developing the business from these development projects in the past. Without getting the business from these development projects they would have not grown. Considering this fact, it is apparent that development projects would provide useful opportunities for related industries to grow. In other words, if they missed the chance, they would never grow.

The method to support them may be as follows, 1) provision of guarantee facilities for their borrowing of mobilization funds 2) provision of research or training institutions 3) provision of leasing or lease purchasing facilities for equipment etc. A part of the development fund should be provided for these services.

3.11. Consideration on Macro Economic Management

As long as the sourcing of the development budget is confined to the revenue from taxes, grant funds or ODA loans and development, government may not be inspired to co-ordinate it with other economic activities and further, to balance this with macro economic activities of the government. Beyond this, it may not push government to balance this with the economic management of the country, as long as the development budget is not very large.

However, under the situation where government bonds, postal savings, insurance and pension funds as well as OOF and private bank loans are mobilized for the development budget, the management of development budget should not be done without paying any attention on macro economic management of the country.

For example, if large amount of development budget is invested for infrastructure or other development projects by mobilizing funds from development bonds, postal savings, etc. while the country's economy is booming, this will crowd out the fund and as a result incur inflation, increased interest rates and over heat the economy unless it can otherwise be provided by private sector investment.

On the other hand, if such a big public sector investment is made while the country's economy is depressed, this will circulate uselessly stocked funds in the financial market and revitalize the depressed economy and create job opportunities.

If the market stimulation effect of development expenditures is excessively used, it will create an adverse effect on the sound economy of the country. However, it is to be remembered that development expenditures have a strong impact on the macro economy itself for good or bad, if they reach to a certain level or more within the country's economy.

A bad example is development expenditures in Japan. This has long been used to balance fluctuations of country's economy. In the last 10 years, however, Japan has been suffering from recession. The government has been using this traditional method to deal with the recession, with the provision of maximum level development expenditures throughout this period. The consequence is a tragic increase in the budget deficit on the one hand and the chronic reliance of businesses on development expenditures on the other. As a result, immunization of government budget against depression is being observed in recent years.

4. INSTITUTIONAL STRENGTHENING OF DEVELOPMENT BUDGET SYSTEM

4.1 Available Options

Most countries in the world have various sources of fund for the construction of transport infrastructure. This is because of the fact that transport infrastructures have very broad impact or benefit to many different sectors and therefore, have wide range of beneficiaries. The transport system is deeply influenced by the social and economic conditions when and where it was built up.

As long as the level and the size of economy are underdeveloped and small, it is not possible to find sufficient fund from various sources.

What is important for the fund raising is that we should not stick too much to the present condition and to be overly pessimistic to the recovery of fund.

What is necessary for us is that we should have a balanced view on the development of the country and draw up a reasonable long-range funding policy.

In order to raise funds for transport infrastructure smoothly, the funding system should be supported by the people. The following should be considered for fund mobilization:

1) Beneficiary-pay fund and the government support fund.

If the target of investment is highly profitable, it is possible to recover fund from the operation of projects. Investment can be provided from the capital market, in the form of bank loan or development bonds, which can be paid back through the beneficiary-users payment. This is the idealistic scenario of public infrastructure investment where payment of the facilities constructed is included in the framework of market mechanism. This way, efficiency of investment fund, including socially oriented projects, is very high.

Unlike the above-mentioned scenario, many public infrastructure projects, although socially beneficial, are not financially profitable. In order to implement such projects, public fund should be provided to support them. However, government support should not be made indiscriminately. They should be provided under the following conditions:

- Acceptable level of social service is secured.
- Investment incentive is expected among investors.
- The project has substantial external benefit to the society as a whole and it is considered to be not fair that all the expenses incurred are shouldered only by the direct users of the facilities.
- The country or the province has the primary responsibility of project implementation.

Transparency and objectiveness in project evaluation is guaranteed when the above factors are considered. The cost-benefit analysis or financial viability analysis of the project may be effective for them.

The financial analysis of a project is necessary. It is necessary to conduct financial analysis on the entity which is, although intending to be autonomous, is requesting financial support from the public sector.

For such an entity, the rule should be established with which the public fund shall be provided only to the project which without public support can not be financially feasible due to insufficient capital recovery from the operational income.

2) Burden sharing in public infrastructure building between the central and the local government.

Public support is made either by the central government or by the local government.

The conditions of which the central government provides fund for transport infrastructures are as follows:

- National grid, the responsibility is either fully or partly on the central government.
- Several local governments jointly own the project and the impact covers several provinces.
- Due to hardship in budgetary condition, local government cannot fully shoulder the expenditure.
- Income redistribution among various regions is intended, etc.

In cases where the share of the central government is too big, the investment made by the local government tends to be less efficient.

3) The account for general purpose and specially designated purposes.

Both the central and the local governments should have their own general account as well as special account. The special account should be provided separately from the general account specifically because the revenue from the former is meant for special expenses.

The merit for providing a special account is as follows:

- Beneficiary pay rule is established and therefore fair burdening is attained.
- By introducing independent account, the efficiency of the project can be increased.

- Without being influenced by business fluctuation and balance of ordinary budget, stability in funding resource is secured.

Table 4.1.1
 Burden Sharing for Transport Facilities Development

Transport facilities		Content	Payer			Reference
			National	Local	Private	
ROAD	National		○			
	Provincial		○	○		
RAILWAY		Track	○			
		Station			○	Owned by railway corp.
PORT	Major port	Major facilities	○			
		Others	○	○		
	Feeder port	Major facilities	○	○		
		Others		○		
Terminal		○	○	○		
WATERWAY	Major airport	Major facilities	○			
		Others	○	○		
	Other		○	○		
AIRPORT	Major airport	Major facilities	○			Privately owned
		Others	○			
	Feeder airport	Major facilities	○	○		
		Others		○	○	
	Terminal		○	○	○	Facilities are constructed by the country and operated by private company

Table 4.1. 2
Funding Resources for Public Investment
Transport Sector – Japan Present

○ Main
* Sub

		Operational income	National Budget			FILP			Private fund	
			Recurrent budget (National)	Recurrent budget (Local)	Development budget	Investment	SOE bond	Local bond	Borrowing	Investment
ROAD	National road (Construction)		*		○					
	(Maintenance & Rehabilitation)		*	*	○					
	Provincial road (Construction)			*	○					
	(Maintenance & Rehabilitation)			*	○					
	District, town & village road (Construction)			*	○					
	(Maintenance & Rehabilitation)			*	○					
	National expressway	○			○	○				*
	Regional toll expressway	○				○	○			*
	Provincial toll road	○			○	○		○	○	
Private toll road	○							○	○	
Agricultural road				○						
Forest road	*			○						
RAILWAY	JR – New trunk line	○			○					
	JR – Ordinary line	○			○	○				
	Metropolitan transit railway	○				○	○	○	*	*
	Provincial gov. transit railway	○			○	○	○	○		*
	Private railway	○			*				○	○
PORT & WATERWAY	Public port and waterway	*			○	○			○	*
	Industrial port	○				○			○	*
	Private port	○							○	○
	Dockyard	○							○	○
	Load and unload facilities	○							○	○
	Storage	○							○	○
	Port area facilities	*				○		○	○	○
AIRPORT	Airport	○	*		○	○			○	*
	Terminal	○	*		○	○			○	○
	Airport area facilities	*				○		○	○	○

There is also the possibility of the budgetary structure of the country becoming less flexible thereby endangering the effective use of the budget. Measures to ensure budgetary flexibility should be worked out.

There are two methods of collecting revenues for special account. One is to collect from the users, e.g. railway fare, road toll. Second is to collect levies on certain commodities, e.g. gasoline tax.

4) Fiscal investment and loan program (FILP)

It is necessary to establish a scheme to mobilize investment and loan fund for the construction of development projects. In the case of Japan, private sector funds have long been mobilized through postal savings, insurance and pension funds or government guaranteed bonds. It is also used for important government financial activities such as the provision of public infrastructure, utilities investment fund by the government or government entities which covers central or local government deficit, financing public or private sector companies through government financial institutions. A big amount of FILP fund also provides for transport sector investment in Japan.

The amortization period of transport sector investment is extraordinarily long. However, by using the FILP fund, fair sharing of fund utilization for the construction of facilities between different generations is possible.

5) Introduction of external fund.

At present, there is no sufficient fund, be it public or private sector fund, for public infrastructures and utilities investment in Vietnam. In order to fill the gap, ODA and foreign private sector fund is necessary.

Information regarding the project, its profitability, ownership, legal background for the construction and operation, related regulations including tax systems, etc., is needed to qualify for the above-mentioned funds. Transparency and fairness in investment procedure is a prerequisite of foreign investment.

6) Development benefit recovering.

Improvement in transport infrastructure is usually profitable to its beneficiaries. Industrial productivity will increase, land or building owners will earn more from real estate properties.

It is necessary to promulgate laws to charge taxes on these profits or gains. The income from these taxes can be used to provide more funds for more infrastructures in the coming years. Such a virtuous cycle should be sustainably maintained through revolving development benefit.

In Japan, real estate tax, land tax, urban planning tax, etc. are important revenues for local government's investment activities.

Based upon the above-mentioned policy, the following development budget systems are proposed:

4.2 National Account for Transport Facilities Improvement and Specially Designated National Tax.

1) Basic policy

In order to deal with the acute budget insufficiency for transport sector investment, it is necessary to secure stable and future expandable budget. The concept of special account fund, which had worked in many countries and had played a significant role in the provision of investment fund for transport sector should be introduced to Vietnam (Shown in Fig 4.2.1)

A special account fund shall have the following:

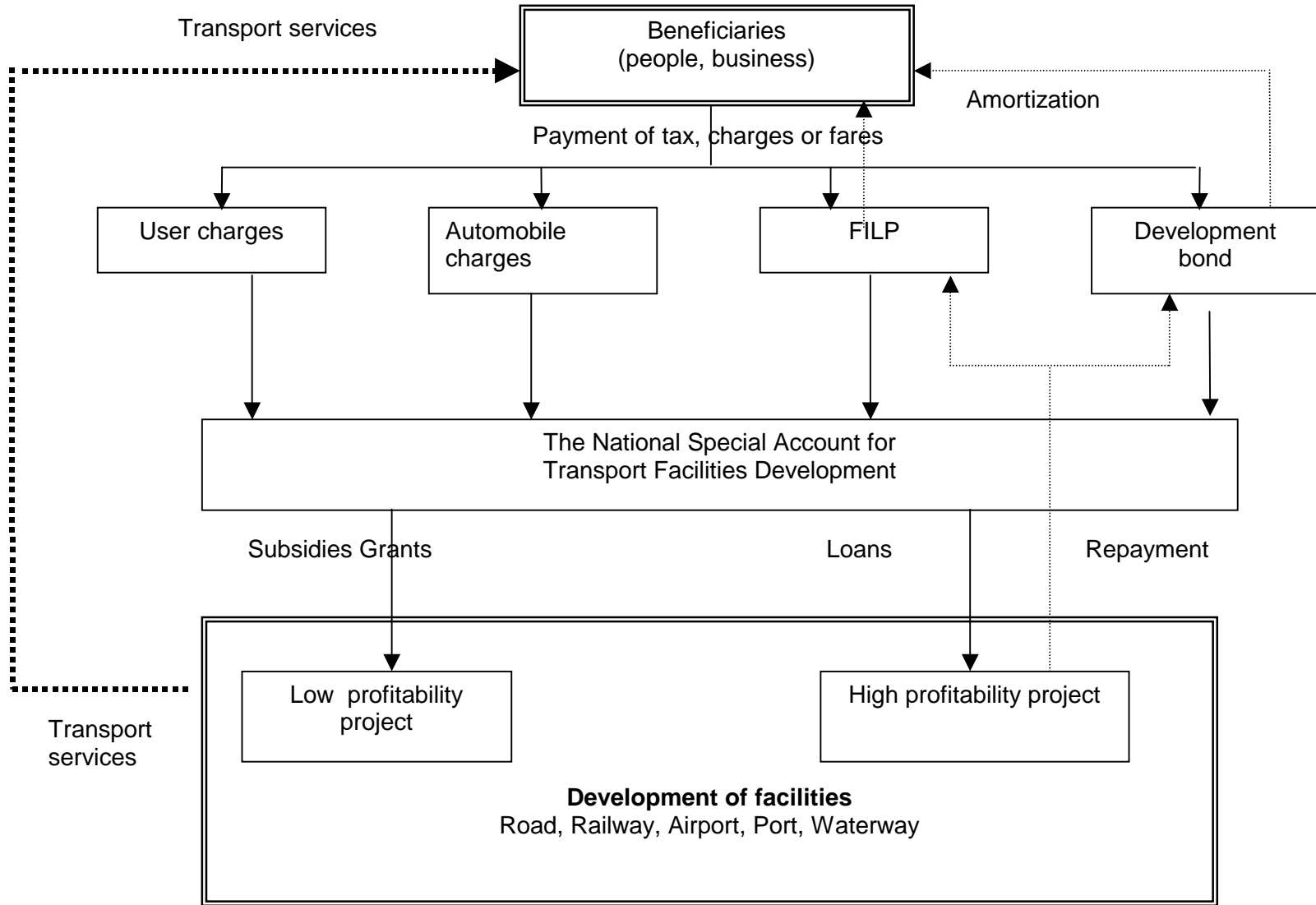
- The account shall be national special account.
- Various kinds of income should be provided, i.e. specially designated purpose tax, user charges and fares, FILP fund, fund from bond issuances. It should not be controlled per sub-sector, i.e., road, railway, port, etc., but under the transport sector.
- In order to meet the interest of beneficiaries, a certain amount should be set aside for individual sub-sector. However, remaining amount should be allocated to the highest priority project of all kind of transport facilities. Thus, the most effective use of fund can be attained.
- Profitability of the project should always be taken into account for the selection of project.

Some specially designated purpose taxes are already part of the general account and cannot be easily transferred to another account. However, for purposes of establishing a national user pay policy in the government budgetary system, the framework for the special account fund should be adopted soon.

2) Source of revenue

- Road - Petroleum tax, car and motorbike registration tax, vehicle ownership tax, car weight tax, etc.

Figure 4.2.1
 Concept of National Special Account for Transport Facilities Development



- Port - Berth user charge, cargo handling charge, petroleum tax.
- Airport -Landing charge, airport tax, petroleum tax.
- Railway utilization charge, petroleum tax.
- Revenue from FILP or issuance of development bond

3) Expenditures

The fund shall be used for the transport facilities investment. The target, ratio of subsidies, amount of funds shall be decided by establishing the criteria of investment. The target of investments is as follows:

- a) Road construction and improvement.
- b) Construction and improvement of key port facilities.
- c) Construction and improvement of key airport facilities.
- d) Railway construction and improvement.

In order to implement development projects smoothly, stabilization of development budget is important. An effective way is to establish either a unified development budget or sub-sector development budgets, i.e. road-special account, port-special account, etc.

Under the present level of economy, a big amount of tax revenue should not be expected, for the development budget. If too many taxes are imposed on the general public or businesses, development will surely be affected.

One of the highly possible targets of revenue is the petroleum tax, car and car component tax. However, these are stable revenues for the government. If they are transferred from the general account to the special account at once, the general account can no longer be sustainable. Transfer of these should be gradual, e.g. shift incremental tax initially.

At present, there is an opinion to establish special accounts for certain fields of development project by setting aside some of the existing taxes from general account or by institutionalizing new taxes as special purpose taxes.

One of the candidate special accounts is that of road maintenance account. The revenue for this is derived from car related taxes, i.e. petroleum tax, tyre tax, car tax, car import custom tax, car license charge, driver license charge, toll charge.

Similar special account can be established for the development of ports and waterways by setting aside vessel fuel tax, ship building and import tax, ship registration and shipping license charge, etc.

For the construction or improvement of airports or airport facilities, special account can also be established by setting aside plane fuel tax, plane registration and license charge, airport user fees, etc.

Railways not only relieve road congestion in large cities but also reduces road pavement degradation or destruction, diminishes air pollution, noise pollution and road accidents. Development and improvement of the railway system should be a major program of the government. However, funding is a problem since there is not enough fund coming from the fare alone. It is recommended that part of car related tax or land and real estate value added tax could be channeled to the special account for railway development.

4.3 Issuing Development Bond

In order to fill the insufficiency of development budget, GOV has been issuing development bonds since 1983 for public infrastructure development. At present, there is no established capital market and the issued bonds cannot be traded. However, due partly to the favorable condition (inflation-hedge interest rate) and partly to the credibility of the bond issuer (the government), large amount of the bonds have already been sold surpassing the 1999 target of 4,000 BD in less than a half year.

This fact also shows that domestic fund resource is much bigger than has been thought. If the capital market will be established, much bigger fund for development activities can be made available from the money market.

At present, only limited types of government bond is being sold. With the establishment of domestic capital market in the near future, various types of bonds shall be available in the market on the top of the bonds issued by private companies. .

In order to promote the financial as well as operational autonomy of SOEs, it is necessary that they sell their bonds at the capital market. If the SOEs will be privatized, the existence of capital market is very important.

However, the government, as in other countries, has a tendency to favor SOEs and other private entities in granting guarantees for loans or bonds, which has resulted in credit crunch. The government should limit its guarantees to a minimum level.

4.4 Utilization of Postal Savings Fund.

The target savings amount of postal savings company (or Bank) (PSC, PSB) which is starting from Aug. 1999 is decided to be 1,500 BD in this year.

Considering the experience of the government bond as well as the large and capable post office system, the target was expected to be achieved easily.

There are 3,000 post offices distributed throughout the country (There are about 100 banks in Vietnam of which the total number of the offices at 1,500 that are concentrated in larger towns). There may be only one organization PSC, which can accept savings from rural areas if it is authorized. These post offices are also in charge of telecommunication services. It means that they are able to render telegraphic money transfer (TMT) service without incremental investment and can offer corresponding service with foreign banks easily and further can introduce ATM service which are vital to modern banking services at a minimum investment.

If TMT is effectively utilized, it is possible to accept foreign currency deposits which are remitted from foreign countries. Records show that almost 1-2 billion dollars are repatriated annually by overseas Vietnamese. By establishing a responding contract with foreign banks, PSC can obtain foreign currency savings. Such savings cannot only be invested on or finance development projects but also improve balance of payment situation of the country.

In the case of postal savings, it is necessary to base on market interest rate. Even if it is operated on market rate, Vietnamese post office is trusted by the people and has very good access to the population. It is not difficult to collect savings fund from depositors in rural areas or from small depositors in relatively poorer regions, even without providing favorable terms to the depositors.

Basically, PSC can encourage non-traditional depositors/saving and does not crowd out private banks' activities. (In Japan, postal saving bank get 70% savings from countryside while private bank get 70% deposit from big towns and therefore they are more supplemental than competitive with each other.)

4.5 Mobilization of Social Insurance and Pension Fund

At present, the social insurance fund and the pension fund, both of which are operated by the government, are fund-wise not large and has little surplus which can be used for investment or to finance development projects. However, the surplus will grow more than proportionally to the growth of Vietnamese GDP. The country's population structure is of Pyramid type and the average life span of the people is extraordinarily long. The time interval between collection of fees and actual expenditure of health care or disbursement of pension fund is long and therefore very large amount of the fund can be mobilized for other useful purpose, i.e. financing development projects during the period of time between collection and payment.

In most developed countries, operation of insurance, e.g. life insurance, health insurance or pension fund - is handled by private companies with the funds being

used to cover private commercial activities. The risk here is bigger since only a very small number of people, mostly the rich or staff of large companies can benefit from the fund. It is considered impossible for the private sector companies to cover all the population and entities of developing countries.

Unlike other developing countries, there is a government operated insurance and pension fund system in Vietnam, due probably to socialist tradition, although the content is insufficient.

At present, in order to enforce structural adjustment (SA) in developing countries, the need of a social net system is becoming well understood. However, this system is not easy to establish especially in countries where its concept is not even heard of.

Fortunately in Vietnam, such a system is already in existence though not as effective as in developed countries. An improvement in the system is required to keep it going and to make it work to the best interest of the people.

The amount of fund which can be mobilized through this system may be as big as the fund from government bond or government savings bank eventually, but the merit of the fund is even bigger due to the fact that the maturity of the fund is much longer than the others, i.e. fund from development bond or postal saving.

The above mentioned social security system may be one of the biggest positive legacy of socialist countries. Even if in the future, more market oriented economy or freer systems will be introduced to the countries, these systems should firmly be kept.

4.6 Institutionalizing FILP (Fiscal Investment and Loan Program)

In case of development project, beneficiaries are not only the existing population but also future population. It means that fund which are used for these should not only be the tax from the present population but also be the loan which will be repaid by the future population.

In Vietnam, ODA loan as well as fund from development bond is being used development projects. However, they are not yet institutionalized into FILP which is based upon special laws and therefore, there is no established guidelines regarding the amount, target or content of fund to be used and the condition, method of use or method of repayment.

If in the future, even more various sources of fund, i.e. postal savings, social insurance and pension fund, OOF, private bank loan domestic bond or foreign bond, etc. are used as sources of FILP, the laws which shall regulate the operation of these funds should be enacted.

In the case of government bond or postal saving fund, there are two major constraints: First is the maturity of these funds, which is neither short nor long enough to cover total capital recovery period of 20-30 years. However, if these funds become constantly obtainable, the fund can revolve and cover the longer investment period. Second is that although some SOEs can pay high interest rate, many cannot pay the full amount because the social benefit to the people, who comprise the bulk of the fund, are not paid back. In other words, not all the beneficiaries of their services pay enough to the SOEs. In such case, the government shoulders the capital expenditures of the SOEs or shoulders a part or full amount of the SOEs' expenditures including interest payment as subsidies.

However, this does not mean that this kind of fund can be used for the non-profit public utilities or infrastructures. If the fund were used for such a purpose, there would be even no capital recovery and the account would surely be bankrupt. It is expected that through the institutionalization of development support fund (DSF) which is considered to be equivalent to FILP, which will start in Jan 2000, the above mentioned matters will fully be covered.

4.7 FILP (DSF) within MOF or MPI

FILP, unlike government budget, consists of various different types of fund, e.g. development bond, postal savings, social insurance and pension, ODA loan, OOF, private bank loan, etc. It is necessary to allocate this funds for various different purposes, government investment fund for public utilities, infrastructures or SOEs. It is also necessary to provide fund as two-step loans to the private sector through the development banks or through GFIs or sometimes through private banks.

The nature, condition, size, maturity of the fund resources are all different. Therefore, sophisticated operation of the fund to meet the requirement of proponents as well as the condition of lenders are indispensable. It means utmost knowledge and experience over budget and finance is required for the operation.

This is the reason why the specialized entity is necessary for the handling of FILP (DSF).

On the top of the above, as is mentioned, consideration on macro economic situation of the country is indispensable for the operation and management of FILP (DSF) fund and this can only be handled by the specialized organization.

4.8 Establishment of Development Bank, Regional Development Banks or Sectoral Financing Institutions.

FILP (DSF) can either be allocated directly to the owner of development project by the government or be provided through government financial institutions i.e.

development bank or through several regional development banks or sectoral financial institution.

Except for the big and strategic projects of the country, it is better to provide the fund to the implementing agencies through the banking system after cautious appraisal of the projects as well as of the implementing agencies.

Development bank shall be sometimes divided into several regional banks or into several sector lending institutions or funds, i.e. funds for small-scale business, construction, agriculture, transportation, hospital or clinic, school, etc.

Owing to the accumulation of information and experiences in the regions and sectors these specialized banks or funds can operate better than large-scale general-purpose banks.

If these development banks or funds will further improve their operation, the government development fund can be channeled through these institutions instead of providing them directly to the development projects expecting in-depth appraisal by the institutions.

It is also to be reminded however, for some cases, the GFIs tend to be inefficient. The measures should be provided not to make their activities inefficient, bureaucratic and inadequate.

Transparency and accountability shall be the most important conditions for their activities.

By virtue of a government decree on DSF, some of government financial institutions shall work as development banks, as well as regional or sectoral financial institutions.

4.9 Mobilizing Private Sector Fund

BOT, BTO, BT, PFI or their derivatives of introducing private sources of fund have already been materialized in many countries.

However, in developing countries, it is not an easy task for private entities to shoulder risks and therefore, they are not very active. On the top of these risks, for the construction of public infrastructures or utilities, government usually imposes various restriction, i.e. charge and fare control, etc. and it is very difficult to make private investment profitable.

It had better say, at moment private investment for transport infrastructure is nothing but exceptional in developing countries.

In order to realize private investment to this sector, the method to diversify risks, deregulation, publicizing information, etc. should be institutionalized and the investment environment should be improved.

On the other hand, due to the nature of private investment, they tend to concentrate in a very few area and as a result, regional imbalance between rich and poor province become serious if all the infrastructure construction is relied on private investment. In order to avoid such an unhappy consequences, the government-private sector coordination or division of work i.e. private investment for large towns and government investment for small towns as well as rural areas is also necessary. Through this, the private sector can reduce its risks also.

In order to promote private investment, the following measures should be considered:

- a) Financial position of counterpart organizations, public corporations or SOEs should be improved.
- b) Commitment to honor the contract fully
- c) Transparency in approval process or in selection of suppliers or contractors should be kept.
- d) Irrational intervention by the government against business for their operation and management should be refrained.
- e) Related laws and regulations should be promulgated.
- f) Information should be opened.
- g) Government guarantee should be considered for the project if it is the prerequisite of the private investment.

4.10 Promotion of BOT or PFI through Public and Private Sector Partnership

There is merit in the mobilization of private sector funds to finance development projects. This way, private sector can be given a bigger role in the country's development program. However, in many developing countries, this situation is not prevalent as expected. One reason is the big risk, which the private sector has to shoulder. In many developing countries, country risk is not very low. All the more, in case of public utilities or infrastructure businesses, they have usually serious commercial risks due to the fact that although they are quite useful for the country, they are not always profitable due to various government intervention, i.e. existence of operational regulation, fare control, etc.

One the other hand, if all these development projects are carried out by the private sector, they tend to concentrate projects in capital towns or big cities where the investment is viable. None of these funds will be targeted to poor remote areas. Thereby further causing an imbalance in development.

In order to deal with the above-mentioned problems, it is necessary for the government not only to intervene but also to participate in development projects,

which are crucial to the country's development as a whole. It means through equity sharing, projects shall become government-private joint ventures (The 3rd sector).

Through government participation, both country and commercial risks could be lowered and the projects which are unless otherwise cannot be realized can become viable. Risks caused by operational regulation or price control can also be covered through the government participation.

Present concept of privatization of SOEs or BOT scheme is that the entity should be either public (1st sector) or private (2nd sector) and there is no in-between-public and private joint venture. (3rd sector). This rigidity quite often makes privatization of SOEs or BOT investment itself difficult.

Instead of the above mentioned "all at once" or "all or nothing approach", "step by step" or "semi" privatization is considered to be much more realistic in developing countries. At first, the government will hold a major share and along with the progress in operational performance of the entity, the government will reduce its share until finally its share become nil. In case of government utilities, e.g. power, water supply, railway and telecommunication, they cannot be fully free from government regulation and control including their fares decision. In such case, only the 3rd sector approach can make the venture feasible with the exception of a few cases.

If the entities have government share, not only OOF but sometimes ODA can be provided for them. Realistically, this may be one of strong points of the 3rd sector venture.

As mentioned, many public utilities companies or infrastructures are, although economic and social benefit of their activities to the country is large, not profitable as a business. If the government fund is provided for all or part of capital expenditures, many of them can be beneficial to the country and profitable to the business simultaneously and private sector fund can be mobilized.

Example: in case of toll road - government fund is for road, private sector fund is for toll plaza, service area or other ancillary facilities; in case of railway - public sector fund is for rail track and signal, private sector fund is for station and rolling stocks; in case of port - public sector fund is for piers, waterways or breakwaters, private sector fund is for loading and unloading facilities and storage; in case of airport - public sector fund is for runway and taxi way, private sector fund is for terminal. With minimum public sector fund, all of these projects shall be financially viable and private sector fund can be mobilized for the non-governmental portion.

It is considered necessary to establish the criteria or guidelines for government investment, the target, content, amount, share as well as condition of the fund.

5. BUDGET MODELS

5.1. Revenue and Budget-Vietnam's Present Model

- 1) The development budget of Vietnam is currently integrated in the general (comprehensive) budget which is based on the country's revenue from general purpose taxes (i.e. income tax, value added tax (VAT), and asset tax, custom tax), miscellaneous service charges and license fees. The source of development budget is not separated from recurrent budget and not in the form of special account which is based upon specially designated taxes, charges or fees.

At present, development budget is appropriated forcibly by providing a certain amount of share in the total budget. It is very difficult to provide a sizable share for development budget within the total budget due to limited amount of revenue compared with the mounting demand for recurrent budget.

Presently, about 10% of the total budget is allocated for development budget. In the recent past, ODA and other domestic borrowings provided more than twice the amount of development fund to the local budget.

- 2) There is a plan to establish a special account for certain development projects which shall be set aside from the general account. Another plan is to institutionalize new taxes for special purposes.

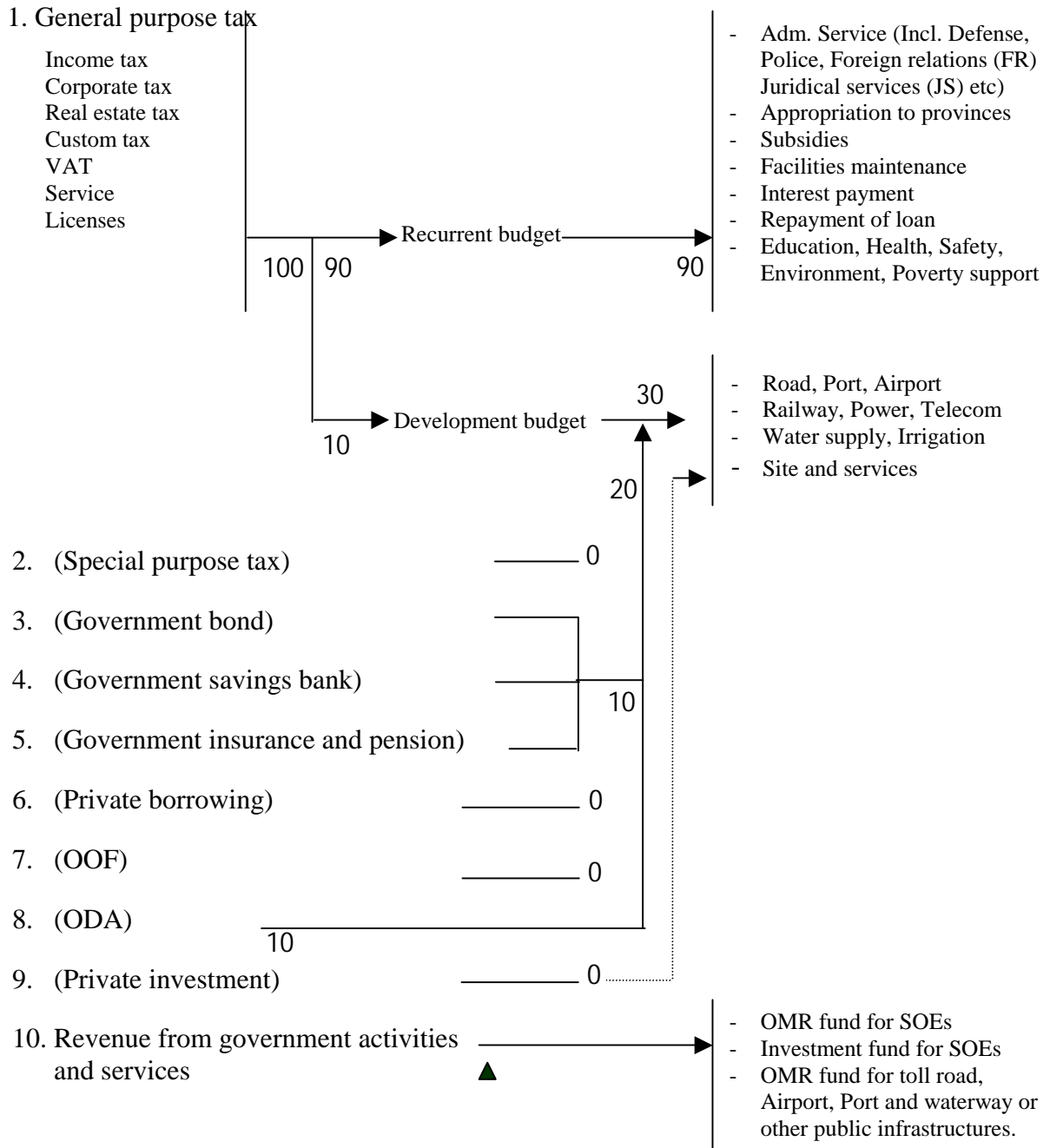
One of the candidate special accounts is the road maintenance account. The revenue for this is planned to be derived from car related taxes, e.g. petroleum tax, tyre tax, car tax, car import custom tax, car license charge, driver license charge, toll charge etc.

However, these taxes are very important sources of revenue for the government budget and if these are withdrawn from the general fund, the government budget will not be sufficient.

In other countries, car related taxes or charges are used as sources of revenue intended for the construction and maintenance of roads. However, considering the structure of present revenue generation and expenditure of the government budget, this method should not be introduced to Vietnam so quickly.

- 3) In order to cover the shortage in development budget, the government has started to issue development bonds.
- 4) In August 1999, the government commenced the postal savings company (state-owned). To date, the revenue has yet to be reflected in the development budget.
- 5) The government's public health insurance system and pension fund, though small, are also part of the development budget.

Figure 5.1.1
 Revenue and Budget – Vietnam’s Present Model



- Figures show % making revenue from general purpose tax 100% when special purpose tax is not set aside.
- (0) does not mean that it is actually 0
- ▲ shows the magnitude of revenue

- 6) Almost equivalent amount of fund to the local borrowing is provided by ODA. There is substantial fluctuation in the amount of ODA observed. Present level of ODA is not large due to slow disbursement. It is expected that much larger amount of ODA shall be provided for future development projects.
- 7) The government appropriates a considerable amount of grant development budget even to profit-making public utilities such as railways, shipping companies including operators of port facilities, airline companies and airport terminals, power companies and telecommunication companies. (For rural telecommunications).

It is necessary for these companies to secure their own development budget as soon as possible. The government grants development budget should solely be used for non-profit development projects. After establishing the Development Support Fund (DSF) in Jan. 2000, non-profit companies will be able to secure funds from this.

5.2. Revenue and Budget- Vietnam's Future Model Case I

- 1) *In this model Case I on the top of present budgetary system, additional 10% of present recurrent and development budget amount is expected for development budget by establishing special account. Present 10% development budget out of the total budget shall be maintained for development budget.*

Special account shall be based upon the newly created special purpose tax and not transfer any revenue from present tax system. The revenue is currently fully used for the government expenditures and there is no surplus amount for other purposes. It is considered impossible to cut it and try to use for other purposes.

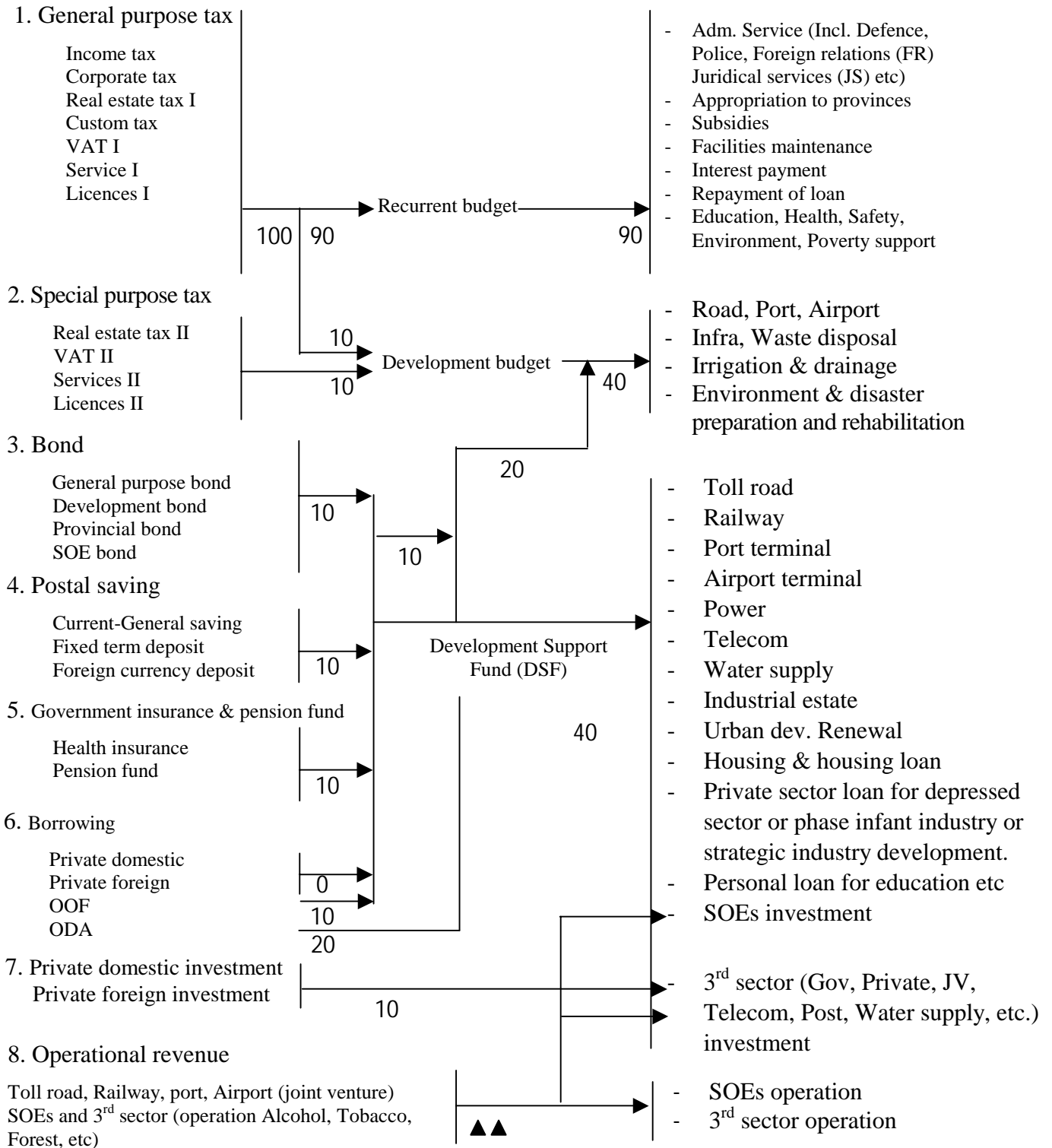
At first it is not possible to expect large amount of revenue from newly established income sources. It means additional 10% budget would not be possible from the very beginning.

It is expected however that eventually 10% of total budget amount from general budget, plus 10% of total budget amount from special account and another 20% of total budget amount from ODA as well as local money market. Consequently, 40% of total budget amount shall be used as development budget, which is 10% more than present budget model.

- 2) What is more important in this model is that the grant development budget will no longer be necessary for revenue-generating public utilities or SOEs.

With this, a bigger amount of development budget can be allocated to non-revenue generating public utilities or infrastructure, which are mostly rural infrastructure.

Figure 5.2.1
 Revenue and Budget – Vietnam’s Future Model Case I



- Special purpose tax is not set aside but newly added

- 3) With Case 1, it is expected that the Development Support Fund (DSF) or fiscal investment and loan program (FILP) will be established and the fund shall be mobilized. The amount of DFS shall be equal to the sum of the development budget (which comes from the general account, special account and ODA as well as domestic borrowing).

Revenue shall come from the recently established government bond, postal savings fund and government insurance and pension fund. This will be minimal but it shall be expanded parallel with the development of the country.

The DFS shall be used for revenue-generating development projects, according to its charter. Public utilities, which are less profitable but are needed to uplift the lives of the people and necessary to spur economic development can be subsidized through government recurrent or development budget.

- 4) The newly-established government bond is reported to have exceeded the target within a short period.

At present there is no capital market established in Vietnam and as a result the issued bonds cannot be traded at the market. However, due partly to the favorable condition (inflation-hedge interest rate) and partly to the credibility of the bond issuer (the government), large amount of the bonds have already been sold and the target for the first year, 4000 BD, had been exceeded in less than half year. (It is reported that local capital market will soon be established.) In this model, 10% worth amount of the total budget amount is expected to be made through bond issuance.

- 5) At present, only limited types of government bond is being sold. However, in the future, along with the establishment and development of domestic capital market, various kinds of bonds issued by different organizations including provincial governments and SOEs shall be sold in the market on top of the bond issued by private companies.

- 6) The postal savings company which started in Aug. 1999 has targeted the amount of 1500 BD for this year. Considering the popularity of the government bond as well as the large and capable post office system, this target can be easily achieved.

In this model, 10% worth of the total budget is expected to be made by the postal savings company.

- 7) At present, the social insurance fund and the pension fund operated by the government is not large and has little surplus for investment or to finance development projects.

However, this surplus is expected to grow proportionately to the growth of Vietnamese GDP. The country's population structure is of Pyramid type and that the average life span of the people is extraordinarily long which makes the time interval between collection of fees and actual expenditure of health care or disbursement of pension fund relatively long. In this case, the fund for health and pension can be mobilized for other useful purpose, i.e. financing development projects.

In this model, 10% worth amount of the total budget is expected to be made through social insurance and pension fund.

- 8) In the case of government bond or postal savings fund, there are two major constraints.

First is that the maturity period of this fund is not long enough to cover total capital recovery of development projects which is about 20-30 years. However, if this fund shall be made constantly available, capital recovery is possible.

Second is that although some SOEs can pay high market interest rate, many of them cannot. This is due to the incapacity of the beneficiaries to pay for the services delivered to them. In such case, the government should shoulder the capital expenditure of the SOEs or subsidize part or the full amount of the expenses including interest.

- 9) At present, the government does not borrow loans from private banks except for short-term bridge loans for development projects. Considering the high interest rate applied by the private banks, this is considered to be a sound budgetary policy. The government borrows development funds only from international organization or ODA or from other bilateral source.

In the future, if the government will be able to mobilize various sources of fund by themselves, the government can borrow OOF on top of ODA. The fund can effectively be utilized by many SOEs. At present, mostly foreign investor in Vietnam utilize this kind of funds. Vietnamese SOEs will be eligible to avail of this funds should this be established. IFC, AFC fund or Japan EXIM Bank fund (JBIC Non ODA loan) can be more smoothly introduced.

- 10) It is better to promote government-private sector joint ventures (JV) including SOEs from the government and foreign investors from the private sector. This type of venture is sometimes called the 3rd sector. In developing countries, the most serious constraint to foreign investment is the very high risk (both business or non-business risks) which can hardly be shouldered by private entities. Through the participation of the government in such ventures, the risks can be reduced. The present concept of privatization of SOEs or the BOT scheme is that the entity should be either public (1st sector) or private (2nd sector) and there should be no

in-between-public and private joint venture. (3rd sector). This rigidity often makes privatization of SOEs or BOT difficult.

If the entities have government share, not only OOF but sometimes ODA can be availed of. Realistically, this may be the strong point of the 3rd sector ventures.

5.3. Revenue and Budget Vietnam's Future Model Case II (Japan's Past Model)

- 1) In the future, when revenue for recurrent budgets can be secured, some of VATs, government service charges or license fees shall be set aside as special purpose taxes or charges, and these shall be set up special account for (SA).

For the establishment of the special account, careful studies should be conducted for the new system. The acceptability of individuals or companies should carefully be determined.

It is ideal even without these separated taxes or charges, recurrent budget can fully be covered by remaining government revenues.

It is expected that 30% of the revenue for recurrent budget shall be secured from the general purpose tax to be set aside as special purpose taxes, charges and fees as the revenue for special account for development budget in this model.

Even if the ODA is decreased to the half of present level, the development budget will be the same compared with previous model – Case I and will be 40% of recurrent budget. (It may be safe not to rely too much on foreign assistance in the future).

The fund shall be used for non-profitable public utilities or other development projects.

Through the separation, the development budget can easily be mobilized without jeopardizing the shortage of recurrent budget. The bigger support from the public is expected since, with this system, the beneficiaries will shoulder the cost of development projects.

- 2) Same as previous model – Case II, profit oriented public utilities or other development projects are fully covered by the fiscal investment and loan program. (FILP-DSF)

In this model, FILP-DSF will not only depend upon government bonds or postal savings but also on government insurance and pension funds. The fund amount estimated to be 40% of recurrent budget amount, and with OOF which is estimated to be 50% of FILP, the total available fund will become 60% of recurrent budget amount.

- 3) In this model, the special account fund shall be used for various non-revenue generating public utilities and development projects while FILP-DSF shall be used for revenue-generating public utilities. As a result, the fund for development projects will be 100% of recurrent budget amount.

This is the figure which has been applied for a long time in Japan and said to have been quite effective in the development of the Japanese economy. (Recent figures are different. This is shown in 4 as Japan model B.)

- 4) In the case of Vietnam, it is widely recognized that the most serious bottleneck of country's economic and social development is the insufficiency of infrastructures.

Under the present situation, there are only a few big cities which can offer infrastructures where modern industries can grow; i.e. high quality industries which can produce exportable products, internationally competitive industries, high value added high technology industries or large capital intensive industries only with which country's GNP can be upgraded substantially.

What is more important is that even primitive industries cannot grow in about 80-90% area of the country due to the absence of infrastructure. Almost half of the country's population is concentrated in these areas. *It means even under Doi Moi Policy, only half of the population can actually participate to Doi Moi.* Lack of infrastructure is the result of under investment of the government. In spite of the very high quality of Vietnamese workers (highly disciplined, diligent, intelligent and acceptable to new environment and new job, etc.) they are not fully utilized due to insufficient infrastructure.

It is already demonstrated that where the infrastructures are newly built, new industries are establish almost without exception.

- 5) This fact shows that all the efforts should be made to improve infrastructures.

In order to make it possible, the Japanese method of mobilizing fund for infrastructures, which is considered to be the most effective method should be applied to Vietnam. This model is based on it.

There is an opinion that the preset Vietnamese development budget is too large. This is true because the planned expenditures is definitely larger than the actual revenues in the budget. If the planned expenditures were maintained even in the future the budget itself will collapse and the country will face bankruptcy. However on the other hand, Vietnam is a typical under-investment country as for public utilities and infrastructures and it is vital to increase the budget for its development.

The only solution for this contradiction by the government may be to find the alternative revenue sources for its development. The government has already started two new policy measures, they are issuance of government bond and establishing of postal saving company. Both are considered to be timely. The plan for them is well elaborated. It is hoped that the government will take further steps to look for other alternative revenue sources. This article may show possibility of some more alternative sources.

- 6) FILP-DSF fund can either be allocated directly to the owner of development project by the government or be provided through government financial institutions i.e. Development Bank or through several regional or sectoral financial institutions.

Except for the big and strategic projects of the country, it is better to provide the fund to the implementing agencies through banking system after getting their cautious appraisal on the projects as well as the agencies.

If the SOEs or Government financial institutions (GIFs) are sufficiently credible, it can issue their bonds by themselves with or without getting guarantee from the Government.

However, it is to be reminded that in the past and in many countries, Government guaranteed loans or bonds tended to be given excessively to SOEs or important private entities and this resulted in credit crunch of these countries. It is not to be mentioned that the government guaranteed should be limited to the minimum level.

- 7) It may be the matter to be studied carefully that the balance of recurrent budget and development budget shall be of equal amount in the future like the case of Japan past model.

In order to catch up the delay in infrastructure building of Japan, (when the first WB mission visited Japan, it said that there is no road in Japan, there is only road site. The situation there was even worse than present Vietnam). This active policy for infrastructure development has been quite effective and worth scrutinized and followed.

For the purpose of achieving such a target, not only mobilization of funds from government bond, postal savings or insurance and pension funds but also mobilization of private source of fund through BOT or government private sector JV, (3rd sector) should be pursued.

OOF should also be mobilized on the top of ODA.

5.4 Revenue and Budget Vietnam is Future Model Case III (Japan' Present Model)

- 1) This model shows the concept of the present Japanese budget system. As the system in general is complicated, only the concept of the budget system is shown here. The budget amounts as well as the distribution are shown, highlighting the tendencies.
- 2) Both the recurrent budget and development budget is interrelated in the Japanese budgetary system and cannot be distinguished or separated clearly. Likewise, general account and special account are making up several programs jointly. Furthermore, central government budget is being provided in various ways to the local government, simple transfer of tax revenue, contributions, and fees for designated works, service charges, share of incomes, etc.

This transfer is seen in most items of budget and account and making the budget system more complicated. Both central and local government have tremendous number of subsidiaries and therefore, already complicated budgetary system becomes more complicated.

Part of general budget is transferred from central governments to provincial government. Part of development budget is also transferred from central government to provincial government.

Sometimes development project, which is funded by FILP, is subsidized by recurrent budget or development budget through various ways, ie. provision of fund for capital expenditure, subsidies for interest payment, etc.

One of the reasons why Japanese budgetary system that has various merits is not understood by other countries may be due to this complexity.

Its complexity is the serious defect of Japanese budgetary system. Transparency cannot be maintained simply because ordinary people cannot understand and can not even criticize or point out the problem.

Unfortunately, the budgetary system is still on the way of becoming more complicated. Every year, new ideas are added to the system only to make it more complex.

In case of Japanese system, there may be various merits that developing countries can learn but at the same time there are many demerits that developing countries should learn not to follow them.

- 3) There are two types of Government bond. One is the bond issued for obtaining fund to fill insufficiency of recurrent budget (Deficit Bond) and the other is for development project (Construction Bond).

The repayment of the bond is made from recurrent budget or development budget, respectively.

There are also bonds issued by SOEs including government banks, i.e. development banks or SME banks. Some of these are guaranteed by the government and some are not guaranteed or sometimes privately issued.

- 4) There is a move to utilize postal savings bank fund or postal insurance fund for the purposes other than public utilities or infrastructure development of the country in Japan. It is being planned to allow Postal Savings Bank (PSB) to manage the savings or insurance fund by themselves. Through this, more efficient use of fund is expected by making the PSB activities more autonomous and accountable. It is also due to the fact that there is a room for PSB fund to provide some portion of it for other purposes than the government investment and finance activities.

So far, a part of PSB fund is used to buy government bond. It means if we simply sum up government bond, postal savings and insurance fund, it is more than actual FILP. There is a substantial double account within it.

In Japan, postal saving is approximately 250 trillion yen (2 trillion dollars) and postal insurance fund is approximately 100 trillion yen (0,8 trillion dollars). If only 1% were collected in developing countries through the similar system, it would be 30 billion US\$ worth amount.

It is enough to invest and finance more than 3 billion US\$ firmly every year for the development projects alone. (where, in Japan, or Vietnam?) It means without depending foreign resources, developing countries can improve their necessary public utilities and infrastructures by themselves.

- 5) In Japan, other than the above- mentioned fund, there is over 700 trillion yen pension fund (6 trillion dollars). Majority of the fund is considered to be kept as financial asset and not used for development project. In addition to this, due to relative increase of elderly population, the pension fund has little room to be used for other purposes so far. To make the situation worse, interest rate in Japan is very low, the pension fund at present is making huge deficit.

In case of pension fund in Vietnam, due to population structure, this will be an important source of fund for both private and public investment over quite a long period of time from now on if the fund is properly managed and operated.

- 6) At present, there are various criticisms against the FILP, which is based upon postal savings, postal insurance, or government bonds, especially the amount of bond issued by the Government has reached to the level, which can not easily

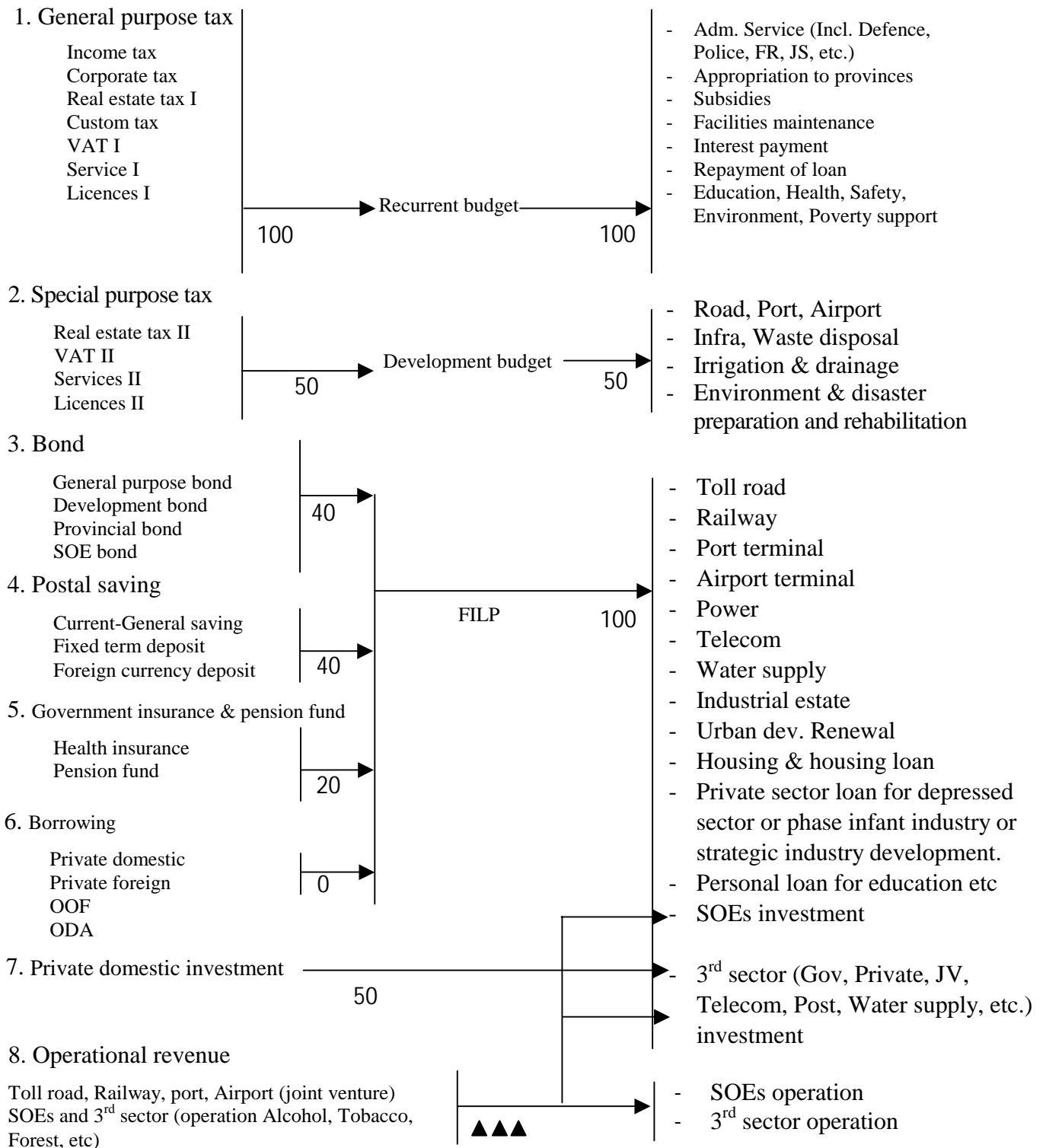
be paid back. (350 trillion yen or 3 trillion US\$ worth amount and is rapidly increasing.)

If Vietnam intends to introduce similar system, it should focus utmost attention in not committing similar mistake. Measures should be taken to avoid such a problem and to attain most reasonable use of fund till to maximum export. (It means model III, past Japan Model A, may be the best model IV, Present Japan Model, may be the worst.

- 7) It is also a matter to be pointed out that part of FILP fund could have been used to support activities of international financing institutions, i.e. WB, IDB, ADB, IMF, etc. and also OECF, JICA or EXIM bank (JBIC) Japan. The present level of Japan's ODA is the largest of all the developed countries be it through multi-lateral or bilateral organizations. This has become possible only because of the existence of FILP Fund. This fact should not be disregarded.
- 8) FILP has been provided not only for public utilities or infrastructure development, but also for the support of industries, strategic industries, i.e. high risk industries like non traditional industries, basic industries which require huge initial investment, high technology industries which need R&D investment. FILP has contributed a lot for their development. FILP fund has also been provided for the support of structural adjustment initiative by depressed industries. The funds are provided through DBJ, SME fund or Agriculture and Cooperative fund to the business

Although there have been problems during implementation, the fund has contributed a great deal to modernize and rationalize Japanese industries and have helped many of them internationally competitive

Fig 5.4.1
 Revenue and Budget – Vietnam’s Future Model Case III (Japan’s Present Model)



- Special purpose tax is further increased

In case of construction industries, it is only possible to modernize the business while the government expends for construction works. If the government had not provided any FILP fund for their development, Japanese construction business would not have developed so much. The government provided fund from FILP to guarantee their borrowing from private banks. As a result, Japanese construction business has been able to obtain 40% of down payment at the time of contract. The construction companies can also borrow money from the bank making their equipment as collateral by the guarantee scheme backed up by FILP.

Through these schemes, even local smaller contractors could have participated in government funded construction projects. In this case all the FILP fund has already been repaid and the guarantee scheme is fully standing on the its own feet.

- 9) FILP although getting strict criticism from the public at moment, it has contributed greatly to the development of Japan. Unfortunately it might have finished its historical role however, it is not right to deny it's historical role, which can be followed by other developing countries.

5.5 Revenue and Budget-Vietnam is Future Model Case IV (USA, EU or Model)

- 1) Among developed countries, the Japanese system is significantly different from others, however, it does not mean systems of other developed countries are the same. On the contrary, they are all different and therefore it is difficult to show them in one diagram.

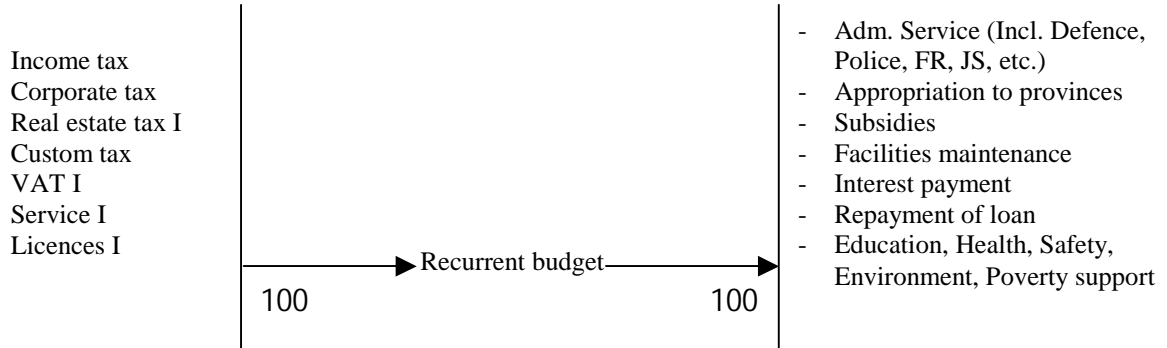
The diagram shown here only focuses the structure of developed budget. It is shown that most countries do not have substantial amount of development budget as big as recurrent budget from alternative fund resources such as government bond, government savings bank fund, and government insurance or pension fund like Japan. The reason may be, partly, traditionally the areas of these investment may have been categorized as the areas private sector activities or partly to the fact that they did not need such a big amount of fund for their public utilities or infrastructures building. The quick development of these facilities has not been necessary in these countries. They have already been built up over several hundred years beautifully.

As has been explained, this model does not show any actual model of a certain country. The figure shown here is not even a mean value. It shows only a tendency or nature of their budget systems.

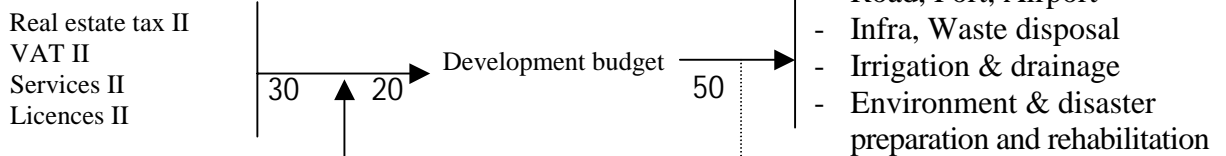
- 2) It is to be noted that the systems of these countries are different between the countries that the power is concentrated to the central government (France, UK, etc.) and the power delegated to each province or state (Germany, USA etc.)

Fig 5.5.1
 Revenue and Budget – Vietnam’s Future Model Case IV (USA-EU Model)

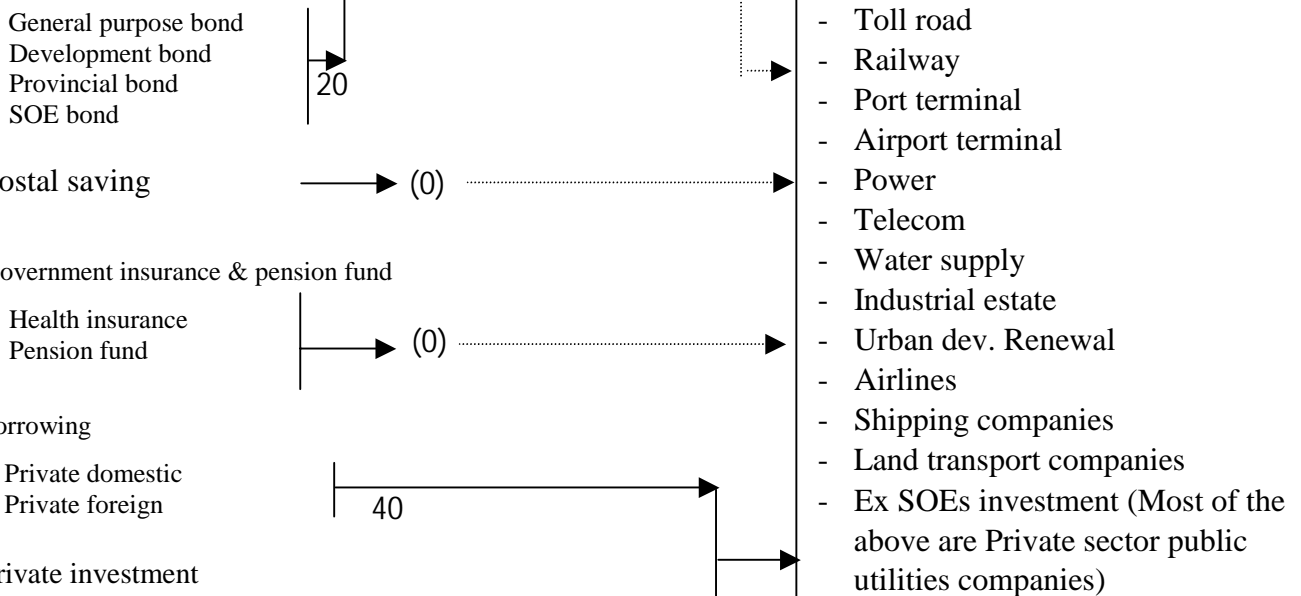
1. General purpose tax



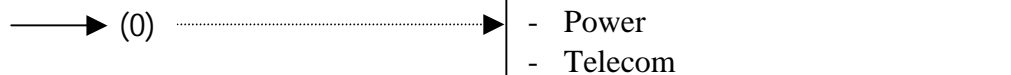
2. Special purpose tax



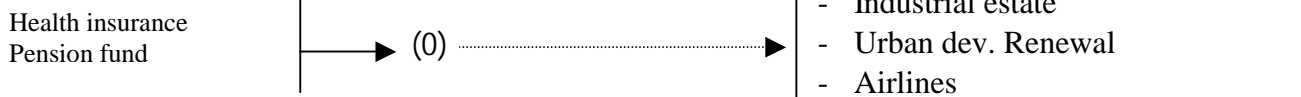
3. Bond



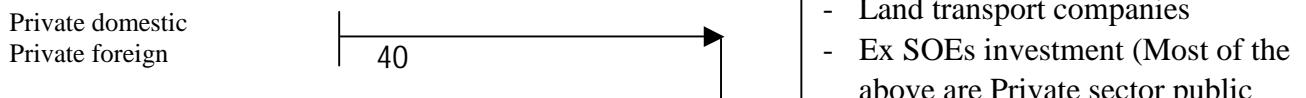
4. Postal saving



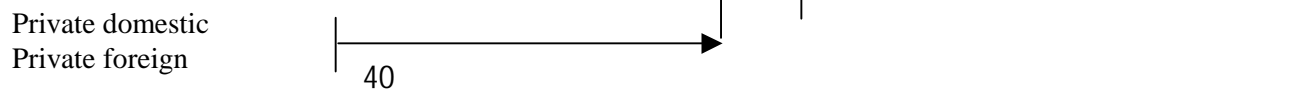
5. Government insurance & pension fund



6. Borrowing



7. Private investment



8. Operational revenue



Among the latter countries, there is a possibility that some of their provinces have totally different systems from that of central governments although they are not shown in the diagram.

- 2) Contents or targets of recurrent budget as well as development budget are not identical among these countries. Likewise, contents or targets of general account as well as special account are different among them.
- 3) Revenue from government bonds are sometimes used for the recurrent budget and sometimes for development budget. In this diagram it is used for the development budget.
- 4) Revenue from government savings banks is either too small or non-existent in these countries. Unlike Japan, none of these countries make it the mainstay of government investment for the construction of public utilities or infrastructures
- 5) Revenue from government insurance and pension funds is likewise nonexistent. Even if it exists; the revenue is not usually used for government investment for public utilities or infrastructure.
- 6) In most developed countries, privatization is more advanced than in Japan. Of those privatization in the 3rd sector type, government-private Joint Ventures in Japan are not so common. Privatized public utility companies source funds from private financial markets and are operating their businesses on such.

Many SOEs still remain, and most of them still accept government subsidies and remain under government control. However, these companies become more and more autonomous in terms of both operations and budget every year.

On top of the traditional SOEs, many government organizations including government agencies are set for privatization. This is evident in the case of Germany, where the Technical Cooperation Agency (GTZ) has already been fully privatized and is operating successfully.

- 7) On the other hand, even privatized SOEs are not always subject to independent accounting. In case they are required to render services that are commercially not viable due to low pricing imposed by the government, they are entitled to accept government fund or subsidies.

5.6. Recommended Model for Vietnam

In Vietnam, budget insufficiency of the government is chronic, due to insufficient revenue, especially with little revenue from income taxes. On the other hand, demand for expenditures is large.

Such phenomenon is commonly observed in many developing countries where most of the inhabitants are poor while the need for development investment is very large.

Like other developing countries, the Vietnamese budgetary condition also has its problems. Under such a situation, the development budget tends to be sacrificed in favor of the large budget demand for recurrent expenditures, which are very hard to cut.

As a result, the development budget of Vietnam only comprises 30% of the total national budget, including ODA, OOF and private borrowing. This is not sufficient for the development of social and economic infrastructure that is vital to the development of the country

Under such a situation, it is not realistic to expect the government to allocate a much bigger fund for the development budget. However, it also does not mean that the development budget should remain at the present level. All efforts should be made to increase the development budget without jeopardizing the balance of entire budget.

As long as improvement of the country's economy continues, the future generations of the country can easily shoulder even much bigger expenditures for investments required for the development projects.

There is no doubt that the Vietnamese economy is under-invested, since insufficient infrastructures are everywhere. Therefore, the effort should be made to expand the revenue without jeopardizing the development of sound economic policy, as well as find new sources of revenue, which can be mobilized for the development budget.

In this chapter, several different models are shown as possible candidate models for the Vietnamese budget system. Of these models, we recommend case II (Japan's past model) for Vietnam. The reasons for this recommendation are as follows:

The most complete budgetary models are the USA and EU models. The Japanese models are considered to be transitional, with many defects to be corrected.

However, the USA-EU model cannot always be considered suitable for most developing countries. This is because most developed countries will have not enough means to invest in development projects. The USA-EU model is best for mature societies where huge investment for development projects is no longer necessary and the government is not required to supplement services, which are sufficiently provided by the private sector. The governments of developed countries should render only those vital services which cannot be rendered by the private sector by itself. It may also intervene in private business activities for the purpose of harmonizing business and people's interest.

As long as the country is in the developing stage, the government investment is large and the governmental role is substantial. "Big government" is therefore inevitable. The USA-EU model (i.e. small government model) cannot hold effective policy measures, and cannot offer sufficient budgets for these developing countries' activities.

This is the reason why the past Japanese model is recommended as the future model of Vietnam Future (model Case II).

The reason why Case III, or the present Japanese model is not recommended is because the budgetary measures taken are considered to be excessive, with adverse side effects. For example, the development budget itself is too large and the amount of bonds issued has already reached to the level in which it cannot be repaid easily.

Other than the above examples, in the USA-EU model, the areas from which the government has retreated have been turned over to the private sector. However, many projects cannot be implemented by the private sector alone due to large costs or large business risk factors. Furthermore, the funding system is not as developed.

There are some exceptions. In some of the more advanced developing countries, development projects are offered by the private sector. They are airports, ports, commuter train systems, water supply systems, telecommunications, etc. However, these are confined to the big cities, with most of them being capital towns. None of these are targeted at small towns or to the rural areas.

One of the most serious problems in developing countries is regional disparity. Through privatization or promotion of private initiatives, there is a danger that the regional imbalance can become more immense.

Under Japanese models, the Government has the means to provide funds for development projects where the private sector investment is not expected to participate. If the Japanese model is applied to Vietnam; industrial estates or real estate development projects can be undertaken by the private sector; and others by the government, such as express toll roads through the FILP fund, trunk roads through special accounts and feeder road drawing from the general account, and a special account. Through this method, a more harmonious development of the country can be expected.

In the case of Vietnam, the Government's system is still based upon socialist models. Though Japan has had no experience of socialist government, the government systems have a strong resemblance with those of socialist countries. Making full use of these systems, Japan has been able to develop the country successfully. This means that it is realistic for Vietnam to apply the Japanese model for their development.

Table 5.6.1
 Possible Recurrent and Development Budget Under Various Cases

		Recurrent Budget	Development Budget Non-profit Sector	Development Budget Profit Sector	Private investment BOT, 3 rd sector	Government service revenue incl. SOEs operation
1	Present	90	30 (Incl. ODA 10)		0	▲
2	Future Case I	90	40 (Incl. ODA 10)	40 (Incl. ODF 20)	10	▲▲
3	Future Case II (Japan A)	100	40 (Incl. ODA 10)	40 (Incl. ODF 20)	20	▲▲▲
4	Future Case III (Japan B)	100	50	100	50	▲▲▲
5	Future Case IV (USA-EU)	100	50	0	80	▲▲▲▲

6. POSSIBLE POLICY MEASURES FOR INVESTMENT RATIONALISATION

To rationalize transport sector investment, a comprehensive sectoral development program or master plan for the region should be prepared.

While in depth studies are usually conducted for deciding priority order, size or content of the project within each sub – sector, it is very rare that such studies are conducted for priority rating or project mode selection among various different sub–sectors and areas.

As a result, the most effective inter–modal transport system is not always chosen and the optimum investment program is sometimes not prepared.

In Vietnam, the MPI is in position to co–ordinate investments among different sectors. However, an inter-modal system selection can not be well coordinated by the MPI since different modes of transport can have differing impacts to the people.

This article does not intend to focus on actual project content but to refer to the basic concepts of attaining investment rationalization.

1) Maximization of existing transport systems

It is often observed that little attention is paid to the existing transport system. With minimum investment in these systems, substantial gains can be achieved. However, few measures are taken to achieve efficiency in these present systems.

So-called informal transport means, such as bicycles, motorbikes, animal carts, tractors or row – boats are currently the most important means of transport in the country especially in the rural areas. Therefore, it is necessary to take possible action to improve their efficiency.

For example, in order to make bicycles useful in mountainous regions, sub–motor mounted bicycles should be developed. Animal carts could be lighter and more handy with an aluminum frame and with the use of rubber tires. High speed gear systems can be installed in tractors for transportation on conventional roads. Row–boats should be modernized (IE. Japanese style row–boat is with bigger capacity and much more efficient) and motorized. Likewise, motorbike-suitable, affordable road systems should be developed and extended as far as possible.

Research should be made on these matters and the way to support increasing efficiency of these informal traffic should be worked out.

2) Inter–modal transport system development between informal and formal transport means.

Various studies have been conducted for different transport means. However, there have been few studies conducted on informal traffic as well as the coordination of

informal and formal transport means.

Though at present, informal traffic outweighs formal traffic in number, many studies, deliberately or not, have disregarded informal traffic and have focused instead on formal traffic, which in the countryside is practically non-existent.

With this bias, the result of studies may be off-tangent with actual conditions, if not incorrect. Without scrutinizing the nature of informal traffic, future traffic forecasts to include formal traffic will not be properly undertaken.

It is expected that even in the future, informal traffic systems will still be important transport means. It may be incorrect to easily conclude that in the future, all the traffic will shift from informal to formal. Therefore, attention should be paid on building the most effective transport system which can encompass both informal and formal transport means.

Furthermore, the policy to “formalize” all informal traffic in the future should be reassessed. Present informal traffic systems are much safer and less environmentally hazardous. These are also more cost-effective and require much less investment. Likewise, these are more energy efficient, and space availability is much higher than in formal traffic systems.

With an emphasis on informal traffic, investment costs for transport facilities as a whole could be drastically decreased.

3) Consideration of total life benefit of investment

In many cases, if only to avoid the high costs of initial investment, much less economical investments have been made.

A typical case may be the insufficient investment for the Hanoi–Ho Chi Minh railway (H-H railway). At present, due to the inconvenience of using this railway, more costly road-based cargo and passenger traffic systems are preferred. If there is sufficient investment, the H-H railway can offer much cheaper, faster, safer as well as comfortable service than trucks and buses over long distances. At present, the railway does not have necessary fund for investment to attract users.

Generally speaking, a railway system is much more competitive against road systems in three cases, (1) Inside big cities 2) between two large cities, and 3) in areas where many cities are located on one line like a chain. The Tokyo – Osaka – Hiroshima – Hataka Shikansen railway is a typical case, making it the most profitable railway in the world.

The demographics of the cities it spans as well as natural condition of Ho Chi Minh-Hanoi railway can make it a profitable railway in the future if sufficient

investment is made. Part of this study suggests such a possibility and this matter should further be studied.

It is said that ultimate transport capacity of one double track railway is worth at least 4 4-lane road expressways. The transport capacity of a single track railway is far less than a double track. (It is not half but usually much less than 10%). This means that a single track railway is usually uneconomical and therefore not competitive against road systems. If a double track railway is not justified, then it may be better to give up railways in favor of roads.

If the economic development of Vietnam is as smooth as expected, North – South traffic demand will increase and the construction of 4-4 lane expressways is inevitable. This means that tremendous costs will be necessary for its development.

With this, it is possible that railways can be much more economical, since it may not be possible to find sufficient space for road. The space efficiency of railways may be a vital factor when it is introduced in the narrow corridor between the North and the South.

A very important policy measure is not to lose large amounts of money tomorrow in order to save smaller amounts today.

In order to shift road traffic to more economical, safe and environmentally friendly railway systems, action should be taken to limit bus or truck traffic to the minimum, and excessively heavy and large traffic should be strictly controlled.

In Japan, such a policy was not taken up when systems were completed. Trucks were allowed to use expressways. As a result, the railways lost their traditional customers – cargo traffic, making them bankrupt. Likewise, the expressways are always terribly congested whatever improvements and huge investments were made. These investments led to increases in expressway toll fees, which are 10 times higher than world average. These traffic laden expressways also affect the surrounding environment.

It is sincerely hoped that this will not be repeated in Vietnam.

4) International co-ordination of transport facilities investment

Air and sea communications are basically international. It is no use confining the plan within national borders. This therefore means that international co-ordination is necessary whenever the facilities are planned in order to minimize investment and maximize the effect.

In the case of Vietnamese ports, due to the comparatively small volume of loading and unloading cargo, it is uneconomical to construct facilities for huge

ocean going ships, such as oil tankers or container ships. At present, large vessels unload their cargo in Singapore or Hong Kong and transship the cargo to Vietnam using smaller ships with a capacity of 10 – 20,000m tons. This situation may be better left as is.

It is better to utilize these ports as cargo or transshipment ports for Vietnamese ports. Thus, a large amount of investment could be saved.

This does not mean that transport to Vietnam shall be controlled by these ports. On the contrary, it is possible to influence these ports to be more useful for cargo into and out of Vietnam.

In the case of India, many Southern ports are making the Colombo port in Sri Lanka as the main transshipment port. This has not led to any inconvenience for shippers.

In the case of ports, not only commercial ports but also other ports, such as industrial estate ports, fishery ports, and military ports should be maximized. This is because huge costs and a lot of time is necessary for the construction of larger ports. Industrial development cannot wait for it.

5) Promotion of international traffic

Vietnam has very narrow land and long coastline. It means that Vietnam can offer ideal international transport means for neighboring land locked countries and regions, such as Nam Ninh and Cung Minh in China, Laos, Cambodia and possibly North East Thailand. However, these countries and regions shall have merit to utilize Vietnamese ports only if road links are improved.

It is also considered useful to allow construction of custom free storage or related facilities at Hai Phong, Vinh, Dong Ha, Da Nang, Bun Tao, My Tho, Can Tho for these neighboring countries. It is necessary to develop licensing systems for the trucks or vessels to go through Vietnamese territory (with reasonable toll). In Europe, this system is very much developed. Vietnam and its neighboring countries will likewise benefit from a similar system. Part of the investment fund can be expected from these other countries.

6) Priority for rural road improvement

In Vietnam, 80% of people live in rural areas. The single most serious problem for the development of convenient living and the promotion of business is the insufficiency or absence of infrastructure. Without roads, they can not sell their products, and without electricity no industry can be born.

In the case of road projects, although these roads are illustrated in the map or listed in the inventory, many of these may not be able to accommodate cars. There are also many villages where there is no car-passable road.

The pavement ratio of Vietnam is very low except for national roads. In the case of provincial roads, only some of them are paved. In case of rural district or village roads, almost none of them are paved. The problem lies in the fact that cars cannot pass unpaved roads almost throughout the year.

Statistically, sufficiently long road distance is registered in Vietnam, the road section which can actually be used is only its paved section. It means the actual road is very short. Effort should be made to extend this actual road distance.

In Vietnam, people in rural areas are industrious, disciplined and intelligent enough to accept new ideas or technology. Their talent is well shown during implementation of the project with high quality and fast work.

Why is it that the countryside of Vietnam cannot develop even with the above mentioned fact?, The reason is simple – the lack of infrastructure which is vital for industrial development. Under the present situation, having few paved roads, no electricity, no supplied water, no industry can be established and be developed in these areas. As a result, few job and income opportunities are available for the people in rural areas.

It is true that improvement of rural infrastructures will help improve people's lives. But in case of Vietnam, this will also directly contribute to generate new industries in countryside which could not be put in place without the proper infrastructure come.

7) Coordinated development of various rural infrastructures

It may be better to develop the same areas for both road and electrification or other infrastructure projects simultaneously. Some provinces intend to do so. It seems however that some other provinces do not intend not to do it deliberately.

The local people will surely welcome the improvement of their road and the electrification of their villages. However, for industries, if one project is lacking

8) Coordinated development of various rural infrastructures

To achieve industrial development, it is best to undertake road improvement and electrification or other infrastructure projects simultaneously. While some provinces intend to do so, others may not.

Improved roads and electrified homes are welcomed by the rural folk. However, the presence of electricity and the absence of adequate roads and other types of necessary infrastructure renders the entire industrialization process useless. This

means that industries will still fail to develop, and with this, income opportunities and jobs will likewise not be available for local folk, creating a domino effect wherein the same folk, having no steady income source, will feel difficulty in paying electric bills to finance the continuous supply of electricity. At worst, they may be frustrated by imperfect infrastructure services.

Given the nature of work, electrification usually precedes other infrastructure initiatives such as road improvement. To achieve simultaneous development in these two important infrastructure items, it is vital that the time lag between these two be as short as possible.

9) Considering regional diversity in the construction of rural roads

Vietnam is a country of various natural conditions and diverse cultures. In fact, the levels of development vary from province to province.

This being the case, the targets as well as the modalities of rural infrastructure development will have to differ correspondingly in order to meet the specific requirements of these different areas.

The following are peculiarities observed in some regions for the implementation of the rural development projects, especially for the rural road improvement.

a) Northern mountainous region

The area being mostly mountainous, economic and social development activities are difficult to implement in spite of the serious efforts of the government. Thus, infrastructure is poor, and the people hardly enjoy them. Consequently, the quality of life of the people is very low.

In some provinces, there are pilot projects in progress to deliver needed infrastructure and social services to the people who live in remote places, for which these services would otherwise be costly.

In the pilot projects, people residing in mountainous regions are advised to relocate to the plains and are given parcels of land. Here, infrastructure and social services such as roads, water supply, electricity, schools, hospitals are provided. Under the project, the people are not forced to relocate, but are persuaded to. So far, this pilot project is successful and welcomed by the people. Through this, chronic environmental problems, slash and burn farming and shifting cultivation can also be prevented.

In these areas, it is not easy to provide infrastructure, especially roads through conventional means. Therefore, it is better for rural infrastructure projects to co-operate with this relocation effort.

b) Central highland region

The region is relatively scarcely populated with vast flat highland areas. The climate of the region is moderate, the land is fertile and precipitation levels are desirable. The area is rather underdeveloped until recently, when farmers from densely populated areas (mainly from northern Hong River delta areas) have transmigrated and have begun cultivating many areas. The most remarkable product is coffee. Thanks to the knowledge and initiative of the migrant farmers, the coffee production is successful. The increasing coffee export from Vietnam is owed largely to the successful coffee cultivation in this area.

The weakness of this area is the insufficient infrastructure, especially rural roads since the area's population is relatively new. People's requests for this infrastructure is extraordinarily high. In this area, it is sure that with the increase in infrastructure, such as roads, electricity, irrigation and water supply systems, the production of various temperate cash crops will increase correspondingly. Infrastructure development in this area would be more for industrial purposes (agriculture plus agro processing industry) than for social purposes.

It is impressive that farmers contribute financially for the road construction (though some of them complain the amount of contribution to be too large).

The most important condition to promote export oriented agriculture is the existence of well trained farmers. It is significant that only after 10 years of settlement, the area has succeeded to export their products.

c) Mekong Delta area

Road conditions in this area are perhaps the worst in the country. The main reason for this is the presence of many rivers and waterways, which, likewise make roads unnecessary since it also provides a means of transport with boats and other water transport means.

The affordability and environmental soundness of water transport make it a viable alternative to road transport. However, road transport is also more comfortable, and makes it more convenient for networking transport systems with the other regions.

The most serious problem for road construction in this area is its high cost. The per-unit construction cost of road is said to be roughly twice as high as in other areas, due to various unfavorable conditions, such as the unavailability of construction materials, the rainy climate, frequent flooding and the difficulty in traversing the area.

In this area, if the road surface is not paved, the road is not passable during the long rainy season. Furthermore, unpaved roads tend to disappear at this time.

10) Realistic approach for urban transport improvement

Urban transport is not included in the strategy study at this time. However, the following should be taken into account when the study will be conducted in the future.

- a) The urban areas of Hanoi and Ho Chi Minh City are small compared with other foreign cities of the same population. In the case of Hanoi, majority of the population lives within a 10 km radius from the city center, except for some areas along major roads. In the case of Ho Chi Minh City, the population is larger than Hanoi and the city area is approximately set at a 15km radius from the center, with some populated areas also concentrated along major roads.

Compared with Tokyo, which has an urban area of over 100km; Jakarta, Bangkok and Manila with 30 – 50 km urban area, Vietnamese cities are much smaller. This shows that Vietnamese cities are more densely populated than other cities. While this has caused some problems for urban transport management, it also has its advantages.

If the city area is small, motorbikes and bicycles can be utilized as a transport means and makes the less space-efficient automobile often necessary. (Motorbikes can be used for commuting in areas less than 15km and bicycles less than 5km). This is the main reason why serious road congestion problems in Bangkok, Jakarta or Manila is not observed in Hanoi and Ho Chi Minh City. (The space efficiency of motorbikes and bicycle traffic may be 2 – 3 times higher than automobile traffic, and the time-efficiency of the former is sure to be much higher than the latter).

These areas had a bus service system but it has lost out against motorbikes and bicycles due to their inconvenience.

At present, there is again a plan to introduce a bus system in these two cities. But considering the relative usefulness of motorbikes and bicycles, this will surely fail again. Thus, it is useless to introduce buses as long as the size of the cities remain the same.

There is also a plan to remodel all urban road systems for future motorization. However, this requires a multi-billion dollar investment. This is considered to be not only not realistic but also useless.

For traffic safety and environmental protection, the introduction of automobile traffic to the city should be more cautious. (The real culprit of traffic accidents are not motorbikes, they are cars).

- b) On the other hand, a very big population increase is expected in Hanoi, Ho Chi Minh City and other cities. At present, the rural population of Vietnam is approximately 80%. However, considering the trends in other Asean countries, the future rural population of Vietnam may decrease to 60% or 40%. It means that the population of these cities will increase twice or three times in near future. With this, urban area expansion is inevitable.

Therefore, it is necessary for the cities to prepare for inevitable expansion. The uncontrolled sprawl of city areas is quite undesirable. It is necessary to construct satellite cities to create an orderly expansion and accommodate the increasing population to connect these cities with MRTs.

This is how to the MRT was built in Tokyo and Osaka. It was already impossible to construct space-inefficient roads because these two cities were built up and the road construction cost to accommodate car traffic was prohibitively expensive. Since these cities were already sufficiently congested, the development of the MRT System was vital.

As a result, the major transport mode of commuters in these cities is at present 80% or more on rail and what remains is all other road-based transport modes including bicycles and pedestrians. This is why Tokyo and Osaka can maintain their urban functions even with one of the worst road networks in the world.

On the other hand, in Jakarta, Bangkok and Manila commuter traffic services are exclusively operated by road, with the MRT share only 1% or less. Therefore, traffic congestion of these cities is chronic and city functions are seriously degraded. There is no hope to improve the situation fundamentally in near future in these cities.

- c) In the case of Hanoi, the urban area is presently extending beyond the 10km diameter in 4 directions along 4 national roads and railways. Therefore, with minimum investment, introduction of MRT is possible. If the users of MRT are effectively linked with other transport means such as motorbikes and bicycles, urban transport problems are almost fully be solved.
- d) In the case of Ho Chi Minh City, there is only one existing railway line towards Bien Hoa. But with the expanding urbanization observed along this line an MRT should be introduced as soon as possible.

Between My Tho and Ho Chi Minh city, there is no railway, and the existing road is often congested. Along the the railway system linking the Mekong River and Ho Chi Minh City, and MRT should be introduced.

In the city itself, the two major city centers – Saigon and Cho Lon should be linked with a grade separated MRT.

Other than these two cities, Hai Phong, Da Nang, Nha Trang, Thanh Hoa, Vinh will increase their population to a million in near future. Before their traffic situation becomes very serious, necessary urban transport facilities such as an MRT should be constructed. Other cities in the world only began construction of their MRT systems after their traffic situations became too congested.