



PPIAF Supports Private Sector Participation in Vietnam Water Projects

In 2002 PPIAF supported two pilot projects in provincial Vietnam, which developed and implemented innovative demand-driven approaches for private sector participation in the delivery of piped water to previously underserved communities through a bundled design, build, and lease contract. Working with bilateral and multilateral partners as well as local utilities, the pilot projects demonstrated the willingness and ability of the local private sector to participate in contract bidding and confirmed the local market's appetite for such opportunities. Early results from these projects highlight the role of women as a major driver of increased consumption for household uses of running water. Clinics, schools, and other public services have also visibly benefited.

In Vietnam's rapidly growing economy, burgeoning urbanization is putting increased strains on infrastructure. Many of Vietnam's urgent infrastructure needs arise in rural areas, where much of its population still resides. Water is one example, with many communities still lacking access to piped water supply. While Vietnam has been a strongly centralized economy, the private sector is beginning to emerge with a significant role in national economic development. In 2002 the Public-Private Infrastructure Advisory Facility (PPIAF) piloted two projects, which gave communities a role in determining how water is delivered and at what cost, using the private sector to deliver a viable and politically acceptable solution.

PPIAF SUPPORT

PPIAF provided a \$406,000 technical assistance grant to pilot a new way of providing water to two district towns and their surrounding communities: Lim Town, with a total population of approximately 12,500, and Minh Duc Town, with a total population of 11,700. The aim was to test the viability of a demand-driven approach allowing each community to determine the best way to deliver services, for which its residents would be willing and able to pay.

The required services were bundled into a single contract—a design, build, and lease (or DBL) contract—and PPIAF support enabled each community, along with its local authority and provincial water company, to take part in designing and implementing the scheme, including the unfamiliar tasks of preparing the projects for bidding, evaluating bids, and awarding the contracts. While a new concept for Vietnam, this kind of demand-based approach had already been used in the Philippines, and the experience there showed that the private sector could meet the water needs of underserved communities through arrangements such as competitively bid DBL contracts. This approach provided an initial model for engaging with the private sector on the Vietnam pilot programs, with modifications to fit that country's characteristics.

Under the piloted approach, once competitively selected, a contractor carried out the detailed design work on the water supply system, constructed the system, and then operated it for a specified lease period (10 years for each town) before reverting it to the provincial water company as the nominated project owner. The contractor then paid a lease fee to this provincial water company. Construction of the

water supply project for Lim Town was financed by a grant from the Swiss Agency for Development and Cooperation, and that for Minh Duc Town by a grant from Finland's Ministry of Foreign Affairs.

OUTCOMES

While bidding proceeded separately for each town, the process was the same for both. Contractors were competitively selected based on combined technical and financial proposals. After evaluation of bids, both contracts were awarded to local private operators in January 2006. Soon thereafter construction commenced, and water delivery to customers began in early 2007.

DONOR COORDINATION

PPIAF's support not only helped undertake this pioneering transaction but more importantly also helped mobilize financial support from other bilateral and multi-lateral sources, such as the Swiss Agency for Development and Cooperation and Finland's Ministry of Foreign Affairs, for the construction of the water supply projects in Lim and Minh Duc Towns.

The Swiss Agency for Development and Cooperation also supported several additional capacity building activities and established a revolving fund, managed by the Province Women's Union, to make small loans to households for investments in sanitation facilities.

The Water and Sanitation Program has also documented and disseminated many of the lessons learned while engaging with the private sector in the provision of water and sanitation services.

Since 1999 PPIAF, a multidonor technical assistance facility, has helped developing countries use public-private partnerships to improve their infrastructure. A key focus has been upstream technical assistance to support the development of an enabling environment for such partnerships.

This series highlights how PPIAF's support has made an impact on the ground.

IMPACTS

The DBL pilot programs are already demonstrating some of the impacts of these innovative approaches. In both cases the consumer take-up of piped connections has been faster than originally envisaged, and individual household consumption has increased. Viable tariffs have been established, and both private sector operators are already interested in expansion, either through direct investment or bidding for more DBL contracts. Lim Town quickly saw the number of connected households grow from 1,792 to 2,336, and a further increase to 2,500 is expected. Fourteen local full-time and six part-time jobs have been created. Minh Duc Town is showing similar results, with the initial 1,350 connected households quickly growing to 2,000, and a further expansion to around 3,000 likely over the next few years. A comparable number of new local jobs has also been created. Both operators report that women are driving the increased consumption of water for household uses, and that clinics, schools, and other public services have also visibly benefited from gaining access to running water.

RELATED PPIAF ACTIVITIES IN VIETNAM

Activities:

- 2002: Pilot Private Sector Participation (PSP) in Water Sector, **\$406,000**
- 2005: Performance-Based Contracts with the Private Sector to Reduce Non Revenue Water in Ho Chi Minh City and Hanoi, **\$276,740**
- 2005: Public Private Partnership Decree in Urban Water Supply, **\$68,000**
- 2007: Public Private Partnership in District Town Water Supplies in Binh Dinh Province, **\$74,000**

Publications:

- 2006: *Gridline No. 10, Meeting Water Needs in Vietnam: How Engaging Communities Can Help Lead To Viable Projects*
- 2006: *Approaches to Private Participation in Water Services: A Toolkit*