Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 05-Apr-2020 | Report No: PIDA29078
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>P171216</td>
<td>Second Ho Chi Minh City Development Policy Operation (P171216)</td>
<td>P160480</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAST ASIA AND PACIFIC</td>
<td>11-Jun-2020</td>
<td>Governance</td>
<td>Development Policy</td>
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<table>
<thead>
<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tbody>
<tr>
<td>Socialist Republic of Vietnam</td>
<td>The People's Committee of Ho Chi Minh City</td>
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Proposed Development Objective(s)

This is the second operation of the DPO series to support HCMC to strengthen institutional foundations for sustainable urban development. Specifically, the development objectives of the series are to contribute to (i) Integrated and transparent spatial information for urban management; (ii) Strengthened management of public assets and liabilities; and (iii) Enhanced delivery of priority municipal services.

Financing (in US$, Millions)

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<table>
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<tbody>
<tr>
<td><strong>SUMMARY</strong></td>
<td></td>
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<tr>
<td><strong>Total Financing</strong></td>
<td>100.00</td>
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DETAILS

<table>
<thead>
<tr>
<th><strong>Total World Bank Group Financing</strong></th>
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</tr>
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<tbody>
<tr>
<td>World Bank Lending</td>
<td>100.00</td>
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Decision

Other

Explanation

Given the uncertainty created by the COVID-19 pandemic, the Chair recommended to wait for the completion of the remaining prior actions before deciding whether to present the operation to the Board this or next FY.
B. Introduction and Context

Country Context

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

Effective policy and institutional reforms are considered foundational and essential prerequisite for delivering the programs. But further success would require concerted actions in the areas of urban planning, municipal finance, quality of basic and advanced services, infrastructure development and poverty and social development. Indeed, these areas will exert a determinative impact on HCMC’s future competitiveness and its capacity to remain a zone of opportunity for Vietnamese people. With slowing budget revenue growth and little revenue policy and administration autonomy, it will be key to unlock the value of public assets as a core urban strategy, consider other sources of revenue mobilization and/or borrowing while ensuring prudent liabilities management.

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

Relationship to CPF

The proposed DPO is closely aligned with the Country Partnership Framework (CPF) 2018-22. The operation underpins a core strategic thrust of CPF to engage comprehensively and strategically with key subnational governments across Vietnam and to provide integrated, cross-sectoral support. As such, the operation supports several CPF objectives. It directly contributes to enhanced urban governance, better, more integrated urban planning, more efficient resource use, including of urban land and improved service delivery in HCMC and through potential demonstration effects across the country (CPF objective 4). The operation also contributes to strengthened fiscal management and competitiveness at the city level (CPF objective 1 and 2).

C. Proposed Development Objective(s)

The operation is to support HCMC to strengthen institutional foundations for sustainable urban development. Specifically, it aims to contribute to (i) Integrated and transparent spatial information for urban management; (ii) Strengthened management of public assets and liabilities; and (iii) Enhanced delivery of priority municipal services.

Key Results

Key expected results of the supported policy and institutional actions include: for pillar (i) – improved information sharing for integrated and evidence-based urban planning and management; and enhanced transparency of urban zoning information provided to citizens, making zoning more credible by allowing external scrutiny; for pillar (ii) – improved financial sustainability for the provision of wastewater, drainage and flood control services; consolidated
and professionalized management of commercial housing assets as the basis for better revenue management; better coordinated debt management functions for both domestic and external borrowings; and for pillar (iii) – more simplified and efficient procedures to legally start operating a business; and strengthened management capacity towards more efficient use of resources for and improved services quality of public transport.

D. Project Description

This operation deepens and consolidates reforms supported by the first DPO (P160480). Both program and individual actions were designed to align with government priorities and ensure implementability. Individual prior actions were also calibrated to the specific context.

The proposed policy program includes 8 prior actions, namely: (i) Operationalize the City’s shared data warehouse and promulgate a spatial data framework for the interoperability of different databases; ii) Disclose on-line vector-based zoning plans for all the districts of HCMC; iii) Submit the for approval a tariff increase schedule for drainage and wastewater treatment services over the 2020-2024 period; iv) Operationalize a competitive auctioning process for new leases of state-owned commercial housing assets; v) Approve a regulation on subnational debt management, including borrowing and repayment planning and execution, and reporting and disclosure of public debt information; vi) Institutionalize key performance indicators to periodically monitor and evaluate business registration procedures; vii) Regulate the collaboration between HCMC’s Management Center of Public Transport (MCPT) and transport operators in the delivery of public transport services; and viii) Operationalize a competitive bidding process for tendering of multi-year contracts for operating bus routes with performance indicators and standards of service for prospective bus operators.

E. Implementation

Institutional and Implementation Arrangements

HCMC’s People’s Committee is the implementing agency responsible for overall implementation of the proposed operation and for reporting progress and coordinating actions among other concerned agencies. As the operation is closely aligned to HCMC’s reform priorities, including through the City’s breakthrough programs, the City will ensure the availability and the quality of the data to monitor progress. In addition, World Bank staff will monitor actions and review implementation progress, as well as the subsequent actions of the Government’s program, as well as provide technical assistance as part of the supervision activities to strengthen the City’s M&E systems.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Collectively, the proposed prior actions are welfare enhancing as they aim to enhance public service delivery, in a fiscally sustainable way, but with a focus on direct benefit to residents. Four of the 8 prior actions are distribution neutral with positive spillover effects. Both increased inter-agency spatial data sharing and expansion of on-line disclosure of land-use and construction zoning plans following well-defined technical standards will help remove information asymmetry, hence minimizing rent seeking opportunities in the permit application process, while reducing risks for both commercial and residential property owners and increasing permit processing times. This also has clear benefits to household building new homes. The positive gains from better fiscal and debt management will benefit citizens more broadly. Similarly, by simplifying business registration procedures, the operation helps the city to attract investment and stimulate job creation which has been the primary driver of economic mobility in Vietnam.
The proposed increase in wastewater tariff would have negative but negligible short-term welfare impacts that will compensated by larger gains in the longer term. While the tariff increase is generally regressive, the increase in waste water payments are relatively small relative to total household spending. The tariff increase will also be phased, and the non-poor will contribute more than the poor to incremental revenues. Simulations suggest that the proposed tariff reform would increase household waste water bills by VND 6700 and 9700 per month in the short term for the poorest and richest quintiles. This translates into 0.05 percent and 0.03 percent of household expenditure for the poorest and richest quintile in 2020. The full tariff increases in 2024 is only expected to translate into 0.17 percent of household spending for the bottom quintile. Thus, the overall welfare impact is negligible. In the longer term, the proposed increase in tariff will improve welfare of all citizen through the expected increase in the quality of services and the reduction in demand that will lead to an improvement in the management of water and in the environment.

Implementation of auctioning of state-owned commercial housing assets may create winners and losers, but with varying degrees of welfare impact. This would likely lead to an increase in rentals for businesses operating from city owned commercial housing, increasing their operating costs, but not by a high enough margin to threaten viability of the enterprises. How the additional revenues are distributed will determine the overall welfare effect of the prior action. To the extent that the additional revenue is used to improve service provision for the poor, the policy would consequently have a positive welfare distribution favoring the poor. The actions in public transport areas are complementary and together they are expected to have a positive and progressive welfare impact. The proposed policy measures will improve the quality of public transportation services provided, optimized to meet demand, while containing fare increases for the poor. Contracts resulting from competitive tendering will be on the gross-cost basis, thus the operators will be paid on the basis of their operating inputs (vehicle-km) and service outputs (service quality delivered, including reliability, safety, etc.), while the fare box revenues will be captured by the City, from which it will pay the operator together with subsidies if the revenues are insufficient. The upcoming introduction of electronic ticketing system will allow the City to better target their subsidies, by directly supporting lower-income users, rather than subsidizing the operators. That will mitigate against any impact of potential fare increases on the welfare of the poor. Additionally, route re-organization will be based on an accessibility analysis, with an aim to improve access to jobs/markets/services for as many people as possible, and thus, the re-arrangement will improve accessibility for many of the users.

Environmental, Forests, and Other Natural Resource Aspects

Policy actions supported by this DPO series will likely lead to net positive effect on HCMC’s environment, forest or other natural resources. Implementation of these prior actions would lead to better management of land use and zoning, which is crucial to avoid environmentally- and economically-costly urban sprawl; environmental saving from avoiding packing, transport, material production and reduction of physical space; reduction of water/air pollution, health risks and impacts of flooding, due to an increase of treated wastewater and improved water drainage services; and reduction of air pollutants, level of noise and acoustic contamination from vehicle sources. All these potential positive environmental effects are likely to be low to moderate.

Some potential environmental adverse effects are related to the operation, maintenance and disposal of ICT equipment; or the possibility of the poor households not be able to afford increased tariff schedule and related services, increased pressure on water resources and limited access to improved sanitation; and the potential environmental issues due to speeding up of business start-up times and licensing procedures. Although these effects are not likely to be significant, the dialogue with the City also provides some recommended actions to avoid or mitigate such adverse effects and to promote environmentally sound practices.
G. Risks and Mitigation

The operation is subject to significant risks, including those linked to the COVID-19 pandemic. While the macro-economic and fiscal framework remains solid, both at the national and city’s levels, the impact of the ongoing COVID-19 crisis is hard to predict given the uncertainty surrounding its magnitude and duration in Vietnam and all around the world. Nevertheless, the expansion of the economy is expected to slow down, with a combined deterioration of fiscal and external accounts. The World Bank is closely monitoring the situation on the grounds and has been collaborating with the authorities on a mitigation strategy, including a combination of fiscal and financial measures to compensate for the income loss of most affected household and business and, in the medium term, to accelerate the execution of the public investment program.

The risks associated to the implementation of the reforms program in HCMC have been partially mitigated by focusing the series on reforms that have benefited from a clear reform champion and where progress was feasible without changes to national legislation. While the supported reforms have proved the commitment of the HCMC authorities toward a new way to conduct policies but could be reverted in the future, if they fail to deliver positive and concrete results for beneficiaries. Several results indicators were introduced to ensure follow-through implementation as the new policy and processes are introduced. There is still a risk that the implementation of some reforms could be delayed due to unfavorable market conditions, notably in the context of the COVID 19 crisis, as it could prove to be harder than initially expected to increase wastewater tariffs or to proceed with competitive tendering, if the economy falls into recession. Going forward, continued policy dialogue, including with the City’s leadership, reinforced by technical assistance and investment programs will be critical to help the City resolve remaining technical issues, address potential resistance, and optimize benefits so that the risk will be reduced in the future.

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APPROVAL

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Approved By

| Country Director: | Ousmane Dione | 05-Apr-2020 |