

**The Socialist Republic of Viet Nam**

**NATIONAL REPORT FOR  
UNITED NATION CONFERENCE  
ON HOUSING AND SUSTAINABLE  
URBAN DEVELOPMENT  
(HABITAT III)**



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# FOREWORD

The UN Conference on Housing and Sustainable Urban Development (Habitat III) is organized to strengthen global commitments on sustainable urbanization, focusing on the implementation of a new urban agenda, on the basis of the Habitat II Agenda. The conference plays a major role in providing a framework that allows countries, including Viet Nam, to evaluate past efforts, current inadequacies and the future challenges of urbanization.

The year of the Habitat II Conference, 1996, was also the starting point of the most rapid urbanization in Viet Nam. The conference provided for experts and policy-makers on urban development in Viet Nam with knowledge and lessons to shape the urbanization process of the country. In 1998, the Prime Minister approved the direction of the master plan for Viet Nam's urban development, providing objectives and orientations for urbanization up to 2020. In 2009, the direction of the master plan was adjusted by the Prime Minister to keep up with the socio-economic development of the country.

Over the last 20 years, the national urban system has seen many positives changes. Urbanization has had a significant pace in areas surrounding the major cities and also throughout the country in more evenly manner. However, rapid urbanization has also created new challenges, such as the ineffectiveness of land use planning, the inadequacy of urban infrastructure which still does not meet the needs of all people and the lack of competitiveness of cities. These issues have negative impacts on people's quality of life and urban economic outputs. Moreover, Viet Nam is one of the countries that are most vulnerable to climate change and this is worsening the situation and creating new challenges for urbanization. In 2013, the Prime Minister approved the project "Viet Nam Urban Development and Climate Change Resilience". It gives overall objectives to actively respond to climate change and to the rational use of resources in urban development.

Viet Nam has joined the group of developing countries for which improving urban planning and management capacity, meeting people needs of access to urban services, protecting the environment, strengthening urban competitiveness, promoting economic activities and responding effectively to climate change are all urgent requirements. In addition, there are emerging issues such as protecting rural areas from the pressures of rapid urbanization and ensuring the integration of social policies in urban development policies. Viet Nam is looking forward to actively participate in the Habitat III Conference, to share experiences and to learn international lessons on urban development policy-making.

With support from UN-Habitat Viet Nam, the Ministry of Construction has prepared this Viet Nam Country Report for Habitat III. The report reviews the urbanization process over the last 20 years, analyzes existing issues and new challenges and provides orientations for future urbanization. We believe that Viet Nam's orientations for sustainable urbanization will be valuable information for the Habitat III Conference – to be held in the end of 2016.



Phan Thi My Linh  
Deputy Minister of Construction

# INTRODUCTION

The period between the Habitat II Conference in Istanbul in 1996 and the Habitat III Conference in Quito in 2016 was also the period in which Viet Nam made big strides to transition from a centrally planned economy to an open market economy with a socialist orientation. The measures taken to open the national economy and integrate it into the global economy had many social, economic and demographic consequences which required further policy measures. The major challenge faced by the country is to reconcile the principles of the open market economy which is required to achieved rapid economic growth, with a socialist orientation to ensure that economic growth is inclusive and that it benefits all, and a protection of the local and global environment which is vital for Viet Nam as it is one of the countries that is most vulnerable to climate change.

*Like in other countries, cities have proven to be the main engines of economic growth* and the economic growth has concentrated in the two main cities, Ha Noi and Ho Chi Minh City and has been driven by both foreign direct investments and local small and medium-sized enterprises. There has been a massive creation of employment in the two cities which in turn has attracted numerous migrants from smaller cities and towns and the rural areas and has generated growing demand for housing and urban services. At the same time, the expanding private sector and energized state-owned enterprises are increasingly demanding more and better urban infrastructure to create efficiently performing cities. So, economic growth is straining the cities and *requires more effective management, increased financial resources, improved human resources and more effectively operating urban authorities and institutions.*

**Figure 1** Administrative map of Viet Nam



The Habitat III Conference in Quito offers an opportunity to prepare a report that takes stock of the positive results that the country has produced in the urbanization process and the challenges that are remaining to build a prosperous and strong country with wealthy people and an equitable, democratic and civilized society. While progress has been considerable, challenges remain and many new challenges have emerged, particularly related to global economic integration and climate change. The Government is committed to address these challenges, while building an inclusive society and a market economy with a socialist orientation.

The current context is fierce competition in the global economy for foreign direct investments and as Viet Nam develops and production costs rise, the economy has to focus on higher-value-added

## INTRODUCTION

production to avoid falling into the middle-income trap. This requires improvement of infrastructure services required for economic development and enhancement of the productivity of the labour force through education, training and the improvement of living conditions (including access to adequate housing and basic urban services). The most efficient way of making these improvements is to promote the urban system, especially the national and provincial cities as engines of growth, particularly Ha Noi and Ho Chi Minh City which are already the main engines of national economic growth.

A concentration of investments in these two cities will, however, increase the uneven spread of economic opportunities across the country and encourage further rural-urban and urban-urban migration to these two cities. In order to achieve a more balanced and inclusive economic development, the Government is promoting other cities (e.g. Da Nang in the centre of the country). Furthermore, the Government is establishing urbanized areas and an urban network in the whole country, and they are also linking rural areas with nearby cities to bring the benefits of economic growth to the rural population. To further rural development, rural-urban migration will also have to play its role, as remittances from urban areas will contribute to rural poverty reduction.

Over the past years, Viet Nam's economy has benefitted from a population dividend, i.e. a large relatively young population at working age and a low dependency ratio. To take better advantage of this demographic dividend, the Government is making efforts to ensure that education will give the youth knowledge, skills and attitudes that meet the needs of the developing economy, enhance their productivity and improve their incomes. However, fertility rates have fallen drastically over the past few decades and this will end the demographic dividend and the country will be entering the aging

phase, resulting in a higher dependency ratio. As a consequence, a shrinking working-age population will have to earn an income for a growing elderly population. This will also require further productivity enhancements through education and better living conditions.

Currently, economic activity and employment are concentrated in formal small and medium-sized and informal household businesses in urban areas. Many of these enterprises do not yet benefit from access to business credit, market information, secure locations and training services. Support for the enterprises will have to be expanded to ensure that their productivity rises and income grows and that some can transition to the formal economy. Otherwise, the gap between formal and informal sector will grow and lead to increased income inequality, as experienced by other economies in the region. In any market economy, income inequality is a growing concern and the Government will take all measures necessary to ensure that economic growth will bring inclusive benefit for everyone.

As research in Ha Noi and Ho Chi Minh City has shown, poverty, and particularly urban poverty, is not just a matter of income, but has many other dimensions such as access to adequate housing and urban services, coverage by social protection programmes and community participation in local organizations. The Government is also committed to reduce poverty in all of its dimensions and to expand the coverage of government social programmes to ever larger sections of the population. In this respect, three population groups in urban areas are especially vulnerable: women, the elderly and migrants. As the economy grows and develops, government policies will expand coverage to vulnerable groups.

Productivity growth of the working-age population and social protection of the non-working population depends to a large extent on the quality

of the living conditions, and in particular adequate housing and access to urban services. This is a major problem in cities in general, especially the smaller ones. The Government will take measures to enable the private real estate sector to go down-market and supply housing at affordable costs to the middle-income population. They will include the development of an effective housing finance sector. In addition, the Government will supply necessary urban infrastructure services to informally developed settlements and expansion of low-income housing upgrading based on the experiences of the Viet Nam Urban Upgrading Programme.

***Rapid urban growth is straining urban infrastructure in all cities and towns.*** Coverage of the population by urban services has expanded well, but there is a need to improve the quality of the services (e.g. safer water and sanitation). ***Improved infrastructure services not only benefit the urban population, but also protect the natural environment.*** Rapid economic growth is threatening the local, regional and global environment and huge investments will be needed to enhance urban infrastructure to reduce air, water and soil pollution and greenhouse gas emissions. As Viet Nam has become a middle-income country, it will need to rely more and more on private sources of capital.

Decentralization is putting responsibilities for investments in urban development on local governments, increasingly for adaptation to the impacts of climate change. Private capital markets

in the global economy will demand transparency and accountability from local government which must be able to show that they are credit-worthy. Rapid urban population growth, informal expansion of urban areas, demands for more and better urban services and adaptation to the impacts of climate change will place pressure on urban planners and managers to reconcile the diverging demands of domestic households and the private sector and the interests of future generations. The Government is aware of that: rather than a top-down approach, urban planning will rely on intensive participation, consultation and negotiation to ensure that diverse demands are reconciled. This will require new policies and legislation, new skills and attitudes, new institutional arrangements and new rules and procedures. As demands differ between large cities, small cities and rural areas, institutions and procedures will have to be adapted to local circumstances and the variety of regions in the whole country.

Within the context of turbulent global economic and political developments, consistent economic growth combined with social equity in Viet Nam has brought about solid results over the last 20 years. Despite inevitable challenges from rapid urbanization, the implemented orientations, programmes and plans have brought out many lessons, and they are the prerequisites for the future development of the country. In presenting these lessons, the Viet Nam Country Report on Urbanization wants to make a useful contribution to the UN Conference for Housing and Sustainable Urban Development – Habitat III in 2016.

# I URBAN DEMOGRAPHIC ISSUES

The Socialist Republic of Viet Nam is divided into provinces and cities with the status of a province under direct central rule (Ha Noi, Ho Chi Minh City, Hai Phong, Da Nang and Can Tho). Provinces are divided into districts, provincial cities and towns, while cities-under-direct-central-rule are divided into urban districts, rural districts, towns and units of similar level. Inner-city districts are divided into wards; other districts are divided into communes and townlets. Provincial cities and towns are divided into wards and communes.

An urban classification is an essential part of the country's urban policy and urban management and development. It distinguishes six classes of cities: special cities; class I cities; class II cities; class III cities; class IV cities; and class V cities. The classification is based on and defines the city's role and functions, its spatial nature, its population size and density, its level and nature of economic activities and its infrastructure. Class I and II cities have either provincial or district status. Class III and IV cities have district or commune status, while Class V urban areas have commune status.

Criteria for classifying a centre as "urban" are (a) its

location, functions, structure and socio-economic development capacity; (b) population size – at least 4,000 residents; (c) population density which conforms to the size, nature and characteristics of each type of urban centre; (d) the rate of non-agricultural labour representing at least 65 per cent of the total labour force; capacity for infrastructure development.

People's councils and people's committees are established at three levels: province and city with provincial status; rural and urban district, provincial town and provincial city; commune, urban ward and district township. The provincial budget is part of the central budget and serves to implement at the local level what has been planned and approved at the national level. Provincial people's committees have supervisory authority over the budget and decisions of lower levels of government.

The class to which a city belongs determines the level of priority on infrastructure investment by the central or provincial government and the incentives it receives for social-economic development. This makes promotion to a higher class a major preoccupation of some local governments, as it entitles them to a larger share of the resources of the central government, despite the fact that they do not meet the infrastructure criteria and lack capacity and experience.

## POPULATION CHARACTERISTICS

Over the past decades, there have been some major transformations in the country's population profile. Between 1985 and 2015, the size of the population increased almost 1.5 times, from 61.1 million to 93.5 million, but at the same time population growth slowed from 2.32 per cent in 1980-1985, to 1.12 per cent in 2010-2015. While the rate of growth of the urban population has remained high, the rate of growth of the rural population has declined rapidly and has fallen to 0.01 over the

**Table 1** Population characteristics 1985 - 2015

	1985	1995	2005	2015
Total population (millions)	61.1	75.2	84.5	93.5
	1980-85	1990-95	2000-05	2010-15
Population growth rate (%)	2.32	1.95	0.95	1.12
Urban population growth rate (%)	2.65	3.79	3.23	2.95
Rural population growth rate (%)	2.24	1.47	0.20	0.01

Source: UNPD, 2015a.

**Table 2** Mortality rate under 5 and life expectancy 1970 - 2015

Mortality rate under 5 (per 1000 live birth)					
	1970-75	1980-85	1990-95	2000-05	2000-15
Mortality rate	80	59	46	33	24
Life expectancy at birth					
	1970-75	1980-85	1990-95	2000-05	2000-15
Years	57.76	68.06	71.23	74.69	75.56

Source: UNPD, 2015a.

period 2010-2015 (see Table 1). *From now on, the size of the rural population is projected to decline and all total population growth will be absorbed by the urban areas* (UNPD, 2015a).

A low dependency ratio presents an important opportunity (“demographic dividend”) over the next decades to advance the economy, as a large and still growing workforce is earning income for a smaller dependent population. On the other hand, the population is approaching the end of its demographic transition and is entering the “aging phase”, as the elderly population (60 years and over) as a percentage of the total population will reach 10 per cent in 2017. The number of persons 60 years and over per 100 persons under the age of 15 will increase from 39.9 in 2014 to 96.7 in 2034 (GSO, 2011: 46).

*The aging population will pose social and economic challenges for the country, as it risks “getting old before it gets rich.”* If that happens,

there will be an insufficient number of income earners to care for the non-working population, while the country may not yet be able to afford a substantial expansion of its social assistance programmes. In addition, regions and provinces have very different population profiles. Most elderly live in the rural areas, while people of working age migrate to the city and leave the elderly and sometimes their children behind.

### MANAGING RAPID URBANIZATION

Officially, Viet Nam still has a low level of urbanization. In December 2015, around 35.7 per cent of the population officially lived in the urban areas, but a majority of the total population is expected to live in urban areas by 2045 (Table 3). These figures do not take into account an unknown number of people who are not registered in the urban area where they live or who live outside the urban-administrative boundaries.

## I. URBAN DEMOGRAPHIC ISSUES

**Table 3** Percentage of population living in urban areas 1985 - 2045

	1985	1995	2005	2015	2045
Urbanization level	19.6	22.2	27.3	32.7	51.1

Source: UNPD, 2015b; UDA, 2015

Urbanization has also led to a concentration of the urban population in the two large cities. Ha Noi and Ho Chi Minh City are home to 10.05 per cent and 20.2 per cent of the urban population respectively. In 2015, Ha Noi had an official urban population of 3.293 million and Ho Chi Minh City had an official urban population of 6.624 million. The next three largest cities are Can Tho with a population of 1.175 million, Hai Phong with a population of 1.075 million and Da Nang with a population of 0.952 million (UNPD, 2015b). It is important to note that these five cities are cities with a provincial status and may have large farming (i.e. rural) populations within their boundaries.

In its Country Report on Achieving the Millennium Development Goals (SRVN, 2015a: 103-104), the Government noted that urbanization and rural-urban migration have both positive and negative outcomes. With well-managed urban growth, the urban economy benefits from productivity increases and the urban population benefits from rising income and easier access to services. A concentration of businesses and talent fuels innovation and bolsters economic growth and an expanding urban middle class with its growing spending power spurs demand for goods and services. However, without foresight, an accurate vision and proper planning, urbanization can also be a bane.

The surging urban population has put immense pressure on the existing housing stock, infrastructure, services and social welfare. Over the past years, infrastructure in the major cities has been strained under the growing demands of

the urban population and the private sector. The value of infrastructure stock needs to reach around 70 per cent of GDP for an economy to sustain urban growth, but it currently falls short of this benchmark, as its share stood at 47 per cent in 2013. The country needs to increase its investment by five times between 2013 and 2030 to support the growing cities (SRVN, 2015a: 104).

Economic development has concentrated in the cities (or rather the mega-urban regions) of Ha Noi and Ho Chi Minh City. These cities receive the major share of public and private investments; they make a large contribution to the country's GDP; they house a large share (30.25 per cent) of the urban population; and they are the economic engines of the country. Given these imbalances, the Government has decided to spread urban economic growth beyond Ha Noi in the North and Ho Chi Minh City in the South, and to develop other cities such as Da Nang in the centre and Can Tho in the South.

In order to control strains on physical and social infrastructure, the Government uses a national household registration system (ho khau) to manage the population distribution. Registration ties a person to his or her place of residence and prepares investment plans on infrastructure to serve people with urban services. Each household has a household registration booklet which records the name, sex, date of birth, marital status and occupation of all household members and their relationship to the household head. The system was introduced in 1955 in the urban areas and extended throughout the country in 1960.

**Figure 2** New urban area at the South of Ha Noi | *Photo by Nguy Ha*



If they are not registered locally, migrants may not be included in official population censuses, resulting in a gap in population data, with implications for an understanding of the migration processes and its role in socio-economic development, and for an effective management of urban areas. An undercount of rural-urban migrants may lead to under-investment in urban development and an underestimate of the extent of urban poverty. *The accurate and up-to-date population data are needed to design effective, evidence-based policies, to address any unmet needs of migrants and to reap the full benefits of migration for development.*

### MANAGING RURAL-URBAN LINKAGES

There is growing awareness of the importance of rural-urban linkages for a balanced development. *The movement of labour from rural to urban areas is increasingly accepted as an inevitable outcome of economic development*, while

restrictions on such labour movement can affect development negatively, as they limit labour supply where it is needed. What is important is to appropriate actions to deal with this issue. Studies show that most rural-urban migration does not involve a complete break with the area of origin, particularly as improved transport and communication technology facilitates contact by migrants with their relatives in the rural area. Migrants move back and forth between urban and rural areas and bring urban ideas and values to the rural areas.

Migrants with jobs and income in the urban areas are sending remittances to support their family in the countryside. This flow of capital contributes to an improvement in rural living standards and enables farmers to buy better inputs and machinery to boost agricultural productivity. Urban consumers are generating demand for higher-value agricultural products, particularly from rural areas near fast-growing cities. Labour migration reduces the rural labour surplus and raise rural household incomes

## I. URBAN DEMOGRAPHIC ISSUES

through off-farm and non-rural employment and remittances. The return of migrants with new skills and capital acquired in urban areas contributes to economic development and change in social values and lifestyle in rural areas. With resources earned from non-farm employment, farmers can diversify agricultural activities beyond rice production. Remittances also help repay debts and cover the costs of children's schooling and illness for left-behind relatives. They reduce the need for farmers to sell paddy rice for cash and strengthen rural food security.

Government policies are paying more attention to migrants and informal citizens, particularly for cities with labour shortages. Because providing all rural-urban migrants with access to urban services would require considerable investments, policy-makers are weighing the costs and benefits of removing or altering the household registration system. In 2005 and 2007, the Government issued regulations which have made it easier for migrants to change their residence status from temporary to permanent. They now need to meet three criteria: (a) residence in a legal house; not only homeownership or a land use right certificate but also a certificate from the ward people's committee or a house-renting contract can serve as proof; (b) uninterrupted employment and a stable income; (c) a continuous residence in the city for at least one year; it used to be five years and later three years.

Under the banner of "leaving agriculture, but not the homeland", the Comprehensive Poverty Reduction and Growth Strategy (2003) promotes non-farm employment in rural areas through the development of industry and services in rural industrial zones and economic clusters with links to domestic and export markets, the transfer of urban-based subcontracting and processing enterprises to rural areas and the implementation of preferential policies to channel investments to the countryside. The Government also seeks to develop regionally

integrated infrastructure that links dynamic urban centres with rural and remote areas in order to reduce regional disparities and give all economic sectors equal access to infrastructure.

Another Government objective is the development of the rural economy through agricultural diversification and intensification. Small cities and towns play a key role in the implementation of this policy, as they link their agricultural hinterland to national and international markets and provide services and employment for the rural population. Small cities and towns act as alternative destinations for migrants and thereby contribute to a slowing of population growth in large cities.

These transformations are also posing new challenges, as the rural residential areas need new services or the improvement of existing ones, such as clean water supply, sanitation, drainage and solid waste management. The waste from home-based industries can affect the environment negatively, while the use of natural resources, especially water, in intensive agriculture competes with domestic water use. Waste from intensive husbandry can contaminate drinking water sources. The impact may be limited to the home of the producers and their immediate surroundings, but can also become more widespread and serious. Local governments often lack the capacity to address these new challenges.

### CHALLENGES

As they leave low-productivity agriculture, rural-urban migrants form a growing section of the urban labour force. However, most of them do not have advanced skills which lead to their low income. The productivity of the labour force is determined by its knowledge and skills, but also by its health. So, to be productive, people need access to health services, but also to safe drinking water, sanitation, power supply and adequate housing that is served

by drainage and solid waste collection. Rural-urban migrants have currently limited access to these critical urban services, and many live in informal housing in underserved peri-urban areas. An expansion of the coverage of urban service to include rural-urban migrants and other households in underserved areas can be seen as a critical investment for economic development.

Migration flows are driven primarily by the search for opportunities of employment, higher income and better access to services. Therefore, in order to manage the population distribution, the Government acknowledges that *migration can only be guided by creating the opportunities for employment, income and service access in potential growth centres*. As the economy grows and incomes rise, the Government will consider the efficiency of a high concentration of capital and labour in a limited number of cities against socio-political considerations of a redistribution of

economic activities and urban populations over a large number of cities and towns. The Government has issued policies which encourage investment in housing development and associated services for low-income group, people live in peri-urban areas

In this respect, the Government sees the development of smaller cities and towns across the country is important not only for the redistribution of economic activities and urban populations, but also for the development of rural areas and agriculture. Smaller cities and towns form the links between the urban and rural economy, between supply of and demand for agricultural produce, and between supply of and demand for urban goods and services. Linkages between urban and rural areas require the development of rural and national road networks and transport services as well as other forms of communication between urban and rural centres.

# III URBAN ECONOMY

Over the past two decades, the Socialist Republic of Viet Nam has gone through some major economic transformations. After the adoption of Doi Moi (“Renovation”) at the Sixth National Congress of the Communist Party in 1986, it moved from a centrally planned economy to a market economy with a socialist orientation. The economic reform brought or accelerated other transformations: from a primarily agrarian to an increasingly industrial and from a rural to an urbanizing society. As the Government deregulated the economy, liberalized the market and encouraged private ownership of farms and factories, the national economy became increasingly integrated into the global economy: foreign direct investments increased; employment in industry and services expanded; incomes rose and poverty declined.

The overall development goal of the Government is a socialist-oriented market economy. A socialist-

oriented market economy follows the principles and rules of the market economy as well as the principles and nature of socialism. Its aim is to build a prosperous and strong country with an equitable, democratic and civilized society. The socialist orientation refers to the predominance of the people’s interests as the guiding economic principle. To achieve the socialist ideals of equality and solidarity, and growth that is inclusive and directly benefits the poor, the principles of a market economy are applied to promote accelerated economic growth.

To build a socialist-oriented market economy, *it is necessary to have suitable measures that promote economic growth and improve the living conditions of all*, while limiting the negative consequences of the market economy. State-owned enterprises serve as its instruments to influence the required long-term structural socio-economic changes. Thus, a socialist-oriented market economy is characterized by the co-existence of a variety of forms of ownership and economic sectors. The state sector and the collective sector form the foundation of the economy and all economic sectors operate in line with the common orientation and legal framework of the socialist state.

Because there are still some debates on the principles of a socialist-oriented market economy, the Government is cautious about the direction and functioning of socio-economic development and about the laws, procedures, policies, strategies, plans and institutions necessary to develop such

**Table 4 Selected economic indicators 1985 - 2015**

	1985	1995	2005	2015
Per capita GDP (constant 2005 US\$)	268	410	699	1,028
	1985	1993	2004	2012
Poverty head count (% below \$1.25)	N.A.	63.8	31.4	2.4

Source: World Bank, 2015a.

an economy. As a result, laws and policies are sometimes inconsistent and ineffective. For instance, policies have not yet resulted in a sufficiently strong motivation to mobilize resources for investment and development. Institutionalization of legislation, procedures and policies has often been slow, and laws, regulations and policies have sometimes proven to be of low quality and unpractical. Monitoring, supervision and support for their implementation and the evaluation of their outcomes have shown to be inadequate. To build a socialist-oriented market economy requires the issuance of new legislation and policies and developing new institutions that match the conditions of a middle-income country that is increasingly integrated in the global economy.

### SUPPORTING URBAN ECONOMIC DEVELOPMENT

Since it initiated economic reform in 1986, and adopted a comprehensive and radical reform package in 1989, the Government has taken measures to transform the role of the state in economic management and ensure that it does not restrain the functioning of the market. It moved from detailed economic control to orientations and indirect interventions through the legal system and macro-economic regulatory instruments. Over the past three decades, the economy has transformed from agrarian economy to one based on industry and services (Table 5 and 6). *The economic reform process* passed through four distinct stages:

- **Land policy reform:** After introducing Doi Moi in 1986, the Government granted farmers more rights to land as well as the right to decide what to produce.
- **Recognition of private property:** the Government recognized the lawful existence of non-state sectors in 1990-1991; this was reflected in the constitution which recognized

private property in 1992.

- **Foreign trade liberalization:** Since 1995-1996, the Government allows private enterprises to engage in import and export, and accession negotiations with the World Trade Organization (WTO) were finalized in 2006. Currently, many international trade negotiations have been concluded, including the TPP in 2015.
- **Right of business freedom:** Since 1999, the Government allows private entrepreneurs to operate rightfully in all business areas which are not explicitly prohibited by law.

The 1997 Asia Financial Crisis slowed the process, but a wave of new economic reforms after 2000 enabled the private sector to grow, while the liberalization of trade and investment deepened global economic integration. Accession to the WTO at the end of 2006 was a milestone in the economic reform process. As a result of the reforms, the country experienced rapid economic growth, an expansion of foreign trade, the inflow of foreign direct investment, a reduction of poverty and enhanced human development. In 2008, the World Bank reclassified Viet Nam as a lower-middle-income country. In 1985-1987, national average annual GDP growth was 3.4 per cent. It was 7.4 per cent during 1990-1999, 6.6 per cent during 2000-2009, and 5.8 per cent during 2010-2013 (World Bank, 2015a). The average annual rate of growth in urban areas was much higher: 12-15 per cent. In 2009, the urban agglomerations of Ha Noi and Ho Chi Minh City contributed more than 30 per cent to the national GDP, while class I, II, III, and IV cities contributed another 20 per cent (MoC, 2013: 3).

Before 2000, private enterprises, while allowed to operate, were subjected to many government approvals and controls. The 1999 Enterprise Law created an enabling environment for a rapid

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**Table 5** Value added by sector as percentage to GDP 1985 - 2013

	1985	1995	2005	2013
Agriculture	40.2	27.2	19.3	18.4
Industry	27.4	28.8	38.1	38.3
Services	32.5	44.1	42.6	43.3

Source: World Bank, 2015a.

**Table 6** Employment by sector as percentage of total employment 1985 - 2013

	1985	1996	2006	2012
Agriculture	N/A	70.0	51.7	47.4
Industry	N/A	10.6	20.2	21.1
Services	N/A	9.4	28.2	31.5

Source: World Bank, 2015a.

expansion of the private sector by allowing citizens to establish and operate private enterprises with limited intervention by government. The Law simplified the procedures for enterprise registration, as part of a shift from the granting of licenses to a system of voluntary registration and active regulation. The Law clarified the rights of entrepreneurs to operate in all business areas not explicitly forbidden by law. It diversified investment opportunities and enterprise forms.

The local private sector has emerged as a key driver of economy development. Small- and medium-sized enterprises (SMEs) form a high proportion of the private enterprises in terms of workforce and registered capital. A government decree in 2001 was the first legal document to promote SME development. It defined an SME as an enterprise with registered capital of not more than VND 10 billion or a workforce of not more than 300 regular employees. During 2000-2005, 160,672 SMEs had registered, i.e. 3.2 times more than during 1991-1999. Capital registered by these enterprises amounted to nearly VND 321,200 billion (CIEM, 2006: 9). Most SMEs are located in Ho Chi Minh City and Ha Noi, but SMEs have also emerged in other provinces where local governments

improve the business environment. Reforms in the financial sector are slowly improving SME access to financing, but access to land and buildings remains a major problem.

*A new Enterprise Law has been in force since 2006*, replacing the Enterprise Law of 1999, the Law on State-Owned Enterprises of 2003 and the Law on Foreign Investment of 1987. The primary purpose of the Law is *to establish a legal framework that is applicable to all types of enterprise and does not discriminate between state-owned enterprises, private enterprises and foreign invested enterprises*. It is a significant step towards improving the legal framework for enterprises and abolishing any discrimination and different treatment.

### COMPETITIVENESS IN A GLOBAL ECONOMY

In the Global Competitiveness Index (Table 7), Viet Nam ranked 68 out of 144 countries in 2014-2015, similar to the ranking of 70 (out of 148 countries) in 2013-2014 (WEF, 2014: 13). In its report, the World Economic Forum noted that access to financing, corruption, an inadequately educated workforce

**Table 7** Ranking in the Global Competitiveness Index 2011 - 2015

	2011-2012	2012-2013	2013-2014	2014-2015
Number of countries	142	144	148	144
Rank	65	75	70	68

Source: WEF, 2015: 384.

and policy instability were the most problematic factors for doing business in Viet Nam. Other problems were tax regulations, poor work ethics, an inefficient government bureaucracy and inflation (WEF, 2014: 384). Although it did not score well on measures of competitiveness and investment climate (Table 8), Viet Nam is well regarded by foreign investors. The stable macroeconomic environment, the quality and low cost of labour and the low level of crime appear to be more important considerations for investors than bureaucratic procedures.

Foreign direct investment started to enter Viet Nam in 1987 and was booming by 1994, well before the business environment changed as a result of the 2005 Enterprise Law and the entry into the WTO. Important factors for the early investments were proximity to large domestic markets and high-quality infrastructure for exports. Ha Noi, Ho Chi Minh City and their adjacent provinces have

benefitted most from foreign direct investments. Provinces that did not benefit were mainly rural provinces far from large urban markets and with poor infrastructure. The geographical distribution of foreign direct investments has contributed to the imbalance in urbanization and economic development.

In the 1990s, some provinces began experimenting with reforms in business regulations and economic governance. The experiments had long-lasting impacts on the economic growth and welfare of those provinces and played an important role in the development of national reforms. More recently, other provinces started to grant incentives beyond what national regulations offer to attract new foreign investors: tax holidays as long as twenty years, free land rental for foreign invested projects and lower profit taxes. These provinces argue that the incentives are necessary to compensate for their lack of endowments and to catch up for lost time.

**Table 8** Ranking in the Global Competitiveness Index by component 2014 - 2015

Component	Rank	Component	Rank
<b>Basic requirements</b>			
Institutions	92	Macro-economic environment	75
Infrastructure	81	Health and primary education	61
<b>Efficiency enhancers</b>			
Higher education and training	96	Financial market development	90
Goods market efficiency	78	Technological readiness	99
Labour markets efficiency	49	Market size	34
<b>Innovation and sophistication</b>			
Business sophistication	106	Innovation	87

Source: WEF, 2015: 384.

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However, the incentives appear to play a limited role in location decisions by investors and tend to grant investors bonuses for decisions they would have made anyway.

Currently, the knowledge and skills of the workforce have proven to be critical to attract foreign direct investments and to enable a structural transformation of the economy. The Government is aware that while sound literacy and basic education are sufficient to meet the demand for low-skilled workers, measures must be taken to improve the quality and relevance of upper-secondary, technical and vocational education and training to meet the demand for medium-skilled workers. Moreover, there is a need to enhance the technical and professional skills of the workforce and to promote and invest in workplace practices and technologies that raise enterprise productivity.

The quality of the infrastructure, particularly transport and power supply, is important for foreign investors. It places some provinces in a clear disadvantaged position compared to other provinces, as many parts of the country are still insufficiently equipped with highways, railways, seaports and modern airports. Some seaports are unable to service ships with high loading capacity and many airports fail to service airplanes at night or under bad weather. Power blackouts are becoming a frequent urban occurrence in large and medium-sized cities and traffic congestion is increasingly common in large cities. These problems must be resolved to ensure that Vietnamese cities remain competitive in comparison with those in other parts of Southeast Asia.

The Government is promoting the establishment of Industrial zones, as they tend to have the infrastructure demanded by foreign investors and cluster enterprises that can complement each other. The zones are usually created by the provinces which manage them through authorities or companies that come directly under the people's committee. Because of the competition between provinces to attract investments, the development of industrial zones sometimes exceeds the actual demand and as a result some parts of the industrial zones may not be occupied. Part of the explanation for a low occupancy rate is the lack of external infrastructure (particularly roads and transport facilities) which makes access for workers and the supply of inputs to the sites more difficult and thus increases production costs.

Since 2003, Viet Nam has received 2,394 greenfield projects with significant amounts of investment (Table 9). The top source countries have been Japan (554 projects), the United States (288 projects) and the Republic of Korea (187 projects). In 2013, there were 118 inward investment projects totaling US\$ 15 billion, based on capital investment received. The number of projects more than doubled in 2014 with 241 foreign investments with a total estimated capital expenditure of US\$ 24 billion. Viet Nam ranked as the second most popular investment destination in the Asia-Pacific region in 2014 behind China, although it was still below the record year of 2008, when Viet Nam attracted 350 projects for a combined US\$ 61 billion (Financial Times, 21 April 2015).

### URBAN CLUSTERS AND CORRIDORS

**Table 9** FDI Net inflow 1985 - 2013 (% of GDP)

	1985	1995	2005	2013
FDI as % of GDP	0.0	8.6	3.4	5.2

Source: World Bank, 2015a.

**Figure 3** Coconut industry in Ben Tre City | Photo by Thanh Hai



In order to modernize and diversify the economy, urban clusters which have complementary advantages for each other are being developed. Once cities, towns and the rural areas between them are connected through transport and communication networks, they can develop into economic clusters and can accommodate industries, services and transport hubs (such as seaports and airports) that complement each other. The Government is planning clusters around Ha Noi and Ho Chi Minh City, while some provincial governments seek to develop regional economic clusters.

International trade is an important driver of economic growth and international trade is expected to expand in the coming decades in the Greater Mekong Sub-region (GMS) and the ASEAN Economic Community. With support from the Asian Development Bank, the GMS countries (Cambodia, China, Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam) launched a programme in 1992 to promote economic and social development. They identified several cross-border economic corridors along which the participating countries would coordinate improvements in hard and

soft infrastructure. In 2012, a new programme (2012-2022) was approved to continue corridor development.

*The objective of the programme is to connect distant economic hubs and markets, to provide benefits to remote areas through their transformation into areas with fast access to markets and industrial centers*, and to generate benefits which can only be reaped within a certain critical distance measured in access time and costs. Corridors consist of networks of railway lines and roads that range from multi-lane highways to two-lane provincial roads, and serve as backbones for economic development corridors. Corridors can have major consequences for the cities and towns along those corridors, as they will be linked to new labour and product markets and be integrated in global supply chains.

Although the routes of the corridors have changed over time, nine corridors tend to be distinguished and six of these relate to Viet Nam: (a) a Northern corridor from Tamu in Myanmar via Kunming and Nanning in China to Hai Phong; (b) a Northeastern

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corridor from Thanh Hoa to Bangkok in Thailand; (c) an Eastern corridor from Ca Mau to Kunming and Nanning in China; (d) an East-West corridor from Mawlamyine in Myanmar to Da Nang; (e) a Southern corridor from Bangkok to Qui Nonh and Vung Tau; and (f) a Southern Coastal corridor from Bangkok to Nam Can. The corridors play a key role in determining the areas where established cities will continue to grow and where incipient urbanization will transform small and medium-sized towns into growing urban centres of production and services (ADB, 2015: 14).

### CREATING DECENT JOBS AND LIVELIHOODS

Economic reforms have resulted in massive employment creation (Table 10). In 2005, there were 13.5 million wage employees (29 per cent of total employment) in the formal economy; their number increased to 18.2 million persons (34.8 per cent) in 2013; it is anticipated that there may be 25 million wage employees (44 per cent) by 2025. Wage employment is associated with better working conditions and higher socio-economic status, and contributes to poverty reduction. Wage employment in Viet Nam is, however, geographically concentrated in major cities with strong economic activity and developed infrastructure. Ho Chi Minh City employs 13.4 per cent of all wage employees, followed by Ha Noi with 9.2 per cent and Binh Duong with 4.6 per cent (ILO, 2015: 1-2).

Given its rapid development, *the economy is experiencing a growing imbalance between the supply and demand of qualified and skilled workers and a shortage of managers and professionals*. The imbalance exists not only in terms of professions and qualifications but also across geographical areas. In some localities, particularly in industrial zones, there is a serious shortage of trained workers and enterprises face problems recruiting workers with the required qualifications, experience and skills. At the same time, high levels of unemployment exist in some urban areas and high levels of underemployment in the rural areas.

The Government recognizes that the educational attainment of the economically active population is a problem. In the second quarter of 2015, the number of workers with technical skills and qualification (i.e. people holding a certificate or degree at elementary vocational level and higher) was 10.77 million people, making up 20.1 per cent of the total labour force. They included 11.7 per cent who had a vocational education certificate and 8.3 per cent with a university degree and above (MoLISA, 2015: 2). The Government has identified improvement of the quality of the country's human resources as one of its most urgent tasks.

Over the next planning period (2016-2020), it will seek to reform education and training fundamentally and comprehensively in the direction

**Table 10** Employment to population ratio 2008 - 2014

	2008	2010	2012	2014
Male	N/A	79.4	80.0	80.5
Female	N/A	70.2	71.1	72.0
	1985	1993	2004	2012
Urban	64.3	66.0	67.9	68.0
Rural	76.0	78.5	79.2	80.2

Source: SRVN, 2015a: 41.

of openness and the formation of a learning society in order to meet the requirements of social and economic development. The Government recognizes that the reforms must aim at building comprehensive capacities, physical fitness, character, ethics, lifestyles, respect for the rule of law and civil responsibilities, and at promoting creative thinking and the capacity for self-study at higher levels of education level.

### ADDRESSING URBAN YOUTH NEEDS

Unemployment is a major issue for the youth of Viet Nam. The unemployment rate of people at working age stood at 2.42 per cent during the second quarter of 2015, but during the same period urban unemployment stood at 3.53 per cent and youth unemployment at 6.68 per cent (MoLISA, 2015: 1). *Unemployment is higher in urban areas whereas underemployment is more prevalent in rural areas.* The unemployment rate among those aged 15 years and older in urban areas is 4.6 per cent, while the rate is 2.3 per cent in rural areas. In both cases, unemployment is particularly high among younger age groups. In urban areas, the unemployment rate was 11.2 per cent for the age group 15–19 and 8.9 per cent for the age group 20–24 (UNFPA, 2009: 3).

Boys from poor rural households often leave school earlier than girls to take up jobs in services and manufacturing. They are pushed by poverty at home

and pulled by growing employment opportunities in nearby cities and towns. Although leaving school after six or eight years of education may make sense for them in the short term, the lack of more advanced education will follow them for the rest of their lives. As the economy modernizes, in line with participation in free-trade agreements, they may not have the education and skills to find good jobs, while the economy will be constrained by the lack of an educated and skilled labour force.

*The Government acknowledges the crucial role of employment creation for poverty reduction and sustainable economic growth.* It has integrated employment policies into its national development strategy and in other employment-related policies and adopted the National Targeted Programme on Employment and Vocational Training (2012–2015) to endorse and renovate vocational training, especially at rural areas, and to expand labour markets. The programme aimed at boosting labour export and labour market development, supporting vocational training and job creation, improving the foreign language skills and basic knowledge and supporting the training of labour migrants to meet host country demands.

### THE DOMINANCE OF THE INFORMAL ECONOMY

A 2009 survey counted 3,326,000 jobs in Ha Noi and 3,670,000 in Ho Chi Minh City. The informal sector represented 32 per cent of total employment in Ha

**Table 11** Informal enterprises by sector in Ha Noi and Ho Chi Minh City (2009)

	Ha Noi		Ho Chi Minh City	
	Enterprises	Employment	Enterprises	Employment
Manufacturing & construction	24.8	37.3	18.7	25.1
Trade	40.3	33.5	26.6	24.1
Services	34.9	29.2	54.6	50.8
Total				

Source: GSO, 2010: 4

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**Figure 4** Informal micro business activity in urban areas | *Photo by Nguy Ha*



Noi and 34 per cent in Ho Chi Minh City (respectively 57 per cent and 41 per cent of private non-farm jobs). The total number of informal household businesses (i.e. informal enterprises or IHBs) comes to 725,000 in Ha Noi in 2009, and 967,000 in Ho Chi Minh City. A breakdown by sector shows a propensity for trade and services (Table 11): services were dominant among informal household businesses in Ho Chi Minh City (55 per cent) and in Ha Noi (52 per cent). Total employment in the informal household businesses amounted to 1,093,000 jobs in Ha Noi and 1,323,000 jobs in Ho Chi Minh City. A significant proportion of informal household businesses operated without premises, including street vendors and motorbike taxis (GSO, 2010: 3-5).

In 2009, the annualized turnover of the non-agricultural informal sector was VND 143,000 billion in Ha Noi and VND 138,000 billion in Ho Chi Minh City. In Ho Chi Minh City, informal household businesses produced VND 72,000 billion worth of goods and services and created VND 40,000 billion of value-added. It is estimated that the informal sector accounts for 16.5 per cent of Ha Noi's GDP and 12.6 per cent of Ho Chi Minh City's GDP as measured by the national accounts (GSO, 2010: 10). Informal household businesses rely heavily on contributions by family workers who have the most vulnerable employment with inadequate or a total lack of social protection, safety nets and other work rights and benefits (SRVN, 2015a: 41).

**Table 12** Own-account workers and contributing family workers 2009 - 2014 (percentage of total employment)

	2009	2012	2014
Urban	44.1	42.7	42.9
Rural	68.2	70.9	71.1
Total	61.8	62.5	62.7

Source: SRVN, 2015a: 42.

The informal sector operates on the fringes of the economy with few direct links to the formal economy. Sales to big enterprises are marginal (1.3 per cent in Ha Noi and 5.3 per cent in Ho Chi Minh City). Their main markets are household needs which represent around 80 per cent of the total output in the two cities (GSO, 2010: 10). The informal sector does not have access to the banks or any formal public or private alternatives. Microfinance institutions are still ineffective in Viet Nam. Less than 2 per cent of the informal household businesses in Ha Noi and 3 per cent in Ho Chi Minh City received loans from a micro-finance institution (GSO, 2010: 22).

Many informal household businesses are not registered due to the owner's ignorance of the legal obligations. In 2009, around 76 per cent of the owners of informal enterprises believed that registration was not compulsory and 14 per cent said that they did not know if they had to register. A great majority of the enterprises would have to be registered, but the legislation is not strictly enforced and the criteria which determine whether registration is required are unclear. Thus, it is hardly surprising that very few (less than 1 per cent) knew the threshold for registration. Even among formal household businesses, only a minority claims that they know the registration legislation and their knowledge of the criteria for registration is not always correct (GSO, 2010: 23-24).

### CHALLENGES

At the moment, Viet Nam faces several structural problems in the economy. First, *there is a considerable level of unemployment among the urban youth*, not because of an absolute lack of jobs, but *because of a lack of appropriate knowledge and skills among the youth due to an inadequate education system*. Policy measures must ensure that labour supply matches labour demand. Second, small and medium-sized enterprises form an important sector of the economy, but they lack access to credit, space for their operations, market information and entrepreneurial skills. This applies not only to SMEs, but also to the informal sector. For both sectors, there is a need to develop policies to raise productivity and facilitate linkages with large formal enterprises.

An important challenge for Viet Nam is to avoid the "middle-income trap", i.e. the risk of becoming uncompetitive in export markets vis-à-vis lower-cost economies, while lagging behind advanced economies in the ability to innovate and produce higher-value products. To avoid the trap, the Government will seek to transform its growth model and become a broad-based innovation economy. Foreign companies can contribute to the process, provided the local economy has an educated workforce, high-quality physical and economic infrastructure and a stable regulatory and political system in place. So, the Government is introducing policies that aim at expanding and improving secondary and tertiary education and promoting entrepreneurship and innovation.

# III POVERTY REDUCTION AND SOCIAL POLICIES

## DIMENSIONS OF POVERTY AND INCOME INEQUALITY

In line with its vision of a socialist-oriented market economy, Viet Nam seeks to combine economic growth with social advances and equality through the continuous improvement of people's quality of

life, ensuring social security, cultural development and the promotion of democracy. Rapid economic growth since 1990 in Viet Nam has resulted in a significant decline of income poverty. Using the national poverty line, the poverty headcount stood at 17.2 per cent and the poverty gap at 4.5 per cent (Table 13). The poverty head count at \$1.25 per person per day stood at 2.44 per cent in 2012 and the poverty gap at \$1.25 per person per day stood at 0.55 per cent (Table 14).

However, as the Prime Minister noted in 2010, the poverty situation is not stable and the rate of re-improvement remains high. A substantial portion of the population is near-poor; they live just above the poverty line and could easily fall back into poverty. The risk of re-improvement is particularly high for (a) poor households in the coastal regions who rely solely on agricultural production for their income; (b) the poor among mostly minority households in the mountainous region, the Central Highlands, islands and places with difficult access to production sources or social services; (c) urban poor with low levels of education or professional skills.

While *income poverty declined throughout*

**Table 13** Poverty at national poverty line in 2012 (%)

	Rural	Urban	Total
Poverty headcount ratio	22.1	5.4	17.2
Poverty gap	5.9	1.0	4.5

Source: World Bank, 2015a.

**Table 14** Poverty at the poverty line of \$2 and \$1.25 a day (PPP)

	1993	2004	2012
Headcount at \$2.00 a day (% of population)	85.71	60.39	12.45
Headcount at \$1.25 a day (% of population)	63.76	31.40	2.44
Poverty gap at \$2 a day	43.56	22.87	2.90
Poverty gap at \$1.25 a day	23.58	8.44	0.55

Source: World Bank, 2015a.

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*the country, it declined most rapidly in the fast-growing urban economies of Ha Noi and the Red River Delta, and Ho Chi Minh City and the Southeast region.* In 2012, the poverty rate was 5.4 per cent in urban areas and 22.1 per cent in rural areas. The urban poor are concentrated in small cities and towns which accounted for 43 per cent of the urban population, but more than 70 per cent of the urban poor in 2010 (Table 15). Measured by the 2010 poverty line, 1.9 per cent of the population in the six largest cities was income poor, compared with 11.2 per cent in small cities and towns; 32 per cent of the urban population lives in Ha Noi and Ho Chi Minh City, but the two cities have 11 per cent of the urban poor. Depth and severity of income poverty decrease as city size increases (Kozel, 2014: 113).

The conventional method to measure poverty is to assess a person's income (or expenditures), but this approach has its limitations. Some barriers to goods and services are not financial, but social or legal, and the poor may have to pay more for certain goods and services than other income groups. A multi-dimensional poverty assessment has proven to be more significant than a purely income poverty measurement, because the urban poor experience other forms of poverty: lack of adequate housing, poor sanitation, exclusion from social insurance, exposure to risk, and vulnerability to poverty. A method to assess multi-dimensional poverty was developed by a research group on community-based monitoring systems in Viet Nam.

**Table 15** Poverty in Viet Nam, by city size (2009)

Class	Special city	I	II	III	IV+V	Rural
No. of cities	2	7	14	45	634	
Average population	4,075,000	467,000	225,000	86,000	11,000	
% of total population	9.5	3.8	3.7	4.5	8.1	70.4
% of urban population	32.1	12.9	12.4	15.3	27.3	
Poverty rate (%)	1.9	3.8	4.2	5.8	11.2	25.6
Poverty gap (%)	0.4	0.6	0.7	1.1	2.4	6.8
% of urban poor (%)	11.0	8.8	9.2	5.9	55.0	

Source: Kozel, 2014: 113.

Studies of multi-dimensional poverty in Ha Noi and Ho Chi Minh City found that non-income poverty is often more important than income poverty. According to a study in these two cities, the top four deprivations were (a) access to social security, (b) access to services such as electricity, water, sanitation and waste disposal, (c) access to adequate housing, and (d) access to educational services. There were also significant differences in multi-dimensional poverty between the two cities. Ho Chi Minh City was richer than Ha Noi in terms of income and it had a lower income poverty rate, but higher poverty rates for all dimensions of social poverty. Despite government efforts to

ensure a floor of essential social services for all or most Vietnamese, 13.5 per cent of the population of Ho Chi Minh City lacked health insurance. The commercialization of health and education has shifted a large part of the financial burden from the state to the user, while unofficial charges increase inequality of access (Haughton et al, 2010: 19-20).

*After two decades of rapid economic growth, there does not appear to have been a significant rise in income inequality.* The national Gini coefficient of income inequality has remained fairly stable over the past two decades (Table 16). However, inequality may be growing within

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**Table 16** Gini coefficient of expenditure by area 1993 - 2012

	1993	1998	2004	2008	2012
Urban	0.337	0.288	0.332	0.347	0.344
Rural	0.278	0.131	0.295	0.305	0.317
National	0.329	0.350	0.370	0.356	0.356

Source: SRVN, 2015a: 36.

urban areas and within rural areas as a result of differences in access to education which is still highly unequally distributed at the higher levels of education. A major challenge facing by Viet Nam in the coming years is to ensure an equitable distribution of the benefits of the economic growth across the population.

#### SOCIAL INCLUSION AND SOCIAL PROTECTION

In 2006, the Social Insurance Law was issued with provisions for a compulsory social insurance scheme which applies to workers in formal enterprises with at least a three-month contract, and to public officials, the military and public security workers. The scheme requires a contribution of 16 per cent of the salary, with employers and employees paying 11 per cent and 5 per cent respectively. The number of contributing participants in the compulsory scheme nearly doubled from around 4 million in 2000 to about 8 million in 2007, or around 18 per cent of the labour force and 54 per cent of workers in state-owned enterprises and foreign invested and private domestic firms (ILO, 2010: 20-21).

In 2014, the Social Insurance Law was amended with many new provision, including voluntary and compulsory social insurance. The law now will allow men take at least five days off work for the birth of a child. It will make benefits more accessible to pregnant women, who now have to contribute to social insurance for only three rather than six of the 12 months before giving birth to qualify for

paid time off. Workers must pay into the pension fund for two decades before they can claim benefits, contributing 10.5 per cent of their monthly pay, while their employer contributes 22 per cent. Those who reach retirement age but have not contributed for the full 20 years can collect a pension, if they make a single payment to cover the missing years. Retirees receive monthly payments equal to 75 per cent of their base salaries, but workers can collect their pension contributions in a lump sum within a year of leaving their jobs (Vietnam Law & Legal Forum, 28 September 2015).

#### RESPONDING TO THE NEEDS OF THE AGED

As the population ages, the well-being of the elderly will be a growing challenge. Most elderly are married; a smaller number is widowed, while other marital statuses account for a small proportion of the elderly population. Marital status is important, because elderly spouses support each other and share their material and spiritual needs and vulnerabilities. The percentage of the elderly living with children remains dominant but is decreasing from about 80 per cent in 1992-1993 to 62 per cent in 2008, while the percentage of elderly living alone or with only a spouse is increasing. The percentage of skip-generation households is small but also increasing (UNFPA, 2011: 21-22).

A 2006 survey found that the main means of support for just over 39 per cent of the elderly were their children, 30 per cent mentioned their work and 25.9 per cent their pension or subsidy. Pensions

### III. POVERTY REDUCTION AND SOCIAL POLICIES

or subsidies were the main means of support for elderly in cities (35.6 per cent). There was little difference between urban and rural areas in younger generations supporting the elderly in the home. So, although pensions and savings in urban areas are higher than in rural areas, support from children is still important for the elderly regardless of where they live (MoCST et al, 2008: 33).

Although the social protection system has expanded in recent years, specifically to cover more of the elderly population and an effort has been made to develop policies and programmes with a focus on the elderly, the current social protection schemes do not guarantee to meet all elderly's needs, especially the vulnerable elderly. Some of them are unable to participate in the schemes due to regulations which restrict the contributory pensions mostly to workers who have sufficient insurance pay time as regulated workers. The benefits are limited and can pay for a small proportion of household expenditures. The coverage rates for the elderly in the contributory pension scheme and social allowance schemes are low. *Without policies that take account of the growing number of elderly, the contributory pension scheme which is based on the pay-as-you-go principle will face serious short-term and long-term challenges.*

#### INTEGRATING GENDER IN URBAN DEVELOPMENT

Women are strongly represented in the economy. They make up 65 per cent of the agricultural labour force, 43 per cent of the industrial labour force and 70 per cent of the informal labour force. Women in urban areas have shown great entrepreneurship and are often the main income earners for their families through home-based businesses. On the other hand, migration has also changed the role of women in the rural economy. As men migrate to the urban areas for work, much of the increased burden for farm production is falling on women, who must also sell products in nearby markets to meet daily needs.

The 2013 revision of the Land Law was an important step towards ensuring land use rights for women. The earlier law only required that the names of both spouses be on the land use right certificates for newly issued ones. The revision allows certificate holders to convert previously issued certificates to new ones bearing the names of both spouses. Yet, many certificates still bear only the husband's name. The conversion has proven to be lengthy and many women do not understand their legal rights and the steps to secure them. Entrenched attitudes of some civil servants tend to form another obstacle.

**Table 17** Share of Women in the National Assembly and the People's Councils (%)

	2002-2007	2007-2011	2011-2016
National Assembly	27.3	26.0	24.4
	1999-2004	2004-2011	2011-2016
Province	21.57	23.88	25.17
District	20.99	23.01	24.62
Commune	16.61	19.53	21.71

Source: SRVN, 2015a: 54.

### III. POVERTY REDUCTION AND SOCIAL POLICIES

Representation of women in the National Assembly for the current term (2011-2016) stands at 24.4 per cent, a slight decrease from 27.3 per cent in the 2002-2007 term (Table 17). At the lower levels, there is a small increase in women's representation. The percentage of women in the people's councils increased from 21.6 per cent in the 1999-2004 term, to 25.2 per cent in the current term. However, women's representation in leadership and management positions remains very low. *The proportion of female leaders at all levels is small, all the more so at the higher levels.* By the end of 2014, the percentage of chairwomen of a people's committee was 1.6 per cent at provincial level, 3.6 per cent at district level and 3.2 per cent at commune level.

#### ENHANCING URBAN AND PERI-URBAN FOOD PRODUCTION

Agricultural policies and rural development policies

have transformed the country from one with food deficiency 30 years ago to the world's second largest rice exporter. The increase in agricultural production has resulted in the reduction of hunger countrywide. Between 2000 and 2013, 7.5 million people escaped from hunger. By 2011, the Red River Delta, the Mekong River Delta and the Southeast region had completely eradicated hunger. As hunger is being eradicated, malnourishment among children below 5 has significantly declined. Hunger is still prevalent in provinces in the North West and North Central Coast, and some provinces of the Central Highlands (SRVN, 2015a: 39).

The growth of the urban population and of its standard of living has raised demand for agricultural produce, particularly high-value products such as meat, fish, fruit, fresh vegetables and dairy products. Urban and peri-urban agriculture plays an important role in the urban food system. Peri-urban fruit production has grown rapidly, as farmers

Figure 5 Urban agriculture expanded in major cities | Photo by Lu Kieu Mai



### III. POVERTY REDUCTION AND SOCIAL POLICIES

shifted from low-profit rice farming to high-profit fruit growing to meet consumer demand. The conversion to cash crops generates local economic benefits, improves livelihoods and sustains household food security. Urban agriculture which employs urban residents as labourers and uses urban resources such as organic waste as compost and urban wastewater for irrigation as inputs, can supply directly to urban consumers.

Nevertheless, farmers face several significant challenges. The provinces of Ha Noi and Ho Chi Minh City cover a vast rural hinterland which is classified as urban, despite many small-scale traditional farms. Many peri-urban and urban farmers are actually part-time farmers and many household members work in the city. Urban expansion and high land prices force farmers to choose between using their land for agriculture, converting it to other uses or selling it. As a result, the area under rice cultivation is shrinking in many places to make way for industrial and urban expansion. To remedy that, the Government has issued regulations on protecting rice cultivation land. Many farmers reduce their farming intensity from three to two crops annually, due to lower income compared to working in urban areas.

The reduction in cultivated land decreases greenhouse gas emissions from rice fields, but as farmers increase agricultural intensity and productivity to meet the growing urban demand, there is an increased use of fertilizers. Their production, distribution and use releases nitrous oxide (N<sub>2</sub>O), another greenhouse gas. Many peri-urban farmers who grow aquatic products and vegetables use wastewater to take advantage of the organic substances therein, but urban wastewater may contain industrial and hospital wastewater which is untreated or treated ineffectively. Vegetables and aquatic products raised in such wastewater may become contaminated by heavy metals and pathogens.

#### CHALLENGES

*While Viet Nam has achieved the goal of a large-scale reduction in income poverty, millions of households are still “near-poor” and could easily fall back into poverty.* Thus, poverty reduction programmes need not only lift the remaining poor out of poverty, but also bring the “near-poor” into the middle-income segment. Social safety nets are indispensable to make sure that economic or financial shocks do not bring renewed income poverty. Besides income poverty, there are still many other forms of deprivation. Exclusion, for whatever reason, from access to services (water supply and sanitation, education and healthcare) can cause income poverty because of a decline in health and productivity and the higher cost to be paid for those services. Another challenge is income inequality which could increase with growth, but would violate the socialist orientation of the market economy.

The aging population will become a challenge in two ways. As internal and international migration increases and housing and living costs in urban areas rise, it will become more and more difficult for the elderly to rely on their children, particularly if they have only one child. The elderly could face income poverty, if their child or children do not support them sufficiently, or could face other dimensions of deprivation due to isolation and exclusion. With increasing life expectancy, the aged population will require more, and more expensive, medical care, and the state and the community will need to develop measures to assist a growing number of elderly. A deteriorating dependency ratio will require the development of national pension schemes that are inclusive and sustainable.

Vietnamese cities have a tradition of using peri-urban areas for urban agriculture development that supplements the supply of agricultural produce from rural areas to enhance urban food security.

### III. POVERTY REDUCTION AND SOCIAL POLICIES

*Urban agriculture in peri-urban area and the natural environment are threatened by rapid and unplanned expansions of the urban areas*

which lead not only to the conversion of farm land into residential and industrial land, but also to the filling of wetlands which play a key role in irrigation and drainage. The use of untreated urban wastewater and fertilizers can pose threats to the eco-system and the health of the population. Urban food security is likely to be jeopardized by the impacts of climate change, such as irregular rainfall, droughts and sea-level rise which will affect the low-lying, rice-growing areas.

# IV

## HOUSING

The urban population of Viet Nam is projected to increase from 8.3 million households in 2015 to 10.1 million households in 2020. A projected urban population growth rate of 3.03 percent per annum and decline in the urban household size of 1.1 percent per annum will drive this increase. To accommodate the additional households, an annual average of 374,000 housing units would have to be built during the next five years. In addition, an estimated 4.8 million housing units need to be serviced, upgraded or rebuilt to address the qualitative housing deficit that is attributed to lack of access to basic infrastructure, aging stock, overcrowding and use of substandard materials (World Bank, 2015b: 14-15).

In 2015, there were 8.3 million households living in urban areas. Officially, four types of housing are distinguished: permanent, non-permanent, temporary and simple. Non-permanent units lack any one or multiple of three durability elements (structural frame, roofs or walls) made of sturdy materials. Housing categorized as 'temporary' and 'simple' has decreased significantly. In 2014, the urban housing stock was divided as follows: 42 per cent was permanent; 54 per cent was non-permanent; 3 per cent was temporary or simple. Between 2009 and 2014, annual urban housing production averaged 500,000 units; the average house size increased from 70 m<sup>2</sup> to 84 m<sup>2</sup> per unit and from 19 m<sup>2</sup> to 23 m<sup>2</sup> per capita. The share of commercial and state-supported production is

estimated to account for 20-25 per cent of total output, while the remaining housing is produced in the self-built sector (World Bank, 2015b: 15, 21-22).

### IMPROVING ACCESS TO ADEQUATE HOUSING

Until 1986, Viet Nam had no articulated national housing policy. The state supplied subsidized rental housing in urban areas for state cadres and state workers to supplement their low wages, but it met only one-third of the housing needs, while the low rents were insufficient to cover the cost of maintenance. People outside the state sector had no access to state housing, but were not allowed to build their own house. They had to find accommodation without government intervention or support. *In the 1980s, local governments started to allocate land to state employees for self-help housing, but there was no legal framework to guide the self-help construction process.*

The reforms have transformed the housing sector from one under the control of the state in terms of the supply and allocation, to a market-based system ruled by the market. Housing reform in a market economy with a socialist orientation is not easy, as it requires complicated interactions between state and market. In 1992, the provision of rental housing for state employees was terminated; rents of state-owned housing were raised and salaries adjusted to compensate for the rent increases. Privatization of the state-owned housing stock started in 1994, but initial responses were lukewarm despite discounts and incentives. *Many young and low-income households were not eligible for the incentives or could not afford home-ownership and remained as tenants.*

The 1993 Land Law consolidated the land use rights of private persons, including the right to

## IV. HOUSING

sell and exchange the land use right. Decree 60 and decree 61 in 1994 detailed the administrative procedures for trading in housing. With the creation of a housing market, the state's role in housing supply shifted from direct provider and financier to market player and enabler of the private sector. The 2003 and 2013 Land Laws terminated the privilege for private real estate developers to have land rental fees waived in exchange for a portion of the completed units. Land rental fees were set at market price, with the revenue used to produce social housing. The 2006 Real Estate Law introduced a comprehensive regulatory framework for land and house transactions, the leasing of land and property, real estate services and the pricing of real estate.

The 2013 Land Law reconfirmed that land is owned by the people of Viet Nam as a whole and the State acts as their representative by granting land use rights to land users in accordance with the Law. The Law clarified concepts and terminology to make its application more straightforward, particularly with regard to land use rights. The law provided detailed regulations for land compensation and clearance as well as the procedures for the issuance of certificates of land use rights and of ownership of assets on land. Before finalizing the law, many public opinion consultations were held, receiving some six million responses with comments and feedback.

There are now thousands of state and private real estate development companies who play an increasing role in the supply of housing. Most of them are small. Foreign companies mostly invest in large urban housing projects. A large number of individuals acquires land use right and develops housing for rent or sale, but is not registered as developer. Developers still cater to the demand of higher-income households; there are adjustments for medium and low-income segments, but the number is limited. Only a small group of wealthy

persons can afford private-sector apartments, and housing inequality is growing. Due to the still underdeveloped housing finance system, developers normally ask a high down payment and this puts their units further beyond the reach of low-income households.

In 2005, the Housing Law was issued, and the state resumed its role as a supplier of housing. The Housing Law introduced public social housing, i.e. housing for those within the government work force, workers in economic zones and industrial areas, students and low-income persons with an urban household registration. Government incentives for social housing development include land use fee exemptions, 0 per cent value added tax, a four-year income tax exemption and a reduction of income tax to 50 per cent in the following five years. A low-level business tax of 10 per cent is charged during the entire period of project. There are favourable loan conditions, a free provision of unit design and support in the use of modern construction technology. The removal of restriction of six floors as the maximum height of social housing allows developers to build taller buildings and apply a construction ratio and land use index 1.5 times higher than that of commercial projects.

Private developers are, however, not keen on joining the social housing programme. There is also confusion about the responsibility for allocating social housing units. If developers allocate the units, there is a concern that there will be speculation and unfair treatment. If local government is in charge, there is concern about too much red tape.

In 2011, the Government adopted the "National Housing Development Strategy up to 2020 with a Vision towards 2030". It states that housing development is a joint task of the state, society and the people. The Government will introduce policies to promote the real estate sector through market mechanisms, while helping poor people own a

**Figure 6** Family members participate in house building | Photo by Nguy Ha



home. The strategy sets the construction of 100 million m<sup>2</sup> of floor area annually as a target until 2020. At least 20 per cent of the floor area in urban housing projects will be set aside for beneficiaries of social assistance and low-income earners. The average floor area per capita in urban areas will increase from 19.2 m<sup>2</sup> in 2010 to 29 m<sup>2</sup> by 2020. Apartments will form a large share of the new housing, particularly in large cities, while rental houses will also be developed.

In order to achieve its targets, the Government will create favourable conditions for the real estate sector to supply houses for sale, lease and lease-purchase through the market to serve better-off customers. Concurrently, the Government will adopt policies to support those who face housing problems but cannot afford to buy a home. It will review laws on planning, land and finance to remove any regulatory obstacles for housing development. A fund will be established with proceeds from the sale and lease of state-owned

housing, the collection of land use fees from housing projects, allocations from local budgets and other sources to create a publicly owned housing network to maintain the state's role in the housing market and provide soft loans to investors of social housing projects and social house buyers and lessees (Vietnam Law Magazine, 20 September 2011).

*At the moment, many urban households, even if they qualify for a housing loan, cannot afford a small formal housing unit.* Some middle- and low-income households rely on private-sector rental housing, but this is a still neglected and largely unregulated sector with poor-quality housing. Tenants who are predominantly immigrants tend to be poor and without legal residence status, and do not enjoy tenure security or rent protection. Low- and middle-income households which aim for homeownership therefore resort to informal self-built housing in the peri-urban areas.

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### URBAN INFORMAL HOUSING

Owner-occupants and developers need to obtain a building permit before they can start construction and they must have a land use right certificate, also a drawing of the plot and drawings of the house to be built with the application for a permit. The drawings have to be detailed and specific and most people cannot prepare them on their own, but many people cannot afford to hire an architect. Buyers and sellers of land often prefer to transact without a certificate due to the fees and time involved and the tax liabilities incurred, while many people do not have a land use right certificate. Some pay taxes and fees and have the ward notarize the transaction to increase its legitimacy, but they do not register for a title.

As a result, before 1995, *informal housing proliferated in and around the cities, catering mainly to the local urban poor and rural-urban migrants without urban household registration*. Around 75 per cent of all urban housing is thought to be built by the owner, often informally, i.e. disregarding planning and building regulations and without adequate supporting infrastructure. The United Nations refers to such housing as “slum” and uses a very broad definition for its statistics on slum housing (Table 18). It includes all those among the urban population who live in a slum household. A slum household is defined as a group of individuals living under the same roof lacking one or more of

the following conditions: access to improved water, access to improved sanitation, sufficient living area, durability of housing, security of tenure. Since information on secure tenure is not available for most of the countries, only the first four indicators are used to define slum household and then to estimate the proportion of urban population living in slums. In Viet Nam a much narrower definition is used and consequently there are fewer “slums”.

*Informal housing production is the dominant mode of housing supply in many urban areas, but little is known about the processes and the actors involved.* Of what is known, three features stand out: (a) land for such housing is acquired on the informal land market and becomes available through the progressive conversion of farmland into small building plots in the urban fringe; (b) informal housing is usually self-built by the owner-occupant or is built by a private developer for sale or rent; and (c) the authorities eventually provide basic services in the informally developed area.

In the peri-urban areas, industrial zones generate large-scale employment, but most enterprises do not provide housing for their workers. Because of their low income, many of the workers rent cheap housing in informal settlements near the factory. Workers of enterprises which provide accommodation are better housed, but their living conditions are still far from comfortable. The accommodation usually consists of lines of single-

**Table 18** Proportion of urban population living in “slums”

Year	Percentage	Number
1990	60.5	8,118,137
1995	54.6	8,852,034
2000	48.8	9,395,125
2005	41.3	9,491,068
2007	38.3	9,396,278
2009	35.2	9,223,950

Source: UN, 2015.

story buildings, divided into separate rooms with shared bathroom and toilet. The roof may be made of iron sheets, making the rooms hot during the summer, but cold during the winter, and unless electricity is available, fans are rarely used due to the high electricity cost.

### UPGRADING AND PREVENTION

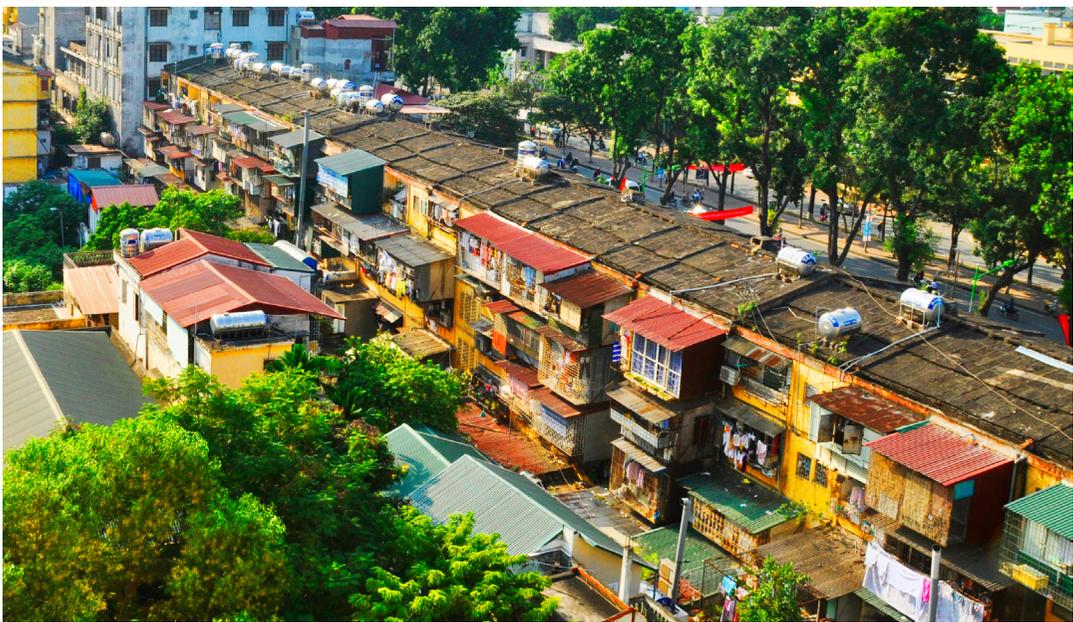
Over time, the government approach regarding informal settlements has shifted from the demolition of the informal housing, the eviction of the population and their resettlement into low-income housing towards the recognition of self-built housing, upgrading of informal settlements and the development of sites-and-services schemes.

In Ho Chi Minh City, evictions are not very common, except for informal settlements along the canals in the city centre where the Government cleared informal housing to increase the drainage capacity of the canals, and create open spaces along

both sides of the canals and revitalize the city. It implemented two programmes related to informal housing: (a) “Clearance of Canal Areas” resettled thousands of families living along the city canals; (b) “Replacement of Slum Houses” led to the demolition of informal housing along the canals to develop the water and drainage system. The population of the settlements was resettled in apartments. The programmes were only partly effective, as some households left their new housing and moved into informal settlements in the urban fringe, because the apartment did not meet their needs and priorities.

For resettlement housing, the city made land available and its architecture office produced the designs; actual construction was outsourced to state-owned enterprises. The preferred design was a high-rise building (G+5 to G+12) with apartments of 30-42 m<sup>2</sup>. Planners argued that high-rise buildings provide the required density due to the scarcity and high price of land. The apartments

**Figure 7** Existing old apartment block built from 1970s in Ha Noi | *Photo by Nguy Ha*



## IV. HOUSING

could not be resold within three years, but those resettled were mainly poor households who had been squatting along canals and ponds and made a living by street vending. High-rise buildings were not well suited for them. They preferred low-rise units, so they could run a business at street level.

A 2002 study found that resettlement housing units in Ho Chi Minh City had a resale rate of 70-100 per cent, and resale often occurred informally before the end of the three-year period. Most resettled households were not only poor, but were in considerable debt and unable to save any money. Their financial situation had become more precarious after resettlement. Life in the apartment units was more expensive than before their resettlement, due to the payments of recurrent costs. At the same time, their income had declined, because they had lost direct access to the street. By reselling their apartment, they had gained in two ways: they did not have to pay the high housing costs and they acquired capital (VeTVietnam, 2003: 39-40).

In 2000, the Government sought international assistance for the upgrading of informal settlements. The Cities Alliance agreed to fund in-depth studies to assess the housing and infrastructure needs faced by the urban poor; to review ongoing national and international urban upgrading programmes; to develop an action plan for the city of Can Tho; and to prepare a national strategy for upgrading and the provision of housing and services for the urban poor. Based on the study findings, the Ministry of Construction prepared its “Guidelines for the Preparation, Management and Implementation of Upgrading Projects in Poor Urban Areas with Community Participation”. In 2004, the World Bank agreed to fund the “Viet Nam Urban Upgrading Project.”

The Government selected the cities of Ho Chi Minh, Can Tho, Hai Phong and Nam Dinh for the project, based, amongst others, on the number of

infrastructure-deficient low-income settlements and the interest of the city in joining the project. The project had several components: upgrading of tertiary infrastructure; complementary primary and secondary infrastructure; resettlement housing; land and housing management; housing improvement loans; and capacity development. The World Bank contributed US\$382 million and the Government US\$140 million. Implementation started in 2004, and by the end of the project some 295 low-income areas had been upgraded, directly benefiting over 2.5 million people and indirectly benefiting another 5 million (World Bank, 2015c: 1).

The projects showed that while the appropriate process of urban planning should be applied, there is also a need to be more flexible when it comes to upgrading low-income areas in the urban core. When such areas are upgraded and infrastructure is provided, the people concerned should remain in their place. This is an important shift in the thinking about the development of cities.

Following the success of the Viet Nam Urban Upgrading Project, the Government decided to upscale the approach and it adopted the “National Urban Upgrading Programme (NUUP) to 2020” in 2009. The Programme covers 95 cities in Class IV and above and aims mainly at servicing unplanned housing areas. It includes a credit line to help residents improve their housing and technical assistance for the regularization of land tenure. Under the NUUP, the World Bank agreed to fund a second urban upgrading project which started implementation in 2012 in six smaller cities of the Mekong Delta.

### **STRENGTHENING AND IMPROVING ACCESS TO HOUSING FINANCE**

Housing finance is essential for most households to gain access to adequate housing, as it bridges the

gap between supply and demand. Housing finance is still not fully developed in Viet Nam, but a housing mortgage market is gradually emerging. Some state-owned banks and several commercial retail banks specialize in housing loans to homebuyers. They provide mostly traditional mortgage products: loan-to-value rates of 70-80 per cent, maturity terms of 15-20 years, market interest rates (10-11 per cent per annum) and collateralization of land and/or other property and cater mainly to the high-income households. A few banks have started to see the potential of middle-income housing finance and are developing ways to reach that market segment (World Bank, 2015b: 39).

Factors that explain the slow expansion of a formal housing finance market are related to the reluctance of the banks to become involved. Most banks show reluctance to provide housing loans to low-income households because even the cheapest house is not affordable for low- and middle-income households. They also note the limited availability and quality of collateral, the unclear and cumbersome nature of the property foreclosure procedures, the problems of household income verification, and the limited access by lending banks to long-term funding sources. Besides the high cost of housing, factors that prevent many middle-income households from accessing housing finance include the requirement of a regular, formal-sector income and the interest rates.

The majority of the financing for housing comes from informal lenders which may supply as much as 75-80 per cent of all housing finance credit. Major informal sources for housing finance include moneylenders, friends and relatives. Formal housing finance is also unavailable for informal housing. Informal house construction is often incremental as it allows the homeowner to tailor construction expenses to available capital in the form of savings and personal interest-free loans from relatives and friends.

To finance housing development and purchase, local governments in Ha Noi and Ho Chi Minh City established housing development funds. In Ha Noi, the fund was set up in 2001, with the mandate (a) to receive funds from the city and state, and issue long- and medium-term loans to developers for projects; (b) to receive savings from civil servants as installments towards the purchase of low-income housing; and (c) to invest directly in housing and infrastructure development. The Ho Chi Minh City housing development fund was established in 2004, and received a grant of VND 1,000 billion from the city budget to capitalize its operations. Its aim is to mobilize financing for housing the city's low-income population. Beneficiaries are civil servants and officials of the local government. Borrowers must make a down payment of 30 per cent of the house value and have a sufficient and regular income to repay the loan which is heavily subsidized.

A few micro-finance institutes provide housing finance products, but a lack of low-cost capital constrains the expansion of the service. Housing micro-finance is a relatively new concept in Viet Nam, and institutions that supply or consider supplying micro-finance products for housing are mainly state-owned or publicly owned institutes. They offer a range of micro-finance products and target poor households, particularly in rural areas. Loan sizes range from VND 2.5 million to 15 million, with repayment periods of 1 to 3 years and interest rates of 0.6 to 1.0 per cent per month. None are fully commercial and there are inherent subsidies in the loan programmes.

Housing cooperatives have also been promoted, but few have been formed. Most cooperatives have been established in Ho Chi Minh City. The Viet Nam Cooperative Alliance is implementing a "Saving for Housing Programme" to mobilize savings from their members for housing. Members are to deposit a minimum of VND 100,000 and a maximum of VND 300,000 per month. An index scoring system on the

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savings is used to determine the order in the queue for the right to purchase a house. Priority is given to low-income households who can pay the required 30 per cent down payment.

Many developers do not apply to banks to mobilize funds for housing development. Besides equity, their main source is pre-payment by the buyers. The Housing Law permits developers to mobilize financing from purchasers only after the design has been approved and the foundations have been laid, but developers often try to raise funds at earlier stages by avoiding the word “pre-payment”. Besides a house purchase contract, the developer and the purchaser sign a “capital borrowing contract” which turns the homebuyer into a capital lender. It puts buyers at risk, if the project fails to be licensed or to be completed on time. Since 2010, the Ministry of Construction allows developers to mobilize 20 per cent of the investment before the foundation is built.

With the aim to improve the quality of life for urban low-income and poor households through improvements in housing, the Asian Development Bank supported a “Housing Finance Project” (2003-2012). Its expected outcome was the establishment of a sustainable housing finance market that would be accessible to urban low-income households. The project was expected to deliver four outputs (ADB, 2014: 2):

- The establishment of a facility to refinance housing loans, to develop procedures and documentation, to monitor project funds, and to act as a think-tank for the housing finance sector.
- The refinancing of housing loans for urban low-income and poor households through the housing finance facility to the participating finance institutions.

- The establishment of linkages among community-based financial institutions, non-governmental organizations and people’s committees.
- The facilitation of access of urban poor households to small loans so they could undertake self-help construction and incremental house improvements.

As a result of the project, a housing finance facility was established within the State Bank of Viet Nam, but the creation of a mortgage refinance agency has been delayed. The project helped establish common underwriting standards and due diligence among the participating institutions, but the refinancing targets through the housing finance facility to the participating institutions fell short of the targets. No sub-loans were extended to urban poor households to acquire a house. Overall, the project contributed to the creation of an environment more conducive to housing finance (ADB, 2014: 4-5). In order to improve housing finance policy, the Government has recently released 30-trillion VND loan package for low income people to buy social house according to 2014 Housing Law.

### CHALLENGES

Over the past decades, *the private sector has become a major housing supplier, but it is mainly targeting high- and upper-middle-income households* that can afford to buy housing with (or even without) formal housing finance. The next step for the real estate sector is to move down-market and target middle- and lower-middle-income households. This will remove the need for those households to acquire informally developed housing and will also reduce pressure on public-sector social housing. To do so, the real estate sector must reduce production costs through greater efficiency, while the government in its role as facilitator reviews its regulations and procedures,

and amends or replaces those which unnecessarily raise the costs of house production and acquisition. The 2014 Housing Law has already taken steps in this respect by revising regulations regarding the minimum floor area.

In addition, an adequate supply of land with trunk infrastructure (roads, drains, power supply) in peri-urban areas and an efficiently operating housing finance sector will be critical for the development of affordable housing. As the housing finance sector is a subsector of the financial sector, the development of the housing finance sector requires the maturation of the financial sector as a whole. Improved access to housing finance for middle-income households may also require a review, the amendment and/or replacement of existing

regulations. While such measures will enable some households to buy a complete house, other households will continue to rely on informal, incremental or rental housing.

Some households will need small housing loans which can be provided by micro-finance institutes. Other households will want or need to rent housing and they will benefit from policies that promote private rental housing. In addition, the current upgrading projects provide opportunities to study and draw lessons on the most efficient and effective approaches to improve informal housing and to emulate informal housing in a planned manner to prevent the proliferation of new informal housing in unplanned peri-urban settlements.

# V ACCESS TO URBAN SERVICES

Viet Nam has made much progress in extending infrastructure services to urban households (Table 19). Many residents have benefited from the provision of safe drinking water and electricity and the paving of roads and minor streets. Sewer-drainage networks have been extended and a programme has been launched for the construction of wastewater treatment plants. However, access to urban services diminishes with city size and a remaining challenge is to extend access to basic services to all urban residents in large and small cities and in the peri-urban areas of those cities. Another challenge is to shift the focus gradually from quantity to quality and sustainability.

In the peri-urban areas of major cities, many poor and lower-middle-income households and rural-urban migrants still live in informal housing with inadequate infrastructure. The government requires that basic infrastructure is secured before people come to live in an area. However, due to rapid urban expansion, in these areas, housing often comes first and infrastructure follows, if at all, usually at a much higher cost than if it had been provided initially. In many cases, households in informal housing which lacks adequate infrastructure, have to obtain water and electricity from adjacent buildings at increased rates. Moreover, any uncontrolled land conversion and indiscriminate filling of wetlands and pumping of groundwater in peri-urban areas affect the natural drainage of the area, while the eco-system cannot cope with the rapid increase in wastewater discharge.

### ENSURING SUSTAINABLE ACCESS TO SAFE DRINKING WATER

In urban areas, the share of the population with access to “improved water sources” was 99.0 per cent in 2015 (Table 20), but only 61 per cent of the urban population had a private connection to a potable water network; 38 per cent has access to water through a shared standpipe or a protected well (JMP, 2015: 75). As poor households cannot afford to stay in areas which do not have formal infrastructure (electricity, water) from general

**Table 19** Access to basic services by the urban and rural population 1990 - 2012

	1990*	2000*	2010*	2015**
<b>% of the population with access to an improved water source</b>				
Urban	89.9	93.3	97.4	99
Rural	54.4	72.2	90.0	97
<b>% of the population with access to improved sanitation</b>				
Urban	64.1	77.3	90.5	94
Rural	30.6	47.0	63.3	70

Source: \* World Bank, 2015a; \*\* JMP, 2015: 74, 75.

**Table 20 Use of drinking water sources 1990 - 2015 (percentage of population)**

	Improved			Unimproved			Total
	Piped	Other	Total	Un-improved	Surface water	Total	
1990	43	47	90	4	6	10	100
2015	61	38	99	1	0	1	100

Source: JMP, 2015: 75.

network, so they tend to spend a much larger portion of their (lower) income on buying water than rich households, despite urban government efforts to control water tariffs to protect the poor.

Access to improved water sources and the quality and the quantity of the water supplied differs by part of a city and declines with city size. *Many small towns and peri-urban areas do not have any form of piped water supply and rely on the semi-formal private sector* which installs small-scale water supply systems. (ADB, 2010: 7). In 2009, access to clean water by the urban population ranged from 70 per cent in special cities and class I cities, to 45-55 per cent in class II and III cities, 30-35 per cent in class IV cities and 10-15 per cent in class V cities and towns. Water at the treatment plants that supply water to urban areas tends to meet the standards for drinking water. However, due to poor quality of the pipe system, the water that reaches the households often does not meet those standards (WHO, 2012: 6).

*The capacity of urban water supply has increased to several times since the 1990s, but rapid urbanization, the proliferation of industrial parks, the development of newly formed urban areas and the rapid increase of urban population make it difficult for water supply systems to keep pace with the growing demand.* Treatment plants have been upgraded and their capacity has been increased. There are currently 68 urban water supply companies with a combined installed capacity of 5.5 million m<sup>3</sup> per day, but they operate at only 3.9 million m<sup>3</sup> per day, due to restrictions in the network

capacity to transmit or distribute water and the level of unaccounted-for-water (ADB, 2010: 7).

Service provision averages 21.6 hours per day and the average supply is in the range of 80-90 to 120-130 l per capita per day (ADB, 2010: 7). Most connections are metered, but some distribution systems are old and in poor condition. Cities are investing in the improvement and expansion of the networks in order to reduce water losses, but the incentive to improve is limited due to low tariffs. Water treatment facilities exist in most cities and towns, but not all plants produce water of acceptable standards. Intermittent supply also compromises water quality through the inflow of unclean water during periods of low pressure.

If the percentage of unaccounted-for water is a measure of efficiency in water supply, many water supply companies appear to be inefficient. The levels of unaccounted-for water are above 20 per cent across city classes, but there are wide disparities between cities which may have levels as high as 75 per cent. Special cities have levels as high as 30 per cent, while for Class I cities the levels are at 21 per cent. Improvements have been made through time, as the levels were above 35 per cent in the late 1990s (World Bank, 2011: 212). Most unaccounted-for water is due to leakages and it has been estimated that if all water supply companies could reduce unaccounted-for water to 20 per cent or less, 60 per cent of the investments in additional water production could be avoided.

The water supply system in localities has been

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invested. By the end of 2015, there were 100 enterprises which managed 500 water supply systems in the whole country, with total capacity of 7.5 million m<sup>3</sup>/ day, increased by 1.1 million m<sup>3</sup> compared to 2009; the rate of citizens which accessible to water by concentrated system reached 81%, an 8% increase compared to 2009; the average leaking and unaccounted water stood at 25%, a 6% decrease compared to 2009, which stood at 30%; water usage per capita reached 110 litre a day.

The local water suppliers has proactively developed their road map to decrease unaccounted water, in the 2012-2015 period through the following measures: finalising the organisational structure; staff capacity building; applying technical measures on network zoning and separation, setting up the management software and equipment, renovating and replacing the pipe network and improving community awareness. Some provinces, cities achieved positive results in term of reducing unaccounted fresh water: Da Nang: 19% (decreased

12% compared to 2009), Thua Thien - Hue: 13%, Binh Duong: 9%, Ba Ria Vung Tau: 15%, Haiphong: 15%, Hai Duong: 17%.

### ENSURING SUSTAINABLE ACCESS TO BASIC SANITATION

In 2015, 95 per cent of the urban population had access to improved sanitation, while 5 per cent shared a sanitation facility and 1 per cent used another unimproved sanitation facility. This is a very significant improvement from the 1990 situation, when only 65 per cent of the urban households had access to an improved facility, 11 percent used an unimproved facility and 24 per cent of the urban households still practiced open defecation (JMP, 2015: 74). Regulations stipulate that all houses have to have some form of on-site wastewater treatment. Over 90 per cent of the households in large urban areas meet this requirement and have their toilet(s) connected to a septic tank. However, some septic tanks are not functioning properly or are not connected to a

**Figure 8** Preparing public lighting | *Photo by Nguy Ha*



sewer system. They discharge untreated or partly treated wastewater into the sewer system or the environment and pollute groundwater and water bodies.

### IMPROVING ACCESS TO CLEAN DOMESTIC ENERGY

Until 2010, the generation, transmission, distribution and management of electricity were concentrated in the hands of a single national institution: Electricity of Viet Nam (EVN). Currently, the Government is setting goals for competitive electricity market development as part of the market-oriented economy. Independent producers and BOT projects accounted for 10.4 per cent of the installed capacity in 2009; EVN accounted for 53 per cent and Petro Vietnam for 10 per cent. In terms of electricity consumption, the industrial sector has the largest proportion; next is the household sector; the remaining are the service, agriculture and other sectors. With rapid urbanization, ensuring power supply in summer is challenging. The Government is strengthening the awareness on effective and economical energy use, in buildings and urban areas.

Ha Noi and Ho Chi Minh City have been covered by the grid for many years, but the way households are connected can differ. A 2009 survey in Ha Noi and Ho Chi Minh City found that 81.2 per cent of households surveyed had a direct connection and a separate meter; 8.7 per cent connected directly with the grid, but shared a meter with other households; and 10.1 per cent used electricity through another household's connection. The problem of indirect connections is that they tend to increase the cost of electricity. In both cities, gas is widely used for cooking (84 per cent of households). Its use increases with income from 68.3 per cent in the poorest quintile to 89.9 per cent in the richest quintile (Haughton et al, 2010: 78, 81). The use of solid fuel for cooking is lower in urban areas (26.4

per cent) than in rural areas (78.9 per cent), and is uncommon among richer households (UNICEF, 2007: 70-71).

In 2012, the Government adopted the National Target Programme on Energy Efficiency and Conservation 2012-2015 in order to mitigate climate change. Its objectives were (a) to achieve savings of 5-8 per cent of the total energy consumption of the country during the period 2012 - 2015, compared to the forecast of energy demand in the national electricity development plan (2011-2020), and (b) to raise awareness of the importance of energy efficiency and conservation, and environmental protection. Energy saving was to be achieved through the replacement of older technologies with new ones and more efficient transportation.

### IMPROVING ACCESS TO SUSTAINABLE MEANS OF TRANSPORT

There are more than 8,500 km of roads and streets within cities and towns of Class III and above. Most have been paved and have side-drains and sidewalks. The construction, extension and widening of roads are a constant activity in any city and town, as local governments try to improve traffic circulation in the face of a growing population and an increasing number of private cars and motorcycles. Traffic congestion is becoming a major problem for cities, because the total road area in the inner cities and towns nationwide was 16 per cent of the total buildable area in 2008, below the standard of 20-25 per cent, according to 2008 estimates by the Urban Development Agency. In the sub-urban and peri-urban areas, the ratio is even lower (UN-Habitat, 2012: 124).

With the exception for major real estate projects, it is common to have main streets in wards and communes with a width of only 3-5 m, while

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internal streets and pathways have widths of less than 2.5 m and pathways of 1.0-1.5 m width are common for residential access. These residential areas usually developed organically or informally in sub-urban and peri-urban areas. The widths make accessibility of residential areas by private car or public transport difficult, but despite limited accessibility, peri-urban areas remain popular as a location for housing, because residents tend to use motorcycles.

Ha Noi used to have a tramway and trolleybus service, but it disappeared. People shifted from public transport to private modes of transport. In the 1990s, there was a shift from bicycles to motorcycles which became the dominant means of transport in Ha Noi.

***Viet Nam has the highest per capita motorcycle ownership in the world. More than 7.43 million motorcycles are registered in Ho Chi Minh City.*** They are popular, because there is no need for a

driver license for motorcycles with 50 cc engines or less; the price of motorcycles does not depreciate significantly; and the city is still small enough to allow people to travel easily almost anywhere by motorcycle. With the decline in the price, even the poor can now afford a second-hand motorcycle for traveling or using for their job. They increase mobility, but also cause traffic congestion, especially at bridges which connect the city centre with the peri-urban areas.

Growing prosperity is enabling a growing number of urban households to shift from the motorcycle to the car. If this shift accelerates and the car becomes an important mode of transport, cities will face more traffic congestion, longer travel times and more air pollution, while urban road networks are incompatible with the demand for road space by private cars. Constructing new roads or expanding existing ones is mostly done on urban main traffic routes, but the traffic network at inter-regional level is still underinvested. The urban authorities

**Figure 9** Motorbikes are still main vehicles used in cities in Viet Nam | *Photo by Tran Minh*



are making efforts to control the overload of this transport system by developing transit networks. However, lack of budget and the population growth in major cities are the main obstacles for transport upgrade.

The master plan for Ho Chi Minh City stresses the need to restrain private vehicle use, because the development of the urban road network cannot keep pace with the rising and unrestrained private vehicle use. The master plan suggests:

- The development of the road network according to the principle of “integrating road development into public transport development”, with segregated lanes for buses and trams.
- The development of a multi-modal public transport system with a wide network and “door-to-door” transport in order to improve the convenience for passengers and encourage the use of the public transport services.
- The introduction of transport demand management by means of vehicle ownership restraint, high parking charges and road pricing charges on trips to central areas.

Local government in Ha Noi is addressing traffic congestion by expanding the road network, building flyovers and underpasses, reorganizing road intersections, enforcing traffic laws and applying traffic signals. It is also improving the operations of the public bus system which is the main public mode of transport, but has not been popular with travelers due to its limited routes, timing and inconveniences. The project “Development of Public Bus Transport in Ha Noi in 2010 - Orientation to 2020” aims at (a) increasing the number of passengers using buses and reducing the number of trips by private vehicle; (b) resolving traffic congestion in urban centres, between the

centre and the planned satellite cities and at major intersections; (c) reducing transport fuel costs and harmful emissions from vehicles; and (d) reducing the severity of traffic accidents.

To this effect, bus companies in Ha Noi have been reorganized and the quality of the services has improved: new bus lines have opened, the schedule and the frequency of the buses are more responsive to consumer demand, and bus interchanges have been introduced. In Ho Chi Minh City, the bus system which is subsidized by local government is improving, but buses are still slower than motorcycles due to the heavy traffic. The most ambitious projects by far are the mass rapid transit networks in Ha Noi and Ho Chi Minh City, which are at different stages of progress. Two mass rapid transit lines are under construction in Ha Noi and one line is under construction in Ho Chi Minh City. Four more lines have been planned in Ha Noi, while the Urban Transport Master Plan for Ho Chi Minh City proposes six metro lines.

### INSTITUTIONAL DEVELOPMENT

A government review of the Socio-Economic Development Plan 2006-2010 identified the current state of infrastructure, and in particular urban infrastructure, as a major obstacle for development. Water supply, drainage and power supply systems are often inadequate, of low quality and/or overloaded. Inadequacy of infrastructure reduces competitiveness and comparative advantages of the country and its cities in the global supply chain, as it increases production costs. Basic services (safe water and sanitation, drainage, solid waste management etc.) and adequate housing can make substantial contributions to the health and well-being of the population, which in turn contributes to its productivity and economic growth. An evaluation of 30 years of revolution consistently identifies infrastructure development as one of the three important breakthroughs in Viet Nam and it

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will serve as a national strategy for the period 2016-2021 to make Viet Nam an industrialized country.

Before the reform, the services used to be provided by government divisions. In the 1990s, they were taken out of the divisions and handed over to state-owned enterprises. Today, infrastructure is mostly built, financed, owned and operated by state-owned enterprises at provincial or city level. They provide services such as water production and supply, wastewater collection and treatment, transport and cleaning of public areas. They have some autonomy, but are controlled by the provincial people's committee which appoints their senior management, sets their tariffs and often at least partly meets their financial needs. The national ministry set their sectoral plans and targets.

In 2002, the Government started the process of converting state-owned companies into joint-stock companies and this process is still ongoing. Its aim is to diversify ownership and prepare the company for sale as an autonomous utility in which the provincial people's committee retains a majority shareholding. The World Bank (2014: ii) believes that a number of problems need to be solved to attract investors:

- Current tariffs and revenues are inadequate, resulting in lack of financial and operational sustainability.
- Continuing effective state control through majority shareholding raises concerns over governance and autonomy.
- The contractual relationship between the provincial people's committee and the company needs to be clarified.
- The valuation of the company for share sale may undervalue its liabilities related to fixed assets, many of which are underground.

- Some companies may be less attractive to investors due to their small size and/or location in poorer provinces.
- Some companies have developed subsidiary businesses outside their core area that may be detrimental to the public service objectives of the company.
- Some companies have split their core business into separate companies each with their own management and ownership structure.
- The capacity to manage the transformation from public utility to equitized company is weak in some cases and external support is required.

Tariffs have to be raised to cover the costs of operation and maintenance, and of capital investment to the extent possible. The tariffs set by the state-owned enterprises are higher than those at the time the services were provided by the government. This shift from a state-funded model to a partly user-pay model was necessary, because the state could no longer afford to bear the financial burden, but as the burden was shifted onto the users, it created problems for the poor. The Government wants to ensure that access to basic services remains affordable for the entire population, especially for the poor.

Many state-owned enterprises manage to provide the services at discounted rates through a cross-subsidy from subsidiary entities. In larger provinces, the enterprises act in fact as holding companies with subsidiary companies engaged in a diverse range of activities that may have little to do with the core activity. Subsidiaries of a water company may be involved in property development and construction. The development of side activities is often a necessity, as it allows the company to set the tariffs very low, while the subsidiary helps the

company to break even, but potential investors fear that a focus on other businesses could distract management from the main activity.

### CHALLENGES

Viet Nam has achieved the Millennium Development Goals on urban water supply and to a lesser extent of urban sanitation, but it still has some way to go to ensure universal access to safe drinking water supply and sanitation, power supply and affordable transport. The challenges are both quantitative and qualitative. *Access to the services has to be extended to informally developed settlements, while the service quality needs to improve.* Water needs to be safe to drink at the house connection; wastewater needs to be treated before it enters the sewer-drains and the surface water bodies; power supply must be uninterrupted; public transport needs to be safe, affordable and convenient and be able to compete with private vehicles.

Low tariffs hamper the development of new infrastructure, as revenue tends to cover operation and maintenance costs at the most. To improve

the quality of the services, local government needs to invest and raise the tariffs. Given the growing demand for urban infrastructure and the scarcity of financial resources, the development of an efficient use of available financial resources will be of primary importance. A major challenge is to gain access to private sources of finance and encourage the provision of infrastructure services by the private sector. Transparency, accountability and governance need to improve to develop creditworthiness and investor confidence.

The country has millions of urban and rural poor who are entitled to affordable services such as water supply, sanitation, drainage, solid waste collection and transport. Inequalities in access inevitably develop as an economy grows and the provision of basic services is left to market forces. In a market economy with a socialist orientation, the challenge for the government is to find the means to ensure that utility companies have the resources to invest in improvements and expansion, while the services they provide remain accessible and affordable to all at adequate levels of quality.

# VI ENVIRONMENT AND URBANIZATION

Viet Nam is committed to balance economic growth and environmental sustainability. Its commitment was first articulated in the “Strategy for Socio-economic Stabilization and Development until 2000”, and most recently re-affirmed in the

“Strategy 2011-2020” which sets sustainability as one of the development criteria. The Constitution stipulates that protection of the environment is the responsibility of every citizen and organization. This orientation has resulted in the establishment of a comprehensive and adaptive legal and regulatory system for the protection of the environment. Besides the specialized laws (e.g. the 2005 and 2014 Law on Environment Protection and the 2008 Law on Biodiversity), environmental provisions are essential parts of other laws (e.g. the 2005 Law on Investment, the 2005 Enterprise Law, the 2013 Urban Planning Law and the 2014 Law on Construction).

The Government stresses that harmony should prevail between population growth, urbanization, socio-economic development and environmental protection. However, despite significant achievements in environmental protection, the natural environment continues to deteriorate at a rapid and in some places at an alarming level. Rapid

Figure 10 | A wedding during Ha Noi's flood season | Photo by Nguyen Viet Hung



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urbanization in particular is exerting pressure on the natural environment. Pollution of water, air and soil often exceeds permitted limits. Land is eroded and deteriorates; the quality of water resources declines; the air in urban areas is heavily polluted; and biodiversity is threatened. The trade-off between economic profits and environmental values is one of the greatest challenge facing the country (SRVN, 2003: 7).

In 2014, Viet Nam adopted a new law on environmental protection to overcome the inadequacies and limitations of the 2005 law. *It added articles on green growth, climate change and environmental security, and harmonized provisions in the 2005 Law with international commitments on environment protection.* The 2014 Law stipulates that environmental protection should be harmonized with economic development, social protection, biodiversity protection and adaptation to climate change. It argues that organizations and individuals benefitting from the environment are also responsible for the provision of financial support to protect the environment and it outlines the polluter-pays principle. It encourages the development and use of clean and renewable forms of energy to reduce greenhouse gas emissions and to protect the ozone layer.

### URBAN ENVIRONMENTAL SERVICES

#### *Wastewater disposal*

Since 1998, the Government has introduced policies and made investments to improve urban sanitation. This has led to significant progress in development of the wastewater sector. By 2015, 30 urban wastewater treatment factories had been constructed in provincial cities and towns, with a total capacity of 809,000 m<sup>3</sup> per day. Many other wastewater treatment systems are in the design or construction phase, but more needs to be done, as

the investments have focused on the construction of treatment facilities without concomitant investments in collection. All wastewater is combined in drains-sewers and discharged in canals and rivers leading to severe water pollution.

Decentralized and on-site sanitation systems have had mixed results. On-site systems have been constructed as part of newly built hotels, hospitals and office buildings in order to treat wastewater prior to discharge into a combined sewerage-drainage network. Most industrial zones have wastewater treatment facilities, but few operate effectively and there is little enforcement of the quality standards of the effluents that factories discharge into urban drains-sewers. On-site treatment at hospitals have had a high rate of failure and many district-level hospitals lack wastewater treatment facilities and discharge untreated wastewater into the environment (VietNamNet, 11 November 2015).

The Urban Environment Company (URENCO) and private enterprises are responsible for the collection of fecal sludge from septic tanks and night soil from twin-pit toilets and bucket latrines. In some places, night soil is also illegally collected by farmers for aquaculture feeding or agricultural fertilizer. Fecal sludge is often dumped on a city's landfill sites or discharged into drains. Due to an indiscriminate discharge of wastewater, the Dong Nai river near Ho Chi Minh City is considered biologically dead, as is the Day/Nhue river near Ha Noi. As a result of inadequate wastewater treatment, waterborne diseases are widespread.

#### *Ensuring sustainable access to drainage*

Many cities in Viet Nam are very flat, low-lying and located on or near the seacoast. As more land is built upon, runoff of rainwater increases due to a lack of open land that can absorb it. It makes drainage an important service in urban areas.

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Monsoon rains drop huge volumes of rainwater which must be accommodated by a combination of natural rivers and ponds and urban drainage so the water can be discharged from inhabited areas and flooding can be reduced. As urban wetlands, lakes are increasingly being filled, the volume of water that can be retained is declining, causing increases in flooding.

Although separate sewerage systems have been built in selected locations, they form a minority and most cities have a combined sewerage-drainage system. The drainage system was designed to collect rainwater runoff and reduce flooding. As urban population densities increased, it became necessary to dispose of wastewater generated by households. The need was largely met by the existing drainage systems which began to function as a combined system, collecting rainwater runoff and sewage in the same drain. Where solid waste is not (regularly) collected, the drains are often also used for solid waste disposal, blocking the flow of rainwater and wastewater.

Today, cities are expanding into areas that are exposed to known and new natural hazards. Many areas which had previously been barred from development due their exposure to hazards, notably floods, are now being urbanized under pressure from population growth, industrialization and real estate development. Much of Da Nang's expansion occurs in the low-lying floodplain south of the city where developers are filling and raising land by 2.5 m on average to protect the projects from flooding. The area faces large inflows of water from upstream, but infill limits drainage and eliminates floodwater retention, causing flooding as the rivers try to reach the sea. New ring roads have added to the obstruction of the natural course of the water and local communities feel the impact.

While all cities and towns in low-lying coastal areas are vulnerable to flooding, the poorer

neighbourhoods and the poorer households are generally most affected, because they tend to reside in disaster-prone areas. During flooding, the population of those areas does not have access to clean water and their income is jeopardized by the loss of work. In 2008, Ha Noi suffered from flooding for more than a week, due to unexpectedly high rainfall of 500 mm per day for two days while the capacity of drainage system was only 170 mm of rainfall per day. The livelihood of hundreds of thousands of people was affected and the cost of the flooding was estimated at around VND 3,000 billion.

In 2009, the Government issued the "Orientations for Development of Water Drainage in Vietnamese Urban Centres and Industrial Parks up to 2025 and a Vision towards 2050". It adopted the polluter-pays principle and stressed the need to shift from a system of subsidies by the government to a system of cost recovery. It set goals to eliminate flooding in cities of class IV and above, to extend drainage services to more than 80 per cent of the population, to invest in a system that ensures that 60 per cent of domestic wastewater is collected and treated in cities of class III and above, and 40 per cent in cities of class IV and V, and to prevent the pollution of drainage systems.

### ***Solid waste management***

In the 1970s and 1980s, solid waste management was a matter of collection, transport and disposal of waste generated by the domestic sector. It was the responsibility of the Urban Management Department of the city's people's committee or the provincial Department of Natural Resources and Environment. Street cleaners collected the waste which was dumped at dumpsites. Today, the industrial, agricultural, tourism and service sectors have expanding tremendously and are generating huge volumes of waste. The waste has increased not only in quantity, but also in complexity and toxicity. Today's solid waste management requires changes

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in policies, regulations, procedures, workforce and resources to protect public health and the environment.

The Ministry of Construction estimates that 12.8 million tons of solid waste is generated annually in urban and rural areas and that the cities in class IV and above produce 7.2 million per year (or 54 per cent). The amount may reach 22 million tons in 2020. Around 85 per cent of the solid waste generated is currently collected. Of the waste collected, around 10 per cent is recycled and 12 per cent is treated. Small amounts of organic solid waste are separated and composted, but most urban solid waste is disposed in landfills. Only 15 per cent of the landfills are considered sanitary; the other ones are unsanitary open dumping sites. Lack of treatment causes pollution of the surrounding land and ground water due to leakages (World Bank, 2012b: 3-4).

In Ha Noi and Ho Chi Minh City, over 95 per cent of the household waste is collected; a small proportion is not collected, but thrown into rivers and lakes or dumped near the house on open land or in open drains. Solid waste is more likely to be collected from high-income households (99.1 per cent for quintile 5; 95.1 per cent for quintile 4) than from low-income households (80.7 per cent for quintiles 1; 86.7 per cent for quintile 2). The latter households probably do not benefit from solid waste collection services due to the location of their house rather than to any discrimination by the service provider (Haughton et al, 2010: 79).

The safe disposal of urban solid waste is becoming a major issue. In some cases, residents living near waste dumps in Ha Noi, Ho Chi Minh City and Hai Phong have blocked access to the dumps out of concern about their environmental impact. Small towns increasingly face problems of solid waste management. *As a growing share of the population turns to non-agricultural work and*

*consumption levels rise, traditional recycling programmes which took organic waste back for use in agriculture have become overloaded with waste that poses a risk to human health.*

In most places, the state-owned Urban Environment Company (URENCO) is responsible for solid waste management, but its specific functions and duties differ among the cities and towns, as they are subject to local regulations. URENCO can be in charge of the entire solid waste management process or specialize in transport or disposal. Other entirely or partially state-owned enterprises, joint-stock companies and co-operatives also collect, transport and dispose of solid waste. Besides income from solid waste collection fees, enterprises can earn income from the recovery of valuable materials and from recycled products.

Since 2007, sorting at source and recycling have been mandatory, but in practice they occur infrequently. *Collection usually involves small, often informal enterprises or private individuals who buy or gather recyclable waste from households and businesses.* The recyclable waste is sold to companies that process and sell it as raw material. Although access to the landfill sites is controlled, families living near some sites make a living from recovering recyclables directly from the landfill site. Composting is sometimes seen as a feasible option, but it requires waste separation at source and the production of a marketable product. Composting may not be financially viable, because of a lack of demand for compost priced at the cost of production.

### *Air pollution and emissions*

In many urban areas, air is polluted by dust at sometimes alarming levels: often up to three times the official standards. An important source of dust in urban areas is vehicles transport and the construction of houses, roads and bridges. The

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**Table 21** Total and per capita greenhouse gas emissions 1994 - 2030 (CO<sub>2</sub>e)

	1994	2000	2005	2010	2020 (est.)	2030 (est.)
Total emissions (x1,000 tons)	103.839	150.900	175.471	246.830	300.400	515.800
Emissions per capita (tons)	1.47	1.94	2.20	2.84	3.12	5.00

Source: SRVN, 2015a: 77.

digging up of soil, the demolition of old buildings and the loss of building materials during transport also cause serious dust pollution. In accordance with the 2009 Urban Planning Law, evaluation of the strategic environment is a part of any overall plan, zoning plan, detailed plan and technical infrastructure plan. However, *some old polluting factories may still be found in the middle of residential areas, and the absence of a buffer zone between a residential area and new industrial areas can expose residents to noxious and toxic emissions and waste, and cause pollution-related health problems.*

In 2010, greenhouse gas emissions accounted for about 0.5 per cent of global emissions, and emissions per capita were as low as 2.84 tons of CO<sub>2</sub>e (Table 21; SRVN, 2015b: 4). Emissions are, however, steadily increasing due to industrialization and economic growth, and total emissions are projected to more than double over the period 2000-2020. Emissions from the energy sector are expected to increase sharply due to growing energy consumption and power production. By 2010, the energy sector had replaced agriculture as the sector with the highest CO<sub>2</sub> emissions. Investments in low-carbon development are expected to have a major impact on the carbon intensity of the economy in the medium to long term.

Currently over 75 per cent of the energy consumed in buildings is used for water heating and air conditioning; the remaining is for lighting and cooking. It is expected that green construction in the housing industry will have substantial environmental benefits. For this

purpose, the Ministry of Construction issued its “National Technical Regulation on Energy Efficiency Buildings” in 2013, to replace the 2005 standardization. However, specific energy regulations as part of construction licensing do not yet exist and the energy efficiency of multi-storey and commercial buildings still need to be adequately addressed.

### DISASTER RISK REDUCTION

Viet Nam is already among the most disaster-prone countries in the world. About 70 per cent of the population is at risk of typhoons, tropical storms, flooding and landslides. There are low to moderate risks of droughts, earthquakes, tsunamis, forest fires, cold and heat waves and animal disease epidemics. Between 1980 and 2010, Viet Nam had an annual average of 4.46 disasters caused by floods and storms, while the occurrence of drought was just 0.16 and fires 0.03 (IFRC, 2014: 13). It is likely that cities will increasingly be affected by natural disasters and their impact will not only be felt in the city itself, but by the country as a whole, as cities are engines of economic growth and poverty reduction. Disaster may even have impacts globally due to the globalized supply chain and economy.

The number and severity of natural disasters are increasing. Natural disasters cause on average 392 deaths and economic losses of over 1 per cent of GDP annually. In 2015 alone, severe hot weather with record high temperatures in 60 years occurred in the North and South, scorching 190,000 hectares of farming land and killing 44,000 cattle and poultry (VGP News, 21 December 2015). Storms,

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floods and other extreme weather events cause serious damage to houses and infrastructure and can reduce food production in the affected areas, particularly among poor and near-poor households.

The 2013 Law on Natural Disaster Prevention and Control has brought areas of disaster risk reduction under a single umbrella law. Although dispersed and despite some gaps, this legal framework has been vital in achieving substantial improvements in the area of disaster risk reduction. The Central Committee for Flood and Storm Control plays a prominent role in the coordination and mobilization of resources when floods or storms are forecast. With established and active committees at national, provincial, district and commune levels, the system provides the institutional framework through which early warning communications are channeled to communities.

### IMPACTS OF CLIMATE CHANGE

Viet Nam is one of the countries that will be most seriously affected by the impacts of climate change. During the last 50 years (1958-2007), the annual average temperature in Viet Nam already increased by 0.5-0.7o C. Winter temperatures increased faster than summer temperatures and temperatures in the North increased faster than in the South. The annual average temperature for the last four decades (1961-2000) was higher than that of the three previous decades (1931-1960). Annual average temperatures for 1991 to 2000 in Ha Noi, Da Nang and Ho Chi Minh City were higher than the average for 1931-1940 by 0.8o, 0.4o and 0.6o C respectively. In the

last two decades, the number of cold fronts declined remarkably, but there was a higher frequency of anomalous weather events (MoNRE, 2009: 4-5).

In recent years, there have also been more typhoons with a higher intensity. Typhoon tracks have shown a tendency to move southward and typhoon season tends to end later. The average number of drizzle days in Ha Noi has gradually decreased since the 1981-1990 decade and in the last 10 years, it lasted only half (15 days per year) of the long-term average. Data from tidal gauges along the coast show that sea-level rise was at the rate of about 3 mm per year during the period 1993-2008 which is comparable with the global trend. Over the past 50 years, the sea level at Hon Dau station rose about 20 cm (MoNRE, 2009: 6).

In 2012, the Ministry of Natural Resources and Environment (MoNRE) updated its 2009 projections for climate change impacts until the year 2100 (Table 22). Under a scenario of average greenhouse gas emissions, minimum temperatures would have increased 2.2-3.0o C by the end of the 21st century and maximum temperatures 2.0-3.2o C on average throughout the country. The number of days with temperatures above 35o C would increase by 15-30 in most parts of the country. Rainfall would decline in the dry season and increase in the rainy season. Annual rainfall would increase by about 2-7 per cent across most of the country. There could be days of abnormally heavy rain with twice the maximum rainfall currently seen. On average, the sea level would rise by about 57-73 cm (MoNRE, 2012).

**Table 22** Scenarios for sea-level rise relative to period of 1980 - 1999 (cm)

Scenario	2020	2030	2040	2050	2060	2070	2080	2090	2100
Low emission	11	17	23	28	35	42	50	57	65
Medium emission	12	17	23	30	37	46	54	64	75
High emission	12	17	24	33	44	57	71	86	100

Source: MoNRE, 2009: 15.

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*Climate change will increase the risk of floods and droughts, sea-level rise and saline water intrusion as well as health risks from heat waves, dengue fever and malaria.* Extreme weather events will cause injuries and deaths, infectious diseases, water contamination, food shortages and mental health problems. As vulnerability to climate change differs by poverty status and access to resources and social security, the most vulnerable groups (women, ethnic minorities, the population of regions with a high poverty rate) will find it disproportionately more difficult to adapt. Climate change will worsen the impact of natural disasters, which will be felt primarily by the poor and vulnerable, especially women, children and the elderly.

A sea-level rise of 1 m by 2100 would permanently inundate 14,500 km<sup>2</sup> of land (4.4 per cent of the land area). Some 39 provinces would be affected; all but one of the top ten most affected provinces are located in the Mekong Delta region. The top five most affected provinces would have 40-50 per cent of their land area flooded; 43 per cent of Ho Chi Minh City province would be flooded. A 1 m sea-level rise would directly affect almost 6 million people or 7.3 per cent of the population. In six of the Mekong Delta's 12 provinces over 30 per cent of the population would be affected. Ho Chi Minh City would have more than 660,000 people (12 per cent of the population) affected by inundation, but the number would likely be much higher. The

city's current population growth areas are highly threatened by sea-level rise inundation (Carew-Reid, 2008: 2).

Droughts and heavy rainfall could cause significant reductions in crop yields and lower productivity of agriculture, possibly leading to malnutrition, micronutrient deficiencies and, in extreme cases, starvation. An increase in the number of very hot days in urban areas, along with forest fires and dust storms will adversely impact air quality and aggravate the occurrence and intensity of respiratory diseases and health complications. Changes in rainfall patterns and temperature will increase the occurrence of vector-borne diseases (malaria and dengue), and change and possibly extend the geographical Habitat of the vectors of such diseases.

Climate change will negatively affect the agriculture, industry and energy sectors at times of reduced water availability, and will force these sectors to compete for limited water supply. Altered rainfall patterns will lead to reduced and less reliable river flows during the dry season. Pressure on the water supply will also come as the result of an increase in evaporation from paddy fields. Agricultural productivity will increasingly be affected due to constraints on water access for irrigation during the dry season and reduced sediment deposition on agricultural lands from irrigation and flood waters.

**Table 23** Current and future population and assets exposed to coastal flooding

	Ho Chi Minh City	Hai Phong
<b>Exposed population</b>		
Current	1,931,000	794,000
Future (2070s)	9,216,000	4,711,000
<b>Exposed assets (\$ billions)</b>		
Current	26.86	11.04
Future (2070s)	652.82	333.70

Source: Nicholls et al, 2008: 57.

**Figure 11** The Red River during draught | *Photo by Nguy Ha*



Linked to sea-level rise is saline intrusion or increased salinity which is most serious at the end of the dry season during the months of April to July. Due to low water levels in the rivers, high tide could push seawater inland, permeating farmland and reducing yields. Saline intrusion can cause changes in the aquatic eco-systems, damage infrastructure through corrosion and affect groundwater and urban water supply. In Hoi An, it already affects water supply, as water is primarily extracted from a shallow depth. During the dry season, water supply cannot operate 24 hours per day, with interruptions of up to 12 hours. Saline intrusion affects shallow underground water resources which people use when piped water supply is cut. Hoi An residents already reported a loss of rice yields of up to 50 per cent due to salinity (UN-Habitat, 2014: 16, 18).

The rapid urbanization of low-lying areas in Ho Chi Minh City will increase the economic assets at risk from extreme weather events (Table 23). This is of national concern as the city accounts for 23 per cent of total GDP. Increasingly, urban expansion and infrastructure development will be affected by the inundation of low-lying areas as hard surfaces

proliferate and reduce rainwater infiltration into the ground. Management of rainwater runoff during high-intensity inundations will become a pressing issue. The urban poor will be particularly vulnerable to extreme events, as they tend to live in areas along canals and riverbanks and in swampy coastal lands which are mostly at risk.

Seaports are among the urban infrastructure most exposed and vulnerable to climate change. Viet Nam has 116 seaports along its 3,200 km coastline. Using MoNRE's climate change scenario of a sea-level rise of 75 cm by 2100, an assessment of the susceptibility of 96 seaports to flooding and storm surges showed that 36 seaports face problems of flooding and storm damage without taking account of the impacts of climate change. Another 26 seaports will begin to experience flooding by 2050, and 19 more will experience flooding during the period of 2050 – 2100 (ADPC, 2014: 143).

### ADDRESSING CLIMATE CHANGE

Viet Nam is committed to responding to climate change and it has shown this by issuing a range

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of national policies and concrete mitigation and adaptation measures during the past decade, funded primarily from national resources. It signed the United Nations Framework Convention on Climate Change in 1992 and ratified it in 1994. It signed the Kyoto Protocol in 1998 and ratified it in 2002. It established a Steering Committee to implement the Convention and Protocol. It presented its Initial National Communication (2003) and the Second Communication (2010) to UNFCCC. In 2014, Viet Nam issued the initial Biennial Update Report with the latest climate change response efforts and greenhouse gas inventories. Viet Nam was also among the countries that adopted the Paris Agreement on the reduction of climate change in 2015.

The “Intended Nationally Determined Contributions” lays out its efforts to contribute to global climate change mitigation and reach the ultimate goal of maintaining the global average atmospheric temperature rise below 2o C by the end of the 21st century. *Viet Nam is pro-actively implementing*

*climate change response activities with a view to transition towards a low-carbon and green economy. It will intensify the implementation of its mitigation options in key economic sectors (energy, industry, transport, agriculture and waste) and increase carbon sinks.* Adaptation measures have been introduced, but only 30 per cent of the investment needs have been met so far. Expenses to remedy damage caused by climate change are expected to rise significantly and the cost of adaptation could exceed 3-5 per cent of GDP in 2030.

Viet Nam has the capacity to respond to the impacts of climate change due to its strong agricultural sector and its long tradition of dealing with natural disasters. The Government has adopted two policies directly related to climate change: The National Target Programme for Climate Change Response (2008) and the National Strategy for Climate Change Response (2011). The National Strategy calls for the establishment of a system to monitor and forecast climate change trends and its impacts in line with

Figure 12 Recycling plastic | Photo by Nguyen Viet Hung



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international standards, to be in place by 2020. The objectives of the National Target Programme are to assess climate change impacts on all domains, sectors and localities, and to formulate feasible short-term and long-term action plans in response to climate change. It delegates responsibility for the climate change response action plans to provinces, cities and districts to ensure that they meet local conditions and needs.

The Programme recognizes that many local governments lack the capacity to formulate and implement local adaptation action plans and sets priorities accordingly. It lists several difficulties: limited awareness of the scope of climate change and measures to be taken; poor coordination between agencies when drafting and implementing plans; inadequate knowledge on climate change trends and their socio-economic impacts; insufficient apprehension of the need to integrate climate change issues in development policies and plans; a lack of data on climate change and of tools and methods to analyze the data in order to formulate plans and policies. Consequently, the programme stresses the importance of research, data collection, training and knowledge building.

On 31 December 2013, the Prime Minister approved the project “Vietnam Urban Development and Climate Change Resilience 2013-2020”. It identified six key missions and measures: (a) Investigate and evaluate the climate change impacts on the current urban system and future urban development during 2013-2020; (b) Integrate climate change into urban development plans and programmes; (c) Amend and supplement legal documents, policy frameworks, standards and regulations regarding urban classification, planning and management of investments in urban housing and technical infrastructure development; (d) Establish flood controlling systems in urban areas; (e) Improve the capacity of leaders and professional staffs on urban management and development and climate change

resilience; (f) Implement cooperative programmes on science and technology research, and implement pilot projects on green city and architecture.

### CHALLENGES

The environmental challenges faced by the cities and towns are situated at three levels: (a) ensuring adequate access to environmental services (sanitation, drainage, solid waste management) for all urban households; (b) controlling air, water and soil pollution caused by rapid economic growth at the local and regional level; and (c) mitigation and adaptation to the impacts of global climate change. As the economy moves up the global supply chain, effective pollution control, disaster risk reduction and mitigation of and adaptation to climate change will enhance the competitiveness of Viet Nam in the global economy. Improvements in these services will require significant investments, but also changes in the attitudes of the population and trade-offs between the country’s priorities.

Although its contribution to climate change is minor, *Viet Nam will play its role in the mitigation of climate change by increasing energy efficiency and conservation and reducing greenhouse gas emissions*. As it aspires to develop a low-carbon economy, it will seek to adopt comprehensive, consistent and effective mitigation measures, especially in urban areas. Policies and strategies are already in place, but implementation is slow due to insufficient awareness of the need for climate change mitigation among the population and government officials at all levels, and local government capacity to prepare and implement action plans and partnerships between public sector, the domestic and foreign private sector and the population.

# VII

# URBAN PLANNING AND MANAGEMENT

Viet Nam's urban planning regime was originally designed for a centrally based economic framework. In the central planning system, investments came from three sources: the state budget, the capital of public enterprises and foreign aid from (mainly socialist) countries. As the economy transitions from a centrally planned to a market-based one, investments in urban development diversify from being purely state-driven initiatives to a wide range of sources: public (state budget, state-owned enterprises), private (private companies and households) and foreign sources (ODA and FDI). *As private and foreign sources play increasingly important role in the economy, the role of the state changes, and the Government is adjusting its urban planning regime to the new reality through the issuance of laws and regulations related to urban planning.*

The primary responsibility for urban development planning lies with the Ministry of Construction (MoC), represented at the provincial level a Department of Construction. The provincial department reports to the Ministry at the national level and to the people's committee at the provincial level. The Ministry of Construction also chairs the

Steering Committee that oversees the preparation of the National Urban Development Programme 2012-2020 and serves as the standing agency to host, coordinate and supervise programme such as housing development and infrastructure upgrading.

The Urban Development Agency (UDA) assists the Minister of Construction in term of management and law enforcement in the field of urban development; to develop orientations, strategies and master plans on national urban system development and to implement programmes and projects in the field of urban development which are invested or managed by MoC, within MoC's management. It also guides provincial and district people's committees, as these implement urban development and construction programmes.

## IMPROVING URBAN LAND MANAGEMENT

All land belongs to the people of Viet Nam and is managed by the state acting as their representative. Land use right certificates (LURC) constitute the legal recognition and protection of the rights and benefits of a land user by the state. Issuing these certificates for people nation-wide has been a priority of the Government, but has not yet been completed. The Ministry of Natural Resources and Environment estimates that certificates have been issued for 80 per cent of agricultural land, 75 per cent of rural residential land and 65 per cent of urban residential land (World Bank, 2012a: 10).

To obtain a certificate, applicants must show documentary evidence of their land use right, but many users acquired their land through an informal transaction and find it difficult to provide the evidence. Moreover, land registration regulations and procedures are complex and involve costs for the cadastral survey, mapping and registration. Four agencies (the Land Use Right Registration Office, the Tax Office, the State Treasury and the Notary

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Office) are involved in the registration of real estate transactions. Taxes, levies and fees for the issuance of certificates are unaffordable for many land users, especially the poor.

Implementation of the law and regulations have been decentralized to both the province and the district, but land management at two levels causes fragmentation and inconsistencies in the land information system and the cadastral records. The 1993 Land Law was designed to devolve the responsibility to one level only, but this was not feasible at that time, because the large volume of cadastral records and issuance of the certificates was beyond the capacity of most provincial land management agencies. As cadastral records have been updated, records have been digitized and many land use right certificates have been issued, it has become more feasible to move to a system with a single level.

The 2003 Land Law allows two forms of land conversion: compulsory acquisition and voluntary conversion. Compulsory acquisition is used in case of national security and national and public

interests, but sometimes also occurs for economic development projects. The Land Law states that compensation should reflect market values, but the actual compensation tends to be lower than prevailing market prices, as guidelines are lacking. Dissatisfaction over compensations leads to complaints and can cause delays in the project implementation, reducing the attractiveness of the investment climate. Ho Chi Minh City pays compensation rates closer to market rates. For projects that requires compulsory land acquisition, the city hires an independent land appraiser to determine the appropriate compensation. Experience shows that a timely agreement with the affected people speeds up the compensation and resettlement process and enables them to freely choose a place to relocate and restore their new lives.

In 2013, the National Assembly approved a new Land Law, to solve the issues, which came about by the enforcement of 2003 Land Law. The issues it addressed include: regulations that specify the government's rights and responsibilities regarding land users; extend the time limit for

**Figure 13** Bustling construction work in big cities | *Photo by Tran Minh*



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allocating agricultural land, enable households and individuals to accumulate land of a larger area (no more than 10 times of allocated agricultural land); base the land valuation on the legal land use purpose at the time of valuation; establish more equity in land accessibility between domestic and foreign investors; issue specific and comprehensive regulations on land acquisition, compensation and support on resettlement to protect the right of people who have land to be acquired, in open and transparent manner, as well as effectively solve the problem of lands that is still vacant after acquisition; add new regulations regarding information, monitoring and evaluation on land owned by people in open, transparent and democratic manner; issue more comprehensive regulations on land policies for agricultural areas; supplement of basic contents in investigation, evaluation of land resources.

### ENSURING EFFECTIVE URBAN PLANNING

The responsibilities for planning are divided between ministries and between the levels of government. Four types of plans are prepared for provinces and cities, each under the responsibility of another ministry: the Ministry of Planning and Investment is responsible for the socio-economic development plan; the Ministry of Construction is responsible for regional construction plans, construction plans for specialized areas, rural construction plans and urban plans; the Ministry of Natural Resources and Environment is responsible for land use plans for urban and rural areas; while line ministries are responsible for development plans in the economic sectors such as industrial, trade and tourism development.

While the system is constantly evolving to meet emerging needs and demands, the reconciliation and integration of these plans is hampered by inadequate procedures and decision-making authority.

The difficulties of coordination and integration can also be found in the day-to-day work at the lower levels of government. The Ministry and the Departments of Construction are responsible for spatial planning and building permits, but the Ministry and the Departments of Natural Resources and Environment look after land use control, titling and mapping, and supervise the cadastral office that assists households in land transactions and obtaining land use right certificates. There are technical links at each administrative level and through the people's committee, but the arrangements are not very effective, as considerable coordination is required to achieve consistency.

Urban planning is governed by the 2009 Urban Planning Law. Regional construction plans, construction plans for specialized areas, rural construction plans amended by the 2014 Law on Construction and urban plans are supposed to give physical form to the objectives of the socio-economic and sectoral plans, but the sequencing of planning with spatial plans following socioeconomic and sector plans does not always occur and integration is limited. The Urban Planning Law stipulates a series of urban plans, ranging from general to specific, with each lower level having to comply with the orientations of the level immediately above it:

- Regional plans organize space to provide solutions for urban, rural, technical and social infrastructure for areas which meet the requirements for socio-economic development. Regional plans include population forecasts and spatial plans in line with these forecasts with regard to urban areas, industries, physical and social infrastructure, protected areas for the environment and natural resources and land reserves.
- General urban master plans organize space for technical infrastructure, social infrastructure

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and housing for urban areas which meet the requirements for socio-economic development. The plans mainly define the total urban area and consequently the area to be urbanized in line with the population forecasts, and establish a functional macro-zoning with elements for urban regulation in each area.

- Zoning plans realize the contents of general plans by identifying functions and indicating land uses for plots in urban plans, and technical and social infrastructure networks in specific urban areas.
- Detailed plans define urban land use quotas, the design and landscape of each plot, the allocation of technical and social infrastructure, in order to realize the contents of zoning plans or general plans.

Master plans cover the entire area of a municipality and are often very detailed and prescriptive down to the level of the single plot. They reflect the political ideals and mandated production targets. The ambitious designs and the use of rigid standards result in unrealistic and unaffordable ideals that cannot be implemented. Plans are often prepared before funding for implementation is secured. This constrains implementation which may proceed in a manner inconsistent with the plan.

Today's urban economy is driven by the market with its multitude of actors. Investments by the private sector follow demand and market participants expect the state to respond to market demand. They do not respond to demand and market signals, as they are prepared with little or no public participation or consultation. As a result, they take only limited account of the socio-economic needs. While socio-economic realities are changing rapidly, the plans are rather rigid and tend to be outdated quickly, as they are overtaken by new developments. Due to the disconnect between

an idealized plan and the realities on the ground, master plans have limited impacts.

Many projects by the private and public sector, particularly in peri-urban areas, violate regulations, but action is rarely taken against the violations, as enforcement is weak and the pressure of development is immense. Residents who follow legal procedures for a building permit must wait until the land use plans have been approved. Some residents, rather than wait, take shortcuts by asking officials to turn a blind eye or by ignoring regulations all together. By the time a master plan or a socio-economic plan has been completed, approved and translated into detailed plans, private buildings have changed the situation on the ground and the plan has become outdated.

This has led to the requirement to adjust the planning regime to the development of a market economy. Efforts are under way to bring urban planning and management in line with a modern market economy with a socialist orientation. The Government is drafting a national urban development strategy which explicitly avoids being a rigid master-plan type of instrument, but pioneers a more flexible guideline-based approach. Urban plans will serve as an evidence-based projection of future spatial developments generated by the interplay of market forces and demographic trends rather than idealized visualization of ambitious physical design concepts. The new urban development strategy also explores options for the integration of different types of plans (including climate change action plans) and for the participation by stakeholders in the process.

### IMPROVING PARTICIPATION IN URBAN DEVELOPMENT

Over the past two decades, the City Development Strategy (CDS) has been introduced as a tool to enhance integration, prioritization and

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implementation and to clarify strategic objectives. In this way, it contributed to more realistic investment and action plans with prioritization based on available resources. *Many city officials were initially unfamiliar with participatory planning and consultation of city stakeholders*, but as they were exposed to CDS, they realized its importance. The first CDS initiatives were mostly driven by foreign consultants and experts, but as local officials became familiar with the concept, they developed ownership of the process and outcomes, and started to use the methods and results in their planning work. The experiences also showed its limitations. Consultations with all stakeholders are difficult to organize in a city of the size of Ho Chi Minh City. They are easier to conduct in smaller cities, but the local government of a small city may not have the power to take planning decisions.

Over the period 1998-2007, city development strategies were prepared in seven cities: Ho Chi Minh City, Haiphong (twice), Da Nang, Dong Hoi, Nam Dinh, Can Tho and Ha Long. The first one was prepared in Ho Chi Minh City in 1998. It originated in the donor community with only limited engagement by the authorities, forestalling meaningful outcomes, except for the creation of and donor funding for a centre to coordinate the urban activities of donors. The first CDS in Hai Phong in 1998 was also mostly driven by consultants, but at the second CDS in 2001, staff of different departments formed a task force, met regularly, developed ownership of the process and a good understanding of CDS. Its vision and goals reflected the objectives its Socio-Economic Development Plan and the priorities of the people's committee; components of the strategy became part of its socio-economic development plan.

The CDS in Da Nang was prepared in 2002-2003 with little local engagement. Public consultations were limited, but the project resulted in a vision for Da Nang: to make it a Class I city and a major urban

centre. The CDS identified five priority actions and the city focused on these priorities over the next five years. In 2004-2005, a CDS was developed in Dong Hoi, using the "Triple A Process: Atlas, Agenda and Application", as its methodology. "Atlas" stands for the compilation of information on conditions and trends; "Agenda" stands for vision, strategies, projects and feasibility assessments; "Application" stands for implementation. The outputs were integrated into the socio-economic development plan of Dong Hoi.

The CDS in Nam Dinh was developed in 2004-2006. A wide range of stakeholders participated in the SWOT analysis. The CDS built on existing policies, socio-economic plans and master plans at city, provincial and national level, in view of the limited powers of the class II city. The most recent CDS preparations were conducted in Can Tho and Ha Long in 2006-2007, with the aim of helping local governments better manage development planning, reduce urban poverty, stimulate economic growth and ensure more participatory and inclusive planning.

### SUSTAINABLE URBAN DEVELOPMENT

Given the limited impact of urban plans, urbanization often occurs in a spontaneous and informal manner. In many instances, rapid unplanned growth results to inadequate housing and infrastructure and serious environmental degradation. It is estimated that more than 75-85 per cent of urban housing is built informally and around 70 percent of all transactions in land use rights take place in the unofficial market, where private businesses lease land from state and non-state enterprises or directly from households (Tenev, 2003: 68). This informal urbanization creates problems for the government. It loses income as it does not lease the land at a proper rate to people who want to buy or develop

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**Figure 14** The harmony of urban development and natural beauty at Ha Long City | *Photo by Le Huy*



housing or to start a business. It is confronted with developments that do not conform to the plans and may be contrary to accepted norms of human Habitation, environmental concerns etc. Installing infrastructure becomes expensive after unplanned development, as land has to be acquired and households have to be resettled, while space for infrastructure is limited.

The Government emphasizes that the country should develop in a sustainable manner in the 21st century which requires a rational use of natural resources, the conservation of biodiversity, pollution control and environmental improvements, particularly for urban areas and industrial zones. The Viet Nam Sustainable Development Strategy 2011-2020 recognizes that urbanization and migration need to be guided to achieve sustainable urban development and a balanced population and labour distribution. Priority actions for sustainable urban development include a review of the master plans to ensure sustainable urban development; a minimization of the impacts of urbanization on the environment; and a steering of the various internal migration flows to major cities. The strategy also

proposes administrative reform, the development of an effective and competent administration and a strengthening of urban governance.

*In order to achieve sustainable urban development, the protection of green spaces and wetlands are critical to develop livable cities.* Policies regarding urban public spaces have evolved significantly since the early 2000s, with particular progress in three areas: an explicit acknowledgment of the positive contributions that public space makes to a city; a heightened attention for the spatial dimensions of public spaces; and recognition of the need to protect public spaces from degradation and encroachment. Responsibility for the management of public spaces is, however, divided amongst different government agencies. Multiple definitions of urban public space coexist in policy documents and there are inconsistencies in the planning norms regarding public spaces.

Nevertheless, the number of public gardens and parks in Ha Noi increased significantly between 2000 and 2010, although the majority of the new public spaces, particularly parks, are located in the

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urban periphery. During the same period, the city witnessed a decline in the number of lakes and ponds and the total area covered by them. As a result, the inner city suffers from a lack of formally designed public spaces, while the few that do exist are overcrowded. The scarcity of parks has particularly impacts on Ha Noi's youth and their ability to engage in their desired activities.

Local government increasingly realizes that its role is not only to make cities perform efficiently for the sake of economic growth, but also keep them livable and to preserve their cultural heritage and character. As society and the economy modernizes, cultural heritage (both material and immaterial) risks to be lost. In the Ancient Quarter of Ha Noi, many families still live and work in the same houses as they have done for generations, but many others have sold their property and moved to the edge of the city. With the sale, there has also been a shift in attitude away from cultural heritage and preservation. Heritage sites are also threatened by flooding, sea-level rise and more and stronger typhoons, as the structures were designed and built using local materials for a specific local climate. Like the natural environment, government should also protect the culturally valuable built environment of the city.

### VIET NAM URBAN FORUM

As the urban economy integrates into the global economy and private initiatives by enterprises and households influence urban development, many local governments are faced with challenges for which they do not have immediate answers. With the exception of the largest cities, they often lack the authority and the capacity to develop adequate answers. Learning from each other's experiences and experiments is a productive way to find innovative answers to new challenges. A donor conference in 2000 recognized the potential and opportunities of urbanization and the requirements

and challenges it placed on urban development in the 21st century. The conference recommended the establishment of the Viet Nam Urban Forum by the government to coordinate the urban actions of stakeholders such as government agencies, the donor community and international and local organizations.

The Forum became operational in 2003 with the signing of a Memorandum of Understanding by key stakeholders. The Memorandum defined the purpose of the Forum as: "To promote dialogue for sharing of experience and knowledge among government agencies, scientific and professional organizations, non-governmental organizations, entities and individuals of all economic sectors and donors, with the aim of actively contributing to the formulation and implementation of policies on urban development and management, implementing the Comprehensive Poverty Reduction Growth Strategy and improving the effectiveness of urban development and management activities in Viet Nam". Its Strategic Plan 2015-2020 restated its vision as: ***"The Viet Nam Urban Forum shall become an important decision-making support body that effectively channels information related to urban development from the Government of Viet Nam to stakeholder groups and vice versa, so as to improve the quality, responsiveness and implementation of decisions in urban planning and management"***.

The Forum functions as a platform for policy dialogues and exchanges on urban issues that inform stakeholders of the urban development processes. It reviews and reports on the state of ongoing urban development programmes and deepens the understanding of urban issues. Its focus is on four areas: policy dialogue, knowledge sharing, policy recommendations and information management. To this purpose, it organizes meetings on urban planning and development, the urban

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environment and infrastructure development, urban land and housing development and urban administrative reform. By 2015, the Forum had 110 members: 7 multilateral donor agencies; 9 bilateral donor agencies; 12 international and domestic NGOs; 21 government agencies, institutions and associations and academies; 31 cities and towns; and 30 foreign and domestic private enterprises.

### CHALLENGES

As Viet Nam urbanizes and its economy develops and integrates into the global economy and with cities functioning as the source of motivation of national economic growth, urban plans must respond to the demands of urban residents for a livable city, the demands of the business sector for an efficiently performing city, the demands of civil society for conservation of the city's character, its public spaces and cultural heritage, and the needs of future generations for an environmentally sustainable city. These demands strain the existing planning regime and require urban planners to establish dialogues with the stakeholders to hear

their needs and demands, and reconcile these in the plans which must also preserve the socialist orientation of development.

Urban planning in a market economy with a socialist orientation requires an adaptation of the planning institutions, rules and procedures as well as different attitudes and skills to enable planners and policy-makers to identify and reconcile the needs of the stakeholders and prioritize these in their plans. In order to consult local stakeholders and to make plans responsive to local conditions, central government has researched, evaluated, and strengthened local capacity building to delegate many planning responsibilities to lower levels of government. A consultative and participatory approach can make urban planning more responsive and evidence-based, but planning and budgeting must also be based on accurate data and realistic estimates of population sizes, economic activities and peri-urban developments. This in turn requires better monitoring and evaluation methods for urban development.

# VIII

## URBAN GOVERNANCE AND LEGISLATION

Over the past two decades, the Government has taken steps to update the regulatory environment for urban planning and development and as a result the legal system has improved remarkably. The first decade after Doi Moi was the era of devolution of economic power. The second decade was the era of devolution of administrative powers and responsibilities to the provinces and accountability for communes. The third and current decade is the era of devolution of functions to service delivery units and non-state providers. Administrative reforms have covered procedures and institutions as well as the application of information technology and e-government with the objective to develop a democratic, transparent, sustainable and modern administration, that operates efficiently and effectively and that adheres to the principles of good governance.

In 2011, the Government introduced Public Administration Reform Master Programme (2011 – 2020). Among its objectives are the development of a clean, strong, modern, effective, efficient system

of state administrative agencies from the central to grassroots and to enhance democracy and the rule of law in the operations of the Government and all state administrative organs. Included in the reform is a review and evaluation of the organizational models and operational quality of local government in order to establish forms of urban and rural government with appropriate functions, duties and powers (ISOS, 2013).

As part of the current administrative reform, functions have already been adjusted, procedures have been improved, many responsibilities have been decentralized and delegated; management functions have been detached from production activities; public administration has been separated from service delivery; state-owned enterprises have been equitized and reformed; a stock of professional and qualified civil servants have been built; and red-tape and corruption are being eliminated.

### URBAN MANAGEMENT

Much of the attention of the Government and its urban policies is focused on the planning and implementation of large-scale urban development projects. Less attention has been given to urban management models aimed at improving the performance of cities to make them function more efficiently. In small cities and towns (Class II and below), which report to provincial authorities, effective urban management is hindered by the limited powers of the people's committee and its inability to cooperate across district lines. Actions in one district have impacts in other districts, making coordination, cooperation and common objectives critical, as plans have to be implemented in a consistent and predictable manner. The Government is aware of these deficiencies and will address these weaknesses, by continuing administrative reform.

There has been a proliferation of new regulations,

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but this has sometimes been done in an ad-hoc and unsystematic manner, without proper codification and with overlapping and unclear levels of accountability. The Institute State Organizational Sciences (ISOS) of the Ministry of Home Affairs noted that it is difficult to assign tasks and functions to ministries, when it comes to implementation. Despite clear divisions of functions and tasks on paper, there remain a need for more coordination and collaboration. In fact, some new laws and decrees have created overlapping and duplicate responsibilities among agencies and some regulations regarding administrative reform have not been followed (ISOS, 2013). As a result, there are uncertainties about the regulatory stock in terms of consistency, applicability and even necessity. This can lead to unnecessary costs for citizens and businesses that try to find the correct regulation to comply with and can create opportunities for rent seeking by officials.

In 2015, the National Assembly approved the Local Authority Organization Law. This law details the regulations of the 2013 Constitution and Party's movements and orientations on local authorities, while obtaining the appropriate contents and making amendments and additions to address the shortcoming and issues encountered during the 12 years of implementation of the 2003 People's Council and People's Committee Organizational Law. It specifies the mission and the rights and responsibilities of the local urban authority, to show the differences with a rural authority. In addition to making decisions on local issues like in rural areas, local urban authorities also make decisions on urban development plans, the construction of urban infrastructure, and the management and organization of people living in urban areas.

### IMPROVING URBAN LEGISLATION

The Government has introduced new laws

regarding housing and urban development. The 2003 Land Law stipulated that land is owned by all people and is subject to the exclusive administration by the state which performs overall control and guidance and is responsible for the allocation of land to institutions, organizations, households and individuals for long-term use. The Law recognized that housing and other buildings can be owned privately and exchanged, although the rights over the use and exchange of land are granted and limited by the state. The 2003 Construction Law decentralized the granting of building permits for housing projects and individual houses to the district, and required that the applicant for a building permit must have a land use right certificate and an appropriate building plan.

The Investment Law and the Enterprise Law of 2005 regulate the approval process of major projects by local and foreign investors, and their rights and responsibilities. There were, however, still some ambiguities and inconsistencies within the laws and with other laws such as the Land Law, the Environmental Law and the Construction Law. The 2006 Real Estate Business Law as well as the 2005 and 2014 Housing Laws introduced a comprehensive legal framework for land and housing transactions, leasing of land and property, real estate services and the pricing of real estate. The law has benefitted companies, particularly foreign firms, but does not deal with transactions by individuals which form a majority of the transactions.

The 2009 Urban Planning Law regulates the classification of cities and towns, the development, evaluation and approval of urban plans and the management and usage of urban land. The law decentralizes many urban planning activities to the local level, but the national level (mainly the Ministry of Construction) retains overall control, because it is often invited to be the planning contractor for provincial and district plans due to

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the limited capacity of local governments. The new laws have improved and clarified the regulatory environment for housing and urban development, but the institutional reform is not yet complete.

In 2014, the National Assembly approved the (amended) Housing Law. The law will have a significant impact on housing development activities, especially the extension of the persons who are authorized to have homeownership, the additional conditions for homeownership certification, the rights and responsibilities of investors and the additions to the multiple forms on house transactions and regulations on social housing.

In 2014, the Real Estate Business Law had been issued, it strengthens state management roles to control market, to ensure the real estate market can be developed in accordance with plans, orientations, in sustainable manner, and link with other economic markets, contributing to socio-economic development of country; creating clear and equal legal environment, to effectively mobilize social resources for real estate market; finalizing structure of real estate participants; capacity building and improving accountabilities of real estate businesses.

Cities are growing and real estate markets are developing, particularly in Ha Noi and Ho Chi Minh City. Pressured by these developments, local authorities are sometimes interpreting the laws in their own way and are filling the gaps in the regulatory framework with their own legislation. As a result, private property rights have evolved differently in Ha Noi and Ho Chi Minh City. The real estate market in Ho Chi Minh City was faster to adopt new legal terms for property rights than the market in Ha Noi. In Ho Chi Minh City, markets rapidly capitalized on the latest legal changes. Properties with ambiguous tenure came on the market, because some alternative property

rights could be enforced and accepted by a more flexible bureaucracy. Ward administrations resolve property disputes, as they were already involved in the resolution of household-level economic matters and had information about local residents and properties.

### DECENTRALIZATION AND STRENGTHENING OF LOCAL AUTHORITIES

A model of local government is uniformly applied across the country, without adjusting for the characteristics of different localities or communities (urban and rural) or the capacities of the government body. So, legally, the organizational structure of a city government is the same as that of a rural province, despite the differences in social and economic characteristics. Over time, it has become clear that this arrangement has its limitations. For instance, urban management at three government levels (city/province, district and ward/commune) results in duplication of some functions and the division of other functions between different levels, while decisions may require approval at each level. This increases inefficiency, creates confusion among citizens as consumers of local government services, and causes delays and cost increases for local government as service provider (Nguyen et al, 2013: 11, 15).

Sectoral provincial departments must officially report to both the provincial people's committee and their national-level ministry, but provincial people's committee prevail increasingly over the ministry. This is not surprising given the increasing complexity of society and the economy. Central government is implicitly relinquishing power to make decisions centrally, because there are too many decisions to be made and there is too much information to handle. Central government agrees that local government is often in a much better position to gauge and understand local needs and

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conditions and to take appropriate decisions, and is actively decentralizing decision-making on many aspects of social and economic policy.

The Law on People's Councils and People's Committees stipulates the responsibilities, functions and authority of the two organs for the province, district and commune. The 2004 revision of the Law strengthened the supervisory powers of people's councils and increased the authority and more precisely defined the functions and responsibilities of the people's committee. Decentralization and devolution of power touch domains which are the responsibility of different ministries and a wide range of legal documents refer to the functions and tasks of central and local government, although unification of legal documentation regarding decentralization remains to be completed. While planning, budgeting and personnel management are decentralized more or less uniformly across the country, sectoral decentralization varies from sector to sector and people's committees and people's councils at provincial level can decide the extent of decentralization to lower administrative levels.

Recent legal texts confirm the decentralization trend:

- A decree of 2009 on public investment stipulates that only the most important cases are subject to the agreement of the central level.
- A law of 2009 on urban planning gives greater latitude to local government to define zoning and building regulations.
- Laws and decrees of 2007 regarding the sectors of water, sanitation and solid waste extends and specifies the prerogatives of the provinces in this respect.
- The creation of investment funds provides the

provinces with a financial instrument for their operations.

The Local Authority Organization Law regulates that government agencies at central and local level are authorized to decentralize the implementation of certain missions and rights and responsibilities under their jurisdiction to local authorities and government agencies at lower level based on work requirements, implementation capacity and local contexts and conditions. The Law also regulates the decentralization of the implementation of missions and rights and responsibilities, where necessary, by government administrative agencies at higher level to a People's Committee or other agencies and organizations at lower level, for a predetermined time period with specific terms.

The growing influence of the Association of Cities of Viet Nam (ACVN) is a reflection of the increasingly important place held by local government. For a long time, ACVN only gathered leaders from medium-sized cities, but now representatives also come from large cities. ACVN has an Executive Committee, a fulltime Secretary General, several part-time Vice Secretary Generals and a small secretariat. At the Association, city leaders share experiences, cooperate and support each other in urban development planning and management. The Association conducts studies on technical subjects of a common interest and actively drafts proposals for the national authorities. The Association is quite active and has attracted the attention of policy makers and international donors.

Sharing experiences is important, because provinces experiment with their own policies, without being actively supported by the central government. Provincial governments were at the forefront of attempts to create urban land markets in response to a demand for urban land by investors in the early 1990s. As no private market for land existed, provinces started to sell land use rights

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to local investors, who often leased the land to foreigners. Central government responded to these experiments with the passage of the 1993 Land Law which created a market for land by allowing investors to lease land use rights for long periods of time.

In the early 1990s, the provinces of Ho Chi Minh City and Binh Duong took steps to improve procedural efficiency by introducing a policy that became known as *“one door, one stamp.”*

*This simplified administrative procedures in a number of areas, ranging from the registration of enterprises to obtaining permission to extend one’s house.*

In 1994, Ho Chi Minh City was granted official permission to pilot the programme in some districts of the city and the policy was later extended to the whole city. When other provinces began to adopt the policy to compete with Ho Chi Minh City and Binh Duong, the central government expanded the policy nationwide.

Inevitably, there have been flaws in the decentralization process. There has been little attention for the capacity building of local government in terms of financial and human resources to perform the new functions effectively and efficiently. Central monitoring and evaluation has been inadequate, resulting in a low level of efficiency in the distribution and use of resources, especially capital and land. Decentralization has allowed local government to adjust policies and programmes to local circumstances, but has also led to an uneven implementation of regulations among provinces.

Decentralization is not just a matter of regulations and institutions, but also of attitudes. It is essential for effective urban management that local government officials are pro-active rather than passively waiting for instructions from above and simply implement those instructions. In many provinces, the capacity of local officials to assume

the delegated responsibilities is limited, leading to delays and work of poor quality. The problems are both technical and methodological. Some local governments use the decentralization to issue their own regulations on investment, land, construction and natural resources. As a result, procedures differ from one place to another.

### IMPROVING URBAN FINANCE

The budgets of provinces and other local entities represent about 44 per cent of the national budget. They are prepared at the provincial level, discussed with the Ministries of Finance and of Planning and Investment and approved by the National Assembly. Next, the budget is detailed by the province, as only an overall amount is imposed and allocations can be modified after National Assembly approval. Due to the economic disparities in the country, there are considerable inequalities between provinces, and the central government mitigates these disparities by transferring tax revenue to the poorer provinces.

The Government is making efforts to improve the financial cities and provinces, but due to the complexities of the issues, progress is slow. Cities still have limited power to set tax rates and most tax revenue is remitted upwards to the provincial and then the central government, and are partially refunded on a shared basis. Due to a lack of a predictable medium-term expenditure framework, investments can only be programmed once funds have become available in the annual budget and the amount available may not be known until the end of the preceding year. Investments with a multi-year implementation may start, then halted due to lack of fund allocation in a subsequent budget or disrupted by in-year delays in the disbursement from the province. However, these shortcomings have been overcome through the Public Investment Law which was adopted by the National Assembly in 2014. It ensures consistency and transparency in the entire process of managing programmes and investment

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projects; it shifts planning from short-term and annual planning to mid-term and 5-year planning in line with the 5-year socio-economic development plan; and it regulates the decentralization of the management of public investments, distinguishing the rights and responsibilities at each level of government.

*The fiscal transfer system creates incentives for provincial governments to expand the area of the city in order to earn more revenue, even if there is no clear demand.* Unlike most other revenue, provinces are permitted to keep the revenue from their sale of land use right and this has made land sales one of the largest sources of revenue for the province. Cities are motivated to sell as much land use right as possible and expand their administrative boundaries and urban land, as this push the city higher up in the urban classification system and increases their allocation from the central budget.

With the growing affluence of the urban population, there is scope for local government to introduce local taxes and raise revenue by increasing user charges for services, but the social consequences of higher charges need to be taken into serious consideration. The 2003 Land Law raised taxes and this affected housing affordability. As a result, households did not apply for land use right and homeownership certificates. A lowering of the tax rate might encourage people to register their property and pay taxes and may make housing for the low-income population more affordable, but it may also limit the public budget and discourage investment in urban development, causing a shortage of serviced land and reducing competitiveness of the city. In fact, the lack of a land management database and a network linking land management, finance and urban planning agencies creates significant difficulties for people who want to follow the regulations on land use registration.

*Given the decline in official development assistance due Viet Nam's status as a middle-income country, the country and its cities can no longer rely only on donor financing for urban infrastructure services.* As a consequence, sources of capital for infrastructure development are being diversified, with an increased focus on the private sector. Authorization by central government for local government to borrow up to 30 per cent of its annual budget for development investment (and 100 per cent in the case of Ho Chi Minh City and Ha Noi) was a step in this direction. The Government also introduced reforms to attract private capital into infrastructure ventures through public-private partnerships or incentive contracts (or both). Efforts are focused on options such as "Build, Operate and Transfer" (BOT) and "Build, Own and Operate" (BOO).

Few public-private partnerships have, however, been concluded successfully to date. Difficulties include the lack of a clear legal framework for sharing financial risk, the lack of a framework for cost recovery of services through gradual increases in fees, and a lack of transparency in the selection of contractors, as there is a clear preference to select state-owned enterprises. To gain access to private capital, local governments must show that they are creditworthy by opening its budget and its accounts to public scrutiny and independent auditing and ensure that tariffs cover the costs of operation, maintenance and investment.

Ho Chi Minh City issued its first municipal bonds in 2003. In 2004, the Ho Chi Minh City Infrastructure Fund (HIFU), which is wholly owned by the city's People's Committee, issued more municipal bonds. However, disclosure rules for public offerings do not exist or are very weak. Institutional reform must address governance and transparency in order to realize the potential of municipal bonds. At the moment, local government debt is threatening fiscal stability, so the central government exercises

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caution through proper oversight to make sure that borrowing, with the contingent liability it imposes on the national government, is kept within limits.

Local Development Investment Funds provide provinces with an important financing instrument. The Fund is a specialized financial institution whose purpose is to invest in infrastructure projects that generate a return on investment. It can lend, hold shares or even finance public-private partnerships. Besides using share capital allocated by the province, it can seek short-term and long-term financing from national banks, official development aid and bond emissions. Introduced in Ho Chi Minh City in 1997, its format has been gradually optimized based on the experiences of the Ho Chi Minh City Investment Fund for Urban Development. It was standardized in 2007 and offered to all provinces, with a strict implementation framework but real financial flexibility.

The Funds have an autonomous status vis-à-vis the provincial people's committee, but all members of the Board of Directors and the Supervisory Board, as well as the director, deputy director and chief accountant are directly or indirectly appointed by the chairman of the people's committee. The provincial-level Director of Finance is often a member of the Board and has oversight of the Fund. Approval by the people's committee is required for all investments exceeding a certain threshold. The Funds are relatively new and they require more professional management, capacity building and supervision to ensure that they can perform effectively.

### IMPROVING TECHNICAL CAPACITY TO PLAN AND MANAGE CITIES

The Public Administration Reform Master Programme (2011 - 2020), adopted by the Government in 2011, sets as one of its objectives

to build a competent and qualified staff of civil servants and public employees to meet the requirements of the people and the country's development. With planning gradually evolving from a highly prescriptive model based on central control to a more flexible and adaptable system with considerable authority delegated to local government, strengthening the capacity of local government is essential to deal with their growing responsibilities. Human and financial resources and institutional capacity are critical factors affecting the efficiency and effectiveness of urban development projects.

A training needs assessment found significant knowledge and skill gaps among local urban planners related to strategic urban planning (UN-Habitat, 2014: 21). Given the on-going decentralization of planning and management responsibilities, the weaknesses are a serious concern for the Government. As the country moves from a centrally planned economy to a market-based economy, planners, managers and policy-makers need modern techniques and methods of planning and management such as land information systems, land management, data collection, processing and interpretation and financial management.

The National Urban Development Strategy includes an assessment of the training needs of government officials, particularly of provincial and city leaders whose professional competences and understanding are essential for the implementation of the Strategy. Under current consideration is also an awareness and capacity building initiative aimed primarily at city mayors and deputy mayors. Recognizing these challenges, the people's committee of Ho Chi Minh City established the Institute for Development Studies. It integrates urban master planning and socio-economic development planning in a single technical institute, a first in Viet Nam. The concept needs further

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assessment and if proven worthwhile, might be a model for other cities.

### CHALLENGES

Over the past years, there has been steady improvement in many aspects of public administration, a reduction in unnecessary bureaucratic procedures and advances in the quality of government staff. The process has not been completed and in a sense will never be complete, as the needs and the conditions of cities change continuously due to developments in the globalized economy to which cities are connected.

*Formulation of a shared vision and mission statement for the city through the preparation of a city development strategy with the participation of the city's stakeholders can make local government more inclusive, transparent and accountable and make its activities more responsive to local needs and conditions.*

A major challenge for central government is capacity development of local government at all levels. As a middle-income country, Viet Nam will increasingly need to rely on private sources of capital rather than official development assistance for development. Local governments will assume

responsibilities for urban development that were once the remit of central government. Thus, the authority and the powers of local government will have to be reviewed and revised to improve its human and financial resources, to enhance its capacity to manage the city and raise local revenue for urban development, and to ensure that it has the levels of creditworthiness, accountability and transparency that meet the demands of international capital markets.

Cities will also need to improve its human resources. The first-priority target groups are current decision-makers; the second-priority groups are senior and mid-career professionals at all levels of government; and the third-priority groups are personnel in local planning institutions who need to learn modern planning practices, including strategic and integrated planning. Modern urban planning and management education also needs to be introduced at universities. The challenge is not only to develop technical competence, but also to change the attitudes of officials. They must accept to be held accountable and to explain what they have done and why they have done it. They must have the skill of creatively thinking and of developing new visions, new ideas and innovative designs to meet ever changing needs and conditions.

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