




Domestic Private Sector Involvement in the Road Network Improvement Project

MISSION REPORT

BJØRN JOHANNESSEN

INTERNATIONAL LABOUR ORGANISATION

ASIST-AP


Vietnam, October 2002

Mission Report

Private Sector Participation in the Road Network Improvement Project

Fact-finding Mission by ILO ASIST-AP
Hanoi and Ho Chi Minh City
15 October – 1 November 2002

Prepared by
Bjørn Johannessen

International Labour Organisation Asia and the Pacific
ASIST-AP
Advisory Support, Information Services and Training

Table of Contents

Abbreviations

ADB	Asian Development Bank
CERPAD	Centre for Rural Development Planning
DfID	Department for International Development
GoV	Government of Vietnam
HCMC	Ho Chi Minh City
ICB	International Competitive Bidding
IDA	International Development Association
MoC	Ministry of Construction
MoT	Ministry of Transport
MPDF	Mekong Project Development Facility
NEU	National Economics University
NCB	National Competitive Bidding
PDOT	Provincial Department of Transport
PMU	Project Management Unit
PPMU	Provincial Project Management Unit
RMMC	Road Maintenance Management Company
RNIP	Road Network Improvement Project
RRMU	Regional Road Maintenance Unit
RTP	Rural Transport Project
RTU	Rural Transport Unit
SIYB	Start or Improve Your Business Programme
SOE	State Owned Enterprise
VACC	Vietnam Association of Construction Contractors
VCA	Vietnam Construction Association
VCCI	Vietnam Chamber of Commerce and Industries
VRA	Vietnam Road Administration
WB	World Bank

Current Exchange Rate

US$ 1.00 = VND 15,055

1 The Assignment

This assignment was carried out as part of the assistance provided by the ILO, through its ASIST programme, to the World Bank and the Government of Vietnam in its efforts to prepare the Road Network Improvement Project. As part of this support, the ILO has been requested to carry out an assessment of the capacity of the domestic construction industry to carry out road maintenance works, and identify support measures which may address any shortcomings of the industry, in order to meet the performance requirements of the road sector in Vietnam as defined by its future work programmes.

In relation to the RNIP, this question needs to be addressed particularly in relation to periodic maintenance of national roads, for which it is envisaged that the local construction industry will take a lead role. Not only does this relate to privately owned construction firms, but also includes state owned enterprises which will be eligible to bid for works according the procurement regulations of the Bank.

The assignment took place from 15 October to 1 November 2002, following a preliminary mission carried out in August 2002. The detailed mission itinerary is described in Annex 1.

The mission was carried out with inputs from Mr. Bjørn Johannessen from the ILO, Mr. Quach Van Khoa, Ms. Phung Thi Hoa, Ms. Nguyen Thanh Phuong and Mr. Le Tien Dung from the VRA Preparation Team, Mr. Dang Hoang Hai, Mr. Nguyen Huu Thien and Ms. Do Tuyet Nga from PMU18 and Ms. Phuong Thi Minh Tran, Mr. Simon Ellis and Mr. Daniel Musson from the WB Hanoi office. The findings summarised in this report are based on extensive discussions with key project stakeholders and representatives from the domestic construction industry in Hanoi, Ho Chi Minh City as well as from Tuyen Quang, Ha Giang and Can Tho provinces. A full list of persons met during the mission is found in Annex 2.

The Government through PMU18 and VRA has provided detailed comments to the findings of the first mission. During this second mission, the Director of the Planning and Investment Department provided consolidated comments on behalf of MoT. These comments are found in Annex 3.

It was agreed that a wrap-up meeting for this mission would be held later in November, at which time the Government and World Bank has had an opportunity to study this report. The participant from ILO ASIST would then return to Hanoi to attend a joint WB/GoV wrap-up meeting during which the findings of this mission could be discussed in detail.

2 Project Brief

The overall objective of the NRIP is to stabilise the condition of the national road network, through a series of interventions such as (i) improving selected portions of the national road network, (ii) establishing a user-based road fund mechanism for improved mobilisation of funds, (iii) increasing the commercialisation of road sector management, and (iv) strengthening VRA and PDOTs' capacity to preserve the national road asset base and increase the efficiency of their maintenance operations.

The improvement works will mainly cover the Northern and North Central Regions of the country, while the network preservation component will cover national roads in the entire country. The total estimated budget is US$ 262.7 million over a period of five years. It is envisaged that a follow-on project would finance the road improvement in the southern parts of the country. The key budget figures are as follows:

Project Component	$/km	km	IDA	Road Fund	GoV	Total
Road Improvement:		**900**	**97.2**		**24.3**	**121.5**
Upgrading w/ minor widening	120,000	900	97.2		10.8	108.0
Land acquisition	15,000				13.5	13.5
Network Preservation			**72.0**	**32.0**	**58.0**	**130.0**
Medium Repairs	8,000	4,000	28.8	12.8	3.2	32.0
Big Repairs	24,000	2,000	43.2	19.2	4.8	48.0
VRA's own programme					50.0	50.0
Road Safety			**3.8**		**0.4**	**4.2**
Road Sector Management and Institutional Building			**7.0**			**7.0**
TOTAL			**180.0**	**32.0**	**82.7**	**262.7**

From the above table, it is important to note that it is expected that the Road Fund will be operational during the course of this project and will provide an increasing part of the funding in coming years.

3 Summary of Findings

3.1 Capacity of Private Sector

From the limited discussions held with private contractors during this mission, it is still evident that there is a sufficient capacity to meet the requirements of the maintenance component of RNIP. This impression relates both to the capacity and skills of individual contractors as well as in terms of meeting the magnitude of the work programme envisaged in the RNIP. This also includes a good geographical distribution of contractors with an adequate coverage also in the more remote provinces of the country.

More than this, it is the impression of the mission that the private construction sector of Vietnam in addition can provide a substantial part of the implementation capacity required for the network improvement component.

3.2 Support Mechanisms

Instead of introducing new support mechanisms as part of the work programme of RNIP, the mission have the impression that it would be possible to draw upon already existing support mechanisms available to the private sector in Vietnam. Various donors, including WB are already actively supporting such works through various on-going initiatives such as the MPDF, SIYB and others.

From discussions with contractors, the loan brokerage services of MDF and currently available equipment leasing facilities remain largely unknown to the construction industry. It is therefore recommended that these facilities are further advertised to private contractors in the country. This could be done in conjunction with an official presentation of the RNIP to the private construction industry during which these services could be advertised by the respective institutions providing the facilities. Preferably, this should be done already during the preparation phase of the project or at latest during the inital start-up of the project.

3.3 Competition from SOEs

It is clear from discussions with industry representatives as well as with individual contractors that there is still not an equal playing field for the private sector in terms of

competing with SOEs. Unequal access to banking services, preference given to SOEs in bidding competitions and price dumping are common problems highlighted by private contractors and their representative organisations. However, there are positive initiatives in the road sector where emphasis has been given to secure a wide participation of private contractors. Good examples are the high participation of private firms in RTP2, and the local initiative taken by the PDoT in Ha Giang Province.

The issue of fair playing field is expected to be addressed through the current equitisation process. Once the status of the SOEs are more independent of the Government agencies under which they used to belong, they are expected to receive the same treatment as private contractors in relationship to access to banking services and when competing for works. Although this is a long term solution to some of the core challenges facing the private construction industry, it would in the meantime be appropriate to install some short term measures to secure a solid private sector participation in projects such as RNIP.

The results of RTP2 in which private contractor participation in the works has been a stated objective with clear targets of level of private sector involvement is one recommended approach. In addition, it would be helpful if RNIP includes, as part of the technical assistance activities, the facilitation of access to support mechanisms which already exist in the country.

Also, it is believed that by improving contracts management procedures, it is possible to improve the environment in which the contractors will need to operate.

3.4 Future Role of RMMCs

A considerable time was spent on discussions with the Government on the future role of the RMMCs. Currently, the RMMCs are the main providers of periodic maintenance to the national road network, however, with their current management and ownership structure, they will not be eligible to bid for work under RNIP. This will effectively bar them from future periodic maintenance works on national roads, once the RNIP commence, since current government spending for this purpose will then be channeled through the RNIP project budgets, and will therefore be subject to WB procurement procedures.

This does not imply that the RMMCs will be out of work. For the time being, they will still be in charge of routine maintenance through their “hats” and emergency works, in addition to carrying out contracted works for other client ministries.

The alternative scenario is to restructure the RMMC to secure their eligibility for RNIP works an thereby secure their continued involvement in periodic maintenance works.

3.5 Restructuring of RMMCs

Although the Government has given positive assurances that they intend to equitise the RMMCs, there appears to be very limited progress on this work at present. The RNIP Project Concept Document envisages technical support to restructured RMMCs as part of the capacity building efforts of the project, however, with the current rate of developments there will be no restructured RMMCs to which such support can be provided.

In order to secure a reasonable number of restructured RMMCs by the start of the RNIP, it is important that active measures are taken as soon as possible to start the restructuring process thereby ensuring the eligibility of some RMMCs at the time of project start.

The mission considers the capacity found in the RMMCs as a valuable asset to the future

maintenance programme of Vietnam (and therefore also for RNIP), and should be part of the future solutions in an improved road maintenance programme. It is therefore important that the restructuring of some of the RMMCs is completed by the time the project starts. To ensure this, it is recommended that the WB enters into discussions with the Government on how their assistance can be provided to facilitate the timely completion of this process.

3.6 Survival of Equitised RMMCs

Even if the RMMCs are equitised in a manner which qualifies them as eligible bidders for works under the RNIP, it is expected that they will need continued support during their first years of life in order to ensure that they survive as competitive private business firms. During this period, they will be forced to compete on equal terms with already existing private entrepreneurs which has already accumulated a number of years of experience in doing business without any state support. Although the staff employed by the RMMCs possess significant technical and managerial skills there will be a demand for additional training in business management to ensure that their economy remains healthy at the same time as they remain competitive. These are new challenges for the RMMC staff and which needs to be developed through a comprehensive learning process consisting of training and technical assistance.

3.7 Training

Training requirements will need further in-depth studies, preferably once the physical work programme and implementation arrangements have been firmed up. Despite this, it is possible to predict some of the training needs at this stage. Basically, there are three major training components envisaged:

(i) training of government staff in contracts management and works supervision,
(ii) training of contractors and government staff in estimating and tendering, and
(iii) training in business management for restructured RMMCs.

In addition, it would be useful to secure adequate provisions for various forms of training workshops to address deficiencies and bottlenecks experienced during the period of works implementation.

Finally there will be a demand for training in order to disseminate the results of pilot trials using performance contracting.

3.8 Capacity Building

Besides training requirements, there will be an array of capacity building needs, in particular in the VRA and their regional organisations in order to secure an effective contracts management organisation for the maintenance works. This will include effective procurement and management systems which are (i) conducive to the type of works to be carried out and (ii) compatible with the requirements of the Government and the WB.

In addition, it would be useful for the project to facilitate access for the private contractors to various business support mechanisms which already provide services relevant to the industry.

Capacity building support will, as mentioned above, also be required for the RMMCs.

3.9 Implementation Arrangements

The project implementation arrangements still needs to be agreed upon in detail. In relation to the road improvement component, for which PMU18 has been identified as the executing agency, it would be logical for the project to base the implementation arrangements on similar practice agreed on for previous WB funded road improvement programmes. In relation to this component, the main new concern would be to secure a higher degree of local contracting instead of a heavy reliance on ICB.

The responsibility for the network preservation component has been vested with the VRA. The implementation arrangements proposed for this component, in particular relating to the contracting aspects, will require the introduction of a number of new management arrangements. Naturally, this should be carried out to the extent possible without causing too large restructuring of the agency, it still needs an in-depth study to establish optimal divisions of responsibilities between the centre and the field offices, new roles and responsibilities of individual staff and sub-offices, and the necessary financial, technical and administrative consequences of the new implementation arrangements.

To secure this process in a controlled manner without the disruption of maintenance works programmes, it is important that this work is commenced upon as soon as possible. As identified in the Project Concept Note, this would best be carried out with comprehensive technical assistance support.

4 Current Implementation Arrangements

4.1 General

According to the Road Act of Vietnam the responsibility for routine, periodic and emergency maintenance of main roads lies with the Vietnam Road Administration (VRA). The main road network consists of a total of 15,600 km. Maintenance of 45 percent of these roads have been delegated to the Provincial Departments of Transport (PDOT). The VRA is organised in four Regional Road Maintenance Units (RRMU). At provincial level, the VRA operates sub-PMUs under the supervision of the RRMUs.

Planned maintenance works are divided into routine works and medium and large repairs. Routine maintenance is carried out by work teams based at their areas of operation (hats). Medium size works, at a total value under the threshold of VND 1 million, are normally awarded to the RMMCs “on appointment”, while the large repair works is carried out through some form of bidding process, for which the RMMCs would need to compete with other SOEs.

Further details of the current implementation arrangements, are best described through the mission findings during visits to the RMMUs and RMMCs.

4.2 RMMU7

Detailed discussions were held with RRMU7 at both their headquarters as well as during visits to some of the roads under their jurisdiction. RRMU7 covers an extensive area of operation covering 21 cities and provinces from Ninh Thuan in the north to the far south of the country. This includes a total network of 2,750 km of national roads and bridges.

In addition to road and bridge maintenance works, the RRMU7 is involved in related

activities such as toll collection, weight control, operation and maintenance of ferries and production of construction materials.

In addition, RMMU7 houses a Technical and Transport Engineering Centre which is engaged in design, research and development works. This unit employs a total of 36 engineers and support staff.

PDoT Involvement

In the provinces covered by RRMU7, the PDoTs have very limited involvement in the maintenance of national roads, totaling only 200 km. The financing of this work is separate from the budgets of RMMU7.

Budgets

The annual budget of RMMU7 amounts to some 60 billion VD, of which roughly one half is allocated to routine maintenance works and the other half for periodic maintenance works. The routine maintenance works are carried out by the hats under the RMMCs. Periodic maintenance is split between medium size works, which is most cases is carried out by RMMCs, and large scale works which is contracted out to RMMCs or other SOEs.

RMMCs

RMMU7 has 12 RMMCs under their supervision. In addition there are 5 bridge management companies, 2 ferry management companies, a ferry repair company, a construction material company and a cement factory under the management of RMMU7. The cement factory is currently in the process of being equitised with a majority share owned by the government. There are also intentions to equitise other SOEs sorting under RMMU7.

RMMC73

Based in Can Tho Province, RMMC73 is responsible for the maintenance of 318 km of national roads and bridges in three provinces (for comparison, the PDoTs are in charge of 110 km of national roads in the same provinces). They employ a total work force of 199 employees including 15 engineers, 31 technicians and 58 skilled workers.

For 2002, RMMC73 has a maintenance budget of VD 6.83 billion, of which 2.383 billion is allocated to routine maintenance, 2.88 billion to periodic maintenance and the remainder for emergency works and operating toll gates. At the same time it is carrying out contracted works for a total value of VD 8 billion (80-90% of this works will be completed in 2002).

Their equipment fleet is currently valued at VD 13.6 billion consisting of the full range of equipment required for road maintenance works, i.e. asphalt mixing plant, asphalt layer, rollers, excavators, trucks, etc. A majority of this equipment, worth 9.3 billion VD, was provided through direct support from the government. The remaining balance of equipment has been financed through revenue from contracted works.

Equipment provided by central authorities is provided in two ways, either as left-over plant from construction projects directly executed by the government, or through dedicated budget allocations to the RMMUs which in the next turn procure the equipment and distribute it to its respective RMMCs. This year, RMMC73 had received one truck from a PMU1 project and one truck provided by RMMU7.

Through discussions with both RMMU7 and RMMCs, it is evident that there is a substantial spare capacity in the the RMMCs. This capacity is normally utilised for other work activities than road maintenance, by bidding for and executing works for other government agencies. It was estimated that 70 percent of RMMC operations were related to contracted works for other clients.

Personnel

Including the staff in the SOEs sorting under RMMC7, the total work force consist of 3598 employees. The office of RMMU7 employs a total of 75 staff including 49 engineers.

RMMU7 stressed that there is a lack of financial resources for field inspection and work

supervision. In order to carry out such duties in a satisfactory manner, there is a need for increased budgets allocations in order to increase the number of inspection vehicles, provisions for fuel, field allowances and similar expenses. At the moment the government has taken away all budget allocations related to out of office travels.

Considering the fact that engineers earn a monthly salary equivalent to 20 to 40 USD, there are few or in fact only negative incentives for staff to travel to the field (one reason being that when they are out of office, they are unable to serve other income generating activities).

However, RMMU7 management are confident that given such resources they would have sufficient capacity to carry out road condition surveys, prepare maintenance plans and adequately supervise contracted works.

5 Private Sector Capacity

5.1 General Impressions

As in most countries, the Vietnamese private construction industry shows a great diversity in type and size of operations, area of coverage, specialisation, skills and experience, etc. Also, when studying the sector in more detail, it is clear that it possesses an extensive capacity and experience which is directly compatible to the requirements of the RNIP in terms of both the network preservation component and the envisaged road improvement works.

Even with the limited opportunities made available to this mission to explore the full extent of the capacity and skills of Vietnamese private contractors, it is however obvious that this capacity is an important asset to the government in its efforts to efficiently improve and maintain the country's infrastructure. For this reason, it would be clearly justified that the government take active measures to promote their participation in all segments of the construction sector, including improvement and maintenance of national roads.

The private sector should no longer be excluded or forced to operate in an environment which require them to compete with SOEs under rules which provide unfair preferences and advantages to the SOEs. Considering the healthy growth of this industry during the last 10 years, it is difficult to understand why the government still appears hesitant and as a result only offers the private sector limited access to markets in which there is ample evidence that they can successfully deliver the expected services in a timely and qualified manner.

On the basis of discussions with local contracting firms, their regular clients, VACC, donors and various staff members and consultants in specific project management units for road works projects, the impression provided is uniform in the sense that these firms do deliver when provided the opportunities in the form of works contracts.

Furthermore, current practices in terms of the limited extent of private sector participation in road works projects have given a certain impression that their overall capacity is lacking and therefore there is still a demand for a wide participation from SOEs. Although there may be different arguments for or against the involvement of SOEs in the road sector, any claims of limitations to the capacity of the private sector does not seem to be valid. To the contrary, there seems to be ample capacity available in the domestic private sector to carry out works of the nature envisaged in the RNIP and other major infrastructure programmes of this nature.

There are however, a series of reasons why domestic private contractors are not more prominent in the road sector of Vietnam, however, they are more related to issues of

competitiveness with international contractors and qualification criteria during national and international competitive bidding and government practices of securing a wide participation of SOEs. If works are appropriately packaged to match the qualifications of the domestic industry, there would be limited demand for additional capacity from outside the country. In the cases of very large scale works, the government, with the assistance of international donors, could facilitate the collaboration between international firms and local operators, thereby ensuring that local contractors are part of the ICB process in association/joint ventures rather than as sub-contractors when competing for works advertised in international markets.

5.2 Government Policies

At policy making levels in Vietnam, it is clear that the growth and an increased role of the private sector is part of the development strategies of the government. Although noticeable progress has been made in individual projects, there seems to be some lack of consistency in terms of the pace in which these policies are carried out in practice.

There is also a serious concern related to staff redundancies as a result of reducing the role of the state sector and in particular the state owned companies. These are issues which needs serious attention at the same time as measures are taken to promote the private construction industry. However, if SOEs are privatised in a controlled manner with adequate assistance during this process, such concern could be possible to accommodate.

More important is to note that some government agencies already show great confidence in the domestic private sector. A good example is PMU18 which has clearly expressed that it would be preferable to promote the involvement of local contractors rather than contracting out works through international competitive bidding. Their main argument is that under ICB there is a common practice of international firms to sub-contract a majority of works to local contractors once they have been awarded works. Rather than going through the lengthy process of ICB, works could be packaged in smaller lots which would be more compatible to the financial capacity of local companies. The experience of the performance of the local contractors seems to be regarded satisfactory by this agency.

Similarly, it is worth noting initiatives taken by some provincial administrations where they have adopted policies to secure a substantial participation of the private sector in infrastructure works.

5.3 Private Sector Capacity

As in most countries, the private construction industry in Vietnam consists of a great number of firms of varying size, skills and area of operation. Small firms are found in large numbers also in the more remote provinces. This type of firms would be able to carry out small-scale works, however, with a secured and steady access to work, there would be a sufficient number of companies which would be interested in increasing their capacity in order to take on larger jobs and more sophisticated works.

More interesting in the short term is the fact that larger contractors, which already possess adequate experience from the road sector, can also be found in some of the less populated and remote provinces. The capacity of this category of contractors is comparable to the set-ups of the RMMCs. They possess the same type of equipment and staff as the RMMCs, their annual budgets are of similar scale, they have a similar geographical distribution, and have carried out similar works in the past.

Overall, there seems to be both sufficient contractors in terms of numbers as well as size and

skills to carry out road maintenance, be it small, medium or large scale works. As a matter of fact, only the contractors visited during the mission are currently posting a combined turnover which is close to the envisaged annual budgets of the RNIP maintenance component (see Annex 3 for further information on the contractors visited during the mission).

5.4 Estimates on Work Distribution and Contracts

During discussions with the VACC, various scenarios were envisaged in terms of work distribution, availability of contractors and the average amount of work they would be able to carry out. One such scenario is described in the below table in which the average cost of maintenance work is estimated at 15,000 US$/km (project budget estimates US$ 8,000 for small works and US$ 24,000 for large works). With a total component budget of 130 million US$, this would lead to a total of 8,667 km of roads receiving periodic maintenance at some stage during the 5 year project period.

Average Cost/km		15,000 US$
Total Periodic Maintenance Budget		130 Million US$
Total Length of Roads		8,667 Km
Number of Provinces	50	
Average Works/Province		173 km/province
Average Annual Works/Province		35 km/year/province
Average No. of Contractors/province	3	11.6 km/year/contractor
Average Annual Turnover/Contractor		173,333 US$/year/contractor 2.6 Billion VD
Average Size of Contracts in 2nd Highway Project		7.1 Billion VD

If there are 50 provinces involved in the maintenance work, each province would need to maintain a total of 173 km or 35 km per year for each of the 5 years in order to achieve the targetted outputs. If three contracts are awarded in each province, this would require each of three contractors to carry out 11.6 km of maintenance works at a value of approximately US$ 173,000 or VD 2.6 billion each year.

Alternatively, if the works are split into only two contracts, this would involve an annual work output of 17.3 km, at an average contract value of US$260,000 or VD 3.9 billion.

If contracts are packaged at an average value of US$260,000, this would involve a total of 500 contracts during the project period. If this is distributed equally among the four RMMUs, they will need to manage 125 contracts each over the project period. Considering the specific nature of road maintenance works, it may be appropriate to package works with smaller values than this, leading to a larger number of contracts and allowing more smaller firms to participate.

For comparison, the average contract value of periodic maintenance contracts (including variations) under the WB 2nd Highway Project was VD 7.1 billion.

From these calculations and the indications of the number and capacity of contractors operating in the country, the mission is convinced that the local construction industry, consisting of private contractors and independent SOEs, would possess adequate capacity to carry out the works envisaged in the road network preservation component as well as a major share of the road improvement component of the RNIP.

6 Scope for SOE Participation in the RNIP

6.1 Context

In the current setup of VRA, most maintenance works on the national road network is carried out by SOEs either under the supervision of VRA or the PDOTs. The exception to this is large scale repairs which are contracted out to the RMMCs or SOEs from other ministries. As opposed to road improvements works, in which the private sector are showing a growing participation, there is very limited participation of private contractors in carrying out maintenance works. Each of the Regional Road Maintenance Units (RRMU) of the VRA have 12 Road Maintenance Management Companies (RMMC) at their disposal to carry out maintenance works. Considering the very close relationship between the VRA and the RMMCs, the setup can be characterised as a force account operation.

The WB has agreed with the Government that all projects starting from 1st January 2003 will be applying the Bank's guidelines on procurement, including its rules relating to eligibility of SOEs to bid for works. These guidelines state that "Government-owned enterprises in the Borrower's country may participate only if they can establish that (i) are legally and financially autonomous, and (ii) operate under commercial law. No dependent agency of the Borrower of Sub-borrower under a Bank-financed project shall be permitted to bid or submit a proposal for the procurement of goods or works under the project."

On this basis, it has been established that the RMMCs with their current management structure are not eligible to participate in the bidding for any of the works under the RNIP, including works financed by funds originating from the WB as well as the counterpart contributions from regular Government budget resources.

In the proposed budget of the RNIP, it is envisaged that out of the total budget of US$ 130 million allocated for the maintenance component, the Government will contribute US$ 58 million from its regular budgetary sources. This is equivalent to the current level of spending for periodic maintenance by the Government.

As SOEs from other ministries will remain eligible for works, the main concern is related to the future role of the RMMCs under the supervision of the VRA.

6.2 Current Scenario

With their current management and ownership structure, the RMMCs will be barred from any involvement in the RNIP since they do not meet the eligibility criteria of the WB. Currently being the main provider of periodic maintenance works, this will have a noticeable impact on their work programme as this work will no longer be available to them in their current setup. However, it should be noted that these changes will still not put them out of circulation. RMMCs are and will still be in charge of routine and emergency maintenance works in addition to continuing its contracting services to other clients than the VRA. Although it is envisaged that all government funding for periodic maintenance will be incorporated into the RNIP budget, this only constitutes some 40 to 50 percent of spending on maintenance. Taking this into consideration together with the fact that up to 70 percent of RMMC activities are related to other works, the periodic maintenance works carried out by the RMMCs actually only amount to some 15 to 20 percent of their work programme.

6.3 Future Scenarios

Based on these figures, the Government is facing two fundamental options in terms of the future role of the RMMCs. The easy choice is obviously to do nothing and accept that the

RMMCs will not be involved in periodic maintenance works, and instead mainly deal with routine maintenance and contracted works for other clients.

However, considering the corporate experience and skills found in the RMMCs, it would be a loss to the sector if the services of the RMMCs can no longer be utilised. Instead it would therefore be more appropriate for the government to take appropriate measures to ensure that when works commence under RNIP, the RMMCs have been reorganised in a manner which satisfies the eligibility criteria of the Bank.

This would allow the RMMCs to be an integral part of the restructuring process envisaged in the RNIP. With their future participation, they will not only secure future market prospects, but they would then be part of the solutions found in this major restructuring exercise.

6.4 SOE Reform Unit of MoT

During this visit, the mission managed to secure a meeting with the SOE Reform Unit. They could inform that a master plan for the equitisation of state owned enterprises had been prepared and was currently awaiting final approval by MoT.

The mission was informed that so far, 56 SOEs under management of MoT had been equitised, with an additional 15 planned for the remainder of this year. In 2003, 2004 and 2005, MoT expects to equitise 39, 34, and 32 SOEs respectively. After 2005, the remaining 80 companies will reorganised as limited companies with the government as the single shareholder.

The RMMCs, managed by VRA, are regarded as public service providers, and therefore have a different status than other SOEs as referred to above. MoT is planning a substantial reorganisation of the RMMCs. In the future, each RMMC will be responsible for the maintenance of an average road network 250 km in flat terrain and 200 km in hilly/mountainous terrain. Some of their current routine maintenance responsibilities will be transferred to district authorities.

The SOE Reform Unit also confirmed that there is no reason why RMMCs cannot be equitised. MoT intends to carry out a survey which will result in recommendations regarding which RMMCs would be feasible to privatise. As a start, it has already been decided to equitise RMMC720.

During this meeting, it was again stressed that in order for the RMMCs to be eligible to bid for works under RNIP, their close relationship to MoT will need to be disbanded. One way of carrying out such a process would be to privatise these organisations. In order for this process to be secured before the start of physical works in RNIP, it is important that this work commence as soon as possible as the entire equitisation process on average takes 500 days.

6.5 RMMC Reorganisation

As part of the management and institutional building component, the WB and the Government has already identified the demand for training and capacity building among the RMMCs slated for restructuring. This includes “overhauling of their financial management systems to cope with new competitive business procedures and on-the-job training for improved performance and customer orientation”[1].

1 Ref: Project Concept Note page 13 and Aide Memoire September 2001

The optimal time to deliver this technical assistance would obviously be at the start of the project. The RNIP works programme and the management support provided, would then enable the restructured RMMCs to consolidate themselves in a structured and controlled manner within a framework of reasonably good market prospects.

In order for the RNIP to deliver this technical assistance to privatised RMMCs at the start of the project, is obviously dependent on the implementation schedule the Government decides upon for the restructuring process.

The problem, however, is that at this stage the Government is yet to produce a comprehensive plan for the equitisation of the RMMCs. Although good progress has been done in this respect for other SOEs under the supervision of MoT, the only decision made so far in relation to the RMMCs, is to equitise one RMMC.

As road works under the framework of the RNIP is not expected to commence before sometime into 2004, there is still time to carry out the restructuring of the RMMCs, however, this will need some decisions by MoT and VRA as soon as possible. In this context, it is recommended that technical assistance is sought to facilitate the timely completion of this process. The WB is involved in this type of work and already provide the Government with assistance in this field. In the case of the RMMCs, it is the opinion of the mission that this issue could be turned into a good opportunity to actively support this type of works in a comprehensive manner during the restructuring process as well as during the initial years after a new management structure has been established.

6.6 Support to RMMC Restructuring

In order to secure the participation of the RMMCs in this project, it is important that the VRA speeds up the process of equitising these organisations, in order to secure their eligibility to bid for works financed under the RNIP.

In order to facilitate a timely completion of this process, securing their participation from the project commencement, it is recommended that technical assistance is provided to VRA to assist them in carrying out this exercise.

Equally, once these RMMCs have been equitised, it is important that further support is provided in the form of technical assistance to ensure that they establish and operate as commercial companies and develop a competitiveness which allows their continued participation in the road sector.

This type of support was already identified in the Project Concept Document and again during the WB preparation mission in September 2001 (ref: Annex 5 Par. 22 (d)), where such assistance is listed as part of the Road Sector Management and Institutional Component:

“strengthening the capacity of RMMCs slated for restructuring as part of the on-going national strategy for equitisation of State Owned Enterprises, so as to enhance their competitiveness and ability to deliver high quality periodic and routine maintenance operations. While a great step forward towards changing the management style of road maintenance, the restructuring of SOEs would necessitate the overhauling of their financial management systems to cope with new competitive business procedures and on-the-job training for improved performance and customer orientation. The project would support a pilot to demonstrate the effectiveness of the restructured and equitised SOEs to build consensus around the equitisation policy.”

In order to retain the capacity created by government in the form of the RMMCs, it is recommended that this process is not only carried out on a pilot basis but instead carried out through the development of a comprehensive plan in which all the RMMCs currently engaged in road maintenance works participate in the equitisation process. The entire process does not necessarily need to be completed by the start of the project, however, it would be desirable to have a substantial number RMMCs eligible to bid for work by the time the RNIP becomes operational.

If this process is started as soon as possible, there is still a possibility of reaching such goals by the time RNIP starts. The mission has been informed that to complete the entire equitisation process takes an average of 500 days from the time such a decision is made. If the loan becomes operational in 2004, and the first lot of contracts are prepared during the first half of 2004, there is still sufficient time to carry some RMMCs through this process and secure their eligibility when physical works commence in the RNIP.

The RNIP provides a good framework in which this process can be carried out. TA can be linked to the project at the same time as the project provides a market in which the new-born firms can operate and receive technical support and training.

7 Sector Support Facilities

7.1 MPDF

The MPDF supports the development and growth of domestic private owned, small and medium-sized enterprises (SMEs) in Vietnam, Laos and Cambodia. It is managed by the International Finance Corporation (IFC), and financed by a number of bilateral donor and multilateral finance institutions.

As part of their programme they provide support to private entrepreneurs in obtaining access to capital, conduct surveys and research related to key issues related to the development of the private sector and provide support to business service providers such as banks and training institutions.

Besides providing a comprehensive training programme covering business management, finance and accounting, human resource management, marketing and business operations, MPDF provides direct consultancy services in the form of assistance to emerging entrepeneurs in obtaining investments loans from local banks. A central part of these services consists of preparing comprehensive business plans for these firms, which forms part of the supporting documents required by local banks before they agree to invest in these firms. Loans brokered by MPDF are normally in the range from US$ 100,000:- to 800,000:- at an average of US$ 300,000:-. An extract from the MPDF web site descibing these services is included in Annex 6.

Currently, the loan brokerage services is provided by MPDF for a fee of one percent on the finance raised. MPDF intends to transfer these services to a local institution in the near future, however during this process they will continue to provide such assistance directly until a local commercial institution takes over this responsibility.

The services provided by MPDF are also available to local private contractors who would be interested in utilising their facilities. For a medium sized contractor with a steady supply of work, the loan amounts which MPDF are currently brokering seems very appropriate. These firms will normally possess some relevant civil works equipment and may want to expand its plant fleet with additional pieces of the similar types of equipment (i.e. more trucks, rollers,

excavators) or supplement it fleet with specialised equipment such as asphalt mixing plants, laying equipment, cranes, etc. Such investments would most probably be in the same range as mentioned above.

MPDF also confirmed that equipment leasing facilities are readily available from a number of banks and finance institutions in Vietnam, both in HCMC as well as Hanoi. MPDF considered the terms offered on such services very favourable as the practice was to calculate interest only on the residual value of the equipment leased. Currently, these services were mainly used for leasing of vehicles, however, they are also available for the aquisition of construction equipment.

7.2 Contractor Associations

Although a major player, it is important to note that the VACC is only one of many representatives for the construction industry of Vietnam and they cover only a small part of the total amount of contractors operating in the country.

Also important to note is that although they are employers associations, the VACC are tasked with promoting the interests of the SOEs as well as the private contractors. This places them in a compromised position in terms of advocating the promotion of the private contractors and the need for elevating them from their current status to an equal playing field with the SOEs.

While VACC has played a very supportive role so far (in terms of assisting the mission in acquiring a proper impression of the industry and committing themselves to supporting the implementation of the RNIP), it is important to bear in mind that there are other similar organisations which also represent Vietnamese contractors. This still needs to be further explored to ensure that contractors involved in RNIP will be represented by the associations to which they are members.

8 Contracts Management

8.1 Design and Preparation of Bidding Documents

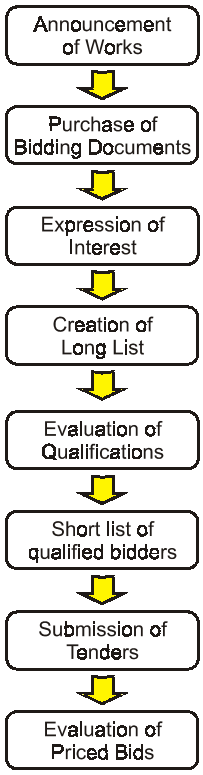
Design of periodic maintenance works are currently carried out by the Technical and Transport Engineering Centres of the RMMUs. As these centres form an integral part of the VRA, they can be used for the design and contract preparation of the periodic maintenance works under RNIP.

As design work is currently part of their responsibilities, the added responsibility would be to prepare the contract documentation for the bidding exercise and ensuing contracts.

8.2 Current Bidding Practices

There seems to be some differences in how bidding for public infrastructure works are carried out in the provinces.

In one province, a major screening of interested contractors is carried out before the actual submission of tenders take place. The process applied is similar to what is used for ICB where a long list is created on the basis of expressions of interests. Based on the general information submitted by the tenderers (i.e. financial capacity, personnel, past experience, equipment, etc.) the tender board produce a short list of on average five contenders from



which priced bids are accepted. No explanation is provided to the contractors who do not reach the short list.

With a major elimination exercise carried out before bidders submit their prices, the degree of competition can be questioned. This form of "prequalification" is in effect allowing the authorities to choose freely whether to engage SOEs or private contractors without any detailed consideration of price or efficiency. Since there will normally be a good supply of qualified SOEs submitting expressions of interest, the client can shortlist sufficient SOEs to allow only a limited number of private firms (or none) to compete.

The selection of short listed bidders follow varying practices from one province to another. Ha Giang Province informed that more than 30% of their works were carried out by private contractors. It was also common to engage SOEs from other ministries such as Agriculture, Construction and Defense. In Ha Giang this amounted to roughly 30% of their works. Lastly, it should also be noted that the PDoT possess a considerable in house capacity to carry out road and bridge works.

The practice described above seems to differ from the tender procedures applied under RTP2. There tenderers are automatically qualified when they are allowed to purchase the tender documents, with the result that an average of 10 to 15 bidders submit priced proposals.

8.3 Announcement of Works

Proper announcement of the works involved in the RNIP is a key requirement to secure a substantial participation of the private construction industry. This involves providing information at various stages of the project implementation programme, initially in a general manner in which the overall programme is described, thus providing information about the overall market prospects provided by the RNIP.

It is recommended that this is carried out in the form of (i) general announcements through press releases related to the securing of the project loan agreement between the WB and GoV, and (ii) subsequent launch workshops for interested contractors during which work programmes are presented in more detail, qualification requirements, bidding procedures, announcement methods, etc.

The next stage of work announcements are related to each and single sub-project. National competitive bidding procedures are already well established in Vietnam for road rehabilitation works. The existing procedures should be carefully reviewed with the objective of attracting a high number of interested and qualified contractors. Similar to the practices of WB and other financial development institutions, physical work programmes, tendering schedules and specific tenders could also be announced on the internet.

In the provinces, there are still some variations in practice, which needs to be streamlined. Some Provincial Departments of Transport have still not provided sufficient transparency in qualification criteria, and can still improve their soliciting of interested qualified bidders. The RTP2 seems to have achieved some significant developments in terms of attracting a considerable amount of qualified bidders – both from independent SOEs as well as private contractors. As the RTP2 applies national competitive bidding for its road rehabilitation works, the experience from this project and their on-going development of the bidding

procedures are highly relevant to the RNIP.

Lastly, it is also important to note that while most PDoTs and the project implementation units in MoT are well acquainted with the bidding procedures required in WB funded infrastructure projects, this is not always the case with the various units of VRA. VRA, having mainly relied on force account arrangements for the majority of its work programme, will need more comprehensive support in order to build up the required contracts management capacity.

8.4 Work Supervision

With the strategic location of the four RMMUs and given the fact that they have been established as the operational arms of the VRA, it seems logical that they would continue to be in charge of work supervision.

The new implementation arrangements under RNIP, under which most works will be carried out through public works contracts carried out by independent SOEs and private contractors, will involve major changes in the daily responsibilities and work contents of the RMMU staff. In the past, the RMMUs have relied upon the RMMCs to carry out a majority of the works. In effect this has been a force account arrangement, in which the demand for documentation of works are more limited than what is normally the case when works are contracted out to be implemented by other organisations (i.e. independent SOEs and private contractors).

The lack of resources in the RMMUs to adequately carry out regular inspections of the road network and ongoing works is an additional issue which needs to be seriously addressed during the design of implementation arrangements for the RNIP.

8.5 Underbidding and Variation Orders

The problem of underbidding on works is now a serious concern of the government. Various stakeholders, including some of the contractors and the VACC, have identified this practice as a major distortion of the contracting market.

In order to identify appropriate counter measures which may eradicate this practice, it would be necessary to carry out a detailed study of the bidding practices of government agencies involved in the road sector. This mission has not attempted to find solutions to this issue, however, it is an important issue which reinforces the need for technical assistance and training in the RNIP.

Experience from other countries show that irregularities in the bidding process is often due to lack of knowledge on the part of both the tenderers and the evaluators as regards to (i) how to calculate realistic unit rates, and (ii) the exact interpretation of the regulations covering the tender process.

Any client which seeks services to be carried out by contractors are obviously seeking competitive prices which are not much higher than the true costs incurred during the execution of the works. Equally important is to secure prices which are sufficient to cover all expenses incurred by the contractor, including a reasonable profit. If this is not the case, the prices offered by the contractor should be rejected.

All contract management systems have some mechanism which secures the right of the client to reject unrealistic price offers. However, a prerequisite for any assessment of bid prices is the ability of the evaluators to establish the true costs of the works. In order to attain such

figures, it is also necessary to know the detailed costs the various inputs of machines, labour, materials and overheads. It is often the case that staff are not sufficiently trained in such works, or simply have not carried out this exercise for some time (a common practice is to rely on standard government rates).

In an ideal situation, the contractors would be carrying out this exercise on a regular basis. For some reason, this does not seem to be the case, or they decide to submit lower prices due to market speculations and thereafter rely on large variation orders to recuperate costs, or even worse resort to delivering lower quality works to save costs.

It is still unclear to the mission why this practice is so widespread. However, there are certain measures which can reduce the occurrence of such habits:

- both client agencies and contractors need to review costs on a regular basis to avoid contracts based on unrealistic unit rates,
- client agencies establish a practice of rejecting too low price offers,
- training of contractor's and client staff on costing with a particular emphasis on costing of equipment, risks, supervision and other overheads,
- limit the amount of variations on contracts through more thorough field inspections and design work, and introducing procedures which limit the extent of such increases to contracts,
- for road works contracts it is also possible to insist on applying the unit rates of the BoQ for most variation orders (since changes are most often related to additional or less work of the same nature as works listed in the BoQ), rather than relying on separate daywork schedules or renegotiated rates,
- increase site supervision and control of works, thereby minimising faulty or low quality works (requires healthy travel budget).

9 Access to Banking Services

Banking services seem to be well established all over the country. Even in the remote provinces in the North, local banks provide the type of services normally required by contractors, such as obtaining bank financing of equipment, security bonds, cash credit, etc.

However, through discussions with the private construction industry and their representatives, it was confirmed that local contractors do face problems in terms of gaining access to these services. There also seems to be different practices and treatment of SOEs as compared to private firms. While private firms need to provide collateral in order to obtain any of the above mentioned services, this is not the case for SOEs.

The larger companies, however, do not regard this as a problem since they already have established sufficient working capital and rely on already acquired plant and other financial assets. Through the assets they have already acquired, they are also in the position to provide the collateral and any other financial assurances the banks require in other to access their services.

This preferential treatment rendered to the SOEs would be difficult for a project such as the RNIP to address. Instead, it would be more effective to link up the private construction industry with the support facilities which have already been established for private entrepreneurs in the country. So far, the services of MPDF have not been utilised by road works contractors. The type of loan financing support activities of MPDF seems highly relevant to the private contractors, and serious efforts should be taken to link up the private

construction industry with this facility.

Equally, there seems to be very limited use by these firms of the leasing services now readily available in the country.

10 Access to Equipment

10.1 Equipment Purchase

As part of the qualification process, government procedures require tenderers to submit a list of equipment they intend to use for the execution of works in the contracts they bid for. Studies of the private contractors state that for this reason, contractors operating in the road sector has already invested heavily in equipment. The larger contractors in the country already possess equipment fleets which consist of adequate plant appropriate for road improvement and maintenance works.

As privatised SOEs originating from MoT as well as SOEs from other ministries will be eligible to bid for works under the RNIP, it is also important to consider their capacity and in this context the equipment fleets they possess. Considering the fact that a majority of road works are still carried out by this part of the domestic construction industry, it would be reasonable to expect that these companies will be able to provide a significant contribution to the equipment demands related to the physical works envisaged under the RNIP.

Both the large private firms and the SOEs also seem to have sufficient financial capacity to purchase any additional equipment they may require either by utilising already accumulated financial assets or through bank financing. This group of contractors have no problems in obtaining the banking services they require.

Although the larger contractors have no problems in acquiring the equipment they require, it should be noted that the smaller firms complain about limited access to bank financing in order to expand their equipment fleets.

10.2 Hiring Equipment

Through interviews with private contractors, it is evident that the government does accept tenders in which the contractors propose to hire some of the equipment to be used on a specific contract. These practices are comparable to how contractors operate in other countries.

A common piece of rented equipment is tipper trucks – which is often the most commonly rented type of equipment elsewhere as well. Also, the contractors pointed out that when contracts are finally awarded, their equipment may be committed to other works and for this reason they choose to rent additional plant.

Equipment is rented from both SOEs as well as other private firms. Although this seems to be a widespread practice, all contractors clearly stated their preference to using their own equipment.

10.3 Leasing

Although this type of services are already well established in both Hanoi and Ho Chi Minh City, there does not seem to be a widespread use of such services among local contractors.

None of the contractors interviewed has entered into any hire purchase schemes for the acquisition of construction equipment.

MPDF has carried out a study of the leasing services available in the country, and as part of the conclusions of this survey, it seems as if (i) these services are still relatively unknown to the construction industry, and (ii) the conditions set for access to such services are more conducive to smaller contractors as compared to current terms for loan financing of equipment (ref. Annex 5).

Through discussions with MPDF and a brief survey of the internet, the following firms were identified as leasing service providers:

- ANZ/V-TRAC International Leasing Company is a joint venture between ANZ and an American venture dealing in construction equipment (Caterpillar).
- BIDV, Bank for Investment and Development of Vietnam
- Vietnam International Leasing Co. Ltd.
- VCB Financial Leasing Co.
- Vietcom Bank
- Vietnam Bank for Agriculture and Rural Development
- Vena Leasing Company Ltd.

As can be seen from the survey carried out by MPDF, this list only represents a small portion of the finance sector involved in such services.

11 Capacity Building and Training

11.1 Training Needs

A detailed training needs assessment is required once the physical works programme and detailed implementation arrangements have been worked out.

However, already at this stage it is possible to predict some of the training requirements. As is very often the case in projects where a major shift is carried out from force account operations to private sector involvement, it seems as the training and capacity development demands are higher on the government side to ensure the effective and timely supervision and management of the contracts, rather than having to train the contractors.

From interviews with contractors and discussions with donors and project management staff, the private sector seems to already have acquired considerable skills and experience from carrying out road works already for several years.

On the government side, there is however, a considerable training demand in terms of building up a contracts management culture in an environment which has in the past had a very limited exposure to such work responsibilities. In this respect, it is important to make a distinction between PMU18 (in charge of improvement works) and VRA (in charge of the maintenance component). PMU18 already possess solid experience in contracts management with all the finesses prescribed by WB through is track record of being the executing agency for a number of WB financed projects. VRA, on the other hand, including its RMMUs, although they have contracted out some works, have mainly implemented works funded from government sources, and are therefore not very well acquainted with the intricacies of WB procurement procedures.

For VRA to effectively provide proper contract supervision, there are also a number of other capacity building issues to be addressed. Lack of resources for field travels, has a direct impact on the regularity and timeliness of site inspections and work measurements, which in the next turn have direct impacts on quality of works and frequency of payments of works. There are also major challenges in relation to current practices in the industry to underbid works and rely on hefty variation orders to recuperate losses. These are all issues which need to be thoroughly addressed during the development of the new implementation arrangements.

With the above considerations it is still believed that some training of the contractors would be beneficial to the project – in particular on topics related to tender preparation, contracts management procedures and specific considerations required under WB loans. In contrast with earlier expectations, the need for technical training of the contractors are less evident and most of these needs can be catered for by timely and proper works supervision provided by the client.

In addition, there will be a demand for comprehensive support to the privatised RMMCs. There already exists a very competitive environment in the private construction industry in which the RMMCs will be newcomers. In order for them to survive in this climate, there will be a need for initial management support.

11.2 Existing Training Providers

Any training under the project should be carried out through existing institutions which already provide such or related activities. There are a number of options available in terms of institutionalising training within organisations which possess relevant experience and which has already conducted training in the subjects required under the RNIP.

VRA Training Centres

MoT has an extensive training capacity vested in three well established training schools in Hanoi, Vinh and Ho Chi Minh City, covering the Northern, Central and Southern regions respectively.

The training school in Hanoi was established some 30 years ago, currently including full class-room facilities, accommodation and catering for trainers and trainees. This training centre currently employs 45 trainers and can cater for a total of 450 students (accommodation and class-rooms). Apparently, the centre in Vinh is even larger.

The operation of the training centres fall under the responsibilities of VRA.

As part of the capacity building initiatives of RTP2, MoT is planning to start up training in two additional locations in management subjects related to routine maintenance of rural roads. MoT has suggested that RNIP also utilise these training facilities for its in-house training activities.

VACC

As mentioned earlier, the VACC is very keen to see an increased participation of their members, both private contractors and SOEs, in works execution under RNIP. As part of this, they feel that they are in a good position to provide the required training for the contractors.

The VACC has already carried out training courses related to contracts management. In 2000, they organised (i) two workshops on the Introduction of Insurance in Civil Works Contracts, and (ii) courses in Management of Contracts According to International Practices.

Under the RNIP, VACC believes that there is a training demand among private contractor in subjects such as project management, estimating and tendering, quality and cost control, and introduction of new technologies.

VCA

VCA also has a training centre which has now been operational for 4 years. Their training premises are located in Hanoi on a 4000 m^2 plot with 1800 m^2 of offices and classrooms.

Being a professional society organisation, they rely on mobilising trainers from various other institutions and organisations, such as universities, SOEs, retirees, private sector, etc. VCA does not employ permanent trainers.

In the past, VCA has been running courses in subjects such as ISO9000, construction management, quality supervision, urban and rural planning, real estate business and language training.

Although VCA charge a fee for their courses, it seems as if VCA is not running a profit from their training programmes, and would need some financial assistance to develop and run initial courses.

VCA suggested that RNIP could arrange training of trainers courses, which could then be engaged by VCA to train the bulk of the engineers and technicians involved in the project. Furthermore, VCA would be able to recruit appropriate trainer candidates and provide the necessary coordination of all training activities.

11.3 Potential Training Providers

Although MoT possess some very impressive in-house training facilities, it would be useful to involve other potential training partners as well. Organisations such as the VACC, VCA and VCCI have carried out training in the past in the type of subjects in which it is expected that there will be a demand in RNIP.

The advantage of involving such institutions in providing some of the training is that with some limited assistance in developing the courses and training trainers, these courses can be institutionalised in a manner in which they are self-financing by charging a course fee to cover the costs of instructors and usage of training facilities.

Considering the size of the project as well as the fact that the capacity building efforts of the project is geared towards long-term changes in the sector, the training required is not on a one-time-basis. The demand for training of contractors is expected to be a task which will be required on a long-term basis. This facility should be created as a permanent offer to firms which take interest in participating in works in the road sector.

Equally, training in new technology and management procedures, such as the performance contracting for maintenance, could be offered to Vietnamese engineers by a professional society, such as the VCA.

Subjects such as business management is obviously better handled by other institutions than an in-house training facility of a technical ministry. For this type of training, it would be better to utilise specialist training institutions such as the National Economics University in collaboration with industry support initiatives such as MPDF or SIYB. Once again, this training could be made self-sustainable through tuition fees after some initial support is provided by the project to develop and tailor the courses to the specific needs of the local construction industry.

12 Follow Up Activities

12.1 Wrap-up Meeting

Instead of arranging a debriefing meeting at the end of this mission, it was agreed that a mission report was first produced and thereafter, once the Government and the WB had had a chance to study the findings of the report, arrange a meeting during which comments from the various stakeholders could be solicited.

This meeting could be arranged as a stakeholder workshop during which (i) comments from the various actors in MoT are consolidated, (ii) common solutions are sought to the issues raised, and (iii) further preparatory work is agreed upon.

The ILO agreed to travel to Hanoi to specifically to attend such a meeting/workshop at an appropriate date specified by the Government.

12.2 Training Needs Assessment

It is recommended that a comprehensive training needs assessment should be carried out during the preparatory phase of the RNIP, thus allowing for training to commence at the same time as the project is launched.

As identified earlier in this report, this exercise would mainly target (i) private contractors, (ii) RMMCs selected for restructuring, (iii) contracts management authorities (i.e. PMU18, PDoTs, and RMMUs), and (iv) design "consultants". In addition, this exercise should be used to reveal any other capacity deficiencies among the various project stakeholders.

In order to carry out this exercise, there is a demand for identifying appropriate funding sources which can be made available for this purpose before the loan agreement is secured.

12.3 Support to Equitisation of RMMCs

In order to secure the timely restructuring of RMMCs as envisaged in the Project Concept Document, it is important that the government initiates this process as soon as possible. In order to facilitate the timely completion of this process, it is recommended that WB identifies resources to support this process during the preparatory phase of RNIP.

12.4 Advisory Services from MPDF

The project will need to explore (i) whether there is interest among private contractors in business support services of the MPDF and (ii) to what extent they can cater for an increased demand for its services among private contractors.

This would involve carrying out a market survey to establish (i) the real demand for increased access of the contractors to banking services, (ii) their need for additional equipment and ensuing bank financing, (iii) their interest in utilising the brokerage services of MPDF, (iv) the capacity of MPDF to meet demand for such services, and (v) whether additional resources are required from RNIP to support MPDF in providing such services.

Mission Itinerary

Annex 1

Private Sector Participation in the Road Network Improvement Project

Date	Time	Venue
15.10	14.00	Arrival in Hanoi from Bangkok
	15.00	Initial briefing at WB
16.10	8.30	Meeting with WB procurement advisers and SOE Specialist
	10.00	MoT Planning and Investment Department
17.10	10.30	WSPI
	14.00	Briefing at ILO Vietnam Office
	15.30	SOE Reform Unit, MoT
18.10	9.00	Rural Transport Unit, MoT
	10.30	Louis Berger Consultants, RTP2
	14.00	VACC
	16.00	WB
19.10		Report Writing
20.10		Report Writing
21.10	8.00	MoT Personnel Department
	10.00	DfID
	13.30	VCA
	15.00	VCCI
	16.30	ILO SIYB project
22.10	6.15	Departure for Tuyen Quang Province
	11.00	Meeting with RMMC232, Tuyen Quang Province
	13.00	Continue to Ha Giang Province
23.10	8.30	Meeting with private contractor based in Ha Giang
	11.00	Inspection of Roads in Ha Giang Province
	14.00	Meeting with private contractor
24.10	7.00	Return to Hanoi
25.10	8.30	Meeting with MoT PID Director
	10.30	Meeting with private contractor
	18.30	Return to Bangkok
28.10	11.30	Arrival Ho Chi Minh City
	14.00	Meeting with RRMU7
29.10	6.30	Visit to RMMC73 and road works sites in Can Tho Province
30.10	9.00	VACC Southern Branch
	13.30	Meeting with private contractors
31.10	9.30	Meeting with MPDF
1.11	12.30	Return to Bangkok

MOT	(80 Tran Hung Dao)
Mr. Truong Tan Vien	General Director, Planning and Investment Department
Mr. Hung	SOE Reform Unit
VRA	(106 Thai Thinh Street)
Mr. Quach Van Khoa	Head of Project Preparation Team
Mr. Nguyen Hoang Linh	Project Preparation Team
Ms. Nguyen Thanh Phuong	Project Preparation Team
Mr. Le Tien Dung	Project Preparation Team
Ms. Phung Thi Hoa	Project Preparation Team and Interpreter
Mr. Vu Minh Quynh	Principal, Northern Road Profession – Technical School
PMU18	(No. 1, 19-8 Road, Mai Dich Precinct, Cau Giay District)
Mr. Nguyen Huu Thien	
Ms. Do Tuyet Nga	
Mr. Dang Hoang Hai	
RMMU7	(Ho Chi Minh City)
Mr. Nguyen Xuan Quang	Deputy Director
Mr. Ha Phuoc Truong	Head of Road and Bridge Management Department
Mr. Nguyen Dang Khoi	Deputy Head of Road and Bridge Department
RMMC73	(Can Tho Province)
Mr. Nguyen Van Long	Deputy Director
Mr. Huynh Trung Viet	Chief of Accounting Department
Mr. Nguyen Van Ai	Head of Planning Department
WB	(63 Ly Thai To)
Ms. Tran Thi Minh Phuong	Operations Officer
Mr. Tran Trung Kien	Procurement Analyst
Mr. Rakesh Nangia	Portfolio and Operations Manager
Mr. Simon Ellis	Transport Sector Coordinator
Mr. Daniel Musson	State Owned Enterprise Specialist
VACC	(2 Lang Ha)
Mr. Vu Khoa	President and CEO
Mr. Vu Gia Quynh	Secretary General
Mr. Nguyen Tai	Director, Department of Training
Mr. Nguyen Thiem	Director of HCMC Branch
Mr. Giang Van Hoan	Deputy Director, HCMC Branch Office
VCA	(625A La Thanh)
Mr. Nguyen Duy Huyen	Chief of International Relations and Information Division
Mr. Le Quang Bau	Vice Chairman
Mr. Pham Si Liem	Vice Chairman and Secretary General
VCCI	(6 Dao Duy Anh)
Mr. Doan Duy Khuong	Chairman
Mr. Nguyen Quang Vinh	Programme Director

MPDF	(21, Nguyen Thi Minh, HCMC)
Ms. Dang Thi Thu Hong	Deputy Regional Manager
DfID	(31 Hai Ba Trung)
Mr. Simon Lucas	Infrastructure Adviser
ILO	(2E Van Phuc)
Ms. RoseMarie Greve	Country Director, Hanoi Office
Ms. Le Thi Lam Nga	Programme Assistant
Ms. Sofia Carlsson	SIYB Programme
Mr. Jens D. Christensen	Project Coordinator, SIYB
Private Contractors	
Mr. Nguyen Van Son	Director, Son Hai Road Construction Company
Mr. Pham Van Que	Director, Thai Ha Road Construction Company
Ms. Le Oanh	Director, Dang Le Infrastructure Construction and Trading Co.
Mr. Doan Van Duc	Director, Duhaco Construction Transportation Co.
Mr. Nguyen Van Dong	Director General, Rang Dong Construction Company
Others	
Mr. Michael Green	Project Manager, WSPI
Mr. William Curtis	Teamleader, Management Implementation Advisor, Louis Berger
Mr. Robert Petts	Independent Consultant

The mission met with several private construction firms both in the North and South of the country. The purpose of these meetings was to obtain a general impression of their capacity and the challenges they are currently facing when competing for business and carrying out works contracts.

The facilitation of the meetings with the individual contractors were carried out with the assistance of VRA and VACC.

1 Son Hai Road Construction Company
Ha Giang Province

Started operations 8 years ago. Previously worked for SOE and PDoT before going private.
Involved in building construction, road works, irrigation works, hotels and resorts.
Based in Ha Giang and operates mainly in two provinces (Quang Ninh and Ha Giang). Also maintains a branch office in Hanoi.
Employs 35 engineers out of a total work force of 600 employees.
Company is privately owned with 3 shareholders consisting of family members.

Annual turnover in 2001: VD 53 billion with an estimated turnover of VD 83 billion in 2002.
Total assets valued at VD 61 billion.

Equipment park includes 7 excavators, 12 graders, more than 60 trucks, 12 rollers, 30 cement mixers.
Most of the equipment is owned and fully financed by the company. Trucks are partly owned by the drivers and the company.

Previous works carried out in the road sector include:
- Rehabilitation of 20 bridges and 58 km of road rehabilitation works on National Road 279, including laying of double surface treatment – VD 129 billion
- 100 km of district and commune road improvement in Ha Giang Province

The contractor estimate that approximately 200 private contractors operate in Ha Giang Province, of which 10 firms are of similar size as himself. In Quang Ninh, he claims that there are larger construction firms, but these are mainly operating in the building sector.

Not a member of VACC, instead member of the Small and Medium Size Enterprise Association (44 Pho Veng, Dong Da, Hanoi).

Although his equipment is already fully financed without bank support, he is confident that the company would have no problems in obtaining bank loans. The local branch of the Investment and Development Bank would provide such services at an interest rate of 12% p.a.

He already relies on the services of this bank for the provision of performance bonds (charged at 2% of the bond value) .

He has never utilised leasing arrangements to acquire equipment, nor engaged in any renting of equipment. Equally, he has never ventured into sub-contracting or worked together with international contractors.

2 Thai Ha Transport Construction Company Ha Giang Province

Established since 1993. Before 1993, the owner used to work for the Government. This company mainly operates in the road sector and has carried out road works in several provinces consisting of improvement works as well as medium and large scale periodic maintenance works.

In the head office in Ha Giang, he employs 9 road engineers, 6 technicians, 21drivers and 8 support staff. In addition, the company has 7 work teams of which 2 are currently in Bac Can, 1 team in Phu Tho and 4 in Ha Giang Province. Each team employs an engineer, one technician and an average work force of 100 employees.

Annual turnover in 2001: VD 53 billion with an estimated turnover of VD 73 billion in 2002. Total assets valued at VD 8 billion of which 5 billion consist of equipment and 3 billion in vehicles and offices.

Works carried out in 2001 and 2002 in the road sector include:

- Rehabilitation works on National Road 4C in Dong Vau District, VD 11 billion
- Rehabilitation of 15km of National Road 4C Class 6 (3.5 m width), VD 12.6 billion
- Rehabilitation of 4 km of National Road 4C (11 m width), VD 8 billion
- Maintenance of 14 km of National Road 4C, VD 10 billion
- Maintenance of 9 km of National Road 4C, resealing, VD 3.5 billion
- Periodic maintenance of 18 km of National Road 34, patching and resealing, VD 3.5 billion
- Bridge repair on National road 34, 39m span, VD 1.9 billion
- Road improvement works of 4 km on National Road 34, VD 4.2 billion
- 4 packages of road works on National Road 2, VD 35 billion
- Maintenance works on National Road 2, VD 8.5 billion
- Road works on National Road 3, VD 36 billion
- Provincial road improvement, 27 km, VD 30 billion

All equipment have been financed without the use of bank loans, however the contractor is confident that he can obtain loans from local banks for this purpose. Obtains performance bonds from local banks.

On occasion, he rents equipment from other companies, most often trucks. The client would normally require the bidder to arrange hiring of equipment before submitting the bids.

Has never entered into sub-contract ventures with other firms and never worked as a sub-contractor.

Have workmen compensation insurance, insurance of equipment and third party liability insurance. Informed that the employer is normally the insurer of works.

Not a member of VACC or any other contractor association.

3 Dang Le Infrastructure Construction and Trading Company Hanoi

This company specialise in works for the road sector with 8 years of experience in this sector. Before joining this company, the director worked in the Planning and Investment Department of MoT. The company is based in Hanoi, and has been involved in works in the WB funded RTP1 and RTP2 in the northern and central regions.

The company employs 8 road and bridge engineers, 5 construction engineers, 3 economists, and 85 technicians.

Annual turnover in 2001 was VD 12 billion. Total assets are valued at VD 5.7 billion VD.

Equipment owned by the company include 24 rollers, 6 back loaders, 6 trucks, 5 front wheel loaders, 12 bulldozers, 6 graders, 1 asphalt layer, 1 aggregate spreader and 2 concrete mixers.

Although the company has bank loans, it still maintains that these are difficult to obtain. As compared which SOEs, the private contractors cannot use awarded contracts as collateral. Also find it difficult to obtain security bonds from banks.

Largest contract carried out so far was a 4 km road improvement contract on National Road 1B, consisting of carriageway widening, overlays and bridge repairs. Asphalt was purchased from an SOE.

This company has also rented equipment from other private contractors in order to implement contracts. Also, they informed that specialised equipment could be rented from SOEs. It was confirmed that the client normally accepted rented equipment as part of the tender proposals.

The company is a member of VACC.

4 Duhaco Construction Transportation Company Ho Chi Minh City

This company was established already in 1989, and was then one of the earliest private entrepreneurs in the country. This contractor specialises in transport, mining, bulk river transport, civil works and is currently preparing a large scale waste management project for HCMC.

Its annual turnover is US$ 3.3 million.

It employs 211 skilled workers and operators, mainly operating in the provinces within a 200 km region around HCMC. As works are readily available in this region, the company has no need to work elsewhere.

This company sits on an extensive park of earthmoving equipment for both overland and river transport (ref. company prospectus).

All works carried out by this contractor has been for the private sector. Although he has solid capacity to do so, he has carried out very few public works contracts. He has worked in association with international contractors when bidding for works, but not operated as a sub-contractor. Largest contract was a 2 million cubic metres earth moving contract at a total value of VD 70 billion.

This contractor provided a number of recommendations relating to how the private construction industry could be strengthened:

- fair playing field required through reasonable government policies,
- improved access to capital – currently SOEs are given privileged treatment by banks. Private firms are required to provide collateral to obtain security bonds while SOEs are not.
- the bidding process is often unfair in its treatment of private contractors – private

contractors are not properly informed about works,
- equitising the SOEs would place them in an equal competitive position as the private sector,
- price dumping is a common practice among SOEs – often resulting in sub-standard works,
- the government need to enforce their technical standards in public works contracts,
- procedures and extensive paperwork dissuade private contractors from getting involved in public works contracts.

The company is a member of VACC.

5 Rang Dong Construction Company Phan Thiet

Established 12 years ago and is currently one of the major firms in the construction sector of Vietnam. The company is based in Phan Thiet, however operates in a number of provinces in the South. The company is active in building construction, road works and bridge construction.

The company currently employs more than 50 engineers. The total work force is around 800 skilled workers of which a third are technicians

The equipment park consists of some 200 pieces of plant, including trucks, bulldozers, rollers, asphalt mixing plant, mechanical workshop, stone crusher, etc.

Total assets are valued at US$ 10 million, of which 2 million is invested in property, 4 million in equipment, and 4 million in working capital. Total revenue for 2002 is estimated at US$ 13 million.

Already involved in a number of contracts under WB financed projects during the last 3 years, including works on Highway No. 1 and several contracts under RTP1 and RTP2. Has completed 6 contracts for RTP2. Relevant contracts include:

- Rehabilitation and improvement works on National Road 1 Na Trang to HCMC subcontract US$ 4 million
- Rehabilitation and improvement works on National Road 1 Na Trang to Quang Ngai subcontract US$ 3 million
- National Road 55, Second Highway Improvement Project, US$ 2 million
- New construction of provincial roads US$ 2.2 million

Used to access loans in the past from state owned banks. With the current ownership of an extensive equipment part, the company does not need to hire any plant.

Has operated as a sub-contractor for a Korean contractor on WB financed works through ICB.

Currently, the company is only operating in the Southern Region, since there is sufficient work available in this part of the country to meet its capacity. As opposed to other firms which sub-contract out works, this company prefers to execute all their works themselves. However, they would still be interested in bidding for works in other regions if the works are of appropriate size.

The company is a member of VACC.

6 Other Companies

During the discussions with the VACC Branch in HCMC, several other private firms were listed as competent to carry out works for RNIP:

Troung Thinh Infrastructure Construction Co., HCMC
Carries out building works and road construction
Annual turnover around US$ 3.3 million

Hung Thinh Civil Construction Co.
Building construction, road and bridge works
Annual turnover around US$ 5.5 million

Joint Stock Construction Materials Production Co., HCMC
Produces construction materials and carries out building and road works
Annual turnover around US$ 7 – 8 million

The findings contained in the mission report covering the first ILO RNIP mission to Vietnam in August 2002 was commented upon separately by VRA and PMU18. In addition, the Planning and Investment Department provided consolidated comments to this report on behalf of MoT during a meeting arranged on 25 October 2002, chaired by Mr. Truong Tan Vien, Director of PID in MoT.

Based on a detailed review of the mission report, the comments made by MoT were as follows:

- MoT will need to discuss the issues of favourable treatment received by SOEs in comparison with private contractors with MoF and state banks.
- As private contractors have mainly been involved in road improvement works in the past, it is necessary to identify the main differences between such works and the new performance requirements envisaged through their participation in maintenance works.
- A further assessment of the capacity (incl. personnel, equipment, past experience) of the private contractors is required.
- There is a demand for further elaboration of the training requirements of the private contractors envisaged to participate in the physical works under the RNIP.
- Any changes or waivers to the standard WB procurement guidelines need to be identified as soon as possible.
- Medium and large size periodic maintenance works will need to follow the Bank's procurement guidelines. This will involve a major policy change in VRA including major changes in works implementation. As part of this, VRA will need to accommodate these changes without compromising road safety at the future work sites.
- Although implementation mechanisms proposed for RNIP has major implications in relation to the future role of the RMMCs, MoT believes that the proposed government counterpart funding of the maintenance component should remain as part of the project, since one of the major objectives of the RNIP is to introduce new maintenance practices in the country.
- MoT foresees a major change in the future role of VRA from currently being an agency in charge of works implementation to being more involved in contract administration and management.
- MoT will prepare a plan for the equitisation of the RMMCs.
- It is unlikely that the RMMCs will have sufficient time to equitise before the start of the project.
- MoT suggests that a temporary exemption is made to the eligibility criteria of RMMCs in order to secure their initial participation in the RNIP maintenance works.
- In order to speed up and facilitate the timely equitisation of RMMCs, it is proposed that technical assistance resources are identified as soon as possible to support this process. This support should be made available already during the preparation phase, thereby securing a timely completion of the process and allowing the full participation of privatised RMMCs when physical works commence in RNIP.
- MoT is seriously concerned with the current practices in the road sector of underbidding on works and subsequently relying on substantial variation orders to recuperate potential losses from low rates offered in the original tenders. MoT is currently seeking active

measures to eradicate such practices and would encourage any suggestions from the ILO mission.

- There are still a series of unresolved questions relating to the implementation arrangements of the RNIP (i.e. bidding procedures, distribution of management responsibilities, etc.).
- The issue of emergency maintenance has still not been addressed.

Leasing: A Term Finance Solution for Private SMEs in Vietnam?

NUMBER 2 / AUGUST 1997

Vietnam started an extensive program of economic reform in 1986 and since then has made major strides forward. A key factor in the shift towards a market-oriented economy has been solid growth of the private sector, which now accounts for roughly 60 percent of GDP and millions of jobs created over the past few years. Private small- and medium-sized enterprises (SMEs) will be the driving force in Vietnam's future economic takeoff. But lack of access to term finance remains a binding constraint to further growth of these companies.

Research sponsored by MPDF has explored the prospect of finance leasing as a means to alleviate this constraint. This work also looked at possibilities for MPDF to support Vietnam's fledgling leasing industry. Research results were obtained by surveying 30 private manufacturers and all leasing operations active in Vietnam. The research also analyzed all leases in operation that could be identified.

Background on Vietnam's Financial Sector

The commercial banking sector of Vietnam was created in 1988 when the State Bank of Vietnam (SBV) spun off commercial banking operations. SBV had de jure assumed roles of both commercial banking and lender of last resort. Since this landmark restructuring, the financial sector has grown to include four state-owned commercial banks, over 50 joint-stock commercial banks, two finance companies, seven finance leasing companies, some 600 S&L Popular Credit Funds, and over 25 banks partly or fully foreign-owned.

The financial sector had total assets of around 35 percent of GDP or D83 trillion at year-end 1996. The banking system dominates the financial sector with holdings of some 85 percent of total assets and 90 percent of total lending (D27.2 trillion in 1995). State-owned banks, the largest banks in Vietnam, account for 87 percent of total credit flows. While outnumbering state-owned banks, joint-stock banks account for the modest share of 13 percent of total short- and long-term lending. Since 1992, a significant number of private banks have established operations. In 1995, 13 percent of total lending went to the private sector. While this is a small percentage of total lending, it represents a significant shift upward from virtually zero in 1990.

Several critical issues remain:

- Despite an increase in credit flows to the private sector, access to credit continues to be dominated by SOEs;
- Banks' heavy reliance on property and other fixed assets serves to block most SMEs' access to term finance;
- Private sector companies have benefited very little from foreign direct investment, due mainly to legal uncertainty about FDI in the private sector;
- Underdeveloped capital markets, as well as the non-existence of a stock market, contributes to the underfinanced economy, squeezing funds that might be available for SMEs; and
- The financial health of Vietnamese banks is questionable with capital adequacy ratios of only 3-5 percent and 30 percent term savings-to-lending. In addition, the banking system's inefficiency is evident from the estimated $5 billion held outside of banks.

In sum, the private sector accounts for roughly 60 percent of GDP but it receives only 13 percent of available credit. Lack of access to term finance restricts entrepreneurs to equity financing, short-term credits that are rolled over, and informal sources of finance. Equity financing is inadequate to satisfy SMEs' demand, in part due to the lack of a stock market. Informal short-term financing carries prohibitively high interest rates. Foreign direct investment has boosted the capital base and operations of SOEs but has generally not benefited private SMEs.

An Overview of Vietnam's Leasing Industry

Since leasing was established in Vietnam in 1995, some 71 leases totaling over $11 million have been written, mainly with local companies and mostly with private SMEs. Among the most active financial leasing companies (FLCs) are the foreign-owned Kexim Leasing and VILC joint venture and the domestic Vietcombank Leasing and BIDV Leasing.

The nascent leasing industry in Vietnam got an important boost with the entry of foreign leasing companies and with their selection of private SMEs as clients. Joint venture and foreign-owned leasing firms just started operations in the first quarter of 1997. The first leases signed by VILC and Kexim Leasing were valued at about $7 million, representing a substantial move by international ventures into the field. These two companies alone have written 14 leases in their first five months of operations with values from $80,000-$1.5 million. They were the first foreign leasing firms to write leases to the private sector. Continuing new entries demonstrate the perceived strength of this market.

In late 1996, the government imposed a moratorium on local banks' leasing units, requesting that they reorganize operations in conformity with Government Decree 64-CP-the main legal instrument governing FLC's establishment and operations in Vietnam. This decree required that leasing firms maintain independent operations from parent banks. FLCs under state-owned banks were required to establish bylaws and strategic plans before continuing their businesses.

Research Findings

As noted, SMEs have been the main recipients of leases written to date. Specifically, they account for 76 percent of total leases signed and 66 percent of the total lease amount.

The research further identified key characteristics of the leases. The range of lease size is broad, from $7,000 to $1.5 million. The mean is almost $180,000. The mean lease size for SME recipients is $140,000 - very large relative to Vietnamese SMEs' average capital base which ranges from $30,000 to $120,000. The mean term to maturity is 38 months, far longer than would be available from current bank loans. The mean maturity for SMEs is an impressive 39 months.

Manufacturing and construction companies are major beneficiaries of leases. At roughly $200,000 per transaction, these equipment leases are rather substantial.

Other main findings include:

- Default rates are very low thus far, one out of 71 leases written;
- SME lessees are proving credit worthy with only five of 54 with late payments;
- After recognizing its benefits, many SMEs are repeat lessees;
- Processing time for leasing transactions is short, typically 2-3 weeks. This represents an enormous advantage over bank loans;
- Entrepreneurs would benefit from education about the concept and mechanics of leasing.

Conclusions

The study concludes that finance leasing has strong potential to broaden SMEs' access to financial resources. This study confirms that current leasing practices are practical for SMEs: transaction time is short; maturities are relatively long; and lease sizes are sufficiently large to meet SMEs' equipment needs. It also offers an alternative to banks' high collateral requirements that currently block SMEs' access to term finance. From the industry point of view, the more SMEs that participate in leasing, the greater the growth prospects for leasing companies.

This research identified policy issues relevant to the development of a leasing industry. Leasing companies currently do not have the right to import equipment directly. The supervisory and support framework for leasing is incomplete, e.g., police departments do not have needed authority to issue registration number for leased vehicles. Contract enforcement is highly problematic. The number of leasing companies that can register is restricted by SBV, and the process of registration is reported to be lengthy and difficult.

The large share of SMEs in lease recipients is striking. Even more striking is fact that most of these leases have been written by subsidiaries of the same state-owned banks that have elected to focus on state-owned enterprises as their credit clients. This is likely due to political pressure in the credit allocation process. Banks are now beginning to look to the private sector for term finance markets. Leasing might be the first step. It is less risky than lending, and it enables SMEs to begin establishing credit histories.

The study also concludes that MPDF can potentially play a useful role in supporting the leasing industry in Vietnam. As has been the experience elsewhere, leasing and MPDF should be natural partners. Leasing is a good option for long-term finance for projects, and MPDF can assist this sector by providing project analysis as well as project appraisal training. This research has prompted MPDF to explore other types of leasing including micro-leasing for small firms.

More Funds for Finance Leasing Firms
(Saigon Times Weekly, No. 26-'02 (559) June 22, 2002)

The State Bank of Vietnam (SBV) plans to provide more capital for State-owned commercial banks to recapitalize their finance leasing firms as part of a bank restructuring plan.

The beneficiary banks include VCB-Leaco of Vietcombank, Finance Leasing companies (ALC) I and II of Bank for Agriculture and Rural Development, BLC of Bank for Investment and Development of Vietnam and ILC of Vietnam Industrial and Commercial Bank. VCB-Leaco will increase its capital to VND115 billion from VND75 billion. The company, established in 1998, reports total outstanding loans of VND180 billion.

The capital of ALC 1 (Hanoi) and ALC 2 (HCM City) will be doubled to VND100 billion. The two companies, set up in 1999, have combined outstanding loans of VND800 billion. Meanwhile, ILC, with a chartered capital of VND75 billion, does not have plans to increase capital. Its outstanding loans now exceed VND300 billion. BLC, set up in 1998 with a chartered capital of VND102 billion, has outstanding loans of VND400 billion. It is awaiting recapitalization by the parent bank. Finance leasing is not yet popular among small and medium enterprises (SMEs). Moreover, finance leasing firms have no branches apart from their head offices, preventing SMEs from approaching their services.

Extracts from the MPDF web site.

Company Advisory Assistance

MPDF helps private companies prepare business plans, raise financing for investment projects, and obtain various types of advisory assistance. MPDF does not itself finance projects, but helps structure financing plans and obtain financing on most appropriate terms. It also plans, feasibility studies, and technical and operational matters.

MPDF works with private companies to help improve their operations and assist with their expansion and modernization plans. MPDF assistance covers two main areas:

Financing Assistance
While MPDF does not directly finance projects, it helps private companies gain access to suitable sources of debt or equity finance, by preparing business plans and financing applications, identifying potential lenders or investors, and making necessary introductions. MPDF works closely with a range of financial institutions, including foreign and local banks, international investment institutions (IFC, ADB, FMO, etc.), leasing companies and venture capital funds. It also collaborates with various donor-provided crdit lines, e.g., from the World Bank, European Union, etc.

Technical Assistance
MPDF provides advice, and arranges assistance from specialist consultants, for private companies in a variety of areas, such as business planning, marketing strategy, technical and operational assistance, quality control and certification (e.g., ISO), accounting and management information systems (MIS), etc. This assistance is provided either in conjunction with the raising of finance for an investment project, or on a stand-alone basis to companies who require such services.
Who is eligible for project development assistance?

MPDF assistance is available to all private entrepreneurs and manages who:

- Are citizens of Vietnam, Lao PDR or Cambodia, or foreign business people involved in joint ventures in these countries with significant local participation or ownership
- Have a promising, well-conceived and financially viable business operations or investment project
- Have assets, or are planning investments, of at least US$100,000
- Are active in any productive venture in agriculture, agribusiness, manufacturing, services, tourism, or infrastructure. (Projects involving tobacco, military products, real estate development, and pure trading operations are not eligible for MPDF assistance)

Although MPDF services are subsidized by its donors, MPDF requires beneficiaries to make a contribution towards the costs incurred. For assistance involving the raising of financing, this comprises:

- A nominal commitment fee of US$100, payable at the start of MPDF assistance (signing of Memorandum of Understanding)
- A success fee, typically 1.5% of financing raised, payable upon approval of financing by an appropriate source.

For technical assistance, companies are expected to share the cost of any consulting assignments or other major expenditures incurred.

How to approach MPDF for Project Development Assistance?
Promoters seeking assistance must be able to provide full and accurate information about their projects so that MPDF can respond quickly and effectively. A brochure on how to prepare this project information is available at your nearest MPDF office.

In most cases, MPDF requires the following background information:

- A brief description of the project
- Details of the promoter's business background and financial statements from the ongoing business activity
- A description of the management team and their backgrounds
- A marketing analysis outlining target markets, sales objectives, and competitive advantages
- A description of available assets and resources including qualified manpower. Manufacturing enterprises should also describe the production process
- An evaluation of investment requirements, including the type of financing being sought, projected revenues, sources of debt and equity, and capital outlay
- Feasibility studies when available

Information requirements vary. To learn what is needed in your particular case, please contact our offices.