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PUBLIC PRIVATE PARTNERSHIP: SOLUTION TO SHORTAGE OF CAPITAL FOR INFRASTRUCTURE IN HCMC

HCMC is a major economic center of the country, a communication hub, and a leading center of health care; scientific research, and education in the South. With the role as a center, HCMC maintains a high growth rate along with socio-political stability, thereby contributing to the national stability. The HCMC economic growth affects greatly the national growth rate.

To ensure a high growth rate in HCMC (accounting for some 20% of the GDP), HCMC needs enormous investments for its infrastructure while the source of finance from the budget income (part of tax take and income from natural resources) is limited. Statistics show that the part of budget income used for development only meet 40% or 50% of the demand, so mobilizing other sources of investment becomes inevitable. In 2003, HCMC was the first city in Vietnam was allowed to issue municipal bonds of infrastructure. After five years, some VND10,000 billion worth of bonds was sold. This way of mobilizing the capital, however, is restricted by Section 3 of Article 8 of the Budget Law 2002 that reads, "Total mobilized capital must not exceed annual investment in public construction by the local government." How can local government deal with this limit? The answer from HCMC is the model of public – private partnership.

1. An outline of the model

The public-private partnership (PPP) reflects the cooperation between the two sectors in supplying public goods and services. In the PPP model, the state provides "requirements" (list of infrastructure projects in need of investment, and kinds of public services to supply, etc.), sets necessary standards (for quality, size, or delivery time, etc.); while the private party supplies the public services and gets payments according to service quality. This model has first come into being in the U.K. and been applied successfully in many countries. This model is applied to many public services such as toll roads, railroads, or airports; building or upgrading hospitals and schools; building, operating and repairing offices of governmental agencies; building research center (laboratory and production line); maintaining and making use of heritages; and even building and running prisons.

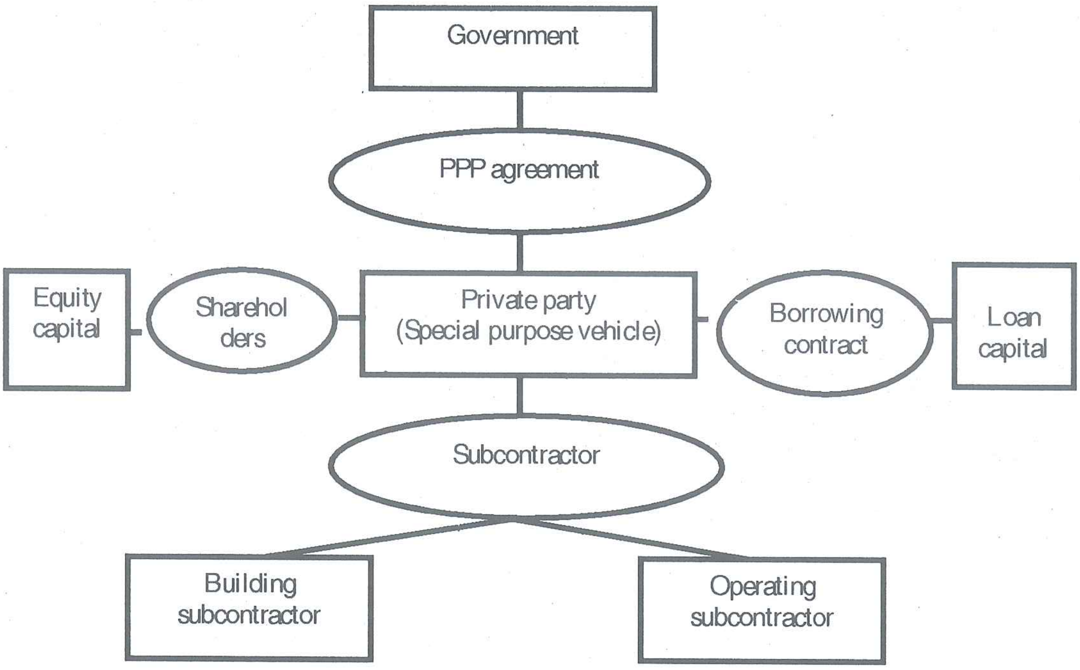
The PPP model is realized by agreements between public organizations (including local authorities) and private organizations (usually special purpose vehicles). There are two kinds of PPP agreement:

(1) The private party is required to carry out some functions of local authorities and public sector. In such agreements, the private sector receives payments from the public authorities or is allowed to charge fee for use of public services supplied according to the PPP agreement.

(2) The private party is allowed to use assets held by local authorities or the state to do profitable businesses and pay a sum set by the PPP agreement.

There is also a kind of agreement that combines

Figure 1: PPP cooperation



the said two ones

Features of the PPP agreement are:

- There is an equal cooperation between the two sectors. Duration of their cooperation depends on payback of the project but their cooperation tends to prolong.

- PPP is not a form of privatization as many people think because the assets in use still belong to the government. When the agreement concludes, the assets used for the project are returned to the state.

- The state pays full attention to establishment of standards and objectives of the project. The private partner has autonomy in building and operating the project.

- Structure of capital for the project is diverse, so is the form of cooperation of the private sector. State-owned companies can also cooperate with the partners from other sectors.

- Risk is distributed among the state and investors.

- In some countries, PPP should carry out some social obligations toward the poor or certain community. In South Africa for example, the PPP model is always linked with BEE, a program to enhance economic participation for the black. The condition is that the black people are allowed to take part in the project by getting employment or equity shares.

The model, thus, can bring about interests for the state, investors and residents. Local people can get public goods or services with higher quality; the state makes the best use of financial strength and managerial skill of private investors and shares risk with them; and investors get some profit from the project. This model also overcomes shortcomings of the administrative machinery in calling for bids, investing, operating and maintaining. Reality shows that projects run by the public sector are usually carried out very slowly. When the work is completed, unprofessional operation and maintenance lead to damage to the work and burden to the public fund.

According to conditions and terms of the PPP agreement, the private partner has to accept risks arising from the project, and ensure the work is completed in time and operated up to the agreed upon standards. When realizing the PPP model, moreover, the state, or local government, can be saved from huge investment and management tasks in supply of some public goods and services, and they can concentrate their limited resources in major programs to develop the local socioeconomic life.

Weakness of the model is that the negotiation between the two parties is usually time- consuming because it's difficult to keep interests of the two partners in balance. In addition, the PPP agreement usually lasts for a very long time and both partners can't anticipate problems arising from the implementation of the agreement, which can lead to disputes.

In Vietnam, the public – private cooperation is realized in forms of BOT and BT agreements in power, telecommunication and transport fields

2. Some projects based on the PPP model in HCMC

The PPP model has been applied in HCMC under various forms in order to mobilize investment in infrastructure projects ands supply public services. The following are some projects in past and present:

a. Program to stimulate investment: In 2003, to attract private investment in health care and education sectors and stimulate the demand for bank loans, the HCMC government adopted a program to stimulate the private investment. In this program, investors from all sectors can use loan capital to invest in goods and services needed for the good of the community (schools and hospitals, etc.), and replace machines and equipment with a view to supply services of better quality. The municipal budget covers interest on the capital loan from five to 10 years based on the life circle of the project while investors has to pay the principal by collecting fees for services supplied.

In carrying out this program, the HCMC government mobilized some VND1,500 billion from the private sector to upgrade, build and supply equipment to health caring concerns, and public and non-public schools. Typical projects are: Bình Dân Hospital; Anh Vũ General Hospital; Projects to provide modern equipment for Chợ Rẫy, 115 and Hồng Lạc Hospitals; Tôn Đức Thắng University; and projects to build many semi-public high schools, elementary schools and kindergartens, etc.

b. Transfer of right to collect toll for Hà Nội Highway and Hùng Vương Road: In 2002, after finishing two major roads as eastern and western gates to HCMC based on public investment and capital loans, the municipal government transferred the right to collect toll for the two roads to the CII at a price of VND1,000 billion for 11 years. The CII has to do maintenance job during the term of the agreement. Similarly, the municipal authorities used the right to collect toll to mobilize VND1,000 billion needed for the building of the Rạch Chiếc Bridge to the east of HCMC in 2008.

c. Project to build solid waste treatment in Đa Phước: The investor here is a Vietnamese expatriate. Solid waste treatment has been a monopoly held by the Urban Environment Company. In 2006, the municipal authority licensed the VWS Corporation run by a Vietnamese- American to build the Đa Phước solid waste treatment work capitalized at some US$90 million. The HCMC authority advances US$9 million and gets repayment in the following years in form of fees for waste treatment. In Jan. 1, 2007 the work in its first phase came into operation with a capacity of 3,100 tonnes per day. The license allows the work to operate with modern and eco-friendly technology within 21 years.

d. Project to build Tân Sơn Nhất – Bình Lợi Belt Road: This is a BT project carried out by the GS E&C Corporation from South Korea to build a 13.7 km road that is worth US$320 million. The investor has to advance US$120 million to the municipal authorities to pay compensation and carry out land clearance; and receives five lots of land for housing development as a way to get payback.

e. Phú Mỹ Bridge project: This is a BOT project carried out by a local private company based on bank loan guaranteed by the HCMC government. The Phú Mỹ Bridge will be the longest and most

Table 1: Investment stimulating program in HCMC 2001 – 2008

Field	Number of projects	Total investment (VND billion)	Payback (VND billion)	Subsidized interest
Health care	49	1,083	425	227.5
Education	62	362	198	87.2
Others	19	315	202	37.1
Total	**130**	**1,760**	**825**	**351.8**

Source: Reports by HCMC Service of Finance in January 2009

modern cable-stayed bridge in Vietnam with a length of 2 km and a width of 27.5 m connecting District 2 with District 7. The investment amounts to VND1,800 billion. The BOT agreement is signed by the HCMC People's Committee and the Phú Mỹ Bridge Joint Stock Company. The source of finance comes from the French Société Général to HCMC Investment Fund for Urban Development (HIFU) with guarantee by the Ministry of Finance. In other words, the HIFU borrows money from the SG guaranteed by the Ministry of Finance and lends this sum to the Phú Mỹ Bridge Joint Stock Company.

3. Initial estimates of the PPP model in HCMC

The biggest success of the PPP model in HCMC is large sources of finance mobilized for major infrastructure projects. They allow the HCMC government to spend the budget income on social programs and efforts to reduce poverty that the private sector is never interested in (because such projects are beyond its reach or of low profits). Implementation of this model in HCMC in the past few years also reveals many shortcomings and difficulties. The following are some of them.

- A legal framework that is transparent enough to attract potential investors from all sectors is still lacking. This situation poses problems for investors and makes it difficult for authorities to select appropriate partners and negotiate about realization of the agreement.

- Local residents have different opinions about fees of public services. The question is how to make interests of residents and investors harmonize with each other, and ensure that low-income earners can enjoy public services provided by the private sector.

- There is no management mechanism appropriate to the PPP model. Foe each project, the HCMC government has to establish a task force comprising representatives from related departments to negotiate with investors. Lack of experts usually makes the negotiation and implementation of the project time consuming.

Experience from the PPP model in HCMC allows us to work out measures to make it a channel of capital for long-term development programs. The following are some of them.

+ A legal framework for the PPP model: First of all, the legal infrastructure for PPP agreement is much needed because such agreements usually last for a long time and they may meet many unpredictable problems arising from the implementation of the project. When foreign investors take part in such agreements, problems will be much more complicated. To attract foreign investors to infrastructure projects in HCMC, the central government should work out specific regulations to ensure their ownership of assets during operation and exploitation, and their right to buy and transfer foreign exchange to their home countries.

+ The government had better make a list of projects in need of investment and cooperation, and establish budget for these projects instead of waiting for investors to make studies and feasible plans and submit them for approval. The projects must be offered openly in order to create equal opportunities for all investors without discrimination. When more than one investor shows interest in the project, it must be put out to tender with a view to selecting an investor who has necessary experience and capability, and pay proper attention to interests of the public and authorities.

+ Huge costs of preparation of business plan and uncertainty about being awarded the project usually discourage private companies from taking part in PPP projects. To deal with this mentality, the government had better take measure to encourage companies to take part in such projects by establishing a fund – that could be called Fund for Development of PPP Projects – to provide companies with loans needed for preparations, such as making the feasible studies, working out master plan, and preparing bidding document, etc. To enhance the sense of responsibility, the corporate borrowers should have counter- capital for these preparations (perhaps from 20% to 30% of the cost).

+ There must be public financial institutions (like the Investment Fund for Urban Development), or state-owned investment companies that are strong enough (in terms of capital, experience and capability) to play the leading role in providing the capital, and establishing joint stock companies to carry out the project. When the project is completed and comes into operation, these institutions can withdraw their investment through the stock exchange in preparation for other projects included in the development strategy of the municipal government.

+ Land clearance and compensation are always challenges to investors. This stage usually prolongs and affects badly efficiency and financial plan of the project. Local authorities should try their best to help investors deal with these difficulties effectively. The best solution is to pay compensation with budget income, thereby acquiring quickly the necessary area used for the project.

+ An army of experts specializing in evaluating and running PPP projects is much needed. This army, besides its expertise, must be empowered to supervise the project and support the investor effectively during the implementation of the project. Realities have proven the efficiency of the PPP model in attracting investments from the private sector to infrastructure projects. When no province and city has enough income to invest in major development project, local governments, in future, should depend on the private sector for investment in their socioeconomic development programs■

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