



Financing Sources for Transport Development in Vietnam

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Outlines

- Overview the financing scheme for transport infrastructure
- Future expenditures in transport sector
- Mobilization of financing sources for transport development
- Conclusions



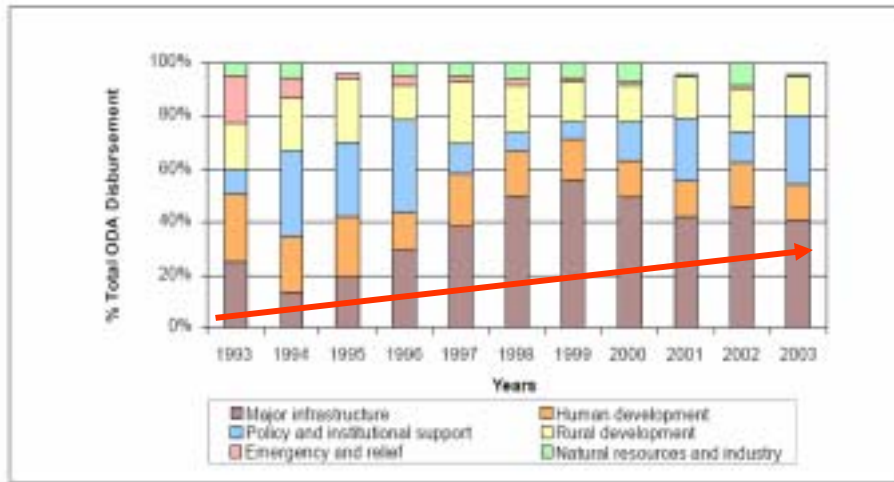
The Overview



The characteristics of the financing sources in transport sectors

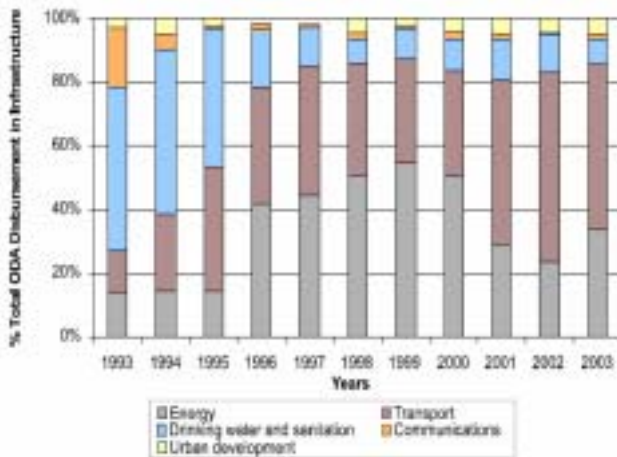
- The expenditure in transport was mainly contributed by the ODA and state-budget
- Debt burdened on the state-budget

Broad ODA Trends 1993-2003



Source: UNDP Vietnam, 2004.

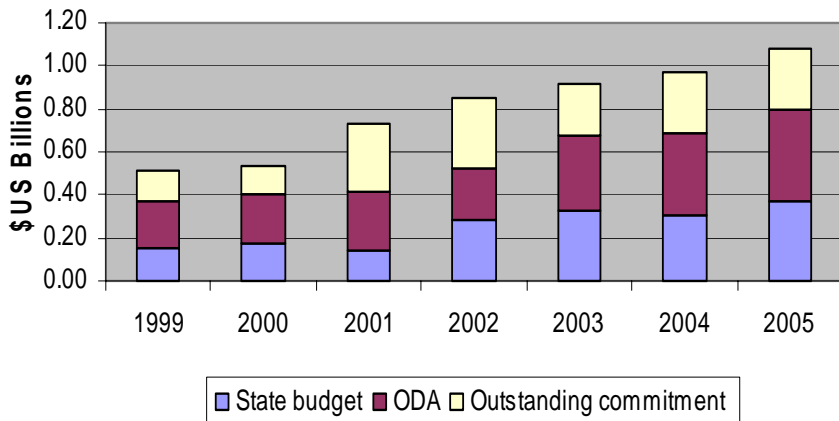
ODA Disbursements on Major Infrastructure



Transport accounted for the largest share of infrastructure projects (45%)

Source: UNDP Vietnam, 2005.

Overview Expenditure in Transport Infrastructure



International comparison of transport expenditure levels

Country/Period	Transport investment as % of GDP	Total Public investment in infrastructure (% GDP)
Japan (1957-73)	2.0 ~ 2.5	6.0 ~ 8.0
Korea (1983-91)	2.1 ~ 3.0	5.3 ~ 8.2
Taiwan (China) 1970-92	2.1 ~ 4.0*	8.1 ~ 11
Malaysia (1973-83)	~ 6*	~ 7.3
Thailand (1973-83)	6 ~ 7*	~ 6.9*
Vietnam	1.8 ~ 2.5	~ 7.5

Source: World Bank 1994a, World Bank 1996, Ministry of Finance – Vietnam (2005)

* The expenditure in both Transportation and Telecommunication

Future expenditure in transport sector

The future expenditure requirements in transport sector

	2002 - 2010	2011- 2020	Total 2002- 2020	Annual average	% of GDP*
Ministry of Transport**	50,125	84,352	134,477	7,078	10 ~ 11
VITRANSS ***	12,600	25,000	37,600	1,979	2.7~ 3.0

Sources: * estimated by the author

** The Vietnam Transport Development Plan up to 2020 (MOT, 2002)

*** The Vietnam Transport Strategy Studies 2000-2020 (JICA, 2000)

The current issues

- The MOT's plan seems to be much ambitious
- The feasible expenditure plan should be based on the availability of the budget sources
- The ODA inflow might decline in the future

The possible scenarios of future expenditure in transport sector (2006 – 2010)

	Total Investment in Transport Sector (\$US billion)		Average Investment per annum (\$US billion)	
	Low	High	Low	High
Total GDP 2006-10	311.36	315.72		
Scenario I (1.8% GDP)	5.60	5.68	1.12	1.14
Scenario II (2.5% GDP)	7.78	7.89	1.56	1.58
Scenario III (3% GDP)	9.34	9.47	1.87	1.89

Notes: - GDP in 2005 is about \$US 50.6 billion

- Low (GDP growth at 7%); High (GDP growth at 8.5%)

The budget constraints (2006-10)

- The total expenditure needs* 7.78 ~ 7.89
 - State budget ** 2.18 ~ 2.21
 - ODA *** 2.52 ~ 2.87
 - Outstanding commitment: **2.81 ~ 3.08**

Source: *, ** Estimated by author

*** Ministry of Planning and Investment, 2005

Mobilization of the Financing Sources for
Transport Development in Vietnam

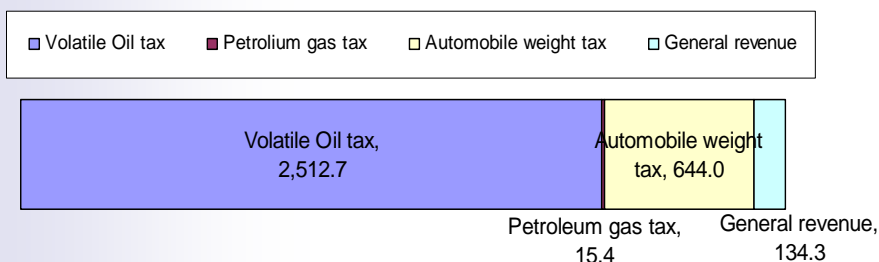
Source of Public Financing of Japan's Infrastructure

National Government	General account
	Special account (user fees and earmarked taxes, transfer from several accounts)
	National bonds
	FLIP (Fiscal Investment and Loan Program)
	Other (Public stocks sales)
Local government and private financial institutions	National government
	Local bonds (FLIP)
	Local taxes (general account and earmarked taxes)
Public corporation	General account
	Corporate bonds
	FLIP
	Bonds and loans from private financial institutions

Financing Scheme for Road in Japan

- For initial investment cost
 - National treasury loan
 - Subsidy from central government
 - Equity of central & local government in public corporation
 - Private loan
 - Cross-subsidy from other route
- For pay-back of loan and maintenance cost
 - Toll revenues
 - Special road account
 - Fuel tax
 - Car ownership tax

Road Improvement Special Account in FY96 (Unit: billion yen)



- Volatile Oil Tax: This tax imposed on gasoline and is entirely appropriated as national revenue at a tax rate of 48.6 yen/liter
- Petroleum Gas tax is imposed on the Liquefied Petroleum Gas with half of the tax income appropriated as national revenue. The tax rate is 17.5 yen/liter
- Automobile Weight Tax is imposed according to vehicle weight with 80% of the national share appropriated for the national revenue

Source: Ministry of Land, Infrastructure and Transport of Japan (MLIT)

The revenue sources for transport development in Vietnam

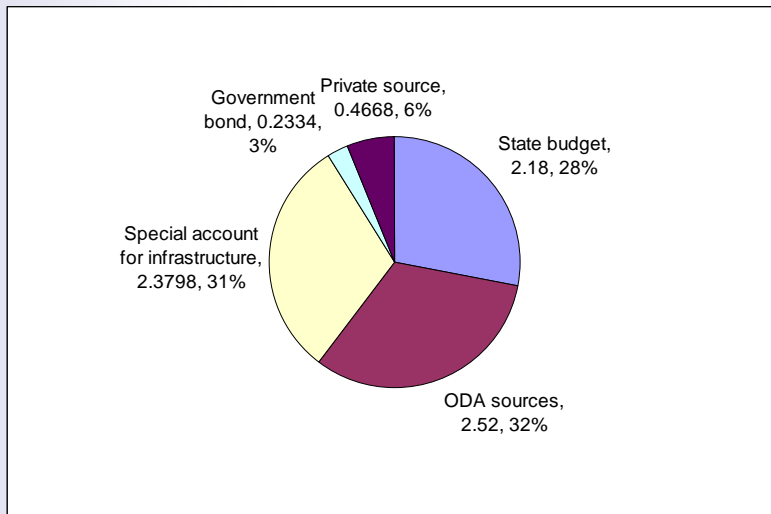
(Unit \$US billion)

Revenues	2003	2004	2005	2006 – 2010 *	
				Low	High
Gasoline tax	0.204	0.23	0.271	1.61	1.63
Fees and Charges	0.209	0.205	0.268	1.56	1.58
Sub total (1)	<i>0.413</i>	<i>0.435</i>	<i>0.539</i>	3.17	3.21
License tax	0.116	0.166	0.182	1.03	1.04
Sub total (2)	<i>0.529</i>	<i>0.601</i>	<i>0.712</i>	4.19	4.25

Source: Ministry of Finance (Vietnam, 2005)

* Estimated by the author

What is the possible scenario of financing scheme for transport development in Vietnam



Introduce a special account for transport development

- The initial financing sources of the special account should be provided from gasoline tax and user fees
- The special account will be financed for profitable transport projects as a loan (express highway, toll roads...)
- Pay-back is required with specific interest rate
- The revenue should be collected from user fees

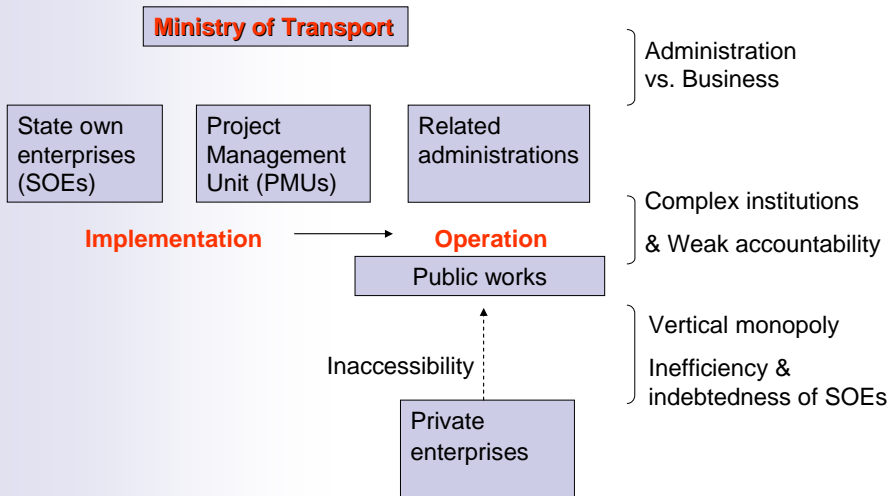
Diversification of financing sources: financial reform

- General revenue (state-budget) should subsidy for the non-profitable projects
- Government bond should mobilize for the special purposes
- Encourage private participation in infrastructure (PPI) which is preferable to the profitable projects
- Enhancement of utilizing ODA sources
- Special account subjects to profitable project and provides cross-subsidy

Institutional reform

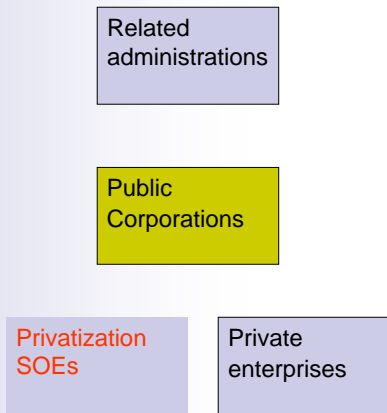
- Enhancement of the efficiency of financing sources by introducing the incentives to encourage the public corporations.
 - Japan: Public corporations (Japan highway public corporation, Tokyo Metro. Exp. Public Corp...)
 - Korea: Korea highway public corporation
 - Malaysia: Malaysia highway authority, BOT concessionaire
- Because the public corporations could attain loans and repay with the interests -> they are forced to pursue profitability

The current organization of the MOT



Institutional reform

Ministry of Transport



- **Transparency of administrative functions**
- **Enhancement of accountability**
- **Contractual management**
- **Competitive market**

Conclusions

- The investment needs in the transport sector will be required a huge amount in the future
- The future requirements of expenditure in the sector could be met by public in co-operation with private financing sources
- It is necessary to introduce special account for transport development
- Privatization of SOEs and establish of public corporation are measures to enhance the efficiency of utilizing budget

Thank you for your attention!