

A Tale of Two Cities in Vietnam Towards a Strategy for Growth, Poverty and Environment in the Cities and Regions of Vietnam

Tim Campbell, Team Leader and Principal Author

Team

Carl Bartone, Tanzib Chowdhury, Joyce Coffee, Alan Coulthart, Angela Griffin, David Hanrahan,
Nigel Harris, Marcela Huertas, Utpal Mukhopadhyay, Shane Rosenthal, Nguyen Cong Thanh, Phuong
Thanh, Roberto Santoro, and Vitor Serra

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Preface

The present analysis builds on the substantial body of previous work on the urban sector completed in the past five years, but differs in the methods and scope of work. This report builds on new data and knowledge formed during intensive analysis of Haiphong and HCMC conducted by a World Bank team in 1998 and 1999. In this sense, therefore, the analysis is both limited and inductive. It is limited because it is based mainly on these two cities and inductive because it takes a “ground view” perspective on national policy issues. This approach helps to generate new insight about how to achieve sustainable cities, but the data limit the extent to which these insights can be generalized for all urban places. Therefore, this report is not intended to be an urban strategy for the country, rather it is intended to contribute to development of national urban policy through a comprehensive program.

One further feature of the methods in this report concerns cross-cutting themes. Poverty and spatial relations are treated as systemic issues in this report. They are woven throughout each and every section of the report, and made the subject of focused analysis in specific sections and boxes.

On behalf of the World Bank team, I wish to extend our most sincere gratitude for the warm reception and excellent cooperation shown to us by representatives of the Government of Vietnam at all levels.

A Tale of Two Cities in Vietnam Towards a Strategy for Growth, Poverty and Environment in the Cities and Regions of Vietnam

Executive Summary

Winds of Change. Major trends around the world—decentralization, democracy of local government, and globalization—are resulting in a new focus on cities in relation to national growth. Cities are becoming more important because worldwide trends are giving them potential new powers and influence. Political and fiscal decentralization in more than 70 countries has given municipal authorities greater authority than in the past—if insufficient capacity—to take charge of the local services that affect the daily lives of residents. But to achieve broad-based social welfare gains, development of cities must be also be sustainable in social, economic, financial, and management terms. This report aims introduce these elements into the urban policy picture in Vietnam.

This document is offered to complement the present urban development strategy in Vietnam—**Vietnam’s Urban Development Strategy, Period 1996-2000** (referred to hereafter as UDS 1996-2000; GOV, 1996)—and prepare for subsequent work on cities in national growth. This report calls attention to four aspects of urban development which have proven to be instrumental in sustainable urban growth around the world. The four areas are 1) economic growth of cities; 2) low cost shelter, basic infrastructure services, and environmental quality; 3) good governance and 4) sound financial management in cities. These areas are complementary to the current strategy because they are either not covered fully or not included in the UDS 1996-2000. The four dimensions also form a framework for the analysis in this report.¹

Justification for and Approach to Urban Assistance

The justification for focusing on cities in national development is based on four important factors—demographic shifts leading to a more urbanized population, efficiency in city service delivery, economic growth of city regions, and linkages of cities to rural areas.

Demographic balance and shifting patterns of migration. Several signs indicate that urban growth will accelerate over the next 20 years. Productivity and income ratios of a factor of seven or more between the richest and poorest regions of the country portend rapid rural to urban

¹ This world wide experience is captured in **A Strategic View of Urban and Local Government Issues**. TWURD, World Bank., 1999.

migration in the next decade. Gauged by recognized international standards, Vietnam's population is probably more urbanized than official statistics suggest. The urban population in Vietnam will more than double the 1990 levels to reach 45 percent by the year 2020, signifying an increase in urban residents of more than 30 million people. Moreover, the demand for infrastructure is likely to increase faster than simple migration. This is because households, not merely the number of individuals in cities, account for infrastructure demand, and the rates of household formation will take place much faster in the next two decades than the rate of migration.

Growth of cities and economic output. The justification for looking at cities as a separable component of assistance in Vietnam is not just that demand for infrastructure and services will have an increasing urban focus, nor because the numbers of rural poor have been dramatically reduced with economic growth over the past decade. Rather, the justification is that cities are engines of growth and important centers of spending and service delivery. Vietnam's two principal delta regions and their cities (Ho Chi Minh City, Haiphong, and Hanoi) hold nearly half the nation's population and produce nearly 70 percent of the country's GDP. Experience in nations around the world shows that steps can be taken to improve the output of cities. For instance, cities can shape a strategic vision based on their comparative advantage, they can improve the business environment, do marketing, and open certain public services to competitive rules, and take actions in numerous other areas.

Efficiency in services. Another side of city efficiency is cutting costs, and evidence from the fieldwork in Vietnam suggests that public sector efficiency can be improved by reducing inappropriate city spending. The experience with decentralized delivery of services, such as water supply in Haiphong, has proven to be highly effective. Contracting to the private sector for various degrees of service provision has been found to reduce costs and increase efficiency in many cities around the world. Also, improved resource allocation at the local level can help to improve the efficiency of public sector spending. Another area of savings is in administration and management. City departments may have too many personnel and not enough focus on core functions, thereby blunting effectiveness of city efforts in service delivery.

Rural urban linkage. Yet another, relatively new, justification for focusing on city problems is that growing cities help the rural poor residing in the immediate economic region. Cities provide markets for rural goods. City residents supply remittances to their families in nearby rural areas, and cities function as trading centers in production, manufactured goods, and people themselves, in the sense that human capital is shaped and can be made more productive in the rural-urban interaction.

Tale of Two Cities and Their Regions—Development Issues

This report takes a somewhat different approach to urban development in Vietnam compared with past studies and current policy. In the present analysis, cities are seen as integral part of the growth machinery in the country. The central framework for this approach is organized around sustainable urban development, a concept embodied in four dimensions of cities. In this view, cities must be i) competitive, that is able to support and extend the key factors which enable the city to earn its living, to strengthen its economic basis for development,

and to grow; ii) livable in terms of the quality and amenity in the immediate environment, iii) well governed and managed; and iv) bankable, in the sense that the city is financially viable.

The sustainable cities framework helps to organize data from Ho Chi Minh City and Haiphong, where case studies produced the main body of empirical data for this analysis. The findings are grouped in the four areas of sustainable urban development mentioned earlier.

1. Economic Development—Competitiveness of Haiphong and Ho Chi Minh.

Economic bases in the two cities, though structurally different and distinct in terms of overall size, share many features in common. First, they are the economic powerhouses of the country. Together with their surrounding deltas, these cities produce around 70 percent of the nation's GDP. Both city regions depend importantly on export of manufactures. In addition, over the past decade, heavy “smokestack” industries have grown less important, state enterprises have declined and private firms, have grown. Light industrial manufacture has become prominent in both cities, and this sector is fueled in part by a strong in-flow of migrants, particularly young women. Both city economies build on a broad regional resource base that extends out into surrounding provinces. Economic linkages reach into rural, rice-growing and primary resource hinterlands which depend, in turn, on the markets, services, and capital of the cities. Above all, both regions are growing nearly twice as rapidly than the nation as a whole.

This fast growth is all the more remarkable given that cities still operate under sluggish management at the local level and are dependent on key decisions by central government authorities far away in the capital. These circumstances suggest that cities have many opportunities to speed growth by devising and implementing policies that promote regional comparative advantage and reduce obstacles to business and trade. The destinies of both rural and urban areas, and the prospects for off-farm employment, are inextricably linked to the fate of these city economies. **Many steps can be taken to help cities advance economic development. For instance, cities can formulate a strategic vision based on hard headed analysis of the city economy and inputs from a broad spectrum of stakeholders in order to agree on the city's present and prospective economic structure. With this information, cities can concentrate on areas of comparative advantage. Also, proper policy, for instance, improving farm-to-market road access, increasing management of multi-modal transit, and supplying credit to small businesses in perishable marketing, can strengthen the linkages to rural areas and benefit both city and region.**

2. Livable Cities—Land, Shelter, Basic Infrastructure and the Urban Environment.

The analysis of land, shelter and basic infrastructure finds striking commonalities in the two cities. The central core in both cities (and more strikingly in Haiphong) can be said to be underdeveloped, by contemporary Asian standards, meaning that business and commercial activities that normally provide services to the city and its region have not developed fully. Instead, the city centers have mix of uses, such as industrial, port, residential, and commercial uses around their cores. This signals that markets have not operated to allocate land to higher value uses, such as commerce and services, as would be seen in comparable Asian cities. In effect, the land allocation system is influenced by central planning controls, and this introduces rigidities into the system.

A key problem presented by these circumstances is that overcrowded residential areas are kept locked into inappropriate locations, adding to overcrowding and congestion. The report distinguishes between ‘housing’ and ‘shelter’ in order to address the needs of low income populations which cannot afford the more complete amenity and services of conventional ‘housing.’ Shelter is a high priority for local governments and, with growing urbanization of the population and rapid household formation, certain to be a central feature of the urban agenda in Vietnam in the coming decades. But relieving demand pressures on shelter cannot be accomplished without further progress in implementing property rights reforms of the 1993 Land Law and 1998 revisions to facilitate trading and expansion of the housing sector at the medium as well as low income levels. This sector has been given relatively little attention by assistance agencies in Vietnam, but assistance agencies have a large body of experience from around the world which could be of help to the Government. Shelter is given a central place in the present strategic view.

Basic infrastructure in the cities is below standards of comparable cities, and both Haiphong and Ho Chi Minh City could afford to increase investment in basic infrastructure. Investment in basic infrastructure in Haiphong is around US\$2 per capita, which puts Haiphong ahead of Cebu and Colombo, but well below the port city of Callao in Peru. A leading city like Curitiba invests around 25 times more than Haiphong on a per capita basis. Part of the explanation for these investment differentials lies with adverse incentives generated by the system of intergovernmental finance in Vietnam. Another factor is that resource allocation and planning at the city level give too little weight to demand for small scale improvements.

Financial and technical assistance for shelter and supporting community infrastructure (in the form of urban upgrading) is recommended as one useful vehicle upon which policy reforms can be carried forward in areas of property rights (titles, transfers, cadasters, land use controls). By focusing attention on neighborhood scale infrastructure, this “small bricks” approach can also address issues of management and governance (below).

Improving shelter and infrastructure in cities will contribute greatly to improvement of environmental quality at the residential level. The impact on the poor— of bad water, polluted air, poor drainage, and the like— are a high priority concern and are integrated at the city level into this analysis. An even more daunting task is to address in a comprehensive way the pressures on environmental resources that will arise with continued urbanization along coastal zones, rising pressures in tourism areas, and intrusion into delicate or sensitive environments (including cultural assets of the country). **This report recommends integrating fully these and other environmental factors into the strategic planning process for cities and regions in order to safeguard sensitive coastal zones, national heritage sites, and culturally and environmentally sensitive areas.**

3. Management and Governance. Both the spirit and the letter of the Doi Moi reforms are reaching government at the local level, but much greater reform is needed to achieve the benefits of public sector modernization. In the first place, the purpose and structure of local government must become demand-based, that is, oriented toward the needs of voter taxpayers, rather than supply-based, as it is today, which means that priorities and preferences from below

have little or no bearing on resource allocation decisions at any level. Skill levels and institutional strengthening are vital factors for improvement of city performance. Second, to be more efficient and to break free from the constraints of central planning mentality, local governments must have greater measures of autonomy in gathering resources and in spending responsibilities and approvals. At the same time, cities must be held accountable by public, financial, political, and administrative means. **The present strategic view proposes mechanisms (participatory and demand-driven shelter and neighborhood improvement programs referred to as “small bricks”) on which to lay the groundwork for this change.**

4. Inter-Governmental and Local Finance. Though the Budget Reform of 1996 and other administrative actions have improved incentives and resource mobilization, local governments still have strong incentives to both conceal income and limit tax collection efforts. The many sources of uncertainty in the financial system—for instance about whether further tax efforts on their part will ultimately be to their benefit—effectively impede local tax efforts. As a result, efforts by cities to collect taxes depend on negotiation between central and local government over the amounts of local revenues to be remitted to the center. **Reforms should aim to achieve greater equity and formula-driven transparency in the intergovernmental revenue sharing, possibly grants to achieve national priority objectives in poverty, and simplification of the many small fees imposed at the local level. Local governments also need more control over taxes and fees and should establish more direct ties between revenues and the uses to which they are put, for instance by using betterment levies for specific neighborhood works, in order to strengthen the link between the administration of services and cost recovery. Also, capital markets of various forms may, with proper caution, present an option in the long term.**

Policy Actions to Achieve Sustainable Cities

Breaking the impasse of governance: Increasing incentives and scope of action at the local level. A cloak of control—over intergovernmental finance, investment approvals, and planning—is placed around cities by central government strictures which effectively create disincentives for cities to innovate in planning, financing, and implementing growth strategies. **These controls and other restrictions create an impasse. Cities do not have the latitude to prove their ability to perform well. National officials are not inclined to loosen strictures until they see evidence of responsibility by autonomous cities.** Stronger incentives are needed to break the impasse now holding cities and the nation back from faster growth. Making the incentive system more effective requires making the system more transparent and the rewards stronger.

Policy actions in four key areas for sustainable cities. The perspectives gained from this “tale of two cities” has identified key areas of policy action needed to achieve sustainable cities at both national and the local levels. In most respects—in relation to regional approach, land and property rights, infrastructure, environment, and institutional capacity—the issues analyzed in this report mirror the general thrust of the government’s strategy of 1996. But in important respects, this report goes further, aiming to achieve cities which can make a greater

contribution to national development than is being made at the moment. The policy areas cover the following:

- **Economic development.** More emphasis needs to be given to economic development of cities and regions. Cities can be transforming master plans into broad based strategic plans, based on comparative advantage, so that cities can build on their own strengths and play a stronger role in advancing national economic development.
- **Livable cities.** The policy objective for livable cities in Vietnam involves many steps in shelter, property rights, an approach to poverty which involves both rural and urban settings, and incorporation of environment into planning and investment. Specific actions include:
 - Improve property transaction systems (of recording, trading, taxing, etc.) to help establish robust real estate markets and develop a shelter strategy which embraces the poor;
 - Develop an approach to alleviate poverty in both rural and urban areas by focusing on job creation and income generation;
 - Integrate environmental quality in strategic plans for cities and regions.
- **Governance and management.** Autonomy of decision making must be strengthened so cities can take decisions concerning investments and development projects, but cities must also be more demand-based in their approach to citizens, and in this respect, also be more accountable to voter taxpayer preferences.
 - Strengthening the decision making powers of local governments;
 - Strengthen professional qualifications of rank and file city workers and modernize management and budgeting systems;
 - Encourage local governments to be more demand-based and subject to wider participation and accountability;
- **Finance.** Intergovernmental and local finance must be put on a more fair, efficient, and sustainable basis and cities should rationalize their tax bases and rely more on own-source revenues.

Geographic focus of the urban development program. Three areas are strategic to the country and merit special attention in policy actions because they are capable of achieving the growth and welfare objectives of national policy in the short run. These areas 1) are the deltas of Ho Chi Minh City and Haiphong; 2) the central development triangle around Danang and selected intermediate cities and towns; and 3) the Border with China. Another area for priority consideration (but as yet unexplored in the degree of detail given to Haiphong and HCMC in this report) is the cohort of intermediate cities and towns which can meet eligibility criteria to participate in the program. For the secondary cities and towns in the poorest areas, a separate policy stance and modes of assistance (national transfers and safety net programs) may be necessary, but this subject needs much deeper exploration and analysis in order to identify the way forward.

Eligibility criteria. Several key factors are recommended in this report, including the following: Evidence of a city's ability to carry out reforms; to have shown leadership in strategic planning and in carrying out experiments in public participation in local affairs, particularly

investment decisions; to have taken actions to integrate environmental actions in strategic planning; and have shown leadership in finding ways to provide aid for the poorest. But it is thought that in the first one or two fiscal years in which an urban policy is in effect, the largest development triangles would be the focus of assistance. In subsequent years, depending on the progress attained and agreements with the donors, other cities, including secondary cities and towns could then play a more active role as beneficiaries of credit.

Volume of capital requirements for urban development. A very rough estimate of total capital needs for the urban sector approach US\$20 billion by the year 2020. Ho Chi Minh City and Haiphong alone would require around US\$3 billion over the next decade, exclusive of transportation. Investment needs for urban transport in Ho Chi Minh City and Hanoi are in the neighborhood of US\$7 billion. About half of the US\$3 billion for land and shelter would be provided by owner occupants and builders, leaving a financing gap in land, shelter, and basic infrastructure (but exclusive of transportation) in the range of US\$1.5 billion. Existing donor commitments are in the neighborhood of US\$500-600.

Assistance for Sustainable Urban and Regional Growth

The role of donors: coordinating perspectives. Development assistance agencies need to coordinate assistance to support comprehensive urban development in Vietnam. This requires reaching broad agreement on a comprehensive perspective regarding urban development, one that entails seeing cities as integral to economic growth, which addresses the shelter and infrastructure needs of the urban poor along with the need for improvements city management and finance. Above all, assistance agencies should aim to support participating local governments to integrate various, but heretofore often separate, sectoral concerns of urban development within a comprehensive framework. A conference with donors in early 2000 should seek to reach such an agreement.

Dimensioning assistance for reform and investment. The comprehensive approach would be implemented in a systematic process which would begin with a policy statement by the Government which would set the scope and targets for reform and investment. A few local governments expected to participate in the program would identify assistance needs ranked in order of priority. Cities would be selected to participate based on eligibility criteria (spelled out above). External assistance would likely be no more than US\$150-US\$200 million per year for urban development. Central government would aggregate participating city needs into a program of assistance. The policy statement would establish the basis to gauge progress year by year and to set reform targets for the following year. Assistance from donor agencies would be contingent upon achieving progress in reforms.

The benefits of this approach are that the high growth potential of cities can be fostered, possibly even improved, and the benefits of growth extended to a wider region to impact the rural poor living in surrounding regions. At the same time, a productive approach to land and shelter will help to activate heretofore dormant aspects of the economy in housing construction and mobilized savings. None of these actions is taken under the current strategy. In addition, the comprehensive development program recommended in this report aims to break the impasse in decentralized governance by fostering urban reform. This is designed to increase public sector

efficiency and reduce the negative effects that inefficient resource allocation and inefficient management in local government have on the national economy.

Comparative advantage of assistance agencies and modes of assistance. This strategic approach aims to improve the coordination of assistance from development assistance agencies to the Government of Vietnam. It is envisaged that the comparative advantage of each assistance agency would be worked out in relation to this strategy. The comparative advantage of the World Bank, for instance, would lie in shelter and community infrastructure and specific nonlending assistance in keeping with the Bank mission in poverty reduction. The Bank is also well placed to work in conjunction with others, to assist Government develop urban water supply and urban transportation policies that raise finance and increase efficiency through private sector participation. Both lending and nonlending assistance is needed to achieve sustainable cities.

This report recommends *lending assistance* which focuses on small scale neighborhood improvement projects—referred to in this report as a “small bricks” approach—which can address both the needs of low income neighborhoods and enrich the opportunities for local government to engage in participatory planning processes which will strengthen a key area of local government—resource allocation and transparency—which is most in need of strengthening. Technical assistance should be made available to cities to develop the institutional capacity to plan and implement a “small bricks” approach.

In the area of *nonlending assistance*, this report singles out six topics which deserve further attention. These include i) strategic plans for city development; ii) participatory approaches in governance; iii) speeding up development of property and real estate transactions; iv) broadening the strategy for poverty reduction by addressing urban and rural interactions; v) incorporating environmental dimensions into local and regional plans; vi) increasing financial and fiscal incentives to improve local government performance in finance.

Next Steps. This report is offered for circulation to central and local governments and all key development agencies operating in the urban sector to stimulate discussion and debate with a view to reaching consensus on the policies, clarifying respective roles of donors, and gauging the need for investment that should be adopted over the next 10 years. It is proposed that the report should be circulated in early October 1999 and discussed with Government in late October 1999.

A Tale of Two Cities in Vietnam Towards a Strategy for Growth, Poverty and Environment in the Cities and Regions of Vietnam

I Overview and Principal Message: Urban Development and National Growth

Looking to the Future of Urbanism

Vietnam is in a political, economic and demographic transition, and cities can play a stronger role than they are at present to help the country advance its national agenda. The recent downturn in the economy, and the threat this may pose for reversing the progress in the fight against poverty, stand as important markers in the development strategy for the country (World Bank, 1998). The present report regards cities and their regions as developmental units which have been insufficiently recognized so far as assets in the national effort, even though as administrative and political units they are directly affected by the Doi Moi reforms, by the budget law, and by administrative and fiscal policies of all kinds. Moreover, cities have shown an ability to do more to create value added than merely carry out national policy prescriptions. Cities as engines in urban development, like other factors in the economy, can be brought more squarely into the yoke of national development.

Cities and Regions in a Global World

At the threshold of the 21st century, cities and towns are forming the front line in the development campaign in many countries. Within a generation, the majority of the developing world's population will live in urban areas, and urban populations in developing countries will increase by 2.5 billion—the current urban population of the entire world. The scale of this urbanization, with its implications for meeting the needs of individuals at relatively low levels of national income, is unprecedented. The urban transition offers significant opportunities for countries to improve the quality of life for all their citizens. Whether this potential is realized, however, depends critically on the quality of urban management and on the framework of both national and local policies affecting it.

The breadth of experience elsewhere in the world may help guide policies in Vietnam. World wide experience shows that if cities and towns are to promote the welfare of their residents and of the nation's citizens in a sustainable way, they must address four dimensions of

policy. First and foremost, cities must be “livable”, defined as ensuring a decent quality of life and equitable opportunity for all residents. To achieve that goal they must also be productive in economic terms and “competitive” in relation to other cities. They must also be well-governed and well-managed, and they must be financially sustainable or “bankable.” Each of these four

Box 1-1 Winds of change affecting urban areas and local governments...

Cities and towns are not only growing in size and number, they are also gaining new influence. Political and fiscal decentralization is underway in all regions of the world. Municipal authorities now have greater authority—if insufficient capacity—to take charge of the local services that affect the daily lives of residents, and participatory local democracy is providing a fertile ground for innovations in how the population’s demands are articulated and satisfied. Globalization is leading to major restructuring within countries and to shifts of trade and production away from many traditional urban centers toward cities and towns that can demonstrate market advantage. At the national level, the role of government is being refocused to facilitate markets, promote economic and social stability, and ensure equity. But reforms of public sector management or private sector development will not achieve their desired impact for national development until they are adapted and implemented appropriately at the municipal level. Local government remains the everyday face of the public sector—the level of government where essential public services are delivered to individuals and business, and where policy meets the people.

...underscore the importance of urban development to national goals

Urbanization, when well-managed, is an important facilitator of sustained economic improvement and thereby a potential ally in promoting broad-based social welfare gains. The industrial and commercial activities that are primarily located, as well as serviced, marketed and financed in urban areas, account for over one-half to four-fifths of GDP in most countries. Urbanization contributes to growth through the real sector (by raising the productivity of output and employment), through the financial sector (by mobilizing and intermediating savings and investment, including the accumulation of real wealth in the form of urban real estate), and through fiscal flows (by providing the lion’s share of tax revenues). Policies affecting urban land use and housing investment have major ramifications for households, businesses, and the nation, as the recent crisis in East Asia demonstrates.

The development of urban areas is closely tied to the rural economy through the exchange of labor, goods, services, information and technology, capital, and social transactions that benefit residents in both locations. A well-integrated labor market is an important carrier of growth across regions and a valuable source of alternative employment for rural households even where agriculture is thriving. But rural-urban migration is not the dominant source of urban growth. Increasingly, structural transformation and densification of peripheral settlements, in response to internal and external market opportunities, are bringing “urban” and “rural” closer together in space as well as in economic relations. In China and Vietnam, for example, policymakers are realizing that the interdependencies between urban areas and their hinterlands provide positive synergies that can be further developed to promote national poverty reduction and growth, by making cities and towns efficient *marketplaces* for the country.

dimensions implies preconditions of appropriate national-level policies, including a sound macro-fiscal environment and a strong financial sector, as well as specific local-level policy and institutional requirements.

The multi-dimensional urban policy agenda outlined below provides some broadly common goals for all cities and local governments in Vietnam and around the world.

“Livability”. Improving livability should be aimed at ensuring that the poor achieve a healthful and dignified living standard that permits them to share the resources of society. Providing a decent quality of life for the poor in urban areas requires much more than national policies for education, employment and safety nets; it is also necessary to address city-level factors limiting secure land tenure, and access to adequate housing, credit, transportation, health care, education, and other services. These factors go beyond affordability and often include failure to take appropriate account of gender differences in the planning of services, and the political exclusion and physical isolation of poor communities in parts of the city subject to multiple environmental risks. Improving the living standards of the poor also requires addressing constraints to small-scale and informal sector enterprise; unresponsiveness of local officials and the poor people’s sense of powerlessness; and lack of support systems for working mothers, the elderly, and the youth. Promoting a healthy local economy that can offer broad-based employment opportunity and that permits families to invest in housing and productive assets leads to healthier urban communities and a stronger urban contribution to the national economy. The policy agenda for improving livability may include such far ranging measures as addressing sources of environmental degradation, crime and violence, natural disasters, and promotion of cultural identity and amenities for all urban residents.

“Competitiveness”. Building livable cities requires buoyant, broad-based growth of employment, incomes and investment. Approaches to promote urban equity and social safety nets also have to be consistent with incentive systems that foster productive and competitive firms of all sizes. The urban assistance programs around the world are increasingly promoting these conditions in terms of creating spatially-integrated, efficient markets for housing, land, real estate, and public transport, as these also determine labor costs and availability. Urban operations also focus on problems of dysfunctional regulation or weak public administration which create high transactions costs for firms, especially small and informal sector enterprises which constitute a significant and undervalued source of dynamism and of potential fiscal revenues. Infrastructure reform and investment projects under the specific sector portfolios, and programs that establish generally favorable trade and pro-competitive environments for industry, complement this urban agenda.

“Good governance and management”. Improving the livability and competitiveness of cities poses major requirements for urban governance and management. Good governance implies inclusion and representation of all groups in the urban society, as well as accountability, integrity, and transparency of local government actions, to define and pursue shared goals. Capable urban management requires the capacity to fulfill public responsibilities accordingly, based on knowledge, skills, resources and procedures that draw on partnerships.

“Bankability”. Cities themselves are very poor in many countries—if not in potential resources, at least in their ability to effectively mobilize financial resources and assets when large segments of the urban society operate in a shadow economy. Integrating informal and

Box 1-2: Vision of Cities in the Future.
Growth and poverty alleviation in a market version of urban growth.

Each of the cities investigated in this report has a comparative advantage in relation to neighboring cities in the country and competing cities in the South East Asian region. Advantages are composed of many factors—location, natural resources, composition of the labor force, unique historical assets, among other things. Also, each city responds differently to influences emanating from the national level, like macroeconomic conditions affecting foreign investment and national policy, as well as pressures and opportunities at the local level. Local policy and ability to mobilize resources and manage all the other factors help determine whether a city will survive, thrive, or founder.

The policy areas identified in this chapter apply to all cities, and they are intended to establish a standard of performance. The largest of the cities are already demonstrating one, quite advanced standard, compared with other provincial cities and towns, and among the many middle sized cities, a wide range of capacity can be found. But if policy influences have an effect, they should be aiming to achieve a higher standard of performance applicable to all the larger cities, whether of provincial status or those in the first and second class. That standard of performance is reflected in this vision for the future:

- Cities will have chalked out the broad directions for their own growth, demarcating the comparative economic, social, and cultural advantages which make them distinct in comparison to other cities in Vietnam and in the Asian region. This vision will be captured in focused experiences and discussion leading to a document which sets forth the city’s direction. Environmental quality goals should be one of these objectives, and the cities will have been specific about what is important and how priority goals can be achieved.
- With a roadmap forward, cities will be in a position to identify the main economic factors which will propel its growth, will take steps to market its advantages to attract investment, will have reached agreements with private sector leaders to invest in the city, and will have mobilized groups in civil society to play their part in meeting their own needs.
- Finance is one of the most important factors in meeting needs on a sustainable basis, and cities will have reached a new equilibrium in sharing the financial burden born by the nation, the province, and the citizens themselves. Own-source revenues will have to play a more important part in the city’s overall financial formula.

This vision of cities would move the performance standard to a higher level at which both nation and city are engaged in a more cooperative relationship than at present. In this cooperative vision, cities can pull in different directions according to their distinct advantages, while offering less fiscal drag in terms of poor investment choices and financial dependency.

marginal communities as full urban citizens, tax-payers and public service customers is therefore an important goal. An equitable and sustainable local finance system, like macro-fiscal balance, is also essential to overall income and employment growth and is a key element of overall municipal management. “Bankability” here implies financial soundness in the treatment of revenue sources and expenditures—and for some cities, this effort should be translated into creditworthiness ratings, eventually permitting access to the capital market.

The Case of Vietnam

Empirical data from Vietnamese cities support the proposition that economic potential of cities and regions connects importantly to regional hinterlands and these in turn to national economic prospects. Indeed, the scope of this report covers local and national opportunities that have been only partially covered or completely unexamined in recent documents and current policy. For example, this report addresses the benefits of reducing fiscal costs (i.e., the added costs of inefficient local government) or improving economic productivity and tying urban regions to development prospects of the rural poor. Treated properly, policy in these areas can have a positive impact on national development. These areas broaden the scope of policy concern and open new areas for donor assistance.

The present analysis builds on the substantial body of previous work on the urban sector completed in the past five years, including the Urban Strategy of Vietnam (1996b), based in part on the report by PADCO, Inc (1995); and World Bank, (1996) along with many other reports, for example, Rao, 1998; AHURI, 1997; UNDP, 1998a and 1998b.

In addition to updates and new issues, the present analysis is different also in the methods and scope of work. The present report builds on new data and knowledge formed during intensive analysis of Haiphong and HCMC in 1998 and 1999. In this sense, therefore, the analysis is both limited, and inductive. It is limited because, even though they are two of the most important cities in the country, Ho Chi Minh City and Haiphong may not be representative of smaller cities and towns. It is thought that the view of two cities will generate a fresh perspective on issues which can be explored in greater detail in future phases of work. The aim of this work is to see the policy issues from the “ground.” This approach has helped to identify several important and relatively new issues that arise from priority concerns of local leaders, shelter and local economic development, for instance. The ground level perspective helps to see present national policy in new light and provides fresh perspective on the merits of previous approaches, for instance, the success in decentralized delivery of infrastructure services in the World Bank’s lending program.

One further word on limitations of the present analysis. The data do not permit articulation of a full fledged urban strategy. Rather, this report is intended to contribute a new perspective on the current stream of thinking and propose a process for moving forward in a comprehensive manner.² Accordingly, many important considerations, such as institutional capacity, agency coordination, and detailed implementation arrangements are not treated in detail. The major precepts of this analysis—for instance, regional perspective together with its

² Hence, the subtitle “... Towards a Strategy for Growth...”

focus on shelter and the urban poor—require broad consultation with Government and donors before moving into mechanics of implementation.

A second feature of this report worthy of note is that poverty and spatial relations are treated as systemic issues. They are woven throughout each and every section of the report, and made the subject of focused analysis in specific sections and boxes.

II Justification for Urban Focus: Demographic Change, Reduce Fiscal Burden, Improve Efficiency, Help (Urban and Rural) Poor.

The central proposition of this report is that urban development should and can be exploited to accelerate national economic development rather than simply to meet the needs of the welfare of the existing urban population. The needs of city residents is in itself an important aim, but subordinate to the central purpose of this report. First, cities can begin to play a more important part in the reform process by reducing the financial burden they impose on the country's finances. Of course, the reforms needed in the intergovernmental system of finance need to start at the central level. But cities must be, and have shown that they are, ready to respond with appropriate actions to improve administrative and organizational performance. Cities, like other subnational units in the country, such as provinces and villages, have ample scope to improve the efficiency of resource allocation and even service delivery. Second, within an appropriate policy framework, urban development ought also to have significant positive effects upon rural development and the alleviation of rural poverty.

These purposes thus underlie a threefold set of aims, for cities to:

- help advance national economic development, by employing cities as more efficient engines of economic growth with less negative effect on the national system;
- urban development as a program of improvement for individual cities and towns to allow them to adjust to economic change while improving their own economic performance and improving living conditions in shelter, transportation, services and the environment;
- generate activity in adjacent regions and thus affect levels of rural poverty;

Cities and nations. National and local officials in the country are moving the “Doi Moi” reform process to liberalize the economy and make it more subject to market forces. But even before the regional economic crisis of 1997, these reforms were out of sync with the processes of urban development in the country, particularly in the largest cities. As liberalization of trade is deepened and state-owned enterprises converted to private, market-oriented principles of operation, private sector investors are breaking free from national constraints, only to be hampered by city bureaucracies still operating under obsolete regulations and often have to pay unauthorized fees and charges in order to do business. Many regulations originate with national policy or administrative requirements. Administrative regulations and political controls make local governments sluggish and penalize them in comparison to their competitors in the region. This report will examine opportunities to bring the full force of urban systems into the developmental agenda of the nation.

The present analysis adds new depth to several areas of policy interest outlined in recent publications by the World Bank, including “**Rising to the Challenge,**” and “**From Vision to Action**” World Bank, 1998c and World Bank, 1998a, respectively). These reports outline the

Bank's country assistance strategy which focuses on seven key areas: macroeconomic management, state-owned enterprises, financial reform, banking system, basic infrastructure, health and education and rural development. **"From Vision to Action"** develops the rural strategy in more detail and emphasizes attention to the poorest rural areas and to off-farm employment, infrastructure, credit, and property rights. This analysis extends these strategic issues in four directions.

1. The Shifting Demographic Balance Brings the Fortunes of the Poor to Cities.

The Vietnamese government has projected a more than doubling of the urban population to 45 percent by the year 2020. These prospects, and the evidence already available which shows a more complicated picture in Vietnam and challenges the proposition that 90 percent of the poor live in rural areas. However, the issue for urban development in the next decades are more momentous and more intricate than a mere increase in the urban population. In the first place, more people already live near and interact directly with urban economies than the demographic statistics suggest, as we shall show in a moment. Second, the country is also undergoing an urban transition, meaning that more of the country's population will be living in city areas, more of them will be interacting with rural populations via circular migration and remittances, and more of the younger populations, especially females, now moving into cities, will be forming households at a higher rate than mere rural to urban migration rates would indicate. Household formation underscores the forceful nature of urbanization, because households, not individuals, form the basis of demand for social and physical infrastructure in cities. Each of these three reasons, expanded and explained below, form the demographic underpinnings of a justification for urban and regional development strategies in the Vietnam.

More urban residents. Already, Vietnam has more of its population living in an urban economic environment, though not necessarily in cities, than its demographic statistics would suggest. Official statistics in Vietnam count residents as rural if more than 40 percent of the population in any given census district is engaged in agriculture. The area is called urban if a settlement is at least 4,000 and at least 60 percent of the population is engaged in nonagricultural activities (PADCO, 1995: 56). This definition is decidedly conservative, giving extra weight to rural areas. Most countries follow a UN (or other standard statistical) convention to define residents as urban or (rural) if more (or less) than a threshold level, frequently 2,000 persons live in a single agglomeration.

Besides the influence on resource allocation that such definitions imply, the Vietnamese definition does not account for the mixed sources of income earned by many Vietnamese. In the World Bank's view, for example, only a third of Vietnam's poor depend exclusively on farming (ranging from 47 percent in the Northern Mountains to 18 percent in the Mekong Delta), so that off-farm employment provides a major opportunity to offset some of these negative effects, and this in turn can relate closely to changes in the wider economy. As infrastructure improves, as it has for instance in Thai Binh province, farmer incomes shift even faster. A recent survey of nearly 45,000 families in villages of Thai Binh (Vietnam Agriculture, 1999) shows that between 52 to 64 percent of income is earned in services and small businesses.

Rapid migration. Even by a Vietnamese definition, official sources concede that the urban population in Vietnam will more than double the 1990 levels to reach 45 percent by the year 2020, signifying an increase in urban residents of more than 30 million people. Accordingly, the Prime Minister issued Instruction 10/1998/qđ tt-g to prepare urban planners and local officials for the consequences of this growth. These numbers may prove to be underestimates, and preparations by the public sector far from adequate for future needs, according to observations made of migrant studies in the largest cities as well as surveys among the poor (Mundle and Arkadie, 1996). Reporting on UNDP sponsored surveys in Hanoi and HCMC, Mundle and Arkadie indicate that in-migrant rates of 3 percent will be registered in these cities. City officials indicate that rates perhaps twice this high may already be flowing into HCMC, producing 300,000 new residents annually. Migrants typically seek work in the informal sector and residence in the surrounding areas. Productivity and income ratios of 7:1 and 5:1, respectively, between the richest and poorest areas, portend rapid rural to urban migration in the next decade.

Household formation. Still another factor in demographic transition—the rate of household formation—presages the need for more focused attention on urban problems and solutions in Vietnamese cities. Migration statistics reported in UNDP (1998a) show that the most dynamic of the Vietnamese population, around 45 percent of the sampled population of migrants in HCMC and Hanoi, are females in the age range of 20-29, with male immigrants in the same age cohort comprising another large grouping. This suggests that even before successive waves of migrants reach the cities, new households will begin forming, creating new demand for shelter and urban infrastructure, as well as for schools, health care facilities, and other services.

An Expanding Agenda of Environmental Issues. The large scale transformation of the population in Vietnam will bring equally large challenges to managing environmental change, challenges not now recognized in policy circles. At the moment, the country's attention on environment is channeled through the National Environmental Action Plan (NEAP). The NEAP concern with urban issues is expressed in terms of pollution and institutional capacity needed to deal with contamination in cities. City level efforts are lodged in local plans made by corresponding city Departments of Science and Technology.

But the transformation of the nation's demographic and productive structure will also bring new levels of concern, for instance issues of resource management in large geographic regions and amenity value of environmental and cultural attributes. These emerging issues will require management attention at the national level. Examples of these new issues include water resource management in river basin to balance the needs in cities for drinking and industrial processing with the needs of the countryside for rice and agricultural production. Population pressures on natural environmental assets, like coastal zone waters and fisheries, as well as unique national and cultural assets like Halong Bay and the historical features of cities like Hue, Hanoi, Ho Chi Minh City and Haiphong, will also become issues in the future. These concerns reflect a new order of environmental problems not now connected to urban development. They have emerged in the course of analysis, and though not fully explored, they are identified as areas of potential policy concern and discussed more fully in the following chapters.

2. Growth of Cities and Economic Output.

The growth of the Vietnamese economy in the 1990s has been among the most remarkable in the world. It has achieved 8-10 percent rates of growth annually in terms of gross domestic product; 12-14 percent in industry; and 4-5 percent in agriculture. Poverty rates have been impacted strongly by this growth. The preliminary results of the 1998 Living Standards Survey suggest that the proportion of the population which is officially classified as poor fell from around 70 percent in the mid-1980s to 50 percent in 1993 and 30-35 percent in 1998. If that process could have been sustained, it would have brought the country within sight of the eradication of the problem of poverty.

But policy attention focused on poverty has tended to neglect the important regional dimension of growth. Vietnamese cities draw on large regions as an economic base of resources and talent with which to fuel production. In 1995, the two largest city-regions, the Mekong Delta and the Red River Delta, together generated some \$2.6 billion of the nation's \$5 billion in income. Their growth rates were also half again higher than the country as a whole.

**Table 2-1. Population and GDP
Three Largest Cities, 1990-1995**

| Year | Population (millions) | Percent Total GDP |
|------|--------------------------|-------------------------|
| 1990 | 7.5 | 19 |
| 1995 | 8.4 | 30 |

Source: Annual Statistics from Cities

**Table 2-2
City GDP Growth Percent per Year
1996-1998**

| City | 1996 | 1997 | 1998 |
|----------|------|------|------|
| Hanoi | 14 | 15 | 12 |
| Haiphong | 13 | 9 | 11 |
| HCMC | 14 | 15 | 12 |
| Nation | | 9 | 8 |

Source: Annual Statistics from Cities

Thus, whereas in 1990, the three major cities (Ho Chi Minh City, Hanoi and Haiphong) with a combined official population of 7.5 million people (or 11.6 percent of the national total) produced 18.7 percent of the gross domestic product, in 1995, the 8.4 million people (or again 11.6 percent) generated nearly 30 percent of the national output.

Concentration is even more exaggerated if we add to these three urban provinces their adjacent agricultural provinces—the Red River and Mekong Deltas respectively. Just half the population lives in these combined regions, but they produce more than 70 percent of national output. Thus, the national economy—and so the means to generate the resources to pull forward the whole economy—is very concentrated in these two large regions at the northern and southern ends of the country. A significant proportion of the rural poor is also concentrated here, particularly in the Red River Delta where, excluding the two major cities, the regional per capita income is some 44 percent of the national average (whereas the Mekong, excluding HCMC, is 87 percent).

The Mekong's relative prosperity is correlated with its relatively high share, 17 percent, of the national urban population (again, excluding HCMC). This compares to two other

provinces with relatively high shares, the Northern Mountains (11.6 percent) and the South Central Coast (14.3 percent). By contrast, the Red River Delta excluding the two major cities has among the smallest shares of urban population, 5.6 percent (comparable with the North Central Coast, also 5.6 percent, and the Central Highlands, 4.9 percent).

The figures conceal more than they reveal in terms of the urban potential to support the growth of off farm employment. They hide the complementarities the poor Red River Delta flanked by two major cities at each end; the richer townships and cities of the border with China in the Northern Mountains alongside some of the poorest upland areas; and the great mixtures of poor upland townships and richer coastal cities in the center of the country. Nonetheless, the agenda of issues for a national urban development strategy designed to accelerate national economic growth are reasonably clear.

3. Cities on Their Own Feet

A central tenet in the present report, advanced on the strength of observation in the field and from previous reports, is that cities acting in their own self interest can advance the interest of the country, as well as the welfare of their residents and of the poor. In other words, cities have an impact on economic performance of their regions which produces a value added not otherwise attributable to national factors and international investment climate. The fact that cities grow at twice the rate of the nation is not enough to sustain the thesis advanced by this report. It is necessary to go further, to understand and be able to affect the mechanisms which generate this differential. Two examples provide the prima facie evidence for this work. According to the IFC, the large discrepancy in occupancy rates of industrial parks between Ho Chi Minh City and Haiphong is an indicator of business climate created by local forces. Another indicator, the differential in local revenues as a fraction of the total revenue, reflects political will and managerial skill at the city level. By affecting local management, directing decentralization, magnifying incentives in own source revenues and assistance to the poor, cities could be generating more value added for the nation if they were freed to pursue regional and local self-interest in the competitive environment of the region.

A second area for local reform with national benefits is in cutting fiscal burden imposed on the nation by poorly managed cities. Because they handle nearly a third of public sector investment, and because resource allocation decisions are made at the local level, and because popular discontent has already surfaced in riots over handling of public investment in at least one province last year, provinces and cities have already demonstrated their importance in the implementation of reform. Furthermore, cities could be generating more value added for the nation if they were freed to pursue regional and local self-interest in the competitive environment of the region.

We believe also that cities presently have a good deal of managerial and fiscal scope to improve the delivery of services and stock of infrastructure under the present system of intergovernmental arrangements governing political, fiscal, and financial affairs. Cities have already shown a healthy response to the 1997 budget reforms by increasing their own source revenues. It has already been established in the Bank's own review of project performance

worldwide, that decentralized delivery of services through city level water and transit authorities is superior to national average. Some cities have dramatically improved water service to neighborhoods because incentive systems were changed making accountability stronger at the local level. We believe, based on evidence accumulated in decentralized systems around the world, that cities can and must play a more important role in deciding on the mix and levels of services and infrastructure because feedback from customers and residents is easier and more direct at the local level, both for estimating demand and holding officials accountable for delivery.

4. Rural Poverty and Urban Development

Urbanization is often mistakenly presented as a “zero sum game,” that is, whatever assistance cities might gain, rural areas will lose. In some case, this negative outcome is identified with urban primacy – the disproportionate concentration of nonagricultural activities and of population in one very large city, as with, say, Seoul in South Korea or Calcutta in Eastern India. Such a spatial pattern is contrasted with dispersed development, as for example, in Taiwan or Kerala in southern India where the distinction between urban and rural is unclear, and in the case of Taiwan, rural industrialization parallels the growth of agricultural output.

The great Delta regions of Vietnam contain the largest concentrations of economic activity in the country (both urban and rural), as well as concentrations of population and of the rural poor. Urban development in this context and, with the right policy framework, can thus have important rural effects.³ Policies on farm credit, property rights, and infrastructure can be addressed from both rural and urban perspectives. This report aims to give more explicit recognition of complementarities between and among sectors in rural and urban areas. What kinds of mechanisms secure the rural-urban interactions which might be exploited to alleviate rural poverty?

1. Markets. First and most obviously, cities provide both the major distribution points for rural produce (foodstuffs, livestock and products, manufactures – handicrafts, pottery, furniture, carpets and mats, garments etc.) and the most important high income markets for such produce and major concentrations of industrial consumers of commercial agricultural products. The existence of city markets and the growth in urban incomes forces increased agricultural specialization and productivity. This can be seen most clearly in many periurban areas where farmers respond to urban demand by producing high value products– horticulture, flowers, fresh vegetables and fruit, dairy products, eggs as well as forms of processed food. Thus, the organisation of the city to facilitate what is the largest sector of non-agricultural activity in developing countries, retail and wholesale trade (with the associated sectors– transport and warehousing, finance and credit, food processing and distribution) is crucial for the household incomes of many rural inhabitants.

³ This same perspective is reflected in “Rising to the Challenge” (World Bank, 1998c) and “Vision to Action” (World Bank, 1998a) in relation to farm income, nonfarm employment, and other policy areas (property rights, credit, infrastructure and social services).

2. Migrants. In Vietnam, as in a number of other low income countries, the growth of labor-intensive manufacturing for export in and around cities has had dramatic effects in terms of migration, particularly in present circumstances, of young literate women for factory employment and of adult men for construction work and in loading and unloading cargo in the city markets and transport junctions. Some of this migration is of daily commuters (thus strengthening the income effects on periurban agriculture, livestock and rural manufacturing), some long distance seasonal or semi-permanent workers (for young women, the period of city work often occupies the years of working life before marriage, building the assets to set up a new household).

3. Resource exchange. Cities and their hinterlands operate as systems of exchange in which resources of many kinds flow back and forth. The implications here include:

- remittance flows (or earnings for commuters) from urban employment can become a significant addition to rural household incomes, both offsetting seasonal fluctuations in earnings from agriculture, reducing or replacing rural indebtedness, and providing opportunities for rural capital investment in housing, education, agricultural equipment or other inputs (wells for groundwater, fertilizer, farm buildings etc);
- migrants to cities often learn new skills (and cultures) which are transferred to the rural economy when they return (as is frequently the case with young women migrants and married men), leading to the creation of new rural business – in dress making, taxis, hairdressing, building work, restaurants, shops etc.;
- Some migrants also provide the means to enhance rural-urban trade networks, identifying and supplying urban markets from their home areas. In some cases, they initiate new rural production for urban markets, new rural services for urban consumers.

4. City services. Cities also provide important services to rural inhabitants, services which cannot easily be duplicated at tolerable costs in rural areas – in banking, finance and technical services to agriculture and rural manufacturing, higher level education and health services, cultural and sporting events, and the like.

5. Deindustrialization. Finally, the economy of major cities today is tending almost everywhere (and almost regardless of different levels of development) to ‘deindustrialize’, or at least, to lose the large-scale assembly industries or labor-intensive manufacturing. This is the more obvious effect of spreading transport networks, cheaper means of transporting freight, and the availability of literate workers in noncity areas. Thus, where such industries continue to grow rapidly, the growth is typically in smaller towns and villages, albeit still linked to the services provided by big cities. This dispersal of manufacturing to green field or small town sites has provided the basis for the emergence of large semi-industrialized regions in middle income countries or regions of countries– as with the Central Valley of Mexico, the Pearl River Delta in south China or the Mumbai-Pune-Nasik region of central India. The spread effects offer a much more promising prospect of rapid and sustained growth in rural incomes in many developing countries.

In sum, the role of cities in Vietnam's future is growing. This report finds ample scope—in demographic, fiscal, infrastructure, and managerial terms—to justify a focus on cities as a part of national development. Accordingly, this report proposes new elements in a policy framework which accommodates development in specific places, for the most part regions, in which both urban and rural development rise and fall together. Policies at the national, provincial and local levels should seek to link urban development to wider national purposes. And although in specific areas, such as the Red River Delta and the Mekong Delta, an approach which addresses regional needs, combining both rural and urban development, can be framed as a single development scheme.

This in no way is meant to substitute for rural development schemes. Indeed rural development programs, particularly in physical and social infrastructure, are the preconditions for exploiting the opportunities provided by urban development. Nor would this process of combined development affect the more remote and often the poorest rural areas, such as the third of Vietnam's population that lives in the poorly serviced upland areas that cover three quarters of the country. Even if it can have a powerful affect on the largest concentrations of rural poor, a combined approach, one addressing both urban and rural development, cannot reach the isolated poor. Special development schemes would continue to be required in the more remote areas.

III Two Cities and Their Regions

Development Issues in Haiphong and Ho Chi Minh City

This chapter addresses key structural factors in cities in order to throw light on questions of developing sustainable cities. Four factors are singled out for priority attention, and poverty is integrated into each of them: i) a city and regional economy, its dynamic interaction with domestic and international flows, and above all the awareness and purposeful management of urban economic growth; ii) land, shelter, infrastructure and services which affect the livability as well as the productivity and environmental quality at both the local and the regional levels; iii) governance and administration and iv) financial management. Each of these factors is explored in the cases of Ho Chi Minh City and Haiphong and to the extent possible, generalized to develop issues for the nation as a whole.

1. Economic Development—Competitiveness of Haiphong and Ho Chi Minh City

The following section sketches out some of the economic dimensions of urban growth in two of the country's most important cities. These sketches, though incomplete in data and sometimes anecdotal, give strong testimony to the importance of understanding the economic imperatives in cities, just as national economic data helps policy makers and assistance agencies understand and guide national development. Especially noteworthy in these sketches are similarities between the two cities. Both cities show:

- Rapid change in structure of the economies, largely in response to external markets;
- A gradual move outside the confines of the city, pursuing cheaper labor and factor input costs, in some cases, even to rural villages;
- Decline in the state sector, particularly in the manufacture of garments and shoes, which in private hands, is flourishing;
- Migrants, and particularly women, playing a very important role in this export-led manufacturing.

In addition, leadership groups in both cities are pursuing explicit or implicit strategies which are not entirely in keeping with the patterns of growth revealed in these sketches. The analysis in this report leads to a wider set of options for both cities. The analysis also leads to new insights regarding the kind and depth of assistance needed for the poor, both rural and urban, as well as to an understanding about the kind of infrastructure that can help cities to grow. In short, the data in this chapter suggests new policy areas—for instance in the ability of cities to generate wealth, and their capacity to manage and guide the distribution of wealth—which can be very important in national development and an area for technical and financial assistance from the aid community.

Tale Number One: Haiphong-- From steel to garments, shoes and tourists.

Haiphong has a range of development options, but the ones now showing the most success—light, labor-intensive manufacturing for export—have not received the attention nor support of

the public sector, which is focused on heavier infrastructure to support steel, ship building, and industrial parks (See Campbell, et al 1998 and Harris, 1998). The most recent growth areas in light manufacturing are in the larger historical perspective, a continuation of successive waves of radical structural change in the city over the past 40 years. A brief overview covers the following shifts:

- the trading-administrative center of the early 1950s (with government employment covering nearly half the recorded labor force);
- to the heavy industry and war economy city of the 1960s and 1970s (with industrial employment rising from under 5 percent in 1955 to 36 percent by 1975);
- to the trading-light and export-oriented manufacturing city now emerging in the 1990s. In the 1990s, shoe production expanded from half a million to 6.7 million pairs. This last shift is also in part one between older male, heavy industry workers to young, younger female migrant workers in light industry. The shoe industry expanded from 1 percent of the city industrial labor force in 1975 to nearly 20 percent in 1995.

The city has managed these processes of radical restructuring with relatively little damage on the way, suggesting that despite the relative rigidity of the State structures, the work force has considerable adaptability.

Diagnosis of coming change. Further structural change will be precipitated by the continued “Do Moi” reform program. From experience of cities elsewhere, we can already envisage what this might be:

- On the assumption that reforms will ultimately lead to some form of land market (or at least, a market in land use rights), the current trends in private manufacturing to locate on and beyond the periphery of the city (both the urbanized area and the administrative district), will be copied by the (present or future) State Owned Enterprises (SOEs), particularly if equitization and socialization lead to great commercial orientation. SOEs many of them making heavy losses, will then find it profitable to sell their inner city locations and move to the periphery of the city or to the towns and villages initially along the route to Hanoi (Hai Duong is favorably located to benefit from this).
- the continued containerization of the port facilities will increase the demand for a larger land area for stacking cargo, leading to relocation of facilities at the existing wharves to the south of the city outside the main urban area. This would be facilitated by the development of transport connections to avoid the central city area by linking to improvements currently being made on Highway 5. An evolution along these lines would avoid the central city core, thus opening the present city waterfront to redevelopment for non-port activities. The development of inland container terminals, and possibly even a “dry dock” in Hanoi, would remove another reason for maintaining the older port and loading installations presently operating along the river in the city center. Dry dock facilities will also remove the incentive for port-related manufacturing to locate factories in and around Haiphong and thus further encourage the dispersal of manufacturing to the rural delta region and along the highways. If

rail links and trade with China expand (as discussed below), the segregation of port and container facilities will become all the more important in order to improve the flow of transshipment through Haiphong. In short, the present port functions will shift in location and character, gradually “migrating” away from the city center and shifting to containerization.

- these changes will considerably increase both the demand for, and the geographical extent of, the city’s servicing functions—to service both dispersed manufacturing (finance, trade and distribution, business and producer services, logistics and management), the rural population of the delta (education, health, culture etc.) and a much enhanced flow of tourists. We note however that Haiphong as a region is not completely integrated. The city is not well linked either northward to the corridor to China, nor southward to the zone of production of textiles used in garment manufacture.

The Red River Delta . The continued rapid growth in Vietnam’s labor intensive manufactured exports will in time encourage dispersal of factories away from the two main centers, Hanoi and Haiphong. Initially this will increase industrialization along the corridor between the two cities-- with strong effects in the city of Hai Duong. However, the completion of Highway 10, and particularly the bridging of the last two water courses and the Red River, will open up much of the delta to manufacturing, and make possible the resuscitation and expansion of the large textile and garment sector of Nam Ding on the southern bank of the Red River through the reduced transport costs to Haiphong ports. Additional policies to increase the trade and other flows of the Delta region can go some way to make effective the government’s aim to “eradicate rural poverty”.

Options for a broader based strategy. In the medium term, the city needs to address the key issues involved in enhancing its service functions—from the very large trade sector, to finance (which will inevitably grow disproportionately with the growth of the commercial credit system, the stock exchange and equalization etc.), hotels and restaurants, trade and business services, transport and storage, education and health, culture and sport. Tourism—defined as all that expands the market for the city’s output by consumers coming there—cover a wide range of activities other than what is currently called tourism (visitors to the southern beaches) to traders coming to the city to trade (and staying in city hotels), education (students coming to the city’s universities), health (out of town patients using medical facilities), culture and sport. The current problem of tourism in the narrow sense is that the large number of visitors stays so short a time and spends on average very small sums. This places a growing emphasis on the economic importance of the quality of life in the city, from the provision of efficient public services to the enhancement of the physical fabric and of archeological and religious sites of the city. A strategy to induce tourists to stay longer is a key component of any tourist strategy and involves making the city an exciting cultural and educational place to visit.

Box 3-1. High Growth Scenario for Haiphong

Special Economic Zone. Following the approval of a Special Economic Zone for Greater Haiphong Region, a number of new industrial parks could appear rapidly. Foreign and national investment would be attracted to short cuts in administrative innovations, such as a highly professional managerial staff, one-stop approval process for licenses and permits, customs clearances on site, as in some of the industrial parks of the south. A good share of new industrial and manufacturing installations would engage in the assembly of a wider variety of footwear and garments, gradually moving up the value chain in terms of textile product design for specialized markets. Current pattern of out-sourced production in cottage industries would continue to take advantage of low wage labor around the Red River Delta, and new, higher value added would be introduced in widening the variety of textile and product design, quality control, and higher quality finish in industrial parks closer to the city. Light manufacturing growth in the Delta would accelerate to around 20 percent per year in terms of product value. Hundreds of small businesses would be formed to both support, and adding value to, the downstream phases of footwear and garment production. Quality control, marketing, insurance, packers, forwarding agents, and other sub-segments of the industry would begin to build a larger services industry and create much stronger and more differentiated demand for infrastructure and services. These functions would add another 10,000 to 15,000 employees in the region, about 15 percent of them in managerial ranks. These changes would signify a sharp increase in demand for specialized goods and services not currently well supplied in the region.

New pressures would be placed on facilities for primary, and especially secondary education, health care at the tertiary level, individual modes of transportation and wider array of recreational facilities, such as cinema, museums, festivals, folk art and performing arts theaters, and the like. Shortages in secondary roads, sewerage and drainage, and environmental amenity would begin to pose a threat to sustained growth. Materials and especially housing shortages would grow more severe than at present. Total income in the city would continue to rise, but unemployment and substandard shelter would increase in visibility as rural residents move to the outskirts of the city looking for higher income jobs.

The most important limitation on growth would be investment capital to cover public infrastructure. Current investment levels would need to increase by a factor of 10 at least to support this growth scenario, and investment levels in local infrastructure—roads, bridges, drainage canals, parks and schools—would need to begin several years in advance of the fastest periods of growth. **The major strategic questions for management of the city lie with the means of sustaining a system to mobilize and allocate capital—public and private from both local and national sources—for both investment and maintenance of public infrastructure where and when it is needed.**

The approval of the Special Economic Zone in Haiphong should be seen in this context. Haiphong is the servicing center to a large dispersed manufacturing region extending through the delta to rural areas and to Hanoi (thus giving some content to the idea of a development triangle),

the closest comparison being with the original Special Economic Zones of the Pearl River delta in China's Guangdong province (Harris and Fabrieius, 1996). However, many parts of the Haiphong region are not integrated, for instance in economic linkages towards Quang Ninh, which sits as a kind of subordinated pole of activity largely independent from the economy of Haiphong.

Cities and the New Poor. The survey on the poor in Haiphong (see Box 3-2, below and Annex 1) throws new light on problems of poverty in cities. The survey revealed many causes of poverty and many survival strategies. (See Cases in Annex 1.) The many causes of poverty place a burden on city resources, as city officials are often the first line of public sector to have to respond to these new welfare needs.

Corridors to China. On a broader geographical scale, Haiphong's economic future, and certainly its port functions, would be affected by improvements in road and rail linkages to China. Road improvements currently being made on Highway 1 towards Lang Son (connecting to Chinese trading centers in Guangxi Province) could benefit city and port trade in Haiphong. To a lesser extent, Haiphong would also benefit from improvements in traffic and trade through Lao Cai (and on to Nanming in Yunnan Province). This border area appears to be growing very fast in economic terms. One estimate has it that border trade is expanding by 40 percent annually, much of it outside the control of the authorities.

Sooner or later, this clandestine economy will have to be brought within official supervision, at which stage it can be exploited as a mechanism for the economic development of border provinces. This would carry the development impulse through some of the poorest provinces in Vietnam, and link the development of northern Vietnam to the growing markets of south-western China. Better linkages could produce not only a major increase in China's trade through Haiphong port, but also the development of Vietnamese-Chinese joint ventures in export manufacturing as well as cargo handling and processing facilities in the Northern Highlands and along the route to the coast. Again, beyond the purely port handling of freight, the demand for Haiphong's service functions would grow disproportionately with any such opening up.

The economic development of Haiphong must be seen as an opportunity for the economic development of the northern region. At the moment, no institutions exist to manage this interprovincial strategy, so questions of the mechanisms of implementation loom large in any future plan of action. For instance, the planned new port of Cai Lan will have an impact on industry and transport in Haiphong. These prospects, and their impact on Haiphong, also has important implications for the donor strategy in Vietnam. Either or both of these factors in Haiphong's growth shows the mechanisms by which rural industrialization in the Red River

Box 3-2 Who Are the Poor in Haiphong ?

The Survey. An in-depth survey 1000 households was conducted in 10 of the poorest wards in the city of Haiphong to gain a greater understanding of the economic, social, and environmental conditions of the poor in that city and to gain insight into the strategies they employ to cope with the difficulties and constraints of their lives (Luan, et al 1999). Some of the findings:

Living on \$11 per capita month. The poorest households in Haiphong (the bottom 20 percent of the income range) earn less than \$50 per month and two thirds of all the poor survey earned less than \$85. In contrast to the inner city poor in Hanoi, a very large majority of whom were born in the capital, nearly a fifth of the poorest groups of Haiphong are migrants of the first generation.

New Poor. Half of the poor work in, or have been laid off by, State Owned Enterprises. This fact deepens our understanding of the difficulties faced in modernizing the state sector in Vietnam. City authorities see first hand the immediate consequences of poverty that result from modernization and other factors. Of the remaining half of the poor households, nearly three quarters are self employed in home-based enterprises of various kinds, for instance, sales of small merchandise, domestic work, tailoring, and the like.

Coping with Turbulence. Dependency ratios are high and nuclear family circumstances appear not to be covered by the social security network. More than 44 percent of the households are female-headed, nearly a third of all poor households consist of broken homes, and less than one fifth of the total have access (nor even qualify for) the social security network.

Spending and Household Budget. The monthly per-capita spending of low-income persons is very close to, or even above, income levels, averaging US\$11. Food and foodstuffs account for 73 percent of the monthly expenditure and children's schooling makes up more than 15 percent. This means that the vast majority, more than 90 percent of low-income families, cannot maintain a balance in income and expenditure and are in danger of falling even deeper into poverty.

Access to borrowing. Borrowing appears to be a mainstay in the survival strategies of the poor. Nearly three-quarters of the poor borrow (at 3-10 percent per month), and more than 80 percent from folk and popular credit sources. Nearly half of all borrowing is used to meet daily needs, such as housing, education, medical care, and even food.

Property and Infrastructure. While a majority of low-income households possess certificates of use of the houses they occupy the quality of houses is generally bad, the locations inconvenient and *access to basic infrastructure* is inadequate. Nearly two thirds of the poor suffer from flooding in rainy season, and half of these stand in flood waters for long periods of time.

Education and the Future. One of the most remarkable findings is that the poor assign high priority to education. A high percentage of school aged children are in school, and nearly 12 percent in secondary school, and many—surprisingly more females than males—say they want their children to stay in school even though they are near working age.

Delta, and perhaps beyond in the northern provinces, may be stimulated, or at least facilitated, in a development strategy that addresses the problems of rural poverty by fostering urban growth.

Tale Number Two: Ho Chi Minh City. Ho Chi Minh City is, in terms of Vietnam's domestic product, the most productive single area in the country. It is the most modern in its pattern of activity and the most industrialized. A third of the city's output is industrial, and this contributes 45 percent of national industrial output. It is also the city most exposed to external influences. These are the factors which make it Vietnam's most dynamic area in terms of structural change, as seen in the change in the composition of the city's output, the change in the distribution of employment by sector, and the change in the spatial distribution of activity. The data available are less than perfect to measure these changes; there is more detail on the third of the official economy which is industrial but relatively little on spatial distributions. Data irregularities suggest that the urban economy is much larger than reported. For example, the 1997 gross domestic product for the city was put at 41.9 billion dong. But the value of the recorded industrial output, which employs only 20 percent of the workforce, was estimated at 39.5 billion dong. This implies that the remaining 80 percent of the workforce of 1.9 million (with 600,000 part time and domestic workers) produces no more than 5.7 percent of the output. Thus, the real city economy may be very much larger than the available figures suggest.

The charts seek to use the available data to suggest something of the pattern of structural change. Data (in Annex 2, Table I) show the changes in the four years between 1994 and 1997. The predominance of industry is clear, followed by trade, transport and communications and construction. The city economy grew by nearly a half in these four years, but even more quickly was the growth in construction (increasing by nearly two thirds), as well as in manufacturing, trade and transport.

Unfortunately, the employment figures at the city level do not seem to parallel the output sectors, so we cannot easily infer the employment implications of this change in the composition of output. However, in employment terms, industry was still the largest sector (28.2 percent), but with three others now looming much larger. These are i) trade, hotels and restaurants (17.8 percent); ii) domestic services (15.6 percent); and iii) agriculture, forestry and fishing (11.0 percent).

Ho Chi Minh's industrial sector—growth following exports. Data for the city (Annex 2, Table II) show the changing output of the officially recorded industrial sector.⁴ One striking change is the rapidly emerging significance of a group of industries loosely grouped under the term engineering (excluding Metals(18) and Motor vehicles and Trailers (21), both in rapid decline). This, with Garments (5), Shoes (7) and Paper and paper products(6) are the leading sectors in terms of growth, followed by Chemicals (9) and Rubber and plastic products (9). If we group the high growth industries together—as they are listed in the chart—they

⁴ There is no data to hand on the size and composition of the unrecorded industrial sectors. Other limitations of this data should be noted. Since economic activity is not defined by administrative boundaries, what may appear as a decline in an industry in the city—for example, in the chart in the Annex 2, “Wood processing and products(19)” — may be no more than a relocation beyond the statistical perimeter of “Ho Chi Minh City” of an industry that in all other respects (labor force, capital supply, market) remains part of the city economy.

produced 36 percent of total industrial output in the first year, and 42 percent three years later, a quite remarkable rate of growth. These are the source of the dynamism of the city's industrial economy, a key factor in the dynamism of the overall economy and indicate the direction the city is taking in the immediate future. They also show the crucial role of exports in this process since much of the output of these industries is exported, that is to say, external demand has been a decisive factor in the restructuring of the city economy.

Comparable data are available on the employment implications of this transformation of industrial output. The data are presented in the same format in Table III (Annex 2). Note that the ordering by industrial cluster is not the same as in the previous tables. For example, the Furniture industry (3) has taken on a disproportionate number of workers, while its growth in output is below the growth of the city's industrial output. Meanwhile, the Wood and wood products industry(3) is in drastic decline in the city, or again, perhaps undergoing relocation elsewhere. The key role of labor-intensive manufacturing is now clearly apparent, with some 37 percent of the workforce engaged in Garment(7) and Shoe(2) manufacture. On the other hand, as is so frequently the case in other developing countries, Textiles (13), most of it in the State sector and still a significant employer, is in relative decline. Thus, the city's manufacturing sector is reacting as one would expect to the emergence of a global division of labor and the expression of Vietnam's comparative advantage. Shoe manufacture doubled its employment in this short period, a remarkable record. The city added 90,000 jobs to its recorded industrial sector in these four years (an increase of nearly a quarter in the total). More than a third of them came in shoe making(2), just under a third in Garments (7).

By contrast, the sectors that are declining in absolute terms (Table III) stand out much more clearly, with some surprising inclusions. While engineering generally is in the high growth group, Vehicles (16) is in radical decline. The decline in Television making (17) is similarly surprising since this would also seem to be a sector where Vietnam might be competitive.

Even with the very short time period covered in these tables, the data show an extraordinarily dynamic, responsive and flexible industrial economy in the city. The very fast growth of labor-intensive manufacture has important implications for migration. The workforce is often dominated mainly by young rural women migrants, generating a flow of remittance payments to rural households, and an extension in geographic boundaries of the city to house its newcomers. However, such industry is also mobile, and the leadership of the city has to anticipate the likelihood that with the opening up of new highways and other rural infrastructure, factory owners will pursue their workforce to the village, and the city will need to create new sectors if it is to sustain the growth in incomes of the citizens.

Much less information is available on the two thirds of the statistically recorded economy which is nonindustrial. This is particularly unfortunate since it is likely that in the future this, particularly services, will provide the dynamic of growth for the city and will begin to supply alternatives to manufacturing. Much more data is needed here if the People's Committee is to be able to anticipate problems of structural change, to facilitate the growth sectors, and encourage higher valued added activities.

Ho Chi Minh City and the delta. Unlike Haiphong, Ho Chi Minh City combines both the country's largest port and its largest concentration of manufacturing and services. Haiphong manufacturing is important but not of a comparable scale. Hanoi and its region are essentially the hinterland for Haiphong port. Thus, whereas one can envisage the development of a manufacturing corridor between Hanoi and Haiphong, which then spreads southwards across the Delta from Hai Duong, there is no economic rationale for the growth of an industrial corridor from Ho Chi Minh City to the coast. Industrial growth is taking place in many different directions from the city, not just on the road to Vung Tau. In general, the government has identified eight directions of industrial spread from the city, towards Bien Hoa, Vung Tau, Bin-Yung and the north, Fort Lake and the south, Highway 22, the route to Cambodia, along interprovincial highway 10, to My Tho (on Highway 1), to the southeastern delta along Highway 5, and on interprovincial Highway 5 to the sea. No pattern of territorial specialization can be discerned, although some have suggested that Bin Chanh is attracting food processing, mechanical engineering, plastics and some garment-manufacture; heavy industry is said to be moving to the north-east towards Dong Nai province, and plants seem to be developing to the south-west and south-east. Much more data is required here with more quantitative precision if the public authorities are to respond sensibly to the shifting location of industrial and manufacturing activity.

The process of dispersal is underway, some of it government-led through industrial estates, some of it not. As mentioned earlier, experience elsewhere suggests manufacturing, especially private labor-intensive industry, will disperse much farther away from the immediate environs of the city, ultimately to neighbouring provinces. Although river transport is important (Ho Chi Minh City has 175 kilometres of waterway, carrying 6 million tonnes of cargo, compared to 25 to 30 million carried by road), the spread of manufacturing depends more upon the extension of highways, and particularly on bridges. In the Mekong Delta, one of the largest concentrations of rural population and of Vietnam's poor, the penultimate bridge on Highway 1 across the Upper Mekong (Tien Giang) will shortly be completed, and the decision has been announced to bridge the final major waterway, the Hau Giang, at Cantho (to be completed by 2005).

The final completion of the last link connecting Highway 1 to the southern-most tip of Vietnam is immensely important in the struggle to reduce the country's rural poverty since it opens up the Delta to the influence of Ho Chi Minh City. Not only does this allow the migration of plants to the villages and towns of the Delta (raising off-farm employment), but it facilitates migration of workers to the north (with a return flow of remittances to enhance rural household incomes), the development of new commercial crops and traditional rural manufactures for city consumption.

The government has for some time been concerned with the broader regional development issues, as shown in the two regional development plans (Master Plan for Economic Focal Zone, 1996, and Master Plan for Mekong Delta, 1993) and the creation of an interprovincial council to coordinate efforts. However, the Delta Plan now needs adjustment to project the likely effect of the new bridges and how the new relationship to Ho Chi Minh City can be exploited to the advantage of the rural poor.

Conclusions. The problems that constrain the growth of the city are well-known, these include the Asian economic slowdown affecting both foreign investment and export markets, the obdurate problems of the State Owned Enterprises, the slowness of reforms, the availability and quality of infrastructure, the persistence of poverty and the deteriorating environment. Yet, the promise of the city is impressive, a promise made possible by an extraordinarily energetic and innovative business class, now much the most experienced class of businessmen in the country. It is this which, if the framework of policy is appropriate, promises that the resources and management are available to overcome many of the problems facing the city. More detailed data and analysis on the services sector and on the changing location of activities—particularly on the emergence of territorial specialization—is needed in both cities in order to stay ahead of shortages in infrastructure, services, and assistance to the poor.

2. Livable Cities-- Land Use, Basic Infrastructure, Housing and Shelter Bursting at the Seams

Introduction. Urbanization concentrates all sorts of activities into smaller spaces, increasing densities and altering the environment. It is a process which substitutes capital for land in many areas of urban life, such as the construction of housing, the installation of urban services, and development of transportation systems. The scarcity of capital in Vietnam results in overcrowding of housing units; extensive adoption of self-help in housing construction; quasi-universal use of individual, often non-motorized transportation; limited expansion and poor quality of urban services; and the presence of negative externalities, such as water contamination. All of these are observed in both Haiphong and Ho Chi Minh City. These features are, first and foremost, a reflection of a scarcity of capital typical of the urbanization of developing countries. In the long-run, the remedy for these problems depends upon economic growth and on achieving higher levels of income. In the short-run, the remedy lies on borrowed capital. Twenty years in the future, population growth will add to both cities an additional population burden, ranging anywhere from equal to their present, or more conservatively, half their current total populations.

Today's Ho Chi Minh City and Haiphong-- spatial organization. Approximately 6 million people live in Ho Chi Minh City (HCM) and 1.5 million in Haiphong⁵. Both cities radiate from historical cores, originally organized over a street layout capable of comfortably carrying vehicular traffic and well-served of urban services. By contemporary standards in Asia, both cores today serve as timid central business districts (CBDs), in actuality containing more of governmental than of private business. They also serve heavily overcrowded and unkempt housing quarters (Haiphong's urban core has handsome features of almost uniform period

⁵ There is no agreement among governmental agencies on the population of these cities. According to the Department of Planning and Investment (DPI), HCM City has 6 million inhabitants, of which, 1 million illegal, while 700,000 migrate annually in search of work opportunities. The Department of Land and Housing (DLH), on the other hand, maintains that 40,000 people migrate to the city every year. According to the Department of Transportation and Urban Public Works (DTUPW), HCM City has 5 million people in its administrative district, and 3 million in the total city district (140 km²), with a floating population of 2 million. Indirectly, estimates of the total population can also be derived from the DLH data, which shows 531,000 housing units legally and permanently occupied in HCM City.

architecture). Basic infrastructure services, in turn, are poorly maintained, and stretched beyond limit. In sequence, surrounding these cores in both cities, are long-established, densely occupied housing areas, which are largely lacking in vehicular access, are poorly served with water and sanitation, and are prone to seasonal flooding⁶. This first periphery intersperses housing with industrial areas and port facilities which by market criteria would have been destined for other uses, such as housing or commercial and service activities. This is particularly glaring in the case of Haiphong. Both cities spread from this core, linearly along the interurban roads network, in extensive, tightly occupied, continuous, ribbon development patterns, connecting to other cities, and suggesting the formation of large urban regions in a network format⁷. Both cities present also, along these main roads, nodes of “modern” industrial development⁸.

Box 3-3 Dormant Assets in Shelter.

Yet another feature of the urban economy—the creation and management of the nation’s stock of investment in housing and shelter—has not been explored as a form of capital that is subject to public policy in Vietnam. By any nominal valuation of present stock of buildings, Vietnam has a significant asset lying dormant. Present and future construction of residential buildings—say a quarter of present dwellings which are occupied by young families plus the two million or so to be built in the next 10 years—together could represent a significant fraction of total flow of annual public sector investment. Under one simple calculation of real estate value of US\$500 per housing unit, for, say, a quarter of the stock of residential shelter in the next decade, the value of mortgageable properties—around US\$1.25 billion— is about the size of the country’s total annual capital investment (15 trillion VD). This illustration shows one potential advantage of liberalizing urban property markets.

Reform in the regulatory environment and in management could add yet a further increment. Country experience in many parts of the world, for instance Sri Lanka, Malaysia, and Indonesia, to cite just a few cases, shows that appropriate policies on property rights and management by national and local authorities have significant effects on economic activity and welfare. Commercial building of residential properties stimulates a building industry, suppliers, and savings. Residents put their own resources into improvement of quality of dwellings. But these cases (World Bank on Malaysia, 1989) and others (Strassmann, 1982) show that tradeable property and unfettered property markets are very important stimulates of further capital investment.

Land use property rights and motorization. Two factors have decisive effects on land use in Haiphong and Ho Chi Minh. First is the absence of a clearly defined and secure system of real estate transactions. Most land, and a large part of the housing stock, are national property,

⁶ For example the Cat Bi and Trai Chuoi wards in Haiphong

⁷ For example the Haiphong-Hai Duong-Hanoi road is a continuous constructed area, as is the Haiphong-Do Song beach. In the case of Ho Chi Minh City, the road leading to Vung Tau, among others, is also continuously built.

⁸ For example, in Haiphong, the area along Provincial Route 14 to Do Son, the Japanese developed Nomura Industrial Park, and the Belgian/Thai developed Dinh Vu Industrial Park.

and this disrupts or impedes an active land market which would otherwise allocate land to diverse urban uses. The presence of land-extensive industrial uses close to the core of Haiphong (the port, for instance) is partly expression of this, as is the absence of a more active central business district. Informal (i.e., unregulated) markets are very active in the periphery of cities through the extensive subdivision of small agricultural lots for sale by legal occupiers. Recently, the government has shown signs of speeding transaction times of property exchange.⁹ This may lead to an opening toward further reforms. In parallel, as will be seen later, the absence of full use of property rights (clear title, mortgaging, transfers) impedes the blossoming of a private formal housing market also with repercussions on land markets.

The second factor is the low level of four wheel motorization of both cities. Transportation in both cities is done largely by individual means, on recently introduced scooters and motor-bikes which have largely replaced non-motorized bicycles. Public transport has almost disappeared. Limited mobility is a dominant element in explaining aspects of past land use and expansion patterns in both cities, such as the fact that they are compact, very dense, and that expansion occurs along the roads that have the main and few public transportation lines. Both factors are bound to change in the near future.

First, growth of incomes will bring increased motorization to both cities.¹⁰ Already, motorcycles, which soared from 200,000 in 1992 to over 4 million in 1996, replaced bicycles and public transport. But road expansion is slow and costly, meaning that traffic congestion will inevitably grow as income and four wheel motorization grow. Also, four wheel motorization will stimulate dispersal of activities, generating other externalities in addition to congestion. The Transport Sector Report of the World Bank (World Bank, 1998d) puts emphasis on establishing competitive transport markets, giving more attention to cost-effective network improvements, as well as management and operational efficiency. Improving traffic operating conditions and safety in urban transit—for instance, managing traffic mix of pedestrians, bikes, motorbikes, four wheeled motorized and nonmotorized vehicles—are important areas of concern. City-based multi-modal strategy would also aim to reduce the growing dependency on personal motorized modes. as well as improving public systems and access to transport services for the poor, are the main challenges for inner city transport.

Housing. A rapid assessment points to similarities in the housing situation of both cities. To begin with, formal and larger scale housing supply is limited, and only appears sporadically as both private and public projects. The most recent projects are either oriented to higher income groups, the foreigners or the “new-rich” or, in the case of public housing, to beneficiaries

⁹ According to the Government Decree 17/1999/ND-CP, from April 13, civil transactions concerning land, including the transfer, leasing, re-leasing, inheritance or mortgaging of land and the granting of land use certificates, will be completed within seven to fifteen days. This is the first time a period has been set to fulfil these procedures in a governmental decree. Land transactions will also be classified into three types: organizations, families or individuals instead of according to administrative units, which is expected to boost these procedures and streamline the state's management on land. Also under the decree, organs or individuals will be granted land use certificate as well as other civil transactions, provided that they have sufficient documents. This stipulation will stop people seeking certificate by any method available, to serve as collateral for bank loans. (Investment Apr 5, 1999).

¹⁰ Income elasticity of automobile consumption being at least one. See Ingram and Liu (1997).

selected by political assignment. Overcrowding of housing units is the norm, subleasing and doubling up, appearing to be common practices.¹¹ Both practices besides offering housing at lesser cost, permits that savings to be accumulated with which to make a future down payment on a land plot or on a permanent housing solution. In turn, through renting or leaving with relatives or friends, migrants are exposed to the city and its housing markets alternatives. Overcrowding is the result also of severe control of squatting on the part of authorities.

Finally, in both cities, the production of housing is carried out mostly on an individual basis, with informal (unregulated) construction the most prominent mode of production. There are two trends here. First the very active subdivision of small parcels of peripheral agricultural land, with little concern for regularity in layout, dimensions or arrangements of lots, or their placement with respect to vehicular access. With the expansion of the two cities, there will be increasing incentive for legal occupants of land parcels to subdivide and sell them. This process will continue as long as the price obtained from sale of these lots is higher than their value for producing agricultural income. The subdivision of small scale agricultural land appears to be the main mode of expansion of both cities.

The second trend is the long-established—and apparently rapidly growing—process of squatting observed along urban rights-of-ways, as exemplified by settlements along the canals of HCM City. Evidence points to increasing pressure on land from squatters. However, in both Haiphong and HCM City, squatting may not prove to be the relatively easy alternative it has been in other cities. This is because holdings of peripheral agricultural land are small and protected at low cost present occupants. This leaves open to squatting the larger public holdings made up by the rights-of-ways and environmentally protected areas, which have high costs of protection. Government officials then become gate-keepers, and often have more incentives to let these areas be used by squatters than to protect them. This is the case of the canals of HCM City and, in the future, could be that of the old port of Haiphong. Haiphong, apparently, does not show the same degree of squatting as HCM City, indicating that, locally, the political control of the urbanization process was more active and also that Haiphong's economy is not as dynamic as that of HCM City¹².

Construction of housing is overwhelmingly carried out by residents (or future residents), vertically extending in already established areas the existing housing units, or erecting new structures in the expansion areas at the periphery of the cities. Squatting is seen in central and periphery areas in both cities, and this practice gives rise to progressive introduction of infrastructure and of housing construction which incorporates the family's sweat equity and most of its monetary savings. Over a decade or so, squatter housing units can barely be distinguished from nearby ones that were produced by the formal sector—multi-storied, structurally sound, fully serviced with sanitary facilities. Also similarly to cities elsewhere, local authorities do not

¹¹ Both cities carry a large stock of public housing leased at values that do not cover maintenance of units, hence their degradation.

¹² Estimates of squatters vary wildly. For HCM City, DTUPW plans to relocate 180,000 people (24,000 households). In turn, DLH maintains there are 36,000 dwellers along the canals, and additionally 17,000 units elsewhere in the city.

accept these informal housing units as legitimate and have plans to eradicate them, either by simply compensating residents to leave or by resettling them in new housing units. Both policies are not to be recommended as they are costly in financial terms and ultimately, self-defeating.

The poor will double up or rent space (in either old or new units), squat or buy land and in the latter cases, begin construction of their housing units, depending on characteristics of the household, and on legal, regulatory, and physical conditions of prevailing in the city.

Housing the poor requires housing the not-so-poor. A long record of experience in developed, and many transition economies, shows that housing the poor implies that it is necessary to develop a system of shelter for a wide range of income levels. A sustained supply of formal sector housing should include a range of housing solutions of diverse price, capable of responding to the demands of households of various levels of income, absorbing future effective demand. Eventually this supply of new units would introduce a degree of turn over in the housing stock, reducing the current overcrowding of historical centers, as the wealthier residents leave for new housing units, and in sequence increasing the overcrowding to its previous levels, as new poor move into these centers, in a sort of “filter-down” process, by means of which the stock available to the poor is increased.

Promoting such a supply of formal housing would require that a set of reforms be undertaken in order to: (i) establish a clearly defined and secure system of property transfers; (ii) create a system of mortgage finance; and (iii) promote a competitive building industry. All this must be done in a way which minimizes transactions costs of complex regulations. The absence of this supply would induce a perverse “filter-up effect”, in which the price of existing housing solutions (in black markets) would be driven up by scarcity, pushing the poor to extreme levels of overcrowding or homelessness. If these were wealthier cities, or cities with fewer poor, a stand-alone system of subsidy to housing demand could be an option. In the current case, the overwhelming number of poor, the cities’ average levels of wealth, and competition for public resources from other sectors make subsidies uneconomic for anything but a possible complementary component of a more comprehensive program.

Urban growth in Haiphong and HCM City: focusing on essentials. Like shelter, urban services in both cities have been stretched to the their limit. Throughout the cities’ peripheries, where services were implemented haphazardly, they function very deficiently. In fact, in both cities, neither water nor sanitation, reach a large number of households, either in areas long-established, or in new, expansion zones.¹³ Physical losses in the water systems are large. Tariffs are defined by non-economic criteria and fixed at levels which make maintenance and operations impossible. Garbage collection reaches few areas of the cities, while land fill capacity is very limited, reaching in the case of HCM City only to the year 2000. No agency oversees the overall garbage collection and disposal problems. Similarly, the drainage situation is critical. Both cities occupy alluvial plains, formerly rice paddies, with high water tables, crisscrossed by a network of canals of different widths and lengths, with very complex hydraulic

¹³ In Haiphong, Cat Bi and Trai Chuoi are good examples, with their poorly maintained public latrines and open-air sewers, as well as collective water cisterns. In Ho Chi Minh City, in a recently developed area, water wells are drilled and pumped by individual households at high costs.

flows. The urbanized land areas are characterized by their very small variation in elevation, making the flow of sanitation and drainage very expensive, as well as increasing significantly the cost of construction, by requiring that urban plots be land-filled to a higher level. With a few exceptions, more detailed data, such as that depicted in Table 3-1, would help to gauge the present state of social conditions in Vietnamese cities.

Basic infrastructure and planning. Though many remedies are necessary, the cities must start at the beginning in managing the cycle of city growth. By the standard of internationally competitive cities, investment from own revenues in new infrastructure capital stock in Haiphong and Ho Chi Minh City is relatively low. At \$2 per capita, Haiphong is well ahead of Cebu and Colombo, but well below Callao, Sofia, and Curitiba, after taking account of respective average incomes. Capital investment in cities of Bulgaria, Philippines, and Sri Lanka is dominated by central government sources. (See Table 3-1, below)

Another element of efficiency and sustainable development is the extent to which cities pay for their own demands for local goods and services. Cities in Brazil and Peru generate much more of their own resources for capital investment purposes than do those in Vietnam. For instance, Curitiba, with a per capita income of about four times that of Haiphong, invests in per capita terms around 25 times more than Haiphong. In effect, Haiphong's community infrastructure is not being regenerated at a level in keeping with the city's finance base. Haiphong, in other words, could probably afford to step up its revenue raising and do more for itself in terms of capital investment, at least measured in terms of comparison cities.

However, as mentioned earlier, the developmental trend ignores some of the smaller scale infrastructure and services needed in both cities. Neither city is able to utilize the planning process and tools to take into account growing environmental concerns (described below and in "demand-based planning" in the succeeding section). Neither does the planning process perform its basic technical and political functions, such as to provide a broad view of development, indicate the sectoral priorities to manage growth, and suggest public and private sector responsibility. The plan should help decision makers to focus their scarce time and energies, as is done in cities like Curitiba, Brazil; Bangalore, India; or Warsaw, Poland, to name but a few examples. In those and other successful cities, the planning process helps public and private actors to clarify alternatives, gauge tradeoffs, and make decisions about scarce resources.

Another problem is that large scale industrial support projects require intensive doses of professional time on the part of the planning staff, and leave little time for attention to the smaller scale issues basic to city building, like neighborhood improvements. Moreover, the pace of recent developments puts the Planning Departments in a "catch up," rather than leading position, contributing to a loss of whatever guiding and coordinating functions the plan might otherwise have. Underlying and exacerbating these problems is the importance of basic planning tools. In Haiphong (as well as in Hanoi and other cities), these are very much underdeveloped. Planners and investors, businesses and service providers, have little or no access to timely data on the demographic profile, current and prospective land uses, service and infrastructure levels. Ho Chi Minh City finances the Institute for Economic Research,

Table 3-1 Social Indicators for Comparator Cities

| Country | City | Hhld below poverty line (%) | | Child Mortality (per 000) | Children per primary school classroom | Thefts (per 000) | Floor area per person (sq m) |
|-----------------|----------|-----------------------------|--------------|---------------------------|---------------------------------------|------------------|------------------------------|
| | | All | Woman headed | | | | |
| Philippines | Cebu | - | - | - | 33 | 0.35 | 13.4 |
| Sri Lanka | Colombo | 13.9 | 40.0 | 29 | 40.6 | 4.70 | 18.7 |
| Vietnam | Hanoi | 51.0 | - | - | 51.9 | 1.27 | 5.8 |
| | HAIPHONG | - | - | - | - | - | - |
| | HCMC | | | | 38.1 | 1.35 | 5.8 |
| Peru | Callao | - | - | 24 | - | - | |
| Bulgaria | Sofia | - | - | 18 | 30.2 | 126 | 16.7 |
| Brazil | Curitiba | 5.7 | 6.3 | 29 | 32.4 | 0.16 | 21.0 |
| All AsiaPacific | | 20.1 | 11.9 | 51 | 40.2 | 1.3 | 9.5 |

The cities are selected to represent a cross section of cities approximately the same size, wealth, and circumstances as Haiphong (e.g., port city). Data taken from various sources, including World Bank and UN publications, sector reports, and official government publications and data from World Bank mission. Figures may not be completely comparable. All monetary figures in 1993 estimated US\$. The sign “-” indicates data not available.

which is able to generate a substantial amount of data useful for, but so far, not fully integrated into, city decision making processes. Other cities, by contrast, have little or no capacity to produce small scale maps which are basic for gauging demand, assessing patterns of location, and exercising regulatory and control functions over growth and development.

Lessons from many parts of the world show that these basic tools of urban planning are indispensable for managing growing cities, and both cities will need to upgrade planning tools and data systems if they wish to control their destiny. To cite a few outstanding examples by way of illustration, cities with successful planning and regulatory controls have most, if not all of the properties on some kind of geographical information system which plots location, registers occupancy or title, indicates service levels for the major utilities, and often reflects current or estimated value of properties. These cities draw upon this basic information to help make investment decisions about such issues as mix and levels of investments, priorities and sequencing, and investment decisions. Many cities also have detailed data about economic activity (number and size of producing units, employees, value of production and exports, and the like). Again, Curitiba, Brazil; Sofia, Bulgaria; and Surabaya, Indonesia regularly use data of this kind.

Urban population, the poor, and agenda of policy reform. Twenty years from now, Haiphong and HCM City will contain populations at least twice their current size. This future growth will require an enormous public and private effort to shelter the poor, provide urban services, insure transportation and, provide adequate serviced land for productive uses.

A very high fraction of the urban population will be living below the poverty line, and will not be able to enter the formal housing markets. The current poor, as described previously, have resolved their shelter problem by either overcrowding, self-help, or squatting. The challenge now is to devise policies and assistance that will reduce the numbers of poor and provide better services and opportunities for low income populations in the future.

Urban Development and Environmental Change: Pollution, Environmental Assets, and the Poor. Because Vietnam's urban centers are the engines of growth for the country, they also are the "hot spots" of environmental degradation. Pollution issues concentrate in cities because the developmental focus on industrialization, including foreign direct investment in the three development triangles¹⁴ concentrates industrial manufacturing, along with attendant effluents in air and water. With this success in industrial growth has come high rates of migration. The resultant strain on the urban services management are apparent. Only 60 percent of the population in HCMC is served with sewerage systems, as opposed to 20-35 percent in Haiphong and 20-35 percent in Hanoi. While HCMC and Haiphong collect 80 percent and 70 percent of their solid waste, respectively, Hanoi manages to collect less than 50 percent. None of the major cities treats sewage. Uncollected waste is allowed to rot in vacant lots and sometimes finds its way into streams and lakes. Even when solid waste is collected and disposed of properly in regular dumpsites, it is hardly treated. Drainage systems in urban areas are either badly damaged or at best dilapidated. Septic tanks, when they exist, are in a bad shape resulting in sewage overflow to the surface and into the drainage system (Table 3-2).

¹⁴ These are (1) Hanoi/Haiphong/ Quang Ninh, (2) Quang Nam/Da Nang and (3) Ho Chi Minh city/Ba Ria-Vung Tau/Dong Nai.

A quick look at the specific urban indicators show that provision of services such as sanitation, drainage, water supply, sewerage, transport, among others, are generally of low standards. Prolonged warfare and 40 years of “centralized” management have taken their toll on the cities of Vietnam. During the war years, the cities, particularly in the North, became the centers for production of war materials and heavy industries, mostly based on outdated technologies. Even though the government artificially restricted the migration from the

Table 3-2 Vietnam: Indicators of Urban Environmental Quality

| Indicator | HCMC | Haiphong | Hanoi |
|----------------------------------------------------------|---------|----------|---------|
| Total Untreated Waste Discharge (million cu/m/yr) | 240-300 | 70 | 120 |
| Population Serviced with Sewage Systems (percent) | 60 | 20-35 | 20-35 |
| Sewage Treated (percent) | 0 | 0 | 0 |
| WHO Drinking Water Quality Standards Met for Piped Water | Yes | No | No |
| Solid Waste Collected (percent) | 80 | 70 | <50 |
| Number of Motorized Vehicles | 775,000 | 235,000 | 420,000 |

Source: International Development Research Centre (July, 1995) “Vietnam National Environmental Action Plan

rural areas, maintenance and upgrading of the urban infrastructure was a low priority. These years of deliberate non-investment are now taking their toll on the cities in terms of management of environment. Some of the important fallout of this failure in proper upkeep of urban environment in Vietnam are as follows:

- *Solid Waste Collection and disposal* service suffers on both counts : coverage as well as quality. It is estimated that 20 percent and 50 percent of the solid waste is not collected in HCMC and Hanoi respectively. The uncollected wastes are allowed to lie in vacant grounds, and backyards and they do get mixed up with the surface water in the lakes and streams. Moreover, the existing dumping sites, which are ill-designed to start with and produce uncontrolled leachates, are getting filled up and new sites will be required to meet the demand for the growing cities.
- *Access to sewerage systems* are generally nonexistent in the Vietnamese cities. The old and over-strained systems that exist in cities like Hanoi or HCMC have not been maintained. In addition, none of the cities has operating systems for domestic sewage. In HCMC, for example, a study done for the government of Vietnam shows that less than half (46 percent) of the household black water is treated by septic tanks and the remainder, as well as the entire volume of gray water, is discharged untreated into the canal waters. Even in the major cities, the storm water drainage is combined with waste water network and at times when the system gets clogged up, waste including human excreta, overflows into the streets.

- *Air Pollution* is an increasingly serious problem in the cities, particularly HCMC because of both industrial and mobile sources. In Hanoi and Haiphong, coal is the main industrial fuel and the industrial boilers are old and inefficient with no flue gas or ash recovery. Even in the households, coal is the common fuel and indoor air pollution, though not yet quantified in terms of an epidemiological perspective, is likely to be severe. The increasing popularity of two-wheel, four-stroke engines in the absence of efficient and affordable public transport systems, is also adding to the air pollution load in the cities.
- *Industrial pollution* The centralized system of economic management and the need to meet the demands of war led to the creation of large and heavy industries in the northern cities . Hai Phong and Quang Ninh have all the cement production units as also the metal and foundry industries of the country. In the recent years public sector units have started producing many basic chemicals . However, the level of technology has not only kept these units away from international competition, they have not kept pace with the emerging environmental concerns. The small and medium scale industries that have started coming up in various parts of the country have not really opted for the latest technologies, as the system does not provide for any incentives for them to do so. All these have created a situation when Vietnam needs a strong input from international agencies to cope with the problem of industrial pollution prevention.

Box 3-4 Environmental Quality of the Urban Poor

The relationship between poverty and environment has been the subject of many studies both within and outside the World Bank. Poverty, population and environment are often thought to be linked in a vicious circle. Some economists have held that greater the population, the worse are the environmental conditions; conversely, the worse the environmental conditions, the greater the population growth (Dasupta, 1996). In an urban context, a few studies have shown some remarkable results : the urban poor, for example, actually clean up the environment by applying pressure on the industries.

A World Bank study (Wheeler, et al, 1998) has shown that (1) small plants are more pollution-intensive than large facilities, (2) most of the small plants are located in low-income regions and that (3) paradoxically, the poor areas do not suffer more than wealthy areas from industrial air pollution. It also shows that unlike in rural areas where the poor make unsustainable demand on natural resources. The conclusions seem to indicate that urban environmental disasters do not distinguish between rich and poor. It also shows that unlike in rural areas, where the poor make unsustainable demand on the natural resources and thereby put pressure on the environment, in the urban areas they are more likely the victims of pollution and environmental degradation rather than the cause of it. In the poorer urban areas, the lands are generally low-lying, and the poor suffer from absence of drinking water which is polluted, when available. The urban poor and their squalor are often seen as the reflection of urban environmental decay.

Health effects of air and water pollution are neither well-documented nor well-understood. However, a study conducted by the Ministry of Public Health in 1991 showed that acute respiratory problems are indeed a matter of national concern. In the three provinces where

the study was conducted over one quarter of the patients were treated for respiratory diseases. Addressing air pollution effectively will require a long-term approach that involves calculating the cost of fuel switching and the possible gains in term of reduced health costs and other economic benefits. The action will also require large scale capacity building for the regulatory agencies and creation of broad public awareness. According to the last LSMS in Vietnam, less than 50 percent of the urban population has access to potable water. Except the three growth triangles, water for drinking is supplied mainly from shallow wells and rivers, lakes, canals, water vendors and rain water. High levels of bacteriological contamination of many of these sources cause wide spread water-borne diseases. In addition to the low connection rates , the poorly maintained systems result in losses ranging from 40 percent to 70 percent. The economic and financial costs of such shortfall in supplies have not been quantified, but are certain to be significant. **The MEIP planned for Haiphong will provide the opportunity of estimating not only the costs of poor water and air quality but the effects on the economic potential of the cities. It will also tell us something about the costs of inaction.** Such studies are needed for other urban areas as well, particularly in HCMC and Hanoi.

Vietnamese authorities are aware of the severity of the emerging environmental agenda and are developing a legal, policy and regulatory framework for environment management and protection. But as the economy continues to grow, the agenda of environmental issues will expand. Institutions at both local and national levels are looking for assistance and support from the international and bilateral agencies in order to expand their capacity to address present and prospective issues.

Urban expansion and the rise in importance of regional natural resources for tourism are producing new political and management tensions, as in the Ha Long Bay area World Heritage site and the Cat Ba island. The coal industry in Quang Ninh, industrial development along Haiphong-Ha Long axis and the tourist influx are clearly having a detrimental effect on the coastal and marine environment.¹⁵ The inefficient sanitation and solid waste management infrastructure in Haiphong area, and the conversion of ecologically important mangrove, are also serious environmental threats. Land use changes from industrial production and urban expansion have resulted in large-scale damage to inter-tidal areas and hence losses to critical habitat like the coral reefs in the Bay.

Experience over the past 30 years in many countries has shown that resolution of such apparent tradeoffs between environment and development requires adoption of effective planning and management strategies rather than a slowing of economic growth. In Haiphong and Quang Ninh, for example, such objectives can be complementary when integrated as element of a long term regional development strategy. Such a development plan would protect

¹⁵ For example, according to the Institute of Oceanography under the National Natural Science and Technology Centre (quoted in *Labour*), to date the coal production industry in Quang Ninh province has dumped around 900 million tonnes of slag into the sea in Coc Sau and Cao Son. Each year coal processing activities also discharge up to 8.86 million cu.m of waste water containing toxic substances into Ha Long Bay. Each day, over 400 m3 of wastewater is discharged into the sea around Bai Chay. Discharges contain fuels and industrial oil, from the B12 Petrol Station.

the important growth options that take into account environmental quality and avoid the potential degradation of natural resources. We shall propose that a regional strategic plan around Haiphong or HCMC must incorporate environmental issues as resource considerations every bit as important as human resources and capital for finance.

3. Management and Demand-Based Governance.

But to meet all the challenges discuss up to this point—strategic economic strategy, environmental management, shelter and infrastructure and assistance for the poor—requires a much stronger local capacity. The view of the present analysis is that increasing incentives is as important as reshaping the formal framework of intergovernmental relations. Financial management, and increasing cost recovery and building up a revenue stream through improved tax collection, are covered in greater detail, below, and in separate studies (Rao, 1998). Also, the UNDP program of public administration reform (PAR) carried out a review of planning functions in Ho Chi Minh City in 1996 (UNDP, 1998b). This program will soon be addressing internal administrative processes and coordination among city departments in Haiphong, focusing in particular, on city departments involved in planning for land use and building; in managing local building and land use changes; and to a limited degree, in cost recovery through tax collection for related services. Because these efforts promise to open new insights into the city management process, this report addresses finance and administrative efficiency by concentrating on management and governance practices.

Increasing efficiency. The logical extension of the *Doi Moi* reforms to the local level will, in our view, require attention to areas of resource allocation at the local level, and this in turn on transparency, accountability, and “contestability.” These areas have proved to be critical in modernizing governments in other parts of the world—and these reforms will help to increase efficiency in management of Vietnamese cities as well.

In essence, the *Doi Moi* reforms, translated into terms of city administration, mean that the city should function with greater autonomy in interpreting the needs of citizens, delivering services and infrastructure to meet these needs, and collecting taxes and fees to finance them, to carry out these functions in an open and transparent way, and then to be held accountable for the results. These systemic arrangements are made internally in the sovereign right of nations to design a system of governance that best suits that nation, and our analysis does not pretend to pass judgment on the political propriety of these arrangements.

A quick glance at a few indicators suggest room for improvement, in comparison with other cities of similar size and wealth. Measures of per capita revenue, expenditures, and employees per 1000 population are depicted in Table 3-3 for Haiphong and reference cities. (It was not possible to gather comparable data for HCMC). Local government revenue per capita compare favorably to the Philippines and Sri Lanka, although it must be noted that local government in Vietnam collects revenue as an agent for central authority, but are far below

Table 3-3 Governance Indicators for Comparator Cities

| Country | City | Population (000s) | Per Capita Income (1993 est) | L.Gov. Revenue Per capita | L.Gov Cap. Expenditure per capita | Local Gov. Employees (per 000) | Water/Waste Connections (%) | |
|-----------------|----------|----------------------|------------------------------------|---------------------------------|-----------------------------------------|--------------------------------------|-----------------------------------|----|
| Philippines | Cebu | 2,840 | 745 | 5 | 1 | 1 | 91 | - |
| Sri Lanka | Colombo | 4,390 | 1036 | 3 | 4 | 15 | 64 | 60 |
| Vietnam | Hanoi | 1,100 | 695 | - | - | - | 80 | 40 |
| | HAIPHONG | 750 | 600 | 11 | 2 | 36 | - | 35 |
| | HCMC | | | | | | | 60 |
| Peru | Callao | 1,000 | 673 | 54 | 22 | 3 | 70 | 69 |
| Bulgaria | Sofia | 1,100 | - | 218 | 91 | 2 | 99 | 98 |
| Brazil | Curitiba | 1,300 | 2400 | 207 | 54 | 17 | 96 | 75 |
| All AsiaPacific | | | - | 49 | 234 | 10 | 63 | 38 |

The cities are selected to represent a cross section of cities approximately the same size, wealth, and circumstances as Haiphong (e.g., port city). Data taken from various sources, including World Bank and UN publications, sector reports, and official government publications and data from World Bank mission. Figures may not be completely comparable. All monetary figures in 1993 estimated US\$. The sign “-” indicates data not available.

levels in some countries of Eastern Europe and Latin America. The same pattern holds for numbers of local government employees. Efficiency in these two areas would lead to lower wage bills covered by general tax revenues and higher income to pay for infrastructure and services.

Impasse of governance. The characteristics of the governance system in cities of Vietnam (and, for that matter, in similar transition economies) create an impasse in which central government retains control over many aspects of running the government partly because local governments are not trusted or are not ready to take on new responsibilities. At the same time, local governments, for historical reasons and lack of experience, have no way of demonstrating their capability. The resulting impasse means that the system stays locked in a low performance trap. Specific features of government style impede efficiency in at least three ways: i) local governments need more autonomy to make choices about local expenditures and services; ii) provision of services and infrastructure is dominated by the central system and not on direct communication from citizens; and iii) this blurs transparency and impedes accountability.

Fettered autonomy. First, the various levels of government are not, by international standards, independent of one another, and rather than working in partnership, lower levels (provincial and municipal) tend to be controlled by superior level authorities. The four levels of government create confusion and replication of responsibilities. The direct line of “guidance” from each Ministry to each city Department blurs the decision making process and dampens incentive in the city to take initiatives. For instance, by “returning” only 15 percent of the 3.3 trillion dong collected in taxes last year to finance city services and investment, the city is made to operate as an agency of central government, rather than a partner, much less an initiative taker, as in comparison cities. Thus, the central government sets the income cap each year for the city and makes many of the decisions relating to investments, use of land, and land development (those involving more than a few hectares and more than about \$50,000 in value).

In the international standard of practice, these decisions are made at the lowest possible level. For instance, land use decisions in most Eastern European capitals have now been turned over entirely to the city administrations, except where public housing estates are involved. Indeed, in Sofia and Budapest, municipalities have been given full responsibility for land and residential housing which was formerly the responsibility of the central government. In the case of revenues, many local governments receive shared revenues from central governments, but are free within limits to expand taxation coverage and sometimes valuations to increase city tax income. Some cities in Latin America have increased own source revenues by several fold.

Need for demand-based governance. Second, the city’s relationship with its citizens does not have the character of customer or client-relations, as is the case with most modernized governments. This customer relationship means that governments respond to citizen demand by understanding what citizens and taxpayers want from their government and formulating programs and spending, as well as tax and fee revenues, to provide these services. In the current system in Haiphong, demand and investment decisions are determined openly in broad consultative fora, but without a constrained budget, meaning that neither citizen nor policy

maker are compelled to make tradeoffs (sacrifice some services, health care for instance, to get more of another, e.g., paved roads). Rather, spending priorities (the mix of services and investments) emerge from council and intergovernmental consultations and consensus unconnected from citizen demand, and the overall level of spending is determined by arbitrary budget limits based on expected income, also disconnected from services and investments.

The city has already demonstrated both competence in and scope for experimentation at the Quan level and below in exploring new ways to deliver services (see Coffee, 1998). For instance, the reforms in drinking water services—in which management and billing were decentralized to Quan level resulting in reductions in water losses and arrearages—are very much like the reforms needed for improving management in other areas, for instance, streets, drainage, lighting, and the like. Neighborhood scale improvements require community interaction in order to verify need and plan the mix and costs of improvements, and this approach very much resembles the reforms already instituted in the case of water supply. Many cities in other parts of the world have experimented with similar arrangements in solid waste, small scale neighborhood improvements, even micro enterprise, and world wide best practice can be brought to bear should city leaders feel it appropriate for Haiphong.

Administrative accountability and competitiveness. Third, both the city's relationship to the national government, like its relationship to its customers, the voters, and taxpayers, constrains the capacity of city departments to act efficiently, to take initiative to cut costs and deliver services more efficiently. Since income is not under the control of the service directors, the levels of spending by city departments bears no relationship to demand. All departments are under-financed, but the centralized controls over policy and priority function to smother incentive for department heads to innovate, to seek greater efficiency and improve productivity. Further, legislation prevents the city from shedding staff, even though some departments may have inadequate resources for a full years' work, as in the construction company. These problems may account for the high ratio, compared to other cities, of staff to population shown in Table 3-3.

Sharing or unclear lines of authority make some processes more cumbersome than they need be. For instance, land use certificate cannot be issued by the Planning Institute until cleared by the department of Planning and Investment, and some decisions may even be referred to the Prime Minister. The requirements set by Government for the issuance of land use certificates are often impossible for citizens to meet, and impossible for the city to verify, and therefore the Institute's permit process is ignored in the urban area.

The city has introduced some competitive elements in its administration to approximate private sector efficiency, but it has much further to go with respect to staffing and professionalism. For instance, the Construction Department is required to compete for 23 percent of its work and only "wins" three out of 10 bids. Other competitors for construction work in Haiphong appear to be state owned companies. Investment to improve productivity is denied by the budget process and constrained by the employment policy. The Department's

administration costs appear excessive, over 20 percent of the budget for pavements and roads is for administration.

4. Finance: Closing a Hiatus in Inter-Governmental and Local Finance

Fiscal decentralization and the new budget law. The system of intergovernmental fiscal relationships has been in flux from year to year over the past 10 years and has been formalized through the new budget law established by the central government on March, 1996 and amended on May, 1998 (based on Rao, 1998). Before the law, assignment of revenues to the various levels of government was changed from year to year. The budget process was entirely too subject to negotiation and political influences, and had too few institutionalized mechanisms in place to monitor and control budgetary expenditures. The 1996 law aimed to establish a new, more orderly structure to the fiscal relationship among its four levels of government to improve budgetary management and decentralization. The Budget Law also defines the functions and responsibilities of the different units involved in preparing and implementing the budget, and the revenue and expenditure responsibilities of the various levels of government administration. To go further now requires shifting authority and responsibility for part of the financial system to local governments and this means crossing a hiatus by transferring new powers to local governments for revenue raising and tax collection.

Negotiating the system. In practice, the implementation of the new budget law appears to exhibit some of the discretionary elements of the previous arrangements, at least in some of the “provincial cities,” (those with the status of province). They enjoy particular formal freedoms but also can improve their position through negotiation. In some cases, they are strengthened in their negotiating position by their important contribution to national revenues. The figures reported here are illustrative (and they are subject to uncertainty and dispute, as various sources had different data). One interview source claimed that HCMC contributed 29 percent to national revenues and Hanoi 16 percent (or a total of 45 percent) in 1996-1997. However, according to the published figures for 1994, the equivalent estimates are 28 and 38 percent. Together with Haiphong, the three cities contributed 70.5 percent of national revenues derived from the provinces. It could be that the figures have changed between the years (possibly as a result of the 1996 budget law), but it may also show the powerful role of negotiations in deciding shares.

Some also dispute how much cities may keep of the revenues they raise. One of the sources of mission information claimed that Hanoi retained 23 percent, HCMC 30 percent (and Haiphong claimed it kept 20 percent), but the figure for HCMC was said, by informants there, that the real figure was 15 percent. Though likely, it is also not clear whether these

**Box 3-5 HCMC Bond Issue: A Cautionary Tale-- Nguyen Tat Thanh Toll Road
30 billion VND / 1995-1998**

The government has been searching for ways to relieve the constraints on capital for investment, and capital markets has been one source under investigation. But the experience with the HCMC bond illustrates both the temptation and the dangers of capital markets.

One of the first experiments with capital markets financing in Vietnam was a Ho Chi Minh City revenue bond issued in 1995 to build a toll road. The bond had a maturity period of 3 years and was placed with an interest rate of 17 percent per annum. The Bank for Investment and Development of Vietnam (BIDV) in HCMC was part of the team preparing the term of the bond and its issuance procedures. The BIDV itself was also the biggest buyer of the bond thereby skirting a true test of capital markets. Features include:

- * Coupon fixed at inflation adjusted figure.
- * No credit rating
- * The buyers: banks and public companies.
- * No underwriters

The bond was to be sold publicly, but the interest rate at 17 percent did not attract buyers. After the interest rate of the government fell from 21 percent to 14 percent, the bond was offered privately, and though it was placed fully, the bond is bought at the Peoples' Committee Agency. Interestingly, the project was very successful with high rate of return and the cost was already fully recovered. This encouraged the city and HIFU to issue bonds for other infrastructure projects. But since the banking system is still highly controlled by the State Bank.

No more bonds have been issued since 1996 due to concern about the capacity to repay and to the lack of a secondary market that can make this financial instrument tradable. Although HCMC is considered the financial center of the market, there are still very few companies listed in the market, for foreigners the amount of capital to participate is not established.

Added to these problems is a lack of expertise and information about the process. In addition, transparency continues to be an issue. Also, the government still has contradictory policies. On one hand, it is promoting an open market economy in an effort to cope with the crisis. On the other hand, the government is controlling the financial system through the State Bank.

estimates include "extra-budgetary" sums, that is, revenues raised with government permission as surcharges on existing taxes, but expended without the need for government clearance and outside planned spending. One source suggested the sums in these categories might be large.

If we leave the area of the four central cities, the picture becomes more obscure with extraordinary difference in per capita revenue-raising by locality. The 1994 data show D.7,196 for Hanoi or D.2691 for HCMC, and between D.52 and 55 for the three apparently poorest provinces (on this measure) : Lai Chiau, Ha Giang and Cao Bang in the Northern Mountain region.

Over time, implementation of the budget law will help to smooth out some of the uneven application. But new steps will need to be taken, many of them recommended by Rao and Litvack, to put financing on local services and infrastructure on a footing which is sustainable, more efficient, and more equitable over the long term. Local governments need to link revenues to the services delivered in order to induce the most efficient use of resources for investment and recurrent costs. Without linking their cost structure to income, the budget pressures act only to shape annual negotiations with the central government. Additional incentives are needed, like own source revenues coupled with more freedom in spending.

Rao and others have recommended assigning tax bases (as opposed to rates), improving the collection structure, and implementing a formula-based transfer system along with new authority to allocate according to local need. The system should also shift some of the financial burden to local governments and end users.

Mobilizing revenues. Government estimates show a high demand of provinces to develop their infrastructure projects, amounting to around US\$4 billion a year for the next five years. Several sources should be explored, including own-source revenues from taxes, fees and self-financing instruments such as equitization¹⁶; and private sector funds raised through project finance and capital markets.

Own source revenues, both local taxes as well as fees for service, are also needed to help tighten the fiscal connection at the local level between services and infrastructure provided by government and the costs that local users should bear. At the moment too many, not too few fees, are imposed at the local level. In Haiphong, for instance, as many as 31 were identified at the ward level, but often with no full accounting of the legality, purpose, or yields, and usually without a linkage to the actual costs of service. For instance, drainage fees are collected by some municipalities, but taxpayers have no information as to whether the fees they pay are applied to drainage works. Further analytical work is needed to explore what new steps might be taken to develop and implement improvements in financing tools for local governments.

Borrowing is another option that can be explored at this stage. Of the four levels of government (central, provincial, district, and the communes) only the central governments and the provinces can borrow commercially and access capital markets. But again, if done at all, borrowing should be pursued with great caution because a great deal of work is needed to increase the soundness of the banking and financial sectors. Although, the limits on borrowing are unclear, it is estimated the this amount cannot exceed 30 percent of the total of investments in a fiscal year. In addition, the provinces borrow from people's enterprises and banks, which are part of a system the soundness of which remains to be strengthened.

¹⁶ With the IFC the Government has been selling shares of state own enterprises to the private sector. So far about 50 have been equitized and 63 more are on the list.

IV Policy Actions to Achieve Sustainable Cities

The perspectives gained from the tale of two cities has identified key policy issues and assistance needs for cities to make a more effective contribution to national development over the next two decades as Vietnam's population grows more urban. In most respects—in relation to regional approach, land and property rights, infrastructure, environment, and institutional capacity—the issues analyzed in this report mirror the general thrust of the government's UDS 1996-2000. But in important areas, the present report goes further. It aims for cities to achieve higher levels of sustainability, to become more efficient, to make a greater contribution to national development through greater fiscal and management efficiency, and to play a role in assisting the poor, both urban and rural. Though many policy actions can be identified to achieve sustainable cities in Vietnam, moving forward depends on breaking a impasse concerning decentralization of governance.

Breaking the Impasse of Governance: Increasing Incentives and Scope of Action at the Local Level

The large cities and some of the smaller, class one cities, already enjoy a degree of freedom of action and scope of management that enables them to take advantage of policy incentives to become more proactive, even innovative, within the present framework of national policy. For instance, the budget reforms of 1996 increase incentives to revenue collection. And some cities have shown ingenuity in organizing industrial processing zones with one-stop shopping for businesses.

But a cloak of control placed around cities by central government strictures effectively creates disincentives for greater innovation in planning, financing, and implementing growth strategies. For example, the central government approves large foreign investments, property transactions, and tax changes, and this centralized control limits local government scope of action. Variations in fiscal transfers year to year has the same effect of making long term planning unfeasible. These factors make it more difficult for cities to compete internationally in terms of trade and economic growth.

The controls and other restrictions create an impasse. Cities do not have the latitude to prove their ability to perform well. National officials are not inclined to loosen strictures until they see evidence of responsibility by autonomous cities. Stronger incentives are needed to break the impasse now holding cities and the nation back from faster growth. Making the incentive system more effective requires making the finance system more transparent and providing stronger rewards for good performance.

Progress has been made on many issues, for instance the 1996 Budget Law and the 1993 Land Law, but advances have been neither consistent nor even. Budget performance has been uneven among the cities, and implementation of regulations in land have evolved slowly. On the

other hand, the government is in the vanguard of nations in signing the proposed international charter on Local Government, sponsored by UNCHS, which articulates the principles of rights and responsibilities of good local government, including autonomy, participation, sharing of functions, and accountability. These principles are entirely in line with the analysis in this report. Policy actions spelled out below will help to strengthen city contributions to national growth.

Policy Actions and Reform

The key areas of policy action needed to achieve sustainable cities and allow them to contribute to national objectives are grouped in four areas, listed below, and spelled out in greater detail in Table 4-1.

1. **Economic development.** More emphasis needs to be given to economic development in cities. The GOV could consider adopting a policy position which helps cities play a stronger role in advancing local economic development.

The foregoing analysis has identified potentially new directions of growth in both Ho Chi Minh City and Haiphong. The analysis shows that both cities can augment and strengthen current city strategies by moving strategically into specific areas of economic activity. This should be coordinated with national policy. National government also can give support to cities by encouraging more economic content in their master plans. These should be more broad based strategic plans, derived from inclusive participation of civil society and based on comparative advantage of each city. Suitable targets for the coming years would be to develop strategic economic development plans for two cities and, for two selected cities, to experiment with greater flexibility for cities to approve investment projects on a no-objection basis.

2. **Shelter, environmental quality and the poor.** The policy objective for livable cities in Vietnam involves many steps in shelter, property rights, an approach to poverty which involves both rural and urban settings, and incorporation of environment into planning and investment.

In shelter, the objective should be to increase the supply of shelter for low income populations. This involves building on actions already taken in 1998 designed to establish speedier procedures in property transactions in urban areas. But it also means moving further, to establish a system to freely trade property. A larger, and more long run policy objective, is to strengthen the housing production system. The GOV must consider building up the system of private suppliers of housing and developed land in order to expand the housing stock and open access to it by all segments of the population. In order to fill in housing stock at the lower end of the spectrum, policy actions are needed in the form of specific programs in owner-built, low-cost shelter would require upgrading and credits to low income populations.

A second area related to “livable” cities is poverty strategy for the urban poor. Policy actions are needed to develop income generation for the rural and urban poor living in cities or in

Table 4-1
National Urban Policy Targets

| Economic Development | | Shelter, Environmental Quality and the Poor | | | Governance and Management | Finance |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Property Rights and Shelter | Poverty Reduction | Environmental Quality | | |
| Objective | More emphasis on economic development in cities and regions | 1. Increase the supply of shelter, land, and services 2. Establish stronger property rights and security of tenure | Broaden efforts to address poverty reduction through more efficient urban/rural interactions and improved targeting of assistance to low income neighborhoods | Strengthen control over environmental planning and enforcement at local and regional levels | More autonomy in investment decisions and use of revenues; improved personnel skills, and increased responsiveness to demand for local services | Greater balance and fairness in inter-governmental finance and more reliance on own source revenues. |
| Indicator | 1. Pilot cities adopt Local Economic Strategies and priority 2. Increased authority over investment planning approvals at local level. | 1. Increase in lending and housing starts. 2. Cadaster to register property; 3. Power at local level to approve property transactions 4. Reduce transactions costs in property exchange and time taken for transactions. | 1. Improve off-farm income 2. Improve access to and facilities for city-regional markets 3. Improve shelter and neighborhood infrastructure 4. City assistance in retraining and education grants. | 1. Environmental action plans (using public consultation) 2. Improved water and air quality, including coastal zones. | 1. Public consultation becomes an integral and formalized part of the decision-making process for public investments and is supported by legislation. 2. Skills profile improved. 3. More participation as basis for defining spending priorities. | 1. Improve equity, transparency, and consistency of transfers and grants. 2. Rationalize local tax base 3. Own source revenues increase and higher proportion of investment costs are met locally. |

Table 4-1, cont.

| | Economic Development | Shelter, Environmental Quality and the Poor | | | Governance and Management | Finance |
|--------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Property Rights and Shelter | Poverty Reduction | Environmental Quality | | |
| Target | <p>1. At least two pilot cities to develop economic strategies.</p> <p>2. Investment proposals approved and initiated by PCs in 2 cities.</p> | <p>1. Clear land titles in significant sections of cities and authorization of 2 selected local governments to approve sale and exchange of property.</p> <p>2. Cadaster prepared in pilot areas of 4 cities within 5 years.</p> | <p>Expanded shelter and infrastructure (roads, drains, markets etc) in 2 cities within 3 years; experimental safety net programs targeted to SOE layoffs.</p> | <p>1. Action plans (including regional issues (e.g. coastal zone) adopted by at least two cities within 3 years</p> <p>2. Improving trend in measurements fo air and water quality.</p> | <p>1. Working experiments in 2 cities within 2 years</p> <p>2. Establish new standard in popular participation and consultation</p> | <p>1. Cost of water, wastewater and solid waste services is fully met by users in at least two cities within 5 years.</p> <p>2. Reduce numbers of local taxes applied consistently across city</p> <p>3. Consistent levels of transfers from central government.</p> |

their orbit. Strategic economic plans referred to earlier will help. But specific actions in micro credits and productive infrastructure in the form of provincial roads, warehousing, markets, and small enterprise development will help to foster agricultural production and marketing as well as the creation of small enterprises in commerce and light manufacturing. Further analysis is needed before definitive actions can be taken in these areas.

Finally, environmental factors need to be integrated more fully into urban and regional development plans. At the neighborhood level, residential environmental circumstances of low income settlements are important for health and safety, and the shelter and upgrading, and neighborhood improvement programs can help. Second, the larger scale environmental improvements must be taken into account in urban and economic development plans, especially for sensitive environments like coastal zones, tourism areas in natural parks, and in historically and culturally significant areas.

3. Governance and management. The policy objective in governance and management has three aspects. The first is to strengthen the autonomy in decision making so that local governments can take decisions concerning investments and development projects. The second can be described in terms of demand-based governance, which means that public participation in articulating felt needs of the community should be given greater weight in planning and resource allocation decisions.

Cities need to have freedom to attract and conclude trade and investment deals quickly and definitively with the private sector if they are to be competitive with other cities in the region. At the moment, central government approvals are needed for investments in cities which exceed a certain threshold in economic value or geographic impact. The GOV should allow greater freedom for cities to make these and other decisions, such as spending own source revenues.

Second, the professional qualifications of rank and file city workers must be improved. In addition, modern management systems need to be installed, such as operating in a competitive environment with program objectives and budget constraints. National policy should reflect this commitment to improve the quality of city management.

Third, the mode of local government more demand-based and subject to wider participation and accountability. Under the present circumstances, local governments work to fill out their prescribed budget envelopes with spending programs. National policy should encourage cities to base spending on priorities as articulated by citizens and communities.

4. Finance. Intergovernmental finance should achieve greater balance and fairness, and cities should rationalize their tax bases and rely more on own source revenues.

The system of intergovernmental finance should rely less on local governments as collection agents for the central government. Instead, the GOV should move to put cities on a more independent financial footing. Own source revenues should increase and form a higher proportion of investment costs. At the city level, the GOV should encourage cities to rationalize city tax bases, simplifying them and linking taxes and fees to services and infrastructure. Cities should be rewarded for gathering a greater share of their financing needs from local resources.

Central government should also improve the equity, transparency, and consistency of transfers and grants.

Geographic Focus of the Urban Development Program.

Three areas are strategic to the country and merit special attention in policy actions because they are capable of achieving the growth and welfare objectives of national policy in the short run. These areas 1) are the deltas of Ho Chi Minh City and Haiphong; 2) the central development triangle around Danang and selected intermediate cities and towns; and 3) the Border with China.

The two economically most important areas are :

- Ho Chi Minh City – with potentially, further extension to the Mekong Delta. It is sometimes suggested that a HCMC-Vung Tau ‘corridor’ is emerging; however, unlike the situation in the north relative to Haiphong, southern sea-borne exports are tied locationally to Ho Chi Minh City port, not Vung Tau, so any drift of industry southwards towards Vung Tau is likely to be limited. Vung Tau with its important oil and tourism industry remains a separate economic location to that of HCMC.
- The Hanoi-Hai Duong-Haiphong corridor – with potentially, further extension across the Red River Delta to Nam Dinh on the southern bank of the Red River.

These two areas generate the major part of national industrial and agricultural output, contain almost half the population and, paradoxically a high proportion of the rural poor.

The towns and cities on the border with China are growing with great speed on the basis of cross-border trade, even though much of the activity appears to be clandestine or at least ill-recorded. Part of the border is touched upon in the case study of Haiphong (the Lao Cai sector), but there are equally important crossing points in the other provinces – Quang Ninh, Long Son, Cao Bai, Ha Giang etc. The policy and operational objectives in these cases should be to capture the economic opportunities this trade is generating, and to accommodate the rapid expansion in terms of infrastructure, shelter, and services.

Another area for priority consideration (but as yet unexplored in the degree of detail given to Haiphong and HCMC in this report) is the cohort of intermediate cities and towns which can meet eligibility criteria to participate in the program.

It is important to note that special consideration should also be given to secondary cities and towns of the poorest areas, the northern and central highlands, but including here also the important cities of the central coastlands. These towns are of concern for reasons opposite to the boom areas along the border. They are lagging regions in which the incentives and tools of local economic development and management may not apply. Development in these two geographical areas also requires reform at different levels– from the macro economic to the local planning framework. Different provincial authorities have undertaken different schemes to exploit local opportunities or to deal with extreme poverty, without it being very clear how far these are

following a common format or being susceptible to a common policy approach. For the lagging regions, a separate policy stance and modes of assistance (national transfers and safety net programs) may be necessary, but this subject needs much deeper exploration and analysis in order to identify the way forward.

Eligibility Criteria

The principal city-regions, HCMC and Haiphong, which have been the focus of this analysis, would appear to be the most likely to show readiness to participate in policy actions described earlier. Haiphong has already made a formal request for assistance to prepare a development plan and to address transportation and shelter, among other issues in the city. HCMC has shown a readiness for reform and has eagerly taken part in a Donor Coordination Group, set up in early 1999. Both cities are prepared for assistance, meet essential eligibility criteria (below) and can absorb much more assistance than the assistance agencies can offer. However, allowance should be made for other cities, even secondary cities, which can demonstrate progress in meeting the eligibility criteria.

Criteria should include evidence of a city's ability to carry out reforms; to have shown leadership in strategic planning and in carrying out experiments in public participation in local affairs, particularly investment decisions; to have taken actions to integrate environmental actions in strategic planning; and have shown leadership in finding ways to provide aid for the poorest. But it is thought that in the first one or two fiscal years in which an urban policy is in effect, the largest development triangles would be the focus of assistance. In subsequent years, depending on the progress attained and agreements with the donors, other cities, including secondary cities and towns could then play a more active role as beneficiaries of credit.

Volume of Capital Requirements for Urban Development

Though it is difficult to calculate with any precision the volume of capital needed for building and infrastructure in Vietnam, for purposes of illustration, Table 4-2 provides an estimate of the envelope of capital requirements for national urban development in the next decade. Note that these figures are gross estimates. Further, they do not include transport sector. A JICA and a UK sponsored study estimated that as much as US\$7 billion would be needed over the next five years alone, just for HCMC and Hanoi. The figures in Table 4-2 reflect levels of service at, or moderately above, present standards (e.g., 100 liters per capita per day of water), associated sewerage, and 10 m² per capita of living space, and for other public services including drainage, solid waste, and miscellaneous works, a figure equivalent to roughly twice the current level of per capita investment by cities and towns is used in order to reflect long-term sustainable levels. The resulting unit costs have been extended (in the last column) to reach a gross total of around \$11 billion, to cover the anticipated population increment in cities (approximately 10 million of the 30 million anticipated by 2020).

These estimates are conservatively small for several reasons. First, the costs of land and shelter are assumed to be at the low end of the spectrum. Second, the estimates do not account for the backlog of presently unserved populations nor for the upgrading of infrastructure and services that may be necessary.

Table 4-2 Envelope of Capital Assistance Needs

| Financing Needs for Vietnam | Unit (Household size=5) | Unit Costs (US\$) | Total Costs by 2010 (for 10 million new urban residents) \$US Billions |
|-------------------------------------------------------|-----------------------------------|--------------------------|-------------------------------------------------------------------------------|
| Land | 50m2 @ \$30 per meter (5 persons) | 1,500 | 3.0 |
| Shelter | \$1,500 per unit of 5 persons | 1,500 | 3.0 |
| Water and sewerage | 100 lcd @ \$300 | 300 | 3.0 |
| Public sector services (drainage, solid waste, other) | \$20 per capita per year | 200 | 2.0 |
| TOTAL | | | US\$11.0 billion |
| Financing Needs for Key Cities | Unit (Household size=5) | Unit Costs (US\$) | Total Costs by 2010 (for 3 million new urban residents) \$US Millions |
| Land | 50m2 @ \$30 per meter (5 persons) | 1,500 | 900 |
| Shelter | \$1,500 per unit of 5 persons | 1,500 | 900 |
| Water and sewerage | 100 lcd @ \$300 | 300 | 900 |
| Public sector services (drainage, solid waste, other) | \$20 per capita per year | 200 | 120 |
| TOTAL | | | US\$2.8 Billion |

For the key cities in focus of this report—for instance, HCMC, Haiphong-Halong, together with a few, selected middle size towns and border cities—would require a little under \$3 billion over the next decade. Again, land and shelter will account for around half of this total and is assumed to be financed largely by occupants (i.e., self-financed), leaving around \$1.5 billion in urban infrastructure. Existing donor commitments for these purposes are in the \$500 to \$600 million dollar range for the decade. The remainder, another \$900 million to \$1 billion would have to be met from locally generated revenues, borrowing from development agencies and commercial banks, and other more innovative sources such as capital markets. Therefore Bank resources should be deployed strategically and aimed at leveraging private investment from other sources, i.e., direct and indirect contributions from households in savings, sweat equity, and taxes, as well as from capital markets.

V Assistance for Sustainable Urban and Regional Growth

The Role of Donors: Coordinating Perspectives

Development assistance agencies and the Government need to coordinate assistance to support achievement of sustainable urban development in Vietnam. Assistance agencies need first to agree broadly on a comprehensive perspective regarding urban development. In the perspective adopted in this report, cities can foster economic growth, but they need help to do so. Second, taking a city-wide perspective, for economic development purposes, extends to and incorporates the rural poor in surrounding regions. Strategic plans for city regions are an important input for this approach. In addition, a major new effort is needed to address the shelter and infrastructure needs of the urban poor, and through this mechanism, improvements can be made in city management and finance. Above all, assistance agencies should aim to integrate the various, but heretofore separate, sectoral concerns of urban development within a comprehensive framework. In this regard, development of cities and regions is to be seen as a way to impact urban and rural poverty primarily through development of a region's economic assets. The strategic approach in other words would aim focus assistance on city-regions and within those areas implement a variety of assistance programs, including new forms of assistance to improve the residential circumstances of the urban poor.

Following discussion of this report with government officials (in October, 1999), we recommend that a donor's conference be organized by Government to be held early in the year 2000 to discuss and agree on an approach to urban development, and to reach agreement on division of labor for providing assistance to the Government for urban development (see **Sequencing of Next Steps** at the end of this Chapter).

Dimensioning Assistance for Reform and Investment

Although this strategic approach is keyed to overtures already being taken by the Government, due to the complexity of issues in urban development, it is proposed that this strategic approach would be applied initially to selected cities. Selection of cities to participate in this strategy would be conditioned on the meeting of eligibility criteria, as discussed earlier (in Chapter IV).

In order to take the next steps forward, it is recommended that a policy stance be set out by Government in a letter or declaration which spells out the intent and actions of GOV wishes to take, indicating policy milestones regarding urban development. Such a statement would define a reform agenda with objectives and any necessary legislation (national and local), aimed at addressing major policy areas, such as those required for sustainable cities. In addition, the statement would lay out investment lending and non-lending assistance needs for participating cities (discussed below), together with a proposed implementation plan extending over the medium to long run. This could be launched at a conference of all key donors with a view to attracting the necessary support for the initial years. It is envisaged that the policy statement would include topics (referred to earlier in Table 4-1), such as greater clarity in resource transfers

to local governments, speedier system of property transactions, institutional strengthening of local governments, or the incorporation of environmental quality objectives development plans.

It is in this context that the GOV would invite qualifying cities to prepare strategic development plans to the year 2010, which identify needs that are both strategic and affordable. Assistance agencies should be prepared to help in the preparation of these plans. It is envisioned that the plans would be fashioned along the lines of the “City Development Options for Haiphong,” (Campbell, 1998), quite distinct in intent and scope from the customary city master plans typical in Vietnam. Strategic plans are intended to identify the driving forces of economic growth, to indicate the most pressing social and service needs in the city, and to formulate ways to build on their economic comparative advantage while improving services and living conditions. Investment needs would be identified and would cover the four main areas indicated in Table 4-1.

The specific elements in any one city’s proposal would depend on its comparative advantage, strategic objectives, and institutional capacity. It is anticipated that two or three cities would be included, and that the program would incorporate a wide range of reform and investments in infrastructure and services, including development of real estate markets, neighborhood upgrading; water; sanitation; drainage; pollution abatement, and transportation, including regional linkages like roads, bridges, markets, and warehousing.

Investment needs of the few participating cities would be consolidated into a comprehensive investment program which would be presented by the GOV at a donor’s conference (to be held in the latter part of the year 2000) with a view to attracting the necessary investment lending and non-lending support.

Comprehensive Urban Development Program

The consolidated investment programs from participating cities, together with the policy statement from the GOV, would constitute a comprehensive urban development program. The actual scope of financial and technical assistance in support of the program would be defined in consultation with the Government and other donors.

The idea of this program is to finance high priority investments that cities feel they need, but to offer credits for these purposes only as long as progress is being made, year by year, on the policy reforms, as agreed in a policy statement by the Government. Infrastructure investments of the kind contemplated in this strategy—small scale infrastructure at the neighborhood level—have already enjoyed a record of high internal rates of return and good performance, as rated in the most recent portfolio reviews (World Bank, QUAG, 1998). This strategy would build on that record. The principal change between the current modus operandi among Government and donors is that this proposed approach aims to broaden and integrate the current assistance program in infrastructure, which is framed in narrower, sectoral terms. Annual reviews would be held to evaluate the progress made each year, launch detailed plans for the succeeding year, and, if appropriate, invite additional donor participation.

This approach is intended to be an adaptable instrument whereby a commitment in principle on the part of assistance agencies is made to provide support over several years. Actual allocation of funds in any one period would depend on attainment of policy milestones mutually agreed in advance.¹⁷ As objectives or milestones are met, an investment tranche would be released, as predetermined by the agreed urban assistance program. The pace and level of investment would therefore be largely controlled by Government and the participating cities.

In order to gauge the practicality and feasibility of development needs, demand factors would have to be considered nationally and in specific cities, taking into account rates of household formation, migration, and evolution of household income. Different scenarios would be developed to map out prospects for formal housing; needs for land and serviced land plots; volume of rental housing available; water and sanitation; transportation; and other infrastructure and services, such as microenterprise credits and services to the poor. The scenarios would specify goals referring to the overall improvement of the housing situation, water, and transportation facilities; yearly investment ceilings, and for the first and subsequent implementation years, a list of agreed investments, contemplating a number of sub-sectors, such as formal housing, access to land, urban upgrading, among other things.

An urban sector agency of international reputation (such as the Urban Land Institute in Washington, DC) would develop and review annually a calibrated model for these sectors, developing and adding new data, providing policy-makers with information on the achievement of goals. Annually, on the basis of the information provided, representatives of Government and the participating cities would meet with the donors to review execution of the program and confirm investments for subsequent years.

The advantages of this approach are that the high growth potential of cities can be fostered, possibly even improved, and the benefits of growth extended to a wider region to impact the rural poor. At the same time, a productive approach to land and shelter will help to activate heretofore dormant aspects of the economy, in housing construction and mobilized savings, particularly among the most important target group, the urban poor. None of these actions are being taken under the current strategy. In addition, the comprehensive strategy fosters reforms in urban governance, and this is designed to increase public sector efficiency and reduce the braking effects on the national economy of inefficient resource allocation and inefficient management at the local government level.

Comparative Advantage of Assistance Agencies and Modes of Assistance

The comparative advantage of assistance agencies with respect urban development should be mapped out so that the Government, as well as each assistance agency, can gain a better understanding of relative strengths and interests of each actor. The donor's meeting (recommended above for early 2000) is seen as an opportunity to discuss this report and to share information on present and prospective division of labor regarding assistance in the field.

¹⁷ The approach recommended here is essentially equivalent to an Adaptable Programmatic Lending (APL) in the terminology of the World Bank.

In this connection, the comparative advantage of the World Bank lies with its experience in policy reform and in shelter and city improvements in infrastructure and small scale neighborhood works, which would account for at least \$50-\$75 million in lending per year. The Bank's experience in squatter upgrading is the mode of solution fits the housing and shelter needs in Vietnam. On site upgrading have been solid successes in Indonesia and the Philippines, and more recently in Latin America, they have shown very bright promise. Further detail on donor assistance can be found in Annex 5.

Lending Assistance. While the Bank, coordinated with other donors, should be prepared to offer lending assistance for a wide variety of urban and regional needs, special emphasis should be given to building up the physical and governmental tissue of development by addressing housing, shelter, and neighborhood scale infrastructure and also, in a few key places, regional infrastructure which integrates city and countryside, such as roads, bridges, regional marketing centers, warehousing, and the like.

Financing for much of the land and shelter would come from household savings and investments, as it has over the recent past. Householders at the low income range typically spread investments in shelter over a multi-year period that can last for decades. Commercialization of the housing sector, with the creation of housing and credit policies, has been effective in many countries to spur shelter expansion (Burns and Grebler, 1979; Strassmann, 1982; World Bank, 1989; World Bank Housing Paper on Malaysia, 1989). Most of the public sector services and infrastructure will need to be financed through public investment and donor assistance.

Efficiency in governance and city building—lending for “small bricks.” Many cities in the country have already achieved success at the neighborhood level with small scale programs implemented locally. These implementation modes, referred to as the “small bricks” approach in the Haiphong report, are especially suited to the present comprehensive urban development strategy (Campbell, et al 1998). The decentralization of water management to the ward level in Haiphong is an example. In it, neighborhood associations take part in identifying services and infrastructure they want most, and in the process, become educated about the costs, including their own tax and fee responsibilities. The interactive process at the local level also brings local government more squarely into contact with neighborhood and residents' associations, and begins to build the basis for more demand-based governance.

Box 5-1: “Small Bricks” Neighborhood Improvements for the Poor in Mexico, Bolivia, Indonesia, Philippines and New York.

Many countries in the region and other parts of the world have been building cities “from the ground up” by involving neighborhood residents in decisions about priorities, form of cost recovery, and implementation details in low income communities. In each of these cases, local community groups are made responsible for important aspects of community building. They define need in open democratic assemblies, help to carry out investments, often by contributing unskilled labor in work crews or provision of tools and materials, and they help to recover costs through direct contributions, benefit levies, property taxes or (in the cases of water and electricity and gas) user fees (Campbell, 1997).

Mexico invested about US\$2 billion annually through community groups in programs such as these during the first part of this decade, and leveraged through counterpart contributions perhaps another US\$300 million (Campbell and Freedheim, 1994). Bolivia’s National Participation Law gives community groups an important role as “watchdog” over municipal administrations. Indonesia, and the Philippines invested nearly \$1 billion, again leveraging local counterpart, for improvement programs in Indonesia’s Kampongs (low income settlements) and, in the Philippines, squatter areas in Manila’s Tondo Foreshore (World Bank, 1996). Each program relies heavily on grass roots community involvement. Business Improvement Districts (or BIDS) are an analogous form of action in New York where community residents, corporations, and commercial establishments take part in setting goals, helping to implement investments, and improving security in neighborhoods. These cases demonstrates the importance of involving local neighborhood groups in managing, governing, and building cities.

The sector policy should build on this experience to improve a broader range of shelter and neighborhood infrastructure and, at the same time, to tie this approach to strengthening city governance. Municipal and neighborhood improvement projects financed by the Bank over several decades, e.g. the Kampung Improvement Programs in Indonesia, offer ample precedent for how this might be done in Vietnam. The city can meet several objectives—improving the competitiveness of light manufacturing businesses, upgrading residential circumstances of the poor, and improving the environment and amenity of neighborhood, or downtown areas— by offering credits to organized groups at the neighborhood level to upgrade shelter, streets, drainage, parks, markets, and the like. To do this, the city needs to mobilize neighborhood and small scale enterprises to participate in defining and then implementing the construction of facilities and services needed to improve health and welfare (streets, lighting, drainage, water and sewerage) or to support small scale production facilities for public uses (roads, markets, storage) or private use (vehicles, production equipment). Annex 5 depicts in greater detail some of the shelter policy issues that need to be addressed to move forward in the specific aspects of shelter and housing.

We recommend also that the strategy in Vietnam consider offering special incentives—grants and technical assistance—to cities and regions which take initiative in creating special programs for integrating rural production, improving neighborhoods and shelter, or assisting

urban poor and perhaps low income households which have been directly affected by SOE reform. These specific, targeted steps fit smoothly into the comprehensive program outlined in this report and would help to reach high priority objectives already identified by the Government and agreed by the Bank in the 1998 Country Assistance Program.

Non-Lending Assistance. This sector strategy will require substantial nonlending assistance (including technical assistance and analytical work) over the coming years, tied very closely to a lending program. The detailed topics should also be a matter of negotiation and collective decision with local and central government, but the primary areas of concern, if not priority, emerging from this analysis are the following:

Strategic plans local economic development. As already noted, to provide the incentives for more efficient management of local services and infrastructure, local governments need to be given more autonomy to make decisions about public investments and even private matters, such as foreign investment approvals, in short, to identify and carry out a local strategy of growth. With this autonomy should come greater freedom in the use of revenues as well as greater accountability in doing so. To qualify for these freedoms, local governments should adopt specific provisions in strategic plans to cover economic development, environmental quality, shelter and infrastructure, and strategies to mobilize own-source revenues. Haiphong has already made a request for assistance to bring the city's master plan up to date and in line with the national government requirements. It should also include environmental strategy as an integral component (see Environment, below). There and in other cities, the scope of work for nonlending assistance in this category should also include how best to transfer functions to lower levels of government, how to handle previously national scale wages and salaries at the local level, to help with redundancies, and sharing of functions in health, education, and welfare, particularly in poverty.

Governance. This analysis has made an argument for "demand-based governance" which means that the focus on public sector must shift downward to register with greater accuracy the needs of citizens, as envisioned in Doi Moi and budget reforms of the past five years. The objective of this policy is that cities increase the likelihood that the highest priority service needs are being met and that local resources are allocated to their highest and best use in investments, services, and maintenance costs. Analytical work is needed to examine past and present experiences in the country with more participatory approaches, with transparency, and with accountability built into the process at the local level, along with recommendations on ways to institutionalize more effective participatory approaches to public sector choice making in planning and investments.

Property and real estate. Without stronger, protected, system of property ownership and transfer, the latent assets in real estate will remain latent. At best, they will not respond to the rapidly changing needs for transformations needed with growing cities, such as for shelter, transportation and private uses. Analytical work is needed to understand the stakes involved in shifting to market-based land and property trading system, to chart out the legal and administrative changes needed, and to identify areas of overriding national interest to protect cultural and natural resources, and to review resettlement practices and legislation with a view

toward balancing both public and private interests in matters of public domain, grievance, compensation, and the like.

Poverty reduction. The poverty assessment conducted for the present strategic work disclosed a high priority need for a more comprehensive approach to urban and rural poverty, and for specific assistance to the poor in cities, such as new migrants, female headed households, and persons released from SOEs. The Bank should coordinate with other donors to examine the many policy and operational aspects of broadening the safety net of assistance for the urban and regional poor, and begin to formulate a more comprehensive plan of assistance to include income generating activities, credits and grants for shelter and education and basic food needs, and to identify the division of labor between central and local authorities.

Environmental quality. The broad approaches to managing the urban environment should be aimed at bringing urban environmental quality to within quality standards of internationally competitive cities in the same rank and to mobilize interest and community participation to identify environmental problems, set priorities, and agree on concrete steps to move forward. Work is needed in relation to measuring present problems and meeting pollution standards, in developing public awareness, and in strengthening institutional capacity in specific cities. One important principle is that environmental actions should be integrated as a coherent part of the city strategic development plans. A separate area of work is to begin documenting environmental pressures in larger regions, for instance along coastal zones and mangrove areas, where urban pressures may be threatening natural or cultural resources in the future.

Sustainable Finance. Perhaps the most important area in finance is to explore ways to increase financial and fiscal incentives to local governments. This requires shifting more of the financial burden for recurrent and capital expenditures to local governments as well as to consumers of urban services and infrastructure while, at the same time, allowing local governments to keep a larger share of the revenue they raise. Central government also should be more even-handed, consistent, and transparent in its sharing of revenues. For both local and central government finance, analytical work is needed. For local governments, work is needed to explore a better assignment of tax bases as well as new fees and pay-as-you-go schemes for local services. For national government, analytical work should help to devise a national system of revenue sharing that accounts for general need and local idiosyncrasy. Borrowing and capital markets, as well as internal cash generation, should also be given more emphasis as cities move forward with stronger institutional and financial capacity.

Sequencing of Next Steps

A suggested sequencing of steps covering the proposals made in this report—on reform, the policy statement, plan-making, and assistance programs—are summarized in Table 5-1.

As recommended earlier, following discussion of this report with government officials (in October, 1999), we recommend that Government organize a conference to agree on an urban strategy and to reach agreement on division of labor in providing assistance for urban development. During the first half of 2000, the Government might begin selecting cities to

Table 5-1 Sequencing of Next Steps

| Activity | Calendar | | |
|--------------------------------------------------------------------------------------------------|----------|------|-------|
| | 1999 | 2000 | 2001 |
| Present and discuss this document to Government and other development agencies | X | | |
| Conference to agree on an urban strategy and to identify cities willing to participate | | X | |
| Participating cities prepare Strategic Development Plans with assistance of external consultants | | XXX | |
| Government prepares a draft statement of sector policy | | X | |
| Donor conference to discuss statement of sector policy and to invite investment support | | X | |
| Preparation of assistance programs | | | XXXXX |

participate and begin drafting a policy statement. Towards the end of 2000 or early 2001, a follow up conference on donors would be held to discuss the policy letter and pledge financial support. Preparation of assistance programs would begin for selected regions in 2001.

Annexes

Annex 1

Cases of the Urban Poor in Haiphong: Three Profiles

The following cases were drawn from some 27 such stories gathered by Prof. Luan and his team during the course of their poverty and social survey in Haiphong in the spring of 1999. The cases are selected to portray different stages in the domestic cycle. The stories are representative of many in the full set and can be seen as typical profiles. The interviewers sought to develop a qualitative understanding from their informants of the conditions, survival modes, and perspectives on the future. They were written in Vietnamese by the survey team, translated into English, and have been lightly edited (to ensure anonymity and for clarity) for presentation here.

Ms. TTT

She is new to the city and has worked for the past two months. She is unmarried and comes from Thanh Ha district, Hai Duong. Her family-- parents and seven sisters and brothers-- all do farming work in their native village. She is the youngest and wanted to go to work in a city. Her parents agreed. Her aunt lives in Hai Phong and the aunt's daughter works in the same factory. She is working as an apprentice and an assistant shoe sewer. Her present salary is about VND200,000/month, after finishing her apprenticeship it will come to about VND500,000/month. Even at this level, the remuneration is low because the work is hard and the working hours are very long, some times from 5.00 a.m. to 6.00 p.m. Relationship among workers in the factory is very good.

She doesn't tell her parents about the hard working condition in the factory because she has been bent on going to work in town in a hope to help her family a little and to get out of the muddy field work. She thinks she can stay with her aunt indefinitely. Though her parents do not request it, if she is paid an official salary, she will be able to save and send them money. At present, she still goes home for supplies of rice for her meals.

Perspective on the future. She wants to marry a husband in the city as her life after marriage will be more leisured here. If she were to marry in her native village, it will be hard. Since she just started working here, she has no specific plans. She does not intend to look for other work. She will let things come what may.

The family of Mrs. PTR

Her husband, aged 33 is a trishaw driver and wife, aged 28, raises pigs and distills alcohol. Married for seven years, they have no children. They recently moved from Tien Lang.

Their house is a little structure on a long, narrow plot of land. From the alley down along the entry way is a row of hen coops, pigsties, kitchen and water tank, a small yard then comes the house. It is clean inside but around it are rubbish sites as it is situated on the edge of residential quarters. The house owner is a thin, weak and pale man. It was bought last year at the price of VND13 million and some repairs were made after that.

Previously, while still living in her native village, the wife worked as a seamstress. When moving to the city, she worked at a shoe factor, thanks to the introduction of her uncle who works at a chemical factory. Her monthly income is about VND 400,000-VND 500,000. After nine months of working, she stopped because the working time is prolonged and her poor health does not permit her to continue. It has been

seven months since she quit her job. Previously, she worked all day and no one did the house keeping. Now she stays at home to distill alcohol and raise pigs and chicken. Previously he did farm work in the native village and assisted her in tailoring.

Perspective on the Future: For the time being, she sees herself staying home to distill alcohol and raise pigs and chicken. If she could get more money, she could raise more pigs. At present she has only six (whereas before, in her village, she would raise ten or 20.) She hopes to find a job where her skills in tailoring would give her a higher salary. But the working hours must not be too long. With additional money, the husband would buy a motor-cycle to work as a *xe om* driver (transporting passengers on the back of a motor-cycle). For now, as long as they can keep raising pigs and chickens while working in other jobs, at least there will be no fear of hunger.

Family of Mrs. DTN

The family is comprised of the couple, ages 51 and the wife, 47, and two sons, ages 18 and 15. They want their children to complete the general education, but due to economic circumstances, the eldest son had to give up schooling to assist his parents in their work. The younger one is going to school. Both husband and wife are of Thai Binh province's origin. They migrated to the city in 1969. As the husband was demobilized, he met her and built up a family. She was 29 and he 34 then. She gave birth to her first son when she was 29 and 3 years later, the second son was borne. When coming to their native village, both their paternal and maternal families insisted that they should have a daughter, but due to the difficult circumstances, they do not dare to have more children.

The house they live in is in a very bad condition. It was originally one room in a row of the outdated, grade-4 collective houses and was sold to the couple in 1986. The front part of the house had collapsed in a typhoon 4 years ago and was rebuilt by loans totaling VND 6 million. At present, 3 million are still owed. The back part of the house is still in its original state, i.e. dark, humid and leaking. The furniture in the house is of no value. The family members use the common toilet. They used to be healthy laborers and athletes, but due to strained circumstances and hard working conditions, they are now weak and ailing.

Previously they both worked in state companies (SOEs), she in a construction company and he, in a dredging company. The husband worked for 30 years as State employees, and gave up his job five years before he qualified for a pension. Due to the tight economic circumstances of the family, he could no longer wait for the pension and will apply for pensioning off due to exhaustion in January 1999, which will entitle him to VND100,000/month to contribute to the budget of the family. The wife has been pensioned off due to exhaustion. She has worked for 19 years and 9 months. She is only three months short of being entitled to a pension. She has been receiving exhaustion benefits for 9 years, and the benefits will expire in 2 months.

The couple are hawking coal at present. The coal owner would pour coal on a site and the couple would transport them on a *cyclo* (trishaw) to sell on streets. On an average, they gain VND 40,000 per month from coal hawking plus VND140,000 as her monthly exhaustion benefits. Each month they pay a school fee of VND105,000 for the youngest son, the remaining will be used for daily meals. As for the coal, the funds are from the owner and they are hired sellers of the owner. Sellers will have the profits and the principal will be returned to the owner. For each *ta* (=100 Kg) of coal sold, the seller will get VND 3,000 and VND 2,000 belongs to the owner. The greatest quantity which may be sold in one month is 10 tons, and the smallest is 1-1.5 tons. But now people often buy coal on credit, i.e. coal is transported to their homes and payment will be made later. That means money is received late. She has started distilling alcohol for 1 year. Alcohol will be sold and distiller's grains are used as fodder for pig.

Perspective on the Future: If she could raise funds, she will cooperate with her younger brother in Thai Binh to bring pigs from there to her house, raise them temporarily and sell them gradually. Also, she has a nephew, and with additional money, both could start a business in selling of tea, bringing it from Thai Nguyen and selling in the city. If she had funds, she would never hawk coal and would turn to other jobs. In case she grows old and weak, she will sell sticky rice and will gain some thousand dong each day.

Annex 2 Economic Data on Ho Chi Minh City

Table 1: Ho Chi Minh City: Shares of Gross Domestic Product by major sector, 1994 and 1997, and cumulative growth, ordered by level of cumulative growth
(percentages of Vietnam Dong, constant prices)

Cumulative rate of growth for the city: 48.3 percent

| Sectors | 1994 (%share) | 1997 (% share) | Cumulative growth, 1994-1997 (%) |
|---------------------------------------|---------------|----------------|----------------------------------|
| I. High growth: | | | |
| 1. Construction | 5.4 | 6.2 | 68.3 |
| 2. Industry | 30.5 | 32.6 | 58.7 |
| 3. Trade | 16.7 | 17.6 | 55.9 |
| 4. Transport & communications | 7.8 | 8.1 | 54.0 |
| II. Below the city growth rate | | | |
| 5. Hotels and restaurants | 7.9 | 7.8 | 45.1 |
| 6. Government & other | 15.2 | 14.5 | 41.5 |
| 7. Science and technology | 3.9 | 2.7 | 38.7 |
| 8. Finance and insurance | 3.3 | 3.0 | 35.9 |
| 9. Electricity, gas, water | 1.7 | 1.4 | 22.4 |
| 10. Agriculture and forestry | 3.1 | 2.4 | 14.3 |
| 11. Property business | 7.1 | 5.4 | 12.6 |

Columns do not sum to 100 since minor sectors omitted.

Source: calculated from Table 1, Lindfield (1998), p.4

Annex 2, cont. Table 2 - Ho Chi Minh City: Gross industrial production by major sectors, 1995 and 1997(%), with cumulative growth (percentages of Vietnam Dong, constant prices)

| Sector: | 1995 | 1997 | Cumulative growth,1995-7 |
|-----------------------------------------|------|------|--------------------------|
| I.High growth: | | | |
| 1. Metal products | 3.4 | 4.8 | 95.8 |
| 2. Machinery and equipment | 1.0 | 2.0 | 90.0 |
| 3. Machinery, electrical equipment | 0.8 | 1.1 | 81.8 |
| 4. Medical ,optical instruments, clocks | 0.5 | 0.6 | 81.7 |
| 5. Garments | 4.6 | 5.6 | 62.6 |
| 6. Paper & product | 2.2 | 2.6 | 62.3 |
| 7.Leather goods | 4.2 | 4.8 | 54.9 |
| 8.Rubber,plastic products | 5.3 | 5.7 | 44.3 |
| 9. Chemicals and products | 8.4 | 9.0 | 44.2 |
| 10. Non-metallic mineral products | 5.3 | 5.7 | 42.9 |
| II.Below city's cumulative growth | | | |
| 11. Food and beverages | 27.9 | 28.0 | 32.7 |
| 12. Printing and publishing | 3.1 | 3.0 | 28.7 |
| 13.Textiles | 8.6 | 8.0 | 25.1 |
| 14. Other transport | 1.1 | 1.0 | 23.1 |
| 15.Furniture | 1.2 | 1.1 | 23.0 |
| 16. Tobacco | 6.6 | 5.5 | 11.6 |
| 17. Electricity supply | 2.7 | 2.2 | 11.4 |
| 18. Metals | 4.4 | 3.5 | 6.6 |
| 19. Water supply | 0.9 | 0.7 | 5.5 |
| III.Negative growth | | | |
| 20. Motor vehicles | 1.3 | 1.0 | -4.0 |
| 21. Radio/TV sets | 3.4 | 2.2 | -11.1 |
| 22. Wood and bamboo products | 2.4 | 1.5 | -14.4 |

Columns do not sum to 100 because minor sectors are omitted.

Source: calculated from Table 4, Lindfield (1998), p.7.

Annex 2, cont. Table 3 Ho Chi Minh City, Shares of industrial employment by major sectors, 1994 and 1997, ordered by cumulative growth (%)

| Sectors | 1994 | 1997 | Cumulative growth, 1994-97 |
|-----------------------------------------|------|------|----------------------------|
| I.High growth: | | | |
| 1. Electrical appliances | 0.6 | 1.2 | 167.0 |
| 2. Leather products | 7.4 | 14.3 | 148.0 |
| 3. Furniture | 1.5 | 2.8 | 144.5 |
| 4. Rubber and plastic products | 3.9 | 6.2 | 101.4 |
| 5. Medical/optical instruments | 0.3 | 0.5 | 96.8 |
| 6. Paper & products | 1.7 | 2.0 | 52.8 |
| 7. Garments | 20.6 | 22.5 | 39.2 |
| 8. Metal products | 5.4 | 5.5 | 31.8 |
| II. Below the City's growth rate | | | |
| 9. Machinery | 1.8 | 1.7 | 17.8 |
| 10. Chemicals | 4.6 | 4.2 | 16.2 |
| 11. Printing/publish | 2.4 | 2.1 | 10.8 |
| 12. Textiles | 15.6 | 12.7 | 10.3 |
| 13. Food processing | 14.8 | 11.7 | 0.6 |
| III. Negative | | | |
| 14. Non metallic mineral products | 3.7 | 2.8 | -3.8 |
| 15. Metals | 2.8 | 1.8 | -16.1 |
| 16. Motor vehicles and trailers | 1.0 | 0.6 | -18.4 |
| 17. TV sets etc | 1.7 | 1.1 | -18.9 |
| 18. Other transport | 2.1 | 1.3 | -20.6 |
| 19. Tobacco | 1.9 | 1.0 | -29.7 |
| 20. Wood products | 5.7 | 3.1 | -30.6 |

Columns do not sum to 100 because of the omission of minor sectors

Source: calculated from Table 2, Lindfield (1998), p.5

Annex 3

Coordinating Assistance Programs—Moving to a Comprehensive Development Framework in the World Bank

The policy framework recommended in this strategy of course will require adjustment to the World Bank lending pipeline already identified for the country. This strategy, and the assistance pipeline and policy objectives in the various sectors, would need to be reviewed for compatibility in policy objectives, scope of action, and sequencing. Many of these questions are already moving towards compatibility, if not harmony. For instance, urban and rural approaches both address property titles, basic infrastructure, and credits for off-farm enterprises. Economic principles in the Country Assistance Strategy speak of safety nets in SOE equitization, and provisions regarding cost recovery and operational efficiency in water, sewerage, and transportation sectors. More detailed reviews may be necessary to achieve complete compatibility in Bank projects.

Even more attention would be required to bring Bank operations in line with other donor programs. Thus projects in transportation, water, sewerage and drainage sponsored by other donors (OECD, Denmark) and programs in technical assistance in governance and administration (e.g., UNDP and SDC) and programmed for the coming fiscal years, would, under this strategy, need to be revisited in terms of project objectives, conditions, and impacts, both fiscal, financial, and social. Some of this coherence can be achieved through adjustment of policy targets and conditions of individual projects, others by means of specific operations for selected cities.

This urban sector strategy has followed the tenets of the Bank's proposed Comprehensive Development Framework by taking a holistic view of the sector and its needs. Efforts have been made to solicit and reflect the views of all key actors (national and local government, other development agencies, civil society and the private sector) to formulate this present and prospective view of development for Vietnam's cities. However, for this urban strategy to be effective, it will have to be adopted first by Government, which then in turn, will have to build a consensus of support among the other actors noted above. It is towards this end that we propose consideration first by the Government. To take matters forward, we suggest that all key sector participants be invited to a conference in the fall of 1999 to discuss the proposals presented here, to deliberate alternatives, agree on a schedule of implementation, and to identify sources of funding for the initial analytical work, project preparation, and investment lending.

| Annex 4 Haiphong and Ho Chi Minh City Land and Shelter Policy Matrix | | |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objectives | Policies | Instruments |
| Increasing the production of formal sector housing | <p>Introducing full property rights on real estate</p> <p>Developing a primary mortgage market</p> <p>Promoting a competitive building industry</p> <p>Simplifying urban regulation</p> | <p>Review of national real estate legislation</p> <p>Review of national legislation related to the availability of:</p> <ul style="list-style-type: none"> Credit Lenders Lending instruments Adequate processing instruments (appraisal, origination, processing, underwriting, closing) Mortgage insurance Security instruments |
| Increasing the supply of land | <p>Introducing full property rights (title) on real estate</p> <p>Taxation, land management, and titling</p> | <p>Review of national real estate legislation</p> <p>Progressive taxation</p> <p>Progressive taxation with land subsidies</p> <p>Simplification of titling</p> <p>Subsidies to titling</p> <p>Land management</p> |
| Expanding urban services | Introducing decentralized urban upgrading programs (small bricks) | Define stakeholders (local govts, communities, utilities, etc) |

| Annex 4 Haiphong and Ho Chi Minh City Land and Shelter Policy Matrix | | |
|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objectives | Policies | Instruments |
| | Introducing basic services infrastructure | Listen to the residents Draw plans Reach agreements (service levels, costs, contribution of parties, cost recovery) Defining sources of financing Defining responsibilities Privatizing services Strengthening municipalities |
| Increase the supply of housing or space for rent | Introducing full property rights on real estate Developing a primary mortgage market Promoting a competitive building industry Simplifying urban regulation Developing specific credit instruments | (as above) (as above) (as above) Making micro-credit available for home improvement |
| Facilitating the process of production (and improving the quality) of self-made housing | Developing credit and technical assistance instruments | Making micro-credit available for home improvement and for the acquisition of land Providing technical assistance |

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