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Increase of Road Transport Infrastructure
Development in Viet Nam

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Capital mobilization solutions for revenue increase of road transport infrastructure development in Viet Nam

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Abstract. Road system play important role in socio-economic infrastructure. It should be prioritized and invested at a fast and sustainable pace, thus creating a premise for socio-economic development, ensuring national defence and security, and serving the industrialization and modernization process of the country. In recent years, many policies for investment capital mobilization of road traffic development are issued by Vietnamese government (such as diversification of investment capital, investment encouragement in public-private partnerships form, foreign direct investment and investment of private sector). However, the annual capital only meets more than 54% of demand. Based on the analysis of the current status and needs of capital for road construction, in this paper the author has proposed solutions to attract capital from the utilization of road transport infrastructure to sustainably develop the road system in Vietnam.

1. Introduction

In the period of 2011 - 2016, implementing the policy for investment capital diversification of road transport infrastructure, the capital for road development increased significantly, it is increased 139.5%/ year, mainly from three sources: State sector (accounting for 40.5%), private sector (accounting for 32.2%), ODA (accounting for 27.3%). Total capital reached 516,225 billion. However, the capital still does not meet the demand, over 54% the need for road construction, is shown in the table 1. [1], [2]

Table 1. Total investment capital for construction of national highways in Vietnam during 2011 – 2016

Year	Total investment capital	Investment capital from the private		ODA		Investment capital from the State		Average capital demand/ year
		Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	
2011	33,151	8,787	26.51	8,455	25.5	15,909	48.0	158,287
2012	47,500	8,005	16.85	15,344	32.3	24,151	50.8	

Year	Total investment capital	Investment capital from the private		ODA		Investment capital from the State		Average capital demand/year
		Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	
2013	66,337	21,761	32.80	16,630	25.1	27,946	42.1	
2014	110,797	41,370	37.34	30,000	27.1	39,496	35.6	
2015	120,796	41,980	34.75	33,000	27.3	45,818	37.9	
2016	137,581	44,301	32.30	44,301	32.2	55,720	40.5	
Total	516,225	166,204	32.2	147,730	27.3	209,040	40.5	949,722

Source: [1], [2], [3]

In table 1 it is shown that the state investment accounts for a significant proportion and tends to increase gradually. The issue is to find revenue sources related to the utilization of road transport infrastructure for revenues increase of the State budget, and meet the higher capital needs for road development.

According to Decree No. 33/2019/ND-CP dated April 23, 2019 of the Government on management, use and utilization of road transport infrastructure assets, *the revenue from the lease of the right in utilization or definite-term transfer of the right in utilization, after subtracting the related expenses it is prioritized to arrange capital in the public investment plan in new construction, upgrading, and developing roads according to the law on state budget.*

However, this has been at the decree level, there are no further specific legal documents for guiding, which means legal framework is not clear. It is necessary to have more specific solutions to mobilize capital from this source.

2. Capital mobilization solutions for the road development

2.1. Lease of right to utilize the road infrastructure assets

2.1.1. Solution summary

The lease of the right to utilize the road infrastructure assets is the definite-term transfer of right to utilize from the State to road infrastructure business enterprise within a certain period under the contract in order to receive a corresponding amount [4].

According to the Road Traffic Law 2008, in the land area reserved for roads, a number of essential works such as works in service of management and exploitation of the roads, the works of telecommunication, electricity, water supply and drainage, gasoline, oil and gas shall be arranged. [4], [5]

In whole length of our road system now about over 295,046 km, there are many works of technical infrastructures such as lines and cables (electricity, lighting, and communication), pipelines (water supply, drainage and fuel supply) and other works installed in the area of road transport infrastructure by the individuals and organizations. These organizations and individuals have used the works located in the road infrastructure system for the business purpose and earn profits, but have not paid rent for using the road infrastructure system. Therefore, it is indispensable for these organizations and individuals to spend part of their profits to pay for business use.

Through field surveys in some organizations that have systems installed in the area of road transport infrastructure, it is possible to obtain an example from the following table:

Table 2. Revenue from telecommunication services

Unit: Billion dong

No.	Description	Revenue from telecommunication services (billion dong)			Average annual revenue
		Year 2014	Year 2015	Year 2016	

No.	Description	Revenue from telecommunication services (billion dong)			Average annual revenue
		Year 2014	Year 2015	Year 2016	
I	Revenues from the installation of telecommunication systems				
1	Vinaphone	2,600	3,280	4,136	3,338.67
2	Mobiphone	7,300	7,300	8,205	7,601.67
3	Viettel	40,532	45,800	51,754	46,028.67
II	Revenues from some other systems				
1	Fuel pipeline				
	Petro Việt Nam (PVN) Petro Viet Nam (PVN)	700,000	560,000	500,000	586,666.7
2	Underground cable to conduct electricity				
	EVN (Electric Viet Nam)	189,831	224,000	264,320	226,050.3
				
	Total	940,263	840,380	828,415	869,686

Source: [6], [7]

Through preliminary figures above, we can see that if a small portion is collected on the revenue of enterprises using the road infrastructure, the money deposited in to the state budget of the Transport Industry will increase significantly.

For instance, if there is 1% collecting on the revenue annually, Transport Industry will have an additional capital nearly 9 billion VND. This is definitely not a small amount of state investment capital for annual road development in 2011-2016 period.

2.1.2. Implementation

* Promoting advocacy and announcement:

Rent collection from organizations and individuals who use road infrastructure system certainly will increase the price of their corresponding services such as electricity, telecommunications, and fuel. Considering the whole society, it will create social costs, even if this increase might be not much, it might bring about disagreement at first.

However, the increase of the resources for road construction will increase the quality of roads, facilitate smooth traffic, and reduce travel time of passengers (accounting for 90% of the total passenger load) and cargo (accounting for 70% of the total cargo load), at the same time, transport volume will also increase, the freight will reduce, as a consequence, the social costs will reduce and this is far more than the increase mentioned above [6]. It can be clearly seen in Figure 1.

Therefore, it is necessary to coordinate with the press, television and voice of Viet Nam (VOV) ..., to help people to be ware of the importance of road transport infrastructure, gradually change the people's way of thinking that road users are responsible for contributing costs for the road development and reinvestment of road infrastructure.

It is important to be aware of the payment of the rent for the use of the road transport infrastructure, that is the rights and responsibilities of the individuals and organizations concerned.

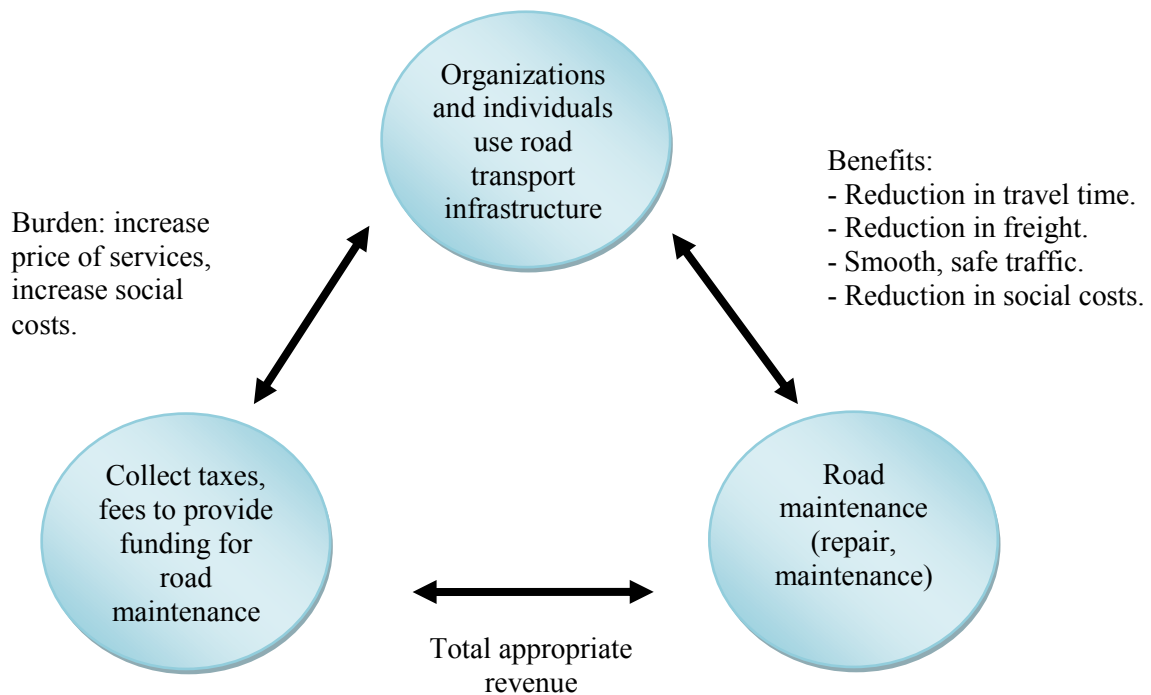


Figure 1. Benefits and burdens of lease of right to utilize road infrastructure assets.

* Developing explicit legal framework:

The Government should issue legal documents for detailed guiding on form of leasing the right to utilize the road transport infrastructure assets in the spirit of the Road Traffic Law, Decree No. 33/2019/ND-CP dated April 23, 2019 of the Government on management, use and utilization of road infrastructure assets. Specifically, as follows:

- + There should be detailed regulations on criteria or methods of determining starting price, the form and method of auction, the rights and obligations of the won- auction enterprise.
- + There should be regulations on preparation and approval of the Project on exploitation of the road transport infrastructure assets, regulating on the authority to approve the project in accordance with the characteristics of each asset and in accordance with the above promulgated decrees.
- + For the contract of leasing the right to exploit the assets, apart from the prescribed contents, it is necessary to clarify the responsibilities of the enterprise because in addition to the initial construction, the enterprise has to maintain and repair their works (dig up roads, fill back the road surface, margins, roadbed) and affecting more or less on the road traffic.

2.2. The definite-term transfer the right to utilize of the road infrastructure assets

2.2.1. Solution summary

The definite-term transfer of road infrastructure assets is the transfer of rights to utilize from the State within a certain period of time in connection with the investment, upgrading and expansion of road infrastructure assets under projects had been approved by the agency or person competent to receive a corresponding amount under the Contract. [4]

The transfer of right to operate and utilize the expressway project has no precedent in Viet Nam, it is considered as a new and effective way attracting the attention of not only domestic investors but also foreign investors, because the profit obtained from exploiting these projects is very stable. However, the investment in this area is long-term investment, long-term project implementation; the profits

depend mainly on time of collecting fees, policy of collecting fees, exempting or reducing fees, and growth of vehicle traffic on the route. While the legal framework for the transfer of right to exploiting the infrastructure projects in Viet Nam is lacking, not uniform, unclear, thus the investors are afraid.

2.2.2. Implementation

To develop this form of capital mobilization, the following solutions should be implemented (Figure 2).

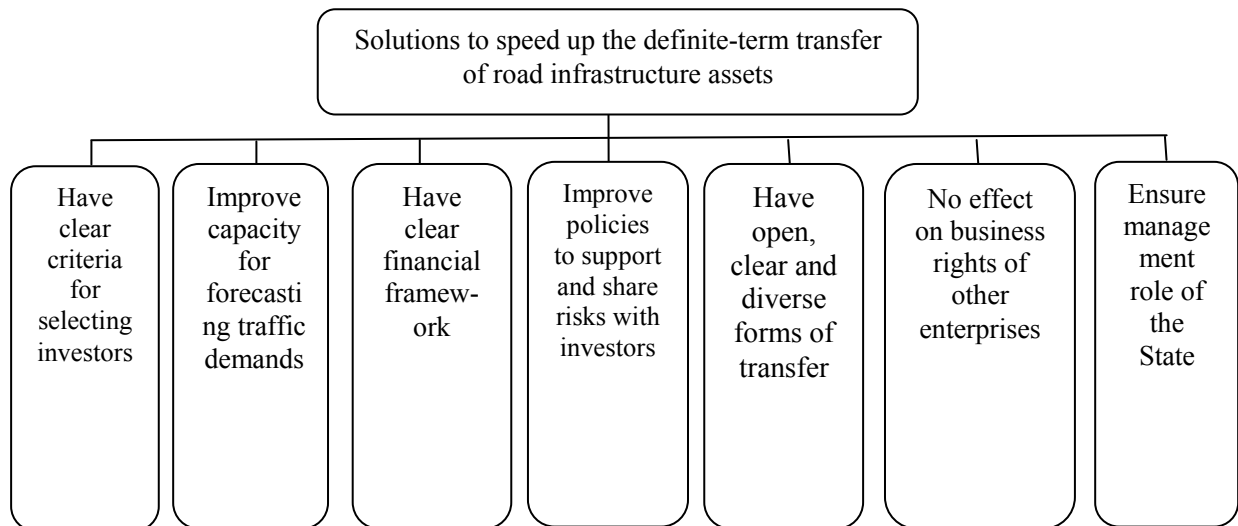


Figure 2. Solutions to speed up the definite-term transfer of road infrastructure assets

- Have clear criteria for selecting investors: The Investors must have experience in investment of projects on transfer of right of road transport infrastructure; have capability of finance; operating and exploiting the expressway projects. They are also domestic or foreign investors.

- Improve capacity for forecasting traffic demands: Regulations on analyzing and forecasting the transport demands are already available, but still without care, input data and methods are not standardized, the Investors and consultants can perform in a variety of ways, making it difficult to verify and evaluate the real effectiveness of the project (except for some projects prepared by foreign consultants). Thus, it should be clear in the project preparation and public announcement, analyzing and forecasting the transport demands should be done in detail; showing the scientific and guidance nature of specific projects; Independent testing of the results of analysis and forecasting is a mandatory requirement.

- Have clear financial framework:

Increasing transparency in the calculation of investment costs is imperative and urgent requirements, because the investment rate in expressways in Viet Nam is unusually high against many countries. There are many factors that make high investment rate such as obstacles in site clearance, unclear financial mechanisms, especially in terms of geology and material resources. The average investment rate of the four-lane expressways in Viet Nam is about \$ 12 million (excluding bridge construction and site clearance compensation). While China has similarities with us, the cost of doing the expressways is only \$ 5 million, about \$ 3-4 million per kilometer in US and European countries.[6]

There should be clear fee control mechanisms, rapidly deploy Non-stop Electronic Toll Collection on BOT, to know exactly traffic flow through the toll stations, avoid fraud, causing dissatisfaction such as the toll collection on Phap Van - Cau Gie Expressway.

- Improve policies to support, share risks with investors in the following direction:

Study how to guarantee minimum revenue, when revenue falls below a certain level against computed value, the State will support to ensure that the minimum revenue, in accordance with the characteristics of the projects on transfer of right is high investment cost, long payback period, many potential risks.

Guarantee the foreign currency conversion to pay debts and transfer the profits of investors abroad. In exchange rate guarantee, the Government may provide exchange rate guarantee when there is a fluctuation of the exchange rate beyond the margin, or the Government allows the enterprise to convert the annual exchange rate into the fees of vehicles in addition to the basic rate increase, based on the CPI.

Support the term of bank loans in the direction of forming long-term credit packages, because if the bank lends money to a project within a shorter period than the duration of the project contract, the enterprise will face a risk of debt payment and will not actively invest in this area.

- Have open, clear and diverse forms of transfer:

It must be open, clear and diverse auction, avoiding cooperation between the investors.

The transfer of right to utilize must be valued, the financial plan must be evaluated and approved by the competent state agency. It should have reference prices, calculate other targets converged to give a reasonable price.

The price for definite-term transfer of right to utilize the road transport infrastructure assets is the amount received the transfer of right to utilize the assets by the enterprise and paid to the State for using and exploiting the assets under the signed contract. There should be specific provisions on the method and criteria for determination of the price for definite-term transfer of right to exploit, provisions on the starting price for auction for definite-term transfer of right to utilize (may be determined on the basis of the residual value of assets at the time of transfer under re-evaluation, traffic flow, remaining period of calculating asset depreciation, added investment value, estimated revenue and expenses from exploiting the assets during the transfer.

Time of transfer of right must be calculated in accordance with the demands of mobilizing capital.

- Ensure that there is no effect on business rights of other enterprises licensed by the State, does not lead to monopoly, unfair competition. Ensure interconnection, safety and systematization, because If the expressway system is cut off for management, it will be interrupted, unsafe.

- Ensure role of management and unified land ownership of the State. The selection of investors must ensure harmony of interests between the State, Investors and users.

The above are some solutions to capital mobilization for road construction in Vier Nam, to develop sustainable road infrastructure, to meet the process of industrialization and modernization of the country.

3. Conclusion

Based on the analysis and assessment of the current status of capital for road construction, two capital mobilization solutions for road development are proposed: (i) Lease of right to utilize the road infrastructure assets and (ii) definite-term transfer the right to utilize of the road infrastructure assets. In each solution, the author summarizes the content, conditions, and also the implementation methods in order to guarantee the feasibility of each proposal, aims to increase revenues for the State budget. This is one of the critical foundations for sustainable development of road infrastructure in Viet Nam.

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