

IMPACT STORIES



PPIAF Helps Improve Bus Transport Services in Vietnam's Capital

In 2003 a PPIAF grant helped Hanoi—Vietnam's capital city—assess the potential role of the private sector in increasing the efficiency of service delivery and lessening public subsidies for the provision of bus services. The support came at a time when the city needed to expand its state-owned bus system to meet and manage transport demand in the face of rapid urbanization and motorization. A route-by-route contract for bus services was subsequently drawn up and competitively tendered. As a result, some 16 new bus routes have been tendered since 2005 with more to come. This has led to improved bus services, the reduction of a cumulative public subsidy for bus services from the city government, the creation of an additional 1,300 private sector jobs, and private investments worth \$11 million for 218 new buses

Since Vietnam's economic liberalization in the late 1980s, Hanoi experienced rapid urbanization and rising incomes. With these came motorization, mostly motorcycle-led, and its accompanying problems of street congestion, road accidents, and emissions. To cope with these challenges, the Hanoi city government needed to further expand its state-owned bus system through its bus operator, Transerco, to address transport demand and attract commuters who would otherwise revert to personal modes of motorized travel and contribute to street congestion and pollution. But this expansion would have meant shouldering unsustainable increases in operating subsidies. To be financially sustainable, the city government would have needed to either increase fares or reduce costs. The city government recognized that a fare increase would have hurt the poor who can least afford to pay them, who live in the newly developed periphery, and who have to rely exclusively on the bus system for daily mobility for regular routines such as getting to work, accessing education or healthcare, and conducting any other regular needs.

PPIAF SUPPORT

To closely examine its options for operating an efficient and effective bus system, the Hanoi city government requested support from the Public-Private Infrastructure Advisory Facility (PPIAF) in 2003 to analyze possible ways to minimize the bus system's dependence on public subsidies with the participation of the private sector, which would lead to increased efficiency, define public service obligations, and create appropriate economic regulation to monitor and oversee the bus system's development.

This \$250,000 PPIAF grant funded a study that was undertaken from 2003 to 2005 to help the Hanoi city government develop a strategy to introduce private participation in the provision of bus services. In particular, the study determined the potential role of the private sector in providing bus services, including maintenance facilities and ticketing systems. The work also included a review of other developing countries' experience in restructuring and involving the private sector in their respective urban bus services. Two options relevant to Hanoi were recommended: area contracts and route—or package of routes—contracts based on terms of supply of service at gross and net cost. These options were presented in a workshop where stakeholders were able to discuss and choose a preferred strategy.

OUTCOMES

The Hanoi city government subsequently chose a route-by-route gross cost contract—i.e., operators will not bear revenue risks and will be compensated based on service provided—as the basis for involving the private sector in bus services. Institutional and regulatory arrangements, as well as draft bidding and contract documents, were subsequently drawn up to help Hanoi execute its chosen strategy. In 2004 competition was introduced into the provision of bus services, with both state-owned companies and private sector companies bidding on the routes. Route service contracts were awarded based on technical and operating capacity and lowest subsidy requirement. Between 2005 and 2008, some 16 bus routes were competitively contracted out—three to Transerco and the rest to private and joint stock companies—and more are expected. There was also room to reduce subsidies without greatly affecting affordability. As a result, both monthly and single-use fares were increased and differentiated fares based on trip length were implemented. The Transport Management and Control Center (TRAMOC), the government entity that plans Hanoi's bus routes and services, was strengthened to manage contractual relationships with the operators on behalf of the city.

DONOR COORDINATION

The PPIAF activity complements a couple of other donors' urban transport interventions in Hanoi:

- The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)-funded consulting work helped Hanoi take initial steps toward developing a functional bus system under public ownership and operation. The focus of the

Since 1999 PPIAF, a multidonor technical assistance facility, has helped developing countries use public-private partnerships to improve their infrastructure. A key focus has been upstream technical assistance to support the development of an enabling environment for such partnerships.

This series highlights how PPIAF's support has made an impact on the ground.

advice has been largely operational, including route and service design, fare structures, development of new busways and ticketing systems. The GTZ intervention has also played a significant role in helping Hanoi realize the need for private participation in expanding its bus services.

- Assistance from GTZ, the European Union, and the French-Vietnam cooperation Institut des Métiers de la Ville (Cooperation Center for Urban Development) focusing on building TRAMOC's capacity plays an important role in encouraging private sector participation in Hanoi's bus services.

IMPACTS

With new bus routes contracted out based on the lowest subsidy requirements, the Hanoi city government realized a cumulative reduction of approximately \$2.5 million in public subsidies. The new bus routes have generated an additional 1,300 private sector long-term jobs and \$11 million in private investments for 218 new buses. The increased level of competition between the public sector—Transerco buses still ply old routes—and private sector has led to improved service quality for consumers, as well as environmental benefits.

RELATED PPIAF ACTIVITIES

- 2004: Options for Multimodal Transport Regulation, **\$488,780**
- 2005: Study on Consolidating and Developing a Bus System in Ho Chi Minh City, **\$350,000**

Publications:

- 2007: *Toolkit on Market-Based Approaches in Private Sector Provision of Bus Services*
- 2007: *Port Reform Toolkit: Effective Support for Policymakers and Practitioners, Second Edition*
- 2009: *Toolkit for Public-Private Partnerships in Roads and Highways, Second Edition*

They are all available on
www.ppiaf.org