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PPIAF Supports Performance-Based Road Maintenance Contracts in Vietnam

In 2012, PPIAF supported the Government of Vietnam to improve the implementation of performance-based contracts (PBC) for road maintenance. This was done in order to enhance the maintenance delivery method and to increase private-sector engagement in this arena. PPIAF evaluated the state of pilot PBCs in Vietnam and proposed a road map for strengthening the use of such contracts based on international best practices.

In the past 20 years, the Government of Vietnam has made a concerted effort to re-establish the country's road-transport infrastructure. As growth has accelerated and private vehicle ownership has increased by 10 percent, road transport has emerged as the dominant transport issue, increasing pressure for further road investment and upgrading. The government's vision to address poverty through continued high growth will require a highly efficient and well-managed road network. To meet this objective, the government needs to enhance maintenance strategies and allocate sufficient funds for routine and preventative maintenance.

However, road upgrading and construction are currently outpacing road maintenance, creating a backlog of periodic maintenance. About 15 percent of current road expenditures are used for maintenance and minor improvements, but this represents only about half of the amount that is needed. Aside from funding constraints, there is a need to improve maintenance delivery methods and to increase the engagement of the private sector in road maintenance activities. Currently most road maintenance is executed by state-owned enterprises (SOEs) through force account and restricted bidding among SOEs. This approach disincentivizes the SOEs from adopting commercial practices and improving road maintenance delivery.

In order to improve its approach, the Government of Vietnam has implemented a pilot program for the use of performance-based contracts (PBC) for road maintenance over the past decade. Given the pressing need in the road sector, and limitations on debt and official development assistance, the government has begun

to further explore the PBC approach to leverage private-sector know-how, efficiency and resources for managing and financing infrastructure as well as promoting routine and periodic maintenance.

PPIAF SUPPORT

In 2011, the Government of Vietnam requested PPIAF assistance to review the current pilot PBC approach and develop a roadmap proposing key recommendations, in order to improve the implementation of PBCs in Vietnam. The assistance consisted of: i) a diagnostic evaluation of the pilot PBCs to identify major challenges and obstacles, and ii) development of a road map for strengthening the use of PBCs in Vietnam, based on international best practice of PBCs established in Brazil and lessons learned from the pilot PBC program in Vietnam.

The road map was envisaged to address the following challenges identified by the diagnostic evaluation:

- *Further investigations of and enhancements to the legal and regulatory aspects of PBCs:* The current Vietnamese approach to PBCs for road maintenance does not fully support the usage of bonus and penalty clauses, which can encourage the entity in charge of road maintenance to take more responsibility. A review of the legal and regulatory aspects ensuring bonus payments and penalty deductions is therefore needed.
- *Advancements to vehicle overloading controls:* Overloading of vehicles is a key deterrent to maintaining roads at a reasonable level of service. Contractors cannot be held responsible for road deterioration if the deterioration is largely due to overloaded vehicles and not due to mismanagement of maintenance practices and/or normal wear and tear. Improved monitoring and strict enforcement of weight limits on roads (accomplished by ensuring adequate staffing and proper carrying out of duties) is needed to avoid premature pavement deterioration.
- *Improvement to contract design:* The traditional approach to joint ventures for road maintenance is not used in Vietnam. Typically, multiple general Vietnamese contractors will simply divide up road sections rather than having a general contractor manager responsible for the performance of

specialty subcontractors. This approach is a cause of confusion and one of the main factors leading to the failure of some contracts. The Introduction of the international approach to joint venturing is needed to help reallocate risks and properly assign them to subcontractors, while forcing a general contract manager to manage the entire contract, and the public sector to act as an auditor of the project.

- *Additional capacity building for both the public and private sectors:* The public sector needs further capacity building for contractor evaluation and monitoring and evaluation of PBC contracts prior to contract awards. Private contractors should be trained in how to form a joint venture to properly fulfill the needs of a PBC.

OUTCOMES

Following the recommendations of the roadmap, the Vietnamese policy makers were fully aware of gaps in the existing structure of the PBCs in Vietnam. Consensus was also achieved on making potential changes to the fiduciary, legal and regulatory frameworks that enable the government to implement PBCs on a regular basis.

To address the issues and implement the recommendations provided under the PPIAF assistance, the Ministry of Transport has agreed to improve the legal framework for PBCs and implement additional PBC work for road maintenance of 273 kilometers along three National Highways (NH), including NH 5, NH2 and NH18. The World Bank has provided a US\$60 million loan for implementing the additional PBC work, updating the legal framework, and developing standard documents for PBCs, through the Vietnam Road Asset Management Project¹.

The PPIAF assistance has contributed to raising the government's awareness of challenges associated with the current PBC approach and building consensus to improve the use of PBCs in terms of legal and regulatory aspects and institutional capacity.

RELATED ACTIVITIES

2011: VIETNAM: Strengthening of the Use of Performance-Based Contracts for Road Maintenance, \$40,000

2012: VIETNAM: PPP Viability Study for the Ninh Binh - Thanh Hoa - Bai Vot Expressway, \$74,890

¹ <http://www.worldbank.org/projects/P123961/vietnam-road-asset-management-project?lang=en>