

6 Public banks and public water in Vietnam

Promises and pitfalls

Thuy Truong Dang

Introduction

This chapter examines the financing relationship between the Vietnam Development Bank (VDB) and the publicly owned water operator, Ben Tre Water Supply and Sewerage Joint Stock Company (BEWACO). In the early 2000s, the Vietnamese government decentralized water supply and sanitation management, transferring responsibility to local governments and promoting community participation in an attempt to improve the efficiency of the water sector and encourage investment in water supply infrastructure and increase access to clean water. In the mid-2010s, the government began to promote public–private partnerships (PPPs) to attract private investment, announcing plans to divest from state-owned water supply companies (WSCs) by selling shares to enhance efficiency and service quality (UNEP 2018).

The withdrawal of the government from funding public water operators in Vietnam has since led to a reduction in water supply infrastructure investment, which has affected the quality and reliability of water services, especially in rural and remote areas. Private companies, which took over the operations of some public water operators, were mainly interested in making a profit and often neglected the expansion and maintenance of water supply systems in less profitable areas. Privatization exacerbated the inequality in access to clean water, with residents in urban and wealthier areas having better access to clean water than those in rural and poorer areas (UNICEF 2020, 2022).

In 2021 the Vietnam Water Supply and Sewerage Association (VWSA) noted that there was a significant investment gap in the water supply sector, particularly in rural areas (VWSA 2021). According to UNICEF (2020), only 84 per cent of the population in Vietnam has access to potable water services. This figure may seem high relative to some parts of Southeast Asia but it hides dramatic urban–rural and regional disparities. While the rate of access to safely managed water in urban areas was 97 per cent, it was only 67 per cent in rural areas and below 50 per cent in some provinces in the Central Highlands and the Mekong Delta. The unintended and undesirable outcomes of water privatization was probably one of the reasons for the 2021 Prime

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Minister Decision No. 26/2021/QĐ-TTg, which prescribed that the state henceforth must hold over 50 per cent ownership of newly equitized public water operators. This decision effectively halted any further progress in privatization, reducing sell-offs by over 50 per cent. The 2021 Decision, however, applied exclusively to newly equitized companies and did not require the buyback of shares previously sold.

The advantages and disadvantages of water sector privatization have been discussed extensively in the literature (Katko 2016; Bakker 2005, 2007; Budds & McGranahan 2003; Swyngedouw 2005), raising the question as to how the water and sanitation sector should be delivered (McDonald 2018). So has the challenge of financing water provisioning been raised, although it has yet received comparatively less attention (Fonseca et al. 2021; McDonald et al. 2021). In Vietnam, the finance gap stands as the central challenge in ensuring Vietnam maintains a sustainable and equitable public water sector, requiring substantial investment to meet Sustainable Development Goal 6 (SDG 6), Clean Water and Sanitation for all (Pories et al. 2019). The sector requires new sources of long-term, appropriate financing at low interest rates to support its projects effectively.

Vietnam's public banks have the potential to play a crucial role in helping the country to deliver on SDG 6. With their ability to provide sustainable and affordable policy-based financing, Vietnam's public banks can bridge the finance gap and catalyze the necessary investments in water infrastructure. In this chapter, we argue that the VDB has had an important role in providing supportive, long-term public financing for public water providers in Vietnam, illustrated by the case study of BEWACO (a public water provider) in Ben Tre Province. We argue that VDB lending has positively impacted the ability of BEWACO to deliver clean and equitable water services. However, the VDB could do more, and there is room for improvement in VDB's services. Understanding how VDB can do more can enhance the prospects of public banks supporting public water services in the future.

Methodologically, this study adopted a combination of primary and secondary literature reviews to gather relevant information. Primary sources include bank annual reports, legal documents and BEWACO annual reports. Secondary sources include academic articles and NGO publications. Additionally, in-depth data were collected through in-person interviews with 15 people, online follow-up meetings, and written responses to prepared questionnaires from October 2022 to February 2023 with key informants from VDB and BEWACO in addition to others (see Appendix 1). To maintain confidentiality, the identities and positions of certain interviewees have been withheld.

The chapter is organized as follows. The first section contextualizes finance and water in Vietnam. The second section provides a brief overview of public banks involved in the water sector. The third section describes the relationship BEWACO and the VDB, and is followed by a conclusion that outlines the lessons learned and recommendations.

Contextualizing finance and water in Vietnam

The finance gap

Most of the financing for infrastructure projects in Vietnam comes from public sources of money. As of 2014, investment sources for infrastructure projects in Vietnam were divided among the government (28 per cent), official development assistance (ODA) (37 per cent) and the private sector (35 per cent) (UNEP 2018). ODA funding includes the Asian Development Bank, the World Bank, the Japan International Cooperation Agency, the French Development Agency and the governments of Finland, Denmark, the Netherlands and South Korea. ODA funding has been decreasing, however, and accessing additional sources can be challenging (UNEP 2018; Bui & Nguyễn 2018; Trujillo et al. 2015).

As mentioned, while household access to piped water in urban areas of Vietnam is relatively high, the rate in rural areas is only 34.8 per cent (UNICEF 2022), requiring significant additional finance (Pories et al. 2019). Baum (2019) projected that from 2021 to 2030, the water supply and sanitation sector (WSS) needs an investment of 0.5 per cent annual GDP, of which 0.4 per cent should come from the government. However, public investment is limited because the increase in public debt in the past decade, which reached 55 per cent GDP in 2018 (Baum 2019).

Since public finances are squeezed by debt, the government of Vietnam has sought investment capital from the private sector (Baum 2019; UNICEF 2018). This has involved the transformation of state-owned enterprises into alternative forms of private operation and management. In response to the challenges posed by increasing public debt and competing investment demands, recent policies have focused on leveraging private capital, predominantly from domestic investors, to meet investment requirements. This has been achieved by adopting various models, socialization,¹ equitization and privatization, including the promotion of PPPs (Trujillo et al. 2015; UNEP 2018; Baum 2019; UNICEF 2022).

The equitization of public water operators

In the early 2000s, Vietnam initiated the conversion of public, state-owned WSS enterprises into joint-stock companies through the sale of equity to private investors, including individual investors and private firms—domestic and foreign. This process of financialization (that is, prioritizing investor returns above all else), which is called “equitization” in Vietnam, was expected to allow for the infusion of private financial capital into the WSS sector. While the government retains a majority ownership position in the newly formed companies, it typically grants minority investors some degree of control over operations. This process is supposed to bring advantages, including improved management and technology through the expertise of the new investors, as

well as greater operational flexibility facilitated by the organizational structure of a joint-stock company (UNEP 2018). However, it raises challenges around equitable access and the influence of cost recovery and profit seeking in service delivery.

The WSS equitization process in Vietnam has been slow (UNICEF 2022). Although initially introduced in 2002, it did not actually start until 2007 (UNEP 2018; Baum 2019; UNICEF 2018). Though slow at first, it reached the targeted level of 50 per cent by 2019. As of 2021, among the 54 state-owned WSCs in Vietnam, 27 had over 65 per cent state ownership, 13 had state ownership ranging from 50 to 65 per cent, and 14 had state ownership below 50 per cent (VWSA 2019).

Before decentralization in the 1990s, there was a centralized national water supply organization. Today, in rural areas of Vietnam, piped water systems are managed by a diverse range of institutions, including local government bodies, community groups, cooperatives and private companies (UNICEF 2022). However, in urban areas and certain larger towns, the provision of water supply services is primarily carried out by provincial water services companies (WSCs). Today, each Vietnamese province has a provincial WSC. In large cities such as Ha Noi and Ho Chi Minh City, the provincial WSCs are holding companies with several subsidiaries.

Data from VWSA (2019) indicate that among 50 provincial water operators that are members of VWSA (out of 86 countrywide), including BEWACO, the percentage of state ownership is 55 per cent on average, ranging from 50 to 100 per cent. The percentage of state ownership is higher at BEWACO, which is 64 per cent. The average percentage of the population with access to piped water in the areas covered by the provincial WSCs is 84 per cent. However, the range varies considerably, from 48 to 100 per cent. In Ben Tre province, only 61 per cent of the population is supplied with piped water, which is below the average. It is important to highlight that these figures specifically pertain to urban areas. Comparable data for rural areas are not available.

Notwithstanding the government's stated intentions, the equitization (or financialization) of public water operators in Vietnam has not yielded significant improvements in access to clean water and quality of water services (UNEP 2018). Equitization has been disappointing for many reasons. Private investors tend to avoid investing in rural, remote and disadvantaged areas, resulting in these areas heavily relying on public and donor funding for the provision of water services (UNICEF 2020; Willetts et al. 2015; Gero & Willetts 2014). Concerns have emerged regarding the lack of transparency in selection processes, and uncertainties surrounding the regulatory and policy framework govern operations (Baum 2019; UNEP 2018). In addition, the water pricing system does not allow for adequate maintenance and reinvestment, which means that equitized firms' assets can quickly become liabilities for shareholders (Huynh et al. 2021; UNEP 2018). When tariffs do not cover operational costs (let alone expected levels of financial returns on investments)

private investors may choose to disinvest or redirect cash flows away from the equitized firm to the private entity through paying increased wages, management fees or dividends in order to produce immediate financial benefits (Bayliss 2014; Loftus et al. 2019). Such disinvestment strategies can lead to infrastructure deterioration and compromise the long-term sustainability and value of the equitized firm (UNEP 2018). At the same time, water quality can tank as equitable community access to WSS services suffers.

Public–private partnerships (PPPs)

PPP projects first appeared in Vietnam in the 1990s but were not fully formalized until a 2010 Decision approving a new PPP policy—a 2015 Decree encouraging PPPs in infrastructure and a 2018 Decree regulating PPP projects. The 2020 Law of Public–Private Partnership (the PPP Law) and a 2021 Decree details the financial management mechanisms applicable to PPP investment projects.

Several factors contribute to the rarity of PPPs in Vietnam. These include issues such as lack of transparency, complex legal arrangements and frameworks, challenges related to land acquisition and ownership (UNICEF 2022), as well as concerns about investment risk (UNEP 2018). In addition, given that the government regulates water tariffs for domestic use, PPPs have not been particularly attractive to private investors. The potential of PPPs to enhance equitable access to clean water remains uncertain. Private investors, driven by profit motives, may prioritize investment in urban areas over rural and remote regions that are perceived as less profitable.

Research suggests that the Vietnamese government’s decision to divest from the water supply industry and shift the responsibility to local communities and the private sector has led to challenges in ensuring equitable access to clean water, particularly in rural and remote areas (UNICEF 2018, 2022). Should the government wish to raise the finance necessary to meet SDG 6, a different approach is needed. However, rather than seeking a “new” approach, the government should look to existing institutions, such as public banks.

Public banks in Vietnam

The banking system in Vietnam is comprised of various institutions, including state-owned commercial banks, joint-stock commercial banks, foreign banks and public (development) banks, in addition to the State Bank of Vietnam (the Central Bank). In Vietnam, the term “commercial banks” refers to all banks operating under commercial banking licenses, regardless of their ownership structures, including state-owned, joint-stock, private or foreign banks. Figure 6.1 illustrates the distribution of charter capital among these bank ownership categories. State-owned commercial banks, where the government holds a majority stake (more than 50 per cent),

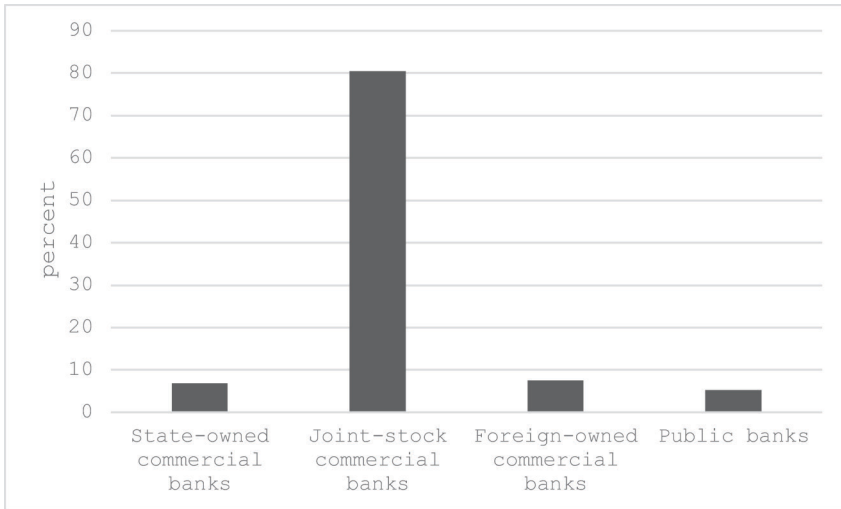


Figure 6.1 Distribution of charter capital by bank ownership in Vietnam.

Source: State Bank of Vietnam (www.sbv.gov.vn/).

represent 6.8 per cent of the charter capital. Joint-stock commercial banks, which constitute the majority (80 per cent) of the capital, also have a considerable government ownership component. Foreign-owned banks comprise 7.5 per cent of the charter capital. Public banks, namely the Vietnam Bank for Social Policies (VBSP) and the VDB, account for 5.25 per cent of the charter capital.

Vietnam Bank for Social Policies (VBSP)

The VBSP is an internationally recognized public bank that is seen as effectively advancing its pro-poor mandate, specializing in “policy-driven and affordable financial inclusion services for the poorest and most marginalised communities” (Marois 2023; UNICEF 2022). VBSP commenced its operations in 2003, following the restructuring of the Vietnam Bank for the Poor and its separation from the Vietnam Bank for Agriculture & Rural Development, a state commercial bank. This separation aimed to segregate preferential credit from commercial credit within commercial banks. As part of this reorganization, VBSP established a nationwide unified management and administration apparatus and became an autonomous financial entity (VBSP 2022).

Since 2004, VBSP has been active in WSS and has been authorized to offer loans to eligible households to construct and install water and sanitation facilities at the household level in rural areas. The Ministry of Finance provides

the necessary lending capital to facilitate these investments. In 2019 alone, VBSP disbursed approximately VND35 billion (approximately €1.36 million [USD 1.21 million]) in loans specifically allocated for rural water and sanitation initiatives (UNICEF 2022). These loans enable households to acquire essential resources such as water tanks, well construction services, toilet construction services and related materials. The Women's Union, an organization with representation extending to the commune level, actively supports VBSP in communicating loan availability and generating awareness of the loan programmes.

Vietnam Development Bank (VDB)

While the VBSP focuses on providing loans to households for the construction of rural household-level water supply systems, the VDB primarily offers medium- and long-term loans to WSCs. The VDB's primary focus is on supporting the water supply sector as a whole by providing financial assistance to companies responsible for water supply services. VDB loans are intended to support the development, expansion and improvement of water supply infrastructure through public operators.

The VDB is a relatively new public development bank, first established in 2006 by Decision of the Prime Minister. Its purpose is to support state development investment and export credit policies in accordance with government regulations. The VDB is a policy-oriented institution and its operations are not profit-oriented. To help keep the costs of financing down, and as an explicit measure of official state backing, the VDB does not need to maintain capital reserves, is exempt from deposit insurance and enjoys solvency guarantees from the government. The VDB is also exempt from taxes and payments to the state budget for its development investment and export credit activities (VDB n.d.-a). In short, the VDB is firmly located within and supported by the Vietnamese state.

However, the VDB has certain institutional challenges that it needs to face. Over the past five years, VDB total assets, return on average assets (ROAA) and net income have fallen and shown losses (Table 6.1). Total assets show a declining trend, hitting €9.79 billion in 2021 compared with €11.99 billion in 2017. This downward trajectory indicates a shrinking investment portfolio. In terms of profitability, VDB's ROAA has been consistently negative in recent years, being in the range of -0.23 to -0.39 per cent. It is increasingly rare that not-for-profit public banks have negative ROAA indicators, even though it is common to have low ROAA levels of between 0.1 and 0.5 per cent (Marois 2021). The VDB figures reflect the challenges of a policy-oriented public bank focused on providing subsidized and policy-based loans. That said, so long as VDB losses are covered by government transfers, and so long as the loss-incurring loans are supporting the effective delivery of policy priorities, then, a negative ROAA should not be seen as an inherently poor result.

Table 6.1 Overview of the Vietnam Development Bank

	2021	2020	2019	2018	2017
Total assets (Euros billions)	9.79	10.93	11.27	11.55	11.99
Return on average assets (ROAA) (%)	-0.23	-0.39	-0.27	-0.29	-0.23
Net income (Euros millions)	-0.02	-0.04	-0.03	0.03	0.03
Number of employees	NA				
Credit ratings	BB				
Year of incorporation	2006				
Initial purpose of incorporation	As a not-for-profit public bank focused on credit and development policy				
Current mission/Mandate	The Vietnam Development Bank is a state-owned financial institution responsible for executing state development credit policies. It mobilizes funds through issuing bonds, borrowing from various sources and accepting deposits. The bank provides loans, credit guarantees and financial services to support programmes and projects assigned by the government, while also participating in the interbank market and implementing payment services.				
Type of public bank	Development Bank				
Board of governors	10 members				
Ownership	Government of Viet Nam				

Sources: Fitch Connect (2023); VDB (n.d.-b).

Relatedly, VDB net income exhibited fluctuations during the same period. Negative net income was recorded in 2018 and 2019, with losses of €0.03 and €0.04 million, respectively. However, there was a slight improvement in 2020, narrowing the net income to -€0.02 million. In 2017 and 2018, the net income was positive but relatively modest, at €0.03 million. Again it is important to note that while many public development banks like the VDB have no profit-maximizing mandate, they are often charged with maintaining financial sustainability. When governments mandate their public banks to undertake loss-making operations (such as concessional lending), their losses need to be covered by transfers from the central government budget so as to protect the public bank's long-term institutional viability (Marois 2021, 2024).

VDB implements the government's credit policy by mobilizing and receiving capital from domestic and foreign organizations. Therein, one of its roles is to function as an ODA intermediary. In this role, the VDB manages ODA capital resources and handles the trust and allocation of investment loans and debt repayment from both domestic and foreign organizations. This role has included international support for the WSS sector. In this capacity, VDB

has managed capital resources from the Agence Française de Développement (AFD) and the World Bank, which has been directed towards the development of urban water supply initiatives. In this way, VDB plays a significant role in Vietnam's water and sanitation sector by providing concessional loans (UNICEF 2022).

Public bank–public water in Vietnam: the case of BEWACO and VDB

BEWACO, or the Ben Tre Water Supply and Sewerage Joint Stock Company, is a public water operator responsible for providing clean water to the residents of Ben Tre province. It was established in 1992 by the Ben Tre Provincial People's Committee under the name of Ben Tre Water Supply and Sewerage. BEWACO was equitized in 2015 and became a joint-stock company, changing its name to Ben Tre Water Supply and Sewerage Joint Stock Company. As of 2022, 64 per cent of BEWACO was owned by the provincial government. The other 32.4 per cent was owned by two private companies and 3.6 per cent by 215 individuals (BEWACO Annual Report 2019, 2022).

BEWACO operates and manages a number of water treatment plants and distribution systems in the province. These include the Ben Tre City Water Treatment Plant, the Mo Cay Water Treatment Plant and the Giong Trom Water Treatment Plant. In addition to providing clean water to households, BEWACO also supplies water to industrial and commercial customers.

Ben Tre Province in Vietnam, situated in the Mekong Delta region, faces substantial hurdles in providing clean water to its population. Ensuring access to clean water in Ben Tre province remains a major challenge. As of 2020, only 61 per cent of the population had access to piped water (VWSA 2020). Residents without improved water services rely on compromised sources such as groundwater or surface water (UNICEF 2018, 2022). The province is highly susceptible to saltwater intrusion and groundwater contamination, exacerbated by rising sea levels, climate change and unsustainable groundwater extraction practices. During the dry season, saline water infiltrates freshwater aquifers, resulting in the pollution of water sources. This issue affects both urban and rural areas, with vulnerable communities relying on shallow wells and surface water sources (Nguyen 2022). Approximately, 40 per cent of households in Ben Tre province are impacted by saltwater intrusion, compelling them to seek alternative water sources such as rainwater or bottled water (Nguyen 2022). Moreover, groundwater contamination, particularly with pollutants like arsenic and iron, poses significant health risks, primarily affecting rural areas with limited access to safe water sources.

BEWACO and the VDB

BEWACO has worked with VDB (the Song Tien Branch) to finance several projects. In 2005, BEWACO undertook a project in Giồng Trôm districts

with a VDB loan of 2.14 billion VND (approx. €8.5 million) with a repayment period of 37 months and an interest rate of 5.4 per cent per year (document provided in interview 1). The project aimed to establish a domestic water supply system in Giồng Trôm town and adjacent communes to enhance access to clean water. In 2008, BEWACO completed the project and successfully paid off the loan.

In 2008–09, BEWACO started another project in Sơn Đông and Thành Triệu, aimed at constructing a water supply system for local people with a capacity of 20,000 cubic metres (m³) per day. The VDB loan was valued at 12.979 billion VND (approx. €505 million), but the actual disbursed amount was 10.54 billion VND (€409 million). The VDB loan had a repayment period of 72 months with an interest rate that fluctuated between 6.9 and 11.4 per cent per year due to the global economic crisis in that period.

A third project sought to expand and increase the capacity of the Sơn Đông Water Plant in Ben Tre City from 16,900 to 31,900 m³/day, implemented in 2010 (document provided in interview 1). The VDB provided a loan of 29.4 billion VND (approx. €1.2 million), but only 26.7 billion VND (€1.05 million) was actually disbursed. The repayment period was 72 months, and the interest rates ranged from 9.6 to 12 per cent per year.

In a fourth project, BEWACO aimed to construct a clean water distribution system in Mỏ Cày Nam and Mỏ Cày Bắc districts. The project received a VDB loan of 34.248 billion VND (approx. €1.33 million). The repayment period was 70 months, and the interest rate was 8.55 per cent per year. However, due to the provincial authorities' decision, the water supply area was assigned to another local water operator and the project ceased.

In addition, the institutional predecessor of the VDB acted as financial intermediary for two ODA-funded projects of BEWACO. In 1997, ADB sponsored the water supply system upgrading project in Ben Tre town at an interest rate of 6.8 per cent per year. Then in 2013, VDB facilitated AFD funding for constructing the An Hiep water treatment plant in Chau Thanh District, with a capacity of 15,000 cubic metres. The project was financed at a rate of 5 per cent per year and forms part of a larger programme to enhance water supply capacity in small towns in Vietnam's Mekong River Delta region.

Promising aspects of the VDB–BEWACO collaboration

There is promise in the public financing provided by VDB to support BEWACO. Most importantly, all BEWACO interviewees acknowledge VDB's low interest rates. While the interest rate of commercial banks is usually floating, from 10.5 to 13.5 per cent, the interest rate at VDB is usually 5 per cent (interviews 6, 9) or concessional in one way or another. In effect, the concessional, low-interest funds provided by VDB have enabled BEWACO to undertake larger, longer and more ambitious projects that would not have been possible otherwise:

The lending capital from VDB to (water) projects is considered preferential, with much lower interest rates compared to commercial banks. [...] These projects provided clean water to areas in Ben Tre City and surrounding districts, thereby contributing to improving the quality of life for the people, especially in terms of health. These projects would be difficult to implement without funding from VDB.

(Interview 6)

This capacity of public banks—to lend at the most affordable rates—is in line with other studies of public banks and public water in the global south, such as Gungen (2022). Moreover, because VDB is a non-profit public banking institution, the projects it finances may have a lower rate of return and a more extended payback period than those of other commercial banks (all interviews at VDB and BEWACO). This allows BEWACO to implement projects that might be considered less financially viable or riskier by other banks:

[...] the payback period for these (water) projects is usually longer. [...] With a non-profit objective, VDB provides funding for (water) projects that tend to have lower profit margins.

(Interview 6)

This implies that VDB can play a crucial role in supporting WSS providers serving disadvantaged communities or working in regions where access to financing is limited (interview 5). This promising aspect addresses one of the primary challenges facing WSCs in Vietnam: the difficulty in finding appropriate financing, which includes the problems of limited access to bank loans and high interest rates (Willetts et al. 2016).

It is important that water loans have low interest rates because water services produce low returns (but with high social returns). In less populated areas water consumption is low, from 4 to 20 cubic metres per household per month, resulting in low revenues. The average price of 9900 VND/cubic metre yields VND40,000 to VND200,000 (approx. €1.55– €7.8) per household per month (Huynh et al. 2021). This is one of the most important factors that make the WSS sector less financially viable and sustainable than other sectors, resulting in the fees collected for water usage not being enough to cover the operation and maintenance costs of the facilities (Huynh et al. 2021; UNICEF 2022). However, Vietnam is not exceptional in this regard. In most lower income countries and even in high-income countries, full cost recovery is practically non-existent (Reis 2022).

VDB's interest rates are not only lower than those of commercial banks, its lending is also more stable. As noted, VDB interest rates generally remain fixed throughout the loan duration, whereas interest rates at private financial institutions are generally floating:

The interest rates for loans provided by the State Bank are typically fixed throughout the loan term, whereas commercial banks often have floating interest rates that can fluctuate.

(Interview 7)

This means that VDB borrowers like BEWACO can plan their finances with greater certainty, as they know exactly how much they will be paying back each month. This stability in interest rates and loan repayments also means that BEWACO is less vulnerable to market fluctuations, which can significantly impact repayment capacity for floating-rate loans. This is especially true during the time of extreme market events. During the recession in 2008–10, interest rates at VDB varied from 8 to 12 per cent while that of commercial banks at times exceeded 20 per cent (interview 6). While VDB rates did vary, the VDB was able to shield its clients from extreme global market conditions because it is a bank that is held within the public sphere of Vietnam. Similar to many other public banks, the VDB was able to definancialize otherwise volatile flows of finance capital within its territory (Marois 2021).

In addition to offering low and stable interest rates, VDB also focuses on providing medium- and long-term financing. This was singled out as another promising aspect of its collaboration with BEWACO (interviews 3, 6). The repayment period of loans offered by commercial banks are usually from 5 to 7 years; by contrast, VDB loans are between 12 and 20 years (interview 9). Meanwhile, VDB's emphasis on medium- and long-term projects aligns well with the reality of BEWACO water supply projects. These infrastructure projects typically demand significant initial investments while generating relatively low revenue over an extended duration (interview 4). The long-term loans offered by VDB make it an ideal and advantageous public partner for supporting BEWACO's water supply initiatives, such as constructing new water treatment plants or expanding existing networks. In this case, public-public collaborations (PPCs), rather than PPPs, are the most effective and appropriate means of advancing commitments to SDG 6.

The Socio-economic Plan of the People's Committee of Ben Tre Province (Document 4646/KH-UBND dated August 6, 2021) has set an objective of ensuring that 75 per cent of the urban population in Ben Tre and 50 per cent of the rural population have access to piped water by 2025 (People's Committee of Ben Tre Province 2021). In order to achieve this objective, Ben Tre will need to rely on the support of various stakeholders to provide financing, including VDB. The involvement of VDB is particularly crucial due to its ability to provide long-term and concessional loans. VDB-supplied financial support will enable the implementation of large-scale water supply projects, addressing the infrastructure needs and ensuring access to clean water for a majority of the population in Ben Tre, especially the remote and impoverished areas in the Mekong Delta region.

In addition, the province's environmental challenges—notably saltwater intrusion and water contamination—necessitate the implementation of

robust water supply and sanitation infrastructure projects that can effectively mitigate the impacts and ensure access to clean water for the population. The issue of saline intrusion is becoming increasingly complex in the Mekong Delta provinces, including Ben Tre, making it a challenge for WSCs to ensure clean water sources. The funding from VDB can help to expand the water supply network to remote and underserved areas (interview 7). In this context, the PPC between VDB and BEWACO becomes even more crucial, as VDB's provision of long-term and concessional loans enables BEWACO to secure the necessary financial resources to tackle these pressing issues and improve the sustainable water supply situation in Ben Tre. BEWACO confirmed that it wishes to borrow from VDB in the future for its planned projects to expand its water supply capacity (interview 9).

Challenges of the VDB–BEWACO collaboration

As promising as appropriate long-term and low-cost financing is to the future of public water provisioning in Vietnam, there are also challenges in this public bank–public water collaboration. Challenges include slow and bureaucratic procedures to approve loans, a lack of a regulatory framework setting interest rates, complex monitoring procedures and a lack of coordination amongst public banks.

The loan application process at VDB has been described as complicated and time-consuming, diminishing its appeal to BEWACO. The complexity of the process involves multiple stages, extensive documentation requirements and a rigorous evaluation procedure. This long and intricate process can delay loan approval and disbursement, prolonging the time it takes for BEWACO to secure the necessary funds for its water supply projects (all interviews at BEWACO). The bureaucratic nature of the VDB application process may deter BEWACO from seeking financial assistance from VDB, as it can be resource-intensive and divert valuable time and effort away from other critical aspects of their operations. Streamlining and simplifying the loan application process at VDB could enhance its attractiveness to BEWACO (interview 9) and other organizations, facilitating more efficient and timely access to financing for public water supply initiatives. There are alternative precedents. In the Nordic region, for example, public banks and public water providers report that theirs is a relatively simple and straightforward process where municipalities request funds and the banks deliver them (Juuti et al. 2022).

One of the other factors contributing to the complicated nature of the VDB application process involves the lack of a transparent legal framework for determining interest rates (UNICEF 2022). There is currently no specific regulatory framework that would enable VDB to establish appropriate interest rates, which impedes the VDB's ability to provide readily accessible concessional finance (UNICEF 2022). Decree 31 of 2017 authorizes VDB to utilize domestic capital to lend to water supply enterprises at preferential interest rates and assume the credit risk for these loans. However, VDB

has encountered challenges in deploying these loans due to complications arising from the mechanism used to determine interest rates. Furthermore, such rates should be conducive to supporting the water sector while ensuring VDB's capacity to cover capital mobilization and loan servicing expenses (UNICEF 2022). As a rule, policy-based public bank lending must be accompanied with clear and transparent government support mechanisms. Without such mechanisms in place, policy lending can undermine the long-term sustainability of the public bank. This is in no one's best interest, and clients of Vietnam's public banks would like to see greater transparency in their operations.

In addition, the monitoring procedures implemented by VDB for financed projects have been characterized as complex and demanding, placing a significant burden on BEWACO (all interviews at BEWACO). These procedures involve comprehensive reporting requirements, regular site visits and meticulous documentation:

Although the interest rates for loans from the development bank (VDB) are low, the loan application process is complicated, involving numerous procedures and time-consuming requirements. Accessing the necessary funding becomes challenging as it requires detailed reporting and regular updates of information.

(Interview 9)

The rigorous nature of the monitoring process necessitates substantial efforts from BEWACO to ensure compliance and provide detailed updates on project progress, financial performance and adherence to established guidelines. The extensive efforts required by BEWACO to meet VDB's monitoring requirements may diminish the attractiveness of the PPC, as it adds an additional layer of complexity and administrative burden to the implementation water supply projects. Simplifying and streamlining the monitoring procedures could enhance the appeal of VDB as a financing partner, allowing BEWACO to allocate resources more efficiently and focus on project implementation and service delivery (all interviews at BEWACO). Creating simplified, co-created and streamlined key performance indicators mirrors recommendations made for public multilateral and national development banks at the international scale for "metrics that matter" (Marois et al. 2023).

Finally, VDB does not cooperate with commercial banks or private financial institutions in financing ongoing public WSS projects, including those undertaken by BEWACO. According to VDB, this is because it has the capacity to finance the entire project and provide low interest rates to targeted clients (interview 6). However, it turns out that VDB has no legal framework for cooperating with commercial banks in financing eligible projects (interviews 1, 6). While there is global precedent for individual public banks financing infrastructure effectively, there are also promising examples of public banks co-financing collaborations that help to spread risk, provide

favourable terms and to further reduce the costs of financing (Marois 2021; Marois & McDonald 2023).

The absence of cooperation between VDB and the joint-stock state-owned commercial banks in financing ongoing public WSS projects, including those undertaken by BEWACO, presents certain shortcomings. While VDB's ability to finance the entire project and provide low interest rates to targeted clients may initially seem advantageous, the lack of collaboration with public joint-stock commercial banks limits the availability of diverse financing options. Public commercial banks can bring extensive experience, expertise and financial resources to the table, which could contribute to more efficient project implementation and broader access to funding. Their involvement could introduce innovative financing mechanisms, risk-sharing arrangements and access to additional sources of capital, thereby promoting greater project sustainability and resilience. Moreover, collaborating with public commercial banks could foster a form of positive, pro-public competition and enhance transparency in the financing sector, potentially improving efficiency and cost-effectiveness. Establishing a legal framework that enables cooperation between VDB and public commercial banks for financing eligible projects could unlock synergistic benefits, broaden the financing landscape, and ultimately strengthen the overall development of Vietnam's WSS sector—and indeed, the public banking sector.

Another challenge that may exist in the collaboration between public banks (such as VDB) and public water operators is the attractiveness of loans from private commercial banks. While VDB offers low-interest loans, water operators reportedly choose loans from private, joint-stock commercial banks due to potential kickbacks associated with these loans (interview 15). That is, private commercial banks may provide financial incentives or benefits to the decision makers at water companies in exchange for securing loans with them. This practice creates a dilemma for public water operators as they have to choose between the low-interest loans offered by public banks and the potential personal incentives offered by private commercial banks. Financial incentives from private commercial banks, which expect a market-based return on investment, can influence the decision-making process and potentially divert water operators towards private financing options in ways that undermine the financial viability of the public water operator as well as service equity. This too underscores the need for a transparent and clear legal framework guiding the financing of public water and other infrastructure projects in Vietnam.

Conclusions

This chapter focuses on analyzing the financing relationship between the VDB and BEWACO (the Ben Tre water supply and sanitation infrastructure company) in the Mekong River Delta of Vietnam. The objective has been to identify the strengths and weaknesses of this relationship and propose ways

to enhance its effectiveness. The study's significance lies in the importance of understanding appropriate financing mechanisms for water supply and sanitation infrastructure, a cornerstone of citizen well-being.

Data analysis helped identify the strengths and weaknesses of the VDB–BEWACO relationship, while interviews with key stakeholders provided valuable insights into the challenges and opportunities for improving the collaboration. The study has shown several promising aspects. One key advantage of this collaboration is the provision of low interest rates by VDB to support BEWACO's water supply initiatives. This enables BEWACO to access financing at favourable terms, reducing the financial burden associated with project implementation. Overall, VDB is able to provide the cheap financing needed by public water operators in Vietnam.

Moreover, the availability of long-term loans from VDB aligns well with the nature of BEWACO's water supply projects. These projects often require significant initial investments, while revenue generation may take an extended period of time. By offering long-term financing, VDB supports BEWACO in overcoming financial constraints and allows for sustainable project development. That is, VDB is able to provide financing appropriate to public water provisioning.

Despite these promising aspects, several challenges have been identified in the VDB–BEWACO collaboration. The loan application process at VDB appears complicated and time-consuming, posing difficulties for BEWACO. Simplifying this process could foster more effective and attractive PPC, enabling BEWACO to expedite the loan application and access financing more efficiently.

Another challenge lies in the complicated project monitoring process employed by VDB that requires BEWACO to commit significant resources. Simplifying the project monitoring process would not only alleviate the burden on BEWACO but also improve the efficiency and effectiveness of project implementation. By implementing streamlined and standardized monitoring procedures, VDB can enhance its collaboration with BEWACO and other water operators, enabling more efficient project oversight and progress tracking. VDB, too, could support streamlining by expanding in-house water expertise and knowledge.

Additionally, the lack of transparent cooperation pathways between VDB and the state-owned commercial banks may pose limitation to public bank–public water collaboration. A clear, transparent legal framework would create opportunities for broader financial participation and increased access to appropriate capital for water operators. The VDB and public commercial banks could learn from one another, thus bringing additional expertise, resources and financial support to enhance the sustainability and scalability of water supply projects. Such cooperation could create a more inclusive financing ecosystem and foster innovation and efficiency in the sector.

In conclusion, the public bank–public water collaboration between VDB and BEWACO in Vietnam's water supply sector demonstrates several

promising aspects, including low interest rates and long-term appropriate loans. However, it is crucial to address the challenges identified to further strengthen and enhance such collaborations between public banks and public water operators. Simplifying the loan application process, streamlining project monitoring procedures and establishing a legal framework for cooperation with commercial banks would improve the attractiveness and effectiveness of such collaborations. By doing so, public banks and water operators can work together more efficiently and effectively to achieve sustainable and accessible water supply services, that is, towards SDG 6.

There are limits to the study's findings. The scope was limited to the financing relationship between VDB and BEWACO, which is unlikely to represent the full scope of financing relationships in Vietnam's water supply and sanitation infrastructure projects. The study did not delve into the broader social and environmental impacts of the VDB–BEWACO financing relationship, focusing primarily on the financial aspects. Furthermore, the perspectives and experiences of other stakeholders, such as customers, local communities and other financing institutions, were not extensively examined. So, while this is the first study of public banks and public water in Vietnam, these limitations indicate the need for further study and more comprehensive understandings of not only the VDB–BEWACO relationship but also of PPCs within Vietnam and indeed the Global South.

Note

1 Socialization is a concept used by the Vietnam government to refer to a combination of equitization and making goods/services that once were provided for free by the government to being provided privately and charging user fees.

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Appendix A: Interviews conducted

<i>Interview</i>	<i>Name</i>	<i>Role</i>	<i>Date</i>
1	Tran Thanh Long	Director of VDB, Song Tien Branch	December 22, 2022
2	Tran Thi Phuong Thao	Staff of Credit Department, VDB, Song Tien Branch	December 22, 2022
3	Nguyen Ngoc Tram	Staff of Credit Department, VDB, Song Tien Branch	December 22, 2022
4	Nguyen Thanh Thai	Head of Inspection Department, VDB, Song Tien Branch	December 22, 2022
5	Cao Tan Thu	Staff of Credit Department, VDB, Song Tien Branch	December 23, 2022
6	Tran Hoang Yen	Head of Credit Department, VDB, Song Tien Branch	December 24, 2022
7	Le Thanh Vu	Staff of General Services Department, VDB, Song Tien Branch	December 24, 2022
8	Tran Hung	Chairman of the Board of Directors of BEWACO	January 6, 2023
9	Vo Thi Thien Trang	Chief Accountant of BEWACO	January 6, 2023
10	Anonymous	Head of Department of Engineering at BEWACO	January 10, 2023
11	Anonymous	Head of Department of Project Management	January 10, 2023
12	Anonymous	Staff of Department of Engineering	January 10, 2023