

**CITY DEVELOPMENT STRATEGIES**  
From Vision to Growth and Poverty Reduction

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**PLENARY SESSION VI: THE MISSING LINK:  
SUSTAINABLE MUNICIPAL FINANCE STRATEGIES**

**THE ISSUANCE OF CITY MUNICIPAL BOND &  
DEVELOP URBAN AREAS OF HO CHI MINH CITY**

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## **THE ISSUANCE OF HOCHIMINH CITY MUNICIPAL BOND**

The 5-year plan of socio-economic development from 2001 to 2005 for Ho Chi Minh City has been highly requested. Planned objectives and tasks of socio-economic development for this period can be summarized as follows:

- Focusing on replacing machinery and equipment, technology of key industries of the City.
- Investing in re-structuring industrial products structure.
- Investing in developing infrastructure for service industries which are the City's strength (such as commerce, tourism, finance and money sector,...).
- Investing in developing urban infrastructure and social infrastructure of the City.

In order to carry out these objectives, annually the City has to mobilize more than VND 35.000 – 40.000 billion for investment, of which the demand for investment made out of the City's budget is very high, which is about VND 10.000 – 12.000 billion. However, this budget could probably supply just about VND 3.000 – 5.000 billion for developing investment. So the City badly needs various fund raising methods for this investment.

Actually, fund-raising solutions applied over time are two main groups of solutions: solutions of generating fund for budget (e.g. tolls, fees, land ownership bidding) and solutions of fund borrowing.

As to solutions of fund borrowing, the City has mostly relying on credit financing from Development Assistant Fund and banks. However, these methods of capital mobilization show weaknesses such as credit limits. Thus, it is essential to develop other form of debts for Ho Chi Minh City's budget such as issuing Municipal bond. In consideration of investment capital need and budget balance of the City over the years 2003, 2004, 2005, the City has planned to annually mobilize about VND 2.000 billion through bond issues.

In 2003, when municipal bond was issued at the first time, Ho Chi Minh City was successful in issuing VND 2.000 billion of HCMC municipal bonds. For 2004, to date, the City has issued VND 1.400 billion (plan of VND 2.000 billion)

### **Ho Chi Minh City Municipal Bond Issues can be summarized as follows:**

In 2003, Ho Chi Minh City was the first city which issues municipal bonds to raise funds for development investment. At that time, there was only the systematic regulation for state and corporate bonds in Vietnam. In practice, the government bonds are frequently issued. But the Government's Degree No. 93/2001/NĐ-CP dated 12/12/2001 decentralizing of some management aspects for Ho Chi Minh City and with its potentiality and strength, the City has full ability and in good condition to raise capital by the means of Municipal bond issues.

Thereby, based on study of government bond issues (in essence, municipal bond is one type of government bond but on the purpose of supporting local needs), HCMC People's

Committee has released Municipal Bond Issue Regulations in Decision No. 96/2003/QĐ – UB dated 12/06/2003 as the basis for designing and implementing municipal bond issues.

Based on agreements and technical suggestions of Ministry of Finance (MOF), HIFU and HCMC Department of Finance (DOF) worked out the municipal bond issue plan for the year 2003. This plan was approved by HCMC People Committee under the Decision No. 130/2003/QĐ-UB dated 30/07/2003. Basic contents as follows:

- Issuing developer: Investment Fund for Urban Development (HIFU)
- Volume and maturity:
  - Issuance volume in 2003 is 2,000 billion VND.
  - Bond's maturity:
    - In the future, HCMC People Committee will concentrate on issuing long-term maturity of bond (main types of municipal bonds) to match the payback period of city's infrastructure projects.
    - On the first issuance, HCMC People Committee experiment following maturities:
      - 2-year maturity: matching demand and investment style (short-term) of many people.
      - 5-year maturity: matching demand of current financial and credit institutions.
- Municipal Bond interest rate:
  - In 2003 issues, interest rates are fixed.
  - Interest rate determination: based on Governmental Bond yield with the same period plus a yield spread decided by MOF due to government bonds are safer municipal bonds. According to MOF's suggestions, maximum spread is 0.06% complying with each term.
- Issuing method: using methods used in issuing government bonds including agent, underwriting and bidding on HCMC Securities Trade Center.

As of 11/12/2003, HCMC Investment Fund for Urban Development has completed 2003 issuing plan through 02 issues of total issued amount of VND 2.000 billion of municipal bonds. Details are as follows:

***The first issuance (in September and October)***

- Investment forms: only 02 forms of agent and underwriting.
- Issuing interest rates:
  - 2-year maturity: fixed rate is 8.52%/year (paid at year-end)
  - 5-year maturity: fixed rate is 9.00%/year (paid at year-end)

- Issuing results:
  - Selling 5-year-period municipal Bond to financial organizations and banks: as of 1/110/2003): issued amount was 1.500 billion VND
  - Retailing

HCMC Securities Corporation (through underwriting and being agent) has held conducted over 170 sites throughout the country (including treasury systems and banks). As a result, HIFU raised 250 billion VND of municipal bond, 200 billion of which was 2-year maturity and 50 billion of which was 5-year maturity.

### ***The second issuance – Bidding at HCMC Securities Trading Center***

- Preparation and implementation.

Based on legal documents regarding municipal bond issues (mentioned above) and making use of legal documents concerning government bond auction issues at HCMC Securities Trade Center, HIFU and HCMC Department of Finance have designed issuing plan for municipal bond Issue No. II by means of auction at HCMC Securities Trading Center.
- Results of the second issuance No. II by means of auction on HCMC Securities Trade Center (on 09/12/2004) are as follows:
  - Tender volume: 250 billion VND (5-year maturity)
  - Winning tender rate: 8.35% per year (equal to upper interest limit stipulated by HCMC People's Committee), with winning tender volume: 250 billion VND, and 04 tender winners.

In 2004, based on real requirements and experience in HCMC's municipal bond issues, the Government has issued Degree No 141/2003/NĐ-CP dated 20/11/2003 (on issuing State bond, State's secured bond, and local government bond) and other relevant guiding legal documents. On that foundation, HCMC Department of Finance (DOF) and HIFU have worked out the 2004's municipal bond issue plan, based on applying the case of local government bond. This plan was approved by HCMC People Committee under the Decision No. 157/2004/QĐ-UB dated 01/07/2004. The 2004 issuing plan is the same as the 2003 plan., the key and improvement difference is lengthening the maturity of bonds (no more 2-year maturity, adding 10-year maturity).

By 31/10/2004, results of issuing 2004's municipal bond as follow:

### **The first issue through underwriting (on 30/07/2004)**

- i. Mode of issue: co-underwriting method
- ii. Issuing volume: 1,000 billion VND with 5-year maturity bond

iii. Yield on municipal bond: 8.52% per year (interest is payable semiannually.) It is similar to a yield of 8.7% per year (deferred-interest is payable annually)

iv. Results of selling municipal bond: issued amount of 875 billion VND in municipal bond was issued, got only 87.5% of the 1,000-billion VND issued plan.

**The second issue through auction (on 17/08/2004):**

Call – for – bid volume was 125 billion VND of 5-year maturity municipal bond.

Results of the second issue through auction HCMC Securities Trade Center as follow:

- Winning tender rate: 8.52% per year (ceiling interest rate announced by HCMC People Committee is 8.52% per year. Interest is payable every six months)
- Winning tender volume: 125 billion VND with 02 successful tenderers

**The third issue through underwriting (on 27/09/2004)**

i. Mod of issue: Underwriting

ii. Issuing volume: 400 billion VND of 10-year maturity bond

iii. Yield on municipal bond: 9.00% per year (interest is payable annually.)

iv. Results of selling municipal bond: 400 billion VND in municipal bond was issued.

In order to complete successfully the 2004's municipal bond issue plan, DOF and HIFU will continue to perform other issues from now to the end of this year.

As of today, the City's budget has made interest payments to bonds at maturity with total payment amount of VND 160 billion. Over time, there have been many 2003 bond transfers among private and institutional investors, with transferred amount of about some hundreds of billion VND.

Together with BOT, BT concepts, urban bond issuance in big cities are actually feasible to mobilize leisure funds among the community and to finance urban infrastructure development and industrial restructuring.

## **DEVELOP URBAN AREAS OF HO CHI MINH CITY: STRATEGY AND SOLUTIONS**

In the past 10 years, HCMC has a growth (GDP) at average rate at 11% annual (equal to 30% GDP of the whole country), HCMC has population 6 mil. people, 2095 km<sup>2</sup> area and GDP per capita (person) is 1600 USD. HCMC has  $\frac{3}{4}$  urban residents of Vietnam urban resident. It is forecasted that for the next 10 years, population of HCMC will increase up to 10 mil. people

HCMC still keep the pioneer in the development of the South region which affect on the development tendency of the East and South West region. Fast growth of HCMC population is both the resource and challenge for urban management.

The unbalance relocation of urban residents in the urban areas caused many difficulties in the development and urban management. The urban area occupies 21% of city area but there is more than 81% citizen who lives in the urban areas with the high density of 10,388 people/km<sup>2</sup>, in which 8 districts have density of 30,000 people/km<sup>2</sup>, especially 4 districts have density of 45,000 people/km<sup>2</sup>. the housing source in recent 10 years increased significantly, from 7.5 m<sup>2</sup>/person in the year 1990 has increase to more than 10 m<sup>2</sup>/person at present. However, the percentage of semi-solid houses still high (64%), not counting more than 15,000 households who live along and beside the polluted canals. The entire city infrastructure are invested and take 80% of capital of Official Development Assistance (ODA), yet it still have a lot of demands needed to be solved such as flooding prevention, traffic jam prevention, air pollution prevention and urban management...

Reorganizing the urban areas and developing the grouped residential areas is the long-term strategy of the city with the aim:

The real practice showed that the rigid master plan reduced the flexibility of urban. There are many changes in socio-economic development during the time. Thus need of double-check for master plan with the purpose avoid to freeze the urban plan during the whole process from concept, investment, making design, construction and operation, management and development. In a long period, there is no strict rule of commercial projects for housing and it take those commercial projects go so far behind the master plan. There was a few master plan which considered to the financial aspect of the city program and projects. It is said that there is a few coordination among the city departments/agencies who construct, manage and be the final beneficiary. In many cases, the master plan activities itself did not have enough power and administrative tools to coordinate the relevant department/agencies. Therefore, the strategic master plan will have the strategy which is suitable, flexible and feasible because of close cooperation with city programs, projects and multi-participation plan among departments/agencies.

Reorganizing the urban areas by adopting strategic master plan and carrying out many target programs with several projects investment as follows:

- Relocate and resettle 30.000 households who live along and beside the urban canals. This program will solve the integrated infrastructure including environment, sanitation, water supply, water drainage which is polluted from the urban canals as Nhiều Lộc-Thị Nghè, Tàu Hủ-Bến Nghé, Tân Hoá-Lò Góm, Kênh Đôi – Kênh Tẻ, Tham Lương- Bến cát –Vàm Thuật. Doing this program will open opportunity to travel by river plus tourism, improve the living condition of majority of the poor. At present, the program relocated and resettled 15.000 households

- Mass invest in infrastructure in order to solve the integrated problems such as growth prevention of urban inhabitants, modern building development for commerce, service, banking finance and tourism. HCMC will strictly supervise the housing projects and civil works as well as architectural buildings.
- Upgrade the infrastructure of low-income areas into 2 options: (i) alleys extension, water supply and drainage investment, electricity investment, housing upgrading... following the principle “Government and People join to do together”, and (ii) construct high-building for people resettlement with the way of “in-situ” upgrading and improvement, and extend more public buildings.
- The program basically and gradually solve the environmental issues, living conditions with the aims: clearance more than 100 km of urban canals, Relocation the polluted factories, plant out of residential areas and Increase green tree density and public services .
- The City had applied basic principles in Urban Upgrading Strategy: Community participation; New resettlement house is better then previous one; Every household has suitable living place; Multi-participation of city department/agencies; Mobilize and Utilize effectively all inside and outside resources of the country; Upgrading based on the financial capacity of participants with long-term development concerns.
  
- The appearance of city urban areas which is gradually changing follows the city strategy because HCMC had built up the Trust via commitment between Government and People, Government and Sponsors such as WB, JBIC (Japan), ADB, BTC (Belgium), AFD and other organizations. This will encourage the People participate with the government in terms of urban management and bring the real and efficient results such as capital mobilization from the People and Community for traffic capacity increase, alley extension, hunger erase and poverty reduction, awareness improvement of sanitation and environment...
- The City are doing research on the idea which changing the previous way of administrative management system by combination of regional management (established by natural water drainage basins) and infrastructure system. By doing this, the City can coordinate the investment projects and effectively manage the infrastructure projects in terms of investment, construction and management. Management based on natural region will create the advantage for infrastructure connection and discharge making. This way of management will help to manage the urban city as an integrated, condensed system and not be interfered by the district boundary of administrative system.

City government have instructed city agencies to invest in grouped urban areas with large scale with the purpose satisfying the population increase demand, moving the urban inhabitant out to suburban areas, and serving the socio-economic development demand:

New typical residential areas are being deployed:

- + Invest in **Thu Thiem Island** with many projects, especially a special and modern urban project with scale of 770 ha will be implemented in 2005. This project will connect the existing city urban areas and new developed **Eastern Areas**, then discharging to special national economic zone.
- + Invest in **SaiGon South** Project with scale of 2900 ha, especially the establishment of typical and modern Phu My Hung.
- + Invest in City **South West** Urban Area with scale of 1500 ha. This project will connect with Vónh Loác, Taân Taõo, and Lê Minh Xuaân industrial zone, then discharging to main hub to travel to the country south west provinces.
- + Invest in City **North West** Urban Area with scale of more than 6000 ha. This project will connect with industrial zone and residential areas of Long An, Taây Ninh provinces in the main hub of Inter-Asia Highway (Vietnam- Cambodia-Thailand)

New residential areas are being invested phase by phase. These projects will be invested with complete and uniform infrastructure base following the long-term development of the City.

Infrastructure and houses are focused to serve the purpose of land clearance and move economic structure, people structure in order to set up the balance between people and infrastructure. It is clear to get benefit for investor in terms of socio and economic analysis when they invest in infrastructure

Administration Reforming and Investment Assistance for urban development are the two important objectives which are being focused and instructed by the City Government:

The City are finalizing the investment encouragement mechanism for the internal and external investors who invest in the new urban areas: The City will assist and conduct the relocation, land clearance and resettlement; The City will join with firms who want to operate the projects/ civil works after construction complement; The City will invest in many projects via many suitable ways.

Manage strictly the construction activities in the urban areas in the situation of rapidly increase housing demand (the City need 60 mil. m<sup>2</sup> for housing by 2020). That establishment of new urban areas will solve both achieve the City target and long-term solutions which create fair competition of commerce and investment, and assist to the City socio-economic development. It also encourages the urban people move out of the urban areas. Housing strategy based on suitable approach which provides the suitable living places for the city people will significantly contribute to the sustainable development of City Urban.

- Investment regulations were issued and being continuously modified to create the convenience for investors via clear and specific mechanism, transparent process with “one-stop shop”.
- Modify and Finalize the investment encouragement mechanism in order to mobilize resources of finance, management experience, high technique in manufacturing and

service with high skilled staffs, and try to limit to invest in fields/careers which abuse more labor forces.

- Modify the administrative system by decentralizing clear power and specific duty to the lower levels.
- Train and retrain the government officials and civil servants in order to let them aware of become skilled officials and work with public responsibility.
- Make the multi-participant strategy in the target programs.
- Harmonize the procedure and formalities between the Government and Sponsors by doing uniform legal frame/institution for save time of project preparation and implementation.
- Demand of investment and construction in Ho Chi Minh City in the next years is very largest. It will become reality whenever the City government and the People will join together to participate and fully be responsible for the City' Future via transparent management mechanism, strictly obey and manage the urban culture.