

Output-Based Aid in Vietnam: Access to Piped Water Services for Rural Households

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In Vietnam, achieving sustainable provision of water services for communities in rural areas has been a challenge for years. About 74 percent of the Vietnamese population is concentrated in rural areas, yet just 48 percent of households have access to clean water, compared with 82 percent in urban areas.¹ Only 30 percent of small towns have piped water systems, and even then the proportion of connected households can be as low as 20 percent. Many settlements have no water systems, and during the dry season residents have to rely on polluted sources for basic household needs.

This paper reviews the successful implementation and subsequent scale-up of an Output-Based Aid (OBA) scheme to provide access to safe, clean water for low-income, rural households in central and southern Vietnam, through local communities and small private operators.

While Vietnam's Provincial Center for Rural Water Supply and Sanitation operates water systems in relatively large settlements (600 households or more), in smaller villages the responsibility rests with the Commune People's Committees (CPCs), which often lack the resources to meet community water service needs. The government has had little success in these places, mainly due to a lack of community ownership, a focus on asset building rather than system management, and tariff levels too low to cover operation and maintenance. However, given the high consumer demand, the private sector and non-governmental organizations have steadily increased support for rural and small towns' water supply by leveraging funds from fee-paying customers and in-kind labor contributions during construction.

Providing sustainable water services in rural areas

The International NGO, East Meets West Foundation (EMWF), and its subsidiary, Reach Vietnam, have been working with local authorities and beneficiaries to develop a community-based approach to clean water provision for rural households for over 10 years. EMWF



Viet Tuan Tran for GPOBA

has established a track record for delivering sustainable services at low cost and with high customer support and satisfaction. Key to EMWF's success is its focus on communities able and willing to contribute both in cash and in-kind. EMWF's emphasis on securing community buy-in has been critical to ensuring sustainability and helps explain its track record.

Before the Global Partnership on Output-Based Aid (GPOBA)'s involvement, the pace of EMWF's work in rural water was dictated by the availability of hard-to-predict donated funds. This made long-term planning a challenge and deprived EMWF of the efficiencies that more stable funding allows. Since 2007, GPOBA has provided EMWF with a certain amount of funds to explore the OBA approach for rural water challenges and so it can operate over a longer and more stable planning horizon. The OBA approach uses an innovative risk-sharing mechanism that enhances EMWF's performance while maintaining high value for money and focusing on sustainability.

Geographic targeting

The GPOBA-funded project started in 2007, initially aiming to help the poor in five provinces of central

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Vietnam, where EMWF has been active, gain access to improved water services. Quang Nam, Quang Tri, Quang Binh, Quang Ngai, and Thua Tien Hué are among the country's poorest provinces, with poverty rates as high as 29 percent.² The project aims to serve 75 communities, selected according to the following criteria and requirements:

- Agreement on the site is reached between EMWF and the concerned local authorities after consultations with beneficiary communities;
- Rigorous EMWF test drilling identifies suitable water sources;
- Currently-available drinking water falls below government quality standards;
- The site passes the environmental screening developed through the Environmental Assessment Framework;
- Commitment letters are signed by each beneficiary household promising to contribute in-kind labor, cash for household connection, and regular water-service payments;
- At least 50 percent of registered households have paid the deposit necessary for purchasing materials for household connections;
- Agreement on management and governance of the system is reached and selection of either individuals or a private operator to manage the future water scheme is in progress.

In the first year of implementation (2008), EMWF identified 19 communes in four provinces (none yet in Quang Ngai). Poverty rates in the targeted communes, as measured by the international benchmark per capita income of below US\$1.25 a day, are almost 100 percent.

Contractual and institutional arrangements

In November 2007, GPOBA and EMWF entered into a Grant Agreement for US\$3 million with a possibility of extending to US\$5 million at midterm review. EMWF is in charge of financial management, procurement, compliance with safeguards, and monitoring and reporting. EMWF bears the full responsibility and risks for pre-financing and implementing the project and ensuring satisfactory service provision.

Some responsibilities are transferred to the local authorities after works have been commissioned, in accordance with the Memorandum of Understanding (MOU) that EMWF enters into for each water scheme. Local authorities agree to set and revise water tariffs so

that operation and maintenance costs are covered and reserves for repair and possible extension are set aside.

The output measure for this OBA scheme is a working household connection to safe piped water, with six months of billed consumption. After independent verification, the GPOBA subsidy is disbursed as follows:

- 80% is disbursed once working household connections are realized;
- 20% is disbursed after six months of satisfactory service delivery.

For an average-size village (400 households), the total system cost—derived from a review of similar EMWF projects between 2004 and 2006—was initially estimated to be US\$50,800 per village. At US\$127 per connection, this compares well with current market costs and other donor/lender water projects in Vietnam. The GPOBA subsidy was set at US\$100 per connection. The remainder was covered by contributions from beneficiary households and local authorities. See Table 1 below.

Under the GPOBA scheme, EMWF borrows money from Wells Fargo Bank to pre-finance the construction.

Tariffs in EMWF-financed systems range from VND 2,000 (US\$0.12) to VND 2,500 (US\$0.15) per cubic meter, roughly double the rate many government piped water systems charge, ensuring the scheme's sustainability. Even at these levels, monthly water bills remain below 2 percent of the monthly income of the poorest households.

Every household wishing to connect to the water system must sign a Commitment Letter addressed to EMWF and the respective CPC and District People's Committee, agreeing to pay for the distribution line to their house; to contribute labor for household connection and communal pipeline trenches; to pay their monthly water bill; and to participate in hygiene and sanitation promotions.

Due to factors beyond EMWF's control, including sharp price increases for construction materials and high inflation, the unit subsidy was increased to US\$140 in April 2009. Given the fixed grant amount (US\$3 million), the number of expected beneficiaries fell from the original 30,000 to around 22,000 households. Table 2 below shows the revised distribution of project costs.

Despite the cost increases and severe weather in the target area, the project progressed well, as confirmed by the team during the midterm review in August 2009. This led GPOBA to increase its subsidy

Table 1. Cost description at project appraisal

Cost description	Cost per HH	Scheme cost (400 HHs)	Total Project cost (75 schemes)	Percent of total cost
EMWF pre-financing of construction costs = GPOBA subsidy	100	40,000	3,000,000	78.7
HH financial contribution	14	5,600	420,000	11.0
HH in-kind contribution	11	4,400	330,000	8.7
Value of land contribution from local authorities	2	800	60,000	1.6
TOTAL	127	50,800	3,810,000	100

HH = household; all costs in US\$.

to US\$4.5 million, raising the number of expected beneficiary households to around 33,000.

EMWF reports on progress to GPOBA quarterly, narrating the outputs, requested subsidy reimbursements, and updating project monitoring indicators and relevant financial management information. Satisfactory output is then verified by an Independent Verification Agent (IVA) hired by GPOBA, then reported in a quarterly review with recommendations regarding eligible subsidy payments. The reports are carefully reviewed before the subsidy payment is made. Figure 1 summarizes the contractual and institutional aspects of the scheme design.

Lessons learned

The implementation of the rural water scheme has yielded some key lessons, particularly on how the transfer of risk to the service provider motivates the delivery of results as quickly and cost-effectively as possible. The role of the IVA, core to OBA project design, helps to ensure that quality, transparency, and accountability are maintained at the desired levels throughout the process. As a result of lessons learned in the first phase, a new approach for the second phase in the southern provinces was proposed. The new approach allowed for greater involvement by small-scale private operators, which

would pre-finance the construction and operate new schemes while EMWF focused on project identification and evaluation. GPOBA would pay the corresponding portion of the subsidy to the private operators. The proposal was adopted as it aligned with a Socialization Policy approved by the Vietnamese government which established a framework for cooperation between public and private sectors in rural water and sanitation services. To assess the feasibility of this initiative, the team visited two provinces in the south.

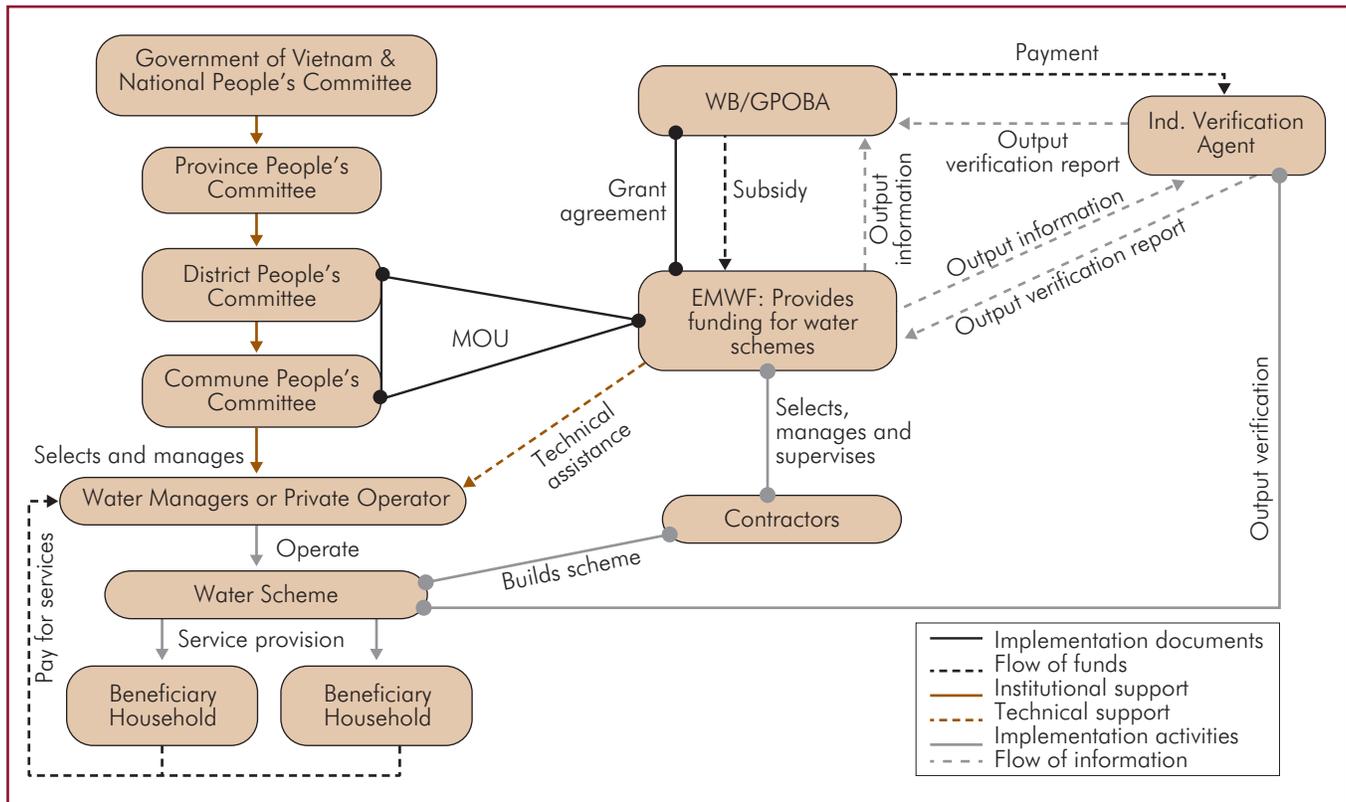
Engaging the government early in the process, particularly where the potential to mainstream and scale-up has been identified, is another key lesson gained from this experience. Vietnam's Ministry of Agriculture and Rural Development (MARD) has actively followed the project's progress, including hosting a workshop to discuss and subsequently endorse the OBA approach as a way to address rural water supply challenges.

The success of the project, coupled with the support of the MARD, facilitated the right environment for scaling up the OBA approach—with appropriate adaptation—to support the National Target Program for the extension of sustainable water and sanitation services in rural areas. The scale-up will encourage private-sector participation in the construction and management of future water

Table 2. Revised distribution of project costs

Cost description	Cost per HH	Scheme cost (430 HHs)	Total Project cost (75 schemes)	Percent of total cost
EMWF pre-financing of construction costs = GPOBA subsidy	140	60,200	4,500,000	84.7
HH financial contribution	14	6,020	450,000	7.9
HH in-kind contribution	11	4,730	355,000	6.2
Value of land contribution from local authorities	2	860	65,000	1.1
TOTAL	167	70,520	5,370,000	100

Figure 1. Contractual arrangements and flow of funds



and sanitation schemes, an objective of the national Socialization Policy.

The project also illustrates the importance of communicating experiences and successes. As a result of EMWF's awareness-raising efforts about its progress on the original project, support for expansion into the southern provinces was forthcoming from communities and government alike.

As of June 30, 2011, EMWF has built 66 systems and connected 26,745 households, benefiting

133,725 people. Another 10 systems are currently being developed to connect a further 5,955 households.

¹ As of 2004 (General Statistics Office of Vietnam – Living Standard Survey 2004).

² In 2004, when the national poverty rate was 18.1%, the Government poverty standard was VND 200,000 (US\$12.5) per capita per month in rural areas.

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