Public Private Day

Public-Private Day Report

Public Private Day Objectives

1. To obtain a better understanding of how public (and donor) interventions can most effectively leverage the resources of the private sector in order to achieve greater development impact.
2. To be updated on recent thinking in this area as well as on experience within Vietnam.
3. To share experience in this area with peers and develop practical recommendations for future actions.

Theme: *M4P as a tool to leverage the development impact of the private sector*

Private firms are the major drivers of sustainable growth and employment in Vietnam. A key challenge for M4P is to define suitable public interventions that encourage private firms to extend the "frontier" of their activities so that the poor are increasingly involved. One aspect is where firms engage the poor as employees or as suppliers in a value chain. Another involves the poor as customers buying services and products. The particular historical circumstances of Vietnam mean that Government is often assumed to be the "natural" provider of infrastructure, social protection and other essential services. But continued rapid growth in the economy and limitations on the ability of the state to finance and provide the range of services needed suggests the time is right to consider alternative approaches. Various public-private arrangements offer the possibility of supplementing limited Government budgets with private sector investments and market-based interventions. Service provision using the private sector may potentially be more sustainable and customer focussed. But there remain unresolved issues concerning property rights, the allocation of risk and return, corruption, the legal status of public-private arrangements and independent, means of dispute resolution. To investigate these questions in more detail, the day is divided into two broad parts:

1. Using **innovative market-based approaches to enhance the outreach of service delivery** to the poor
2. **Public-Private arrangements to leverage private investment in the infrastructure** that matters to the poor – PPP and the provision of pro-poor infrastructure

Success indicators

The day will have been successful if participants feel:

1. better informed about the role of public-private arrangements in development
2. stimulated to develop or improve networking and collaborative working;

   positive about the contribution they can make over the coming year.

Summary of the main points of discussion on Public Private Day

- Expectations about the relative roles of the state and the market are still uncertain in Vietnam. The nature of Vietnam's transition means that these roles are in a state of change and re-definition. In some sectors there are political limits on private sector providers and the reliance on the market as the means of allocating resources.

- An entry point for M4P may be to concentrate on the "business model" for service provision rather than the ownership structure. For example, looking at issues such as who pays, who provides, the coverage of the poor, the range of choices available to poor consumers and the extent of cost recovery.

- M4P needs to sell the concept of leveraging the private sector to extend the outreach of services and improve their effectiveness. Interestingly, experience suggests that private sector involvement in e.g. urban waste management actually improves the performance of existing public providers through a competitive effect. Well designed public procurement can help private sector providers emerge and develop in certain service markets.

- More attention needs to be paid to regulatory aspects of market performance e.g. through the implementation of competition policy. In a move to more private sector participation in service provision the pro-poor impacts should be monitored e.g. can small enterprises win service provision contracts? Are the services extended to the poor as well as the rich?

- M4P is not about the promotion of free markets per se but rather about determining the most effective interaction between public and private sector entities. For example, how can subsidies be used intelligently to maximise development impact without undermining the market?.

- Subsidies best are deployed “upstream” where they do not affect prices in a market. Examples are the removal of systemic institutional or infrastructural bottlenecks and constraints to market development, or market building and facilitation. But price reducing subsidies in the market itself may undermine longer-term market development.

What have we learned about the use of markets and private sector providers for service provision in developing countries?

Jim Tanburn

This paper is an edited version of "Making Markets Work for the Poor- Insights from International Cases" prepared for the Centre for Development and Enterprise, (www.cde.org.za) in August 2005 as part of the Commark project in South Africa. We gratefully acknowledge the cooperative spirit shown by Commark (www.commark.org) in allowing us to make use of this paper.

This paper provides a number of examples where markets and private sector providers play a role in service provision. In this context, 'markets' is to some extent a code-word for all of the systems (socio-cultural, etc.) within which poor people live.

This Paper has four main parts:

A. Measures that governments can and should take to allow markets to work for the poor;
B. Evidence that markets are already working for the poor;
C. Examples of interventions by development agencies to make markets work for the poor; and
D. Examples of interventions by large companies serving the poor profitably.

The examples shown tend to question the common perceptions that:

- The private sector provides for the rich, and the public sector for the poor"
- The poor prefer would prefer free or highly subsidised services; cheap, commercially-provided services are low in quality"
- Services such as health, education are mainly financed by the public sector"

Market development requires a different way of operating; it is a much broader agenda than, for example, helping poor people to find markets for the goods and services that they can produce (although it would typically include that). It is about adopting new models that serve the poor within their current realities; in particular, it is about partnership and win-win situations, more than the use of public funds to reach pre-determined goals that are deemed to be desirable. It is necessarily about accepting that public funds can achieve far more, if they leverage commercial dynamics rather than displacing them.

A. Measures that governments can take to make markets work for the poor

Traditionally, governments have intervened in various ways to serve the poor, for example through the following mechanisms:

- Subsidised provision of a service or good through a parastatal or government agency
- Funding to others, including private companies, to provide the service or good
- Transfer to the poor the means to buy the service or good, for example through vouchers
- Obligation (or exertion of moral pressure) on existing providers to cross-subsidise the extension of the service/good
- Establishment of an industry-specific levy fund to subsidise expansion of access where it is currently unviable

Most of these examples risk displacing market initiative, rather than building on it, or encouraging it. They have evolved partly as they can be implemented in the short term, and can generate substantial profile. They can also be targeted very precisely. However, they typically represent approaches adopted in wealthy countries, where value for money is not always the highest priority; this Paper considers the case of developing countries, where governments are often not well resourced. Given such resource constraints, what should government priorities be?

One part of the answer must relate to key elements of infrastructure, where government expenditure can address 'bottlenecks' and allow industries or sectors to develop in pro-poor ways. However, there is general consensus now that governments in developing countries should place very high priority on streamlining the regulatory framework and 'rules of the game' - to make formalisation easier (or, in some cases, practicable) and more attractive, and so to promote participation in the formal market economy.

Hernando de Soto argues that the main reason that the poor remain poor -and that the informal sector remains informal -is that they cannot formalise their assets. The two essential elements in this diagnosis are heavy business regulation and weak property rights, which are particular problems in poorer countries.

The World Bank's “Doing Business” report for 2005 finds that:

- Businesses in poor countries face much larger regulatory burdens than those in rich countries. They face 3 times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them. And they have fewer than half the protections of property rights of rich countries.
- Heavy regulation and weak property rights exclude the poor from doing business. In poor countries 40% of the economy is informal. Women, young and low-skilled workers are hurt the most.
- The payoffs from reform appear large. A hypothetical improvement to the top quartile of countries on the ease of doing business is associated with up to 2 percentage points more annual economic growth.

Thus, it is not so much a question of what governments might need to do. But more a case of streamlining the regulatory environment for which the government is directly responsible. The 2005 report gives a long list of "simple solutions and where they have worked", although unfortunately, few of the poorest countries are listed there.

The most important aspect of market development in **urban property** is undoubtedly the cost of formalisation. De Soto cites the following examples:

- Registering a small garment workshop on the outskirts of Lima took 289 days and cost $1,231; obtaining legal authorisation to build a house on state-owned land took six years and eleven months, requiring 207 administrative steps in 52 government offices; to obtain a legal title took 728 steps
- Authorisation to build a dwelling on urban land in the Philippines took 168 steps, involving 53 public and private agencies and taking 13 to 25 years
- Acquiring and legally registering a lot on state-owned desert land in Egypt required 77 bureaucratic procedures at 31 public and private agencies
- Obtaining a lease to settle on government land took 65 bureaucratic steps, requiring on average more than 2 years. To buy the land required another 111 bureaucratic hurdles, and 12 more years.

Poor people pay much more to occupy and keep hold of urban property, than do their more wealthy compatriots; simply put, it is expensive to be poor, as it is much more difficult to establish and defend any legal rights to property. This means that many additional costs are incurred. Several initiatives are therefore under way to address this from the regulatory point of view; few, however, have yet demonstrated great impact. In many cases, the legal processes take several years of continuous work, and practically speaking are out of the reach of anyone who does not have either reserves or good connections.

Another way in which Governments interact with markets is as customer. In Dar es Salaam, Tanzania, for example, the contracting out of solid waste collection and street sweeping by the **Municipality** to small enterprises and CBOs rapidly created more than 1,500 jobs. Coverage of waste collection increased from a 5% to more than 40%, with a much higher level of service reaching the poor.

B. Evidence that markets are already working for the poor

Education is highly valued by poor people, and governments have therefore placed high priority on achieving wide outreach with free or subsidised education. In practice, though, it has been difficult for governments in developing countries to meet the aspirations of their citizens for universal education of adequate quality. As a result, there is often extensive provision of education on a commercial basis., There are many ways in which the private sector can and does play active roles in the provision of education; the potential roles are also quite different, as Table 1 below makes clear :

Table 1: Key Roles for the Respective Sectors in Education

Public Sector	Private Sector
Overcoming market failures Where needs are likely to go unmet because of market failure or where social benefits or services exceed the private benefits	Improving quality In needing to maintain and develop their businesses, they tend to innovate and transmit best practice
Providing for the poor, rural and under-served Provision of a safety net for citizens that cannot pay market prices, either through providing services directly or by creating incentives for the private sector to undertake the task	Improve customer service Better customer focus – an assertion supported by the number of poor parents that send their child to a private school even when a public school is available at lower cost
Implementing appropriate regulations to ensure quality Setting, monitoring and accrediting standards, disseminating information to guide choice	Improve management standards Businesses can act as a partner in transferring important management skills
Controlling costs Arguably a necessary task where there is little competition, no parallel public provision, or where consumers are poorly informed	Developing new services An essential role where demand is expanding or the patterns of demand are changing

There are some indications that poor people may at times prefer to pay for private education, than access the cheaper government provision. This may be because private education providers are often operating in a highly competitive market, and they are therefore under great pressure to provide a quality service. Similarly, commercial providers are often very decentralised in their management and operations, leading to a high level of flexibility and innovation. Private providers may be more dispersed than government schools, and therefore more accessible to poor people.

Training, like education, has for a long time been considered a duty of government to provide, or at least to subsidise. Again, though, it has often been difficult for governments in developing countries to fund the recurring costs of vocational training in particular, to an adequate standard. And again, there is some indication that poor people would prefer to access training from commercial providers; reasons given include:

- the trainer is often known to the trainee, so giving some assurance of quality and post-training support
- the training is in the local language
- the training is available in formats that work for the trainee (e.g. evening classes, short segments)
- commercial training providers often have closer links with potential employers post-training; for example, some Vietnamese training providers report that they can assure their trainees of employment on successful completion of their course
- commercial providers are under some competitive pressure, so are more likely to offer a flexible and innovative training product of quality

In **telecommunications**, and specifically in mobile telephony, there is abundant evidence that commercial providers can and do serve very large numbers of relatively poor people, given the right regulatory environment. Technology has been driving telecommunications in recent years, but the policy framework provided by the national government must be supportive if beneficial changes can be realised. In particular, governments must resist the temptation to shield unduly the established telecoms provider (which is often state-owned) but to allow sufficient competition between established and new providers. This applies particularly to mobile telephones, where commercial providers have shown themselves very willing to invest, given the right signals from government.

Specifically, the technology of second generation (2G) mobile telephones offers many attractions to people in very small enterprises:

- Pay-as-you-go requires little up-front investment and no credit history; the owner can limit the liability if the phone is lent to others, and calls can be received at no charge
- No fixed place of business, literacy or particular language ability are required
- If there is competition between providers, they tend to adopt low-margin, high-volume business models; the technology itself is very low-cost

The opportunity to leapfrog protected landline providers, and to reach rural areas that are currently not served at all has motivated many mobile providers to invest heavily, even in environments that look very unpromising (e.g. post-conflict). The technology of secure payment by SIM card is opening up many exciting possibilities

Similarly, examples exist in **municipal affairs**, and specifically in water supply, where commercial providers are often serving poor people who are not being served at all by public providers. The government's stance is either actively hostile, or discriminates by default against commercial providers; despite this, the achievements in Latin America especially are impressive.

C. Interventions by development agencies to make markets work for the poor

There are few examples of successful interventions to up-grade the **education and training** markets as a whole. Development Banks in particular have implemented training voucher schemes in Latin America and elsewhere, increasingly with the rationale of up-grading the whole training market on a sustainable basis. In practice, however, it is difficult to pick up market development outcomes, often for the following reasons:

- Voucher schemes are generally popular with both voters and funders, so have often continued for many years; their effects on the market will only become clear once funding has stopped
- Voucher values have often been high (up to 90% of the cost of the training course) and as a result, their market development effects have probably been reduced
- In some cases, lack of transparency and bureaucratic delays have reduced market outcomes substantially
- In markets which were initially very thin, much of the voucher value may have been absorbed in increased prices for training services

There is a trend to use donor funding to analyse whole market systems, and to select the most appropriate interventions, whatever those might be. One example given is the strengthening of commercial radio stations in Uganda in their ability to reach and serve people in the **informal sector** with information and advice; the stations are also acting as a forum for discussion about issues of concern to informal sector operators. All programming is supported by commercial sponsorship, and has an estimated 7 million regular listeners.

However, this rigorous approach to market development has not yet been rolled out in many cases, except where it was achieved under a different banner in the past. The Appropriate Technology approach, for example, had many well-publicised failures, but a few spectacular successes -which invariably built on market dynamics to reach millions of people in sustainable ways. Most of these successes were related to agriculture.

**Editor's note: The example of the market based provision of rural sanitation services by IDE is featured in the paper and was the subject of a specific case study during M4P week and is featured as a separate paper in these proceedings rather than part of this summary.

One of the most famous success stories for development in recent years has been in **micro-finance (MF)**; many new micro-finance organisations have been built on indigenous systems for ensuring debt repayment. In the process, these MFIs have reached millions of poor people with credit facilities. While delivering some impressive numbers, this approach existed alongside the existing market for financial services, and only interacted with the financial system at the national level when it was forced to do so. The traditional micro-finance approach was, strictly speaking, therefore not sufficiently comprehensive or systemic to be termed a MMW4P approach.

More recently, however, the MF 'industry' has realised that access to credit is not sufficient, and that a full range of financial services is required; for some, access to savings facilities, for example, is more important than access to credit. This has led to growing interest in insurance, transaction banking (especially remittances) and other financial products. Now, there is a further shift emerging, led partly by CGAP, towards looking at entire financial systems, or markets -a MMW4P approach. There is relatively little documented on this approach yet, however.

D. Examples of interventions by large companies serving the poor profitably

Apart from what public funds might achieve, another option is for private companies to identify profitable opportunities to serve the poor, that no-one had previously noticed. This may require innovative business models that are radically different from current operating practices. Some of the examples presented here, therefore, are the work of commercial enterprises, that have found profitable ways to serve the poor.

This approach is currently being championed by C.K. Prahalad, WRI and others, on behalf of very large companies; meanwhile many smaller companies have been doing this for many years. Prahalad's book cites many case studies, and two are summarised in this Paper. One example, in urban property, involves a Mexican cement manufacturer, which has dramatically expanded its sales by facilitating savings clubs among poor people; the savings are used to build house extensions, for which the company provides technical advice and a full range of building materials.

A well known example is **GrameenPhone**, a joint-venture telecom company set up in Bangladesh by Grameen Bank –with capital from the Norwegian company Telenor and loans from donors – to provide mobile telephony to its subscribers. It provides a wide range of products in line with this mandate, many of which are benefiting poor people. In particular, it has launched a “Village Phone Programme”, which since 1997 has provided some 45,000 telephones to 39,000 villages in Bangladesh, bringing access to the telephone networks to some 70 million people.

The formula is simple: a subscriber – usually a woman, hence the label “Village Phone lady” – borrows around $350 from Grameen Bank and repays the loan by selling phone services to her fellow villagers who, usually for the first time, can enjoy the economic and social benefits of telecommunication contact with the outside world.

The Village Phone Programme produces fair returns on GrameenPhone’s investment: although Village Phone operators account for only 3.5% of the company’s total subscriber base (of over 1.3 million) they provide 15% of its total gross revenues. With 700 base stations GrameenPhone already offers coverage to 49 of the 64 districts which make up Bangladesh. The company proposes to expand the number of base stations to 800 so that it can offer coverage to the entire country.

In 2002 GrameenPhone was the largest source of FDI in Bangladesh; as of May 2003 the company had invested over US$ 230 million in the Bangladeshi economy. GrameenPhone is the second largest corporate taxpayer in Bangladesh, having paid US$ 284 million in taxes between its inception in 1997 and May 2003.

Another example is of an Indian commodity trader which has installed internet terminals in 11,000 villages so that farmers can sell directly to them, bypassing the previous government monopoly and ensuring better prices for them. Both examples, however, involve individual companies which have been willing to adopt new business models, and are reaping the benefits while improving the lives of the poor. These companies have not addressed the market as a whole, but are included here since they point to future potential on an even larger scale, if other companies are willing to follow their example.

Conclusions

This topic remains emotive, as many people involved in development feel that, in the long term, basic services ought to be provided by government, essentially without charge for the poorest of the poor. Meanwhile, however, most governments of developing countries do not have the resources to meet these expectations in the foreseeable future, and the market has stepped in to fill the gaps. Sometimes this provision is of course of low quality, or even provided in ways that are fraudulent.

Overall, though, there is evidence that poor people actually prefer provision by the private sector, where that is possible, for a range of reasons. In addition, there is much evidence that the private sector could do a better job in some countries and sectors if the policy and regulatory environment was more conducive. There are therefore very persuasive arguments for looking at MMW4P more rigorously than before, to bridge the gap between what ought to be, and current reality. Markets probably offer the only realistic option in the near future to reach millions of people with essential services.

In this perspective, governments have a crucial role to play in providing an enabling environment - ensuring fair competition, setting the rules of the game and enforcing them effectively. This should be an easier role to play than some of the interventionist strategies that governments currently implement; such strategies have been highly effective in reconstruction scenarios, following disasters and wars. In more stable situations of steady growth, however, they probably do not provide adequate value for money; governments would be better able to achieve their goals by enabling whole markets to develop.

The examples here show that, in some disciplines (such as telecommunications), the expertise in developing service markets is already much in evidence. Regulation has succeeded in attracting investment, incorporating social development goals and ultimately supporting open competition, thus bringing prices down to low levels. However, in other disciplines (such as vocational training), the task of market development has only recently started. There is clear potential for more training courses, advice and exchange of knowledge on service market development between disciplines and countries, particularly for government staff charged with policy-making and regulation.

Controversially, it has been noted that countries with robust democracies have not necessarily achieved greater poverty alleviation than countries that are not democratic32. It is argued that democratically-elected governments are forced to take a short-term view, and are therefore often obliged to offer subsidised assistance to strategically-important sub-groups of voters (which may not include the poor). The longer-term and more systemic perspective, for example around the development of markets, can be lost in this context.

Until now, it has been more difficult for development agencies to see the opportunities inherent in market development. They are, by nature, government-supported administrations with short time horizons, looking for predictable and measurable results. Their strategies are only gradually shifting, for example from rolling out methodologies that have been 'proven' elsewhere, to more entrepreneurial and creative strategies. Typically, interventions now start with a wide range of pilot activities, only a few of which are expected to bear fruit; staff learn by doing. Over time, the promising interventions are fine-tuned and expanded, while those that are not working are stopped.

One area worthy of much more exploration is that of profitable opportunities for the private sector, and how development agencies can facilitate their exploration. Some are experimenting, for example, with shared investment in the risk for a limited period of time (typically 18 months). After that time, the intellectual property generated by the experience becomes public, and the private-sector partner has to innovate on its own in order to stay ahead.

Ultimately, it is not a question of advocating 'trickle-down' or other charged concepts, but rather of reaching the maximum number of people, given the resources available. Many entrepreneurs are keen to play their part in their local society, and the image of unbridled, and even exploitative capitalism is not generally appropriate. More importantly, giving poor people choices as consumers also enhances their dignity, in a way that handouts and charity never can. Those working in the various disciplines touched on in this Paper are discovering common ground, in their work to enhance and expand existing service provision by the private sector, already in evidence in many developing countries.

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Vietnam: Towards Universal Social Protection: Private Mechanisms To Reach The Poor Policy Issues And Research Implications

Paulette Castel

I. TOWARDS AN INTEGRATED PUBLIC PRIVATE SOCIAL PROTECTION SYSTEM - The Challenge of Universal Coverage

A social protection system is the set of formal mechanisms, public and private, that seek to insure individuals or households against large shocks to their well-being. The death of a bread-winner, his or her inability to work in old-age, serious health conditions and large fluctuations in income (like those resulting from natural disasters, health shocks or job loss) are obvious examples of such shocks. In traditional societies, households cope with these shocks on their own. Large family sizes, multi-generation households, and strong kinship networks are among the informal mechanisms used to pool risks in traditional societies. Economic development, with its associated demographic transition and rural-urban migration, puts these mechanisms under stress. A social protection system aims at bridging the gap between the declining effectiveness of traditional mechanisms and the expanding demand for protection against shocks.

Part of this gap is typically filled in by the government, through publicly run old-age pension systems, survivor and disability benefits, health insurance programs and, in some cases, unemployment insurance schemes. These systems often operate through the labor market, reaching households with formal sector workers among their members. Government interventions such as emergency programs for areas hit by natural disasters could also be counted in this respect. Part of the gap is also filled in by profit-oriented enterprises, which offer specific financial products to cope with shocks (life insurance, property insurance, health insurance, savings products for old-age). However, the experience shows that the typical insurance products offered by the private sector only reach individuals and households with high incomes. This is also true in the case of Vietnam.

There are several reasons why the poor tend to be excluded from access to private insurance products. High administrative costs usually lead to sizeable insurance premiums, that poor households cannot afford. (Siegel, Alwang and Canagarajah, 2001) The relative complexity of premiums, benefits and contingent payments is often difficult to grasp for individuals and households with limited financial knowledge. More fundamentally, the insurance market is characterized by problems of asymmetric information (Rothschild and Stiglitz, 1976). It is difficult for private enterprises to distinguish between high- and low-risk customers, and when in doubt it could be safer for them to abstain from providing insurance. It is equally difficult to distinguish between customers who are honest and those who might be tempted to abuse the system (by pretending to be sick, for instance). Because the poor are more exposed to adverse shocks, and have fewer assets that can be used as guarantees, market failure is bound to affect the poor more severely.

Governments usually provide social protection under the form of schemes based on inter-generational solidarity, whereby contributions are levied on one population group, such as active salaried workers, to pay the social insurance benefits of another, such as older workers who have retired. The pay-as-you-go social security system that Vietnam currently has in place is an example of this approach. In other cases, governments seek to protect individual savings for old age through specific regulations, supervision and guarantees. The fully-funded system envisioned in Vietnam's draft social security law falls in this second category.

While governments in many developing countries have set up social protection systems, reaching the poor has proved difficult and universal coverage often remains a distant hope. Mandatory insurance schemes typically fail due to limited enforcement capacity, especially in the presence of large informal sectors. Voluntary insurance schemes do not attract the poor, who do not assess their old-age and health risks properly, or cannot focus on the long run, given how hard they are struggling to make ends meet in the short run. These problems are compounded by frequent weaknesses in the design of the systems, in terms of access (who can participate), nature of the benefits, availability of physical infrastructure (like nearby offices), or long-term sustainability (Lund and Srinivas, 2000).

2. Private Social Protection Mechanisms for the Poor

How to bring access to insurance to the poor is an issue at an early stage of discussion. A consensus has yet to emerge, and much more research is needed. Most of the current experiences in using private mechanisms rely on local initiatives. But two broad schemes, micro-insurance groups and credit unions, deserve especial attention. These schemes tend to be independently managed by local groups of mainly self-employed workers (including farmers) who pool resources to reduce individual risks.

These schemes are mainly used to address a specific set of shocks to household wellbeing. Many micro-insurance schemes cover unexpected expenses such as healthcare treatment and funeral costs. They also provide some form of life insurance, by including provisions on the cancellation of loan repayments if the borrower dies. The premium, in this case, takes the form of additional fees on borrowers. Credit unions provide emergency loans for consumption purposes.

Micro-insurance

Micro-insurance groups can be found in many countries. However, there are few examples where these groups provide a large range of insurance services. Despite their integrated framework, and frequent external support, the coverage of insurance services by this type of institution remains disappointingly low. Coverage is defined in this case as the ratio between the number of insured and the number of potential participants. Several explanations have been proposed to explain this outcome. It could be that the payment of insurance premiums generates too much stress on low-income households, and excludes the poorest. This is despite the fact that premiums tend to be heavily subsidized, thanks to the external support. Frequent delays in processing the claims and disbursing the benefits also reduce the benefits from being insured. The willingness to participate is further diminished because benefits are often rather low in relation to the level of the actual losses.

Micro-insurance groups are also financially vulnerable. Pricing insurance products is more complex than determining interest rates. Importantly, the pattern of transfers in any insurance mechanism is such that financial reserves need to be first built, and then properly managed. Lack of expertise in these relatively sophisticated areas, combined with the small scale of their activities, explains why most micro-insurance institutions are in a precarious financial situation.

Better design of micro-insurance products, greater cooperation between these institutions and commercial insurance providers, and larger access to insurance and financial management expertise could improve the efficiency of the micro-insurance institutions, as discussed below. The experience shows, however, that among the potential participants in micro-insurance groups, only the relatively better-off get involved. The poorest of the poor still cannot afford to do so, or are simply unwilling to participate.

Emergency loans

Credit unions, and mutual self-help groups are the most widespread micro-finance institution. However, most of them provide access to credit to small business, rather than addressing social protection needs. Experiences of credit unions supporting low-income earners for consumption purposes are well documented in developed countries (Tensey, 2001).

In developed countries, credit unions for low-income groups operate as financial intermediaries, providing both credit and insurance services (McGregor and McKillop, 2003). All members must make a deposit prior to being admitted to the credit union. In case of a bad shock, members can easily have access to a "soft" loan, with a relatively low interest rate. The prior deposit can be interpreted as an insurance premium. But unlike more standard insurance services, access to loans by credit unions is not restricted to a specific type of risk. Moreover, interest is paid on deposit as long as the emergency loan is not claimed. Compared to other insurance mechanisms, the credit unions' ability to cover bad shocks broadly could be better adapted to the needs of the poorest.

In developing countries, credit unions are usually an extension of informal local savings-and-loans groups, whose activities have been widened through the development of banking services or through linkages with commercial banks. Access to larger sources of funds (sometimes at subsidized interest rates) and safe-saving services facilitate the mobilization of their members' resources. This, in turn, makes it possible to both reduce the cost of borrowing and rewards members' savings. Overall, micro-finance institutions have proved to be effective in expanding access to credit to the poor. In particular, their strong networks and presence in the field reduce the transaction costs related to customer screening and loan recovery.

Emergency loans, however, are only part of the credit unions' business. The constitution of the joint-liability groups which are the key to reduce the risk of default in the case of productive loans might be more difficult to establish in the case of emergency loan. It is possible to take advantage of the fact that emergency loans are extended within the same community where the credit union operates. To the extent that the overall access to credit by the community would be compromised by repayment difficulties, there is a strong incentive for community surveillance. In the end, the success of an emergency loan scheme depends, also, on the strength of community bonds.

3. Design Features to Improve Coverage among the Poor

The experience with micro-insurance mechanisms and emergency loans in developing countries has provided useful lessons regarding the design of their key features. It also has implications regarding the role government should play.

Insurance products

The risks typically covered by micro-insurance groups concern unexpected expenditures and unexpected losses of income. Examples of the former are funeral expenditures (to a limit), health expenditures (partial coverage of hospitalization and specific interventions) and property losses (partial coverage of the reparation of roofs, walls etc.) The latter include life insurance (for natural and accidental death) and incapacity to work (either temporary or permanent).

The design of the package of services provided is therefore a key determinant of the success of micro-insurance initiatives. The package must be adapted to the needs of the targeted population, while being compatible with the financial capacity of the insurance provider. Households' willingness to insure depends on their assessment of the frequency of the risks they face and the size of the loss they might endure. But due to the limited savings capacity of the poor, premiums need to be small. However, small premiums can only sustain low levels of benefits, especially when the frequency of the covered events is relatively high, as in the case of health insurance. Unless a large subsidy is available, it is preferable to focus the insurance products on risks which have a relatively low frequency, a relatively low correlation among customers, and large welfare impacts. The death or incapacity to work of a breadwinner is an example of such risk.

Other risks, such as health shocks, are less well-suited for a micro-insurance package. A well-functioning insurance scheme for health expenditures might involve transaction costs which are far too high for a locally-based micro-finance institution. Effective risk pooling, whereby a large portion of the insured population is healthy, could help bring the costs down. But such pooling might be difficult to attain for insurance mechanisms operating at very local levels.

Insurance management

Setting an insurance scheme requires specific financial expertise. To determine the level of premiums it is necessary to estimate the frequency of the risks that are being insured, and the magnitude of the losses associated with bad shocks. To profitably invest and manage the resources collected, to assess and process the claims, and to rapidly disburse the benefits, some financial expertise and administrative capacity is required. Such expertise is seldom available at local levels. This explains why most providers of micro-insurance have turned to commercial insurance companies for the management of their insurance schemes. This is the so-called partner-agent model, where the formal insurance company assumes the financial risks and the micro-finance institution serves as a "match-maker", to provide lower-cost links between the parties (Siegel, Alwang and Canagarajah, 2001).

Although setting micro-insurance schemes may require to turn to commercial insurance providers for their technical and financial expertise, the micro-finance institution must be more that a simple intermediary. Commercial insurance companies are not familiar with the characteristics of the poor, and therefore do not have services and products well-suited to their needs. Furthermore, anecdotal evidence suggests that the paperwork of commercial insurance companies overwhelms low-income (usually low-educated) customers, whereas the process to assess claims can be unfriendly. The role of the micro-finance institutions is, therefore, more than to simply guarantee the insurance provider an adequate collection rate. Micro-finance insurance groups must get actively involved in the business: from the design of the insurance scheme, to the assessment of the claims and the delivery of the benefits.

Government regulation

Despite the apparent similarities between micro-insurance and micro-credit, these are two entirely different businesses. Moreover, the needs for regulation vary across different stages in the life cycle of these mechanisms. Examples of fraud and corruption are not uncommon, and experiences with self-supervision have usually not been successful. Prudential supervision can, furthermore, lead to increased access to external funding, more professionalism, higher quality services and broader coverage.

Nationwide guidelines could facilitate the coordination of efforts across micro-insurance schemes and, eventually, their financial cooperation. Those guidelines must be well-integrated with the regulations applying to commercial insurance providers, since their participation is often required. But nationwide regulation can also deter the creation of new micro-finance institutions. Among the most often cited examples are the level of the minimum start-up capital and the credit-rating history requirements. Micro-finance institutions have trouble abiding by these regulations. Their geographical concentration and lack of collateralized portfolios do not help either. Their activities are therefore limited, as is their access to resources. These problems call for the use of more flexible safeguards in the supervision of these institutions (GTZ,2004).

Because of stringent regulations, many micro-finance institutions are not authorized to take savings deposits, which in turn limit their ability to lend. Widening the scope for emergency loans for the poor requires a growing focus on safe bank-deposits in their communities. Access to safe-saving instruments is an effective way for the poor to smooth their consumption in the event of bad shocks. Another obvious advantage of savings is that, by definition, their mobilization is not affected by the usual adverse selection and moral hazard problems. However, safe-savings deposits raise specific regulatory issues, especially in relation to convenience and security (Armendariz de Aghion and Murdoch, 2000).

It follows that the provision of insurance mechanisms for the poor must be organized in a way that combines self-help organization at the community level, appropriate government guidelines to encourage its scaling up, and proper incentives for commercial financial intermediaries to participate. While both community organization and financial intermediaries can be seen as private sector mechanisms, they may fail to provide a broad coverage of services to the poor, in a sustainable way, in the absence of coordination and regulation efforts by the government. At a minimum, adverse shocks are dealt with through social assistance and targeted programs. A second layer, involving small-scale insurance schemes and emergency loans, is likely to emerge as well. But in the absence of risk pooling and appropriate partnerships with commercially-oriented financial institutions, it is bound remain small in terms of coverage, and frail in terms of sustainability. A sound regulatory environment is needed to support the move to a broader system, in which larger-scale community-based organizations team up with commercial banks and insurance companies to offer micro-insurance products and emergency loans to the poor. However, it is mainly the better-off among the poor who will benefit from this third layer, with social assistance remaining the most common social protection mechanism for the poorest among the poor.

Which of these three levels of social protection for the poor a particular country will attain depends on a series of factors. First, there is the willingness of poor households to buy micro-insurance products. Such willingness is conditioned, among other things, by the nature and severity of the shocks they are exposed to. Second, there is the local capacity to develop community-based groups and offer micro-insurance products in a financially viable way. The extent to which shocks are correlated across households at the local level matters in this respect. Finally, there is the willingness of the government to coordinate and support community-based organizations, as well as the soundness of the regulatory framework for the participation of commercial banks and insurance companies.

4. Vietnam's Strategy towards Universal Social Protection

The government of Vietnam considers the expansion of the social protection to the entire population as a priority. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) refers to the willingness "to conduct social insurance policies with the aim of expanding coverage of social insurance to all the parties as well as to diversify the voluntary safety net system". Particular interest is attached to the development of local insurance programs built "on a community basis for the informal sector following the principle of group insurance (at minimum household insurance)" (Government of Vietnam, 2004). Access to property insurance, including livestock and crops, is mentioned explicitly. More broadly, the CPRGS articulates the government's willingness to reduce the vulnerability of disadvantaged households, combining both traditional and innovative solutions. Expanding the coverage of social insurance, and diversifying the "voluntary safety net" are among the latter.

Regarding the expansion of social insurance to broader population groups, the government is currently revising the Social Security Law, in line with the strategy expressed in the CPRGS. In the same context MOLISA is considering the possibility of creating a voluntary pension fund for farmers and the self-employed.

Despite being in principle mandatory, the coverage of the formal social security system among private sector wage earners is currently very low, especially among those who are employed by households businesses. About 20 percent of all workers in private enterprises, households enterprises included, were registered with VSS in 2002 (Castel, 2005). Several reasons can be cited to explain this outcome. Among them, many workers believe that current consumption, housing investments or their children's education are better alternatives. On the employers' side, the attempt to reduce taxes contributes to this situation. The new Social Security Law, if coupled with a significant improvement in the management of VSS and its relationship with workers and employers, could lead to an increase in coverage. Also, as the economy develops and integrates with the world economy, private sector firms will become increasingly formal. These changes will take time, however. Meanwhile, many workers employed by the private sector may remain without formal social protection coverage.

The creation of a pension fund for the self-employed and farmers will provide these groups with the opportunity to save for their old-age. At present, MOLISA does not appear to be considering products for health, sickness, invalidity and life insurance coverage for these groups. If the new system takes hold, and develops well, new features will probably be introduced. But in the meantime, publicly-provided social security coverage will remain limited for the self-employed and farmers.

A range of insurance and micro-insurance products are currently available in Vietnam (ILSSA, 2004). Overall, the sector is growing rapidly, but it is doing so from a low base. After all, the law on insurance business was only passed in 2000. The most dynamic part of the sector caters to upper-income groups. But there are some interesting experiences in servicing low-income groups as well. Besides the 18 insurance companies in operation, several micro-finance organizations and mass organizations have developed programs such as aid funds, hunger and calamity reserves, and cash allowances for war invalids, families of war martyrs, revolutionary and veterans. Not all these activities qualify as insurance, however.

Life insurance

Among the insurance companies currently operating in Vietnam, Baoviet proposes products requiring the payment of very low premiums. For life insurance, the premium can be as low as VND 15,000 per person per year for young adults under 31 years of age. This is for a 5-year term policy insurance with a value of VND 5 million in case the insured person dies. Mass organizations (in particular the Women's Union) and sometimes micro-finance institutions are used as brokers. Life insurance coverage among participants in micro-finance schemes should help reduce the risk of default on credits when a borrower dies.

Health insurance

Voluntary health insurance funds were established in 2003. At present all these funds are semi-public institutions, operating through insurance groups, in which all Vietnamese citizens can participate. Representatives of the insurance groups (such as mass organizations, heads of schools, etc.) directly collect the premiums and buy the insurance cards for all participants in the fund. The level of premium varies depending on the funds. In a few cases, the number of the members in the household is a key determinant. The funds cover all primary-health costs (prevention, health check etc.) and charge a co-payment of 20 percent on other health-related expenditures.

The extent of coverage among low-income groups is presumably low, due to the relative novelty of the scheme (ILSSA, 2004).

Limited coverage among low-income groups may also be related to the difficulties experienced in having access to quality health-care service, even when insured. This is because government prices the cost of health-care service interventions substantially below the actual cost of treatment. Consequently, health-care providers consider that they are badly reimbursed for their services. This situation causes difficulties for patients to access health-care services if they cannot afford the additional out-of pocket expenses (see World Bank and others, 2004, for an evaluation of these expenditures). Moreover, due to the limited budget of the health sector, the services provided by local health-care centers can be of poor quality. This, in turn, reduces the incentive to enroll, especially given that insurer may not favor the health-care facilities which are preferred by beneficiaries.

The poor (defined as those having a poor household certificate), ethnic minority people, and households living in mountainous areas or in extremely difficult communes, are in principle covered by Health Care Funds for the Poor (HCFP). Set by provincial People's Committees, HCFPs can either buy health insurance cards for their members or directly reimburse the costs of health-scare services supplied to them by hospitals and other public providers. In the first case, the premium must be at least equal to VND 70,000 per person per year. The State budget subsidizes 75 percent of that amount. The premium roughly corresponds to the average cost of treatment (excluding medicine and health tools) of the poorest group of the population, including those who did not seek any treatment (Hauff and Knop, 2004). The funds are authorized to get additional resources from local budgets and national and international organizations and individuals.

According to VSI, there were roughly 3.9 million beneficiaries in 2004 (another 6.4 million people have voluntary health insurance). But coverage could expand even further. Some poor people do not seem to be aware of their rights. The procedures for reimbursement appear to have overwhelmed others. Also, some among the poor are excluded. Among them are migrants who are not officially registered in the district they live, in and poor households who are not eligible simply because of the low poverty line used by MOLISA until recently. The revision of the criteria used to measure poverty, and the re-definition of beneficiaries of the HCFPs, should help expand coverage further in the years to come. But the gap between the actual cost of treatment and the resources provided by the health insurance funds may remain a disincentive for providers to deliver health services to the poor (UNDP 2005).

Emergency loans

There are very few studies on the provision and the impact of emergency loans in Vietnam. The survey of insurance and micro-insurance products conducted by ILSSA (2004) found that interest-based lenders, pawnshops and two savings-and-loans funds of the Women's Union (in Nghe An and HCMC) were providing emergency loan services. Besides these cases, a detailed study of households of the Duyen Hai district in Tra Vinh province also indicates that it is common for poor households to borrow in-kind. Rice is indeed borrowed in small quantities from friends and relatives, but small traders also lend rice through the shortage period leading up to the harvest (Pairaudeau, 1999).

Among the Government's large-scale credit programs, the Social Policy Bank (VBSP) has explicitly included emergency loans among its products. VBSP was established in 2003, to consolidate in a single institution the numerous lending programs that were directed to low-income groups (the Bank for the Poor, People's Credit Fund and others). Households can borrow up to VND 10 million in order to cover living expenditures. No collateral is required. VBPS has apparently stopped the People's Credit Fund demand that borrowers buy shares before being entitled to take loans (like in the framework of a credit union). Borrowers must instead be certified by the People's Committee of their commune and be part of a credit and saving group (World Bank, 2003). These two requirements aim at reducing the risk of default, but they also considerably increase the time it takes to get a loan. As a result VBSP has processed very few emergency loans.

Accordingly, it has been argued that the demand for emergency loans would be better served through grand-based social welfare programs rather than through subsidized credit (World Bank, 2003, UNDP 2005). At present, however, the National Targeted Programs do not provide any significant cash-support to poor households (even those with certification). Only a half of the claimants of Pre-harvest Starvation Program actually receive help (UNDP, 2005). Proposals to further develop these programs are in preparation (MOLISA, UNDP, 2005). Meanwhile, movements in and out of poverty will remain frequent. The provision of emergency loans might be an effective tool to protect near-poor families from falling into poverty when confronted with serious health shocks or work incapacity.

II. ISSUES FOR FURTHER RESEARCH IN THE CASE OF VIETNAM

The overview in the previous section suggests that a private-public partnership for the provision of social protection coverage to the poor is feasible in Vietnam. The government is making a determined effort to expand the coverage of formal schemes. Publicly- and privately-run mandatory and voluntary insurance schemes are emerging. Some public institutions are already mandated to focus on low-income groups. Baoviet has insurance products with very low premiums, the HCFPs and the newly created voluntary health insurance programs bear promise, and VBSP could expand its emergency loan business. On the private sector side, grassroots organizations, NGOs and micro-finance institutions have been experimenting with micro-insurance and emergency loans.

1. The demand side

In the absence of subsidies, private participation in the provision of social protection can only take place if households are actually willing to buy insurance products. It is therefore necessary to estimate how much households would be willing to pay in order to be protected against bad shocks. This information would allow a better understanding of households' attitudes towards insurance. It could be used to assess demand, from the private providers' perspective, and to consider whether subsidies would be justified, from the government's perspective.

Frequency of bad shocks

Statistical data can be used to measure the frequency of adverse shocks affecting poor households, such as disability (with incapacity to work), illness and death of a household member. GSO estimates mortality and morbidity rates among the Vietnamese population at the national level, and also for some specific provinces. Information about disability is more scattered. However, mortality and morbidity rates are not available by level of income. International experience indicates that disability, illness and death probabilities are higher, other things equal, among the poor. Low-income groups tend to live in less well-sanitized areas, where outbreaks of contagious diseases are more frequent. But this is not consistently true across all diseases. Data from Vietnam show that the proportion of the population that is ill and unable to work is twice as high among the poor and near-poor as it is among the rich (World Bank and others, 2003). Since a vast majority of the poor and near-poor works in agriculture, fishing, transportation and construction, it is also likely that the incidence of accidents and work injuries is also higher than for the population at large. When considering providing micro-insurance for the low-income groups, it is therefore necessary to be ready to cope with a higher frequency of adverse shocks. But how much higher is still unclear, and a first important research question concerns the magnitude of this gap.

Regarding emergency loans, the relevant information to gather concerns the mechanisms through which how low-income earners might be pushed into poverty. A systematic comparison of income and consumption dynamics among poor and near-poor households would be needed for this purpose (Blundell and Pistaferri 2002, Skoufias and Quisumbing 2003). It would thus be possible to assess the capacity of households to smooth consumption when confronted with income shocks. But this type of evaluation is demanding, as it requires observations on the consumption and income of the same households over time.

Consumption loss

Insurance is not the only available mechanism to protect household consumption against adverse shocks. Other coping strategies include getting additional labor income, borrowing, selling assets and getting support from the community. How much households value insurance products depends on the fraction of the undesired changes in consumption which can be off set through these other mechanisms and on how much households would like to substitute insurance to these other mechanisms. In the end, the issue boils down to estimating the elasticity of substitution between formal insurance and each of the other coping mechanisms.

It was long accepted that community risk-sharing (mostly among villagers) was widespread and quite efficient among low-income earners in developing countries. But recent evidence calls into question this received wisdom (Murdoch, 2002). It appears that some shocks and some individuals are not well covered by informal, community-based coping strategies. Whether this is so in Vietnam is another relevant empirical issue. Family and community ties are agreed to be particularly strong. According to the VHLSS, about four fifths of all households had received some remittance income in 2002, usually from relatives living abroad or from household members who had migrated within the country (World Bank and others, 2003). In a study on access to credit by a sample of HCMC households, it was observed that many in the poorest quintile had benefited from support by friends and relatives, and had access to interest-free loans from mass organizations (Nguyen Thi Mai, 2004). But friends and relatives were an important source of credit for the top quintile, accounting for 50.8 percent of their borrowing, compared to 17.1 for the poorest quintile.

Detailed analysis of community-based support suggests that mutual assistance among households is an imperfect substitute for insurance. Mutual assistance operates through repeated informal transactions based on reciprocity, requiring a mix of gifts and interest-free loans. As a result, these transactions are confined to narrow networks of friends and relatives (Fafchamps and Lund, 2003). These networks may not have the same efficiency among high- and low-income population groups. In Vietnam, a large share of the households surveyed in various HCMC districts in 2001 effectively got help from relatives and neighbors. However, high-income households were twice as likely to get help as low-income households (Van Ngoc and Tran Tam, 2004).

To assess the extent of community-based risk sharing in Vietnam, it would be important to better understand the nature of existing social networks, and especially the role of migration. It would also be advisable to identify which kind of adverse shocks elicit community support, and which ones do not. Learning about the concentration of financial, labor, input and output transactions within and beyond villages seems to be an interesting approach in this respect (Udry and Conley, 2004).

It is argued that the most important risk-coping mechanism for the poor, by far, is self-insurance (Murdoch, 1999). But this is a particularly costly mechanism, as it involves no pooling of risk across households. Given that low-income earners have almost no financial assets, they can smooth consumption through the sale of livestock holdings, grain stocks, consumer durables or tools. All of these options entail efficiency losses. The alternative is to borrow, but the lack of collateral makes this option very onerous. Empirical studies have consistently found that households are reluctant in selling livestock in response to shocks (Kazainga and Udry, 2004). The costly nature of self-insurance suggests that the poor should be willing to rely on genuine insurance. Research could therefore focus on estimating the overall capacity of self-insurance of poor households, and their willingness to replace this copying strategy with the purchase of insurance products.

In practice, the willingness to buy insurance can be assessed through direct surveys of low-income groups, designed so as to elicit the value they attach to various hypothetical insurance products. The actual behavior of households who have access to specific insurance products can also be used to infer how their characteristics influence their decision to purchase such products. A more analytical line of work involves using this information to assess, from a public economics perspective, whether the subsidization of particular insurance products, or particular household types, would be warranted. And how much it would cost.

2. The supply side

There are important analytical issues related to the supply of micro-insurance products or emergency loans and, more broadly, to the organization of the market. The experience of the existing, small-scale micro-finance organizations and self-help groups can be used to assess what determines their chances of success or failure. In this case, the focus of the research has to be on the organizational arrangements, financial situation and overall performance of suppliers. Other relevant questions refer to the prospects to scale up existing arrangements, extending beyond their frequently narrow community basis. In this case, collecting household views, either through structured interviews or through focus group discussions, could be a good starting point.

Various organizations actually offer insurance products (and, more exceptionally, emergency loans) to low-income groups. But little is known about their accessibility and use by poor households. Information could be gathered on the awareness of potential beneficiaries regarding the products offered, their premiums and benefits, the procedures for processing claims, and the overall customer service. This information, in turn, could help determine whether lack of participation is due to limited information, or rather the reflection of a deliberate choice.

More generally, it would be important to assess the extent to which low-income households actually understand insurance mechanisms. It is widely believed that their understanding is partial. Experience show that poor households have trouble accepting that occasional participation is not effective, or that benefits in the event of a bad shock are not simply proportional to the premiums paid. Confusions of this sort can create mistrust in insurance products, and discourage low-income households from purchasing them. Evaluating the need to educate the targeted population is, therefore, an important first step (Brown, 2001).

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Subsidies in agriculture extension for poverty reduction

Agricultural Extension for the Poor sub-group

Rationale

Different views on subsidies

- Subsidies create dependencies
- Subsidies distort power relationships
- Subsidies are needed to protect the poor
- Subsidies are a short term instrument to help the poor gain market integration

Use of subsidies

- Subsidies are very common in Vietnam
  - Promoting export
  - Sustaining SOE's
  - Alleviating Poverty

- Different forms
  - Free inputs
  - Reduced transport cost
  - Reduced irrigation fees
  - Guaranteed prices

Why subsidies in agriculture?

Subsidies in agricultural sector are often intended to change the traditional cropping patterns and practices and to promote diversification in agricultural production (Beckman)

Do farmers really need subsidies?

- Farmers have indicated to prefer credit opportunities over free inputs (UNDP – farmer needs study)

Effects of subsidies in Vietnam

- Positive
  - Rapid and widespread production improvement
  - Poverty reduction

- Negative
  - Benefits mainly for better off farmers
  - Distortion of market mechanisms
  - Farmers participating because of allowances
  - Extension workers acting as sales agents

So why this study?

- Get clear understanding of extent and importance of subsidies
- Get clear understanding on impact on poverty reduction

Because

- Government acknowledges that subsidy policies have missed intended targets.
  - Reaching the right beneficiaries and avoiding excess dependency on the state are to be ensured
  - Subsidies are to be gradually lifted.

- Vietnam's entry into the WTO:
  - Government will have to review its policy with regard to subsidising the agricultural sector.
  - Support in the form of beneficial export conditions or price support to producers will no longer be tolerated.
  - Support in the form of non-trade distorting measures, however, such as public investment in research, training, extension, will be tolerated.

Objectives

Theme: Contribution of subsidies in agricultural extension to poverty reduction in Vietnam

Special attention to:

- improved livelihoods in terms of increased food security and income, reduced vulnerability and more sustainable natural resources management
- sustainability in terms effects and impacts that last when subsidies are withdrawn, thus dealing with capacity building and organisational integration of the poor

- promoting a demand-driven service provision
- effects of subsidies of local and regional market mechanisms

Expected outcome

- Knowledge of the nature and importance of subsidies in agriculture extension given by government and international development programmes
- Understanding of the effects of subsidies in agricultural extension
  - on the livelihoods of poor men and women,
  - on sustainable poverty reduction and
  - on demand-driven service provision
- Main determinants for a successful contribution to poverty reduction through
  - the use of subsidies in agricultural extension and
  - through alternative approaches
- Recommendations for supporting the poor through agriculture extension

Main Research Questions

- What are the most common forms of subsidies in agriculture extension currently given by government and international development programmes and how will Vietnam's entrance to the WTO affect these forms of subsidy
- What access women and poor people have to subsidies in agricultural extension?
- How sustainable is the contribution to poverty reduction achieved by providing subsidies in agricultural extension?
- How do subsidies in agricultural extension affect opportunities for establishing a demand-driven extension service and the local/regional market mechanism of demand and supply?
- What are the key elements and necessary conditions to guarantee a successful contribution to poverty reduction through
- the use of subsidies in agricultural extension and
- alternative forms of support in agricultural extension?
- What are appropriate key features and suitable work frames of future governmental and international development programmes and policies

Some results

Government extension funding

- Majority of budget spent on salaries
- 14.3 billion VND (1993) to 90 billion VND (2004) excluding salaries
- Modest results:
  - Only 0.06% of agricultural area reached
  - Less than 0.5% of farmers receive training

Government subsidies in extension

- Training: Pay participants 15.000 VND/day
- Models:
  - Based on location: 60% subsidy for seeds and 40% for fertilizers and other inputs in upland; 40% subsidy for seeds and 20% for fertilizers and other inputs in lowland.
  - Based on beneficiaries: 100% subsidy for all model inputs for the certificated poor in "extension for the poor" project or in extension components of Program 135, HEPR and fixed cultivation and resettlement

Other forms of subsidies (not directly related to extension)

- Input supply
  - (managed by CEMA, carried out by agricultural material/trade companies): subsidy for prices and transportation costs of key inputs from low land to upland
- Output selling:
  - subsidy for transportation costs of some key outputs from upland to lowland (managed by CEMA, carried out by trade companies)
- Contract farming:
  - subsidy by the commodity companies to develop their material base for processing/export

Government commitment to reduce subsidies

Under ADB ASDP programme MARD will:

- terminate subsidies on hybrid maize seed;
- support poverty reduction for poor farmers through subsidised hybrid rice seeds, indicating that
  - the subsidy be limited to poor farmers identified in the commune list of poor farmers;
  - the subsidy to the same farmer will be phased out over a 3-crop period; and
- the amount used for the subsidy should be limited and the funds should be used for extension.
- monitor to ensure that no province will subsidise

commercial production of hybrid rice or maize.
  - The savings from subsidies will enable the staff to focus on group-based extension activities and to redirect expenditures in the field to higher priority extension activities.
- terminate subsidies for the commercial production of hybrid rice seeds,
  - the funds used instead for the transfer of hybrid rice seed technology through extension activities.

- Draft National Target Programme on Poverty Reduction
- Reduce grant subsidies; increase the contributions of the households into application of advanced techniques.
- Subsidise 80-100% of input costs in demonstration models for the poor who are ethnic minorities in remote, upland areas; and subsidy 50% of input costs in demonstration models for the poor living in other areas, the remaining will be contributed by the households.

Draft new 135 programme

Recognizes the limitations of subsidy policies, but still contains

- Provision of subsidies for crop varieties and animal breeds, fertilizer, purchase of products…"
- "Carry on price subsidies, i.e. for crop varieties and animal breeds with high productivity, production materials and tools, pesticide, fertilizer. Production input and output subsidies…"

Draft 5 year SED

- Continue to use subsidy as a main vehicle for targeting the poor
  - Increase funding for hunger eradication and poverty reduction by intensifying credit schemes
  - Support the poor to develop production and businesses.
  - Provide agricultural product price subsidy through funds and development of extra jobs and crafts

NGO and Donor extension funding

Each organization, each project, each location has its own particular subsidy policies

- Training: Allowances paid to training participants
- Models, Experiments/Trials: Subsidy for physical input

Some issues

Input supply

- Monopoly/Limited Choice vs. Free Choice
- Who get the real benefits: Poor Farmers vs. (State) Trade Companies and Better-off Farmers
- Market-viable/led vs. Supply-pushed
- Permanent vs. Phasing-out

Market Access

- Subsidies vs. Promotion

Harnessing Market Power for Rural Sanitation: Rural Poor as customers and not beneficiaries

Jaime Frias, IDE

Market based approaches: some characteristics

- Ability to perpetuate market development
  - masons continue to promote their services after the project phased out
- Responsiveness for the customer of sanitation services
  - Deferred payments & PSS warranty Market transaction (when, how, from whom to buy)
- Conduciveness to local innovation
  - walls can wait
  - proliferation of cement ring makers
- Conduciveness to operational efficiencies and accountability from SP
  - Full Capital Cost-recovery
  - The market price auto-regulation (competitiveness)

Rural sanitation in Vietnam: A reflection of the global sanitation stalemate

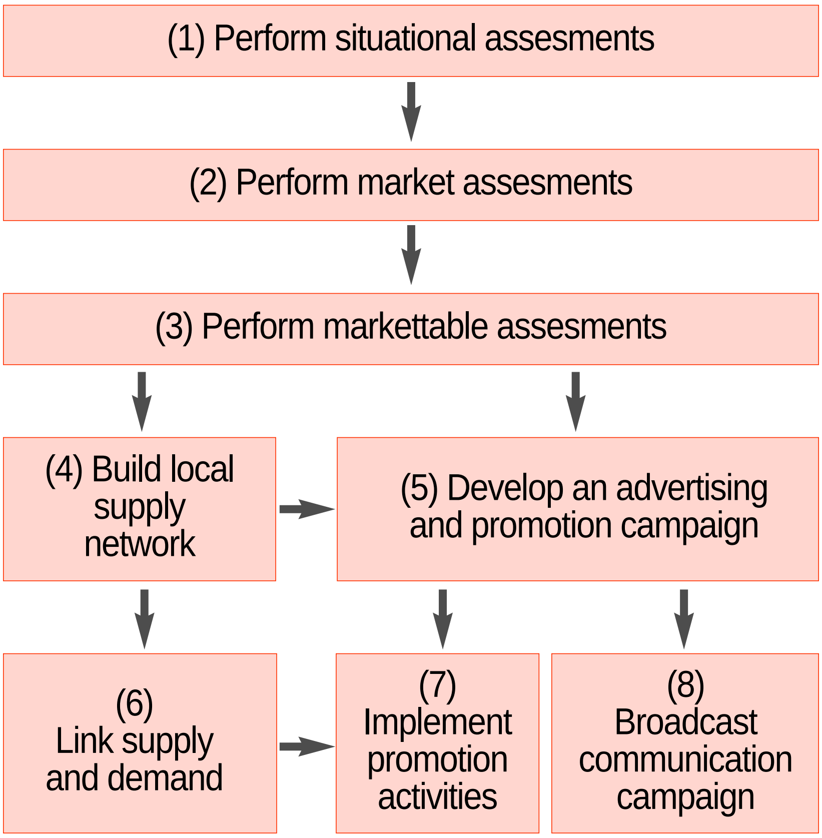
- Access to sanitation lags behind access to water supply
- Access to sanitation in rural areas remains a privilege of the richest groups

Validating the new paradigm

- IDE Project aimed at testing:
  - Whether rural families will invest in latrines when a range of low-cost models are available from local private sector suppliers
  - The extent to which targeted promotional campaigns can influence consumers' decisions regarding sanitation investments.
- Project Implemented in 2 Coastal provinces in rural Vietnam, with similar conditions:
  - Socioeconomic
  - Environmental
- Project duration: 2.5 years

Communities	Households	Poor households as % of total population	% of households owning a safe latrine
Experimental group	53,886	19.1	16.0
Control group	5,440	19.7	18.3

A process to unleash market forces

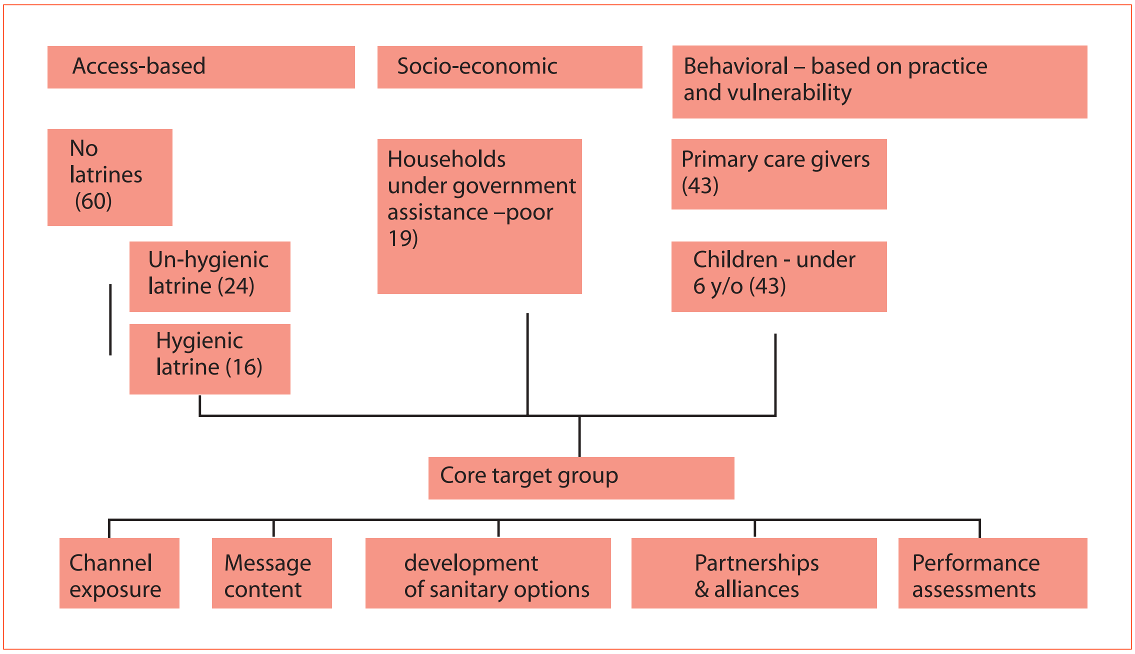


"Mr. Latrine" representing

"Hygiene, Civilization, and Health"

Slogan: *"Be an exemplary person in a cultured village"*

Segmentation & targeting



Market assessments: some considerations

- The way latrines are acquired
  - Commercial vs. non-commercial
  - Roles of the household members
- The time when latrines are acquired
  - Seasonality of demand
  - Family events related factors
- Innovation gaps
  Which technologies are
  - sustainable
  - desired
  - available
  - affordable
- What prevents the market to work for the under-served
  - Demand and supply constraining factors
- What opportunities exist to further develop the market
  - leveraging on:
  - early adopters
  - Peer pressure
  - community mobilization

Lessons learnt from implementation
Biased cost perception of sanitation

- Soviet legacy of over-design
- Lack of local references

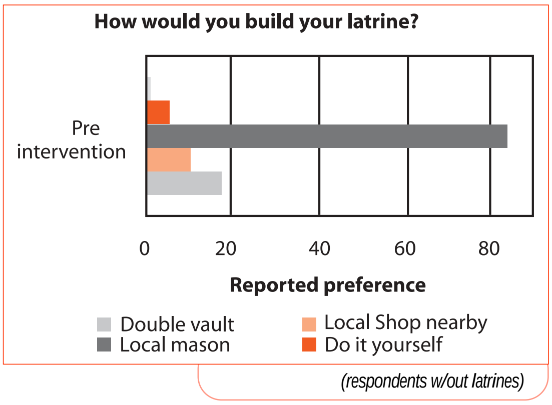
- Response:
  - Standardized a range of options (demonstrations)
  - Promoted on-the-spot information exchange
  - Promoted competitiveness

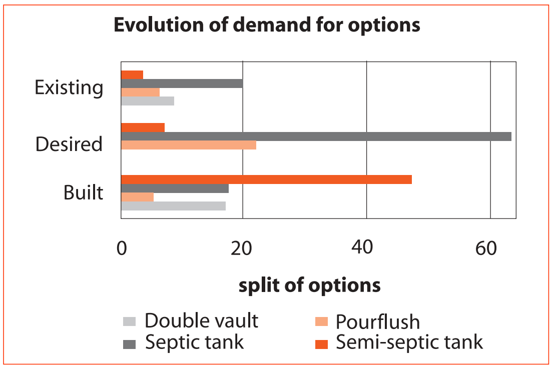
Perception gap (respondents w/out latrines)

Cost	Initialperception (% respondents estimating cost)	Monitoring records (% latrines under that cost)
US$71 or less	-	91
US$65 or less	< 10	37

The market called for new sanitation masonry skills

- Response:
  - Engineered affordability through technical partnerships
  - Trained 541 service providers





Investment in sanitation was not a priority

Cost	Households without latrines	Households with un-hygienic latrines	Households with proper latrines
Portion of respon dents w/ cash	91		
constraint as a reason for not having a latrine			
Portion of respondents owning a TV or a karaoke set	58	88	90

- Response:
  - Conveyed a concept that contained proven drivers of demand
  - Motivating benefits: prestige, convenience & children development
  - Value reframing of latrines when compared to competing assets
  - Mechanism to exert peer pressure were placed

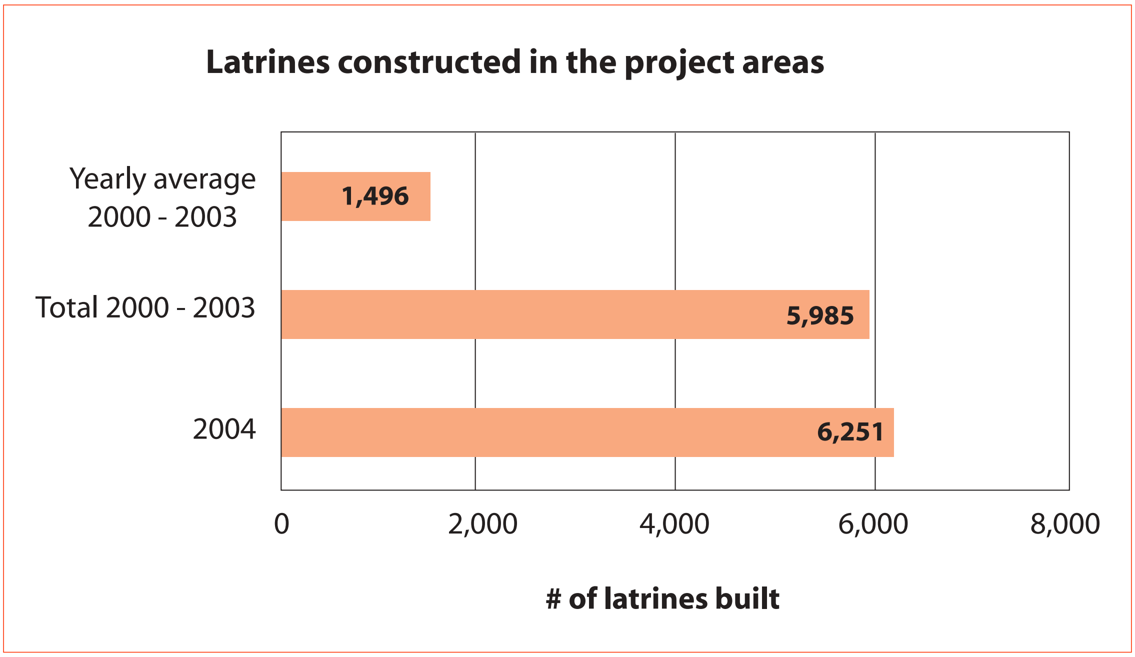
Few incentives for service providers to enter & develop the market

- Sanitation masonry is a seasonal activity & a secondary source of income
- Low product differentiation was not conducive to local innovation
- Response:
  - Stimulated demand for sanitation on behalf of service providers
  - Covered investment for adapting appropriate technology to the local needs
- Village masons lacked of credibility before prospect customers
- The community relied on the commune health professional as the technical authority for latrine design
- Endorsed masonry skills through the local health network

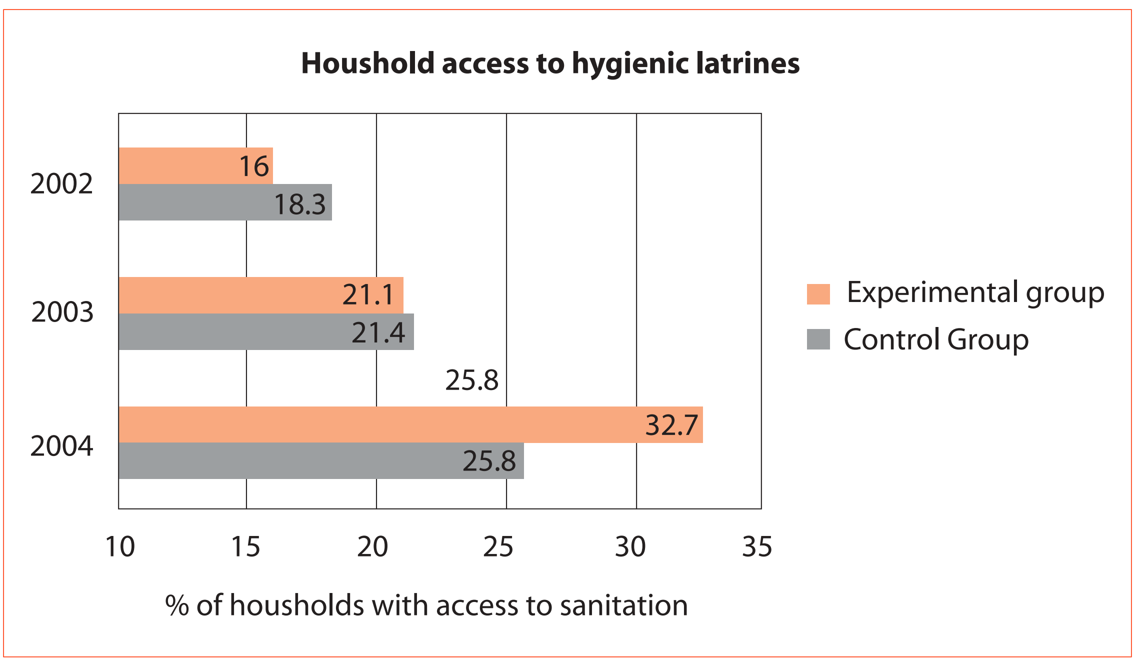
Awakening the market: The results

Increased access to improved sanitation

- In the experimental group of communities:
  - Latrine construction has grown fourfold
  - Increased access to improved sanitation



- In the experimental group of communities:
  - Rate of household ownership of a hygienic latrine has doubled



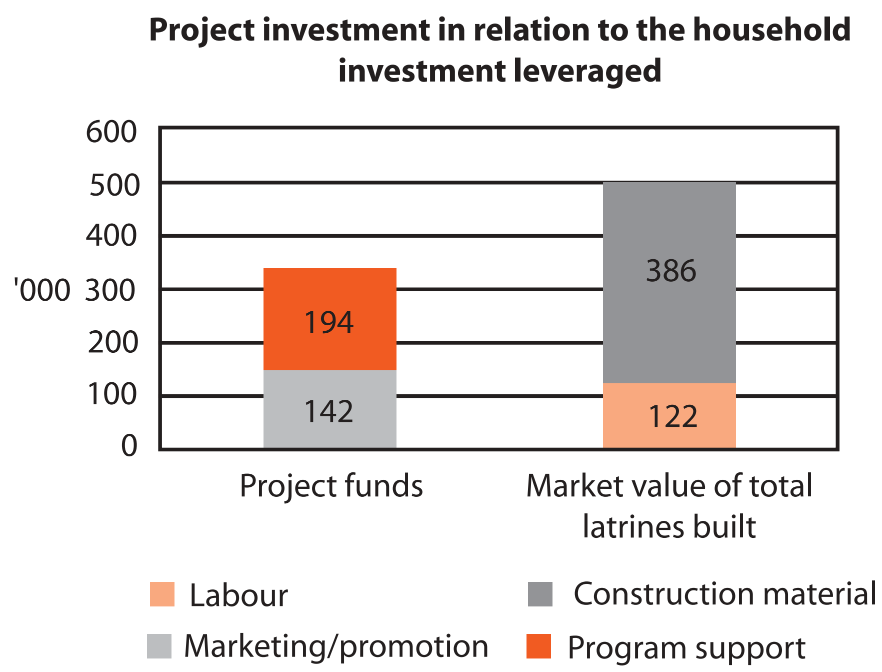
The market reached the rural poor

% of poor households in the total population (Dec 02)	% of poor households among all latrine buyers (Sep 03 – Dec 04)
19.1	10.7

Population category	Household annual income (US$)	Average household investment in sanitation (US$)	Investment as % of annual household spending
All latrine buyers	592	66	11.1
Poor latrine buyers	362	55	15.2

A cost effective approach

- The market value of capital investment leveraged by 2004



PUBLIC-PRIVATE PARTICIPATION (PSP) IN SOLID WASTE & SEPTAGE MANAGEMENT (SWM)

Alan Coulthardt, World Bank

OUTLINE OF PRESENTATION

- Advantages of PSP
- Common concerns about PSP
- Range of institutional options
- Common PSP models
- Options on the extent of PSP
- Competition or negotiation?
- Importance of regulation
- Opportunities for PSP in urban environmental services
- Other PSP initiatives in WB projects

ADVANTAGES OF PSP

- Can bring additional investment and operating cash
- Better able to mobilise funds from private investors
- More efficient and productive and can deliver a more cost-effective service
- Management and administration more flexible/effective
- Enables improved service coverage
- private sector normally has better knowledge of, or access to, technology
- Can lead to improved efficiency of the public sector due to competition with private sector

COMMON CONCERNS ABOUT PSP

Rate of Reform must be gradual because:

- concept relatively new in Viet Nam particularly in the SWM sector
- existing political, institutional, financial, legal and regulatory framework does not encourage PSP
- local private firms presently operating in the SWM sector are small and have limited experience and access to the capital

Private Sector Financing:

- Small local businesses may not be able to finance major capital investment required to purchase compactor trucks and other equipment for urban solid waste management, but step by step approach possible
- Alternative is for government to purchase the equipment and arrange a lease/purchase agreement in parallel with service contracts

Government Labour Redundancy:

- Privatisation may result in significant loss of employment for government workers - particularly URENCO/WSC employees
- Termination of government employment could be minimised by:
  - initially supporting PSP in areas where URENCO/WSC presently does not operate
  - assisting URENCO/WSC workers to either gain employment with private businesses contracted to provide SWM services or establish their own private business which could then bid for SWM contracts

RANGE OF INSTITUTIONAL OPTIONS

- Public Service Enterprises / Commercialised Public Utilities
- Public/Private Joint Ventures
- Private Companies/Enterprises including limited liability companies, joint-stock companies and private unlimited enterprises
- Cooperatives, Non-Government Organisations & Community-Based Organisations

COMMERCIALISED PUBLIC UTILITIES

Advantages:

- Operate under the Enterprise Law
- Able to pay higher salaries and offer more incentives than Government departments, but still

limited

- Can enter into performance contracts with employer

Disadvantages:

- Employees are still Government servants
- Companies are subject to civil service human resource constraints
- Limited “arms length” relationship with employer

PUBLIC / PRIVATE JVS

Key Potential Strengths:

- Combines the advantages of the private sector with social responsibility, environmental awareness and local knowledge of public sector
- Both partners have invested in the company and therefore both have a strong interest in seeing the venture work
- Full responsibility for investments and operation gives both partners major incentive to make efficient investment decisions & to develop innovative technological solutions, since efficiency gains will directly increase profitability
- Early participation by both partners allows for greater innovation and flexibility in project planning

Key Potential Weaknesses:

- Potential conflict of interest
- Private sector tends to focus on the “bottom line” while governments on the process
- Early involvement of both parties that is required for JVs typically precludes the use of traditional public bidding procedures and promotes alternative procedures such as direct negotiation - this can raise transparency and corruption concerns

COMMON PSP MODELS

- Service Contracts
- Management Contracts
- Lease Contracts
- Concession
- BOT/BOO
- Full divestiture (Equitisation)

SERVICE CONTRACTS

- Great potential to provide better system operation, allowing government to obtain improvements in performance and efficiency through technology transfer and the acquisition of technical and/or managerial capacity
- Relatively low-risk option for both parties
- Low barriers to entry
- Limited scope, – limited benefits

MANAGEMENT CONTRACTS

- Transfer responsibility for operation and maintenance to the private sector
- Can be fee based, or performance based
- Good for introducing new technical or managerial methods
- Can be a good first step towards higher level of PSP

LEASE

- Private company pays for the right to operate and maintain Government owned facilities
- Enables Government to pass on most of the commercial risk
- Appropriate where there is scope for big gains in operating efficiency

CONCESSION

- Different from a lease in that the private company is required to invest in extending/rehabilitating facilities
- Concession period has to be long enough to enable the company to recover the cost of it’s investments
- Needs very effective regulation

BOT/BOO

- Good solution for dealing with building new “production” facilities
- Not so effective where problem is inefficient provision of services

OPTIONS ON THE EXTENT OF PSP: PARTIAL, FULL, or OPEN

Partial

- Discrete activities e.g. collecting bills, maintaining vehicles, transferring waste
- Part of entire service e.g. full service for one or more districts

Full

- Contract out the service for the entire city to one company - monopoly

Open

- Allow more than one contractor to offer services throughout the city – customer's choice

COMPETITION OR NEGOTIATION?

- All types of PSP are most effectively procured through a competitive process
- Negotiated contracts always run the risk as being perceived as involving corruption – even if they don't!!
- Some disadvantages of competition:
  - Takes time
  - Expensive for bidders – especially in complicated deals like concessions and BOTs
  - Can limit innovation
- However, disadvantages rarely outweigh the advantages

THE IMPORTANCE OF REGULATION

- National laws
- Contract will include "regulations" – service standards of quality and quantity etc
- Authorisation of variations and arbitration of disputes
- Long term contracts like leases, concessions and BOTs are the most complex to regulate
- Private company will want to minimise risk of payment – who approves tariffs and how are they adjusted?

OPPORTUNTIES FOR PSP IN URBAN ENVIRONMENTAL SERVICES

Solid Waste

- streetsweeping
- waste collection and transportation
- fee collection
- community-based program in areas where limited access or lower population densities
- construction & demolition waste
- port waste

Septage

- septic tank pump-out and septage haulage

OTHER PSP INITIATIVES IN WB PROJECTS

- HCMC Environmental Sanitation Project: divestiture of some city drainage enterprises and management contract to operate and maintain wastewater facilities;
- Water Supply Development Project: service/lease contracts for operation & maintenance of district town water supplies
- Rural Water Supply & Sanitation Enterprises: Joint stock companies (province/commune) to be established to take responsibility rural water & sanitation facilities
- Small town and IZ water supplies: studies found that private entrepreneurs are investing in water supplies for towns and industrial zones.

PARTICIPATION OF PRIVATE SECTOR IN REGULAR SEPTIC TANK CLEANING SERVICE IN DANANG CITY

SUB-COMPONENT OF DA NANG SANITATION PROJECT FUNDED BY WORLD BANK

Nguyen Tan Lien – Director of Danang PIIPs – PMU

The Existing Situation Of Septic Tank Cleaning Before Private Sector Participation

- The private sector was not encouraged to participate in implementing the service. Households only requested service when their septic tank blocked.
- Vehicles were not technically checked and are of bad quality and unsafe.
- Disposal of sludge took place at illegal locations (e.g. disposal in rivers and drains)

URENCO as the major service provider:
- Subsidized by the State
- Service provider with monopoly.
- Inactive in service.

Households' request for service were not met by responses from the service provider. Septic tanks were in use for 20-30 years leading to pollution of the environment including the air and groundwater.

Causes
- Service was only requested when the tank was spilled.
- Service provision was not consistent and unstable with only 2 vehicles/day/year
- Cost of service is high, unreasonable

Limitations
When requesting service, customers have to pay once, spending a big amount.

The Consequences: -Residents pay less attention to the service and the request for service only comes when an environmental problem happened

The overall result is a seriously polluted environment

Danang Sanitation Project is Sub-project of Vietnam Three Cities Sanitation Project

Participation Of Private Sector In Septic Tank Cleaning Service In Danang City

Implementation Cost

Waste water surcharge: VND 300/m3 -

Surcharges from other activities –

According to Decision No. 07/2004/QD-UB dated 20 January, 2004 from Danang People's Committee

Implementing Organization

Establishing implementation plan:
- All septic tanks of the city cleaned regularly (5 years)
- The location of the tank is marked on a GIS map.
- Customer has right to select and supervise the service provider.
- Installing open valve for cleaning the tank.

Resources of:
- 1 tank truck (7HHs/day)
- 11 tank trucks (77 HHs/day)

Mean coverage of
- 20,000 HHs/9 months/year
- 100,000 HHs/ 5 years

Operation is according to the management system:

- Agreement in service cost (by contract)
  - Performance according to license
  - Establishing customer data base.

Encourage participation of private sector

- All private enterprises participate in equally.
- Fair competition.
- Stable work, increasing income
- Employment solved
- Investment in equipment freely
- Improving quality of service

Community Benefits

- All households receive the service
- Septic tank of household cleaned regularly.
- Poor households also receive the service (cross subsidized)
- Urban environment better, improve the heath of community
- Service fee is not much, colleted by water supply surcharge.

Social Benefits

- Reducing O&M cost of the sewerage and drainage system.
- Protected groundwater
- Preservation of the environment.

THE EXISTING SITUATION OF PRIVATE SECTOR PARTICIPATION OF SEPTIC TANK CLEANING SERVICE IN DANANG CITY

Private contractor:

- Having business license
- Skilled worker.
- The equipment is technically guaranteed
- Compliance with the regulation of company.
- Performance according to license
- Providing VAT invoice.

Result: 13 contractors participating

- 11 contractors for cleaning and transferring sludge.
- 2 contractors for drilling and installing the valve for cleaning septic tanks.

The IEC activity:

- Using the mass media
- Direct to each ward and group including delivery of brochures, and
- Sending registration application to households

Checking registration application

- Receiving the application , getting information on a GIS map
- Surveying the distance from the area where the vehicle parking to the cleaning location.

Provide license for contractor of drilling and installing valve of cleaning the tank

- Provide license in an orderly way.
- Inform the drilling plan to households.
- Finish within one day before cleaning.

Payment for contractor

- Payment twice a month (middle and end of month)
- Contractors provide required documents.

RESULTS OF THE YEAR 2004 AND 2005

	Year 2004 (Pilot)	Year 2005 (6 months)
Wastewater surchage collected through water supply (bil.VND)	5.27	6.314
Cost paid for service (bil. VND)	1.2	3.2
Number of households pumped out	4,500	10,000
Amount of septic transferred (m^3)	18,000	40,000

Results

- Serving about 10,000 households. Percentage of septic amount transferred out of the city in 2005 has increased by 320% in comparison with previously. According to the plan, the rate will be increased to 641% (compared with before the project implementation, where the number of households served was 2,800 hh/yr).
- Customers are satisfied with the services.
- Wastewater surcharge increases are acceptable because of residents' agreement.

SUMMARY

100% of septic tanks are cleaned within 5 years.

- Volume of collected sludge is used for manufacturing fertilizer service for agriculture
- Continuous increasing the fee of wastewater
- Environment has improved in Danang city