

## Key Points

- Decree 115, issued by the Government of Viet Nam in 2007, has a major impact on effective and efficient operations and maintenance of irrigation infrastructure.
- The policy initially helped stabilize irrigation management, resulting in increased agricultural productivity and farmers' incomes.
- Recent research indicates that economic gains have declined because of inflation and the lack of commitment by provincial authorities to undertake the institutional reforms embodied in the policy, including irrigation management transfer and participatory irrigation management.
- Updating the policy conditions and financial cost norms, and implementing systematic change in institutional arrangements for irrigation management will improve agricultural productivity and increase farmers' incomes to help achieve sustainable rural development in Viet Nam.

# The Irrigation Service Fee Waiver in Viet Nam

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**T**his policy brief aims to inform policy makers in the Government of Viet Nam and development partners involved in developing the water and irrigation subsector about the irrigation service fee waiver and related issues. This is intended to stimulate debate and plan for rational solutions to unintended impacts of government policy. The policy brief is the summary of a larger study, Review of the Impact of the Viet Nam Government's Waiver of Irrigation Service Fees (31 August 2012), which was financed with a grant from the Water Financing Partnership Facility.

## Introduction

All governments subsidize irrigation or have done so in the past. Irrigation is looked on as a public good, required to enhance food production, socioeconomic development, security, and/or exports. It almost always involves large numbers of farmers—small-scale in the developing world, but sometimes large-scale in the West. These farmers lack the resources and organization required to construct large-scale infrastructure, such as dams and irrigation system main works, which often cost millions or billions of dollars. In addition to subsidizing the construction of large-scale infrastructure, governments frequently subsidize operation and maintenance (O&M). A few countries, notably Australia and New Zealand, have moved away from subsidizing agriculture, including irrigation. Other countries in the developed world maintain a high level of support for agriculture and irrigation for a range of social and strategic motives. Notable among developed country subsidizers are the European Union, Japan, and the United States.

The Government of Viet Nam has always funded large-scale irrigation system construction and management. In the 1990s and 2000s, the country was well on the way to becoming one of the few countries in the world where users pay for the full costs of



**Main canal of Nghe An irrigation system**

O&M. Irrigation service fees (ISFs) were collected from farmers in all major systems and passed to irrigation and drainage management companies (IDMCs) charged with managing the upper-level systems (diversions or pump stations, and primary and secondary canals). Through a relatively low payment of ISFs and voluntary labor, water user organizations (WUOs) were responsible for managing infrastructure below the secondary canal level.

In 2008, the Government of Viet Nam issued Decree 115 that introduced a national subsidy for ISFs. This meant that farmers no longer needed to pay for the water they used. For some, the policy was controversial and counter-productive. International development partners felt that the policy (i) reduced or removed the incentive to save water, (ii) placed full responsibility for financing O&M on the national budget, and (iii) reduced incentives for the intended commercialization of IDMC operations.

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On the other hand, the government had identified that farmers' livelihoods and well-being were lagging behind the rest of the country and that significant support was needed to improve farmers' productivity and economic conditions. To complicate the situation, terms and conditions outlined in the new policy were complex and the scope of the subsidy was unclear. Some interpreted the subsidy policy as covering the O&M of the entire irrigation and drainage system. However, the government's intention was to have the waiver extended to secondary canals and larger irrigation infrastructure while farmers are still responsible for the management of tertiary and field canals.

A 2012 review of Decree 115 and related policies commissioned by the Ministry of Agriculture and Rural Development and the Ministry of Finance concluded that the ISF waiver was necessary to reform irrigation and drainage management in Viet Nam. The study's findings were as follows:

- Low income continues in the irrigated agriculture sector. The income inequality gap between farmers and other socioeconomic classes in society was increasing. The cost of agricultural inputs was rising, coinciding with a decline in prices on the international rice market.



**Bai Thuong Diversion, Song Chu irrigation system in Thanh Hoa, rehabilitated under the first ADB loan to Viet Nam in the 1990s**

- Population growth pressure, land inheritance, commercialization, and the development of industrial zones impact land availability. The land area in the Red River Delta had declined to 500 square meters per person by 2005.
- Farmers pay many fees and tariffs. Agricultural households are charged 15–28 fees and tariffs each year, with ISF as a significant component.
- Collection of the ISF and rising debt were significant problems for IDMCs. Revenue collection was insufficient to ensure adequate O&M, service provision worsened, and less money was remitted to IDMCs by those who collected fees. Paying adequate staff salaries was difficult, while IDMCs were Viet Nam Electricity's biggest debtors.



**Transplanting paddy, Bac Giang province**

- State budget availability had increased. The government had sufficient resources to invest in the construction of infrastructure and to pay for O&M, as well as to establish incentive policies to encourage people's participation in production and to promote socioeconomic development.

### The Impact of Decree 115 in Viet Nam

In mid-2012, ADB commissioned a study on the impact of the Government of Viet Nam's 2008 ISF waiver on the development of water resources in Bac Ninh, Bac Giang, Vinh Phuc, and Phu Tho provinces.

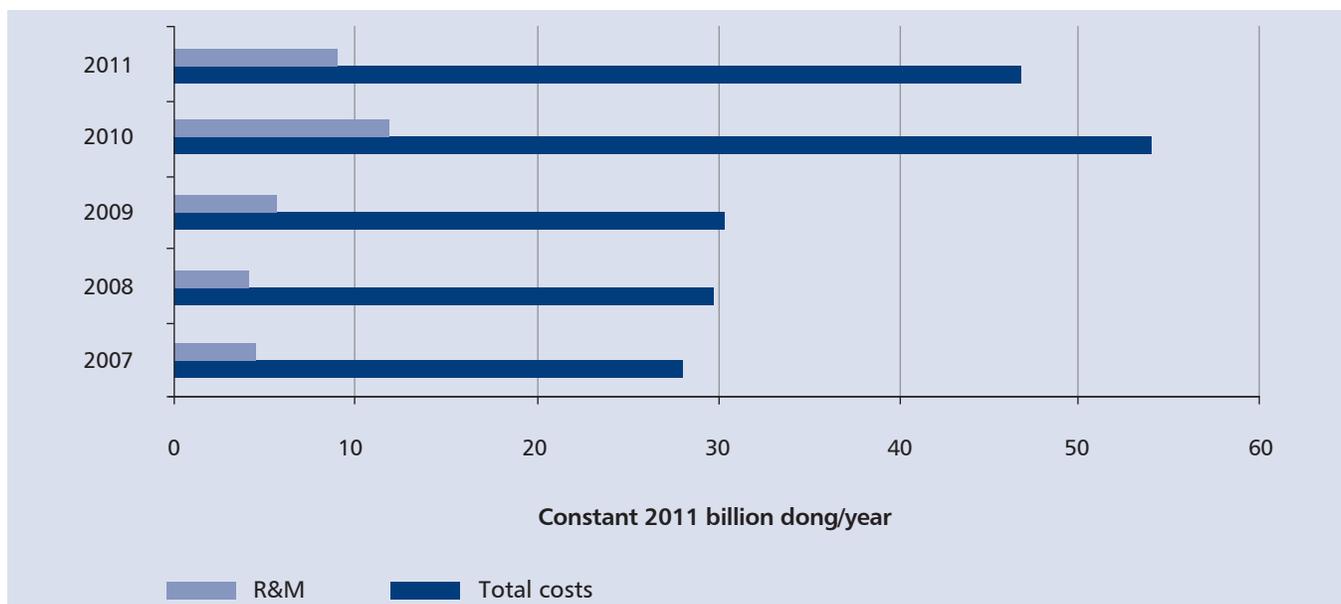
In general, Decree 115 and related policies were considered to have met their objectives, and contributed to the sound operation and, to some degree, development of the irrigation sector in the study area provinces. However, during implementation of the decree, there were both positive and negative outcomes.

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#### Positive outcomes

- Farm net income increased by an average of about D400,000 (\$20) per household per year as a result of reduced payments for irrigation O&M.
- Rice production increased significantly, though most of the increase in the project area was due to improved production technology.

**Average Annual Total Repairs and Maintenance Expenditure  
by Three Irrigation and Drainage Management Companies  
2007–2011**



R&M = repairs and maintenance.

Note: The chart highlights the increase in average expenditure by irrigation and drainage management companies in Bac Giang, Phu Tho, and Vinh Phuc provinces during 2007–2011 in the project area expressed in 2011 dong. The decline in real expenditure in 2011 is due to rapid inflation in that year. Real expenditure on repairs and maintenance increased over the period.

- The main beneficiaries of Decree 115 were the IDMCs. The decree provided them with adequate funding and overcame under-collection of ISFs and consequent deferral of maintenance, payment for electricity, and other costs.
- The irrigated area increased by 3%–5% in some areas.

### Negative outcomes

- The cost norm system defined in Decree 115 has problems, particularly the low levels of cost norms assigned to mountainous areas.
  - Cost norms have not changed since 2008. Cost inflation, particularly increase in salaries following changes in the national wage, has eroded the O&M capacity of the IDMCs, especially in 2011 and 2012.
- Revision of the cost norms is being considered by the government.
- Local government in the four provinces lacks commitment to undertake many of the reforms embodied in Decree 115 and the related policy and regulatory framework for renovating irrigation management, especially reforms to lower levels.
  - Current models for WUOs do not always provide a sound institutional framework that meets the needs of irrigators or reflects the diverse situations in communes, such as differences in capacity of farmers, ethnicity, and changes in land and labor relations as a result of industrialization.
  - The link between farmers, WUOs, and IDMCs has been cut with the end of the IDMCs' reliance on ISF collection.



Farmer interview, Vinh Phuc province

## Lessons Learned

In many countries, the role of participatory irrigation management (PIM) is to improve the involvement of farmers in irrigation management. In Viet Nam, PIM is being extended to include the involvement of stakeholders from provincial, IDMC, district, and commune levels as well as village leaders and farmers in a negotiation process on decisions about issues such as decentralization, WUO models and development, and the performance of irrigation systems. The government supports the extension of key principles, such as participation and involvement, so that stakeholders from different levels are linked into a common vision for the development of PIM in the provinces.

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Meeting with agencies, Bac Ninh province

administration reform agenda. A systematic approach for improving irrigation management is critical, including a top-down and bottom-up planning and budgeting process. This process involves the participation of leaders and officials from the provincial people's committee and related departments, IDMCs, and district and commune levels as well as WUOs and farmers, and is vital for improving the long-term effectiveness and efficiency of irrigation management. Key messages and results are used by policy makers. PIM needs to be included in annual socioeconomic development plans at all levels. In addition, PIM needs to be integrated into other national rural development target programs to improve the effectiveness of investments and support.

## Conclusions

The centralization of irrigation management stabilized the organization of the IDMCs and the maintenance of irrigation systems improved the livelihood of the poorest farmers and created an enabling environment for the development of new policy directions. Options emerged for decision makers to develop long-term solutions for irrigation management. One option under discussion by policy makers is a return to full or almost full funding of irrigation system O&M by farmers. Government expenditure in the sector would focus on capital investment in irrigation infrastructure, including major rehabilitation. The high crop yields and cropping intensities achievable in the deltas and many other schemes suggest that user-funded O&M should be feasible.

To improve the decentralization of irrigation management, policy makers are promoting the development of PIM involving stakeholders from national, provincial, and local levels, and especially farmers. This new approach to PIM includes the integration of PIM into the government's annual planning and budgeting.

The ISF waiver can be viewed as the first phase of a long-term plan to renovate irrigation management. The government subsidy stabilized the IDMCs and

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**Paddy field preparation and harvesting,  
Phu Tho province**

the O&M of irrigation systems, and improved the livelihoods of farmers. Interviews and discussions with national policy makers; provincial, district, and commune leaders and officials; directors and staff of IDMCs; and farmers indicated that the ISF subsidy had provided many benefits and they were confident that an effective and efficient model of irrigation management was emerging. Some government stakeholders and international development partners agreed that the ISF subsidy should be replaced by a system in which the government is primarily focused on capital investment and the user-funded O&M. A systematic approach for the implementation of PIM is integral to the new model.

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