

**PROJECT STUDY  
FOR  
PRIVATE SECTOR PARTNERSHIP IN INDUSTRIAL  
DEVELOPMENT PROJECTS**

**FINAL REPORT**

**SUMMARY**

**OCTOBER 2012**

**JAPAN INTERNATIONAL COOPERATION AGENCY(JICA)  
INTERNATIONAL DEVELOPMENT CENTER OF JAPAN INC. (IDCJ)**

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# Chapter 1: Review of Private Sector Partnership in Industrial Development Projects

## 1-1 Review of private sector partnership models in supporting industrial development

JICA established Office for Private Sector Partnership in October 2008 so as to promote partnership activities with Japanese private firms. In January 2009, moreover, JICA made 'Basic principle of private sector partnership' and improved the organizational structure to strengthen the linkage with the private sector. The basic principle of private sector partnership says "JICA shall reinforce the partnership with private firms and private business, and support the improvement of business environment for private sector in developing countries in an efficient manner. With this support, JICA is going to establish 'win-win-win' relationships among developing countries, private firms and ODA".

JICA presents three models of private sector partnership, namely the 'business environment support model', 'PPP infrastructure development model', and 'new frontier model'. This study focuses on the first 'business environment support model' among the three. Moreover, in this study 'private firms' mean 'Japanese private firms' or 'Japanese invested firms in developing countries'. Therefore, the main focus of this study is JICA's 'business environment support model' having partnership with 'Japanese invested firms in developing countries'.

We found the changes in perception about the private sector partnership behind the reasons why this type of industrial development support has caught much attention recently. First, it is increasingly recognized that the utilization of Japanese technology and financial resources should be very effective in promoting industrial development in developing countries. Second, Japanese firms have realized that JICA's strong connection with the local governments should be useful for them to expand their business in the country. Third, the governments in developing countries are very interested in industrial development strategy with foreign direct investment (FDI). With these changes in perception, the private sector partnership model of industrial development is considered to be very attractive.

This study made historical reviews of JICA's private sector partnership projects for industrial development in Thailand, Indonesia and Vietnam. From the reviews, it is shown that the changes of industrial development strategies of the countries after the 1980s significantly affected the likelihood of implementing such projects as well as their contents. For instance, when the local governments emphasized the importance of FDI in their industrialization strategy, these governments were likely to welcome JICA's partnership with Japanese private firms in implementing projects to improve business environment or to foster industrial labor forces.

JICA's private sector partnership projects are grouped into several types regarding the level of involvement of the Japanese private firms. In Chapter 2, the following five types are

discussed in the review of the three countries: ‘Companies’ Linkage Promotion’ type, ‘Industrial Human Resource Development’ type, ‘Administration Services Enhancement’ type, ‘Industrial Park Development’ type and ‘Business Policy and System Improvement’ type.

This study also looked at one business environment improvement project and three industrial human resource development projects to examine how these projects were implemented and what kinds of impact these projects generated. As the business environment improvement project, this study selected ‘the Vietnam-Japan Joint Initiative to Improve Business Environment with a view to strengthening Vietnam’s Competitiveness’. It is found that this ‘initiative’ has made great contribution in improving business environment in the country. The significant volumes of Japanese ODA and FDI should be one of the reasons for the great contribution. In addition to this, the following three factors should be included: (i) the ‘initiative’ started with the highest political decision between the two countries, (ii) the ‘initiative’ was considered to be a joint exercise by the two governments’, and (iii) the PDCA (plan, do, check and act) activities have been firmly implemented.

The three industrial human resource development projects reviewed in this study are ‘Saudi Japanese Automobile High Institute (SJAHI) project’ in Saudi Arabia, ‘Automotive Human Resource Development Project (AHRDP)’ in Thailand and ‘Project for Human Resource Development for the Electronics Industry in Maquiladora Zone in Baja California’ in Mexico. Based on the reviews of these three projects, the following three lessons are identified.

Lessons from ‘the Saudi Japanese Automobile High Institute (SJAHI) project’ are as follows. First, the project received substantial supports from private firms, and these supports were highly effective. The needs of the firms were fully reflected in the training program, and the project had a clear focus to nurture young workers to become qualified technicians. The effective supports from the private firms were the product of the public-private partnership between JICA and Japanese firms / business association. Second, the coordination among the private firms is extremely important to implement the project. In coordinating the interests of the member firms, it is necessary to use a business association to which these firms belong. If such association does not exist or does not work effectively, the cost of coordinating member firms should become high in preparing the project.

Next, the lessons from ‘Automotive Human Resource Development Project (AHRDP)’ in Thailand are as follows. First, the beneficiary of the industrial HRD was expanded by this project. Usually the beneficiary of HRD of private firms is limited to the employees of these firms or their business partners. However, the Japanese automotive manufacturers that participated to this project provided extensive support to the non-business partners that applied to the project. Second, the private firms and the government institutions that participated to the project seemed to have different views on the HRD. The HRD of private firms shall be considered as successful only when the beneficiaries demonstrate any tangible results in their workshop. Therefore, these firms have a keen interest in providing follow-up support to the

former trainees at their workshops. On the other hand, the government organizations are more interested in increasing the number of participants to the HRD program rather than providing any follow-up supports to the former trainees. It is necessary to understand this different perception between private firms and public organizations. Third, it is also necessary to introduce some measures to strengthen incentives of the private firms to implement the projects sustainably. For instance, the official recognition of the training program by JICA and the local government should be a good incentive for the private firms, who want to penetrate into the local market.

Finally, the lessons learned from the 'Project for Human Resource Development for the Electronics Industry in Maquiladora Zone in Baja California' are as follows. First, this type of private sector partnership project should be considered as a project that can enhance the capacity building of public institutions based on the demand of local private firms. The public system of technical education has been strengthened based on local demand. The participation of the Japanese manufacturers to the project has helped the local technical high school elaborate its curriculum to meet the local industrial demand. Second, it is necessary to prepare this type of project efficiently. If it takes long time to formulate the project, the business environment for the private partners may change and the partners might lose their interest in the project. Private sector partnership projects should be prepared efficiently in order to keep the interest of private partners.

## 1-2 Private Sector Partnership for Industrial Development by Other Major ODA Organizations

The Overseas Human Resources and Industry Development Association (HIDA) is a non-profit organization subsidized by the Ministry of Economy, Trade and Industry (METI), Japan. HIDA was newly established in March 2012 by the merger of the Association for Overseas Technical Scholarship (AOTS) and the Japan Overseas Development Corporation (JODC). It implements training activities and dispatches experts for the purpose of developing industrial human resources in developing countries, by combining ODA and private sector funding. In the case of training, typically, trainees are invited to Japanese host companies from their affiliated companies in developing countries or local companies that have business connections with them. Likewise, experts are often dispatched from Japanese companies to their affiliated companies or local companies in order to transfer their industrial technologies.

One of the notable examples of private sector partnership programs managed by foreign donor organizations is the Global Development Alliance (GDA) of USAID. GDA was introduced as its new strategic orientation in 2001 against the background of increasing private investments in developing countries.

GDA is recognized as an innovative model to improve social and economic conditions in

developing countries through the alliances between USAID and its partners in the areas where development objectives of USAID and business interests of private sectors are overlapping. A GDA project requires participating partners to provide at least the same scale of resources (cash or in-kind) as USAID does. Eligible partners are not limited to US companies: they include non-US companies, private associations, foundations, US and non-US NGOs, international organizations, bilateral aid agencies, research institutions, and so on.

Our interview with an officer of USAID Indonesia indicates that sustainability has been a major challenge for GDA projects, while sustainability and scalability are considered to be important parts of the GDA model. On the other hand, GDA would provide a good reference in many respects for JICA to pursue partnership with the private sector in a more effective way. For example:

- Strong public appeal to promote GDA based on a clear policy orientation
- Emphasis on partnership that becomes the basis for the innovative model
- Simplified procedures to attract more resources from partners
- Easy access to the contact points of USAID
- Flexible and proactive system of implementation involving field operations

Another example is Danida Business Partnership (DBP) Program implemented by Danida, which is a unit of international development cooperation under the Danish Ministry of Foreign Affairs. Danida launched the DBP program in August 2011 by combining two programs including the B2B (Business-to-Business) program that supported business matching between Danish and local companies.

DBP is clearly designed to benefit Danish companies by supporting their business expansion in developing countries. At the same time, however, one of the salient features of DBP is its stress on the logic explaining that the DBP project should contribute to sustainable development through employment creation in developing countries, as well as its emphasis on project management to ensure the process. For instance, eight criteria for development impact are adopted at the selection of DBP projects. These criteria are also reflected in the implementation stage, where main partners are obliged to report on the progress of the project based on the indicators set in advance for the corresponding development criteria. In addition, follow-up assessments are conducted by the embassy after the closing of Danida support.

On the other hand, in the process of integrating the former programs into the DBP program, Danida gave the new program more flexibility in the scope of activities and simpler procedures for preparation and implementation. It also enabled NGOs and other non-profit organizations to participate in the partnership as complementary partners. These changes imply that Danida is

trying to make its private partnership program more “easy-to-use”, to promote participation from the private sector.



## Chapter 2: Historical Review of Private Sector Partnership for Industrial Development in Major ASEAN Countries Based on Changes in Industrialization, Society, Economy and Politics

### 2-1 Overview of Private Sector Partnership for Industrial Development in Three ASEAN Countries

In Thailand, its investment climate after the mid 80's became the most attractive among the ASEAN countries, since its industrial development from the 70's had been progressed mainly through foreign direct investment (FDI) promotion aiming at upgrading technologies and promoting exports. Lacking its own (manufacturing) industries to be protected in the country, the Thai government rather naturally took an active policy for FDI promotion. It seems that, in Thailand, the transparency of business-related government policies, regulations and administrative procedures has been continuously improved so that companies could conduct their businesses smoothly. Under this circumstance, it was not necessary for the Japanese government to build private sector partnerships with Japanese companies in order to improve the "soft" aspect of the business environment in Thailand.

Under the leadership of the President Suharto, Indonesia's high economic growth continued until the outbreak of the Asian currency crisis in 1997. However, triggered by the crisis, Indonesian government's administration, both at the national and local levels, suffered malfunctioning with the breakdown of the Suharto regime in 1998, and uncertainty of the administrative service of the country significantly increased. Under this circumstance, Japanese companies conducting business in Indonesia found it effective and helpful for their businesses that they would express and submit requests to the Indonesian government, through the high level G-G based communication channel by associating with the Japanese government, on the improvement of the transparency of administrative policies and procedures as well as business environment in Indonesia. The policy dialogue with the Indonesian government, which was started by the Embassy of Japan in association with the Jakarta Japan Club (JJC) from around the year 2001, however, did not take root to the extent of the Vietnam-Japan Joint Initiative that has incorporated the monitoring and evaluation process explicitly into its institutional framework. That is partly due to the relatively small presence of the Japanese manufacturing companies in the country, where there are many large-scale investments in natural resource development by foreign and domestic companies and the local manufacturing sector has a substantial role.

As for Japanese manufacturing companies' behavior, they have not actively promoted supporting industries in Indonesia until recently. That is partly because Japanese companies' business activities in Indonesia, except for natural resource development, intended not to

establish export bridgeheads but secure market share and sales turnover in the Indonesia. Many Japanese companies presumably fostered necessary human resources more on an individual basis. That may be one of the reasons why ODA-based industrial human resource development projects through private sector partnerships have not been actualized in Indonesia.

In Vietnam, its FDI promotion policy was introduced from 1988 and it was after 2000 that the Vietnamese government genuinely started preparing the rules and regulations for attracting foreign direct investment. Until then and even after 2000, the market economy was introduced and promoted in Vietnam with immature (or underdeveloped) administrative procedures, rules and regulations on industrial development, which resulted in low transparency and high uncertainty of the administrative services in the country. Recently, as the Vietnamese economy has become progressively open, preparation of the rules and procedures on business activities has progressed and stability of the legal aspects has improved. On one hand, since 2000, Japanese companies started recognizing Vietnam as another important investment destination for diversifying the risk of their over-concentrated business operations in China (China plus one). On the other hand, the Vietnamese government was interested in developing the country as the bridgehead for production and export of manufactured products, since the Vietnamese domestic market itself was (and still is) too small and insufficient for promoting industrial development inside the country. That was one of the backgrounds that enforced effectiveness and sustainability of the “Vietnam-Japan Joint Initiative to Improve Business Environment with a view to strengthening Vietnam’s Competitiveness.”

## 2-2 Thailand

### **Economic Situation and Development Plans in Thailand**

In Thailand, which doesn’t have abundant industrial resources or a large domestic market, liberation policy has been taken consistently by economic technocrats who well understand the surrounding circumstances, and export promotion and introduction of foreign capital have been vigorously aimed for. As a result, an accumulation of supporting industries that surpass other ASEAN countries has been achieved by utilization of abundant foreign investment for industrial development. Moreover, though it has passed through many political changes, the steering mechanism of the country is said to be relatively stable compared with other ASEAN countries due to its sound bureaucratic system.

The first National Economic and Social Development Plan was formulated in 1961, and the following economic and social development plans for five years (the first one was for six years) announced by the National Economic and Social Development Board (NESDB) were set as the national mid-term development plans. The national mid-term plan intends to view 10-15 years

ahead and shows the fundamental thoughts about the country's economic and social matters at large and its direction of development.

### **JICA's Support for Industrial Development**

It can be said that JICA's industrial development support for Thailand after the 1970s has changed its weight gradually as time has passed from the food processing industry, to furniture industry development, to crude rubber quality improvement, to metalworking industry promotion, and then to small and medium-sized enterprises (SMEs) promotion. It can be said that these support methods and contents have almost responded to the Kingdom's development stages and its respective national economic and social development plans.

For example, "Supporting Industry Center in Thailand Project" was carried out from 1999 to 2004 based on the request of Thailand, for the purpose of expanding basic functions of the Metal and Machinery Industry Development Institute (MIDI, later reorganized to Bureau of Supporting Industries Development (BSID)) and its ability to foster metallic mold supporting industries. MIDI itself was built by Japan's grant aid at the request of Thailand when it was promoting SME development in the metal and machinery industry as a part of its 5th Economic and Social Development Plan. In addition, the project's contents coincided with the 8th Economic and Social Development Plan and JICA's Aid Program for Thailand at that time which should be viewed as a guideline of the industrial development assistance of JICA.

### **Japan's Direct Investment in Thailand**

As for the country-based direct investment toward Thailand in 2010, Japan's investment amounted to about 100 billion baht. It occupied 36% of the whole foreign direct investment making Japan the largest investor country. High levels of Japanese investment have been continuing for a long time. On the other hand, investments from other countries and areas tend to have been unstable in scale by year depending on the existence of big projects.

As for the industry component ratio of Japan's direct investment in 2010, electric and electronics equipment occupied 46%, machine and metalworking 30%, and chemistry and paper 9%, indicating more than 80% of the whole investment going to these manufacturing industry components. Investments outside the Bangkok metropolitan area have also been increased due to investment incentive measures and preferential treatment carried out by Board of Investment (BOI).

### **Types of JICA's Assistance in Industrial Development**

Japan's industrial development assistance for Thailand has been carried out in accordance with the development situation of the time and the contents of requests from Thailand in a good

and stable bilateral relationship with many Japanese companies expanding business into Thailand from an early stage. These industrial development supports can be categorized into the following types. There was almost no active participation of private companies in these supports.

### **(1) Industrial Human Resource Development (Assistance for Human Resources)**

Assistance for industrial human resource development started from projects for promotion of the processing industries that were based on primary goods such as wood and crude rubber and for quality improvement of such industries. After then, cooperation was implemented for establishment and management of vocational training centers all over the Kingdom.

Among the cooperation, combination of grant aid and technical cooperation projects was often observed. In other words, technical cooperation projects were carried out to improve technological and managerial capacity of governmental organizations such as development centers and vocational training centers that had been provided by grant aid. Cooperation in partnership with Japanese companies or cooperation particularly aiming to benefit Japanese companies was found in a series of experts dispatched by JICA and JODC (now HIDA) to the Thai Automotive Institute (TAI) as part of assistance for local supporting industries in the automobile sector after the Asian economic crisis. The experts provided guidance and advice to local auto-parts manufacturers that were selected based on recommendations of Japanese automakers. The experience of collaboration contributed to the start of "Automotive Human Resource Development Project (AHRDP)" in 2006. These collaborative efforts helped TAI understand the needs of the supporting industry and formed a foundation for the institute to work as a service provider for the private sector. Japanese companies benefited from the increased technical and managerial capacity of their local suppliers. Furthermore, AHRDP supported the development of technical and managerial capacity in a wider range of local companies in the sector.

### **(2) Business Policy and System Improvement (Assistance for Software)**

As an example of the Business Policy and System Improvement Assistance, a series of development studies aiming to strengthening foundations of the industry of Thailand were carried out, responding to the brittleness of the domestic industry bases which came to be recognized by foreign manufacturers of the assembly industries in the second half of the 1980s.

Moreover, after the Asian Economic Crisis in 1997, JICA has carried out the dispatch of experts and technical cooperation projects concerning development of a medium and small business consultant system, and cooperation for developing the master plan for promoting SMEs, etc. in response to the policy of the Thai government which aims at strengthening of SMEs. This type of cooperation supported system improvement especially from the viewpoint of strengthening SMEs clusters in rural areas and activating local industries.

### **(3) Administration Services Enhancement (Assistance for Software)**

In the Administration Services Enhancement Assistance, provision of institutions and equipment and technical cooperation were performed for the purpose of strengthening the Ministry of Industries and its related organizations which assumed the roles of providing such services as material testing, design, measurement, technical training, and offering of a variety of information to private companies. The main fields were metal working, die machining and productivity improvement, etc.

### **(4) Companies' Linkage Promotion (Assistance for Software)**

Although assistance for business policy and system improvement aiming to foster supporting industry and administration services enhancement has been offered sufficiently in Thailand as mentioned above, particular projects categorized into this type are not found. This type of cooperation may promote the linkage between Japanese companies and Thai companies and have more direct linkage with companies' activities.

### **(5) Industrial Park Development (Assistance for hardware)**

While many industrial parks in Thailand have been developed by loan assistance (yen loan), two development studies i.e. "Laem Chabang Industrial Base Development Study" (1988) and "Bangsaphan Industrial Park Development Study" (1995-96) can be mentioned as assistance which supported industrial park development projects in the planning stage. However, it would be considered that these studies were not strongly conscious of collaboration with the private sector including specific Japanese companies during the implementation.

## **Lessons Learned through JICA's Industrial Development Assistance**

Distinguishing features and lessons obtained from the review of JICA's industrial development support for Thailand are as follows:

- From the review of JICA's industrial development assistance in Thailand, projects which promoted the investment environment in close cooperation with private companies cannot be found. The reason may well be considered that the foreign investment policy was free and open, and there were many opportunities for consultations between the Thai government and the private sector including foreign-affiliated companies.
- As local production of Japanese companies expanded, however, they came to increasingly call for the strengthening of local supporting industry. It has led to a broader recognition of the necessity for strengthening the supporting industry through partnership between the government and the private sector. It is against this background that the private sector partnership project in the automotive sector was

formed.

## 2-3 Indonesia

### **Economic Situation and Development Plan in Indonesia**

Due to the currency and economic crisis in 1997 and the collapse of the Suharto regime in 1998, Indonesia's industrial development policy was forced to renew. The incentive for infrastructure investment by the government was no longer obtained. During the Suharto era, national budget equivalent to 9% of GDP every year (annual average of 1990-96) was spent on financial investment, most of which was directed into infrastructure development. Less than 40% of the funding of the financial investment was from foreign aid, and the rest was from domestic revenue such as oil and gas export revenues. In contrast, the new government after the Suharto era started minimizing the foreign aid, and began efforts to reduce the government debt. As a result, the government's infrastructure investment was reduced to 3% of GDP (annual average of 1999-2009). The current administration of President Mr. Yudhoyono aims to renovate the legal basis of business to attract the entry of private sector involvement in infrastructure development. Accordingly, private investment with government guarantee, so-called Public-Private Partnership (PPP) infrastructure investment, came to be started.

### **JICA's Support for Industrial Development**

During Japan's cooperation in the 1970s and the early 1980s, the Japanese ODA provided loans to related industries such as state-owned enterprises in the field of promotion and support manufacturing. Features of industrial development assistance in the late 1980s were to supply equipment and buildings as the grant aid and provide knowledge and necessary know-how. It was intended for counterparts to plan and manage trainings that participants could experience as pseudo-practice. This type of technical assistance was carried out repeatedly. After the collapse of the Suharto regime, the importance of the promotion of small and medium enterprises in economic activity was recognized again. Consequently, feasibility studies for the development of cluster enterprises targeting small businesses and projects which aimed to develop human resources of small and medium enterprises were implemented. In addition, the type of project for the improvement of the business environment in supporting institutional development policy became active. The central government of Japan dispatched long-term individual experts to the relevant ministries and agencies of Indonesia to develop various institutional arrangements.

### **Japan's Direct Investment in Indonesia**

In foreign direct investment by country for Indonesia, the largest number of investments in 2010 was 414 from Singapore, followed by Korea (356), Japan (323), Malaysia (198), United

Kingdom (133) and China (113). In terms of value basis in 2010, Singapore reached the highest of US\$5,005.75 million via large investment in transportation, communications and warehousing, followed by United Kingdom (US\$1,892.1 million) and United States (US\$930.8 million). Japan became the fourth at US\$712.6 million, up 5.0% year-on-year. Regarding the Japanese investment performance, the number of investments was 468 in 2011, an increase of 74 compared to 2010. In 2010 too, the number showed a significant increase of 323 over the previous year. On the value basis, the year 2011 rose dramatically to US\$1.5 billion, an increase of 114.3% year-on-year. Noticeable increase in the amount of investment seen in 2011 was due to large investments. However, the dramatic increase of the number of investments was caused by many small investments by small and medium enterprises. Although the Japanese investment performance by region has not been officially published yet, most of the investments were concentrated in the metropolitan areas area and environs (Special Capital Territory Jakarta Province, West Java Province and Banten Province) where around 80% of Japanese companies are located.

### **Types of JICA Assistance in Industrial Development**

JICA's industrial development assistance in Indonesia has been strongly influenced by the political situation of each era and phases of economic development. The following is a typology of those projects.

#### **(1) Industrial Human Resource Development (Assistance for Human Resources)**

The characteristic of type of industrial human resource development support in Indonesia is that it aims at training leaders in technology such as trainer's and extension worker's training centers at public institutions, and improves the skills of technicians working in the private sector. For example, skilled Japanese instructors dispatched in the technical cooperation from Japan brought practical skills centered guidance and learning method to master skills at different stages under the project initiated in 1981 as "The Center for Vocational and Extension Service Training: CEVEST". The project is still highly regarded in Indonesia because it changed the status of vocational training that was mainly theoretical until then.

#### **(2) Business Policy and System Improvement (Assistance for Software)**

In the field of institutional policy and system consolidation, steady and important cooperation has been made in the form of long-term experts from the central government agencies of Japan dispatched to the relevant ministries and agencies in Indonesia to support the various institutional system arrangements. Several supports have started since the 1990s, and their importance has been increasing especially in the 2000s. Since 1998, in the surging trend of decentralization and democratization, the role of JICA's cooperation was to help the counterparts to build in a substantial content for Indonesian ministries and agencies where new legislation and the institutional framework had been made, but the concrete contents were not

filled out. An example of cooperation of this type that benefited Japanese companies is the work of policy advisors for investment promotion who have constantly been dispatched to Indonesia Investment Coordinating Board by JICA since 1987. The advisors have provided useful information to many companies that plan to extend their business in Indonesia.

### **(3) Administration Services Enhancement (Assistance for Software)**

Features of support for strengthening administrative services are technical improvement and strengthening management for personnel and trainers of the agency in particular fields of trade in the Indonesian government institutions. For example, the buildings and equipment were granted for the project on "Indonesia Export Training Center (IETC)" started in 1986. The project intended to enable training so that participants could simulate and experience trade practices. In order to do so, it provided knowledge and necessary know-how for trade to companies. Another example, the project on "Human Resource development for SMEs of Manufacturing Industries in Indonesia" offered training for central government and state government officials primarily on diagnosing know-how of SMEs in Japan. It also produced 257 Indonesian small business management consultants under the so called "Company Doctor" title, which ultimately became a national qualification.

### **(4) Companies' Linkage Promotion (Assistance for Software)**

Movement to promote the linkage between Indonesian companies and Japanese companies was accelerated since the 'Agreement between Japan and Indonesia for an Economic Partnership' (EPA) was signed. EPA, which became effective in July 2008, mentions that it provides assistance towards the development of the manufacturing industry in Indonesia. For example, the "Project for Welding Technique Improvement" centers around collaboration with the Indonesian Welding Society. Also, the coming project which is currently being formulated, 'Improvement for Metal Processing Technology' (a tentative title) plans to assign the Heavy Equipment Manufacturer Association of Indonesia as the counterpart. While it supports improving technology of the counterpart, it will incorporate the business activities in the metal processing, which are expected to give benefit directly to Japanese companies and their Indonesian subcontractors. Another example of project which benefits local companies is "Manufacturing Industry Fundamental Technology and Driver Sector Development". The project was conducted to improve capacity of local certification and examining organizations for electrical and electronic equipment. When these organizations are accredited by international standards as a result of the project, local companies will greatly reduce time and cost to export self-ballasted fluorescent lamps and primary batteries.

## **Lessons Learned through JICA's Industrial Development Assistance**

Indonesia is a major power among Southeast Asian countries. Therefore, both foreign and domestic corporate activities are very active in aiming at its huge domestic market. In such an



environment, lessons can be aggregated into the following points and characteristics of JICA's industrial development assistance done so far.

- JICA has been actively utilizing business recommendations issued by a task force and working group mainly formed by the Jakarta Japan Club and the Embassy of Japan. The recommendations are submitted to the government of Indonesia.
- In order to strengthen the creation of project formation to support the private sector of Japanese companies, it is considered as one idea that JICA should make more involvement and input as an organization at a higher level of policy dialogue, rather than sending individual JICA experts in an unorganized manner.
- Although the support of institutional policy and system consolidation related to the improvement of the business environment is not intended to promote private sector cooperation directly, it has contributed greatly to private business activities, including those of Japanese companies.
- Support considering Japanese business activities has so far continued to be assistance of institutional policy and system consolidation. As a turning point of 'Initiative for Manufacturing Industry Development Center' (as a part of the EPA assistance), JICA became more aware of the relationship between local companies and Japanese companies, and they have begun to support the sub-sector related to Japanese companies. It is a new form of assistance that they have not done so far.

## 2-4 Vietnam

### **Economic Situation and Development Plan in Vietnam**

After the adoption of the "Đổi Mới" reform at the 6th National Congress of the Communist Party in 1986, Vietnam moved into a market economy. Asian financial crisis from mid-1997 to 1999 hit the economy of Vietnam severely: GDP growth rate fell from 9.3% in 1996 to 4.8% in 1999. GDP growth rate subsequently recovered to the range of 6% to 7% after 2000. GDP (nominal) per capita, which was US\$413 in 2001, rose to US\$554 in 2004, US\$835 in 2007 and US\$1,048 in 2008. Over this period, Vietnam achieved steady economic growth. In December 2010, Vietnam was formally approved as a more developed country at the donor's conference. For industrial development, while the government's focus was on agricultural and fishery processing and light industries in the 1980s, it has shifted to supporting industries in recent years. Vietnam aims to make the transition to an industrialized economy by 2020.

### **JICA's Support for Industrial Development**

Following the Vietnamese army's invasion of Cambodia in 1978, Japan stopped the flow of

Official Development Assistance (ODA) to Vietnam until it was restarted in 1992. Since 1995, Japan has been the top donor in Vietnam. Vietnam's transition to a market economy is reflected in Japan's Assistance Program for Vietnam in 2000. In 2004, Japan's development focus moved to foreign direct investment (FDI) including private sector, economic infrastructure and human resource development. In 2009 it was clearly stated that Japan's assistance to Vietnam will be based on the two countries' policy dialog, that is, "Vietnam-Japan Joint Initiative to Improve Business Environment with a view to strengthening Vietnam's Competitiveness". JICA's support on industrial development since 1992 has been concentrated on software components rather than human development or hardware as far as the number of projects are concerned.

### **Japan's Direct Investment in Vietnam**

Japan's direct investment in Vietnam was started in the 1990s. Since 1995, many Japanese companies shifted their production overseas to cope with the rapidly rising value of the yen. By 1997, Japan's investment in Vietnam achieved a peak for the first time. However, the number of large-scale investment projects went down after 1998 due to several factors, i.e., Asian currency crisis in 1998, the lack of infrastructure such as electricity, and inadequate law and regulations for the business environment. Direct investment to Vietnam increased again in 2004 with the construction of industrial parks which attracted Japanese companies. Promotion of FDI to Vietnam was also taken as a "risk hedge" to avoid over concentration of investment in China. While Japan's direct investment to Vietnam rose rapidly from 2006 to 2008, it dropped down by half in 2009 due to post-Lehman fallout. From 1998 to 2008, Japan was the fourth-largest foreign investor to Vietnam on an approval basis after Taiwan, South Korea and Singapore. On a disbursement basis, Japan was the biggest investor for Vietnam followed by Singapore, Taiwan and South Korea. In comparison with other Asian countries, Vietnam was the 7<sup>th</sup> largest recipient of Japan's direct investment, after China, Thailand, India, Indonesia, Malaysia, and Philippines. Amount of Japanese investment to Vietnam was less than 10% of China, 20% of Thailand and the half of Philippines. According to a study conducted for Japanese companies, business environment such as industrial infrastructure (e.g., electricity, communication) and administrative and tax procedures are still undeveloped in Vietnam in comparison to other Asian countries. It is also reported that other challenges in Vietnam include unclear policy operations of the local government, inadequate regulations and operation of law, substantial increase in labor costs due to high inflation and unstable exchange rate.

### **JICA's Approaches to Partnership with the Private Sector in Industrial Development**

JICA's approaches to partnership with the private sector are categorized as follows:

#### **(1) Industrial Human Resource Development (Assistance for Human Resources)**

This approach aims to foster local human resources who can contribute to the Japanese

companies in Vietnam. There are two types of institutions involved in human resource development: Japan center and the higher educational institutions.

JICA's key projects in this category are as follows:

- Project for Capacity Development of Business Persons through Vietnam-Japan Human Resources Cooperation Center (Japan Center)
- Project for Human Resource Development of Technicians at Hanoi University of Industry

The benefits that Japanese companies can expect to obtain from this type of partnership include ensuring necessary information and opportunities for recruiting human resources, and employing quality personnel. Local companies can also expect to employ good workers, as well as expand their business relations with Japanese companies.

## **(2) Business Policy and System Improvement (Assistance for Software)**

Improving the policies and systems-related business creates a favorable environment for Japanese companies to enter into the Vietnamese market. There are two types of partnership for improving business environment. First one is through the dispatch of an investment advisory expert. The advisor contributes to transfer the important requirements and messages from the Japanese side to the Vietnamese government over the Japan-Vietnam Joint Initiative. Second type is to take up the issues coming out from the dialogue between the two governments and reflect them in the existing policies and systems.

JICA's key projects in this category are as follows:

- Dispatch of an Investment Advisory Expert
- Project on Strengthening the System and Operation on Standards and Conformance (activities related to policy formulation)

Japanese companies can obtain, for example, the following benefits from this type of partnership. First, they can bring up particular issues they are facing to improve Vietnamese systems via the joint initiative. Second, the introduction of international standards in such areas as certification system would make it easier for Japanese companies to carry out business in Vietnam.

## **(3) Administration Services Enhancement (Assistance for Software)**

Strengthening administration services of the government of Vietnam will eventually improve the business environment for Japanese companies.

JICA's key projects in this category are as follows:

- Project for Strengthening the Enforcement of Intellectual Property Rights in Viet Nam

- Project for Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy
- Project on Strengthening the Training System for Improving Capacity of Frontline Officers of Vietnam Customs
- Project on Strengthening the System and Operation of Standards and Conformance

Through the strengthening of administration services, Japanese companies can conduct business in a more transparent and fairer environment.

#### **(4) Companies' Linkage Promotion (Assistance for Software)**

Through the promotion of linkages among existing companies both Japanese and Vietnamese, the Vietnamese companies will eventually be able to provide necessary technologies and information with the Japanese companies. While JICA directly collaborates with the Japanese companies, it also indirectly collaborates through the Japanese public authorities such as local public agencies.

Some of the main projects in this category are

- Project for Strengthening Public Functions for Supporting Small and Medium Companies
- A Program for Improving Plant Management of Manufacturers in Hai Phong

Japanese companies can expect to have more access to information on Vietnamese companies and opportunities for business negotiations with them. Vietnamese companies can also expect to increase business with Japanese firms.

#### **(5) Industrial Park Development (Hardware Component)**

JICA assisted the formulation of the industrial park development plan as a part of its industrial development policy in Vietnam. As a consequence, Japanese companies were able to enter into the new market in those industrial parks in Vietnam. The government of Vietnam has also implemented a yen loan project for constructing infrastructure around the Industrial Park proposed by JICA's Development Study on Industrial Park.

JICA's key projects in this category are as follows:

- Master Plan on Industrial Development in the Hanoi Area
- Hanoi Urban Infrastructure Development Project
- Living Environment Development around Industrial Parks in Vietnam

This type of partnership would enable Japanese investor companies to move in an industrial park with well-developed infrastructure including surrounding areas. The same

benefit can be expected for local companies. Local companies can also expand their business with Japanese companies as a greater number of Japanese companies come to industrial parks.

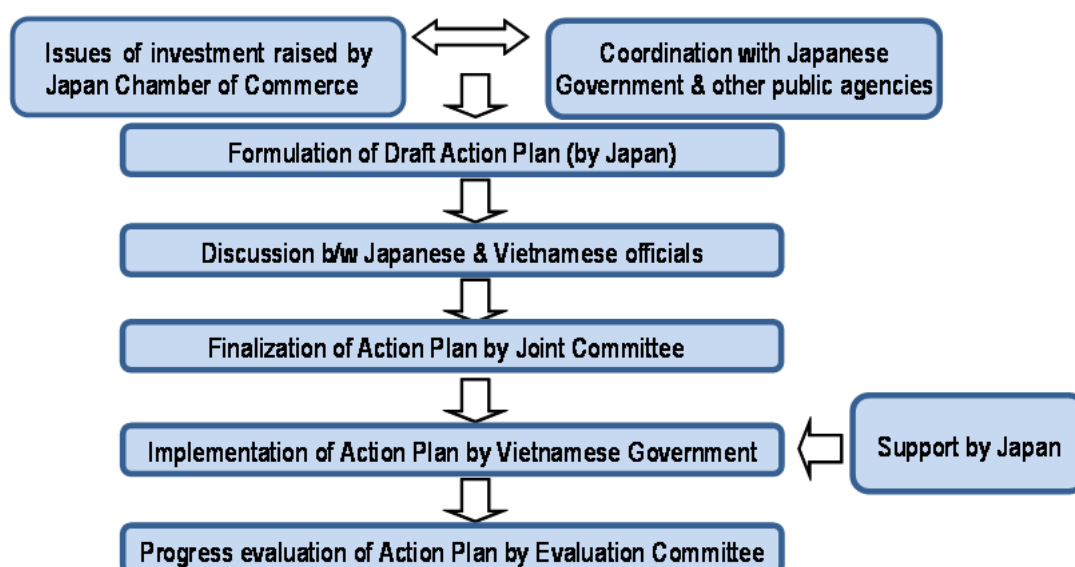
### **Lessons learned through JICA's Industrial Development Assistance**

JICA undertakes various types of partnerships with private sector in Vietnam. As a result, many Japanese companies in Vietnam visit and rely on JICA office or projects. The situation of Vietnam could be considered as an advanced and successful case of private sector partnership by JICA. There are some key features behind those success stories as shown below:

- Japan's presence on industrial development is highly recognized
- Activities for the partnership with private sector are based on policy dialog between Japan and Vietnam which is the Japan-Vietnam Joint Initiative

## Chapter 3: Case study for Holistic Support to Improve Trade and Investment Environment in Vietnam

The Amount of Japan's direct investment to Vietnam was smaller than other ASEAN countries until 2003. In order to attract more FDIs, the government of Vietnam needed to improve the investment environment within the country. While a number of discussions have been made between the two governments on investment issues since that time, Vietnam was not ready to launch on any concrete actions as it was in the transition to a market economy. In April 2003, "the Vietnam-Japan Joint Initiative to Improve Business Environment with a view to strengthening Vietnam's Competitiveness" was established as a new policy dialogue between the two nations. The purpose of the Initiative is to promote Japan's FDI in Vietnam. Furthermore, main features of the Initiative are 1) joint work by Japan and Vietnam, ensuring the commitments by the involvement of high level officials, and 3) use of the ODA as an incentive to develop an effective plan. The first phase of the Initiative was started in December 2003 and it is now in the fourth phase as of June 2012. From the first to the third phases, the evaluation indicator shows more than 80% achievement. The Initiatives are also highly appreciated by Japanese companies such as the Japan Federation of Economic Organizations. Implementation procedure of the Japan-Vietnam Joint Initiative is illustrated in Figure 3-1. The central role to all activities related to the Initiative is played by the Embassy of Japan in Vietnam, while, JETRO, Japanese Chamber of Commerce and JICA are taking the supporting roles.



Source : Embassy of Japan in Vietnam (2011)

Figure 3-1 : Process of Japan-Vietnam Joint Initiative

JICA is contributing to Japan-Vietnam Joint Initiative through the following activities:

- Contact and arrangements by Investment Advisor:

Investment advisory expert dispatched to the Ministry of Planning and Investment helps coordination between the two governments.

- Participation in the discussions of the working team:

Staff and experts of JICA Vietnam office participate in the discussion of the working teams and contribute to preparing the action plan.

- Solving the problems of the Vietnamese government through ODA:

Although it is the role of the Vietnamese government to tackle the issues addressed in the Action Plan, JICA extends its support to the government by implementing ODA programs.

- Ensuring commitment of the Vietnamese government by implementing ODA programs:

JICA's assistance through ODA programs has been a good incentive for the Vietnamese government to continue working on the Initiative.

From the viewpoint of JICA, the advantages of the initiative are: 1) industrial development projects can be fairly formulated through taking discussions for the Initiative into account, 2) validity of JICA's partnership with private sector was justified by supporting the initiative and, 3) networking with the Japanese companies was strengthened through activities of the Initiative.

## Chapter 4: Case Study for Human Resource Development Support to Improve Trade and Investment Environment

### 4-1 Saudi-Japanese Automobile High Institute (SJAHI) Project

The Saudi-Japanese Automobile High Institute (SJAHI) Project was initiated in September 2001 as JICA's technical cooperation project. The JICA project was implemented until August 2009 over two phases. The project is currently succeeded by the Ministry of Economy, Trade and Industry. SJAHI actively adopted several unique mechanisms that no vocational training institutes or college had before, in response to the urgent needs of the Saudi side, i.e. Saudization; securing jobs for the Saudi youth; and practical knowledge and technique meeting the demand of the private sector. For example, SJAHI introduced the following systems:

- Securing jobs at the time of school entry
- Providing all lectures in English
- Targeting the technical level equivalent to the 3rd Grade Automobile Technician under the Japanese National Certification System
- Tailored trainings according to the companies where students will work after graduation (training vehicles and equipment, maintenance method and procedure, OJT, etc.)
- Work contract for a minimum period of three years after graduation

These innovative attempts were made possible by the involvement of the government and private sectors of the two countries based on their shared roles and responsibilities. While the government and private sector in Saudi Arabia have been providing financial support to the project, the Japanese side has been facilitating a high level of technical trainings to meet the needs of the companies.

It is the Saudization policy of the Saudi government and its generous financial support based on the policy that have played a considerable role in the implementation model of SJAHI. In this regard, it is considered that there are a very limited number of ODA eligible countries which can adopt the same model. This indicates a low applicability of the SJAHI model to other developing countries.

When the role of the private sector is looked at, the project has clearly been oriented to the fostering of students with practical skills and knowledge that can be used upon graduation. Thus a variety of efforts including the above-mentioned mechanisms have been made for the curriculum to reflect actual needs of the companies as much as possible. This is backed by a consistent commitment of Japanese automakers and the industry association to SJAHI as the



national project.

The SJAHI project has made great impacts on society, economy and industry in Saudi Arabia for the last 10 years. Major impacts are as follows:

#### **Impact on policy and society**

SJAHI has produced as many as 2,000 Saudi technicians until now, who are working in various fields in the country. The success of SJAHI encouraged the Saudi government to establish a number of technical training institutions copying the SJAHI model. These institutions are estimated to produce more than 10,000 technicians every year working in many industrial sectors. All of these developments greatly contributed to promoting the government Saudization policy. In addition, SJAHI has brought changes in Saudi people's attitudes toward technicians and technical vocations.

#### **Impact on industry**

SJAHI enabled the Japanese Automobile Distributors in the Kingdom (JADIK) member companies to steadily receive Saudi technicians with latest technical skills and knowledge and English skills. This has contributed to the achievement of the required percentage of Saudi workers for member companies. JADIK member companies could also reduce the costs for recruiting Saudi technicians.

#### **Impact on the graduates**

SJAHI graduates have gained the benefit of securing employment, whereas young generations are facing a serious problem of unemployment in Saudi society. Moreover, SJAHI graduates have obtained many opportunities to work in other sectors, since many companies and government organizations, while promoting Saudization, are eager to recruit SJAHI graduates who are equipped with English and computer skills and technical knowledge.

### 4-2 Automotive Human Resource Development Project (AHRDP)

The AHRDP was JICA's technical cooperation project that formed a part of the Thailand Automotive Human Resource Development Project (TAHRDP) implemented as the "quadrilateral cooperation" including the governments and the private sectors of Thailand and Japan. In TAHRDP, four major Japanese manufacturers provided master trainers in their respective areas of expertise to train trainers in Thai auto-parts manufactures (mainly the first-tier companies). The trainers were then intended to train trainees from the second- and third-tier companies to foster human resources in the local supporting industries. JICA dispatched long term experts by providing advisory services to expedite the TAHRDP activities and provided equipment for manufacturing skill training and skill certification training.

The quadrilateral cooperation was characterized by the significant role that the Japanese major manufacturers played as “resource providers”, where each of them proactively engaged in developing human resources in the Thai automobile industry, making use of the technology and expertise that it had developed on its own. Another uniqueness of the project was its openness to any local manufacturers in the industry, since the trainees often came from the companies that had no business connections with the respective Japanese companies. Meanwhile, it can be pointed out that TAHRDP had a complicated implementation structure on the whole. It had varying degrees of cooperation between each company and government organizations, reflecting a historical background of public-private cooperation in the automotive industry between the two countries and the fact that the training programs were planned and managed by the respective Japanese companies rather independently.

There are three major lessons that can be learned from the experience of the project. First, there is a fundamental gap between the private and government in the perception of the objective of training. While the government tends to seek the increased number of participants, private companies are concerned more about results achieved by the participants after trainings. A major complaint about TAHRDP expressed by the Japanese companies is the lack of mechanisms for examining how their trainings changed participant trainees and companies, and for conducting follow-up activities to them. Second, the project presented difficulty in ensuring sustainability of the activities after its completion. This is an issue that can be faced by any project of this type whereby the private sector plays a central role as a resource provider. The third lesson is difficulty in balancing between flexibility and management of project implementation. For components of the project being operated separately, TAHRDP was implemented with insufficient awareness about the goal of the project as a whole. On the other hand, there is a view that too much emphasis on project management may discourage private companies to render their cooperation.

The project has made various impacts on economy and society in Thailand from the following three aspects:

#### **Impact on the automobile industry**

The automobile industry currently accounts for 12% of Thai GDP, employing 400,000 workers that correspond to 2% of the total workforce in the country. Since its inception in 2006, TAHRDP has fostered about 6,000 trainers or trainees corresponding to 1.5% of the total workforce in the automobile industry. In addition, the automobile industry in Thailand rapidly increased production and export of automobiles as well as auto-parts throughout the 2000s. The project has contributed to the increase in competitiveness of the local auto-parts industry that was essential to the drastic growth of the industry.

#### **Impact on participant companies**

The questionnaire surveys conducted by the study team for the local companies that sent

their workers to the trainings indicate that the project had a great impact on them in regard to “more supports to co-workers”, “improvement of product quality”, “improvement in work attitude”, and “introduction of new technology”. Some companies that participated in the Toyota Production System (TPS) training have produced remarkable results in terms of drastic reduction of production lead-time, improvement of productivity, and so on.

#### **Impact on trainers and trainees**

Our questionnaire surveys for the trainers trained by master trainers and the trainees who participated in the trainings of TAHRDP show that almost all respondents are currently utilizing the knowledge and skills learned in the trainings. Trainees also highly recognize the impact of the trainings on their workplace in terms of “more supports to co-workers”, “improvement of product quality”, and “improvement in work attitude.” This coincided with the participant companies’ views.

#### **4-3 Project for Human Resource Development for the Electronics Industry in Maquiladora Zone in Baja California**

The project was a collaboration of JICA, the Japanese Maquiladora Association (JMA), the state government of Baja California, and the federal government of Mexico. It was initiated because member companies of JMA, which is an association of Japanese manufacturers located in the maquiladora zone in the state of Baja California, were facing difficulties in employing a sufficient number of workers with appropriate skill levels due to an inadequate training system by the public institutions, as well as keeping their workers in their companies. The project objective was to develop suggestions for improvement in the curriculum of the electronic and electric course of a model industrial high school so as to meet the demand from the industry including Japanese companies. To achieve the objective, a series of activities were carried out through four phases. A distinctive feature of this public-private collaborative project was that it was originally proposed by the Japanese private sector based on its clear needs for solving shortages of workers that the companies were suffering around that time. The project was then designed to focus on securing the linkage between the Japanese companies and a model school.

While it succeeded in establishing a network among JMA, the model school, and the state government as a collaboration model, the project provided a lesson about the importance of a prompt formulation and preparation of this type of projects. It took three years to prepare and start the project in 2010 after JMA presented its request in 2007. During the period of preparation, in fact, the demand from Japanese manufacturers for employing new workers had drastically decreased due to a change in the global economic environment and as a result of severe competition. Though the project originated from the clear needs of Japanese companies for solving labor shortages, it was not able to embark in time for the immediate needs. When a public-private partnership project is planned especially focusing on the support for Japanese

companies as its primary aim, the key consideration is speedy formulation, preparation and implementation.

#### 4-4 Characteristics of Industrial Human Resource Development Projects in Partnership with Private Sector

The study team examined some cases of activities for industrial human resource development that are not based on a partnership with the private sector (i.e. trainings by the public institution, private business or bilateral project), in order to clarify the nature of private sector partnership-type projects. The result indicates that private sector partnership-type cooperation can realize the advantages of different modes of non-partnership cooperation at the same time. For example, it would be possible that a private sector partnership-type project supports the improvement of public education system through curriculum development (that is typically implemented by government-to-government cooperation), while meeting real needs of participant companies in the training (that is considered one of advantages of training institutions as private business). On the other hand, some issues are observed. For instance, ensuring sustainability of the activity after completion of the project could be a major challenge, particularly in a private sector partnership-type project where the private sector plays an active role. It can also be pointed out that there is a possibility that this type of project would fail to catch up with a rapid change in the needs of Japanese private partners in the process of formulation or implementation.

## Chapter 5: Recommendations

This study is concluded with a set of recommendations for the implementation of private sector partnership projects. The findings from the historical review of these projects in Thailand, Vietnam and Indonesia as well as the case studies of the four private sector partnership projects are used to develop the recommendations. The first part of this chapter examines the types of appropriate projects for private sector partnership. Then, the second part proposes the way to implement such projects efficiently and effectively.

### 5-1 Appropriate Issues for Private Sector Partnership

It is expected that Japanese ODA shall constructively carry out private sector partnership projects in the future. Japanese ODA needs to actively propose such projects to both the partner government and Japanese affiliated companies in developing countries. It is also required that Japanese ODA should link its industrial development support with the promotional support to local companies to reach the Japanese market. The following five project types are considered as the types in which private sector partnership should produce significant benefits, which are ‘Industrial Human Resource Development’, ‘Business Policy and System Improvement’, ‘Companies’ Linkage Promotion’, ‘Administration Services Enhancement ’ as well as ‘Industrial Park Development’.

#### **Industrial Human Resource Development**

Private sector partnership project for industrial human resource development intends to enhance the capacity of industrial labor force in the private sector in cooperation with the Japanese affiliated companies. These companies often contribute to the project by developing institutional framework or training programs. The Japanese companies might find it beneficial that training equipment was provided by Japanese ODA or that the brand names of the companies are more recognized in the local market by participating to the project. The most significant benefit for the companies should be, however, that the project could lead to the improvement of administrative system in the public sector. For example, as in the case of the JICA’s Mexico project, the Japanese affiliated companies were able to contribute to the development of training curriculum at local industrial high schools. The benefit of the local companies, on the other hand, is the access to the Japanese technology. Even without having any business linkage, the local companies are able to receive technological supports from the Japanese companies directly.

#### **Business Policy and System Improvement**

The second type for private sector partnership is the ‘Business Policy and System Improvement’. This type of project supports the local government in improving the business environment so that foreign investors, including the Japanese, can easily start and expand their

business in the country. A typical example of such project is ‘the Vietnam-Japan Joint Initiative to Improve Business Environment with a view to strengthening Vietnam’s Competitiveness’. The project usually collects views of Japanese investors through the locally based Japanese business associations, such as Japanese Chamber of Commerce and Industry. These views are directly reflected in the high-level policy dialogue between the Japanese and the local governments, and are utilized in preparing new ODA projects in the related fields. This reflection seems the significant benefit for the Japanese companies that participated to the project. Non-Japanese foreign investors and local domestic investors can also get benefit from this project by enjoying the improved business environment. Moreover, the increase of foreign investors could benefit the local companies, who look for business opportunities with foreign invested companies.

### **Companies’ Linkage Promotion**

The third is ‘Companies’ Linkage Promotion’ type. It is expected to promote industrial technological transfer from the Japanese investors to the local partners by enhancing business linkage between them. It is believed that close business partnership between foreign investors and their local partners should be inevitable for robust industrial development. Business matching support between Japanese investors and local companies, business seminar or business fair to invite local companies and other activities are included in this type of project. The benefit of the Japanese companies to participate to this project is that they are able to find their potential business partners effectively. The local companies can also find their Japanese business partners by participating to the activities. The transfer of technological know-how from the Japanese business partners is also considered as highly beneficial for the local companies, for those small and medium scales in particular.

### **Administration Services Enhancement**

Fourth, ‘Administration Services Enhancement,’ is also an appropriate type for private sector partnership. This type of project intends to improve the business environment for the Japanese investors by strengthening the capacity of administrative service providers. Views and feedback from the Japanese investors should make great contribution to formulate and implement such projects. The dispatch of FDI promotion advisors to Vietnam and ‘Project for Establishment and Capacity Building of Regional Export Training and Promotion Centers’ in Indonesia are included in this type of project. The benefit of these projects for the Japanese investors is firstly the improvement of efficiency in the public administration, such as custom offices. Moreover, the Japanese companies enjoy significant benefit from the development of rules and regulations that should contribute to the expansion of the Japanese business. For instance, the Japanese manufacturers are able to effectively differentiate their high quality products in the local market when the local government improves the system to examine the quality of locally manufactured products and issue the certificates. The assurance of intellectual property rights is also helpful for the Japanese investors. The local companies can

enjoy such benefit as well.

### **Industrial Park Development**

Industrial parks are also effectively developed when the private sector and JICA work in partnership. For instance, the Japanese company develops an industrial park, and JICA support the park by developing surrounding infrastructure. Alternatively, JICA makes a regional development master plan, and the Japanese company develops an industrial park following the orientation of this plan. The establishment of Thang Long Industrial Park in Hanoi is a typical example of this type of public-private partnership, where a part of adjoining industrial infrastructure was developed by JICA. The Japanese companies often face difficulties to find good industrial park with appropriate infrastructure. These companies should get benefit from this partnership when the development of nearby infrastructure was financially supported by JICA. The local companies benefit from such infrastructure as well. The increase of foreign investor in the industrial park is also beneficial to the local companies, which look for foreign business partners.

## **5-2 Framework for Effective Implementation**

This section proposes the way to implement private sector partnership projects efficiently and effectively. The proposals are divided into three groups, which are ‘project preparation stage’, ‘implementation stage of human resource development project,’ and ‘reconsideration of organizational structure of the Japanese ODA institutions’.

### **Project preparation stage**

#### **(1) Examining the industrial development strategy of the local government**

The industrial development strategy of the local government should greatly affect the decision whether the private sector partnership projects are adequate or not. If foreign investment promotion is a core part of the strategy, JICA’s private sector partnership projects might be warmly welcomed by the local government. These projects should possibly generate significant impact on the local industry. It is also important to see whether the local government considers that the Japanese investment should play a large role in promoting industrial development of the country.

#### **(2) Sharing vision among Japanese public and private sectors**

It is important that the Japanese embassy, JICA, JETRO and Japanese private business association (four Js) should share the same vision to promote public and private partnership. Without this sharing of the vision, Japanese ODA agencies’ intention to promote private sector

partnership does not effectively reach the private firms. The local government also does not receive a clear message from the Japanese public and private sectors.

### **(3) Designing appropriate PDM**

Some scope of private sector partnership could be included in the project design matrix (PDM) of the Japanese ODA projects. With an appropriate PDM design, the partnership with private firms will be eventually enhanced.

## **Implementation stage of human resource development project**

### **(1) Understating the different perception of human resource development**

The perception of the human resource development could be different between private and public sectors. Two sectors do not necessarily share the same goal for industrial human resource development. It is necessary to recognize this difference while preparing the private sector partnership project of industrial human resource development. Without this recognition, the project could not be smoothly and sustainably implemented.

### **(2) Enhancing the incentives for private sector**

Usually both trainers and trainees are from private firms when implementing private a sector partnership project of industrial human resource development. Sustainability of the project is very much dependent on the intention of the private firms. It is necessary to introduce some measures to enhance the incentives for private firms to participate in the project. With such incentives, it is expected that private firms should keep implementing the project for a longer term.

## **Reconsideration of JICA's organizational structure**

### **(1) Strengthening a private sector window**

It is important for the Japanese ODA agencies to enhance the communication with Japanese private firms operating in developing countries. For this purpose, these agencies's resident officers in developing countries should be aware of the importance of such communication and serve as a contact person for the Japanese firms. The resident officers who stay in the developing countries which have already received Japanese investors or which could expect a lot of Japanese investment should pay much attention to the communication with Japanese investors. Such a one-stop window should also be established in the head office as well as its domestic offices. Some of the JICA's domestic offices already have assigned new officers who are in charge of private sector cooperation. These officers provide local companies with business information of developing countries and offer them private



consultation. Private sector window should be strengthened in both overseas and domestic office of the Japanese ODA agencies.