

Vietnam
Data Collection Survey on Japan's ODA
in the Socialist Republic of Vietnam
Final Report

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Japan International Cooperation Agency (JICA)

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ALMEC Corporation

Nippon Koei Co., Ltd

ACRONYMS AND ABBREVIATIONS

ADB:	Asian Development Bank
AED:	Agency for Enterprise Development
AEF:	Aid Effectiveness Forum
AFD:	Agence Française de Développement
AFTA:	ASEAN Free Trade Area
AIDS:	Acquired Immune Deficiency Syndrome
APEC:	Asia-Pacific Economic Cooperation
ASEAN:	Association of South-East Asian Nations
AUN/SEED-Net	ASEAN University Network/ Southeast Asia Engineering Education Development Network
AusAID:	Australian Agency for International Development
BOP:	Base of the Pyramid
BOT:	Build-Operate-Transfer
BSL:	Bio Safety Level
BTC:	Belgian Technical Cooperation
CAS:	Country Assistance Strategy
CG Meeting:	Consultative Group Meeting
CHC:	Community Health Center
CIDA:	Canadian International Development Agency
CLC:	Community Learning Center
CLMV:	Cambodia, Laos, Myanmar, Vietnam
CNC:	Computerized Numerically Controlled
C/P:	Counterpart
CPRGS:	Comprehensive Poverty Reduction and Growth Strategy
CPS:	Country Partnership Strategy
CSP:	Country Strategy and Program
DAC:	Development Assistance Committee
DANIDA:	Danish International Development Assistance
DARD:	Department for Agriculture and Rural Development
D/D:	Detailed Design
DFID:	Department for International Development
DSR:	Debt Service Ratio
DVD:	Digital Versatile Disc
EDCF:	Economic Development Cooperation Fund
EFA:	Education for All
EIRR:	Economic Internal Rate of Return
E/N:	Exchange of Notes

ES:	Engineering Service
EVN:	Electricity of Vietnam
FDI:	Foreign Direct Investment
FIRR:	Financial Internal Rate of Return
F/S:	Feasibility Study
FSQL:	Fundamental School Quality Level
FTA:	Free Trade Agreement
FTI:	Fast Track Initiative
GBS:	General Budget Support
GDP:	Gross Domestic Product
GIZ:	Deutsche Gesellschaft für Internationale Zusammenarbeit
GNI:	Gross National Income
GNP:	Gross National Product
GSO:	General Statistics Office
H5N1:	Influenza A Virus Subtype
HAIDEP:	Transport Development Strategy for Hanoi
HCMA:	Ho Chi Minh National Academy of Politics and Public Administration
HHTP:	Hoa Lac Hi-Tech Park
HIV:	Human Immunodeficiency Virus
HS:	Harmonized Commodity Description and Coding System
IDCJ:	International Development Center of Japan
IDA:	International Development Association
IDJ:	The International Development Journal Co., Ltd.
IFAD:	International Fund for Agricultural Development
IMF:	International Monetary Fund
IP:	Internet Protocol
IPP:	Independent Power Producer
IT:	Information Technology
JARCOM:	JICA-ASEAN Regional Cooperation Meeting
JBIC:	Japan Bank for International Cooperation
JDS:	Japanese Grant Aid for Human Resource Development Scholarship
JETRO:	Japan External Trade Organization
JICA:	Japan International Cooperation Agency
JOCV:	Japan Overseas Cooperation Volunteers
KfW:	Kreditanstalt für Wiederaufbau
L/A:	Loan Agreement
MARD:	Ministry of Agriculture and Rural Development
MDGs:	Millennium Development Goals
MOC:	Ministry of Construction
MOET:	Ministry of Education and Training

MOH:	Ministry of Health
MOJ:	Ministry of Justice
MOLISA:	Ministry of Labor, Invalids and Social Affairs
MONRE:	Ministry of Natural Resources and Environment
MOT:	Ministry of Transport
MPI:	Ministry of Planning and Investment
NAPA:	National Academy of Public Administration
NGO:	Non Government Organization
NIES:	Newly Industrializing Economies
NOIP:	National Office of Intellectual Property of Vietnam
NPO:	Non-Profit Organization
NTSR:	National Transport Sector Review
ODA:	Official Development Assistance
OECD:	Organization for Economic Co-operation and Development
OECF:	Overseas Economic Cooperation Fund
OJT :	On-the-Job Training
PACCOM :	People’s Aid Coordinating Committee
PDP :	Power Development Plan
PMU :	Project Management Unit
PPP :	Public Private Partnership
PRSC :	Poverty Reduction Support Credit
PRSP :	Poverty Reduction Support Paper
R/D :	Research and Development
SAC :	Structural Adjustment Credit
SARS :	Severe Acute Respiratory Syndrome
SBV :	The State Bank of Vietnam
SEDP :	Socio-Economic Development Plan
SEDS :	Socio-Economic Development Strategy
SPL :	Sector Program Loan
STAMEQ :	Directorate for Standards, Metrology and Quality
SV :	Senior Volunteer
TPP :	Trans-Pacific Strategic Economic Partnership
UMRT :	Urban Mass Rapid Transit
UNDP:	United Nations Development Programme
UNESCO :	United Nations Educational, Scientific and Cultural Organization
UNFCCC :	United Nations Framework Convention on Climate Change
UNFPA :	United Nationa Population Fund
UNICEF :	United Nations Children’s Fund
UNIDO :	United Nations Industrial Development Organization
USAID :	United States Agency of International Development

VASS :	Vietnam Academy of Social Sciences
VCA :	Vietnam Competition Agency
VDB :	Vietnam Development Bank
VND :	Vietnamese Dong
VDR :	Vietnam Development Report
VJC :	Vietnam-Japan Center
VJCC :	Vietnam-Japan Human Resources Cooperation Center
VNPT :	Vietnam Posts and Telecommunications
VTV :	Vietnam Television
WHO :	World Health Organization
WTO :	World Trade Organization

Currency Equivalents

(Exchange Rate Effective as of December 2013)

US\$ 1.00 = 102.19 yen

VDN 1.00 = 0.0048 yen

EXECUTIVE SUMMARY

Japan's ODA for Vietnam started as part of its war reparations based on the reparation treaty signed in 1959. After 13 years of suspension from 1979, Japan resumed its ODA for Vietnam in 1992 prior to other donor countries. Japan has supported social and economic development in Vietnam, as one of its major bi-lateral development partners.

This year marks the 20th anniversary since Japan's ODA was resumed and the 40th anniversary of diplomatic relations between Japan and Vietnam. On this occasion, looking back on the history of Japan's ODA for Vietnam, this study was conducted to review and evaluate the roles and achievements of Japan's ODA in the development of Vietnam and to develop implications for its future direction. The target area of this study was the entire nation of Vietnam.

The target sectors or cooperation schemes/categories of this study were: 1) governance, 2) economic and business institutions, 3) energy and electricity, 4) water supply and sewerage, 5) transportation, 6) information and telecommunication, 7) education and training, 8) health care, 9) social security, 10) agriculture, livestock and fishery, 11) environmental management, climate change and solid waste management, 12) forestry and natural environment, 13) disaster prevention, 14) rural development, 15) urban development, 16) JICA volunteers program, 17) JICA partnership program, 18) development partners, 19) NGO/NPO, 20) the private sector, and 21) public relations.

This study covered Japan's ODA to Vietnam within the past 40 years, with a particular focus on cooperation for the past 20 years after the resumption.

1. Socio-economic Growth in Vietnam and Partnership with the Development Partners

Situated on the Indochina Peninsula in Southeast Asia, the Socialist Republic of Vietnam is bordered by China to the north, Laos to the northwest; Cambodia to the southwest; and the South China Sea to the east. The area of the nation is around 330 thousand square kilometers, with a land mass of about 2,300 km long from north to south and about 600 km wide from east to west. The estimated total population in 1960 was 35 million and around 88 million in 2011. It is the world's 13th most populated country globally and the third most populated country among the ASEAN countries. It is predicted that Vietnam's population will reach more than 100 million people in the mid- 2020's.

After the Paris Peace Accords in January 1973, which aimed to establish peace in Vietnam and an end to the Vietnam War, Vietnam established diplomatic relations with Japan in September 1973. The Government of Japan (GOJ) set up the Embassy of Japan in Vietnam in October 1975 to start

policy dialogue. In 1976, North and South Vietnam merged to form the Socialist Republic of Vietnam.

In August 1977, the then Prime Minister Fukuda Takeo delivered “the Three Principles” of Japan’s ASEAN Diplomacy, the so-called “Fukuda Doctrine.” In this doctrine, it was clearly stated that Japan supported the growth of ASEAN member states, particularly in infrastructure and human resources development—two key pillars that form the foundation of ongoing development in the ASEAN region. At the same time, Vietnam was expected to play a key role in the development of the Indochina countries. However, Vietnam faced various internal and external problems, which worsened its international relations and resulted in the suspension of ODAs from the Western countries.

During this period, Vietnam promoted its development under the 2nd SEDP (5-year Socio-Economic Development Plan) (1976 – 1980), which set up the long-term goal of becoming a modernized, industrial socialist state in the next 20 years based on the Soviet Union as a model. The Government of Vietnam (GOV) promoted nationalization of private companies and collectivization of agriculture production during this period. The 3rd SEDP (1981 – 1985) and the 4th SEDP (1986 – 1990) aimed at modernizing the production system and stabilizing socio-economic conditions.

Although the ODA from foreign countries had been suspended since 1979, GOV’s efforts to reform their economy through *Doi Moi* (renovation) produced outputs and outcome in the latter half of 1980s. During the decade of the 1980s, Vietnam received food aid from the Soviet Union and China; however, they already started to export rice at the beginning of the 1990s.

In October 1991, the Paris Peace Agreement were signed by Cambodia and 18 other nations. The international situations had changed for the better for Vietnam.

Japan had resumed its ODA in 1992; and many other international development partners followed in 1993. In November 1992, Japan and Vietnam signed the E/N for the collaboration in rehabilitation of basic economic infrastructure. At the same time, JICA started to provide environmental assistance and humanitarian assistance for Vietnam. As the environmental assistance, JICA dispatched long-term expert in the forestry sector and provided grant aid to improve the reforestation equipment in the Central Highlands Region, while also provided grant aid in the health sector as humanitarian assistance. Japan’s ODA made a first step of resuming ODA for Vietnam through these assistance, which encouraged the other development partners.

In 1993, the Vietnam Donor Conference in Paris was held with the participation of representatives from donor countries, international financial institutions, and the UN agencies, where strong

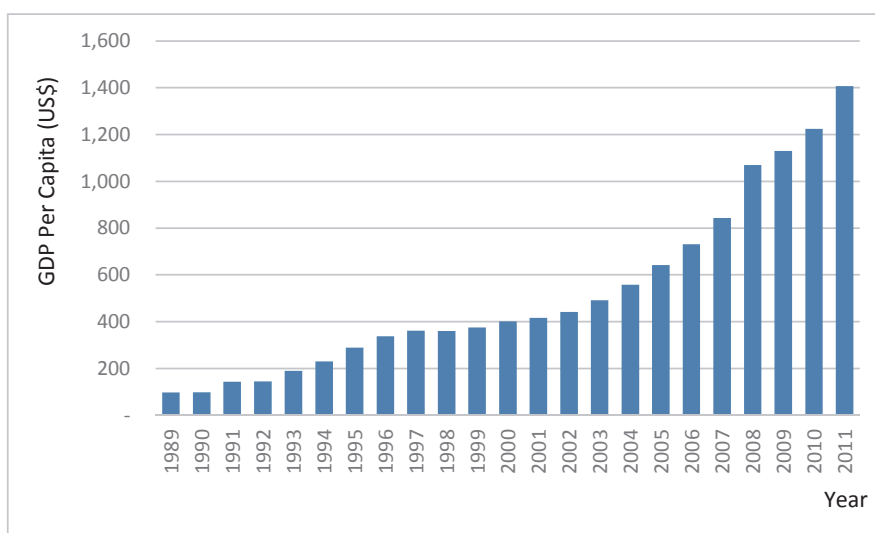
commitments on policy support and a roadmap for the reform process in Vietnam were shared by the international development partners' community.

Under *Doi Moi*, GOV encouraged private ownership, economic deregulation and foreign investment; and the Vietnamese economy subsequently achieved strong growth in the 1990s. The 6th SEDP (1996-2000) set the goal for the GDP annual growth rate at 9.0% - 10.0%, which was eventually achieved. The GDP per capita was doubled during this period.

In parallel with the 7th SEDP (2001 – 2005), the first 10-year SEDS was prepared, which showed GOV's long-term vision to become an industrialized country by 2020, through 1) enhancing the socialist-oriented market economy system, 2) human resources development, and 3) improving the economic infrastructure in transportation and urban development.

As Vietnam's version of PRSP, the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was prepared, which was the first PRSP produced by an Asian country. Since GOV believed that without substantial state economic growth, there would be no sustainable poverty reduction, and the word, "Growth," was included in the title of the strategy. In CPRGS, priority was given to infrastructure improvement for economic growth. At the same time, "poverty" was more widely recognized as one the key cross-cutting development issues, which required a comprehensive approach from the various sectors.

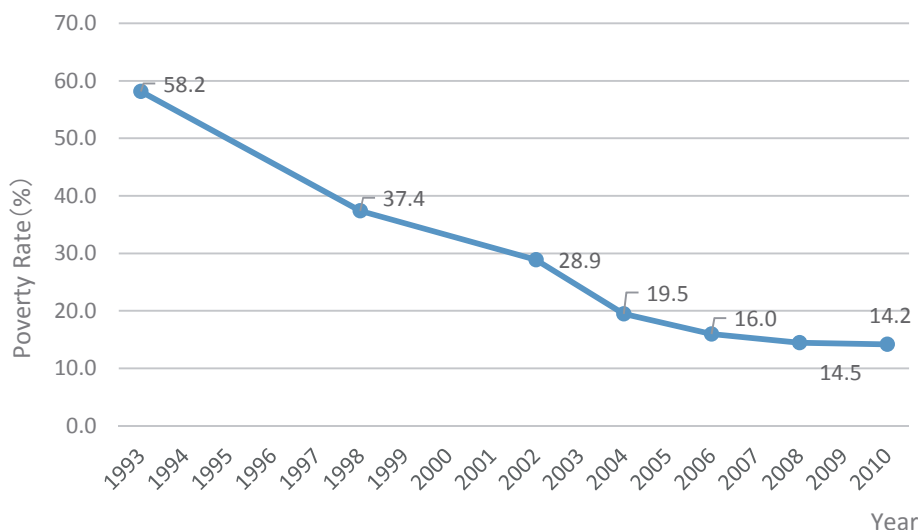
In 2008, the GDP per capita of Vietnam was more than US\$1,000; and the country was able to join the group of lower middle income countries (Figure-1).



(Source: WB Website, 2013)

Figure-1: GDP Per Capita in Vietnam from 1989 – 2011

As shown in Figure-2, the poverty rate in Vietnam was 58.2%; the rate has drastically decreased to 14.2% in 2010, which showed their achievement of the CPRGS goal. Besides the improvement in poverty rate, Vietnam made a progress in the education and health related indicators in the MDGs.



(Source: “Vietnam Poverty Analysis” 2011, IFAD)

Figure-2: Poverty Rate in Vietnam from 1993 to 2010

During this period, GOV aggressively promoted opening the economy to foreign trade and investment, and reforming the government. GOV officially joined ASEAN in 1995 and served as chair of APEC in 2006 and chair of ASEAN in 2010. Vietnam was elected as a non-permanent member of the UN Security Council in 2008 for two years.

GOV made a number of regional and multilateral trade agreements, namely, the ASEAN FTA in 1995 (including ASEAN FTAs with Australia, China, India, Japan, the Republic of Korea, and New Zealand) and a bilateral Trade Agreement with USA in 2000 and with Japan in 2008. Vietnam became a member of the WTO in 2007. Vietnam has played a key role in the development of the GMS as well as in the development of the CLMV countries (Cambodia, Laos, Myanmar, and Vietnam).

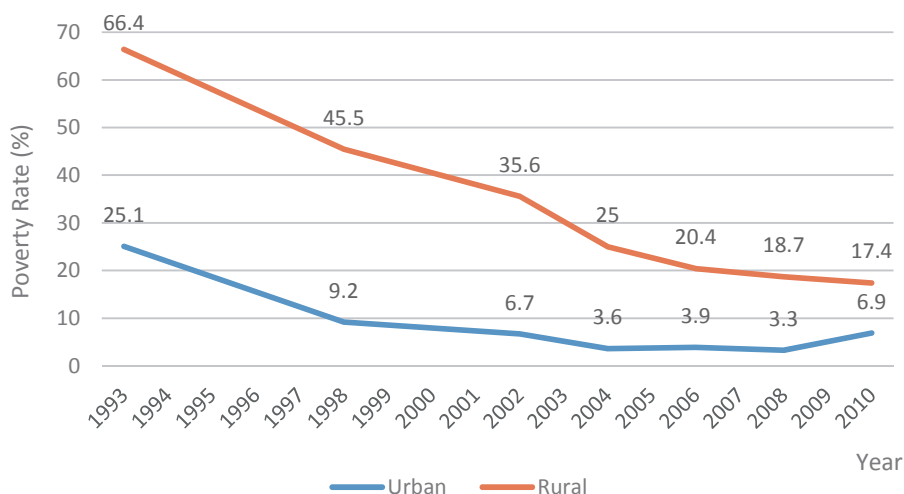
During this period, Japan became one of the top FDI countries. At the same time, Japan has been one of the major trading countries with Vietnam. As mentioned before, Japan had contributed to the improvement of the business environment in Vietnam through its ODA; therefore, Japan promoted so-called “trinity contribution,” which means contribution to Vietnam’s economic growth through the synergy effects of the three key development pillars: namely, FDI, trading and ODA to Vietnam’s economic growth.

The current 10-year SEDS (2011-2020) provided aspiring goals to keep the GDP annual growth

rate 7% - 8%, to double the GDP by 2.2 times, and to achieve a GDP per capita US\$3,000 – US\$3,200 through further modernization and industrialization, and by participating in the global economic system.

As mentioned above, Vietnam had made a rapid economic growth and accomplished the goals of the national development plans since the introduction of *Doi Moi* in 1986; and especially since resuming ODA from the foreign countries in 1992; however, at the same time, there were some negative impacts observed: such as deterioration of the natural environment, increased income disparities, increased disparities among regions etc. These negative impacts have been more obvious along with the country socio-economic improvement.

The poverty rate of the urban and rural areas is shown in Figure-3. Although the poverty rates of the urban and rural areas had been improved, there were still some gaps between the urban and the rural.



(Source: “Vietnam Poverty Analysis” 2011, IFAD)

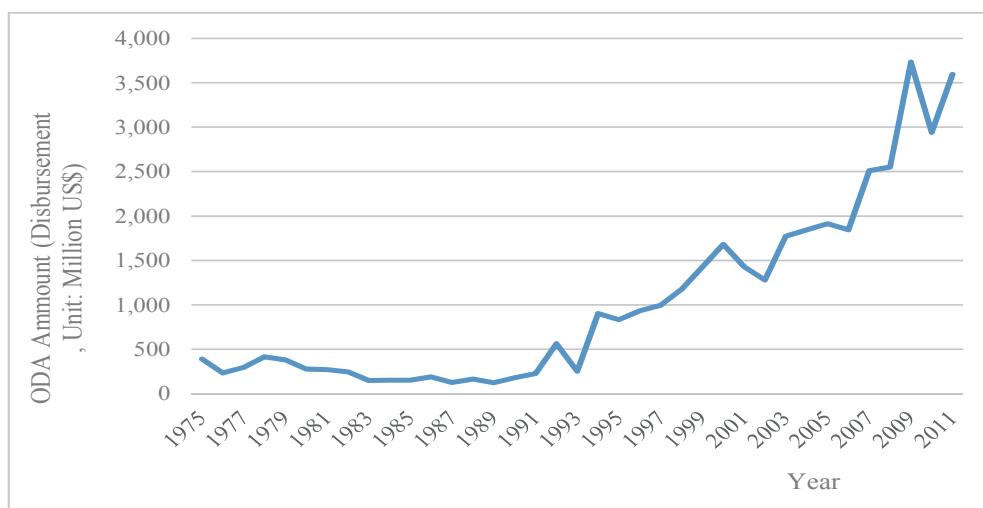
Figure-3: Poverty Rate in Urban and Rural Areas in Vietnam from 1993 to 2010

When looking at the poverty rates of the provinces, the north-western area had the highest poverty rate of 45.7% in Vietnam, followed by the north-eastern area with the poverty rate of 24.3% (VASS, 2008). Especially, the poverty rate of Lai Chau Province was more than 80% and Dien Bien, Son La, Lao Cai, and Ha Giang Provinces had the poverty rate of more than 50%. The central highlands area showed the 3rd highest poverty rate of 24.1%. There are poverty rate gaps among the ethnic groups observed, although there have been improvements in all of the ethnic groups.

Besides these disparity between the urban and the rural areas and among the ethnic groups, there have been some other issues which need to be addressed for further promoting socio-economic growth in Vietnam; including the problems related to its macro-economic policies: such as its difficulty in containing inflation; relatively weak reliance on its currency etc.

2. Overview of ODA to Vietnam

Figure-4 shows the trends in the total amount of ODA disbursements provided by multilateral financial institutes and by the OECD-DAC countries to Vietnam from 1975 to 2011.



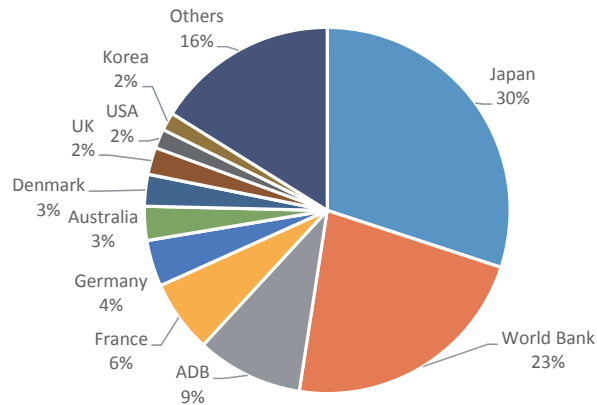
(Source: OECD-DAC Website, 2013)

Figure-4: Total ODA Disbursement to Vietnam from International Financial Agencies and DAC Countries in the period from 1975 to 2011 (Disbursement, Unit US\$ millions)

Before the 1980s, Vietnam was provided financial assistance mainly by Soviet Union, China and the Eastern European countries; however, assistance from these countries ended in the late 1980s. Additionally, as mentioned above, international agencies and DAC countries suspended its ODA to Vietnam from 1979 to 1993 due to the conflicts in the Indochina Peninsula. From 1993, the amount of ODA disbursement increased to reach US\$ 3,596 million in 2011.

Since 1995, Japan has been the top bilateral donor country; and since 2007, World Bank (IDA) and Japan have provided the same amount of assistance to Vietnam every year. ADB's amount of assistance have remained at 10% of the total ODA amount every year since 1997. Therefore, the total amount of ODA of these three donor agencies, namely, Japan, World Bank and ADB have accounted for more than 60% of the total amount of ODA to Vietnam. In 2011, Japan provided Vietnam with the ODA in the amount of US\$ 41,013 million (28.2% of the total), World Bank with US\$ 988 million (27.5%), and ADB with US\$ 287 million (8.0%).

The percentage of the cumulative ODA amount by development partners from 1992 to 2011 is shown in Figure-5. The total cumulative amount of ODA to Vietnam provided by all the development partners from 1992 to 2011 was 34,195 million US\$, while Japan's total cumulative ODA from 1992 to 2011 was 10,258 million US\$, which was 30.0% of the total amount of ODA from all of its development partners.

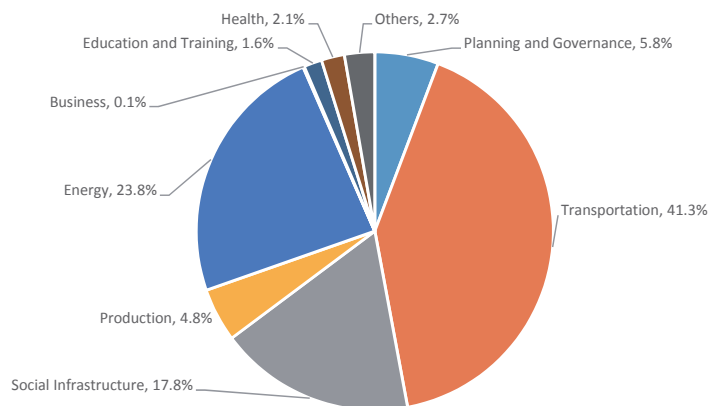


(Source: OECD-DAC Website, 2013)

Figure-5: Percentage of the Accumulated ODA Amount from 1992 to 2011 by Development Partners (Disbursement)

3. Japan's ODA Performance

Japan's total cumulative ODA to Vietnam from JFY1992 to JFY2011 amounted to 2,078.3 billion yen (around US\$ 20.3 billion) based on the disbursement amounts for technical assistance and the commitment amounts for financial assistance (Yen Loan and Grant Aid). Japan's total cumulative ODA to Vietnam by development sector and percentages in Japan's total ODA amount are shown in Figure-6.



Note *1) Disbursement amounts were used for technical assistance, while commitment amounts were used for grant/yen loan assistance.

Note *2) Poverty Reduction Support Credits (PRSCs) are included in the area of "Planning and Governance"

(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

Figure-6: Japan's Total ODA Accumulated Amount by Development Sector to Vietnam from JFY1992 to JFY2011

Among the development sectors, the transportation sector shows the largest cumulative amount of 858.0 billion yen, which accounted for 41.3% of the total ODA amount from JFY1992 to JFY2011. Assistance in the amount of 493.9 billion yen (23.8% of the total ODA amount) was provided to the energy and electric sector and 368.9 billion yen (17.8% of the total) to social infrastructure. The total amount for these three infrastructure development sectors was 1,720.8 billion yen, which was 82.8 % of Japan's total cumulative ODA from JFY1992 to JFY2011.

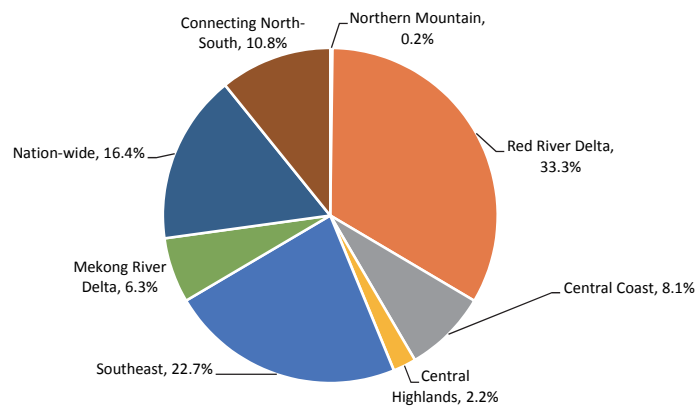
As for Japan's ODA performance by region, when Japan's ODA was resumed, reconstructing the economic infrastructure in the northern region was given priority because the economic infrastructure was relatively more developed in the southern region.

After the first stage of reconstruction in the northern area was completed, GOV and GOJ promoted nationwide development to improve the network between the north and the south and to address the disparity between the regions. In the middle of 1990s', GOV requested Japan for the collaboration in the infrastructure improvement projects in the major cities in the southern and the central area and/or for networking these major cities: such as Saigon East-West Highway Construction Project, Da Nang Port Improvement Project, Hai Van Pass Tunnel Construction Projects. In addition to the large-scale projects, the local infrastructure, including local highways, bridges, rural agricultural infrastructure, had been improved through yen-loan and grant aid project: such as Rural Bridge Construction in the Central Region, Small-Scale Pro-poor Infrastructure Development Project etc.

In the health sector, the three top-referral hospitals, Bach Mai Hospital in Hanoi, Central Hospital in Hue, Cho Ray Hospital in Ho Chi Min, had been improved as the core hospitals to improve the national medical service in Vietnam by providing technical assistance and training for the local peripheral hospitals.

Figure-7 shows the distribution of Japan's ODA cumulative yen loan (commitment) to Vietnam from JFY1992 to JFY2011 according to region. The projects, which covered the target areas in the multiple regions, were classified as "nationwide" and projects, which connected the northern and southern regions, were classified as "connecting north-south".

The Red River Delta Region had the largest percentage at 33.3% followed by the Southeast Region with a percentage of 22.7%. The projects classified as "nationwide" and "connecting north-south" had a percentage of more than 10%.



(Source: JICA Project Performance Report JFY1993–JFY2012 and MOFA ODA Databook JFY1991–JFY2012)

Figure-7: Japan’s ODA Accumulated Financial Assistance: Yen Loan Amount (Commitment) by Region to Vietnam from JFY1992 to JFY2011

4. Output and Outcomes of Japan’s ODA to Socio-Economic Development in Vietnam

Major outputs and outcomes which have contributed to the socio-economic development in Vietnam by Japan’s ODA are summarized as below based on a sector analysis in this study.

(1) Governance

- The enactment of “revised Civil Code”, “Intellectual Property Law”, “Civil Procedure Code”, “Law on Enterprise Bankruptcy”, “State Compensation Law”, and “Civil Judgment Execution Code”.
- The enactment/revision of “Law on Registration of Immovable Property”, “Administrative Litigation Law”, “Criminal Procedure Code”, “Law on Organization of People’s Procuracy Office”, and “Decree on Registration of Secured Transaction” is in process.
- Human resources have been developed to implement the enacted laws in Ministry of Justice, Supreme People’s Court, Supreme People’s Procuracy, Judicial Academy, and Vietnam National University, Hanoi etc.
- Government institutions and officials’ capacity have been developed through the technical assistance at HCMA, Vietnam Competition Agency, and Ministry of Finance.
- Human networking strengthened between Japanese and Vietnamese judicial world.
- Institutional and personnel capacity developed and facilities/equipment improved at VTV.

(2) Economic and Business Institutions

- “Study on the Economic Development Policy for the Transition toward a Market-Oriented Economy (Ishikawa Project)” greatly contributed to the process in which GOV formed their

basic stance in the latter half of the 1990s.

- The investment environment with effective mechanism improved through the synergy effects of Japan's ODA and "Vietnam-Japan Joint Initiative" as an effective platform.
- Through a series of the cooperation projects in the area of industrial statistics, the GSO successfully completed i) introduction of survey on major industrial products (MSMIP); ii) introduction of Index of Industrial Products (IIP), iii) revision of the base year of MSMIP from 2005 to 2010; iv) revision of the base year of IIP from 2005 to 2010.
- Industrial policies to promote small and medium scale enterprises prepared by the AED in collaboration with Japanese advisor.
- Institutional and personnel capacity for financial reform developed through technical assistance at State Bank of Vietnam and Vietnam Development Bank.
- Vietnam-Japan Human Resources Cooperation Centers, established at Hanoi and Ho Chi Minh, trained around 33,000 people in the business course and around 18,000 in the Japanese course by the end of March 2013.
- ITSS education at Hanoi University of Technology improved and about 120 students every year from 2006 educated. The top 20 students of their results of IT and the Japanese language were entitled to studying in university in Japan.
- Vietnam Japan Center established at Hanoi University of Industry, which was authorized as the national certificate examination center from the General Department of Vocational Training. Around 350 technicians are trained annually and the graduates are hired by the Japanese or foreign companies.

(3) Energy and Electricity

- Six projects to construct electric power plants were implemented including Da Nhim Hydroelectric Plant Project in the 1960's and the capacity of 2,925MW power supply were developed, which account for 10.9% of the national power supply capacity of 26,836MW at the end of 2011.
- 4,500MW power plants have been constructed in Vietnam, when including those under construction, which account for 14% of the national capacity of power supply.
- Additionally, transmission and transforming systems improved.
- National Power Development Plans and the Master Plan for Energy Conservation and Effective Use were prepared.
- Technical and safety standards for electric power industry, that define the minimum quality level created.
- Sustainable facility and equipment management and operation system strengthened.
- Capacity of the power engineers developed.

(4) Water Supply and Sewerage System

- The water supply amount to the central part of Hanoi City across the Red River in addition to the supply to the areas surrounding Thang Long industrial park increased. In Thang Long industrial park, 4,706 m³/day of the water supplied was supplied in 2006, which increased to 29,662 m³/day in 2010.
- It took five days to drain at the time of the heavy floods in Hanoi in 2008. After the Hanoi Drainage Project was completed, average inundation time was reduced to 0.5 to 1 hour and depth was only 0.2 to 0.3m for rainfalls of similar intensity.
- Human resources in project management developed through the technical assistance projects: namely “the Project on Human Resources Development for Water Sector in the Middle Region on Vietnam”, and “the Project on Capacity Development for Urban Water Supply in the Central Region”.
- The illegal dumping of solid waste into lakes and rivers has decreased after lake/river dredging and embankment work.

(5) Transportation

- The Master Plan of Transport Development in the Northern Part of Vietnam, the National Transport Development Strategy in Vietnam (VITRANSS), the Comprehensive Urban Development Programme in Hanoi Capital City (HAIDEP), the Sustainable Development of Transport System in Vietnam (VITRANSS 2) etc. were prepared.
- Following the master plan, Japan has supported Vietnam to develop a total of 3,309km roads and 287 bridges including the on-going projects, especially, a total of 650km national roads have been improved, which correspond to about 70% of the total length of Vietnam’s four-lane national highways.
- Traffic policies and database were created in the areas of road transportation.
- Transportation system in the Red River Delta Region improved. Road traffic on the national roads in this region substantially increased after project. In the case of the national highway No.5, road traffic increased 6.8 times from 1993 (before the project) to 2006 (after the project). In the case of the national highway No.18, road traffic increased 4.1 times from 1995 (before the project) and 2008 (after the project).
- Hai Phong Port had the capacity to handle cargos of around 2.5 million tons in the beginning of 1990, and after two phases port rehabilitation projects, the port has the capacity of 25 million tons in 2011, which is 10 times bigger than in 1990.
- Physical linkage between the North and the South strengthened through the National Highway No.1 Bridge Rehabilitation Project, North-South Unification Railway Urgent Rehabilitation Project and Hai Vann Road Tunnel Construction Project etc.

- Capacity to design, implement, supervise and maintain the public works.

(6) Information and Telecommunication

- Maritime radio communication and satellite telecommunication were available for use in all ocean areas in Vietnam after the completion of coastal communication projects in both the north and the south; it was found that communication between ships and the shore and ship-to-ship had improved.
- The number of maritime facilities assisted by CRS had dramatically increased by more than 10 times from 362 in 2006 to 3,454 in 2007 when COSPAS-SARSAT Local User Terminal/Mission Control Center at Hai Phong came into full operation.
- Passenger volume, cargo volume, and the number of ships at port had expanded. For example, cargo volume increased three-fold from 1998 to 2007; and the number of ships increased four-fold during the same period. The ex-post evaluation concluded that modernization of the coastal communication system had supported favorable conditions for investment and development of the maritime sector in Vietnam, besides the port rehabilitation projects.

(7) Education and Training

- Up to 2006, 275 primary schools were built in 25 out of 63 cities/provinces, equivalent to 4% of the total number of schools in the 24 target cities/provinces.
- The JICA teacher training model developed by “the Project for Strengthening Cluster-based Teacher Training and School Management” has been introduced by 13 provinces have been introduced through NGOs, and 36 provinces have received training in lesson studies by Ministry of Education and Training.
- Human resources developed at the higher education level for industrial development.
- Total number of 394 GOV officers dispatched by JDS.

(8) Health

- Three top referral hospitals, Bach Mai Hospital in Hanoi, Central Hospital in Hue, and Cho Ray Hospital in Ho Chi Minh improved through human resources development and facility and equipment improvement.
- The facilities and equipment of the local hospitals, including Hoa Binh General Hospital, Da Nang City Hospital, National Institute of Pediatrics etc. were improved.
- The maternal and child healthcare services have been improved in the Central Region through “the Project for Capacity Building for the Dissemination of Community-based Reproductive Health Promotion Approach”.
- Facilities and capacity to produce measles vaccine were developed. Around 3.3 million doses

of vaccine were produced annually, which covered 67% of the vaccines necessary for the nation-wide immunization in 2011. The immunization rate increased from 13.1% in 2001 to 97.7% in 2010. The infection rate of measles decreased from 21.2 per 100,000 population in 2000 to 3.0 per 100,000 population in 2010.

- Capacity of biosafety and examination of highly hazardous infections pathogens improved, which is expected to produce a large impact on safeguards against emerging diseases such as SARS and the bird flu, which have plagued Vietnam in recent years.
- Number of trainees in the health sector at the three major hospitals through Japan's technical cooperation was more than 100,000 persons.

(9) Agriculture

- Phan Rang Irrigation Project was implemented in the 1960's and the Phan Ri – Phan Thiet Irrigation Project is under construction. Furthermore, GOV and GOJ agreed in March of 2013 to implement the project, "Improvement of Irrigation System in Northern Nghe An Province," as a Japanese yen loan project, which will extend the irrigated area up to 29,000 ha after the improvement work is completed.
- Can Tho University was founded to lead agricultural development in the Mekong delta area. After the resuming of Japan's ODA, "Improvement of Facilities and Equipment of Faculty of Agriculture, Can Tho University" was implemented. The human resources for the agriculture sector developed through this university.
- Agriculture, fishery and livestock technology improved and disseminated.
- Model projects to support farmers' association implemented.
- The plant quarantine system strengthened.

(10) Environment, Climate Change and Solid Waste Management

- Support for revision of Law on Environmental Protection, which will be completed in 2014, being provided.
- Environment Management (Master) Plan for Protection of Halong Bay was created and effectively implemented through "the Project on Sustainable Environmental Management of Halong Bay".
- Government capacity and human resources developed in water environment protection and management.
- Sewerage system and water treatment system improved in the major cities
- Since 2010, Japan has been supporting GOV's efforts to tackle climate change by holding policy dialogues as well as financial cooperation through the combination of technical assistance and yen loan for "Support Program to Respond to Climate Change".

- Capacity of solid waste disposal administration developed.
- 3R (reduce, reuse and recycle) Initiative Project in Hanoi City was conducted and further actions will be taken to achieve a future recycle-society in Vietnam.

(11) Forestry, Natural Environment and Disaster Prevention

- Policies and master plans for reforestation and sustainable forest management in the Central Highlands Region and the Northern Mountain Region were prepared and implemented.
- At the time of resuming Japan's ODA in 1992, the environmental support through grant aid of "Improvement of Forestation Equipment in the Central Highlands" was conducted, which gave a positive influence to other development partners.
- The national percentage of the forestry area was 43.7% in 1943, decreased to 27.2% in 1990; however, increased 39.5% in 2012.
- Japan contributed to the achievement of GOV's goals of the reforestation of 5 million ha and the national percentage of the forestry area of 43% through the combination of grant aid projects and technical assistance projects.

(12) Rural and Urban Development

- Urban development plans were created and implemented to improve the investment environment improvement and to make the core cities, such as Hanoi, Ho Chi Minh etc., more internationally competitive.
- Rural development plans were created and the pilot projects were conducted to promote rural industrialization and roadside stations.
- Rural infrastructure, including roads, power supply, water supply, and irrigation, were improved in 28 provinces in Phase 1, 41 provinces in Phase 2, and 36 provinces in Phase 3 of the Small-Scale Pro-poor Infrastructure Development Project.

(13) JICA Volunteers Program and JICA Partnership Program

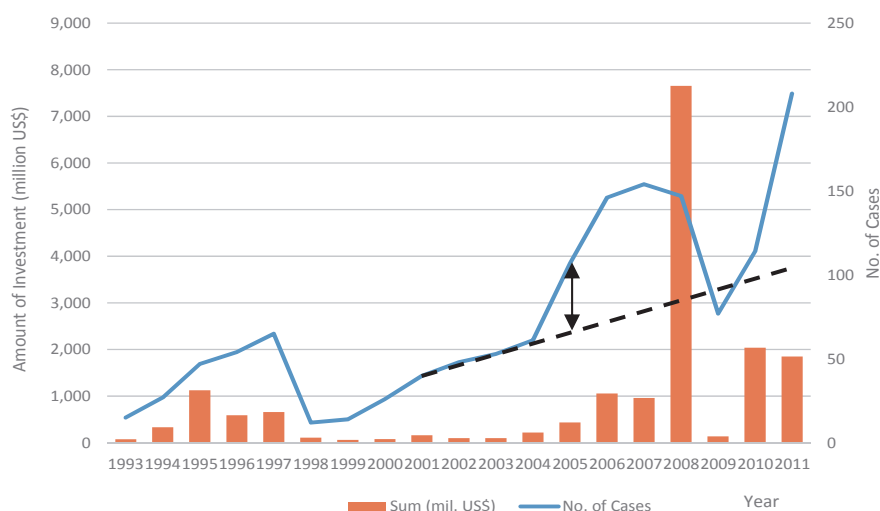
- JOCV Program for Vietnam started in 1995 and by July 2013, 345 JOCVs and 129 SVs have been dispatched.
- While deepening direct exchanges with the Vietnamese people, JOCVs and SVs are working in the front lines to strengthen the partnership of the two countries.
- A series of dispatched JOCVs to preserve the ancient townscape of Hoi An led to an increased awareness about environmental conservation and helped promote tourism activities in Hoi An City and other areas which were implemented in collaboration with grassroots projects under the JICA Partnership Program.

5. Japan's ODA contribution to Socio-economic Growth and Development in Vietnam

There are many factors, which have contributed to the rapid socio-economic growth in Vietnam. Japan, as one of the leading partners, has discussed, planned, and implemented ODA projects in response to the needs of the government and the people of Vietnam and in a fashion that supports the synergistic effects produced by respective sectors that have produced sustainable outputs and impact on economic growth and poverty reduction.

(1) Increasing Japan's Investment to Vietnam

Soon after ODA was resumed in 1992, Japan extended its support for the three pillars in i) large-scale infrastructure improvement, ii) the Study on Economic Development Policy in the Transition Toward a Market-oriented Economy in Vietnam (the so-called "Ishikawa Project"), and iii) the legal and judicial system development to promote a market economy. In addition to these three pillars, Japan has extended policy level support to increase investment from Japan by launching the Japan-Vietnam Joint Initiative (Figure-8).



(Source: JETRO)

Figure-8: Japan's Direct Investment to Vietnam (Amount and Number of Cases)

Japan's direct investment amount and cases increased from 1994 to 1997, and declined in 1998 as a result of the Asian Financial Crisis. From 1998 to 2004, the amount and cases increased gradually. Japanese private funds were expanded when the Japan-Vietnam Investment Agreement and Japan-Vietnam Joint Initiative started in 2003.

When looking at the regional distribution of the investment amount of the Japanese companies, the Northern Area has the biggest percentage of 65.2%, followed by the Southern Area of 22.0% and the Central Area of 12.8%.

In Figure-8, supposing the investment cases increased after 2005 with the same increasing rate from 2001 to 2004, the trends of the investment cases are shown with the dotted black line. The annual increasing rate of the investment cases was 15% from 2001 to 2004, while the increasing rate from 2004 to 2005 was 75%; the increasing rate increased by 60 points after 2004. The annual increasing rate of the investment amount was 11% from 2001 to 2004, while the increasing rate from 2004 to 2005 was 94%; here, the increasing rate increased by 83 points.

In 2004, the first stage of the transportation infrastructure improvement projects in the Red River Delta Region were completed and the investment environment around Hanoi and Hai Phong was almost developed. The rapid increase of the direct investment amount and the cases of Japanese private sector was mainly caused by the Japan-Vietnam Investment Agreement and by the anti-Japanese movement in China; however, the readiness of the Red River Delta Region, as above mentioned, and the coordination by the Japan-Vietnam Joint Initiative must have been provide positive incentives for the Japanese companies.

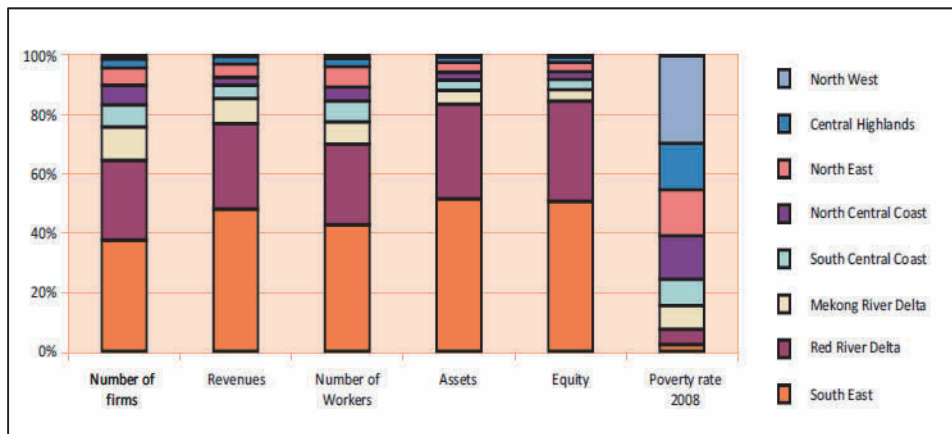
Japan's direct investment has continuously increased since 1992, although there were declines in 1998 and 2008 as a result of the Asian Financial Crisis and the Lehman shock. Japan was the top foreign direct investor as of 2012 with a cumulative amount of 28.7 billion dollars (Vietnam General Statistical Office, GSO). Japan's private sector has also become an important partner of Vietnam.

(2) Employment Opportunities and Poverty Reduction

The study carried out by the Japan Bank for International Cooperation (JBIC) in 2007 revealed that development of the transport infrastructure in the Northern Region, including the National Highway No.5 Improvement Project, boosted the construction of industrial parks and direct foreign investment, which not only created employment opportunities in the industrial parks, but also created new businesses in the surrounding areas, offered new markets for local agricultural products, and led to an increase in the income of local people and reduced poverty.

In 1993, the poverty rate was 58.2%; and the rate has drastically decreased to 14.2% in 2010. In addition to Vietnam's own effort as well as private sector investment and the assistance from other development partners, Japan's ODA has played an important role in realizing this great achievement.

Figure-9 shows the distribution of the various resources related to the employment and the poverty in the 8 areas; including north-west, central highlands, north east, north central coast, south central coast, Mekong River Delta, Red River Delta and south east.

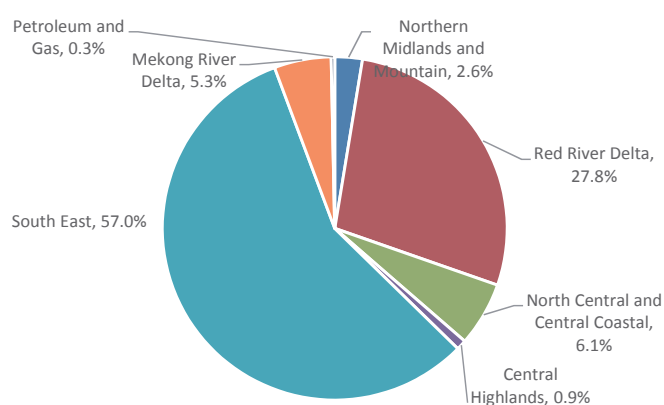


(Source : VASS, 2011)

Figure-9: Regional Distribution of Resources Related to Employment and Poverty

Among the eight (8) regions, the south east area enjoy the largest distribution of employment related resources, followed by the Red River Delta area. These two areas were provided with more than 60% of the total resources. On the contrary, 30% of the poverty distributed to the north-west area and 15% to the central highlands, north east and north central coast areas.

Figure-10 shows the percentage of the accumulated foreign direct investment cases by 2012 by area (GSO, 2012). South East area had the biggest percentage of 57.0% with 8,273 cases followed by Red River Delta area had the second of 27.8% with 4,034 cases. More than half of the investment cases are still in the South East area.



(Source : GSO, 2011)

Figure-10: Regional Distribution of Resources Related to Employment and Poverty

The unemployment rate 1.5% of South East area was the lowest in 2009 and decreased to 0.57% in 2012. Red River Delta area had the second lowest rate 2.49% in 2009 and 1.09% in 2012. Central Highlands and Central Coastal Areas had the rates of more than 5% in 2009, which

decreased to less than 3% in 2011. The improvement of the unemployment rates between 2010 and 2012 was relatively slow or in negative tendency (GSO). South East area had the lowest poverty rate 13.5% in 1998, 5.4% in 2004 and 3.4% in 2010. Red River Delta area had the second lowest rate 28.7% in 1998, which shows that around one third of the population in Red River Delta area lived a life below the poverty line in 1998. The poverty rate of the Red River Delta decreased to 12.1% in 2004 and 8.4% in 2010 (VASS).

Following GOV policies, Japan gave priority to Red River Delta Region when they resumed its ODA; therefore, among the infrastructure rehabilitation projects which were implemented in the first stage, National Highway No.5 Improvement Project and Hai Phong Port Rehabilitation Project were included. National Highway No.1 Bridge Rehabilitation Project and Hanoi-Ho Chi Minh City Railway Bridge Rehabilitation Project also contributed to the improvement of the transportation in the Red River Delta Region. National Highway No.10 Improvement Project, National Highway No.18 Improvement Project, Cai Lan Port Extension Project, Binh Bridge Construction Project, and Bai Chai Bridge Construction Project, started in late 1990s, further improved the modernized transportation system in the Red River Delta Region which contributed to the expansion of foreign direct investment and the creation of job opportunities.

According to the JBIC study in 2007, which was mentioned above, before the improvement project, previous National Highway No.5 was obsolete with lots of holes everywhere and with many small shops built along the highway. The road condition had not been good at all to carry the electric/electronic equipment or good quality agriculture/fishery products. After the highway improved, the local people could sell their agriculture/fishery products in Hanoi. The volume and the contents of the transportation had been changed dramatically. Industrial parks were constructed, which created lots of job opportunities. At the same time, there were various business/shops created to serve for the employees of these industrial parks. Additionally, the access roads from National Highway No.5 enabled the community members to use the bank services and the bus services, which improved their business opportunities as well as their access to education and medical services.

Japan's ODA contributed to the 20 point improvement of the poverty rate of the Red River Delta Region from 28.7% in 1998 to 8.4% in 2010, through these transportation improvement projects in that Region.

6. Features and Issues to be Considered of Japan's ODA to Vietnam

Based on the findings mentioned above, the features of Japan's ODA to Vietnam and the issues necessary to be improved are pointed out as follows.

(1) Effectiveness of Financial Assistance

The accumulated amount of GOV development budget from 2005 to 2011 was 869 trillion VND (approximately 4.2 trillion yen). The accumulated amount of Japan's ODA (commitment) from 2005 to 2011 was 0.95 trillion yen, which accounted for 22.9% of the GOV investment amount (GSO). When looking at the trends of the percentage of GDP of government annual revenue and expenditure from 1995 to 2012, the balances were in the red except 2004, 2005, 2006, and 2008 (ADB).

The underdevelopment of domestic financial market including the capital market becomes a factor for GOV to look to external financing as a way of making up its budgetary deficit. Vietnam's gross domestic savings rate has grown from less than 20% of GDP in the middle of 1990s to nearly 30% in recent years.

However, the World Bank points out that even if those savings were invested in a very efficient way, they would probably not be sufficient for Vietnam to become an industrial country within one generation (World Bank, 2009). While financing sources of the government are expected to be more diversified as Vietnam advances as a middle-income country, ODA, especially financial assistance, will remain a major source of funding for the time being considering that the country is still on the way to developing the financial sector as well as fiscal and financial reforms in areas such as state-owned enterprises and taxes.

(2) Effectiveness of Technical Assistance

As mentioned above, the large-scale infrastructure projects with financial assistance are one part of Japan's ODA features. Besides the infrastructure improvement, in Vietnam, technical assistance projects have played key roles to improve the investment environment and to develop the institutional and the personnel capacity for supporting the country's economic reform.

Until the 1970s, technical assistance was generally regarded as a necessary element for human resources development and technology transfer in developing countries. However, criticism of the effectiveness of technical assistance increased from the 1980s. Many international conferences regarding the effectiveness of technical assistance was especially held in the late 1980s and early 1990s.

The discussion point was that a technical assistance project was usually conducted i) with donor-driven approach; ii) with short-term approach and neglecting capacity and institutional development; iii) with limited capacity development by foreign experts; iv) with project approach

and without respecting the development plan of partner countries; v) with a PMU created only for the project; and vi) with giving priority to simple knowledge transfer formal traditional training methods (lecturing etc.). According to the critiques of technical assistance, these characteristics of the donors' approach have significantly reduced aid effectiveness if they are combined with weak management capacity as well as a negative policy and institutional environment in developing countries.

In contrast to these donors' approach to conventional technical assistance, Japan has taken a different approach. The characteristics of Japan's ODA approach to the governance in Vietnam are: 1) "think together" type approach, 2) use of Japanese experience, 3) long-term approach, 4) institutional support from relevant organizations in Japan, 5) use of existing organizations and human Resources, 6) emphasis on OJT, 7) integrated approach which combines different schemes, and 8) taking into account governance in technical cooperation projects in general. When these factors function well, Japan's technical cooperation projects have produced significant results, which offers a totally different picture from TA's problems discussed in a number of critiques on technical cooperation given in Chapter 3 of this report.

(3) Public Relations for Vietnam and for Japan

JICA's Data Collection Survey on Japan's ODA Impact in Vietnam conducted a questionnaire survey for university students in Hanoi, Da Nang, and Ho Chi Minh City, bearers of this country's future, through the Internet.

For the question, "Do Japanese ODA funds have an impact on development of Vietnam?" 83 students out of 493 respondents (16.8%) replied, "Very positive impact," and 333 students (67.6%) replied, "Positive impact." Partly because the respondents are students, Japan's ODA in the education sector was the most recognized, followed by transportation, urban development and health care. For the question, "Do Japanese ODA funds promote friendship between the two countries?" 274 out of 491 respondents (55.8%) responded, "Strongly promote friendship" and 179 students (46.5%) responded, "Promote friendships." Thus, Japan's ODA is highly recognized and appreciated.

A senior official of the Ministry of Planning and Investment said, "Vietnamese people trust Japan's technology and have a strong interest in Japan's ODA, and they can identify which projects are developed with the support of Japan."

The friendship created by ODA stakeholders in both countries led to strong support from Vietnam in the aftermath of the Great East Japan Earthquake. The friendship through ODA, together with volunteers and the private sector is expected to be strengthened further.

(4) Well Balanced Collaboration in the Social and the Economic Development

Sharing the belief with Vietnam that “economic growth will lead to poverty reduction,” Japan has provided assistance to develop economic infrastructure to update and strengthen the law and judicial system; and to develop institutional and individual capacity in government administration; which led to attract direct foreign investment and to create employment opportunities, based on collaboration between the public and private sectors.

Japan also has implemented projects to protect people’s lives, livelihood and living environment such as facility improvement and human resources development at Cho Ray Hospital (Ho Chi Minh), Bach Mai Hospital (Hanoi), and Central Hospital (Hue), and facility and equipment improvement against measles and the avian flu, environmental protection in Halong Bay, etc. Japan’s ODA contributed to the improvement in education and health/medical services, which led to the quality improvement of the labors and the working environment.

Thus, the three key development pillars of “ODA, investment, and trade” have been well balanced to accomplish GOV’s goal of economic growth and poverty reduction.

(5) Comprehensive and Regional Development with Long-term Scope

Japan’s ODA in Vietnam first created a master plan of regional development and sector-wise development together with GOV and implemented the plan. Thus, GOV understood how each of development project contribute to the regional and sectoral development and knowledge and technology exchange/transfer was done during the process of creating and implementing a master plan.

GOV’s strong sense of ownership of the country development produced very positive achievement of the goals of these master plans as well as their national development plans. Japan’s strategy, of creating a regional development master plan first and implementing projects, was well accepted and utilized by GOV.

In the future, technology transfer in how to review and evaluate the achievements of these master plans and programs might be needed to learn lessons from the past experiences. Additionally, instead of making a 5-year or 10-year master plan, as a nation of the middle income country group, Vietnam need to have a longer-time national development plan with the vision 2020 or 2025 and concrete scenario and strategies to realize the vision.

(6) Collaboration with Multi-lateral Development Partners

Japan, cooperated with the World Bank and Asian Development Bank as a member of the Three Banks (later Six Banks) to improve Vietnam’s implementation capacity when ODA resumed in

1992 and 1993. Japan and these international financial agencies have had good collaboration and coordination as good development partners to share the responsibilities to support GOV infrastructure improvement by sub-sector and/or by region to realize the effective and efficient investment of ODA funds.

Japan's ODA has its positive points. Between the two governments, policy dialogues and decision making are to be done. In Vietnam, Japan has had active policy dialogues with utilizing the occasions such as Japan-Vietnam Joint Initiative etc. As a bilateral development partner, Japan has tried to invite its own private sector to Vietnam, which has been attractive for GOV.

As multi-lateral development partners, World Bank and ADB play more flexible roles and conduct bigger scale package of interventions, which have greatly contributed to the socio-economic development in Vietnam.

GOV, because of their strong sense of ownership of the country development, has played a key role to coordinate and utilize these ODA from these development partners.

The lessons learnt from the Japan's ODA experiences in Vietnam gives us good practice of effective collaboration and coordination between the bilateral development partner and the multi-lateral development partners.

(7) Partnership for Strengthening Intra- and Inter-State Collaboration

Geographically and diplomatically, Vietnam is an important country for the regional socio-economic development in Indochina and ASEAN countries. Supporting Vietnam's reconstruction and economic growth has been a mission for Japan. Japan's stance to play an important role to build peace and stability in Indochina and Southeast Asia has been appreciated by GOV.

In the near future, Japan and Vietnam need to further enhance their partnership and intra- and inter-state collaboration and to show the leadership in realizing the peaceful, stable development of Asia.

DATA COLLECTION SURVEY ON JAPAN'S ODA IN THE SOCIALIST REPUBLIC OF VIETNAM

FINAL REPORT

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CHAPTER 1: OVERVIEW

1.1 Background

This year marks the 20th anniversary since Japan's Official Development Assistance (ODA) was resumed and the 40th anniversary of diplomatic relations between Japan and Vietnam.

Japan's ODA for Vietnam started as part of its war reparations based on the reparation treaty signed in 1959. After 13 years of suspension from 1979, Japan resumed its ODA for Vietnam in 1992 prior to other donor countries. Japan has supported social and economic development in Vietnam, as one of its major bi-lateral development partners.

On this occasion, looking back on the history of Japan's ODA for Vietnam, "the Data Collection Survey on Japan's ODA in the Socialist Republic of Vietnam" was conducted to review and evaluate the roles and achievements of Japan's ODA in the development of Vietnam and to provide suggestions about its future direction.

1.2 Objectives

The objectives of this study are as follows.

- (1) To clarify historical changes in Japan's ODA content and underlying policies and the perspectives of both countries in terms of sectoral and geographical focus;
- (2) To analyze and evaluate the roles and achievements of Japan's ODA in the social and economic development of Vietnam.; and
- (3) To provide suggestions about the future orientation of Japan's ODA for Vietnam.

1.3 Target Area

The target area of this study is the entire nation of Vietnam including 5 municipalities and 58 provinces). The six zonal classifications; namely, Northern Mountain Region, Red River Delta Region, Central Coast Region, Central Highlands Region, Southeast Region, and Mekong River Delta Region, were adopted in the regional analysis conducted in this study (Table 1-1). This classification is shown in Figure 1-1 at the end of Chapter 1.

Table 1-1: Classification and Population of the Regions (as of 2011)

Region (Number of Municipalities and Provinces)	Regional Population (% of the Total Population)	Municipalities and Provinces
Northern Mountain (14 Provinces)	11,290 thousand persons (12.8%)	Dien Bien, Lai Chau, Lao Cai, Ha Giang, Cao Bang, Yen Bai, Tuyen Quang, Bắc Kạn, Lang Son, Thai Nguyen, Phu Tho, Son La, Bac Giang, Hoa Binh
Red River Delta (2 Municipalities and 9 Provinces)	19,999 thousand persons (22.9%)	Vinh Phuc, Ha Noi City, Bac Ninh, Quang Ninh, Hai Phong City, Hai Duong, Hung Yen, Ha Nam, Thai Binh, Nam Dinh, Ninh Binh
Central Coast (1 Municipality and 13 Provinces)	19,047 thousand persons (21.7%)	Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien-Hue, Da Nang City, Quang Nam, Quang Ngai, Binh Dinh, Phu Yen, Khanh Hoa, Ninh Thuan, Binh Thuan
Central Highlands (5 Provinces)	5,282 thousand persons (6.0%)	Kon Tum, Gia Lai, Dak Lak, Dak Nong, Lam Dong
Southeast (1 Municipality and 5 Provinces)	14,891 thousand persons (16.9%)	Binh Phuoc, Tay Ninh, Binh Duong, Dong Nai, Ba Ria-Vung Tau, Ho Chi Minh City
Mekong River Delta (1 Municipality and 12 Provinces)	17,330 thousand persons (19.7%)	Long An, Dong Thap, An Giang, Tien Giang, Ben Tre, Vinh Long, Can Tho City, Hau Giang, Kien Giang, Tra Vinh, Soc Trang, Bạc Liêu, Cà Mau
Total: 5 municipalities and 58 provinces	87,840 thousand persons (100%)	

(Source: JETRO)

1.4 Target Sectors and Projects

The target sectors or cooperation schemes/categories of this study are as follows.

(1) Governance	(12) Forestry, Natural Environment
(2) Economic and Business Institutions	(13) Disaster Prevention
(3) Energy and Electricity	(14) Rural Development
(4) Water Supply and Sewerage	(15) Urban Development
(5) Transportation	(16) JICA Volunteers Program
(6) Information and Telecommunication	(17) JICA Partnership Program
(7) Education and Training	(18) Development Partners
(8) Health	(19) NGO/NPO
(9) Social Security	(20) Private Sector
(10) Agriculture, Livestock and Fishery	(21) Public Relations
(11) Environmental Management, Climate Change, Solid Waste Management	

This study covers Japan's ODA for Vietnam for the past 40 years, with a particular focus on the cooperation for the past 20 years after ODA was resumed. The list of the ODA projects is given in Appendix-1.

1.5 Work Flow and Schedule

The study is consists of Phase 4 of the work implemented in Japan and Phase 3 of the field survey carried out in Vietnam. The tasks and work flow of the study are follows.

1. Phase 1 domestic work in Japan (late June to mid-July 2013)
 - 1-1 Develop a study design and an inception report
 - 1-2 Literature review and interviews, preparation of the 1st field work in Vietnam
 - 1-3 Develop an outline of a publicity video and a brochure
2. Phase 1 Field Work in Vietnam (mid-July – early August, 2013)
 - 2-1 Submission of the inception report and comments from JICA
 - 2-2 Additional information collection
 - 2-3 Photo/video shoot for the publicity video and brochure
3. Phase 2 Domestic Work in Japan (Early August – Mid September, 2013)
 - 3-1 Analysis of information collected in the Phase 1 field work in Vietnam
 - 3-2 Prepare a progress report
 - 3-3 Preparation of the Phase 2 work in Vietnam
 - 3-4 Prepare a draft publicity video and brochure
4. Phase 2 Field Work in Vietnam (mid-September – late September 2013)
 - 4-1 Additional survey
 - 4-2 Explain the progress report to the JICA Vietnam Office and Vietnamese stakeholders
5. Phase 3 Domestic Work in Japan (early October – late October 2013)
 - 5-1 Overall analysis and evaluation based on each sector analysis and crosscutting perspective
 - 5-2 Prepare draft final report
 - 5-3 Preview and revise the publicity video and brochure
6. Phase 3 Field Work in Vietnam (late October 2013)
 - 6-1 Explain the draft final report to the JICA Vietnam Office and Vietnamese stakeholders
 - 6-2 Explanation of the publicity video and brochure
7. Phase 4 Domestic Work in Japan (early November – late November 2013)
 - 7-1 Prepare the final product based on the feedback obtained during the 3rd mission.

1.6 Outputs of the Study

The followings are the outputs (reports) produced by this study.

- (1) Inception Report (after Phase 1 Domestic Work)
- (2) Progress Report (after Phase 1 Field Work in Vietnam)

- (3) Draft Final Report (after Phase 2 Field Work in Vietnam)
- (4) Final Report, DVD and Brochure for Public Relations (at the end of this study period)

1.7 Study Team Members

The study team consisted of the following members with their assigned work as shown in Table 1-2.

Table 1-2: Study Team Structure

Work in Charge	Name
Team Leader / ODA Analysis and Evaluation	Yoko Ishida Ph.D. (IDCJ)
Sub Leader / Economic and Business Institutions	Yusuke Hasegawa (IDCJ)
Governance	Kenji Yamada Ph.D. (ALMEC)
Basic Infrastructure 1 (Energy, Water and Sewerage)	Naoki Hosotani (NIPPON KOEI)
Basic Infrastructure 2 (Information and Telecommunication)	Mimi Sheikh Ph.D. (IDCJ)
Basic Infrastructure 3 (Road, Bridge, Railway, Port and Airport)	Ken Kumazawa (ALMEC)
Social Sector (Education, Health and Social Security)	Atsushi Tsukui (IDCJ)
Agriculture	Shingo Matsuoka Ph.D. (NIPPON KOEI)
Rural and Urban Development	Tomoko Abe / Motoko Kaneko (ALMEC)
Environmental Management, Climate Change, Solid Waste Management, Forestry, Natural Environment, and Disaster Prevention)	Yoichi Iwai (NIPPON KOEI)
Development Partners, NGOs/NPOs, Private Sector	Ayako Nomoto (IDCJ)
JICA Volunteers (JOCV/SV), Grassroots Technical Cooperation, PR Activities	Michiru Yabuta (IDCJ)
Publicity Material Production	Ryuichi Izumi (International Development Journal)
Publicity DVD (Video)	by Temjin
Publicity Brochure	by Alex

1.8 About the Draft Final Report

The Draft Final Report consists of 17 Chapters including “Chapter 1: Outline of the Study,” “Chapter 2: Comprehensive Analysis,” and Chapters 3 – 13 of the analysis by development sector, Japan’s ODA type and the development partner type. Chapters 14 – 17 summarize the overview and achievements from the cross-cutting viewpoints of analysis. Based on the comments, the draft

will be updated and the Final Report will be prepared in December 2013.

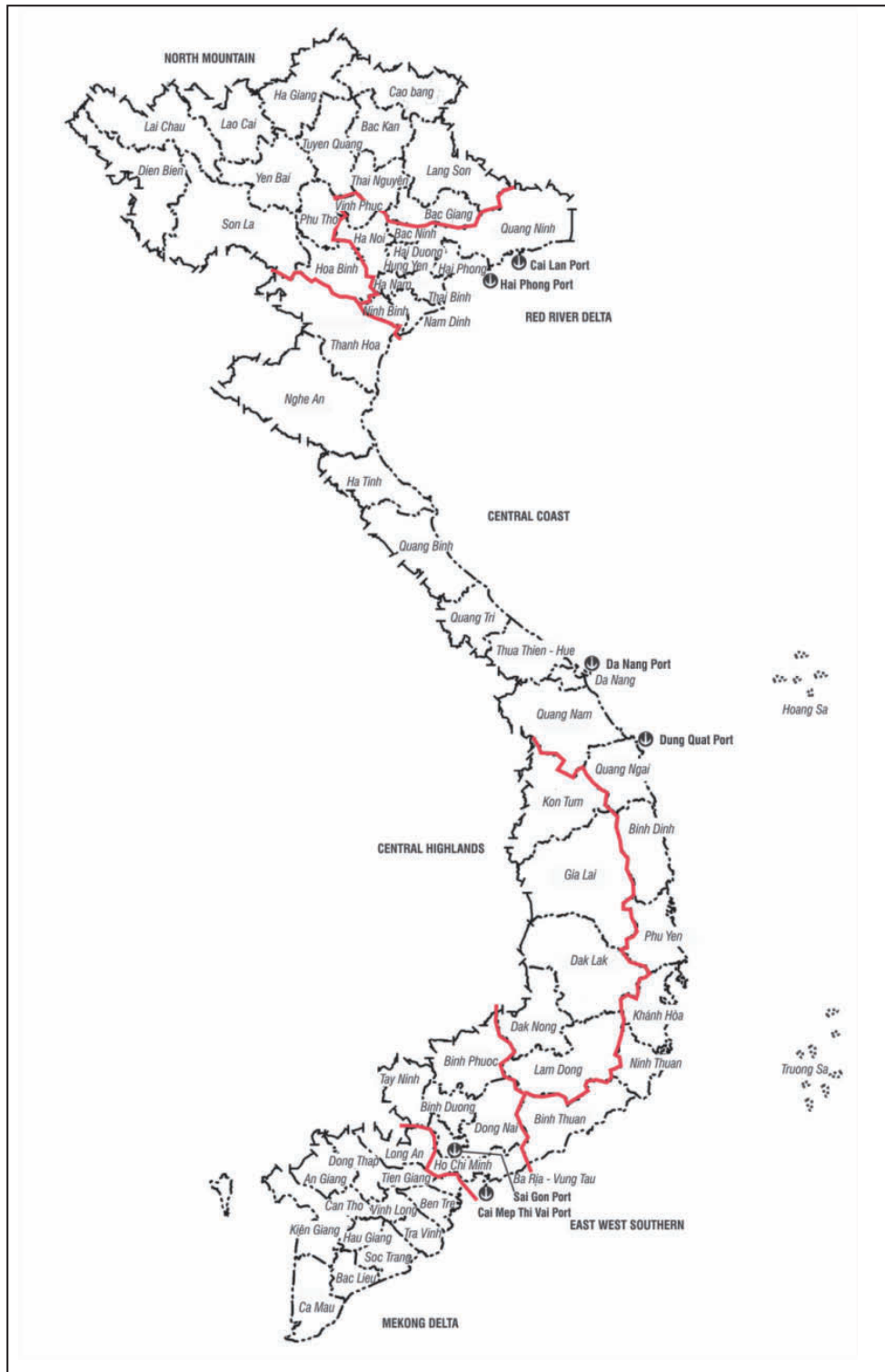


Figure 1-1: Regional Classification of the Study

CHAPTER 2: COMPREHENSIVE ANALYSIS

2.1 Socio-economic Growth in Vietnam

Situated on the Indochina Peninsula in Southeast Asia, the Socialist Republic of Vietnam is bordered by China to the north, Laos to the northwest; Cambodia to the southwest; and the South China Sea to east. The area of the nation is around 330 thousand square kilometers, with a land mass of about 2,300 km long from north to south and about 600 km wide from east to west. There are fertile plains in the Red River Delta with Hanoi City as the center in the north, Mekong Delta with Ho Chi Minh City as the center in the south, and along the coastal area from the Red River Delta to Da Nang City. The northeastern central inland areas of the country have mountainous and/or highland topography.

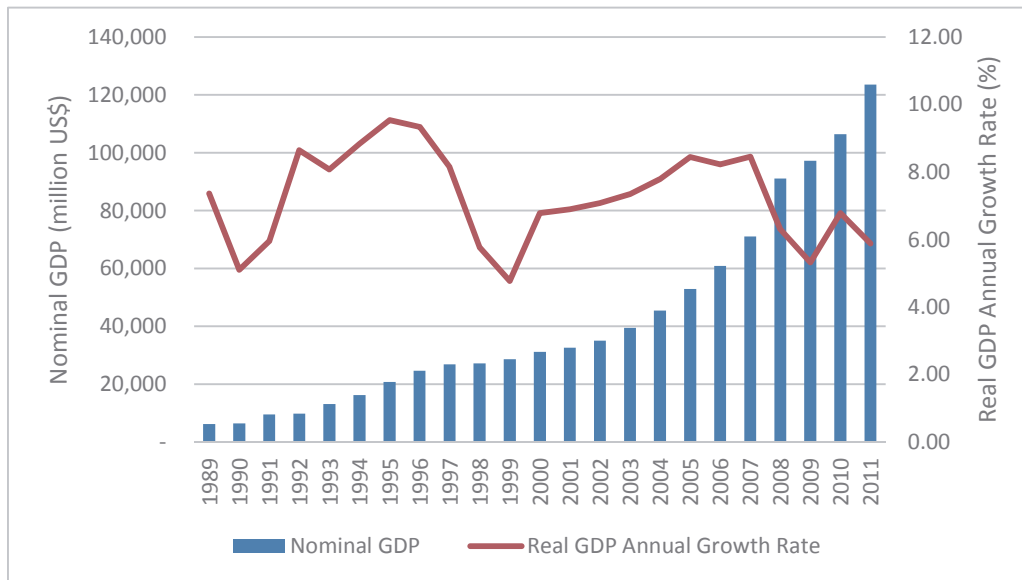


The estimated total population in 1960 was 35 million and Vietnam's population was around 88 million population in 2011, and it is the world's 13th most populated country globally and the third most populated country among the Association of South-east Asian Nations (ASEAN) countries. It is predicted that Vietnam's population will reach more than 100 million people in the mid- 2020's.

In 1986, GOV made a decision to launch “*Doi Moi (Renovation)*” to rebuild and reform its centrally planned economy to a socialist-oriented market economy. Under *Doi Moi*, GOV has encouraged private ownership, economic deregulation and foreign investment, and the economy subsequently achieved strong growth in the 1990s and rapid growth in the 2000s.

Figure 2-1 shows the trends in the nominal gross domestic product (GDP) and the real GDP annual growth rate from 1989 to 2011.

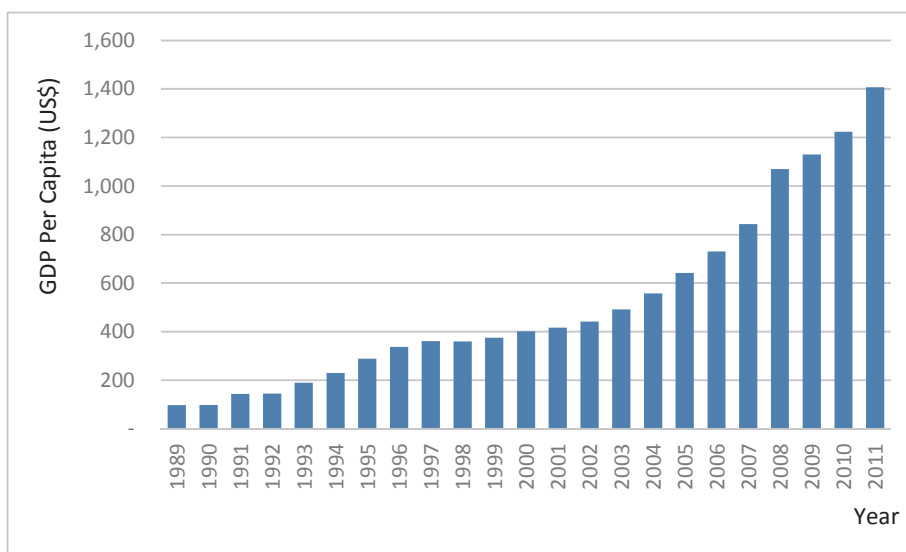
As shown in Figure 2-1, Vietnam had a GDP annual growth rate of more than 8% from 1992 to 1997. Due to the influence of the Asian Financial Crisis in 1997, the rate decreased around 4%; however, it increased in the following years and showed a growth rate of more than 8% from 2005 to 2007. In 2008, the so-called “Lehman Shock” negatively influenced the Vietnamese economy; however, its GDP annual growth rate did not drop to less than 5%. The amount of nominal GDP was US\$ 6,472 million in 1990 and increased to US\$ 31,173 million in 2000, which was five times larger than that of ten years ago. The nominal GDP in 2011 was US\$ 123,600 million, which was 19 times larger than that of 1990.



(Source: WB Website, 2013)

Figure 2-1: GDP and GDP Annual Growth Rate of Vietnam from 1985 - 2011

Figure 2-2 shows the per capita GDP trend from 1989 to 2011.



(Source: WB Website, 2013)

Figure 2-2: GDP Per Capita in Vietnam from 1989 – 2011

GDP per capita in Vietnam in 1990 was around US\$ 100, which continued to increase in the 1990s to US\$ 400 in 2000. After 2003, it grew more rapidly; and in 2008, Vietnam joined the group of the lower middle income countries.

2.2 Historical Review of the Socio-Economic Growth and Development in Vietnam and the Vietnam-Japan Relationship

2.2.1 From Unification of North and South Vietnam to the Launching of *Doi Moi* (early 1990s)

After the Paris Peace Accords in January 1973, which aimed to establish peace in Vietnam and an end to the Vietnam War, Vietnam established diplomatic relations with Japan in September 1973. GOJ set up the Embassy of Japan in Vietnam in October 1975 to start policy dialogue. In 1976, North and South Vietnam merged to form the Socialist Republic of Vietnam.

In August 1977, the then Prime Minister Fukuda Takeo delivered “the Three Principles” of Japan’s ASEAN Diplomacy, the so-called “Fukuda Doctrine.” In this doctrine, it was clearly stated that Japan supported the growth of ASEAN member states, particularly in infrastructure and human resources development—two key pillars that form the foundation of ongoing development in the ASEAN region. At the same time, Vietnam was expected to play a key role in the development of the Indochina countries.

However, Vietnam faced various internal and external problems in the latter half of 1970s, which worsened its international relations and then resulted in the suspension of ODAs from the Western countries.

During this period, Vietnam promoted its development under the 2nd 5-year Socio-Economic Development Plan (SEDP) (1976 to 1980), which set up the long-term goal of becoming a modernized, industrial socialist state in the next 20 years based on the Soviet Union as a model. GOV promoted nationalization of private companies and collectivization of agriculture production during this period. The 3rd SEDP (1981 – 1985) and the 4th SEDP (1986 – 1990) aimed at modernizing the production system and stabilizing socio-economic conditions.

Although the ODA from foreign countries had been suspended since 1979, GOV’s efforts to reform their economy through *Doi Moi* produced outputs and outcome gradually. During the decade of the 1980s, Vietnam received food aid from the Soviet Union and China; however, they started to export rice at the beginning of the 1990s.

2.2.2 From Postwar Reconstruction to a Growing Economy (early 1990s to early 2000s)

In October 1991, the Paris Peace Agreement (the Agreements on a Comprehensive Political Settlement of the Cambodia Conflict) were signed by Cambodia and 18 other nations. The international situations had changed for the better for Vietnam.

Japan had resumed its ODA in 1992; and many other international development partners followed

in 1993. In November 1992, Japan and Vietnam signed the exchange of notes (E/N) for the collaboration in rehabilitation of basic economic infrastructure. At the same time, JICA started to provide environmental assistance and humanitarian assistance for Vietnam. As the environmental assistance, JICA dispatched long-term expert in the forestry sector and provided grant aid to improve the reforestation equipment in the Central Highlands Region, while also provided grant aid in the health sector as humanitarian assistance. Japan's ODA made a first step of resuming ODA for Vietnam through these assistance, which encouraged the other development partners.

In 1993, the Vietnam Donor Conference in Paris was held with the participation of representatives from donor countries, international financial institutions, and the United Nations (UN) agencies, where strong commitments on policy support and a roadmap for the reform process in Vietnam were shared by the international development partners' community.

Under *Doi Moi*, GOV encouraged private ownership, economic deregulation and foreign investment; and the Vietnamese economy subsequently achieved strong growth in the 1990s. The 6th SEDP (1996-2000) set the goal for the GDP annual growth rate at 9.0% - 10.0%, which was eventually achieved. The GDP per capita was doubled during this period.

2.2.3 Challenges in Economic Growth and Globalization (early 2000s to late 2000s)

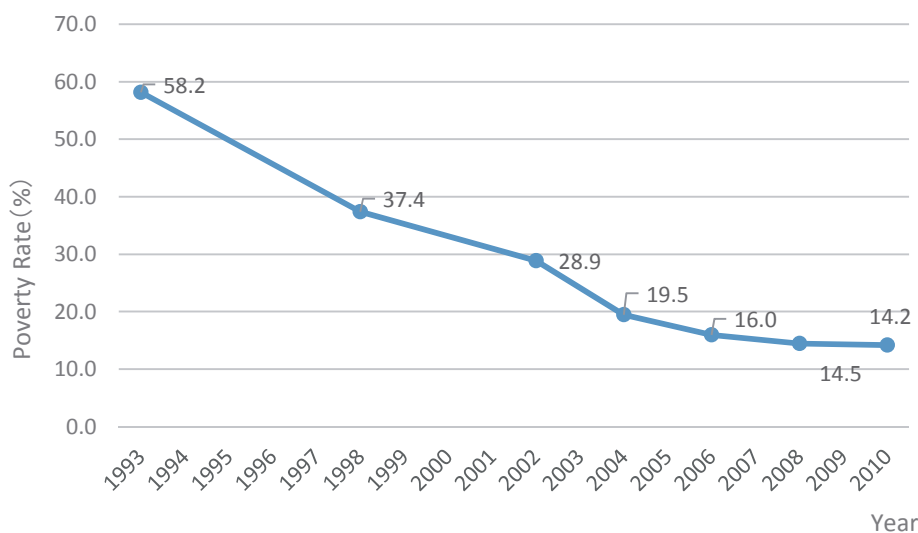
In parallel with the 7th SEDP (2001 – 2005), the first 10-year Socio-Economic Development Strategy (SEDS) was prepared, which showed GOV's long-term vision to become an industrialized country by 2020, through (1) enhancing the socialist-oriented market economy system, (2) human resources development, and (3) improving the economic infrastructure in transportation and urban development.

As Vietnam's version of the PRSP (Poverty Reduction Strategy Paper), the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was prepared, which was the first PRSP produced by an Asian country. Since GOV believed that without substantial state economic growth, there would be no sustainable poverty reduction, and the word, "Growth," was included in the title of the strategy. In CPRGS, priority was given to infrastructure improvement for economic growth. At the same time, "poverty" was more widely recognized as one the key cross-cutting development issues, which required a comprehensive approach from the various sectors.

In 2008, the GDP per capita of Vietnam was more than US\$1,000; and the country was able to join the group of lower middle income countries (GNI per capita: US\$ 1,036 – US\$ 4,085 calculated using the World Bank Atlas Method).

As shown in Figure 2-3, the poverty rate in Vietnam was 58.2%; the rate has drastically

decreased to 14.2% in 2010, which showed their achievement of the CPRGS goal. Besides the improvement in poverty rate, Vietnam made a progress in the education and health related indicators in the Millennium Development Goals (MDGs).



(Source: “Vietnam Poverty Analysis” 2011, IFAD)

Figure 2-3: Poverty Rate in Vietnam from 1993 to 2010

During this period, GOV aggressively promoted opening the economy to foreign trade and investment, and reforming the government. GOV officially joined ASEAN in 1995 and served as chair of Asia-Pacific Economic Cooperation (APEC) in 2006 and chair of ASEAN in 2010. Vietnam was elected as a non-permanent member of the UN Security Council in 2008 for two years.

GOV made a number of regional and multilateral trade agreements, namely, the ASEAN Free Trade Area (FTA) in 1995 (including ASEAN FTAs with Australia, China, India, Japan, the Republic of Korea, and New Zealand) and a bilateral Trade Agreement with USA in 2000 and with Japan in 2008. Vietnam became a member of the World Trade Organization (WTO) in 2007. Vietnam has played a key role in the development of the Greater Mekong Sub-region (GMS) as well as in the development of the CLMV countries (Cambodia, Laos, Myanmar, and Vietnam).

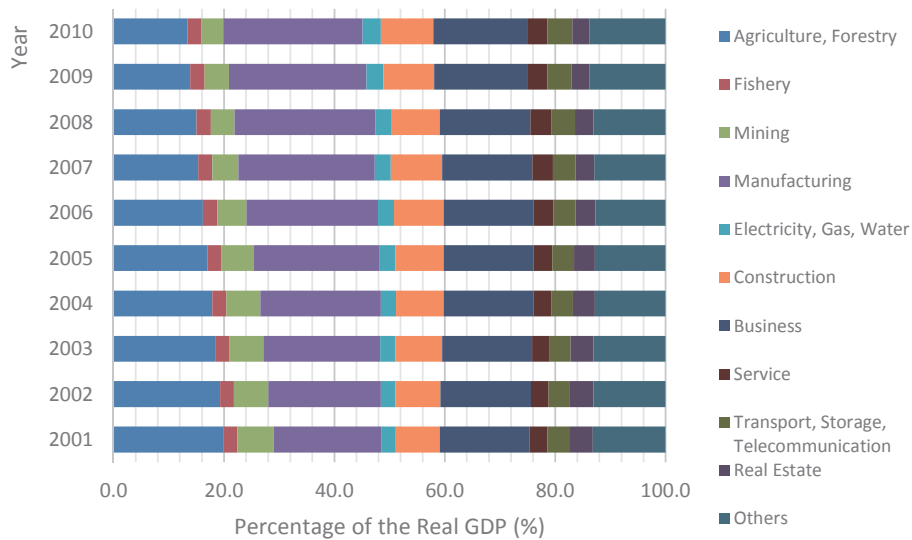
During this period, Japan became one of the top foreign direct investment (FDI) countries. At the same time, Japan has been one of the major trading countries with Vietnam. As mentioned before, Japan had contributed to the improvement of the business environment in Vietnam through its ODA; therefore, Japan promoted so-called “trinity contribution,” which means contribution to Vietnam’s economic growth through the synergy effects of the three key development pillars: namely, FDI, trading and ODA to Vietnam’s economic growth.

2.2.4 New Stage toward Sustainable Economic Growth (late 2000s to the present)

The current 10-year SEDS (2011-2020) provided aspiring goals to keep the GDP annual growth rate 7% - 8%, to double the GDP by 2.2 times, and to achieve a GDP per capita US\$ 3,000 – US\$ 3,200 through further modernization and industrialization, and by participating in the global economic system.

Figure 2-4 shows the trends of industrial GDP percentage from 2001 to 2010 and Figure 2-5 shows the trends of the industrial population percentage from 2007 to 2010.

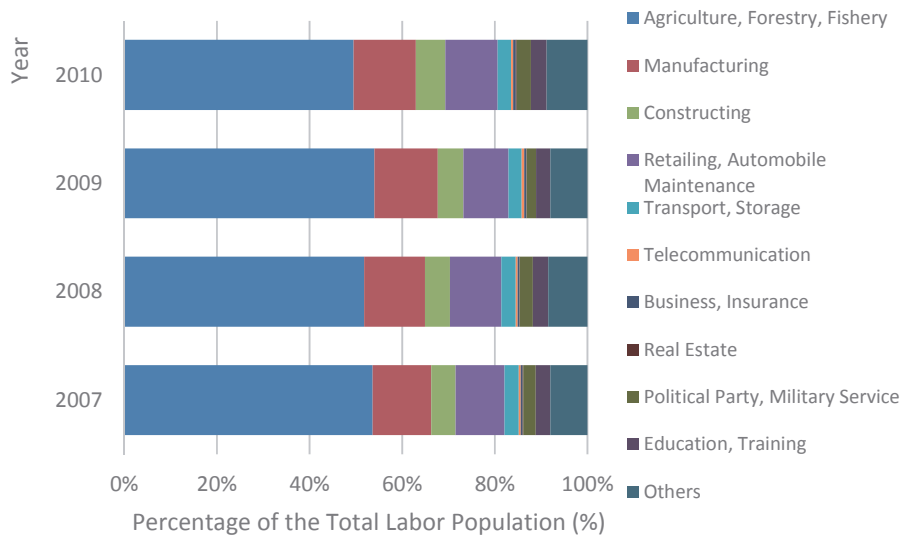
As shown in Figure 2-4, the agriculture and forestry sector GDP was 19.9% of the total real GDP in 2001, which was the biggest percentage, followed by the manufacturing sector and the business sector. In 2002, the manufacturing sector had the biggest percentage of 20.4%. The percentage of the manufacturing sector had been increasing and it was 25.2% in 2010.



(Source: GSO, 2012)

Figure 2-4: Trends of Industrial GDP Percentage in Real GDP in Vietnam

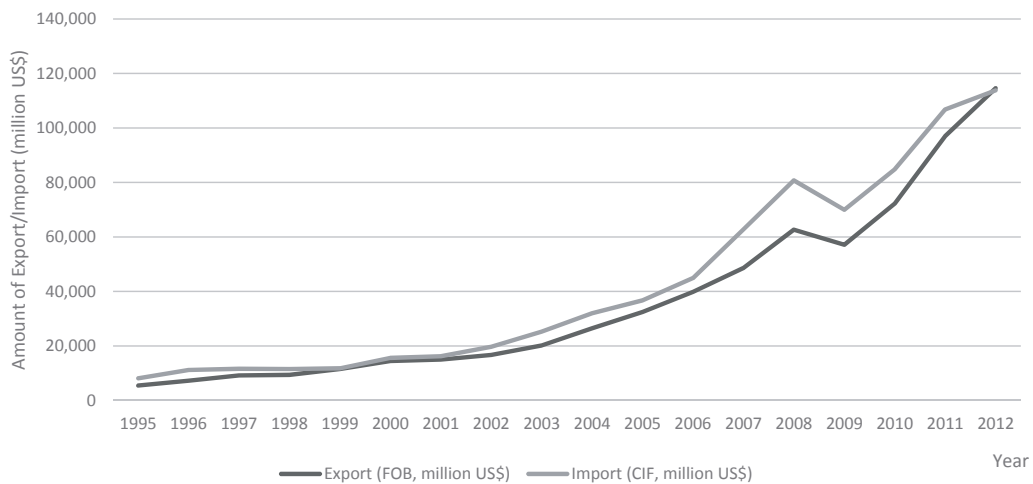
When looking at the percentage of the industrial population (Figure 2-5), there had been only limited changes in the period from 2007 to 2010. The agriculture, forestry and fishery sector had the biggest percentage of population of 49.5% in 2010, followed by the manufacturing sector of 13.5% and the construction sector of 6.3%.



(Source: GSO, 2012)

Figure 2-5: Trends of Industrial Population Percentage in Vietnam

Figure 2-6 shows the trends of the export and import amount in Vietnam. During the period from 1995 to 2011, the balance had remained in red. Especially, there were big gaps during the period from 2007 to 2010, with the deficit of more than US\$ 10 billion. After GOV promulgated its new policy to address the inflation and make the economy stable, the situation had been improved. In 2012, the trading balance became in the black in Vietnam.



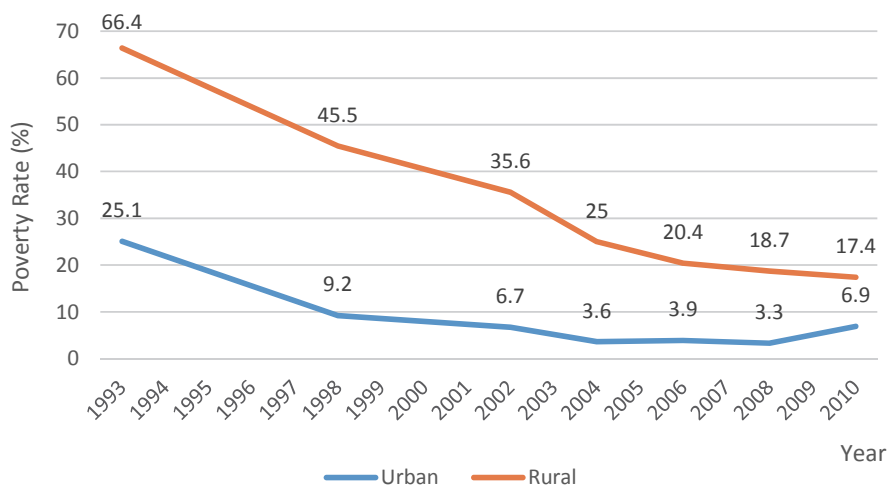
(Source: ADB and World Bank Website)

Figure 2-6: Trends of Export and Import Amount in Vietnam

As mentioned above, Vietnam had made a rapid economic growth and accomplished the goals of the national development plans since the introduction of *Doi Moi* in 1986; and especially since resuming ODA from the foreign countries in 1992; however, at the same time, there were

some negative influences observed: such as deterioration of the natural environment, increased income disparities, increased disparities among regions etc. These negative influences have been more obvious along with the country socio-economic improvement.

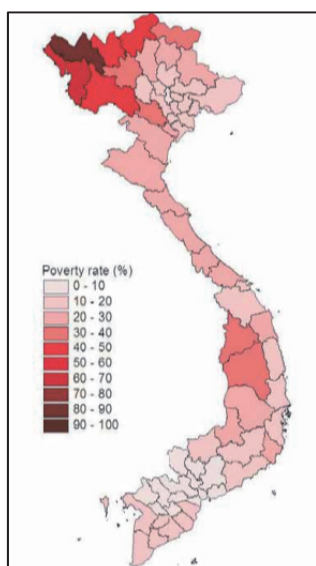
The trends of the country poverty rate are shown in Figure 2-3 and the trends of the poverty rate of the urban and rural areas are shown in Figure 2-7. Although the poverty rates of the urban and rural areas had been improved, there were still some gaps between the urban and the rural.



(Source: “Vietnam Poverty Analysis” 2011, IFAD)

Figure 2-7: Poverty Rate in Urban and Rural Areas in Vietnam from 1993 to 2010

When looking at the poverty rates of the provinces (Figure 2-8), the north-western area had the



(Source: VASS, 2008)

Figure 2-8: Poverty Rate of the Provinces

highest poverty rate of 45.7% in Vietnam, followed by the north-eastern area with the poverty rate of 24.3% (VASS, 2008). Especially, the poverty rate of Lai Chau Province was more than 80% and Dien Bien, Son La, Lao Cai, and Ha Giang Provinces had the poverty rate of more than 50%. The central highlands area showed the 3rd highest poverty rate of 24.1%. There are poverty rate gaps among the ethnic groups observed, although there have been improvements in all of the ethnic groups.

Besides these disparity between the urban and the rural areas and among the ethnic groups, there have been some other issues which need to be addressed for further promoting socio-economic growth in Vietnam; including the problems related to its macro-economic policies: such as its difficulty in containing inflation; relatively week reliance on its currency etc.

2.2.5 Trends in Social Sector Development

Vietnam has achieved various improvements in the social sector, as well, as shown in Table 2-1. In the education sector, the gross enrollment rate (GER) of the primary education was more than 100% in 1990. In 2011, GER became 106.3% and the net enrollment rate (NER) was 99.3%. The completion rate of the primary education was more than 100% in 2011. The infant (under 5-year old) mortality rate was 49.9 per 1,000 live birth in 1990 and improved to 21.7 per 1,000 live birth in 2011. The neo-natal mortality rate also improved from 22.4 per 1,000 live birth in 1990 to 11.9 per 1,000 live birth in 2011.

Table 2-1: Trends of Social Sector Indicators in Vietnam

Indicators	1990	1992	1995	2000	2005	2010	2011
Gross enrollment rate of primary education (%)	104.9	104.8	110.5	108.3	98.7	106.2	106.3
Gross intake rate of primary education (%)	n.a.	n.a.	n.a.	107.9	98.0	n.a.	106.3
Net enrollment rate of primary education (%)	n.a.	n.a.	n.a.	96.8	91.6	98.0	99.3
Completion rate of primary education (%)	n.a.	n.a.	n.a.	98.4	93.1	n.a.	104.3
Gross enrollment rate of secondary education (%)	35.9	n.a.	n.a.	64.0	77.1	77.2	n.a.
Gross enrollment rate of higher education (%)	2.8	1.6	2.9	9.7	15.7	22.3	24.4
Percentage of population covered by safe water supply services (%)	57.0	61.0	67.0	77.0	86.0	95.0	n.a.
Immunization rate of measles (percentage of children ages 12-23 months) (%)	88.0	90.0	95.0	97.0	95.0	98.0	96.0
Hospital beds per 1,000 people	3.8	n.a.	n.a.	n.a.	2.6	2.2	n.a.
Malnutrition prevalence, weight for age (% of children under-5)	n.a.	n.a.	n.a.	30.1	22.7	20.2 (2008)	n.a.
Maternal mortality ratio (national estimate, per 100,000 live births)	n.a.	n.a.	n.a.	n.a.	n.a.	69 (2009)	n.a.
Mortality rate, under-5 per 1,000 live births	49.9	46.4	41.0	33.9	27.7	22.6	21.7
Mortality rate, neonatal per 1,000 live births	22.4	21.3	19.5	16.9	14.5	12.3	11.9
Life expectancy at birth (years)	65.5	67.3	69.4	71.9	73.7	74.8	75.1
Fertility rate, total (birth per woman)	3.6	3.3	2.7	2.0	1.9	1.8	1.8

(Source: World Bank, 2013)

2.2.6 Progress and Achievement of Millennium Development Goals

GOV has made great effort to achieve the MDGs (Millennium Development Goals) under CPRGS, the 7th SEDP and its first 10-year SEDS (2001 – 2010) as summarized in Table 2-2.

Table 2-2: MDGs Progress in Vietnam

MDGs	Progress and Achievement
MDG 1: Eradicate Extreme Poverty and Hunger	From a poverty rate of 58.1% in 1993, Vietnam successfully reduced poverty to an estimated rate of 14.5% in 2008. Progress in reducing malnutrition has also been significant, falling from 41% to 11.7% in 2011.
MDG 2: Achieve Universal Primary Education	In 2009, the net enrollment rate in primary school was 95.5%, the primary school completion rate was 88.2% and the literacy rate of people aged 15-24 years was 97.1%. The difference between boys and girls in the primary school net enrollment rate was as little as one percent.
MDG 3: Promote Gender Equality and Empower Women	It has been very successful in increasing girls' participation in education at primary and secondary levels. The labor force participation rate is 73% for women, compared to 82% for men.
MDG 4: Reduce Child Mortality	The infant mortality rate was reduced from 44.4% 1,000 live births in 1990 to 14 in 2011. The under-five mortality rate has also been reduced considerably, from 58 per 1,000 live births in 1990 to 16 in 2011. The ratio of children under-five who are underweight fell from 25.2% in 2005 to 18.9% in 2009.
MDG 5: Improve Maternal Health	Maternal mortality has declined considerably over the last two decades, from 233 per 100,000 live births in 1990 to 69 per 100,000 live births in 2009, with approximately two-thirds of this decrease related to safer pregnancy.
MDG 6: Combat HIV/AIDS, Malaria and Other Diseases	Vietnam has made significant improvement in the legal and policy framework related to HIV in 2012; however, Vietnam is still likely miss the MDG target of reversing the epidemic. Impressive progress on prevention and control of malaria shows that Vietnam has already achieved the MDG target on malaria control. Vietnam is also acknowledged to have done a good job in controlling other epidemics such as SARs, H5N1 and H1N1.
MDG 7: Ensure Environmental Sustainability	Forest coverage has increased from 28.8% in 1990 to 39.5% of total land in 2010. 92% of households had access to safe drinking water in 2011. However, Vietnam is unlikely to achieve MDG 7 by 2015. Climate change is widening the gap in reaching key targets of the goal.
MDG 8: Develop a Global Partnership for Development	Vietnam has made major strides in developing global partnerships for development since 2000, including accessing the WTO, expanded cooperation with ASEAN, a term as non-permanent member of the UN Security Council (2008-2009), and involvement in a number of new free trade agreements.

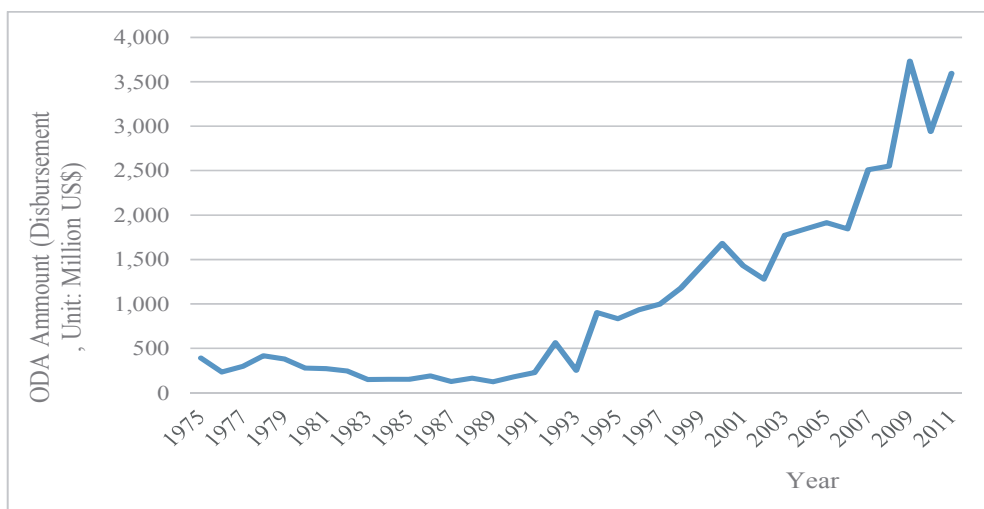
(Source: UN Vietnam Office Website, 2013)

Among the MDGs, Vietnam made huge progress in reducing the poverty rate of MDG 1; and in the areas of education, gender and health, the country improved tremendously. Especially in the health sector, it was noted that Vietnam had improved its system to prevent communicable diseases including measles, SARS and birds flu, where Japan’s technical and financial assistance contributed to both of the technical and physical improvement of the state’s health and research system. Although various projects/programs have been improved, there needs to be more improvement to achieve MDG 7, which is related to environmental sustainability and climate change.

2.3 Overview of ODA to Vietnam

2.3.1 Historical Review of Development Partners’ Assistance to Vietnam

Figure 2-9 shows the trends in the total amount of ODA disbursements provided by multilateral financial institutes and by the OECD-DAC (Organization for Economic Co-operation and Development’s Development Assistance Committee) countries to Vietnam from 1975 to 2011.



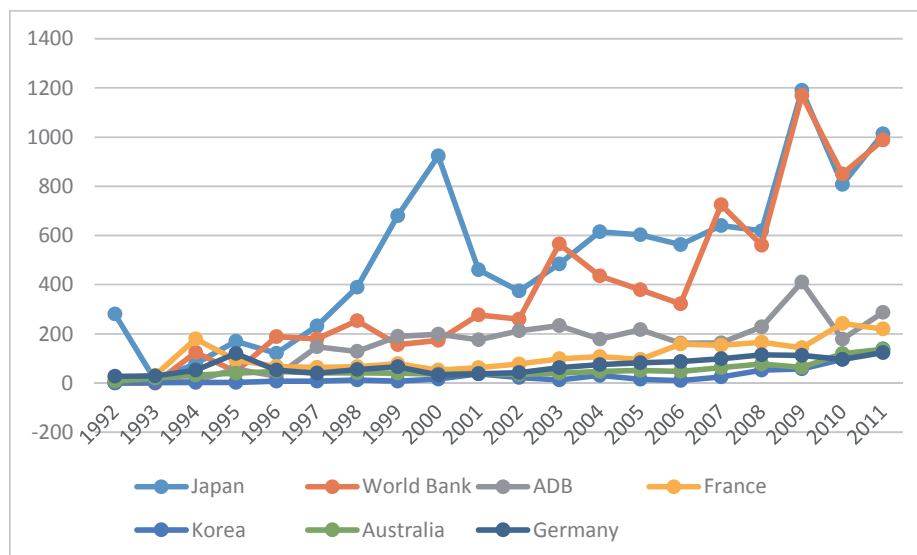
(Source: OECD-DAC Website, 2013)

Figure 2-9: Total ODA Disbursement to Vietnam from International Financial Agencies and DAC Countries in the period from 1975 to 2011 (Disbursement, Unit US\$ millions)

Before the 1980s, Vietnam was provided financial assistance mainly by Soviet Union, China and the Eastern European countries; however, assistance from these countries ended in the late 1980s. Additionally, as mentioned above, international agencies and DAC countries suspended its ODA to Vietnam from 1979 to 1993 due to the conflicts in the Indochina Peninsula. From 1993, the amount of ODA disbursement increased to reach US\$ 3,596 million in 2011 (Figure 2-9).

Figure 2-10 shows the trends in the amount of ODA disbursement of the major donors to Vietnam:

namely, Japan, World Bank (IDA), ADB, France, Korea, Australia, and Germany, which had the larger amount of ODA disbursement in 2011 (OECD-DAC statistics).



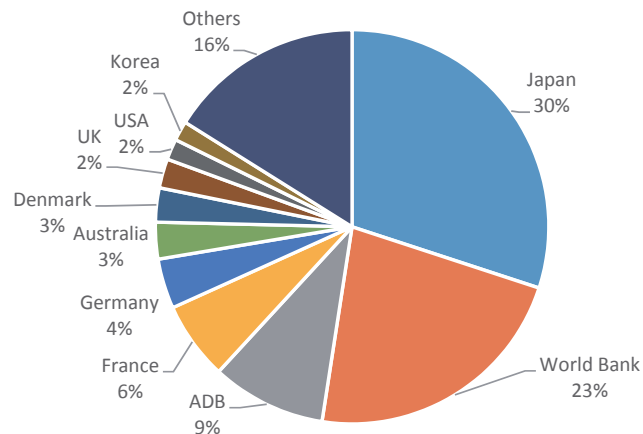
(Source: OECD-DAC Website, 2013)

Figure 2-10: Trends of development partners' ODA to Vietnam in the period from 1992 to 2011 (Disbursement, Unit: US\$ millions)

Since 1995, Japan has been the top bilateral donor country; and since 2007, World Bank (IDA) and Japan have provided the same amount of assistance to Vietnam every year. ADB's amount of assistance has remained at 10% of the total ODA amount every year since 1997. Therefore, the total amount of ODA of these three donor agencies, namely, Japan, World Bank and ADB have accounted for more than 60% of the total amount of ODA to Vietnam. In 2011, Japan provided Vietnam with the ODA in the amount of US\$ 41,013 million (28.2% of the total), World Bank with US\$ 988 million (27.5%), and ADB with US\$ 287 million (8.0%).

The percentage of the cumulative ODA amount by development partners from 1992 to 2011 is shown in Figure 2-11.

The total cumulative amount of ODA to Vietnam provided by all the development partners from 1992 to 2011 was US\$ 34,195 million, while Japan's total cumulative ODA from 1992 to 2011 was US\$ 10,258 million, which was 30.0% of the total amount of ODA from all of its development partners.



(Source: OECD-DAC Website, 2013)

Figure 2-11: Percentage of the Accumulated ODA Amount from 1992 to 2011 by Development Partners (Disbursement)

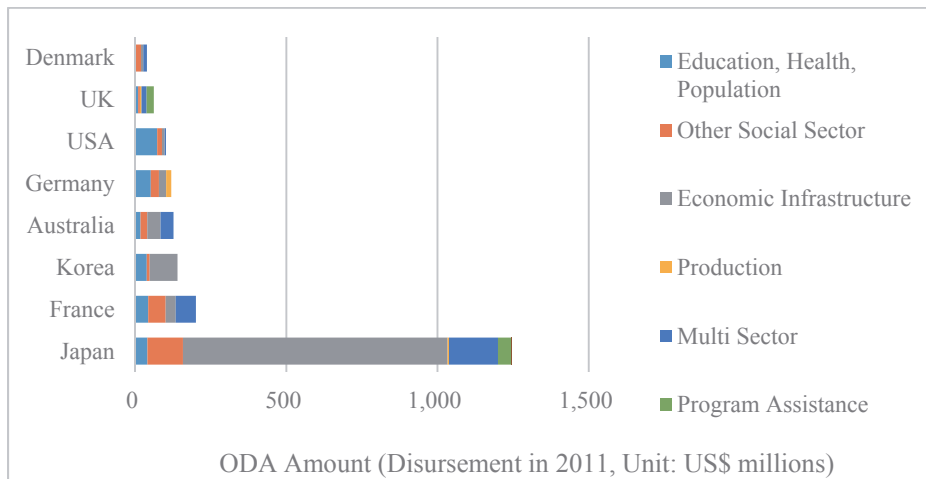
Figure 2-12 shows the sector distribution of the bilateral development partners' ODA to Vietnam.

70.2% of Japan's ODA amount to Vietnam was in economic infrastructure, followed by the 13.0% in the multi-sector and 9.4% in other social sectors (including water supply). Of the ODA amounts provided by the USA or Germany, more than 50% was for assistance in education, health and population.

World Bank prioritized infrastructure improvement, as did Japan, after resuming its assistance to Vietnam. It has especially contributed to the development of the energy and electric sector. 48% of the total amount of the financial assistance (loan) committed by the World Bank to GOV from 2008 to 2009 were used to develop the economic infrastructure including transportation, electricity, telecommunication, urban development and sewerage etc. (WB, 2011).

ADB also committed its assistance to Vietnam with a focus on improving the infrastructure since 2005, because CPRGS stressed the importance of large-scale infrastructure development to reduce poverty. By 2012, 63% of the total cumulative loan amount disbursed to Vietnam by ADB was for economic infrastructure improvements. In 2007/08, ADB loans disbursed to improve the economic infrastructure was 83% of the total amount of ADB assistance to Vietnam (ADB, 2012).

Japan, World Bank and ADB have collaborated and contributed to the improvement of the economic infrastructure since their ODA to Vietnam resumed in 1992 or 1993.



(Source: OECD-DAC Website, 2013)

Figure 2-12: Bilateral Development Partners’ ODA Amount by Sector as of 2011 (Disbursement, Unit: US\$ millions)

2.3.2 Donor Coordination

At the beginning of the 1990s, when the ODA from international financial institutes and bilateral donor countries resumed, GOV had limited experience in working with those donor agencies, due to their support by the Soviet Union and Eastern European countries for the past couple of decades. Both parties, the GOV and donor agencies, had faced the problem of a time-consuming decision-making process by the GOV and a long time period was required to make loan agreements to disburse funds and to launch projects/programs.

The donor agencies individually coordinated with the GOV initially to request improvement in the project procurement system; however, in the late 1990, the three financial institutes, namely, the World Bank, ADB and the Overseas Economic Cooperation Fund (OECF, presently JICA) called “the Three Banks” organized a joint review and started collaborative coordination with the GoV to improve the situation.

Later, the financial institutes from France (AFD), Germany (KfW) and Korea (KoreEximbank) joined the group and they were called “the Six Banks.” The Six Banks conducted consultative activities to promote infrastructure improvement projects, fund disbursement, coordination of the ODA process, and setting up of JPPR (Joint Portfolio Performance Review).

There were coordinated arrangements among the various donors including UK (United Kingdom), USA, Denmark, Australia, in addition to the Six Banks, since the Vietnam Donor Conference held in Paris in October 1993. Based on the spirit of the Paris Declaration and the Hanoi Core Statement, which is the localized policy of the Paris Statement, GOV and the donor agencies have conducted various activities to improve aid effectiveness and project/program implementation in

socio-economic development in Vietnam.

The Consultative Group (CG) played a key role in donor coordination and an annual meeting has been held since 1993. The 20th annual CG meeting was held in December 2012, which was the last CG meeting in Vietnam. From 2013, a “Development Forum” meeting will be held, inviting a wider variety of partners including the private sector, which reflects the current and future role Vietnam is expected fill by the international community.

2.4 Japan’s ODA Policy and ODA Trend

2.4.1 Country Assistance Policy to Vietnam: Late 1990s – Early 2000s

Priority Areas of Japan’s ODA Policy

The priority areas of Japan’s Country Assistance Policy to Vietnam from the late 1990s to 2004 of Japanese Fiscal Year (JFY¹) were as follows.

- (1) Institutional strengthening and human resources development, especially to support Vietnam’s efforts in transition to a market economy
- (2) Infrastructure improvement of the electric power supply, transport etc. to expand direct foreign investment
- (3) Agriculture and rural development including agriculture infrastructure improvement, agriculture technology improvement, rural livelihood improvement etc.
- (4) Improvement of education and health services including access to basic education and quality health services
- (5) Environmental management for natural environmental protection, urban environmental improvement, countermeasures to reduce environmental pollutions, etc.

Japan’s ODA Trend after Resuming ODA in JFY1992 to JFY2004

When Japan resumed its ODA to Vietnam in 1992, there were no ODA-related offices such as OECF or JICA in Vietnam. GOV did not have any experience collaborating with Western countries and limited knowledge of the system or the procedures. Therefore, OECF dispatched an officer to the Japanese Embassy in Vietnam to start its yen-loan projects and programs.

This OECF officer introduced procedures on how to formulate and implement projects/programs through yen-loan assistance to GOV, which led to the actual implementation of the large-scale infrastructure rehabilitation projects including Phu My Thermal Power Plant Project, Pha Lai

¹ Japanese fiscal year starts on April 1 and ends on March 31.

Thermal Power Plant Project, Ham Thuan – Da Mi Hydropower Project, National Route 1 Bridges Rehabilitation Project, National Road 5 Rehabilitation Project, North-South Railway Bridges Emergent Rehabilitation Project, and Hai Phong Port Rehabilitation Project.

All of these infrastructure rehabilitation projects contributed to the postwar reconstruction of Vietnam. GOV had the strong will to turn the state into an industrialized country by rehabilitating the basic infrastructure as soon as possible. During this development stage, following GOV's development strategy, Japan's ODA focused on development in the northern region, especially the Red River Delta area, since the Mekong Delta had been already developed to a certain level by private investment.

In parallel with the reconstruction and rehabilitation projects, support for the transition to a market economy, which had been carried out under *Doi Moi*, was given high priority by both GOV and Japan. In JFY1995, the first phase of the Study on Economic Development Policy in the Transition Toward a Market-oriented Economy in Vietnam (the so-called "Ishikawa Project") began, which was followed by the second and the third phases of the study. This Study provided a platform to study and discuss the transition to a market economy and Vietnamese socio-economic development and growth by the Vietnamese and Japanese academic and government personnel. This Study played an important, symbolic role to promote the socialist-oriented market economy in Vietnam.

In addition to this Study, Japan has provided various technical assistance projects to develop and strengthen the legal and institutional system to promote market economy since 1996, namely, Japanese Cooperation to Support the Formulation of Key Government Policies on the Legal System, and the Study on a Master Plan for Industrial Development in the Hanoi Area.

The development study, "the Study on a Master Plan for Industrial Development in the Hanoi Area," conducted through Japan's technical assistance, created the overall scenario to develop the high-tech park of "Thang Long Industrial Park" in Hanoi, by improving the surrounding environment including water supply, sewerage, access roads etc., which, eventually attracted Japanese private sector investments to Vietnam.

In addition to economic development, Japan provided financial and technical assistance for social development to improve Vietnamese health and living conditions such as technical assistance for Cho Ray Hospital; the Reproductive Health Project in Nphe An Province (Phase 1, 2 and Follow-up), and the Improvement of Environmental Education in Agricultural Science in Can Tho University.

Japan's ODA and Vietnamese Development Needs

During this period, GOV strongly needed to rehabilitate and develop the economic infrastructure and to double its GDP by increasing direct foreign investment. GOV requested GOJ to assist them in improving the transport infrastructure in Hanoi and the neighboring areas in the north. Reflecting GOV's request and needs, GOJ provided financial and technical assistance and collaborated with GOV to rehabilitate the basic infrastructure and the transition to a market economy.

2.4.2 Country Assistance Plan to Vietnam: JFY2004 – JFY2009

Priority Areas of Japan's ODA Plan

The priority areas of Japan's Country Assistance Plan to Vietnam from JFY2004 to JFY2009 were as follows.

- (1) Promotion of further economic growth through improvement of medium and small-scale enterprises, development of the economic infrastructure (transport, energy and electricity, telecommunication etc.), human resources development, innovation of state-owned enterprises, etc.
- (2) Social sector improvement, from the viewpoints of human security and poverty reduction, through improvements in education and health, agriculture and rural development, urban development and improvement in environmental management.
- (3) Institutional strengthening and promotion of innovations within the government administration system.

Japan's ODA Trend from JFY2004 to JFY2009

During this period, most of the reconstruction and rehabilitation of the basic infrastructure had been completed. GOV gave priority to regional development, urban development and environmental improvement.

In the northern region, various regional and urban development projects were started including the National Route 1 Bypass Project, National Route 3 Road Network Improvement Project, Hanoi Ring Road No.3 Project, Red River Bridge, etc.

Besides these infrastructure improvements in the northern region, new types of projects/programs were formulated and implemented by Japan's ODA based on GOV request.

First is the development of the infrastructure in the southern and the central regions. In the Mekong Delta, the urban development projects including the Saigon East-West Highway

Construction Project; Can Tho Bridge Construction Project etc. were launched during this period. Secondly, to promote the traffic management in urban areas, Japan commenced technical assistance in institutional and human resources development such as the Project for Traffic Safety Human Resource Development in Hanoi conducted from JFY2006 to JFY2009. Additionally, to address regional disparity, more rural development projects were implemented including the Project on the Villagers Support for Sustainable Forest Management in the Central Highland.

Support to improve the business environment and legal and institutional strengthening had been continued by Japan's ODA as explained above. During this period, to promote Japan's private sector investments, "Japan-Vietnam Joint Initiative" was launched by GOJ and GOV. This was not an ODA project, but a policy dialogue and challenges by the governments, the private sectors, and ODA-related agencies in Japan and Vietnam.

It is also needs to be noted that in the health sector, new projects were implemented such as Construction of Facilities for Measles Vaccine Production, Strengthening the Capacity of Measles Vaccine Production, and Capacity Development of the NIHE (National Institute of Hygiene and Epidemiology) to Control Emerging and Re-emerging Infectious Diseases, which developed and improved advanced healthcare services in Vietnam.

Japan's ODA and Vietnamese Development Needs

GOV promoted its socio-economic growth by improving international competitiveness to get out of the group of the Low Income Countries under the 7th and 8th SEDPs, the 1st SEDS and CPRGS. When preparing CPRGS, GOJ especially supported GOV's strong belief that economic growth was essential to achieve sustainable poverty reduction; and the GOJ provided large-scale financial and technical assistance for infrastructure development, institutional improvement and human resources development. Additionally, GOJ collaborated with GOV to address newly arising issues such as the increase of traffic-related deaths, environmental pollution, poor sewerage system in the urban area, etc.

2.4.3 Country Assistance Plan to Vietnam: JFY2009 – JFY2012

Priority Areas of Japan's ODA Plan

The following four areas were the priority areas of Japan's Country Assistance Plan to Vietnam from JFY2009 to JFY2012.

- (1) Promotion of further economic growth and strengthening international competitiveness;
- (2) Social sector improvement and addressing the disparities existing among the regional, income, gender, ethnic groups

- (3) Environmental protection
- (4) Enhancement of the governance system and human resources

Japan's ODA Trend from JFY2009 to JFY2012

In 2009, Vietnam joined the group of Middle Income Countries and completed its role as the chair of ASEAN through its stable economic growth over the past 20 years.

From the late 2000s, there have been new projects and programs started in regional development, environmental protection, climate change, etc.

Based on a strong relationship of mutual trust, GOV requested Japan for technical assistance in the capacity development of their policy makers and government officers such as the Capacity Development of National Assembly of Vietnam, the Strengthening Capacity of the Office of the Government, the Project for Strengthening the Capacity of the Ho Chi Minh National Academy of Politics and Public Administration in Training Public Leaders and Civil Servants.

In the health sector, the Project on Capacity Development of the Laboratory Network in Vietnam on Biosafety and Examination of Highly Hazardous Infectious Pathogens, the Project for Strengthening the Capacity for Measles-Rubella Combined Vaccine Production, and others contributed greatly to improving the prevention and the diagnosis system in Vietnam and to saving the lives of the Vietnamese people and improving their health.

Japan's ODA and Vietnamese Development Needs

After having entered the group of Middle Income Countries and joined WTO, Vietnam was expected to pursue its new responsibilities within the international community. To cope with these needs, Vietnam planned to improve the public investment and financial system, to innovate state-owned enterprises, and to strengthen the economic infrastructure to further industrialization. GoJ's ODA was provided to meet these changes and newly-arising needs of the GOV.

2.4.4 Country Assistance Plan to Vietnam: After JFY2012

Priority Areas of Japan's ODA Plan

Focusing on further socio-economic growth in Vietnam, the following three areas were the priority areas of Japan's Country Assistance Plan to Vietnam after JFY2012.

- (1) Promotion of further economic growth and strengthening of international competitiveness by improving the market economy system, innovating and enhancing the financial system, industrial development, human resources development, improving the trunk transport system, stable electric power supply, energy saving system etc.;

- (2) Countermeasures to vulnerabilities including environmental issues caused by rapid urbanization and industrialization, natural disasters and climate changes, communicable diseases, social securities, regional disparities, etc.
- (3) Strengthening the governance system and human resources to enhance the capacity of law enforcement, to secure equity, equality, neutrality and transparency in government administration and to develop government legal and administrative capacity

Japan's ODA Trend after JFY2012

Japan's ODA during this period has just started; it will continue to support GOV's efforts to achieve stable socio-economic growth as well as to address newly arising issues due to rapid economic growth. One of the new areas where Japan has started to collaborate with GOV is the area of social security. The collaboration in the social security area is outlined as below.

Column 2-1: Japan's ODA in the Social Security Area

Japan has started the technical assistance in the social security area since JFY2006. The major technical assistance projects were "the Project to Assist Physical Handicapped People through Local Rehabilitation and their Empowerment" and "the Project for the Establishment of Anti-Trafficking in Persons Hotline in Vietnam," which are outlined as below.



Rehabilitation Unit, Cho Lai Hospital

Project for Strengthening Medical Rehabilitation Service in the Southern Area of Vietnam (JFY2006 – JFY2008)

In JFY2006, JICA started its grass-roots technical cooperation "the Project to Assist Physically Handicapped People through Local Rehabilitation and their Empowerment (JFY2006 – JFY2008)" for technology transfer mainly in the rehabilitation of traumatic brain injury (TBI) and cerebrovascular accident (CVA). This project contributed to the technical improvement of the physical therapists and the rehabilitation system in Cho Lai Hospital in Ho Chi Minh City. The staff members of the rehabilitation unit of Cho Lai Hospital learnt that the early mobilization is important for patients. In the future, the rehabilitation capacity of the local hospitals needs to be improved based on what was achieved at Cho Lai Hospital.

Project for the Establishment of Anti-Trafficking in Persons Hotline in Vietnam (JFY2011 – JFY2014)

JICA dispatched a long-term expert for Advisor on Anti-trafficking in Persons to Vietnam Women’s Union from JFY2009 to JFY2011 and started the technical assistance project of the Project for the Establishment of Anti-Trafficking in Persons Hotline in Vietnam in 2012. In order to establish the proper operation system of the Hotline, based on the child help-line to protect children, the project has been collecting necessary information related to trafficking in persons, conducting consultation, and sharing information and collaborating with the stakeholders.



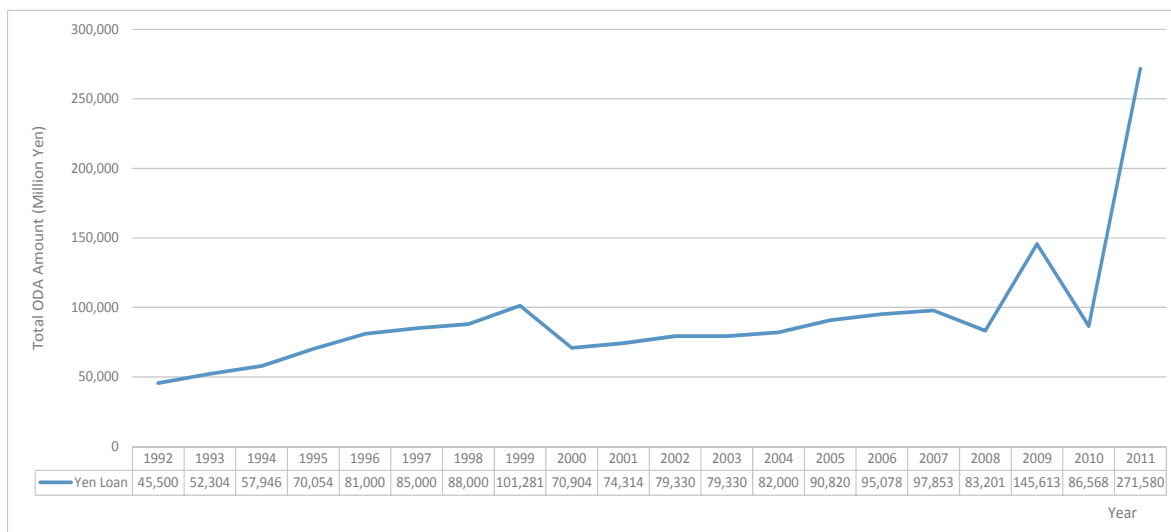
Operating Child Help-Line

2.5 Japan’s ODA Performance

2.5.1 Overview

Japan resumed its ODA in 1992. Since 1986, GOV launched *Doi Moi*, which marked the beginning of its transition from a centrally planned economy to a socialist-oriented market economy. Japan has provided financial and technical cooperation in the rehabilitation of the socio-economic infrastructure, legal and institutional strengthening in a market economy, improved foreign investment environment, human resources development according to the development needs in Vietnam based on its experiences and human resources.

Figure 2-13 shows the trend in Japan’s total ODA to Vietnam from JFY1992 to JFY2011, based on disbursement amounts for technical assistance and the commitment amounts for financial assistance (Yen Loan and Grant Aid).



Note: Disbursement amounts were used for technical assistance, while commitment amounts were used for grant aid/yen loan assistance.

(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

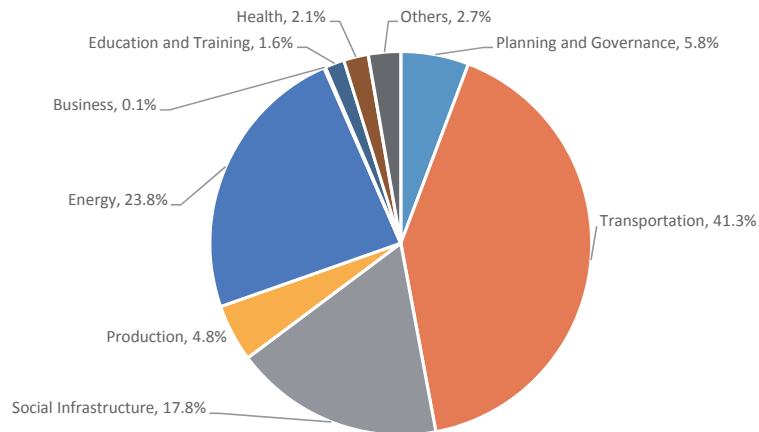
**Figure 2-13: Japan’s total ODA Amount to Vietnam from JFY1992 to JFY2011
(Unit: Million Yen)**

Japan’s total cumulative ODA to Vietnam from JFY1992 to JFY2011 amounted to 2,078.3 billion yen (around US\$ 20.3 billion) based on the disbursement amounts for technical assistance and the commitment amounts for financial assistance (Yen Loan and Grant Aid).

2.5.2 Trends of Development Sector

Japan’s total cumulative ODA to Vietnam by development sector and percentages in Japan’s total ODA amount are shown in Figure 2-14.

Among the development sectors, the transportation sector shows the largest cumulative amount of 858.0 billion yen, which accounted for 41.3% of the total ODA amount from JFY1992 to JFY2011. Assistance in the amount of 493.9 billion yen (23.8% of the total ODA amount) was provided to the energy and electric sector and 368.9 billion yen (17.8% of the total) to social infrastructure, including water supply, sewerage, telecommunication, environment, etc.). The total amount for these three infrastructure development sectors was 1,720.8 billion yen, which was 82.8 % of Japan’s total cumulative ODA from JFY1992 to JFY2011.



Note *1) Disbursement amounts were used for technical assistance, while commitment amounts were used for grant/yen loan assistance.

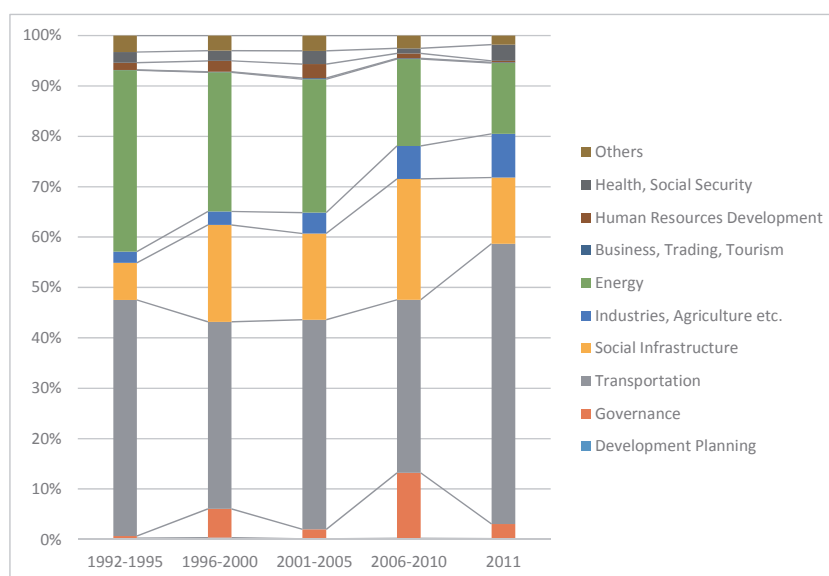
Note *2) Poverty Reduction Support Credits (PRSCs) are included in the area of “Planning and Governance”

(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

Figure 2-14: Japan’s Total ODA Accumulated Amount by Development Sector to Vietnam from JFY1992 to JFY2011

Figure 2-15 shows the percentages of the development sectors of Japan’s ODA in the periods of JFY1992 – JFY1995, JFY1996 – JFY2000, JFY2001 – JFY2005, JFY2006 – JFY2010, and JFY2011.

In all of the periods shown in Figure 2-15, the area of transportation had the biggest percentage. In JFY2011, the percentage of the ODA amount of the transportation area was 55.7%. The area of energy had the second largest percentage of 36.1% in the period of JFY1992 – JFY1995; however its percentage gradually decreased and became 14.1% in JFY2011. The percentages of the social infrastructure also showed the trends of decreasing. The area of industries and agriculture, where there are many technical assistance projects included, had the small percentage of 2.2% in the period of JFY1992 – JFY1995; however, it increased to 8.7% in JFY2011.



Note *1) Disbursement amounts were used for technical assistance, while commitment amounts were used for grant/yen loan assistance.

Note *2) Poverty Reduction Support Credits (PRSCs) are included in the area of “Planning and Governance”

(Source: JICA Project Performance Report 1993 – 2012 and MOFA ODA Databook 1991 – 2012)

Figure 2-15: Trends of Percentage of Development Sectors of Japan's ODA to Vietnam

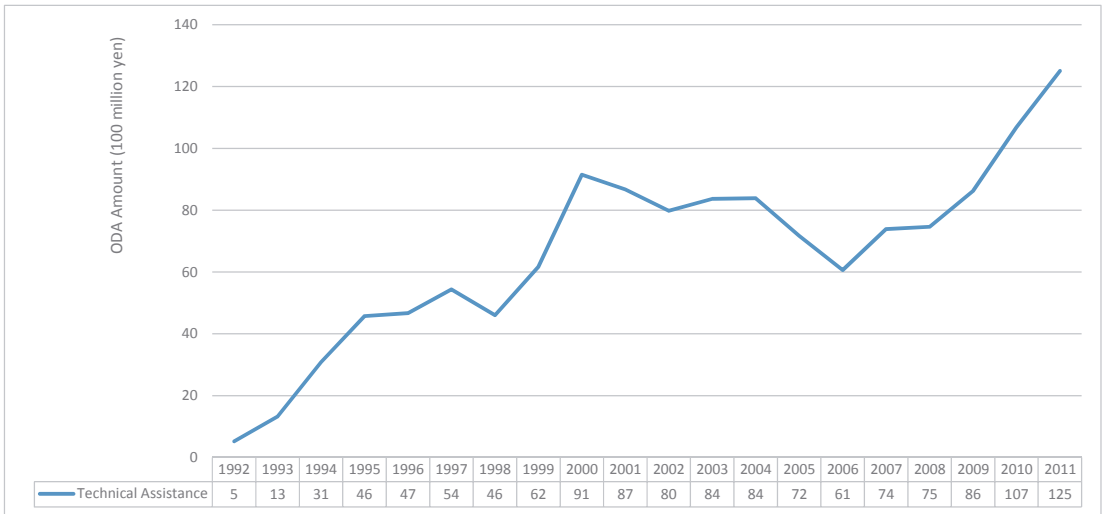
2.5.3 Trends of Types of Japan's ODA

(1) Technical Assistance

Figure 2-16 shows the trends in the amount (disbursement) of Japan's technical assistance from JFY1992 to JFY2011.

The amount of 9.1 billion yen in the JFY2000 was almost 18 times the amount of 0.5 billion yen in 1992, which indicates that soon after Japan's ODA was resumed, technical assistance had been strongly needed to cope with the Vietnamese needs for institutional strengthening and human resources development. During the period from JFY2001 to JFY2006, the amount of the technical assistance ranged between 60 to 90 billion yen.

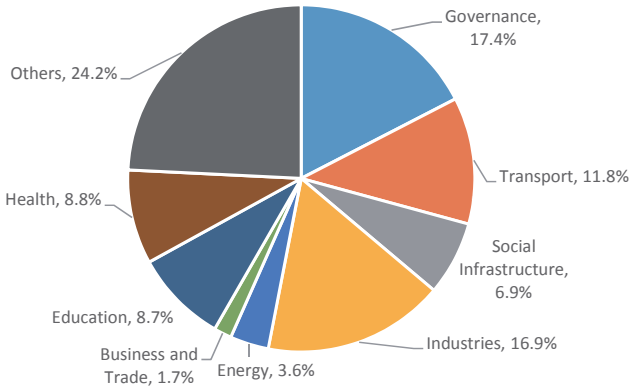
In JFY2010 and JFY2011, the amount of technical assistance rapidly increased; this was because various technical assistance projects were started in capacity development in governance, financial institutions, transport management, and environmental management to address newly arising issues in socio-economic development in Vietnam for the past two years. Additionally, in the health sector, technical assistance was provided to develop a biosafety and examination system for highly hazardous infectious pathogens.



(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

Figure 2-16: Trends of Japan’s Technical Assistance Amount to Vietnam Period from JFY1992 to JFY2011 (Disbursement Unit: 100 Million Yen)

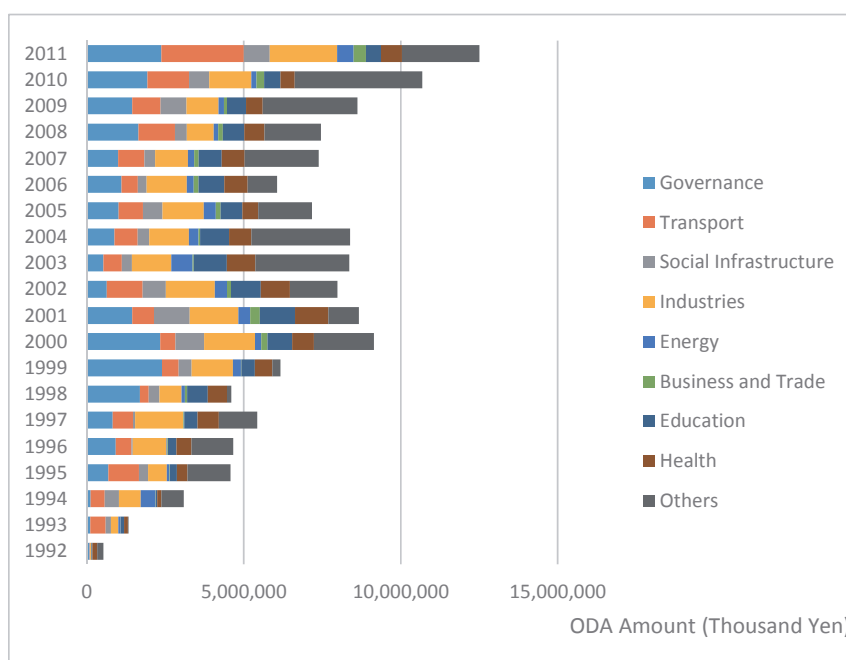
Among the development sectors, the governance sector shows the largest cumulative amount (disbursement) at 23,138 million yen, which accounted for 17.4% of the total ODA cumulative amount from JFY1992 to JFY2011 (Figure 2-17). The amount of 22,459 million yen (16.9% of the total ODA amount) was provided for the industries sector and 15,693 million yen (11.8% of the total) for transport.



(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

Figure 2-17: Japan’s ODA Accumulated Technical Cooperation Amount (Disbursement) by Development Sector to Vietnam from JFY1992 to JFY2011

Figure 2-18 shows the trends in the amount of disbursement by Japan’s technical cooperation according to development sector from JFY1992 to JFY2011.



(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

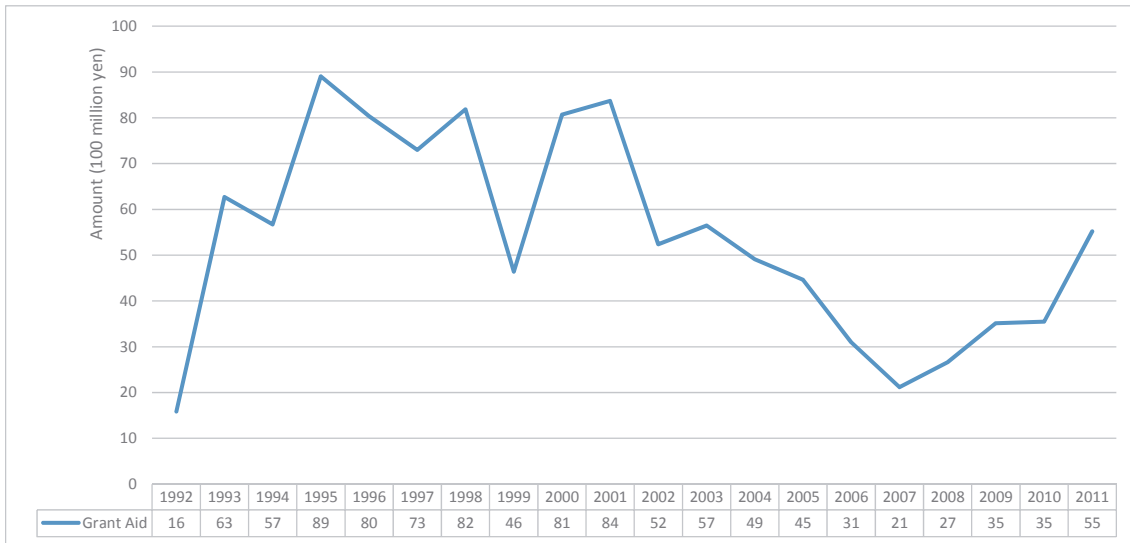
Figure 2-18: Trends of Japan’s Technical Cooperation Amount by Development Sector to Vietnam from JFY1992 to JFY2011 (Disbursement Unit: Thousand yen)

In early 1990s, transport and industries sectors had the larger percentage even in the technical assistance than the governance and social sectors. After JFY1995, the percentage in the governance sector increased rapidly. The sectors of governance and industries had the larger percentages, which shows Japan’s ODA support of the GOV’s efforts to industrialize through infrastructure improvements as well as by institutional strengthening and human resources development.

(2) Financial Assistance: Grant Aid

Figure 2-19 shows the trends in the amount (commitment) of Japan’s financial assistance: grant aid from JFY1992 to JFY2011.

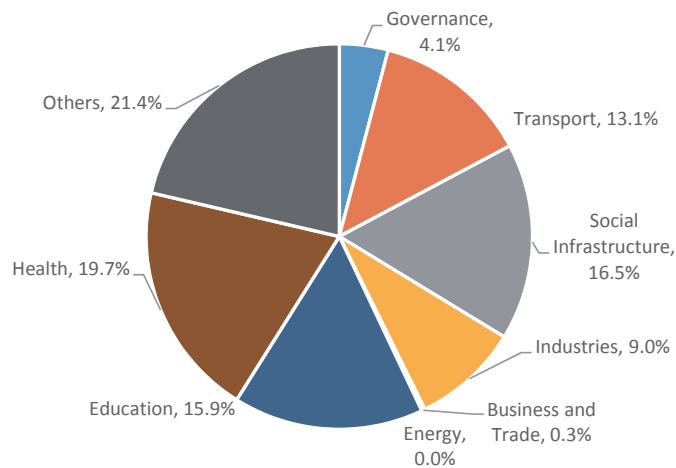
The amount increased rapidly Japan’s ODA was resumed in JFY1992 to JFY1995 to cope with the social infrastructure rehabilitation needs of the GOV including construction of schools, water supply facilities, hospitals, rural bridges, etc. Following a decreased trend between JFY2001 and JFY2007, the amount increased again after JFY2008 due to grant aid projects for newly arising scholarship, custom facilities/equipment, funds for climate change, etc.



(Source: JICA Project Performance Report JFY1993 – JFY2012 and MoFA ODA Databook JFY1991 – JFY2012)

Figure 2-19: Trends of Japan's Financial Assistance: Grant Aid Amount to Vietnam from JFY1992 to JFY2011 (Commitment, Unit: 100 Million Yen)

Among the development sectors, the health sector shows the largest cumulative amount (commitment) of 21,260 million yen, which accounted for 19.7% of the total ODA cumulative amount from JFY1992 to JFY2011 (Figure 2-20).



(Source: JICA Project Performance Report JFY1993 – JFY2012 and MoFA ODA Databook JFY1991 – JFY2012)

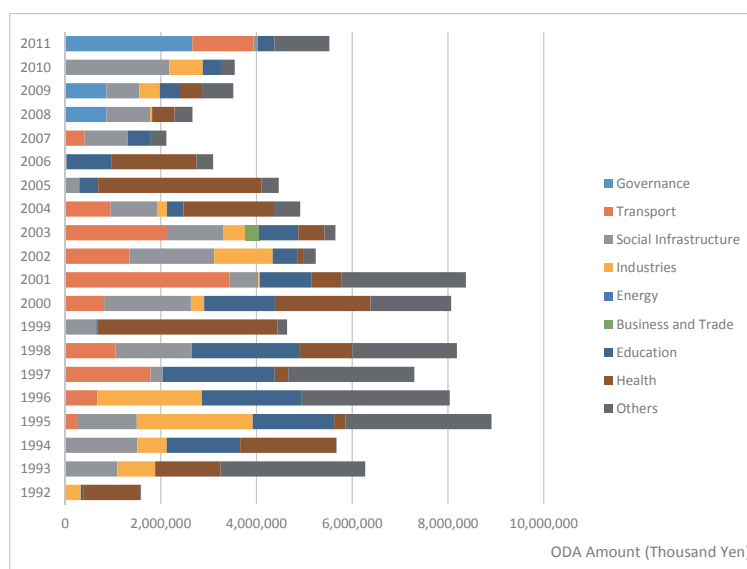
Figure 2-20: Japan's ODA Accumulated Financial Assistance: Grant Aid Amount (Commitment) by Development Sector to Vietnam from JFY1992 to JFY2011

The amount of 17,797 million yen (16.5% of the total ODA amount) was provided for social

infrastructure improvement, 17,174 million yen (15.9% of the total) for education and 14,152 million yen (13.1% of the total) for transport. Funds for non-project type grant aid assistance, grassroots grant aid projects are included in the area of “others”, which amounted to 23,013 million yen (21.4% of the total).

Figure 2-21 shows the trends in the amount (commitment) of Japan’s financial assistance by grant aid according to development sector from JFY1992 to JFY2011.

In the 1990s, more grant aid projects were implemented with the larger inputs in education and industries. During this period, a series of school construction grant aid projects were implemented. The health sector showed larger percentages in the late 1990s because of the project to improve the Back Mai Hospital. In the middle of the 2000s, the health sector had the larger percentage again because of the projects to improve the Hue Central Hospital, Da Nang Hospital, Hoa Binh General Hospital and National Institute of Pediatrics.

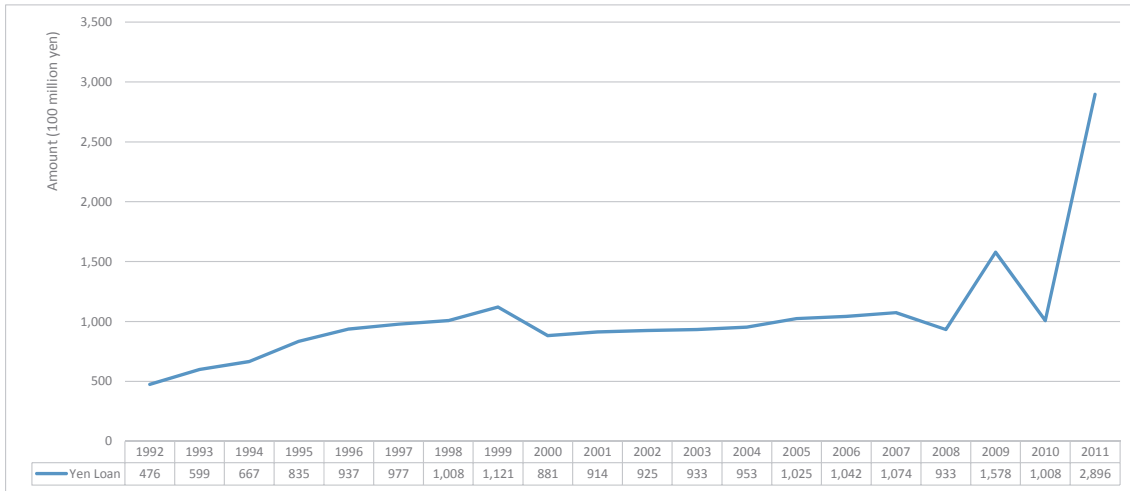


(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

Figure 2-21: Trends of Japan’s Financial Assistance: Grant Aid Amount by Development Sector to Vietnam from JFY1992 to JFY2011 (Commitment, Unit: thousand yen)

(3) Financial Assistance: Yen Loan

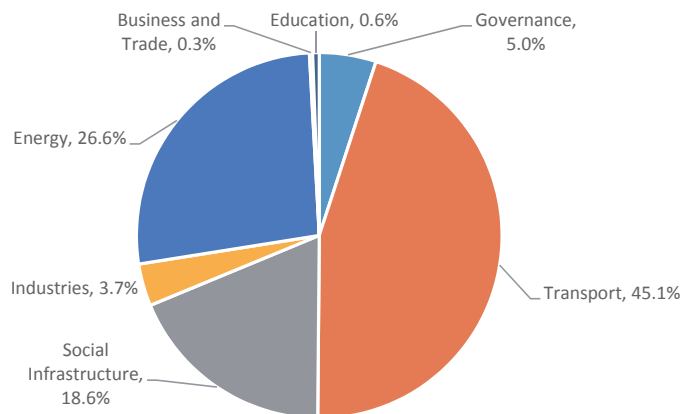
Figure 2-22 shows the trend in the amount (commitment) of Japan’s yen loans from JFY1992 to JFY2011. The amount in JFY2009 and in JFY2011 were relatively larger, while the amount provided in other years were between 50 and 100 billion, which were invested in large-scale infrastructure improvement projects.



(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

Figure 2-22: Trends of Japan’s Financial Assistance: Yen Loan Amount to Vietnam from JFY1992 to JFY2011 (Commitment Unit: 100 Million Yen)

Among the development sectors, the transport sector showed the largest cumulative amount (commitment) of 828 billion yen, which accounted for 45.1% of the total ODA cumulative amount from 1992 to 2011 (Figure 2-23), followed by the energy sector with 489 billion yen (26.6% of the total) and the social infrastructure sector with 342 billion yen (18.6% of the total).



(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

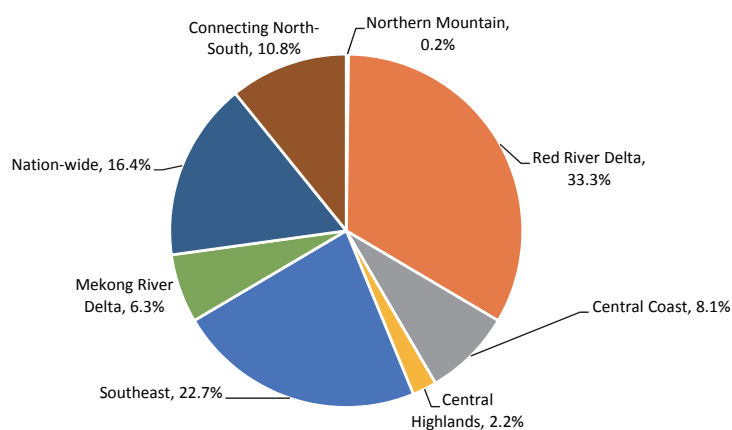
Figure 2-23: Japan’s ODA Accumulated Financial Assistance: Yen Loan Amount (Commitment) by Development Sector to Vietnam from JFY1992 to JFY2011

2.5.4 By Region

As mentioned above, Japan’s ODA was resumed, reconstructing the economic infrastructure in the northern region was given priority because the economic infrastructure was relatively more developed in the southern region.

After the first stage of reconstruction in the northern area was completed, GOV and GOJ promoted nationwide development to improve the network between the north and the south and to address the disparity between the regions. In the middle of 1990s’, GOV requested Japan for the collaboration in the infrastructure improvement projects in the major cities in the southern and the central area and/or for networking these major cities: such as Saigon East-West Highway Construction Project, Da Nang Port Improvement Project, Hai Van Pass Tunnel Construction Projects. In addition to the large-scale projects, the local infrastructure, including local highways, bridges, rural agricultural infrastructure, had been improved through yen-loan and grant aid project: such as Rural Bridge Construction in the Central Region, Small-Scale Pro-poor Infrastructure Development Project etc. In the health sector, the three top-referral hospitals, Bach Mai Hospital in Hanoi, Central Hospital in Hue, Cho Ray Hospital in Ho Chi Min, had been improved as the core hospitals to improve the national medical service in Vietnam by providing technical assistance and training for the local peripheral hospitals.

Figure 2-24 shows the distribution of Japan’s ODA cumulative yen loan (commitment) to Vietnam from JFY1992 to JFY2011 according to region. The projects, which covered the target areas in the multiple regions, were classified as “nationwide” and projects, which connected the northern and the southern regions, were classified as “connecting north-south”.



(Source: JICA Project Performance Report JFY1993 – JFY2012 and MOFA ODA Databook JFY1991 – JFY2012)

Figure 2-24: Japan’s ODA Accumulated Financial Assistance: Yen Loan Amount (Commitment) by Region to Vietnam from JFY1992 to JFY2011

The Red River Delta Region had the largest percentage at 33.3% followed by the Southeast Region with a percentage of 22.7%. The projects classified as “nationwide” and “connecting north-south” had a percentage of more than 10%.

2.6 Output and Outcomes of Japan’s ODA to Socio-Economic Development in Vietnam

Major outputs and outcomes which have contributed to the socio-economic development in Vietnam by Japan’s ODA are summarized as below based on a sector analysis in this study.

2.6.1 Governance

- The major outputs of Japan’s ODA in the governance sector include the enactment of “revised Civil Code (2005)”, “Intellectual Property Law (2005)”, “Civil Procedure Code (2004)”, “Law on Enterprise Bankruptcy (2004)”, “State Compensation Law (2009)”, and “Civil Judgment Execution Code (2008)”.
- The enactment and revision of “Law on Registration of Immovable Property”, “Administrative Litigation Law”, “Criminal Procedure Code”, “Law on Organization of People’s Procuracy Office”, and “Decree on Registration of Secured Transaction” is being done.
- Human resources developed to implement the enacted laws in Ministry of Justice, Supreme People’s Court, Supreme People’s Procuracy, Judicial Academy, and Vietnam National University, Hanoi etc.
- Government institutions and officials’ capacity being developed through the technical assistance at Ho Chi Minh National Political Academy (HCMA), Vietnam Competition Agency, Ministry of Finance etc.
- Human networking strengthened between the Japanese and the Vietnamese judicial world.
- Institutional and personnel capacity developed and facilities and equipment improved at the Vietnam Television (VTV).

2.6.2 Economic and Business Institutions

- “Study on the Economic Development Policy for the Transition toward a Market-Oriented Economy (Ishikawa Project)” greatly contributed to the process in which GOV formed their basic stance in the latter half of the 1990s.
- The investment environment with effective mechanism improved through the synergy effects of Japan’s ODA and “Vietnam-Japan Joint Initiative” as an effective platform.
- Through a series of the cooperation projects in the area of industrial statistics, the General Statistics Office (GSO) successfully completed i) introduction of survey on major industrial

products (MSMIP); ii) introduction of index of industrial production (IIP), iii) revision of the base year of MSMIP from 2005 to 2010; iv) revision of the base year of IIP from 2005 to 2010.

- Industrial policies to promote small and medium scale enterprises prepared by the Agency of enterprise Development (AED) in collaboration with Japanese advisor.
- Institutional and personnel capacity for financial reform developed through technical assistance at State Bank of Vietnam and Vietnam Development Bank.
- Vietnam-Japan Human Resources Cooperation Centers, established at Hanoi and Ho Chi Minh, trained around 33,000 people in the business course and around 18,000 in the Japanese course by the end of March 2013.
- ITSS education at Hanoi University of Technology improved and about 120 students every year from 2006 educated. The top 20 students of their results of IT and the Japanese language were entitled to studying in university in Japan.
- Japan Vietnam Center established at Hanoi University of Industry, which was authorized as the national certificate examination center from the General Department of Vocational Training. Around 350 technicians are trained annually and the graduates are hired by the Japanese or foreign companies.

2.6.3 Energy and Electricity

- Six projects to construct electric power plants were implemented including Da Nhim Hydroelectric Plant Project in the 1960's and the capacity of 2,925MW power supply were developed, which account for 10.9% of the national power supply capacity of 26,836MW at the end of 2011.
- 4,500MW power plants have been constructed in Vietnam, when including those under construction, which account for 14% of the national capacity of power supply.
- Additionally, transmission and transforming systems improved.
- National Power Development Plans and the Master Plan for Energy Conservation and Effective Use were prepared.
- Technical and safety standards for electric power industry, that define the minimum quality level created.
- Sustainable facility and equipment management and operation system strengthened.
- Capacity of the power engineers developed.

2.6.4 Water Supply and Sewerage System

- The water supply amount to the central part of Hanoi City across the Red River in addition to the supply to the areas surrounding Thang Long industrial park increased. In Thang Long

industrial park, 4,706 m³/day of the water supplied was supplied in 2006, which increased to 29,662 m³/day in 2010.

- It took five days to drain at the time of the heavy floods in Hanoi in 2008. After the Hanoi Drainage Project was completed, average inundation time was reduced to 0.5 to 1 hour and depth was only 0.2 to 0.3m for rainfalls of similar intensity.
- Human resources in project management developed through the technical assistance projects: namely “the Project on Human Resources Development for Water Sector in the Middle Region on Vietnam”, and “the Project on Capacity Development for Urban Water Supply in the Central Region”.
- The illegal dumping of solid waste into lakes and rivers has decreased after lake/river dredging and embankment work.

2.6.5 Transportation

- The Master Plan of Transport Development in the Northern Part of Vietnam, the National Transport Development Strategy in Vietnam (VITRANSS), the Comprehensive Urban Development Programme in Hanoi Capital City (HAIDEP), the Sustainable Development of Transport System in Vietnam (VITRANSS 2) etc. were prepared.
- Following the master plan, Japan has supported Vietnam to develop a total of 3,309km roads and 287 bridges including the on-going projects, especially, a total of 650km national roads have been improved, which correspond to about 70% of the total length of Vietnam’s four-lane national highways.
- Traffic policies and database were created in the areas of road transportation.
- Transportation system in the Red River Delta Region improved. Road traffic on the national roads in this region substantially increased after project. In the case of the national highway No.5, road traffic increased 6.8 times from 1993 (before the project) to 2006 (after the project). In the case of the national highway No.18, road traffic increased 4.1 times from 1995 (before the project) and 2008 (after the project).
- Hai Phong Port had the capacity to handle cargos of around 2.5 million tons in the beginning of 1990, and after two phases port rehabilitation projects, the port has the capacity of 25 million tons in 2011, which is 10 times bigger than in 1990.
- Physical linkage between the North and the South strengthened through the National Highway No.1 Bridge Rehabilitation Project, North-South Unification Railway Urgent Rehabilitation Project and Hai Vann Road Tunnel Construction Project etc.
- Capacity to design, implement, supervise and maintain the public works.

2.6.6 Information and Telecommunication

- Maritime radio communication and satellite telecommunication were available for use in all ocean areas in Vietnam after the completion of coastal communication projects in both the north and the south; it was found that communication between ships and the shore and ship-to-ship had improved.
- The number of maritime facilities assisted by the Coastal Radio Station (CRS) had dramatically increased by more than 10 times from 362 in 2006 to 3,454 in 2007 when COSPAS-SARSAT Local User Terminal/Mission Control Center at Hai Phong came into full operation.
- Passenger volume, cargo volume, and the number of ships at port had expanded. For example, cargo volume increased three-fold from 1998 to 2007; and the number of ships increased four-fold during the same period. The ex-post evaluation concluded that modernization of the coastal communication system had supported favorable conditions for investment and development of the maritime sector in Vietnam, besides the port rehabilitation projects.

2.6.7 Education and Training

- Up to 2006, 275 primary schools were built in 25 out of 63 cities/provinces, equivalent to 4% of the total number of schools in the 24 target cities/provinces.
- The JICA teacher training model developed by “the Project for Strengthening Cluster-based Teacher Training and School Management” has been introduced by 13 provinces have been introduced through NGOs, and 36 provinces have received training in lesson studies by Ministry of Education and Training.
- Human resources developed at the higher education level for industrial development.
- Total number of 394 GOV officers dispatched by Japanese Grant Aid for Human Resources Development Scholarship (JDS).

2.6.8 Health

- Three top referral hospitals, Bach Mai Hospital in Hanoi, Central Hospital in Hue, and Cho Ray Hospital in Ho Chi Minh improved through human resources development and facility and equipment improvement.
- The facilities and equipment of the local hospitals, including Hoa Binh General Hospital, Da Nang City Hospital, National Institute of Pediatrics etc. were improved.
- The maternal and child healthcare services have been improved in the Central Region through “the Project for Capacity Building for the Dissemination of Community-based Reproductive Health Promotion Approach”.
- Facilities and capacity to produce measles vaccine were developed. Around 3.3 million dos

of vaccine were produced annually, which covered 67% of the vaccines necessary for the nation-wide immunization in 2011. The immunization rate increased from 13.1% in 2001 to 97.7% in 2010. The infection rate of measles decreased from 21.2 per 100,000 population in 2000 to 3.0 per 100,000 population in 2010.

- Capacity of biosafety and examination of highly hazardous infections pathogens improved, which is expected to produce a large impact on safeguards against emerging diseases such as SARS and the bird flu, which have plagued Vietnam in recent years.
- Number of trainees in the health sector at the three major hospitals through Japan's technical cooperation was more than 100,000 persons.

2.6.9 Agriculture

- Phan Rang Irrigation Project was implemented in the 1960's and the Phan Ri – Phan Thiet Irrigation Project is under construction. Furthermore, GOV and GOJ agreed in March of 2013 to implement the project, "Improvement of Irrigation System in Northern Nghe An Province," as a Japanese yen loan project, which will extend the irrigated area up to 29,000 ha after the improvement work is completed.
- Can Tho University was founded to lead agricultural development in the Mekong delta area. After the resuming of Japan's ODA, "Improvement of Facilities and Equipment of Faculty of Agriculture, Can Tho University" was implemented. The human resources for the agriculture sector developed through this university.
- Agriculture, fishery and livestock technology improved and disseminated.
- Model projects to support farmers' association implemented.
- The plant quarantine system strengthened.

2.6.10 Environment, Climate Change and Solid Waste Management

- Support for revision of Law on Environmental Protection, which will be completed in 2014, being provided.
- Environment Management (Master) Plan for Protection of Halong Bay was created and effectively implemented through "the Project on Sustainable Environmental Management of Halong Bay".
- Government capacity and human resources developed in water environment protection and management.
- Sewerage system and water treatment system improved in the major cities
- Since 2010, Japan has been supporting GOV's efforts to tackle climate change by holding policy dialogues as well as financial cooperation through the combination of technical assistance and yen loan for "Support Program to Respond to Climate Change".

- Capacity of solid waste disposal administration developed.
- 3R (reduce, reuse and recycle) Initiative Project in Hanoi City was conducted and further actions will be taken to achieve a future recycle-society in Vietnam.

2.6.11 Forestry, Natural Environment and Disaster Prevention

- Policies and master plans for reforestation and sustainable forest management in the Central Highlands Region and the Northern Mountain Region were prepared and implemented.
- At the time of resuming Japan's ODA in 1992, the environmental support through grant aid of "Improvement of Forestation Equipment in the Central Highlands" was conducted, which gave a positive influence to other development partners.
- The national percentage of the forestry area was 43.7% in 1943, decreased to 27.2% in 1990; however, increased 39.5% in 2012.
- Japan contributed to the achievement of GOV's goals of the reforestation of 5 million ha and the national percentage of the forestry area of 43% through the combination of grant aid projects and technical assistance projects.

2.6.12 Rural and Urban Development

- Urban development plans were created and implemented to improve the investment environment improvement and to make the core cities, such as Hanoi, Ho Chi Minh etc., more internationally competitive.
- Rural development plans were created and the pilot projects were conducted to promote rural industrialization and roadside stations.
- Rural infrastructure, including roads, power supply, water supply, and irrigation, were improved in 28 provinces in Phase 1, 41 provinces in Phase 2, and 36 provinces in Phase 3 of the Small-Scale Pro-poor Infrastructure Development Project.

2.6.13 JICA Volunteer Program and JICA Partnership Program

- The Japan Overseas Cooperation Volunteer (JOCV) Program for Vietnam started in 1995 and by July 2013, 345 JOCVs and 129 Senior Volunteers (SVs) have been dispatched.
- While deepening direct exchanges with the Vietnamese people, JOCVs and SVs are working in the front lines to strengthen the partnership of the two countries.
- A series of dispatched JOCVs to preserve the ancient townscape of Hoi An led to an increased awareness about environmental conservation and helped promote tourism activities in Hoi An City and other areas which were implemented in collaboration with grassroots projects under the JICA Partnership Program.

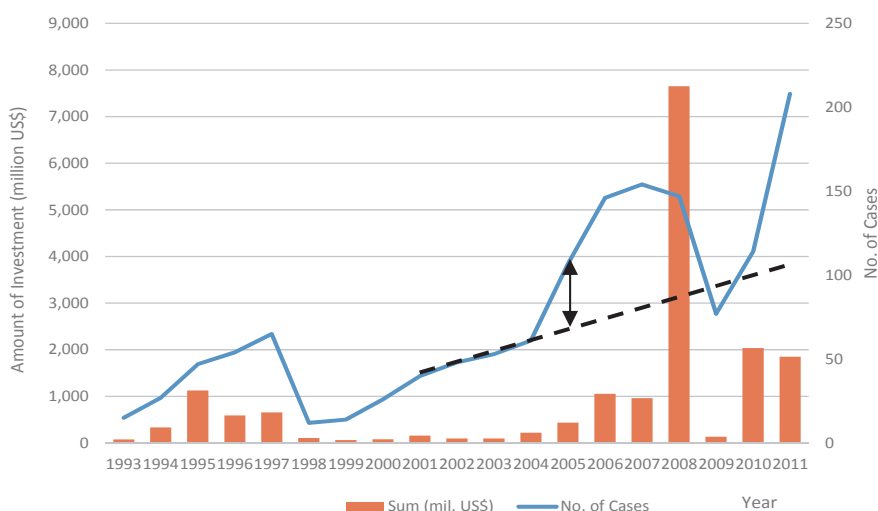
2.7 Japan’s ODA contribution to Socio-economic Growth and Development in Vietnam

In the early 1990s, the basic infrastructure such as roads, railways, power plants and transmission networks, and water supply and sewage, were not ready for industrialization. Vietnam was one of the poorest countries in the world at the time. However, within several years after *Doi Moi* was introduced, the country doubled its national income in the early 2000s, and Vietnam joined the group of middle income countries in the late 2000s.

There are many factors, which have contributed to Vietnamese rapid economic growth. Japan, as one of the leading partners, has discussed, planned, and implemented ODA projects in response to the needs of the government and the people of Vietnam and in a fashion that the supports the synergistic effects produced by respective sectors that have produced sustainable outputs and impact on economic growth and poverty reduction.

2.7.1 Increasing Japan’s Investment to Vietnam

Soon after ODA was resumed in 1992, Japan extended its support for the three pillars in i) large-scale infrastructure improvement, ii) the Study on Economic Development Policy in the Transition Toward a Market-oriented Economy in Vietnam (the so-called “Ishikawa Project”), and iii) the legal and judicial system development to promote a market economy. In addition to these three pillars, Japan has extended policy level support to increase investment from Japan by launching the Japan-Vietnam Joint Initiative (Figure 2-18).

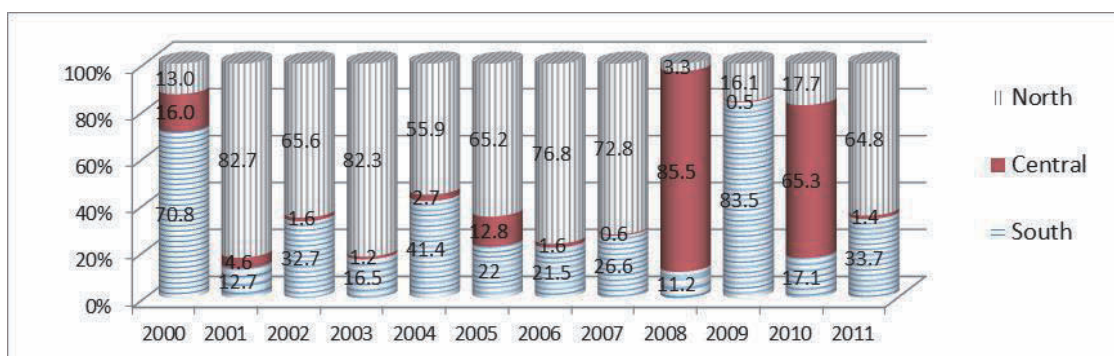


(Source: JETRO)

Figure 2-25: Japan’s Direct Investment to Vietnam (Amount and Number of Cases)

Japan's direct investment amount and cases increased from 1994 to 1997, and declined in 1998 as a result of the Asian Financial Crisis. From 1998 to 2004, the amount and cases increased relatively slowly. Japanese private funds were expanded after the Japan-Vietnam Investment Agreement and Japan-Vietnam Joint Initiative started in 2003.

Figure 2-26 shows the regional distribution of the investment amount of the Japanese companies. The Northern Area has the biggest percentage of 65.2%, followed by the Southern Area of 22.0% and the Central Area of 12.8%.



(Source: Made by the Study Team based on data from JETRO)

Figure 2-26 (=Figure 4-5): Trend of Japan's direct investment to Vietnam by region

In Figure 2-25, supposing the investment cases increased after 2005 with the same increasing rate from 2001 to 2004, the trends of the investment cases are shown with the dotted black line. The annual increasing rate of the investment cases from 2001 to 2004, while the increasing rate from 2004 to 2005 was 75%; the increasing rate increased by 60 points after 2004. The annual increasing rate of the investment amount from 2001 to 2004, while the increasing rate from 2004 to 2005 was 94%; here, the increasing rate increased by 83 points.

In 2004, the first stage of the transportation infrastructure improvement projects in the Red River Delta Region were completed and the investment environment around Hanoi and Hai Phong was almost developed. The rapid increase of the direct investment amount and the cases of Japanese private sector was mainly caused by the Japan-Vietnam Investment Agreement and by the anti-Japanese movement in China; however, the readiness of the Red River Delta Region, as above mentioned, and the coordination by the Japan-Vietnam Joint Initiative must have been provide positive incentives for the Japanese companies.

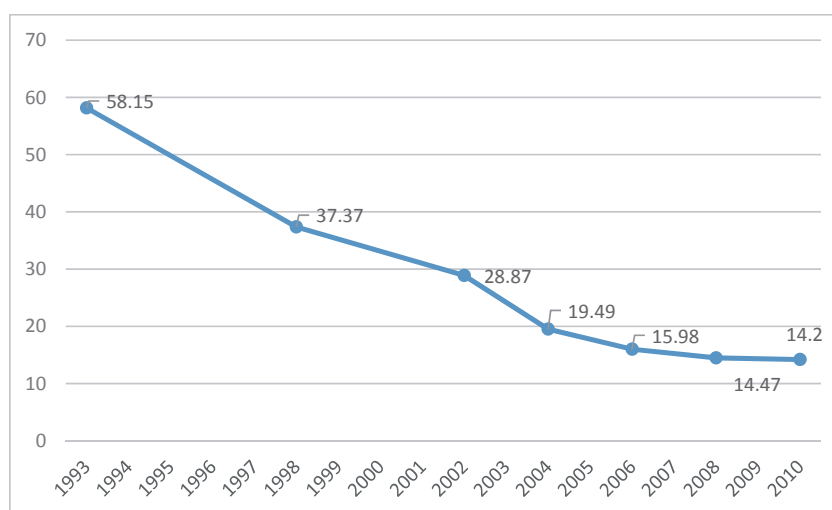
Japan's direct investment has continuously increased since 1992, although there were declines in 1998 and 2008 as a result of the Asian Financial Crisis and the Lehman shock. Japan was the top foreign direct investor as of 2012 with a cumulative amount of 28.7 billion dollars (Vietnam General Statistical Office, GSO). Japan's private sector has also become an important partner of

Vietnam.

2.7.2 Employment Opportunities and Poverty Reduction

The study carried out by the Japan Bank for International Cooperation (JBIC, at the time) in 2007 revealed that development of the transport infrastructure in the Northern Region, including the National Highway No.5 Improvement Project, boosted the construction of industrial parks and direct foreign investment, which not only created employment opportunities in the industrial parks, but also created new businesses in the surrounding areas, offered new markets for local agricultural products, and led to an increase in the income of local people and reduced poverty.

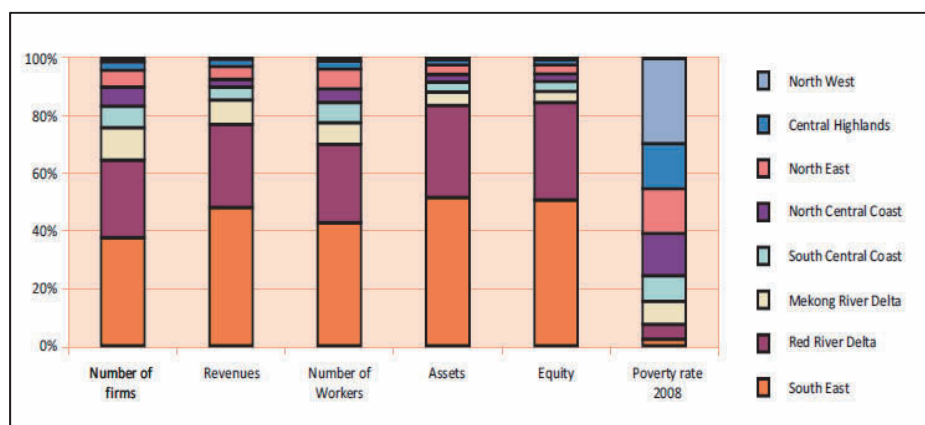
In 1993, the poverty rate was 58.15%; and the rate has drastically decreased to 14.2% in 2010 (Figure 2-27). In addition to Vietnam's own effort as well as private sector investment and the assistance from other development partners, Japan's ODA has played an important role in realizing this great achievement.



(Source : "Vietnam Poverty Analysis" 2011, IFAD)

Figure 2-27 (=Figure 2-3): Changes in Poverty Rate in Vietnam

Figure 2-28 shows the distribution of the various resources related to the employment and the poverty in the 8 areas; including north-west, central highlands, north east, north central coast, south central coast, Mekong River Delta, Red River Delta and south east.

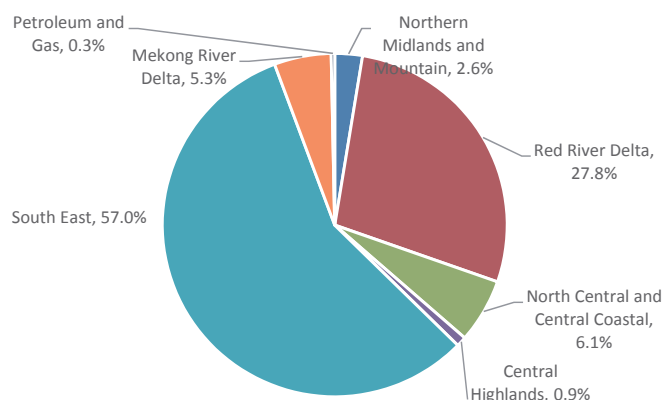


(Source : VASS, 2011)

Figure 2-28: Regional Distribution of Resources Related to Employment and Poverty

Among the 8 regions, the south east area enjoy the largest distribution of employment related resources, followed by the Red River Delta area. These two areas were provided with more than 60% of the total resources. On the contrary, 30% of the poverty distributed to the north-west area and 15% to the central highlands, north east and north central coast areas.

Figure 2-29 shows the percentage of the accumulated foreign direct investment cases by 2012 by area (GSO, 2012). South East area had the biggest percentage of 57.0% with 8,273 cases followed by Red River Delta area had the second of 27.8% with 4,034 cases. More than half of the investment cases are still in the South East area.

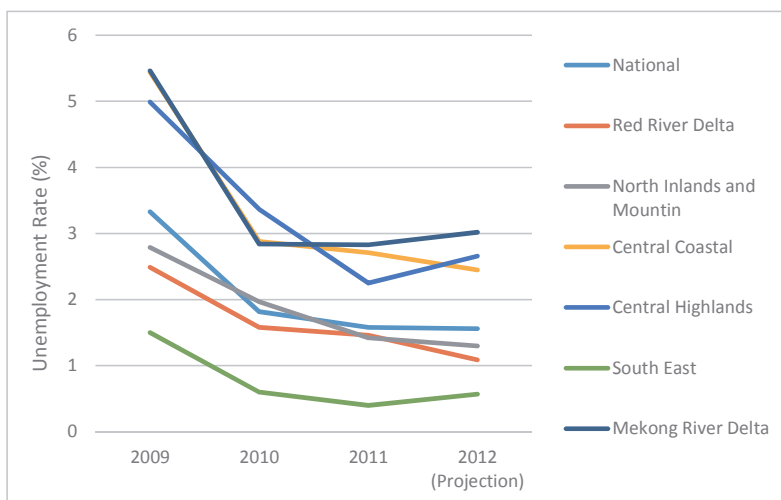


(Source : GSO, 2011)

Figure 2-29: Regional Distribution of Resources Related to Employment and Poverty

Figure 2-30 shows the trends of the unemployment rates by area from 2009 to 2012; the rate of 2012 is the projected. The unemployment rate 1.5% of South East area was the lowest in 2009 and decreased to 0.57% in 2012. Red River Delta area had the second lowest rate 2.49% in 2009 and 1.09% in 2012. Central Highlands and Central Coastal Areas had the rates of more than 5%

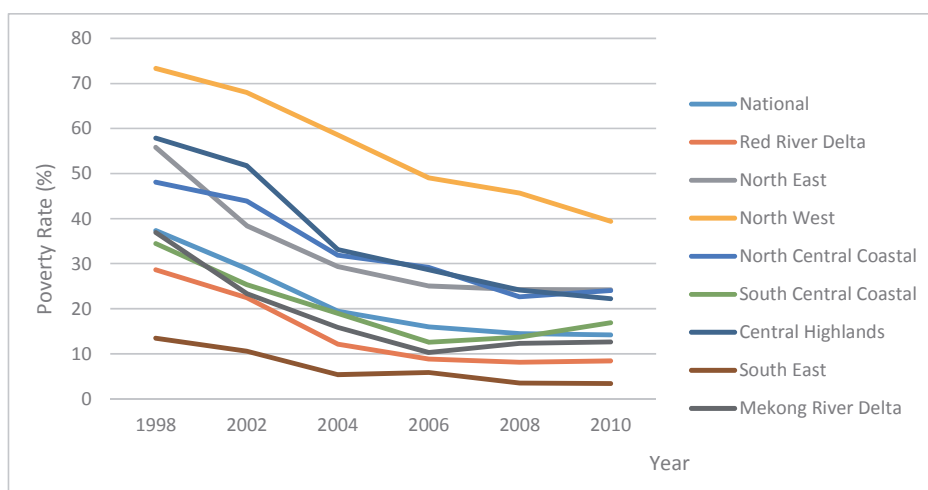
in 2009, which decreased to less than 3% in 2011. The improvement of the unemployment rates between 2010 and 2012 was relatively slow or in negative tendency.



(Source : GSO, 2011)

Figure 2-30: Trends of Regional Unemployment Rate (2009 – 2012)

Figure 2-31 shows the trends of the poverty rates by area. South East area had the lowest poverty rate 13.5% in 1998, 5.4% in 2004 and 3.4% in 2010. Red River Delta area had the second lowest rate 28.7% in 1998, which shows that around one third of the population in Red River Delta area lived a life below the poverty line in 1998. The poverty rate of the Red River Delta decreased to 12.1% in 2004 and 8.4% in 2010.



(Source : VASS, 2011)

Figure 2-31: Trends of Regional Poverty Rate (1998 – 2010)

Following GOV policies, Japan gave priority to the Red River Delta Region when they resumed

its ODA; therefore, among the infrastructure rehabilitation projects which were implemented in the first stage, National Highway No.5 Improvement Project and Hai Phong Port Rehabilitation Project were included. National Highway No.1 Bridge Rehabilitation Project and Hanoi-Ho Chi Minh City Railway Bridge Rehabilitation Project also contributed to the improvement of the transportation in the Red River Delta Region. National Highway No.10 Improvement Project, National Highway No.18 Improvement Project, Cai Lan Port Extension Project, Binh Bridge Construction Project, and Bai Chai Bridge Construction Project, started in late 1990s, further improved the modernized transportation system in the Red River Delta Region which contributed to the expansion of foreign direct investment and the creation of job opportunities.

According to the JBIC study in 2007, which was mentioned above, before the improvement project, previous National Highway No.5 was obsolete with lots of holes everywhere and with many small shops built along the highway. The road condition had not been good at all to carry the electric/electronic equipment or good quality agriculture/fishery products. After the highway improved, the local people could sell their agriculture/fishery products in Hanoi. The volume and the contents of the transportation had been changed dramatically. Industrial parks were constructed, which created lots of job opportunities. At the same time, there were various business/shops created to serve for the employees of these industrial parks. Additionally, the access roads from National Highway No.5 enabled the community members to use the bank services and the bus services, which improved their business opportunities as well as their access to education and medical services.

Japan's ODA contributed to the 20 point improvement of the poverty rate of the Red River Delta Region from 28.7% in 1998 to 8.4% in 2010, through these transportation improvement projects in that Region.

2.8 Features and Issues to be Considered of Japan's ODA to Vietnam

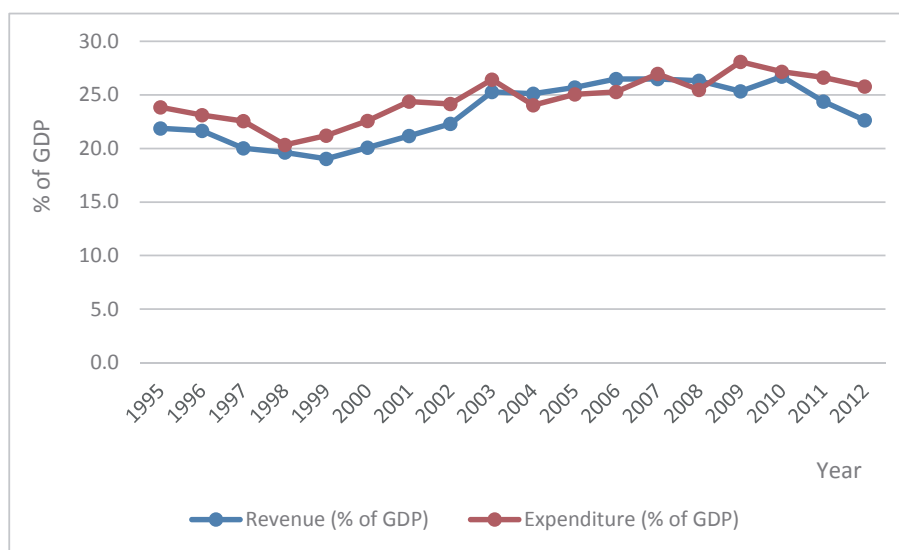
Based on the findings mentioned above, the features of Japan's ODA to Vietnam and the issues necessary to be improved are pointed out as follows.

2.8.1 Effectiveness of Financial Assistance

The accumulated amount of GOV development budget from 2005 to 2011 was 869 trillion VND (approximately 4.2 trillion yen). The accumulated amount of Japan's ODA (commitment) from 2005 to 2011 was 0.95 trillion yen, which accounted for 22.9% of the GOV investment amount (GSO).

Figure 2-32 shows the percentage of GDP of government annual revenue and expenditure from

1995 to 2012. The balances were in the red except 2004, 2005, 2006, and 2008.



(Source: ADB)

Figure 2-32: Trends of GOV Revenue and Expenditure (% of GDP)

As mentioned in “Chapter 4: Economic and Business Institutions”, the underdevelopment of domestic financial market including the capital market becomes a factor for GOV to look to external financing as a way of making up its budgetary deficit. Vietnam’s gross domestic savings rate has grown from less than 20% of GDP in the middle of 1990s to nearly 30% in recent years.

However, the World Bank points out that even if those savings were invested in a very efficient way, they would probably not be sufficient for Vietnam to become an industrial country within one generation (World Bank, 2009). While financing sources of the government are expected to be more diversified as Vietnam advances as a middle-income country, ODA, especially financial assistance, will remain a major source of funding for the time being considering that the country is still on the way to developing the financial sector as well as fiscal and financial reforms in areas such as state-owned enterprises and taxes.

2.8.2 Effectiveness of Technical Assistance

As mentioned above, the large-scale infrastructure projects with financial assistance are one part of Japan’s ODA features. Besides the infrastructure improvement, in Vietnam, technical assistance projects have played key roles to improve the investment environment and to develop the institutional and the personnel capacity for supporting the country’s economic reform.

Until the 1970s, technical assistance was generally regarded as a necessary element for human

resources development and technology transfer in developing countries. However, criticism of the effectiveness of technical assistance increased from the 1980s. Many international conferences regarding the effectiveness of technical assistance was especially held in the late 1980s and early 1990s.

The discussion point was that a technical assistance project was usually conducted i) with donor-driven approach; ii) with short-term approach and neglecting capacity and institutional development; iii) with limited capacity development by foreign experts; iv) with project approach and without respecting the development plan of partner countries; v) with a project management unit (PMU) created only for the project; and vi) with giving priority to simple knowledge transfer formal traditional training methods (lecturing etc.). According to the critiques of technical assistance, these characteristics of the donors' approach have significantly reduced aid effectiveness if they are combined with weak management capacity as well as a negative policy and institutional environment in developing countries.

In contrast to these donors' approach to conventional technical assistance, Japan has taken a different approach. The characteristics of Japan's ODA approach to the governance in Vietnam are: 1) "Think together" type approach, 2) use of Japanese experience, 3) long-term approach, 4) institutional support from relevant organizations in Japan, 5) use of existing organizations and human Resources, 6) emphasis on On-the-Job Training (OJT), 7) integrated approach which combines different schemes, and 8) taking into account governance in technical cooperation projects in general. When these factors function well, Japan's technical cooperation projects have produced significant results, which offers a totally different picture from TA's problems discussed in a number of critiques on technical cooperation given in Chapter 3 of this report.

2.8.3 Public Relations for Vietnam and for Japan

How is the contribution of Japan's ODA recognized by the people of Vietnam? JICA's Data Collection Survey on Japan's ODA Impact in Vietnam conducted a questionnaire survey for university students in Hanoi, Da Nang, and Ho Chi Minh City, bearers of this country's future, through the Internet.

For the question, "Do Japanese ODA funds have an impact on development of Vietnam?" 83 students out of 493 respondents (16.8%) replied, "Very positive impact," and 333 students (67.6%) replied, "Positive impact." Partly because the respondents are students, Japan's ODA in the education sector was the most recognized, followed by transportation, urban development and health care. For the question, "Do Japanese ODA funds promote friendship between the two countries?" 274 out of 491 respondents (55.8%) responded, "Strongly promote friendship" and 179 students (46.5%) responded, "Promote friendships." Thus, Japan's ODA is highly

recognized and appreciated.

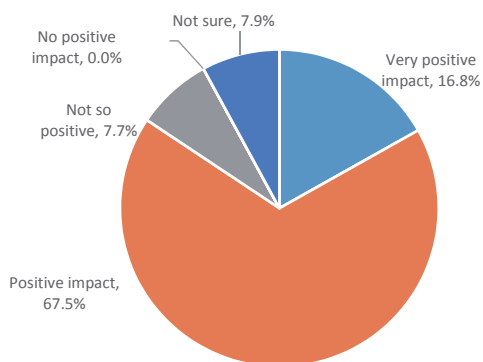


Figure 2-33: Answers to the Question “Do Japanese ODA funds have an impact on development of Vietnam?”

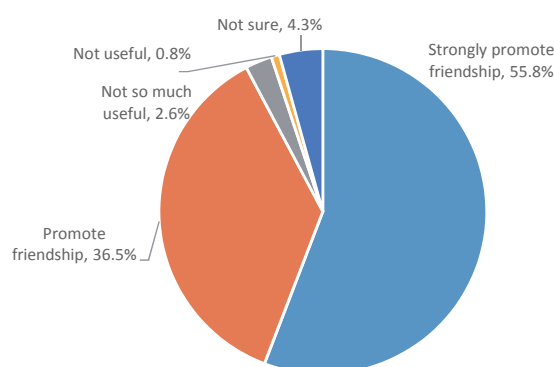


Figure 2-34: Answers to the Question to “Do Japanese ODA funds promote friendship between the two countries?”

(Source: Questionnaire Survey of the JICA Data Collection Survey)

A senior official of the Ministry of Planning and Investment said, “Vietnamese people trust Japan’s technology and have a strong interest in Japan’s ODA, and they can identify which projects are developed with the support of Japan.”

The friendship created by ODA stakeholders in both countries led to strong support from Vietnam in the aftermath of the Great East Japan Earthquake. The friendship through ODA, together with volunteers and the private sector is expected to be strengthened further.

2.8.4 Well Balanced Collaboration in the Social and the Economic Development

Sharing the belief with Vietnam that “economic growth will lead to poverty reduction,” Japan has provided assistance to develop economic infrastructure to update and strengthen the law and judicial system; and to develop institutional and individual capacity in government administration; which led to attract direct foreign investment and to create employment opportunities, based on collaboration between the public and private sectors.

Japan also has implemented projects to protect people’s lives, livelihood and living environment such as facility improvement and human resources development at Cho Ray Hospital (Ho Chi Minh), Bach Mai Hospital (Hanoi), and Central Hospital (Hue), and facility and equipment improvement against measles and the avian flu, environmental protection in Halong Bay, etc. Japan’s ODA contributed to the improvement in education and health/medical services, which led to the quality improvement of the labors and the working environment.

Thus, the three key development pillars of “ODA, investment, and trade” have been well balanced to accomplish GOV’s goal of economic growth and poverty reduction.

2.8.5 Comprehensive and Regional Development with Long-term Scope

Japan's ODA in Vietnam first created a master plan of regional development and sector-wise development together with GOV and implemented the plan. Thus, GOV understood how each of development project contribute to the regional and sectoral development and knowledge and technology exchange/transfer was done during the process of creating and implementing a master plan.

GOV's strong sense of ownership of the country development produced very positive achievement of the goals of these master plans as well as their national development plans. Japan's strategy, of creating a regional development master plan first and implementing projects, was well accepted and utilized by GOV.

In the future, technology transfer in how to review and evaluate the achievements of these master plans and programs might be needed to learn lessons from the past experiences. Additionally, instead of making a 5-year or 10-year master plan, as a nation of the middle income country group, Vietnam need to have a longer-time national development plan with the vision 2020 or 2025 and concrete scenario and strategies to realize the vision.

2.8.6 Collaboration with Multi-lateral Development Partners

Japan, cooperated with the World Bank and Asian Development Bank as a member of the Three Banks (later Six Banks) to improve Vietnam's implementation capacity when ODA resumed in 1992 and 1993. Japan and these international financial agencies have had good collaboration and coordination as good development partners to share the responsibilities to support GOV infrastructure improvement by sub-sector and/or by region to realize the effective and efficient investment of ODA funds.

Japan's ODA has its positive points. Between the two governments, policy dialogues and decision making are to be done. In Vietnam, Japan has had active policy dialogues with utilizing the occasions such as Japan-Vietnam Joint Initiative etc. As a bilateral development partner, Japan has tried to invite its own private sector to Vietnam, which has been attractive for GOV.

As multi-lateral development partners, World Bank and ADB play more flexible roles and conduct bigger scale package of interventions, which have greatly contributed to the socio-economic development in Vietnam.

GOV, because of their strong sense of ownership of the country development, has played a key role to coordinate and utilize these ODA from these development partners.

The lessons learnt from the Japan's ODA experiences in Vietnam gives us good practice of

effective collaboration and coordination between the bilateral development partner and the multi-lateral development partners.

2.8.7 Partnership for Strengthening Intra- and Inter-State Collaboration

Geographically and diplomatically, Vietnam is an important country for the regional socio-economic development in Indochina and ASEAN countries. Supporting Vietnam's reconstruction and economic growth has been a mission for Japan. Japan's stance to play an important role to build peace and stability in Indochina and Southeast Asia has been appreciated by GOV.

In the near future, Japan and Vietnam need to further enhance their partnership and intra- and inter-state collaboration and to show the leadership in realizing the peaceful, stable development of Asia.

CHAPTER 3: GOVERNANCE

3.1 20-year Partnership at a Glance in Governance

The 20-year partnership for growth and development in governance in Vietnam is summarized, along with the historical background and the priority development issues in Table 3-1.

With the introduction of the *Doi Moi* policy, GOV faced the need for comprehensive systematic reforms in order to promote the transition to a market economy and integration with the world economy. In the area of governance, important institutional reforms included reforms in planning process, public financial management, legal development, public administration, and anti-corruption activities. As GOV was aware of these needs, the importance of reforms in these areas has been pointed out in its five year development plan and strategies. In this context, Japan's support in the area of governance in Vietnam was mainly legal assistance in the 1990s. When it comes to the 2000s, Japan's ODA policy toward Vietnam emphasized governance as a basis for promoting economic growth, strengthening international competitiveness, improving social and living fields, reducing disparities, and protecting environment. This resulted in the inclusion of public administration and financial reforms as a priority area of Japan's ODA. Entering the 2010s, Japan's ODA began to emphasize support for the efforts of GOV and the party to address the strengthening of administrative functions in addition to legal reforms and public administrative and financial reforms. This has led to the inclusion of the promotion of popular participation in public administration as a priority field of Japan's ODA to Vietnam.

Table 3-1: Summary of the Partnership in Governance Sector Development

	5th SEDP (1991-1995)	6th SEDP (1996-2000)	7th SEDP (2001-2005)	8th SEDP (2006-2010)	9th SEDP (2011-2015)
Background Topics	<ul style="list-style-type: none"> • Paris Peace Agreements on Cambodia Conflict(1991) • Resumption of Japan's ODA (1992) 	<ul style="list-style-type: none"> • Restoration of Vietnam-US diplomatic relations (1995) • Formal entry into ASEAN (1995) • Asian Currency Crisis (1997) 	<ul style="list-style-type: none"> • Vietnam-US Bilateral Trade Agreement (2000) • Signing of Japan-Vietnam Investment Agreement; • Japan-Vietnam Joint Initiative (2003) 	<ul style="list-style-type: none"> • Formal entry into WTO (2007) • Lehman Crisis (2008) 	<ul style="list-style-type: none"> • Prime Minister Dung visits Japan (2011)
Sector Situation	After the <i>Doi Moi</i> policy was introduced, GOV embarked on profound and comprehensive institutional reforms in order to promote the transition to a market economy. Reforms needed to cover the following. <ul style="list-style-type: none"> • Planning process 			GOV showed significant progress in terms of public financial management and legal development. However, challenges include the following. <ul style="list-style-type: none"> • Partial progress of reform of 	

	5th SEDP (1991-1995)	6th SEDP (1996-2000)	7th SEDP (2001-2005)	8th SEDP (2006-2010)	9th SEDP (2011-2015)
	<ul style="list-style-type: none"> Public financial management Legal development Public administrative reforms (PAR) Fighting corruption 			<ul style="list-style-type: none"> planning processes Insufficient public financial management Inconsistency and weak enforcement of laws Delays in PAR Ineffective anti-corruption policy 	
Sector Priorities in SEDP		<ul style="list-style-type: none"> Develop the legislative systems and accelerate administrative reforms Decentralize the state management Strengthen capacity of public servants Anti-corruption Establish the rule of law 	<ul style="list-style-type: none"> Administrative apparatus reform Renovate and improve the quality of state officials Public financial reform 	<ul style="list-style-type: none"> Perfect the legal system and develop different types of markets Develop participants in the market economy Perfect performance mechanisms 	<ul style="list-style-type: none"> Finalize the legal system and enhance the quality of law Develop different forms of ownership Improve the business environment Develop market factors and different types of markets
Direction of Japan's ODA			<ul style="list-style-type: none"> Develop institutions, essential to achieve growth and to overcome lifestyle and social challenges 	<ul style="list-style-type: none"> Develop institutions essential to achieve growth and to overcome lifestyle and social challenges 	<ul style="list-style-type: none"> Develop the legal system Strengthen administrative systems
Priority Issues of Japan's ODA	<ul style="list-style-type: none"> Develop the legal system 		<ul style="list-style-type: none"> Develop the legal system Administrative reforms (civil service and financial reform) 	<ul style="list-style-type: none"> Develop the legal system and judicial reforms Administrative and public financial reforms 	<ul style="list-style-type: none"> Legal system and judicial reforms Administrative system reforms Popular participation in public administration

(Source: Prepared by the Study Team)

3.2 Historical Review of Development and Growth in Governance

3.2.1 Overview

After the introduction of *Doi Moi*, GOV embarked on profound and comprehensive institutional reforms in order to promote the transition to a market economy. Reforms needed to cover a broad range of areas such as planning process, public financial management, legal development,

public administrative reforms, and to fight corruption. Although they were extremely difficult tasks, the government was committed to integrating with the world market and showed a significant progress in terms of public financial management and legal development. However, the legacy of a centralized planned economy has remained deep-rooted; and this has delayed public administrative reforms, created an ineffective anti-corruption policy, and delayed participatory planning².

3.2.2 Institutional Transformation for a Socialist-oriented Market Economy

After the introduction of the *Doi Moi* policy in 1986, GOV needed to start profound and comprehensive institutional transformation of a socialist-oriented market economy. The challenges the government has faced were enormous.

Planning Process

- ♦ To reform the planning process and adapt them to the needs of a market economy required a move from directive to strategic planning, and to emphasize its role as a regulator, facilitator and provider of public goods and to de-emphasize its role as a direct supplier of goods and services.
- ♦ The main challenges included the need to introduce mechanisms for broad-based participation, result orientation, integration of sectoral policies, linkage between planning and budgeting, pro-poor focus, and reliance on evidence. With the growing importance of the reforms in the planning processes, the Planning Commission was upgraded to a ministry, and the MPI was expected to play a major role.

Public Financial Management

- ♦ Public financial management needed to be modernized. In relation to expenditures, this included: (i) to introduce a medium-term perspective into the budget process, and (ii) to link the budget with performance step-by-step to establish a distribution, management and evaluation structure of the state budget based on output results.
- ♦ In the area of government revenue, the government needed to reform tax policies to lower and stabilize tax rates, expand types of taxable items and taxpayers, rationally regulate incomes and separate social policy from tax policy.

² The following analysis in this section is based on World Bank, *Vietnam Development Report 2007: Aiming High*, Joint Donor Report to the Vietnam Consultative Group Meeting, Hanoi, December 14-15, 2006.

Legal Development

- ♦ Needed to develop a legislative system in compliance with a socialist-oriented market economy. This included: (i) promulgating new laws, including the Commercial Law, Banking Law, Customs Law, Telecommunications Law, Electrical Law, Construction Law, the Law on Science and Technology, Water Resources Law among others; and (ii) amending and supplementing existing laws on tax, investment promotion, enterprise and private sector development.
- ♦ To improve law enforcement after promulgation.

Public Administration Reform

- ♦ The challenges included: (i) functional reorganization, aimed at focusing the government on a stewardship role, (ii) decentralization of services, (iii) simplification and streamlining government procedures, (iv) strengthening employment and pay policies, and (v) increased accountability.

Fighting Corruption

- ♦ To pursue anti-corruption policies. Corruption is prevalent at all levels of the government, although it varies considerably across agencies.

3.2.3 Achievements and the Challenges Ahead

(1) Planning Process

In recent years, the government has made considerable effort to reform the planning processes, and adapt them to the needs of a market economy. The success of some of the innovations can be seen in provincial planning that took place over the last few years. In an attempt to roll out the new approach in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) to sub-national levels of government, over 20 provinces have made the attempt to reform the planning process.

But only partial progress has been achieved thus far. The central planning approach remains deeply rooted among institutions at all levels, and key principles such as a broad-based consultation, poverty orientation and the use of reliable indicators on development outcomes are not yet engrained across all government institutions in Vietnam. The main shortcomings of the current approach to planning include the lack of a coherent conceptual and regulatory framework for modern planning, insufficient integration of sectoral policies, weak linkages between planning and budgeting, the lack of explicit guidelines on consultation in the preparation of plans, the need to ground the planning processes more firmly on reliable

statistical data, as opposed to administrative records. Moreover, the weaknesses of the current planning processes may be amplified by increased decentralization.

(2) Public Financial Management

Strengthening the management of public expenditures has been a priority of GOV over the last decade. Since the landmark Revised Law on Budget was passed in 2002, enormous progress has been made in this field. This Law empowered the National Assembly and People's Councils at all levels to decide on budget appropriations, and to hold the government accountable for the use of public resources.

Other important developments include:

- The move towards increased transparency for all agencies using budget resources, including SOEs and public investment projects
- Establishment of SAV as a technically independent unit under the National Assembly
- Gradual integration of capital and recurrent expenditures through forward-looking budgets and resource allocation norms

Nevertheless, there are also many challenges ahead. They include the unbalanced composition of public expenditure, ineffective processes for prioritizing expenditures, shortcomings in the public financial management information system that results in the poor flow of budgetary information between government ministries, provinces, donors and the public, the lack of a fully consolidated budget, ineffective internal auditing, and unstable government revenue.

(3) Legal Development

Over the past two decades, Vietnam has made enormous progress in terms of developing its legal framework. Instead of the administrative orders and disciplines of the former centrally planned economy, economic and civil relations have gradually become regulated by law and market practices. A significant contribution factor of this growth is GOV's international commitments such as the USBTA and the accession to the WTO, as well as the signing of numerous international conventions and agreements. These international commitments have resulted in the accelerated issuance of the most important legal normative needed in the conduct of business.

However, GOV still faces many challenges. They include an unsatisfactory current legal framework for the activities of civil society organizations, complex and inconsistent legal framework, weak implementation of legal provisions, insufficient dissemination of laws to lower levels of government, along with clear guidelines on the interpretation, application and

enforcement, poor quality of legal documents, low levels of confidence in the court because of weak administrative, insufficient access to justice and low levels of independence of the judiciary.

(4) Public Administration Reform

Since Public Administration Reform (PAR) started to become prominent in the early 90's (officially endorsed in 1995), action has been taken to reorganize government functions, streamline administrative processes and strengthen accountability.

- ♦ Service delivery units have been separated from administrative organizations, and have been allowed to raise fees for some of the services they provide.
- ♦ There has been clear progress due to the streamlining of government processes. The adoption of the OSS model has reduced red tape and enhanced transparency.
- ♦ Establishment of E-government is another important mechanism to increase efficiency, boost transparency and reduce corruption.
- ♦ Better policies related to government employment and pay have been developed, with the aim of providing adequate incentives while keeping the payroll affordable.
- ♦ Several measures have been undertaken to increase government accountability. Administrative courts, introduced in 1996, represent a major effort to protect the right of citizens and businesses in relation to the administration.
- ♦ The promotion of grassroots democracy was another important step towards increased government accountability at the commune level.

In spite of these developments, there is a consensus among donors that progress in public administration reforms is very slow overall. The problems include the neglect of service that should be provided free of charge and overly high pricing in some areas as a result of reforms in service delivery, partial or incomplete implementation of streamlining administrative procedures, low quality and fragmentation in the construction of e-government, lack of comprehensive definition of duties and salary system based on performance, and different implementation of grassroots democracy initiatives depending on the region.

(5) Fighting Corruption

A strong political will to fight corruption has emerged in recent years. Undue appropriation of funds has been reduced by the recent progress in increasing transparency in the management of public expenditures. .

- The budget is fully disclosed, as are extra-budgetary accounts.
- A single treasury account has been introduced,
- International public sector accounting standards have been adopted

- Information management systems have been modernized.

However, two recent studies suggest that corruption is prevalent throughout all levels of the government, although it varies considerably across agencies. The forms of corruption most commonly mentioned are soliciting bribes by creating obstacles, accepting bribes for favors, and using public means for personal benefit.

3.2.4 Donors' Activities

In response to the needs of Vietnam to achieve its ambitious goals for economic growth and human development, many donors have assisted the government's efforts to improve governance, which was seen as critical for the realization of its goals. The donors' assistance in the area of governance have been aimed at addressing the development challenges in planning processes, public financial management, legal development, public administration reform, and fighting corruption, described in the previous section. Table 3-2 shows the basic policy and programs of major donors in the field of governance in Vietnam.

Table 3-2: Donors' Assistance Programs in the area of Governance

Organization	Basic Assistance Policy	Programs
World Bank	<ul style="list-style-type: none"> ♦ When we refer to 'governance' we have in mind something much broader than 'state management'. State management is part of governance, but the governance system also includes citizens, firms, civil society organizations, professional associations, and many others playing a variety of roles. ♦ The World Bank's Country Partnership Strategy 2012-2015 emphasizes that improving governance demands addressing fundamental imbalances in access to information, strengthening civic participation and enhancing accountability, and reducing corruption. Only by integrating governance fully into the country program will we be able to support Vietnam's aspirations for building a modern governance system by: <ul style="list-style-type: none"> ➢ Strengthening Accountability ➢ Expanding Access to Information ➢ Reducing Corruption 	<ul style="list-style-type: none"> ♦ The governance unit of the World Bank, Vietnam, is planning the following activities <ul style="list-style-type: none"> ■ Anti-corruption and Transparency work ➢ This is a programmatic set of activities including reports, workshops, and hands-on assistance, aimed at strengthening governance in Vietnam. The overarching development objective is to support Vietnam's efforts to strengthen governance, by working directly with governmental and nongovernmental counterparts, and internally within the Bank. The pillars of the programmatic TA are transparency, accountability, anticorruption, and governance mainstreaming. ♦ Other projects related to governance include: <ul style="list-style-type: none"> ■ Vietnam Poverty Reduction Support Credit ■ Multi-Donor Trust Fund to Support Public Financial Modernization in Vietnam-Phase 2 (PFM/MDTF-2) ■ Tax Administration Modernization Project (TAMP) ■ Additional Financing to the Public Financial Management Reform Project ■ Analytical works including: "Governance", "Aiming High", "Modern Institutions"
UNDP	<ul style="list-style-type: none"> ♦ To meet its ambitious goals for economic growth and human development, Vietnam will need governance built on the principles of equity, accountability, democracy and transparency. High standards in public service delivery and greater participation in decision-making will be central. ♦ UNDP projects support the strengthening of Viet Nam's elected bodies at the national and local levels; establishment of a legal framework; administrative reform; decentralization; management of public finances; and preparation for Viet Nam's entry into global trading systems and institutions. 	<ul style="list-style-type: none"> ♦ Three core areas in democratic governance <ul style="list-style-type: none"> ■ Public Administration Reform ➢ emphasizing mechanisms to increase people's participation and improve accountability with government budgets and services to the poor. ■ Rule of Law and Access to Justice ➢ including further support to legal and judicial reforms especially as they seek to enhance legal safeguards and justice mechanisms for the poor. ■ Parliamentary Development ➢ focusing on enhancing the capacity of the National Assembly and People's Councils to exercise their core functions and represent the interests of the poor. ♦ Small governance activities: <ul style="list-style-type: none"> ■ 1) Human right, 2) Civil society, 3) Anti-corruption

ADB	<ul style="list-style-type: none"> ◆ ADB has supported the implementation of the Public Administration Reform Master Program which was designed to lay foundation for the public sector in the country in order to realize the twin goals of high economic growth and sustainable poverty reduction. ◆ Two priority reform areas of the Phase I Support Program was: <ul style="list-style-type: none"> ➢ Training and retraining to improve the quality of public officials ➢ Modernization of the administrative system, including e-government initiative. ◆ ADB is now planning a new program to support the implementation of PAR Master Program (2011-2020). 	<ul style="list-style-type: none"> ◆ The core of ADB's assistance is support for public administration reform <ul style="list-style-type: none"> ■ Support the Implementation of the Public Administration Reform Master Program, Phase I (2003-2005) <ul style="list-style-type: none"> ➢ Objectives: To enhance the transparency, accountability, and quality of the civil service; and improve the efficiency and effectiveness of public service delivery. ➢ Three components: 1) PAR MP implementation measures and actions; 2) Training and retraining the quality of public officials; 3) Administrative modernization, including computerization and e-government initiatives ■ Support the implementation of Public Administration Reform Master Program (2011-2020). <ul style="list-style-type: none"> ➢ The priority area is the government reform plan on the establishment of competency based public administration system that shift the public administration system from person based management to position based management.
DFID	<ul style="list-style-type: none"> ◆ DFID uses CAR (Capability, Accountability, Responsiveness) as a framework of governance. Within this framework, the government situation of Vietnam has not changed. The performance of Vietnam has been relatively good in terms of capability and responsiveness, but weak with respect to accountability. The weak performance of accountability has resulted from bureaucracy, restriction on civil society and media (especially on anti-corruption coverage) ◆ Until 2007, DFID's governance support has been focused on public financial management (e.g., Poverty Reduction Support Credit). ◆ Since 2008, DFID has shifted its focus to improvement of transparency and audit in the country. 	<ul style="list-style-type: none"> ■ Vietnam Governance, Economic Management & Social Protection Programme <ul style="list-style-type: none"> ➢ Significant reforms adopted by the Government in the policy spheres of governance (openness and transparency), macroeconomic stability and social protection ■ Vietnam Empowerment and Accountability Programme <ul style="list-style-type: none"> ➢ Increased opportunities for Vietnamese citizens to engage in decision making processes affecting their lives and to hold the decision makers to account ■ Vietnam Anti-corruption Initiative <ul style="list-style-type: none"> ➢ To support the Government Inspectorate to implement the Vietnam Anti-corruption Initiative, the competition for innovative ideas to promote transparency, accountability and fight against corruption ■ Anti-corruption Strategic Fund <ul style="list-style-type: none"> ➢ Active and aware stakeholders bring pressure by working together with a more responsive Government to better tackle corruption ■ Transparency International Vietnam Programme - Strengthening Anti-Corruption Demand <ul style="list-style-type: none"> ➢ Raise the awareness on the impact of corruption and help reduce risks and occurrence of corruption practice in Vietnam
USAID	<ul style="list-style-type: none"> ◆ Since 2001, USAID has focused on activities to support an 	<ul style="list-style-type: none"> ■ Star Plus Project

	<p>enhanced business environment through legal and regulatory reform, competitiveness, intellectual property rights protection, infrastructure financing, and agricultural development.</p> <ul style="list-style-type: none"> ◆ The first governance program started in 2011 to build capacity in Vietnam's Institute for Legislative Studies. At present, USAID is planning to implement a big five year governance program in 2014. 	<ul style="list-style-type: none"> ➤ The components of Project include (i) <u>Legal Transparency and Security</u> and (ii) <u>Customs Modernization</u> ■ Vietnam Legislative Research Program ➤ To strengthen the Institute of Legislative Research's (ILR's) overall capacity, improve the services it provides to the National Assembly, and assist the ILS in becoming the leading center for research and policy analysis for the National Assembly. ■ New Governance Program ➤ Objective: To promote governance and inclusive growth. The program integrates the field of governance and economy including trade. ➤ Components: 1) Inclusiveness, 2) Accountability of public institution, 3) Legal and regulatory framework
DANIDA	<ul style="list-style-type: none"> ◆ The Danish strategic priorities for effective and accountable public sector management are centered on three components. <ul style="list-style-type: none"> ➤ Anti-corruption; ➤ Decentralization, local governance and service delivery/ and ➤ Public finance management. ◆ These priorities are included in the Danish development strategy – which emphasizes that the public sector should be able to meet the basic needs of the people and provide the necessary framework for growth, development and more open societies. 	<ul style="list-style-type: none"> ■ GOPA II (2012-2015) ➤ Public Administration Reform (PAR) <ul style="list-style-type: none"> ◆ Supports PAR in the same 5 provinces. ➤ Human Rights Education and Research <ul style="list-style-type: none"> ◆ Supports three institutions: Vietnam Academy of Social Science, Vietnam National University and Mo Chi Minh City Law University. ➤ Public Participation and Accountability <ul style="list-style-type: none"> ◆ Support the Office of the National Assembly (ONA) and the National Assembly for : 1) Parliament-to-parliament cooperation between the Danish and Vietnamese parliaments, and; 2) short-term scholarship and targeted courses for ONA staff. ➤ As a new feature of GOPAII, support is provided to NGOs through a grant scheme mechanism consisting of a Grant Fund and a Capacity building Facility, the Public Participation and Accountability Facilitation Fund (PARAFF). The support is intended to help NGOs to contribute with qualified and evidence-based inputs and dialogue with government authorities and the NA.
GIZ	<ul style="list-style-type: none"> ◆ The sustainable and inclusive development of a country can only succeed if the population, civil society and 	<ul style="list-style-type: none"> ■ Promoting civil society and good local governance ➤ Objective: Civil society and rule of law are strengthened and benefit inclusive

	<p>semi-governmental actors - as well as non-governmental organizations and mass organizations – are able to participate in the planning, implementation and monitoring of local development processes.</p> <ul style="list-style-type: none"> ♦ In Vietnam legal regulations already exist, such as the Grassroots Democracy Ordinance (GDO), which aims to enable participatory development processes with the inclusion of the local population. However, such regulations are not being implemented nationwide. Ethnic minorities, people with disabilities and the victims of domestic violence often face huge difficulties in exercising their rights. 	<p>and sustainable poverty reduction. The participation of the population, in particular of marginalized groups, in decision-making processes is assured.</p> <p>➤ Approach:</p> <ul style="list-style-type: none"> ❖ The Vietnam partners (non-governmental and mass organization as well as governmental actors at the district and municipal levels) receive support through: ❖ Capacity Development: coaching, training and publications on topics such as planning, monitoring and evaluating, gender, organizational development and good governance. ❖ Financial support for projects that contribute to the objectives of the program. ❖ Distribution and administration of third-party funding for poverty reduction projects through cooperation with the W.P. Schmitz Foundation.
AusAID	<ul style="list-style-type: none"> ♦ Under the AusAID framework, ‘governance’ embraces economic and financial management, public sector management, legal and judicial development, and the development of civil society. ♦ The recent AusAID programs in the area of governance in Vietnam include Anti-corruption training program with the Communist Party Inspectorate, the Human Rights Technical Cooperation Program, and the BWTO program. 	<ul style="list-style-type: none"> ■ Vietnam Communist Party Anti-corruption Program 2011-14 <ul style="list-style-type: none"> ➤ Goal: The ultimate goal of this program is to contribute to a reduction in corruption in Vietnam. This will be achieved through supporting the objectives of the Communist Party’s anti-corruption strategy to 2020. ➤ Components: 1) High-level policy training; 2) Thematic and operational training to tackle corruption; 3) A modest continuous development for alumni and opportunities for inspectors to participate in international anti-corruption conferences. ■ The Human Rights Technical Cooperation Program (2006-) <ul style="list-style-type: none"> ➤ To support the formal Human Rights Dialogue between Australia and Vietnam. ■ The Beyond WTO program <ul style="list-style-type: none"> ➤ Aims to help Vietnam take best advantage of the opportunities of greater economic integration and to mitigate its negative impacts, particularly in rural areas.
CIDA	<ul style="list-style-type: none"> ♦ The promotion of good governance in Vietnam has been a central feature of all of CIDA’s 5-year programming frameworks (CDPFs) for Vietnam beginning in 1994. 	<ul style="list-style-type: none"> ■ Policy Implementation Assistance Project (PIAP) <ul style="list-style-type: none"> ➤ PIAP has been implemented since 1996 to provide policy advice to Vietnam key institutions including Prime Minister. The present PIAP is focused on

	<ul style="list-style-type: none"> ◆ After the 1999 CDPF update, its governance portfolio was significant. In included policy advice to Vietnam's Prime Minister and National Assembly, environmental governance, legal reform and support to non-state organizations. ◆ CIDA was also working with "provincial" governments and this had an element of supporting governance through decentralization. ◆ CIDA's programming was "designed to improve the policy environment and strengthen the institutional capacity of the GOV to facilitate Vietnam's economic transition and at the same time to contribute to more transparent and accountable governance." 	<p>support of three National Assembly Committees (Law, Judicial, and Social Affairs), including a Parliamentary Initiatives Fund similar to the SIF.</p> <ul style="list-style-type: none"> ■ Legal Reform Project (LERAP) (2001-2007) <ul style="list-style-type: none"> ➢ The project aimed to support the legal framework for international economic integration, strengthen capacities for legal analysis, and improve systems for civil judgment execution. ■ Judicial Development and Grassroots Engagement (JUDGE) Project (2006-2011) <ul style="list-style-type: none"> ➢ Is a capacity building project to increase independence, transparency and accountability of the judiciary, and to increase public knowledge of laws and legal rights and access to equitable and unbiased dispute resolution systems. ■ Project of Strengthening the Capacity of the Inspectorate System (POSCIS) <ul style="list-style-type: none"> ➢ The aim was to strengthen the capacity of the Government Inspectorate System to address corruption and to improve transparency in public administration through enhanced organizational structure, operations and capacity within the inspectorate system. ■ Other assistance includes Governance and the Poverty Reduction Support Credit, and Banking Reform Project (2005-2010)
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3.3 Japan's ODA in the Governance Sector

3.3.1 Overview

Japan's support in the field of governance in Vietnam was mainly legal assistance from 1993 to 2003. In 2004, however, support for public administrative and financial reforms were included in Japan's ODA, which resulted in the expansion of governance projects in customs modernization, tax administration, capacity development of civil servants, ODA management, and enforcement of competition law, in addition to legal and judicial system reforms. In mid-2000, the effect of this long-term legal support became visible. The draft of the Revised Civil Code supported by JICA was passed by the National Assembly in 2005. The Civil Procedure Code was also approved by the National Assembly in 2004 and came into force in January 2005. Subsequent support for the Legal and Judicial System Reform Project, which focused on enforcement of the laws and capacity building at the local level started in 2007 and has continued to operate until now. Since 2010, in addition to support for legal development and administrative and financial reforms, promoting public participation in the administrative decision making process has become a priority area of Japan's ODA. The support for the capacity building of the National Assembly and Vietnam Television (VTV) are Japan's new areas of assistance in the field of governance in Vietnam.

3.3.2 Support for the Development of Legal Systems (1993-2003)

Since the announcement of the *Doi Moi* policy in 1986, Vietnam began the transition to a market economy system and integration into the international community. The government established a new constitution in 1992 and developed many laws in the 1990s. However, many of the laws that had been enacted during this period were forced to be revised in a short period of time because of undeveloped basic legal theory and legislative know-how, as well as thinking that was dependent on a planned economy. Thus, Japan's first assistance in the governance field in Vietnam was the introduction of the Japanese Civil Code and advice to establish a Civil Code by Professor Morishima at Nagoya University in Japan. The Ministry of Justice of Japan then started to provide Vietnamese officials with training in Japan under the framework of JICA assistance in 1994. Legal assistance to Vietnam became an official JICA project in JFY1996.

In the project, "Cooperation in the Legal and Judicial Field in Vietnam , Phase 1 and Phase 2," Japanese legal institutions were introduced (the system of legal human resource development, Code of Civil Procedure, Civil Execution Act, the Law on Registration of Immovable Property, Code of Criminal Procedure, Intellectual Property Law, Securities and Exchange Law, and Maritime Law) and professional advice and guidance were provided for issues related to the

enactment of the Revised Civil Code and Civil Procedure Code. During this process, both the Japanese and Vietnamese sides learned from each other and accumulated knowledge regarding the legal systems of partner countries. Thus, the Japanese side was able to grasp the real needs of the Vietnamese side and examined what Japan would be able to offer Vietnam.

In Phase 2, the purpose of the project became more concrete; and the number of participating institutions increased to include the Supreme People's Court (SPC) and the Supreme People's Procuracy (SPP) in addition to the Ministry of Justice (MOJ), which was the original member of the project. Partner organizations in Japan, the Ministry of Justice, the Supreme Court, the Japan Federation of Bar Associations, and Nagoya University provided institutional support for the project.

3.3.3 Inclusion of Support for Administrative and Financial Reform (2004-2009)

Since 2004, Japan has also supported administrative and financial reforms, in addition to legal support. According to Japan's *Country Assistance Program for the Socialist Republic of Viet Nam* in 2004, in the development of the legal system, priority for assistance was given to the compilation of legislation, including the Civil Code and the Code of Civil Procedure that form the basis for a market economy, assistance for judicial reform, emphasizing transparency in the judicial system, and assistance for human resource development by enhancing the functions of institutions for training legal professionals.

Assistance was also provided for the development and dissemination of legal information that is required in connection with judicial system reforms. In addition to this legal support, the program added support for administrative reform as a priority area, i.e., priority for assistance to reform the civil service system and fiscal reform (public expenditure management, including taxation and the taxation system, and enhancing links between policies and resource allocation mechanism).

As a result, in addition to legal support, Japan's areas of assistance expanded at once, including support for enforcement of competition law, assistance for strengthening administrative functions including ODA management, development policy formulation, capacity development of government officials, tax and custom administration.

It should be noted that long-term assistance to develop the legal system since JFY1996 had produced significant results. The project purpose in the "Cooperation in the Legal and Judicial Field in Vietnam, Phase 3 (JFY2003-2007)", included 1) enhancing the law drafting capacity of the legislative staff to ensure that basic civil laws were consistent with the market economy, and 2) to establish the institutional framework to develop high-caliber human resources in the judicial sector. In order to achieve these objectives, the Project had the following components.

Component 1: Support for Legislative Revision of the Civil Code and Related Laws

- (1) To prepare the final draft of a revised Civil Code consistent with a market economy
- (2) To obtain basic knowledge about the legislation of intellectual property and to prepare drafts of intellectual property regulations consistent with the revised Civil Code
- (3) To prepare the final drafts of the Civil Procedure Code and the Law on enterprise bankruptcy consistent with a market economy
- (4) To prepare drafts of other laws related to the Civil Code

Component 2: Support for Strengthening Human Resources in the Judicial Sector

- (1) To improve training programs and materials of existing judicial training institutions
- (2) To compile standardized judgment documents and court precedents that are accessible to the legal profession
- (3) To obtain knowledge on Japanese laws by students of the Law Faculty of VNU, and to train lecturers specializing in Japanese laws

The Japanese side, composed of jurists (Civil Code, Code of Civil Procedure, etc.), Ministry of Justice, Supreme Court, and the Japan Federation of Bar Associations supported the project and set up joint study groups for each issue such as 1) revised Civil Code, 2) Code of Civil Procedure, 3) legal training, 4) judgment documents and court precedents. On the Vietnamese side, Hanoi National University joined the project, in addition to the Ministry of Justice, the Supreme People's Court, and the Supreme People's Procuracy as implementing agencies.

Most of the laws targeted by the project were approved by the National Assembly (NA) and enacted within the period of the project. They were as follows.

- (1) Revised Civil Code: approved by NA on 14th June, 2005 and came into force on 1st January, 2006;
- (2) Intellectual Property Law: approved by NA on 29th November, 2005 and came into force on 1st July, 2006;
- (3) Civil Procedure Code: approved by NA on 15th June, 2004 and came into force on 1st January, 2005;
- (4) Law on Enterprise Bankruptcy: approved by NA on 15th June, 2004 and came into force on 15th October, 2004.

In addition, common curricula, text books, manuals etc., which were to be used in the national judicial school, were produced by the project.

After the end of the legal support project phase 3, “Technical Assistance for Legal and Judicial System Reform (Phase1: JFY2007-2011)” was implemented which focused on enforcing laws and regulations and capacity building at the local level. In the legislative field of Vietnam at the

time, since the contents of the law were still unclear, contradiction and discrepancy were observed. In the judicial field, the weak capacity of judges, procurators and lawyers to conduct practical work was problematic. At the local level, since these judicial officials did not fully understand the new laws that were created at the central level, an appropriate trial could not be expected. In addition, the relevant agencies of the central government did not have mechanisms to grasp such problems at the local level, respond to the problems, reflect those problems in their policy, and to build capacity at the local level. The new JICA's project was a response to these local needs.

There were three objectives in the Technical Assistance for the Legal and Judicial System Reform (Phase1): 1) to accumulate experience to improve adjudication and the execution work of judicial authorities in Bac Ninh Province (pilot area), 2) to absorb, analyze, and utilize the cumulative experience by central judicial authorities and unified central lawyers' organization, and 3) to improve the capacity of central judicial authorities and the unified lawyers' organization concerning supervision over, and/or providing guidance and support to local judicial authorities and lawyers nationwide. In terms of implementation, JICA dispatched 3 long-term experts, a procurator, judge, and lawyer, and established working groups both in Japan and in Vietnam for each activity.

Like this project, the technical assistance projects to support competition law, tax administration reform, and modernization of customs started during this period, and have continued up to the present. After the implementation of the development study, "Capacity Building for Enforcement of Competition Law," "Technical Cooperation Project for Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam (JFY2008~2012)" was implemented in order to establish the operational framework of the Vietnam Competition Authority (VCA) to effectively enforce the Competition Law and policy. This Project had 2 components 1) to enhance the investigative function of the VCA and 2) promote and disseminate knowledge about the Competition Law among governments, enterprises, consumers and academics. The cooperation agency in Japan was the Japan Fair Trade Commission and the implementation agency in Vietnam was the VCA.

For tax administration reform, the "Project on Tax Administration Reform in Vietnam (Phase 1)" was implemented between JFY2005 and JFY2008. The objective of this project was to build the capacity for staff training in the General Department of Taxation and to build the capacity of the Department to provide appropriate instruction to the local tax office and provincial department of taxation. For this project, the General Department of Taxation in the Ministry of Finance established working groups in order to develop an improvement plan on taxpayer service for the Public Relations and Taxpayer Service Department, to develop a plan and basic study methods on the tax audit conducted by the Tax Investigation Bureau, and to develop a basic training

curriculum and improvement plan on staff training by the Staff Training Center.

To strengthen Customs administration, the “Capacity Building of Master Trainers for Modernization of Customs Administration Project (2004-2007)” was implemented. The purpose of the project was to foster master trainers capable of providing practical training in Customs Valuation, Post Clearance Audit and HS Classification (including chemical analysis) based on international standards, and acting as instructors in staff training courses. For this project, the General Department of Vietnam Customs in the Ministry of Finance established a project steering committee and 3 working groups in order to carry out the following activities.

- (1) Prepare an activity plan to develop master trainers capable of teaching Customs officers in local staff training courses.
- (2) Prepare training materials and teaching guidelines, in order to introduce international standards to regional Customs offices.
- (3) Conduct periodic on-the-spot training by the master trainers at selected regional Customs offices.
- (4) Prepare a sustainable training plan that would be implemented after the project is completed.

3.3.4 Response to Vietnamese Initiatives as a Middle-income Country (2010-)

Japan’s *Country Assistance Program for Viet Nam* in 2009, like that of 2004, emphasized “Administrative and Public Finance Reforms” and “Development of Legal Systems and Judicial Reforms” as priority areas for Japanese assistance. However, the program in 2009 took it one step further with a “goal to contribute to achieving highly transparent public administrative and financial systems, and to strengthening the response to decentralization.” In terms of the development of legal systems and judicial reforms according to the program, the following areas of support would be provided in a mutually integrated and coordinated manner in addition to support for enacting and amending laws such as “support for building and improving systems necessary for the execution of laws, support for human resource development to improve the capacity to implement laws at a practical level, including in local areas, and support for improving dissemination of legal information and access to justice.”

Japan’s *Country Assistance Program for Viet Nam* revised in 2012, went further in governance support. The new program emphasized the promotion of public participation in public administration in addition to previously supported fields such as legal and judicial reform as well as strengthening administrative functions. In this area, the new assistance program emphasizes support for the government’s efforts to renew educational and training programs in a situation where the entire government, including the local government, is required to enhance the capacity

to formulate and implement policy in the face of increasingly complex development issues. Assistance is also provided to the Office of Government and Ministry of Planning and Investment to strengthen policy coordination mechanisms and policy formulation capacity in priority areas. In terms of institutional reform, the new program stresses the need to improve the environment of policy formulation and the enforcement of individual civil servants and administrative organizations. To popular participation in public administration, the program supports “the government’s efforts to strengthen the institution of national assembly and public broadcasting.”

“Technical Assistance for the Legal and Judicial System Reform (Phase1: JFY2007-2011)” was an example of Japan’s assistance to build and improve systems necessary to execute laws and human resource development in order to improve the capacity to implement laws at a practical level, as well to support improved dissemination of legal information and access to justice. There were four components in the project, which were 1) improve the capacity in adjudication and the execution work of judges, procurators, lawyers and judicial officials of the local judiciary and judicial support subsystem in Bac Ninh Province (pilot area) and to gain experience in improving this capacity in the pilot area, 2) improve the institutional capacity of central judicial authorities and the relevant unified central lawyers’ organization to absorb, analyze and use the lessons and experiences gained from activities in component 1, and 3) prepare drafts (revisions of) legal normative documents which provide fair and transparent scheme/framework of the subject matter and/or serve to improve adjudication and execution work as well as the tasks of the judicial support subsystem, and 4) enhance the institutional capacity to train judicial titles based on the lessons and experience gained from the activities in component 1, 2, and 3.

The objective of the “Technical Assistance for the Legal and Judicial System Reform (Phase2: JFY2011–2015)” that followed is to strengthen the organizational and human capacity of central judicial institutions concerning the content and operation of legal normative documents as well as works for trial and enforcement. There are two components in this project, which are 1) capacity building of national central judicial institutions for monitoring, guidance, advice and supervision of works in the field; and 2) drafting of legal norms documents such as substantive law, procedural law, and organizational law, which become the basis of appropriate trial.

Several cooperation programs have been started to support educational and training programs reforms of the government and the party as part of the assistance to strengthen administrative functions. “Capacity Development Program to Formulate Socioeconomic Development Policy (JFY2010-2012)” provided participants, who were high-level policy makers and the director-general level or more in Vietnam, with opportunities to acquire knowledge about Japan’s administrative system and development experience through a study tour in Japan and seminar in Vietnam. Another project in this category is the “Development of Implementation Capacity for

Training of Government Officials at HCMA (JFY2013-2016),” where the objective is to strengthen the framework to promote the capacity building of the cadre of civil servants in Ho Chi Minh National Political Academy (HCMA). To this end, the project carries out activities to strengthen the management capacity of the HCMA to conduct training for state leader candidates, and to strengthen the capacity of the NAPA to develop programs for the School of Public Policy. The groups targeted in the project will be 60-70 HCMA staff, and about 500 HCMA trainees, who work as leaders of government, party and mass organizations.

Other projects have been implemented to strengthen policy coordination mechanisms and policy formulation in priority areas, as well as to improve the environment for policy formulation and execution in administrative institutions. “Capacity Building of the Office of the Government (JFY2012-2015)” was started to instill OOG officers with professional knowledge and skills to propose government solutions in their relevant sectors and areas through a study tour conducted in Japan, seminars in Vietnam, and joint studies on selected issues. “Advisor for Capacity Strengthening of Development Planning Consultation (JFY2012-2014)” was implemented to strengthen the capacity of researchers at the Vietnam Academy of Social Sciences (VASS) to make recommendations on formulating and implementing development plans and strategies.

There are two projects that promote popular participation in public administration. “Training for Capacity Development of the Office of National Assembly (JFY2010-2013)” was conducted through a study tour in Japan and a seminar held in Vietnam to introduce the Japanese experience in this field to the staff of the Office of National Assembly. The other project was the “Capacity Development Program for Vietnam Television (VTV) (JFY2012-2015)” which targets the effective use of a broadcasting center constructed by ODA loans as an education infrastructure, and to enhance the implementation capacity of the VTV staff in public broadcasting know-how and the production of social enlightenment programs. The components of the program are 1) training the production and news bureau staff, 2) OJT training of a chief candidate for the VTV Tokyo Bureau at NHK International, and 3) supporting production of documentaries.

3.4 Contribution of Japan’s ODA to Governance Development

This section will examine the outcomes of Japan’s ODA projects and their significance for socio-economic development in Vietnam by focusing on good practices of JICA’s technical cooperation projects in the field of governance. The “Cooperation in the Legal and Judicial Field – Phase 1~3”, the “Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam”, and the “Capacity Building of Master Trainers for Modernization of Customs Administration Project” are given as case examples of Japan’s ODA that have made major contributions to governance in Vietnam.

(1) Outcomes of Japan's ODA

Enactment of laws and strengthening of their enforcement system

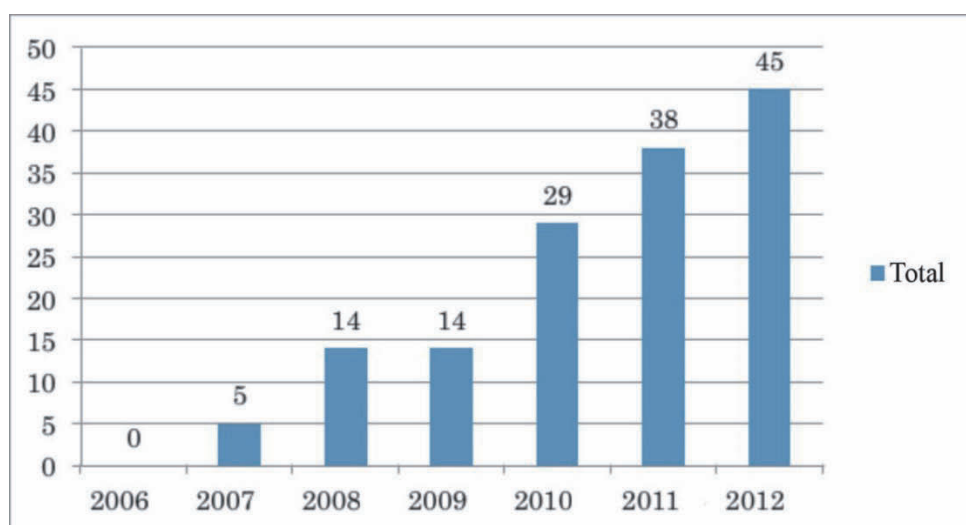
In order to promote the transition to a market economic system and integration into the international market, GOV developed many laws in the 1990s. However, many laws that had been enacted during this period were forced to be revised in a short period of time because of underdeveloped basic legal theory and legislative know-how, as well as thinking that was dependent on a planned economy. In particular, it was essential for the Government to reform the legal system and judicial administration system so as to ensure individual property rights and free economic activities that are prerequisites for market economy. In this situation, JICA's legal assistance began in 1996 and contributed to the enactment of the revised Civil Code in 2005. The legal assistance project that aims to support the enactment of related laws and their implementation as well as human resource development in the area has continued until now. Table 3-3 shows the achievements of JICA's legal assistance projects in terms of the enactment of laws.

Table 3-3: Achievements of JICA's Legal Assistance Projects: Enactment of Laws

Enactment of Laws	Year of Approval	Possible Impact
Revised Civil Code	6/2005	Promotion of market economy
Intellectual Property Law	11/2005	Protection against intellectual property
Civil Procedure Code	6/2004	Promotion of conflict resolution by judicial body
Law on Enterprise Bankruptcy	6/2004	Transparency and optimization of business failures
State Compensation Law	5/2009	Protection of the rights of citizens, as a base of rule of law
Civil Judgment Execution Code	11/2008	Proper enforcement of the trial and protection of civil rights

(Source: Study Team)

With regard to the strengthening of the enforcement system of laws, the "Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam" has produced a visible effect. The project was to establish the operational framework of the Vietnam Competition Authority (VCA) to effectively enforce the Competition Law and policy. Since the beginning of the project, the number of VCA's investigation, an indicator of the level of investigation skills of VCA, has risen steadily from 0 in 2006 to 45 in 2012. This implies that the VCA has been strengthening the capacity to enforce the Competition Law in Vietnam (Figure 3-1).



(Source: JICA)

Figure 3-1: Statistics of VCA's Investigation on Unfair Competition Cases

Establishment of a system for human resource development

One of the common features of the three projects is that the Vietnam side established a solid counterpart system for the project. For example, in the phase 3 of the legal assistance project, the counterpart system consisted of mid-level executives from related agencies such as the Ministry of Justice (MOJ), Supreme People's Court (SPC), Supreme People's Procuracy (SPP), Vietnam National University, Hanoi (VNU) and Judicial Academy (JA) for each component of the project under its project director (Deputy Secretary of MOJ) and the project manager (Director of International Cooperation Department of MOJ).

Table 3-4: Implementation System of the Legal Assistance Project (Phase 3)

Component	Agency in Charge	Counterpart
Revised Civil Code	MOJ	MOJ (6 staff), SPC (1), Ministry of Science and Technology (1)
Intellectual Property Law	MOJ	MOJ (1)
Civil Procedure Code and Law on Enterprise Bankruptcy	SPC	SPC (3)
Laws related to the Civil Code	MOJ	MOJ (6)
Judicial Academy	JA	JA (5), SPP (2), College for Court Officers (1), Ha Noi Bar Association (1)
Capacity Building of Prosecutors	SPP	SPP (6)
Standardization of judgment documents and compilation of court precedents	SPC	SPC (5), and 1 staff from each SPC Civil Court, SPC Criminal Court, SPC Economic Court, SPC Labor Court
Japanese law course at Vietnam National University, Hanoi	VNU	VNU (4)

(Source: Final Evaluation Report on Japanese Technical Cooperation in the Legal and Judicial Field-Phase 3, JICA, 2006)

The arrangement of these counterparts was made at the beginning of the project (in phase 1, only MOJ was a counterpart in the project). The projects of the “Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam” and the “Capacity Building of Master Trainers for Modernization of Customs Administration Project” also established a solid counterpart system in each implementation agency. As a result, the ability of many staff members who participated as counterparts in the projects, was enhanced, and many went on to occupy key positions in their own organizations.

Enhancement of project ownership by the Vietnam side

The three projects attempted consciously to respect and enhance the project ownership by executing agencies in Vietnam. In those projects, Japanese experts have served as mentors. For example, in the legal assistance project, after the Vietnam side drafted the bills based on information provided by the Japanese side, the working groups organized in Japan provided professional and technical comments to improve the drafts. In this way, the project was led by the Vietnam side including decisions about the theme of the seminars held regularly in the project. This approach resulted in enhancing ownership of the project by the Vietnam side and acquiring related knowledge. The Japanese side participated in the forum held by the Vietnam side to exchange opinions, and discussed Japanese experience and their views. Through these exchanges of knowledge and experience, the Vietnamese counterparts built their knowledge and capacity in their respective field.

Establishment of the recognition on the importance of social factors in institution-building

After the Meiji era, Japan introduced Western laws which had different historical, cultural, and social backgrounds, and implemented those laws while adapting them to the actual situation in Japan. Japan has also promoted the Westernization of Japanese society. Based on this experience, JICA’s project adopted an approach that not only conveyed technical information on market economy law, but also held discussions with lawyers in Vietnam about the kind of social needs in Western society produced the legal system in each country, whether or not those social needs exist in Vietnam, and whether will they be useful to Vietnamese society in the future. The project attempted not just to transplant a foreign law system but to introduce a legal system that would be received in Vietnamese society³. This attitude of Japanese experts, coupled with the approach that emphasized ownership of Vietnamese counterparts, won the trust of the Vietnam side.

Promotion of people-to-people exchanges and mutual understanding of relevant organizations in both countries

³ Akio Morishima, “Houseibishien no rinen to kadai (Idea and Challenges of Legal Assistance)”, *Houritsu no Hiroba*, 2001(10), p15

In the three projects, the cooperation agencies of the Japanese side provided Vietnam counterpart agencies with a variety of institutional supports. In the competition law-related projects and the Customs modernization projects, the Japan Fair Trade Commission and the Department of Custom of the Ministry of Finance provided institutional support respectively for each counterpart agency of similar functions, i.e., the Vietnam Competition Authority and the General Department of Customs. In the legal assistance project, the Ministry of Justice of GOJ, Supreme Court, Japan Federation of Bar Associations, and Nagoya University School of Law formed study groups for the project to provide technical support to the Ministry of Justice (MOJ), Supreme People's Court (SPC), and the Supreme People's Procuracy (SPP). During long-term project implementation, people-to-people exchanges continued, promoting mutual understanding between the both sides, which led to substantial positive effects on each technical cooperation project.

(2) Contributions of Japan's ODA to Socio-economic Development

It is difficult to show at this point the impact of Japan's ODA in governance areas on socio-economic development in Vietnam. This is because it requires a long time for those projects to produce clear effects on society and economy in a country. Therefore, in this section, we will discuss mainly the significance of the three good practices for socio-economic development in Vietnam.

Protection of the right of people

The transition to a market economy and integration to the world economy introduced by the *Doi Moi* policy required fundamental changes in the legal system of Vietnam. Market transactions assume the establishment of individual rights including the approval of equal trading entities and their property rights. The international community that Vietnam tried to enter was dominated by the rules of market economy based on this concept of equal trading entities and absolute private rights which was not compatible with a socialist planned economy run by discretionary directives of the state. In addition, the dispute resolution by the court that is assumed by market economy was incompatible with the method to maintain social order in which production and consumption were coordinated by the central administration or the party⁴. In this context, JICA's legal assistance attempted to support the fundamental change in the legal system in Vietnam pressed by the introduction of the *Doi Moi*, i.e. the reforms of legal and judicial administration system in order to ensure individual property rights and free economic activities.

⁴ Akio Morishima, "Betonamu ni okeru houseibi to wagakuni houritsuka no yakuwari (Legal reform in Vietnam and the role of Japan's lawyers)" in *Jiyuu to Seigi* (Liberty and Justice), 1967(July), p16

Promotion of market economy

The JICA's legal assistance project put work to amend the Civil Code at the center of legislative support. This Civil Code defines the basic principles of market economy, as well as specific issues related to exchange. It is the law to ensure everything from the foundation of market economy to its operation⁵. The exchange is a process that actors facing each other lead to a certain arrangement after negotiating over goods, execute each other what was decided, and sometimes force the implementation of the agreement. Legally this is referred to as a "contract", and thus the Civil Code can be regarded as norms which support smooth operation of exchanges in the market. Furthermore, the Civil Code defines who can exchange in the market, what can be exchanged, and the discipline of relations between who exchange and what are exchanged (property rights). There are many laws beside the Civil Code that directly discipline market economy, such as the commercial law, trade laws, and the competition law. However, the Civil Code constitutes contract, legal entity, goods, and property rights, which are the most basic of market economy. Therefore, the JICA's legal assistance project can be said to be one that supported the establishment of a fundamental basis for a market economy promoted by GOV.

Improvement of investment environment

Vietnam attempted to enter the international market through a substantial increase in production and resulting improvement of people's living standards by introducing market economy and foreign capital, and accepting foreign enterprises and technology. It is clear from the above discussion that the JICA's legal assistance project was required to enact basic civil and commercial laws, establish institutions to operate them, and to develop human resources in order to meet prerequisites for the introduction of foreign investment. In addition, the success of the "Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam" was a prerequisite for fair economic activities in the country by supporting the proper and smooth operation of the Competition Law. The "Capacity Building of Master Trainers for Modernization of Customs Administration Project", on the other hand, contributed to developing a necessary condition for the proper and efficient Customs clearance for international trade. Thus, each project plays an important role in improving investment climate in Vietnam.

Provision of the opportunity for fair economic competition

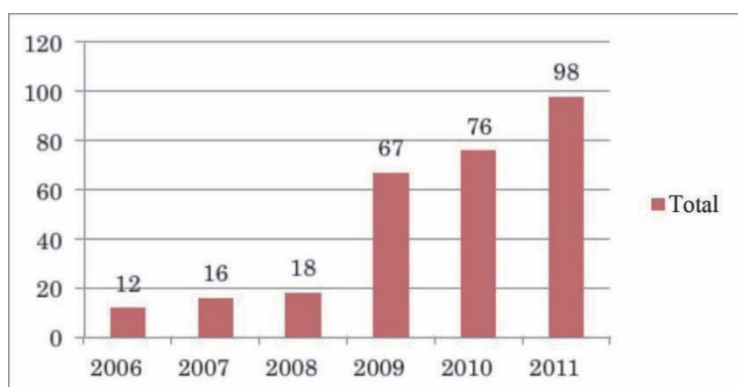
Although deregulation was underway under the *Doi Moi* policy, economic activities were still

⁵ Eiichi Hoshino, *Minpo no Susume (Recommendation of the Civil Code)*, Iwanami Shinsho, 2012, p67-68

dominated by state-owned enterprises, and the concept of competition was not taken root in Vietnam. Under these circumstances, the “Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam” was implemented to promote fair economic competition by enhancing investigation skills of the VCA, and promoting and disseminating knowledge about the Competition Law among governments, enterprises, consumers and academics. The success of this project implies that the VCA has improved its capacity to promote fair economic competition in the country.

Awakening of legal consciousness in society

Under a planned economy before the *Doi Moi*, the law did not occupy an important position because economy was managed by the discretion of the bureaucracy under the party and its directives. The legacy of wartime legal system was deeply rooted where all matter was determined in advance by the state and personal interests were subordinated to the interests of the state and collective. In other words, any level of society had to follow the instructions from the top. In this context, in the “Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam”, it was necessary to promote and disseminate knowledge about the Competition Law among governments, enterprises, consumers and academics for the effective enforcement of the Law. To this end, in addition to holding the competition advocacy seminars (total of 21 times) in various areas of Vietnam including Hanoi and Ho Chi Minh, the Project supported public relations activities through the internet of the VCA as well as the publications issued by the VCA. This contributed to improving the level of understanding of Competition Law among enterprises, consumers and academics, and enhancing their sense of entitlement regarding a fair economic competition. This is shown by changes in the number of initial investigation by the VCA (number of VCA’s claim acceptance regarding competition law violation).



(Source: JICA)

Figure 3-2: Number of VCA’s Claim Acceptance of Competition Law Violation

3.5 Features of Japan's ODA in Governance

As mentioned in Chapter 2, criticism of the effectiveness of technical assistance increased from the 1980s. This criticism of conventional technical assistance, especially the shortcomings of donors' technical assistance approach pointed out in the international community can be summarized as follows.

- (1) Donor-driven approach: Many projects have been formulated by donors in which priority needs of developing countries are unlikely to be reflected.
- (2) Short-term Approach/Neglect of Capacity and Institutional Development
- (3) Criticism of the long-term foreign experts-counterparts arrangement: The long-term foreign expert and counterpart arrangement does not contribute to capacity development and institution building in developing countries.
- (4) Problem with the Project Approach: Technical cooperation projects have been implemented as separate projects where they are not planned and managed in an integrated manner under the entire development plan of partner countries.
- (5) Problem with the Project Management Unit (PMU)
- (6) Biased toward formal training methods: Mainstream conventional technical cooperation is based on formal and mechanical training methods focused on classroom lectures and memorization.

According to the critics of technical assistance, these characteristics of the donor approach have significantly reduced aid effectiveness if they are combined with weak management capacity as well as negative policies and institutional environment of developing countries.

The features of Japan's technical cooperation in the area of governance, on the other hand, can be summarized as: (1) "Think Together" type approach, (2) use of Japanese experience, (3) long-term approach, (4) institutional supports from relevant organizations in Japan, (5) utilization of existing public organizations and their staff, (6) emphasis on OJT, (7) integrated approach, and (8) consideration of governance issues in technical cooperation in general. These characteristics of Japan's ODA approach to governance in Vietnam provide examples of good practices against the above criticism.

(1) "Think Together" Type Approach

A typical approach, which is often criticized in the context of the donor-led approach, is one where a donor tries to apply a model developed in its country to a developing country as is, ignoring the capacity and institution of the host country. In contrast, some of the Japan's governance projects have supported the process of transformation promoted by GOV without imposing Japanese models. It is an approach that helps the choice of institutions and their

building and execution done proactively by the government based on relevant information and dialogue. A typical approach of this type can be seen in the “Cooperation in the Legal and Judicial Field in Vietnam, Phase 1- 3” (See Column 3-1).

Column 3-1: Capacity Building based on a Joint-thinking Approach: Cooperation in the Legal and Judicial Field in Vietnam (Phase 1, 2, 3)

Japan has implemented legal assistance in Vietnam since 1996. This effort bore fruit in phase 3. Most of the laws (Revised Civil Code, Intellectual Property Law, Civil Procedure Code, Law on Enterprise Bankruptcy, etc.) targeted by the project were approved by the National Assembly and enacted within the project period. One of the characteristics of this legislative support of JICA is that the Vietnam counterparts independently drafted each law by referring to information offered by the Japanese side, followed by comments by Japanese expert groups on the drafts prepared by the Vietnam side.

This approach was highly appreciated by the Vietnam side saying that they received timely and high quality comments that were very beneficial to their task of drafting the law. In addition, it is reported that the capacity of legal thinking by Vietnamese officials significantly improved through continued discussions that were held in this project. The effect of this project was significant. For example, the revised Civil Code enacted with the assistance of the project can be seen as a basic civil law that contributes enormously to the establishment of a modern legal system, as well as socio-economic development in Vietnam. In addition, the Civil Code also contributes to an improved business environment in Vietnam, which helps attract foreign investment to this country.

(2) Utilization of Japanese Experience

The main reason behind Japan’s "Think Together" type approach in governance may be related to the Japanese experience of introducing western models to Japan during its modernization process. Instead of adopting the western model as is, Japan imported and studied western models, while modifying those models that fit the situation in Japan. Japan’s approach to technical cooperation may reflect this experience of internalizing foreign models. Since the countries of Indochina have faced challenges similar to the Japanese experience, their expectations of Japanese assistance is very high. This may be a major reason why Indochinese countries including Vietnam have requested the Japanese government for assistance in improving their legal system.

Another factor that influences Japan’s approach to governance is Vietnam’s relations with its

former colonial power. Like Laos and Cambodia, Vietnam has been influenced by French law. Moreover, the legal system in Vietnam remains under the influence of the socialist system. This complex background has influenced the legal system in Vietnam, which cannot be avoided in performing legal assistance in the country. In contrast, Japan's legal system was influenced by the French and later German law system during the Meiji era, and it has been under the influence of American Law after World War II. In this way, Japan has developed its own legal system, where experts in the common law system and civil law system of each Western country are present in Japan. It may be the strength of Japan's legal assistance that can support countries which are under the influence of either French or German or American legal systems.

(3) Long-term Approach

A long-term approach is also one of the characteristics of Japan's ODA in governance in Vietnam. This is a sharp contrast to the short-term approach of technical assistance criticized by many researchers. For example, the technical cooperation project in the legal and judicial field in Vietnam began in JFY1996 and continued to JFY2007. After the enactment of basic laws, the subsequent project, called the "Technical Assistance for the Legal and Judicial System Reform," began in JFY2007 to help effectively operate these basic laws. This project is now in the phase 2 stage and it will be continued to JFY2015.

Support for competition law also took a long-term approach. Related projects include "Capacity Building for Enforcement of Competition Law" (JFY2005-2006), "Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam" (JFY2008-2012), "Project for Strengthening Capacity of Consumer Protection Administration" (JFY2010-2012), and "Project for the Improvement of Legal Framework for Competition Law and Policy" (JFY2012-2016). In area of support for modernization of Customs, the first technical cooperation project started in JFY2004; and there are two ongoing projects at present, one is a grant aid project called "The Project for E-Customs and National Single Window for Customs Modernization" (JFY2012-2015), and the other is a technical cooperation project called "Project for Promoting E-Customs in Vietnam" (JFY2012-2015).

In this way, all the technical cooperation projects, which produced significant results in the field of governance in Vietnam, took a long-term approach. An explanatory factor for their success is that the same Japanese organizations are involved in the projects for a long period of time, which provide opportunities to accumulate knowledge about the situation for each sector and relevant organizations in Vietnam, and enable Japanese cooperation agencies to provide assistance that fit local needs. This has built a relationship of trust between the organizations in both countries, and this may have contributed significantly to the success of the projects.

(4) Institutional Support from Relevant Organizations in Japan

Another feature of Japan’s technical cooperation projects is that long-term experts have a variety of institutional support from the organizations dispatching them. For cooperation in the legal and judicial field in Vietnam, the Japanese Ministry of Justice, the Supreme Court, the Japan Federation of Bar Associations, and Nagoya University School of Law formed joint study groups for each issue (revised civil code, civil procedure code, legal training program, judgment document and court precedents) to support long-term experts. The cooperation agencies of other projects include the Japan Fair Trade Commission for competition law-related projects, the Ministry of Finance for Customs modernization projects, the National Tax Agency for tax administration reform projects. These organizations have functions that are similar to the implementing agencies on the Vietnamese side and they have provided full support for capacity development of counterpart agencies.

One of the merits to this kind of inter-agency cooperation is that it tends to establish long-term cooperation between organizations based on mutual benefits. For example, the Ministry of Finance, Japan can support Japanese enterprises operating in Vietnam by promoting quick and efficient customs clearance in the Customs modernization projects. In addition to this benefit, it is possible for implementing agencies to access systematically and continuously the appropriate know-how and technology of organizations in Japan with similar functions. It is also possible to have a significant impact through interactions between personnel of various levels, and to respond flexibly to changes in staff in charge of the project.

Typical technical cooperation projects based on inter-organization cooperation are as follows.

Table 3-5: Institutional Support in JICA’s Projects

Project Name	Period (JFY)	Scheme	Cooperation Agency (Japan)	Implementing Agency (Vietnam)
Cooperation in the Legal and Judicial Field in Vietnam (Phase 1, 2, 3)	1996~2007	Technical Cooperation Project	Ministry of Justice, Supreme Court, Japan Federation of Bar Associations, Nagoya University	Ministry of Justice (MOJ), Supreme People’s Court , Supreme People’s Procuracy, Vietnam Federation of Bar Association
Technical Assistance for the Legal and Judicial System Reform (Phase1, 2)	2007~2015	Technical Cooperation Project	Ministry of Justice, Supreme Court, Japan Federation of Bar Associations,	Ministry of Justice (MOJ), Supreme People’s Court , Supreme People’s Procuracy, Vietnam Federation of Bar Association
Capacity Building for Enforcement of Competition	2008~2012	Technical Cooperation	Japan Fair Trade Commission	Vietnam Competition Agency

Project Name	Period (JFY)	Scheme	Cooperation Agency (Japan)	Implementing Agency (Vietnam)
Law and Implementation of Competition Policy in Vietnam		Project		
Development of Implementation Capacity for Training of Government Officials at HCMA	2013~2016	Technical Cooperation Project	National Personal Authority University of Tokyo Waseda University, etc.	Ho Chi Minh National Political Academy (HCMA)
Capacity Building of Master Trainers for Modernization of Customs Administration Project	2004~2007	Technical Cooperation Project	Department of Customs, Ministry of Finance	General Department of Customs
Project on Tax Administration Reform in Vietnam (Phase 1)	2005~2008	Technical Cooperation Project	National Tax Agency	General Department of Taxation, Ministry of Finance
Project for promoting E-customs in Vietnam	2012~2015	Technical Cooperation Project	Department of Customs, Ministry of Finance	General Department of Vietnam Customs, Ministry of Finance

(Source: JICA's knowledge site)

(5) Capacity Development of Existing Public Organizations and Their Staff

JICA's technical cooperation projects have utilized existing public institutions and their staff in order to build their capacity in implementing the projects. For example, in the "Cooperation in the Legal and Judicial Field in Vietnam (Phase 1, 2, 3)," working groups were formed for each issue to achieve the project purpose. The members of each working group consisted of staff from the Ministry of Justice (MOJ), Supreme People's Court, Supreme People's Procuracy and the Vietnam Federation of Bar Associations. With the advice of Japanese experts and joint study groups in Japan, Vietnamese working groups drafted the Revised Civil Code, Intellectual Property Law, Civil Procedure Code, and Law on Enterprise Bankruptcy. This kind of working group was also formed in Competition Law support projects (See Column 3-2).

Column 3-2: Use of Existing Organization and its Staff: Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam

In the “Capacity Building for Enforcement of Competition Law and Implementation of Competition Policy in Vietnam”, the Project carried out activities to enhance the investigative functions of the VCA and to promote and disseminate knowledge about the Competition Law to governments, enterprises, consumers and academics. For these activities, VCA established three working groups to work jointly with Japanese experts in the respective areas of investigation, capacity building and advocacy. These working groups were formal groups set up as a decision by the Director General of VCA which described the task of each group, the responsibility of the group leader as well as group members, and appointed 3 leaders and 13 members. As a result, a solid implementation structure was built for the Project which did not exist before.

The motivation of these working groups was very high. In order to enhance the investigative function, these working groups, with the help of JICA’s long-term and short-term experts, analyzed the present situation, updated investigation skills, made necessary guidelines and manuals for investigators, improved skills to define the relevant market and implement market surveys. Based on these activities the working groups prepared and implemented the training program at the training center for investigators. As for competition advocacy related activities, the responsible working group reviewed and discussed methods in effective advocacy, and conducted advocacy activities through seminars, workshops and leaflets, etc. As a result, the number of VCA’s investigations rose from 0 in 2006 to 45 in 2012. In competition advocacy, the number of initial investigation increased from 12 in 2006 to 98 in 2011. Thus, the joint work by the working groups and Japanese experts significantly improved the capacity of VCA in investigation and advocacy.

(6) Emphasis on OJT

One criticism of the traditional technical cooperation approach is its reliance on formal training in classrooms as a means of acquiring knowledge. Unlike this kind of approach, On-the-Job Training (OJT) has been an important element of JICA’s technical cooperation projects (See Column 3-3).

**Column 3-3: Emphasis on OJT: Capacity Building of Master Trainers for
Modernization of Customs Administration Project (2004-2007)**

The purpose of the “Capacity Building of Master Trainers for Modernization of Customs Administration Project (JFY 2004-2007)” was to foster master trainers in the General Department of Customs in Vietnam, who provide practical training in Customs valuation, post clearance audit and HS classification (including chemical analysis) based on international standards, and act as instructors in the staff training courses. To this end, the Project consisted of the following components.

- 1) Activity plan is prepared to cultivate master trainers, who can teach customs officers at local staff training courses.
- 2) Training materials and teaching guidelines are prepared, in order to introduce international standards to regional Customs offices.
- 3) At selected regional Customs offices, periodic on-the-spot training is conducted by the master trainers.
- 4) A sustainable training plan is prepared for implementation after completing the Project.

In this way, on-the-spot training was a critical element of this project. Moreover, the emphasis on OJT was also carried through each individual component. For example, for the first component, an activity plan was first formulated through consultation of the working group members and Japanese experts in the training program of the first to the third stages. From the fourth to ninth stages, the capacity development of the working groups (future master trainers) was implemented in the form of preparation of on-the-spot training that targeted regional custom office staff. At this time, the working groups formulated an activity plan for each training program in which they performed as lecturers. After each on-the-spot training, the working groups modified the activity plan that reflected their discussion on necessary improvements and reflections.

Thus the project is the product of “learning by doing” approach to capacity development of Vietnamese counterparts. It is reported that the capacity of the working groups was significantly developed through the development of activity plan, experience of instructor at on-the-spot training, preparation of training materials and teaching guidelines. This resulted in the dispatch of some members of working groups to neighboring countries to improve their Customs administration.

(7) Integrated Approach

There are various assistance schemes used by JICA such as policy advisor, grant aid, Yen loan, technical cooperation projects, etc. When providing assistance to developing countries, JICA tends to combine these different forms of assistance in order to achieve a synergistic effect. For example, in customs modernization, JICA carried out two projects in tandem, one was a grant aid project called “The Project for E-Customs and National Single Window for Customs Modernization” (2012~2015),” and the other was a technical cooperation project, “Project for Promoting E-customs in Vietnam” (2012~2015).” The objective of the grant aid project was to achieve quick and efficient customs clearance by building an electronic customs systems using NACCS and CIS technology. The technical cooperation project was designed to facilitate the objective of the grant aid by improving the environment for VNACCS/VCIS to be run and maintained smoothly. Thus, this technical cooperation project is regarded as necessary to enhance the effect of the grand aid project.

(8) Consideration of Governance Issues in Technical Cooperation in General

In addition to direct governance support, one objective of many of the JICA’s technical cooperation projects is to strengthen the relations between the recipients of services and government agencies (e.g., relationship between residents and local government), which may contribute to the improvement of government accountability.

A good example of this type of approach is found in a reproductive health project in Nghe An province. The main objective of this project was to improve reproductive health services in Nghe An province. When carrying out various capacity building activities for the province’s reproductive health and family planning center, the project set up a steering committee at the provincial, district and commune level, consisting of key stakeholders such as the People’s Committee, the Ministry of Health, and the Women’s Union. Thus, the project was able not only to bring out the commitment of key stakeholders in the region, but also to plan and implement activities in line with the needs of women in the community because the Women’s Union has an effective network to the community.

As a result, in addition to the capacity development of the reproductive health and family planning center, the project contributed to the formation of joint operation systems among the People’s Committee, Ministry of Health and Women’s Union which had not worked out before. Furthermore, when the capacity of both public administration and community was enhanced, the relationship between the two improved as their perceptions of each other changed. Thus, although the primary objective of the project was not to improve governance, the Project indirectly contributed to improved relations between local government and communities and to the

establishment of an effective joint operation system of related organizations in the region.

3.6 Lessons Learned and Challenges Ahead

This final section points out lessons learned from an analysis of development challenges in the area of governance in Vietnam, as well as history, achievement and features of Japan's ODA.

(1) Importance of establishing a solid counterpart system in partner countries

A common factor of good practices in the area of governance in Vietnam such as the project on legal development, implementation of competition law, and modernization of customs administration is the high level of ownership by the Vietnam side from the beginning of the project, which established a solid counterpart system consisting of mid-level executives for the project. Thus, the Vietnam side created a mechanism to develop the capacity of counterparts, a major goal of these projects, which achieved good performance in technical assistance projects. Therefore, in the formulation of any project, there is a need to assess whether the commitment of the top leader in the counterpart agency is sufficiently high to ensure the quality and quantity of counterparts who are involved in the project. This is also a prerequisite in order to make the best use of the strengths of Japan's ODA.

(2) Development of the strengths of Japan's technical cooperation

It is desirable to further enhance the strengths of the technical cooperation of Japan. The strengths of Japan's technical cooperation approach include the "Think Together" type approach, use of Japan's experience, long-term approach, institutional support, utilization of existing public organizations and their staff, emphasis on OJT, linkages of various schemes. It is important to design and implement projects to allow them to take advantage of the strengths of Japan's technical cooperation.

(3) Need for systematic review and analysis of the Japan's experience in the area of governance

The significance of bilateral aid is an exchange of experience and knowledge and its use between two countries. For example, the main reason why Vietnamese officials requested legal assistance from Japan is that they want to learn from the Japanese experience which built up one legal system by fusing the Anglo-Saxon law of the United States and the United Kingdom and the continental law of France and Germany. They believed that this Japanese experience would be useful to address the challenges faced by Vietnamese in this field. In recent years, Japan started to implement projects in the new field of governance support, such as national and local development policy and planning, capacity development of the National Assembly, capacity building of the national television. Because these areas are new to Japan's ODA, it is difficult to

say whether Japan is designing and implementing these projects based on a clear and systematic development strategy. One way to enhance the effects of assistance is to analyze the Japanese experience systematically in the area of governance and to utilize the results for the future of Japan's ODA in this field. Many experiences (both success and failure) in Japan must provide a good reference point for many developing countries, in addition to Vietnam. These pointers include reconstruction strategy after the war, high economic growth strategy, policy formulation and implementation process of local governments, methodology of grassroots democracy and fighting corruption, and others.

(4) Analysis and replication of good practices

There are several good practices in governance support to Vietnam such as legal assistance, competition law and Customs administration-related projects. It is important to analyze the success factors and challenges of these cases and to utilize the technical cooperation in the future. For example, although one of the success factors of legal assistance projects is their adoption of a long-term approach, the projects must face many challenges in the processes. It is time to analyze the success factors and challenges of the projects and to utilize the results for future projects in this field. The challenges must include the need to establish a supply system of legal experts that will provide a sufficient number of experts continuously and in an institutional way for future legal support in many developing countries.

(5) Need to review legal support projects and to formulate an assistance strategy for future projects in this field.

In the context of the above, there is a need to review all legal assistance that has been provided in other Southeast Asian countries, Mongolia, and the Central Asian countries. This is essential in order to examine the future vision of Japan's legal assistance. One of the strengths of Japan's legal assistance has been its adoption of the long-term approach, which has contributed to the capacity development of relevant agencies and human resource development of legal officials in the country. The problem is the lack of an exit strategy on the Japanese side. It is time to develop a strategy in light of Japan's ODA philosophy that address such questions as 1) what is the objective of assistance in each country, 2) which areas should be the focus of assistance, 3) how long should this assistances continue. Without such a strategy, there is a concern that Japan's legal assistance may lead to interference in domestic affairs as well as the risk of not being able to stop⁶.

⁶ These risks and the need to establish an organizational and continuous supply system of legal experts were pointed out by Professor Akio Morishima, who is the creator of JICA's legal assistance projects.

(6) Promotion of South-South Cooperation

The replication of good practices pointed out in (4) should not be limited to Vietnam, but should be expanded to other countries. For example, in legal assistance, the cooperation between legal assistance projects between Vietnam and Laos was started by dispatching Vietnamese experts to Laos for a seminar about criminal law revisions, as well as the acceptance of visits by Laotian working groups to study the law on criminal procedure in Vietnam. Similar attempts are possible in competition and Customs related projects. In addition, since the legal assistance has been carried out in other Southeast Asian countries as well as in Central Asian countries, cooperation with projects in those countries are also possible. In order to increase the effect of such cooperation, however, there is a need to develop a strategy that will enable the South-South cooperation to be carried out systematically and continuously. For that to occur, it is desirable that the strategy on South-South cooperation is incorporated in the strategy for all legal assistance mentioned above.

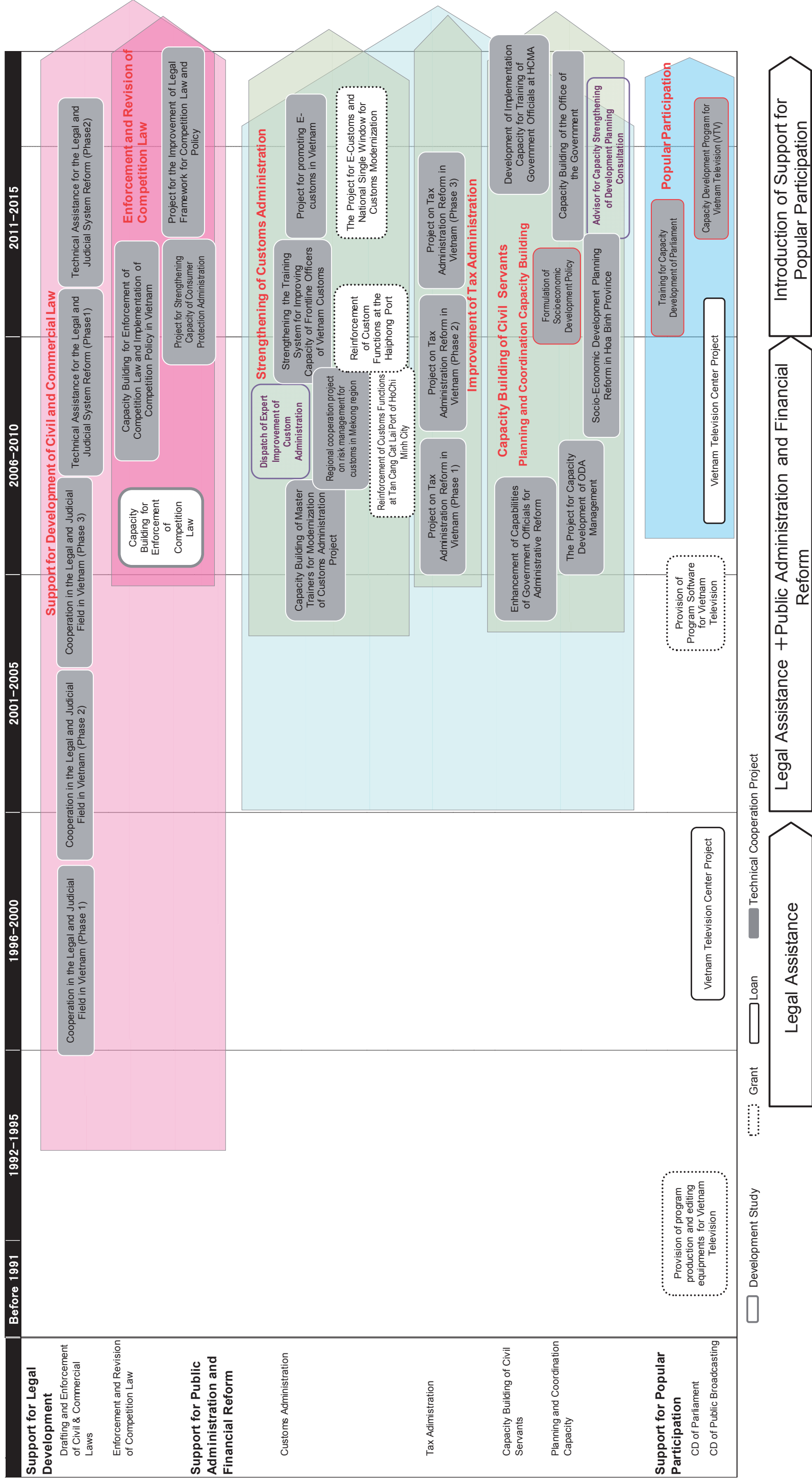


Figure 3-3: JICA Country Strategies and Projects in the Governance Sector in Vietnam

CHAPTER 4: ECONOMIC AND BUSINESS INSTITUTIONS

4.1 20-year Partnership at a Glance in Economic and Business Institutions

The 20-year partnership for growth and development in economic and business institutions in Vietnam can be summarized through its historical background and periodic priority development issues shown in Table 4-1.

In Vietnam, the proportion of industry and construction sector to GDP has doubled over the past 20 years, and its trade and investment significantly expanded. During that period, the main development agendas of GOV have moved from construction of a framework of market economy to strengthening of relationship among the regional and international economy, and to enhancement of competitiveness to respond to the global economy. In parallel with the trend, Japan's ODA has also shifted its focus from comprehensive policy support for Vietnam's transition to a market-oriented economy in the initial stage, to support for institution building and human resource development to improve the investment climate, and to that for promotion of small and medium-sized enterprises (SMEs) and the supporting industry and for development of particular sectors such as the financial sector.

Table 4-1: Summary of the Partnership in the Sector Development of Economic and Business Institutions

	5th SEDP (1991-1995)	6th SEDP (1996-2000)	7th SEDP (2001-2005)	8th SEDP (2006-2010)	9th SEDP (2011-2015)
Background Topics	<ul style="list-style-type: none"> ▪ Paris Peace Agreement on Cambodia Conflict(1991) ▪ Resumption of Japan's ODA (1992) 	<ul style="list-style-type: none"> ▪ Restoration of Vietnam-US diplomatic relations (1995) ▪ Formal entry into ASEAN (1995) ▪ Asian Currency Crisis (1997) 	<ul style="list-style-type: none"> ▪ Vietnam-US Bilateral Trade Agreement (2000) ▪ Signing of Japan-Vietnam Investment Agreement; Japan-Vietnam Joint Initiative (2003) 	<ul style="list-style-type: none"> ▪ Formal entry into WTO (2007) ▪ Lehman Crisis (2008) 	<ul style="list-style-type: none"> ▪ Prime Minister Dung visits Japan (2011)
Sector Situation	<ul style="list-style-type: none"> ▪ Industry & Construction Sector/GDP: 28.8%(1995) ▪ SOE/GDP: 40.2%(1995) ▪ Exports per GDP: 26.3% (1995) ▪ First investment boom: US\$10.2 billion licensed 	<ul style="list-style-type: none"> ▪ Industry & Construction Sector/GDP: 36.7%(2000) ▪ SOE/GDP: 38.5%(2000) ▪ Exports per GDP: 46.5% (2000) ▪ FDI decrease due to Asian Currency 	<ul style="list-style-type: none"> ▪ Industry & Construction Sector/GDP: 41.5%(2005) ▪ SOE/GDP: 38.4%(2005) ▪ Exports per GDP: 56.3% (2005) ▪ Recovery of FDI 	<ul style="list-style-type: none"> ▪ Industry & Construction Sector/GDP: 41.6%(2010) ▪ SOE/GDP: 33.7%(2010) ▪ Exports per GDP: 65.3% (2010) ▪ Second investment boom: US\$71.7 billion 	<ul style="list-style-type: none"> ▪ Industry & Construction Sector/GDP: 40.8% (2011) ▪ SOE/GDP: 33.0% (2011) ▪ Exports per GDP: 73.8% (2012) ▪ Increased investment projects from Japan

	5th SEDP (1991-1995)	6th SEDP (1996-2000)	7th SEDP (2001-2005)	8th SEDP (2006-2010)	9th SEDP (2011-2015)
	(1996)	Crisis		licensed(2008); followed by sharp decline by Lehman Crisis ▪ Common Investment Law & Enterprise Law in force (2006)	
Sector Priorities in SEDP	<ul style="list-style-type: none"> ▪ Economic stabilization and development ▪ Industrial outputs grew 13.3% per year (planned for 7.5-8.5%) ▪ Exports grew 20.0% per year 	<ul style="list-style-type: none"> ▪ The 8th Central Committee of the Communist Party of Vietnam adopted a policy for Vietnam to become an industrialized country by 2020. ▪ Industrial outputs grew 13.5% per year (planned for 14-15%) ▪ Exports grew 21.0% per year (planned for 28.0%) 	<ul style="list-style-type: none"> ▪ Rapid development with efficiency, competitiveness to meet the requirement of markets ▪ Industrial outputs grew 15.9% per year (planned for 13.1%) ▪ Exports grew 17.5% per year (planned for 16.0%) 	<ul style="list-style-type: none"> ▪ Rapid industrial development to improve quality, competitiveness and modernization ▪ Industrial outputs grew 13.9% per year (planned for 15.2-15.5%) ▪ Exports grew 17.3% per year (planned for 16.0%) 	<ul style="list-style-type: none"> ▪ Industries having comparative advantages and strategic significance; participate in the production and distribution network worldwide ▪ Industrial outputs growth planned for 8-9% per year ▪ Exports growth planned for 12-14% per year
Direction of Japan's ODA	<ul style="list-style-type: none"> ▪ Support for economic structure reform ▪ Human resource development and institutional building particularly to promote market-oriented economic development -Areas of administration, and market economy related and legal institutions that contribute to establishing a new economic system -Technical Vocational Education and Training 		<ul style="list-style-type: none"> ▪ Human resource development to support the market economy ▪ Institutional building 	<ul style="list-style-type: none"> ▪ Promotion of growth and enhancement of competitiveness 	<ul style="list-style-type: none"> ▪ Support for the goal to emerge from the status as a low-income country and to become an industrialized nation (targeted for 2020).
Priority Issues of Japan's ODA	<ul style="list-style-type: none"> ▪ Macroeconomic support (commodity loan and non-project loan) ▪ Comprehensive policy support for the transition to a market economy 		<ul style="list-style-type: none"> ▪ Start of industrial human resource development 	<ul style="list-style-type: none"> ▪ Development of the investment environment ▪ Promotion of SMEs and the private sector ▪ Human resource development to support growth 	<ul style="list-style-type: none"> ▪ Business environment improvement and private sector development -Economic systems as the foundation of the market economy -Reforms in the financial sector and SOEs -Developing

	5th SEDP (1991-1995)	6th SEDP (1996-2000)	7th SEDP (2001-2005)	8th SEDP (2006-2010)	9th SEDP (2011-2015)
					SMEs including the support for industries -Nurturing industrial personnel

(Source: Prepared by the Study Team)

4.2 Historical Review of Development and Growth in Economic and Business Institutions

Vietnam has pursued market-oriented economic reforms, while maintaining the socialist system since introducing the *Doi Moi* policy in 1986. It has achieved economic growth centered on foreign investments and exports. In contrast, economic structural reforms such as reforms of state-owned enterprises, the financial system, and market liberalization, which are closely related to the development of private sector, still need to be improved despite the progress that has been observed. The development of the private sector and industry in Vietnam are explained chronologically in the following three sections.

4.2.1 Construction of a Market Economy Framework: From 1991 to 1995

Although the economy was disordered during the initial years following the introduction of the *Doi Moi* policy, the macro-economy began to stabilize around 1989. The government focused on the development of a basic framework to implement the *Doi Moi* policy while placing priority on economic stabilization in the Fifth Five-Year Plan (SEDP) (1991-1995). For instance, in the constitution enacted in 1992, the non-state sector was recognized as an official economic sector along with the state sector and the collective sector, which also promoted foreign investments. Amidst a recovering economy, the mid-term National Congress of the Communist Party held in 1994 declared that Vietnam had reached a phase where industrialization and modernization would be pursued (Teramoto, 2012).

The average GDP growth rate during the Five Year Plan was 8.2 percent, which topped the target value of 5 to 6.5 percent. The annual growth rate of industrial output, when the target rate was from 7.5 to 8.5 percent, reached 13.3 percent exceeding the GDP growth rate. Export showed the high average growth rate at 20 percent. The amount of foreign direct investment received had continued to increase since the Law on Foreign Investment was proclaimed in 1988; and authorized foreign capital of \$10.2 billion peaked in 1996 with 372 new licensed projects, which constituted the first investment boom.

Following Japan's resumption of its ODA, the Consultative Group Meeting for Vietnam was

held in Paris in November 1993, and financial assistance from international financial institutions was resumed. The World Bank started providing the Structural Adjustment Credit (SAC-I) of US\$150 million in October 1994 to assist Vietnam's market-oriented economic reforms through stabilization of the macro-economy and structural reform (World Bank, 2011).

4.2.2 Strengthening Relationships in the Asian Region and an International Economy Oriented Toward Industrialization: From 1996 to 2005

During the period of the Sixth SEDP (1996-2000) and the Seventh SEDP (2001-2005), Vietnam clearly declared industrialization as its target and was making its entry into the Asian region and the international economy. At the Eighth National Congress of the Communist Party of Vietnam held in 1996, Vietnam set its fundamental policy toward becoming an industrial country by 2020. The policy of "industrialization and modernization," which is still maintained, was introduced at this time (Teramoto, 2011). In its relationships with other countries, Vietnam successfully joined ASEAN in July 1995, and in August of that year normalized diplomatic relations with the U.S. In 2000, it signed the U.S.-Vietnam Trade Agreement.

Meanwhile, this ten-year period can be seen as a gradual recovery process from the huge economic downturn triggered by the Asian currency crisis in 1997, which affected the economic and industrial sectors. The Asian currency crisis, which occurred in Thailand, damaged the economy of Southeast Asian countries. Although the impact was relatively limited for Vietnam due to its minimal involvement in the international economy, the growth rate of its GDP plunged from above 9 percent in 1996 to 4 percent in 1999. Vietnamese exports, which lost competitiveness because of the decline in the currency of other countries like Thailand and Malaysia, also suddenly declined by 0.9 percent in 1998 in contrast to its high growth in the past.

Foreign investment also dropped in 1999 to one-fourth its peak in 1996. The deterioration of the external economic environment triggered by the Asian currency crisis was not the only cause in the downturn of foreign investment. The delay of various economic reforms related to the investment climate including SOE and financial sector reforms was also responsible. In addition, foreign companies that advanced into the Vietnamese market during the first investment boom faced a variety of problems related to administrative procedures in the pursuit of their businesses (Seki and Ikebe, 2012).

GOV, feeling a sense of crisis, went ahead with the pro-foreign investment policy, enforcing a revision of the Foreign Investment Law in 2000. In 2001, the 1992-Constitution was amended to recognize the foreign investment sector from recommended status to an official economic sector. In addition, incorporation of private companies became easier due to the change to a registration

system from the previous approval system, thus triggering the incorporation rush. Entering the 2000s, private companies rose to prominence due to the implementation of the market-oriented economic policy on export and foreign investment, and the economy got back on the track with growth and expansion (Moribe, 2012).

The performance during the Sixth SEDP (1996-2000) and the Seventh SEDP (2001-2005) is as follows.

The average GDP growth rate from 1996 to 2000 was 7 percent against the target value of 9 to 10 percent. The annual growth rate of industrial output was 13.5 percent, slightly less than the target of 14 to 15 percent. The growth in export showed a high annual average of 21 percent, but it did not reach the target of 28 percent. As for foreign investment, the number of new investments maintained the same level since 1996, but the total amount of approval was US\$2.8 billion, which was slightly under 30 percent of the peak amount in the past. From 2001 to 2005, the average GDP growth rate was 7.5 percent (equaling the target value of 7.5 percent). The average growth rate of industrial output was 15.9 percent, and the target value was 13.1 percent. The average growth rate of exports was 17.5 percent against the target value of 16.0 percent, indicating a trend toward recovery. The number of new investments licensed in 2005 was 970 cases, which was the double the peak of the first investment boom, and foreign investment was clearly on a path to expansion.

For other donor support during this period, the World Bank completed the aforementioned Structural Adjustment Credit (SAC-I) in 2000, but the program didn't continue after that. Similarly, the IMF, which had provided Enhanced Structural Adjustment Facility (ESAF) since 1994, tried to pursue structural adjustment, but it ended in 1997 because the talks with GOV did not reach an agreement.

As described below, “the failure” of economic structural reforms based on conditionality was recognized as a good lesson by the World Bank and provided an interesting comparative case study in examining its approach in its support for transitional economy countries against the policy support conducted by Japan in the same period (See column 4-2). In 2001, the World Bank started the Poverty Reduction Support Credit (PRSC), a new type of policy financing, taking into account the lessons learned from the past.

4.2.3 Enhancement of Competitiveness in Response to the Global Economy: From 2006

The period during the Eighth SEDP (2006-2010) and the Ninth SEDP (2011-2015) can be seen as a period of further industrialization for Vietnam based on the re-accelerated growth of the 2000s. This was especially significant as a period when industrialization in Vietnam faced two

important turning points in terms of reality and institution.

The institutional change was seen in January 2007 when Vietnam successfully became a member of WTO. While this brought Vietnam access to the export market and opened the door to further foreign investment, it was forced to promote domestic industrialization under the strong pressure of market liberalization. The change in reality was seen when Vietnam joined the ranks of middle-income countries with a GDP per capita exceeding US\$1,000 in 2008 due to the high growth rate triggered by foreign investment and exports. It can be said that Vietnam has reached to point where it is required to draw up the next stage of targets and concrete measures to reach a higher level of industrialization (Teramoto, 2012).

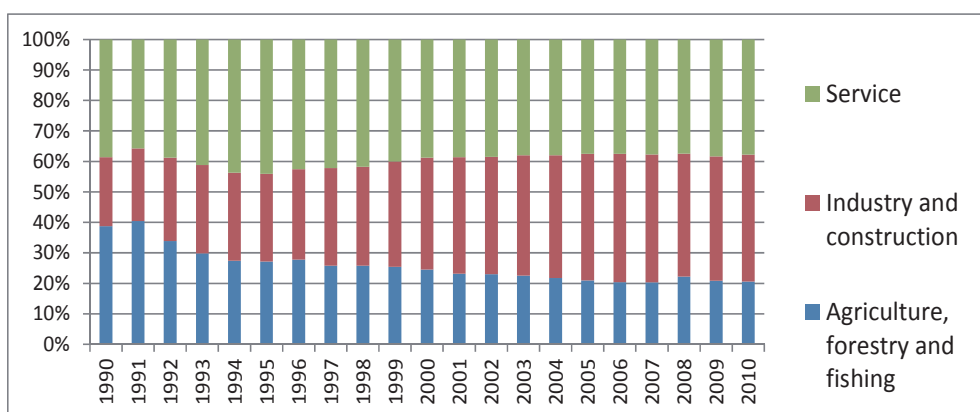
GOV has accelerated system improvements and opening up the market since 2004 along with stepped up negotiations to join the WTO. The Common Investment Law and the Unified Enterprise Law enacted in July 2006 were the most important laws for foreign capital companies. These laws were newly legislated to replace the Foreign Investment Law for foreign companies and the Law on Domestic Investment Promotion for domestic companies. Due to these new laws, both domestic Vietnamese and foreign companies came under the same laws on investment and company form. Along with the improved investment environment, foreign companies started recognizing the rise of operating costs in the ASEAN countries that preceded Vietnam and the need to diversify the investment risk in China. As a processing and production hub of electrical equipment and electronics devices, in addition to their light industry like clothing and footwear, Vietnam began to be included in the Asian and global production system organized by multinational companies (Teramoto, 2012).

Meanwhile, GOV began to change the direction of its industrialization. The SEDPs in the past focused on promoting the heavy chemical industry that dominated the public sectors, along with the labor-intensive light industry. From the 8th SEDP, however, priority was placed on the high value-added industry and the support industry that were closely connected to the global economy, and to invest in resources selectively in the heavy industry. The same direction for industrialization was implemented by SEDS (2011-2020).

Due to the Lehman Crisis in 2008, the Vietnamese economy slowed down; and exports and foreign investments were severely affected. The destabilization of the macro-economy brought by subsequent economic stimulus measures continued. During the term of the 8th SEDP (2006-2010), the average GDP growth rate remained at 7 percent against the target value of 7.5-8 percent. The annual growth rate of industrial output was 13.9 percent, which was below the target of 15-15.5 percent. On the other hand, export increased by an average of 17.3 percent in contrast to a target of 16 percent. As for foreign investment, the number of new approved

investment projects was 1,557 and the total amount of approval was US\$ 71.7 billion in 2008 with the both figures hitting a record high, but the number of approvals after the Lehman Crisis decreased by half. However, the figures on execution of investment from 2008 to 2012 were stable at around US\$ 10 billion.

Figure 4-1 and Tables 4-2, 4-3 and 4-4 show the transition in performance of the economy and business fields for the past 20 years. While the ratio of the agriculture sector decreased by half over the past 20 years, the industry and construction sectors doubled to 41 percent in 2010 from 23 percent in 1990. The ratio of export to GDP made huge increases as well. After 2000, the number of non-state and foreign enterprises increased significantly. The number of state-owned enterprises decreased and constituted only 1 percent of the total number of companies in 2010, but it still accounts for one-third of the GDP and surpasses the combined amount for private and foreign enterprises



(Source: General Statistics Office Website)

Figure 4-1: GDP by Economic Sector at Current Prices

Table 4-2: Exports per GDP

Year	1990	1995	2000	2005	2010	2012
Exports (%)	37.4	26.3	46.5	56.3	65.3	73.8

(Source: GSO (2006), The Vietnamese international merchandise trade for twenty years of renovation (1986 - 2005); GSO (2013), Statistical Yearbook of Vietnam 2012)

Table 4-3: Number of Acting Enterprises by Type of Enterprise

	2000	2005	2010
Number			
Total	42,288	106,616	279,360
State	5,759	4,086	3,281
Central	2,067	1,825	1,779
Local	3,692	2,261	1,502
Non-State	35,004	98,833	268,831
Foreign	1,525	3,697	7,248
Composition (%)			
Total	100%	100%	100%
State	14%	4%	1%
Central	5%	2%	1%
Local	9%	2%	1%
Non-State	83%	93%	96%
Foreign	4%	3%	3%

(Source: GSO (2013), Statistical Yearbook of Vietnam 2005, 2012)

Table 4-4: GDP Structure by Types of Ownership at Current Prices (%)

	2000	2005	2010
Total	100.00	100.00	100.00
By types of ownership			
State	38.52	38.40	33.74
Non-State	48.2	45.61	47.54
Collective	8.58	6.81	5.35
Private	7.31	8.89	11.33
Household	32.31	29.91	30.86
Foreign sector	13.28	15.99	18.72

(Source: GSO, Statistical Yearbook of Vietnam 2005; GSO Website)

The financial sector has deepened since the 2000s. The percentage of M2 per GDP⁷ remained the 20-30% level in the 1990s. The figure rapidly increased after then, exceeding 100% in 2007 (Appendix 3). Vietnam has now come close to the level of Thailand (125%, 2012) and Malaysia (142%, 2012). The trend shows that the credibility and stability of the banking system have steadily made progress. However, the progress of capital market such as bond has been slow⁸, and there has been concern among experts such as international financial institutions⁹ about a potential risk of intensification of the problem on non-performing loans of state-owned enterprises, which would greatly damage the financial sector.

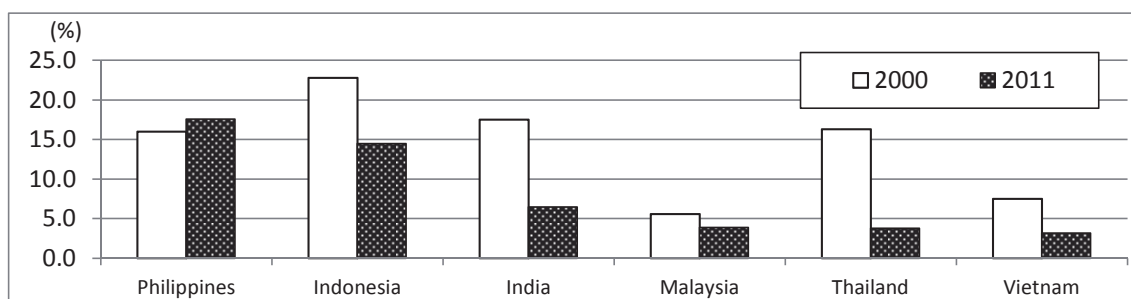
From the viewpoint of government finance, the underdevelopment of domestic financial market including the capital market becomes a factor for GOV to look to external financing as a way of making up its budgetary deficit. As shown in Appendix 3, Vietnam's gross domestic savings rate has grown from less than 20% of GDP in the middle of 1990s to nearly 30% in recent years,

⁷ M2 is a measure of the money supply in an economy, with broad coverage. In the latest definition of the IMF, Broad Money includes currency in circulation outside depository corporations, deposits in depository corporations (DCs) (ADB, 2013). M2/GDP is generally used as an indicator to show the extent of financial deepening.

⁸ The outstanding amount of Vietnam's bond market corresponds to 14.8% of its GDP as of June 2013. The figure is much lower than that of Malaysia (105.3%), Thailand (75.8%) and the Philippines (37.4%). It is mostly composed of treasury bonds (about 97% of the total outstanding), which are typically short-term and small-scale issues.

⁹ For example, IMF, "Vietnam 2012 Article IV Consultation Staff Report" (July 2012).

approaching the level of the countries like Thailand (28.3%, 2011), Indonesia (36.6%, 2012) and Malaysia (37.4%, 2012). However, the World Bank points out that even if those savings were invested in a very efficient way, they would probably not be sufficient for Vietnam to become an industrial country within one generation (World Bank, 2009). The debt service ratio, which is a typical indicator for measuring soundness of a country's international finance, has been around 3% for the past 10 years showing Vietnam's good condition compared to other major countries (Figure 4-2). While financing sources of the government are expected to be more diversified as Vietnam advances as a middle-income country, ODA will remain a major source of funding for the time being considering that the country is still on the way to developing the financial sector as well as fiscal and financial reforms in areas such as state-owned enterprises and taxes.



Note: Debt service ratio is the ratio of debt service payments (principal + interest) of a country to that country's goods and services export earnings

(Source: ADB, 2013, "Key Indicators for Asia and the Pacific 2013")

Figure 4-2: Debt Service Ratio (DSR) of Selected Countries

4.3 Japan's ODA in the Economic and Business Institution Sector

The transitions in Japan's ODA over the last 20 years in the economy and business institution sector can be summarized roughly as: 1) Support human resource development and institutional building and stabilize the macro-economy to support the transition process to a market economy (from 1995 to around 2001), 2) Improve the investment climate through institutional building and reform operations (from around 2002), and 3) Support development of industrial human resources and promote small and medium-scale enterprises and supporting industries (from around 2005). These changes and diversification in focus have coincided with the priority issues and needs of the Vietnamese economy at the time. The transitions in cooperation are described in the following chronological order.

4.3.1 Support of Human Resources Development and Institutional Building, and Stabilization of the Macro-economy to Support the Transition Process to a Market Economy: From 1995 to around 2001

Throughout the 1990s, Japan's aid policy emphasized human resources development and institutional building that were related to the economic system and infrastructure. The policy is described below.

Human resource development and institutional building (especially to promote market-oriented economic development in Vietnam)

For Vietnam to transform into a market economy, human resource development and institutional building such as the legal, tax and financial systems are urgent issues. Therefore, support will be rendered in the areas of (a) administration, and market economy related legal institutions that contribute to establishing a new economic system, and (b) technical vocational education and training.

Japanese assistance at this time centered on “people” and “systems” as the foundation to establishing and promoting market-oriented economic reforms. In addition to that, macroeconomic support was implemented to allow a steady transition to a market economy. The cooperation projects can be classified into the following four groups according to their respective purposes.

- 1) Support for comprehensive human resource development and institutional building for the market-oriented economic reforms
- 2) Support for the macro-economy through structural reform and economic stabilization
- 3) Support for developing human resources that conform to the market economy
- 4) Support for developing individual sub-sectors that support the market economy

Major projects under each purpose are outlined below.

- (1) Support for comprehensive human resource development and institutional building for market-oriented economic reforms

Study on the Economic Development Policy in the Transition toward a Market-oriented Economy (Development Study, FY1995-2000)

The cooperation was conducted under JICA's development study scheme from 1995 to provide a more concrete, strategic proposal for the transition into a market-oriented economy, to help GOV deal with the various problems and formulate socio-economic development plans in the

transition to a market-oriented economic system.

Because Dr. Shigeru Ishikawa, an emeritus professor at Hitotsubashi University, served as the leader, the series of cooperation by this study is known as the “Ishikawa Project.” It is unique in that the work was implemented within a framework of joint research by Japanese scholars and Vietnamese policymakers. The entire project was implemented over six years from Phase 1 (FY1995 to 1996) to Phase 2 (from FY1996 to 1997), follow-up cooperation (from FY1998 to 1999), and Phase 3 (from FY1999 to 2000).

Phase 1 was carried out in order to submit opinions from the Japanese side related to the draft of the sixth SEDP that was being prepared for the 8th National Congress of the Communist Party of Vietnam at the time. The aim of Phase 2 was to provide analysis and policy proposals on the new problems that surfaced during the process of implementing the above Five-Year Plan. Several important study issues including agriculture and rural development, industry and trading policy, financial and monetary policy, and the state-owned enterprise reform were addressed. In the follow-up cooperation, complementary studies were carried out. Phase 3 was implemented with the primary objective of providing advice on the draft of a new SEDP.

This study was central in building the foundations of a market economy model for Vietnam by supporting its orientation in the early transition process after the Doi Moi policy was introduced, in conjunction with support for the legal system (refer to Chapter 3).

(2) Support for the macro-economy through economic structural reform and economic stabilization

Non-Project Grant Aid (Non-Project Grant Aid for Structural Adjustment Support; Sector Program Grant Aid) (FY1993, 1995, 1996, 1997, 1998, 2000, 2001)

Soon after Japan resumed its ODA to Vietnam in 1992, the Non-Project Grant Aid was begun in 1993 to help advance economic restructuring, which was a priority issue for GOV. The grant was provided to help the government import necessary resources to execute the Structural Adjustment Program implemented by the World Bank and IMF, and which continued until FY2001.

Economic Reform Support Loan (Loan, FY1999)

Under this loan, 20 billion yen was financed to support the economic reforms of GOV based on the same ideas as the “New Miyazawa Initiative,” which was a financial assistance scheme to help the real economy of countries to recover from the Asian currency crisis. It was the first case of a Japanese loan that attached conditionality, which contained the following three

conditions: 1) Creation and disclosure of private sector development programs, 2) audits of large-scale state-owned enterprises, and 3) reduction of non-tariff barriers. They included the change from an authorization system to a notification system for incorporation of enterprises with the enactment of the Enterprise Law. This led to the rush to establish private enterprises after 2000 (The Japan Research Institute, 2003).

(3) Developing human resources that conform to the market economy

Project for Strengthening Training Capability for Technical Workers in Hanoi Industrial College (TCP, FY2000-2004)

Although foreign direct investment grew during the first investment boom in the mid-1990s, there was a high shortage of skilled labor in the machinery field; It was projected that the demand for labor would expand further with the progress of market-oriented economic reforms in future. Thus, there was a need to train human resources into skilled labor and to improve technological levels.

Against this background, this project was executed to improve the training capacity for mechanical technicians at Hanoi Industrial College (HIC), which was marked as a basic school for training engineers in the mechanical field in northern Vietnam.

Vocational training courses in the three fields of machine work, metalwork and electronic control were newly created in this project. Japanese experts were dispatched and training equipment was granted. Moreover, 23 instructors from Vietnam undertook training in Japan. According to the project's terminal evaluation report and the interview with the current top management of the school, the Japanese style vocational training curriculum was given a high standing for its technology and practice. There were 230 first graduates from the long-term training course. The short-term training courses that were created in the project were attended by 840 mechanical technicians from companies and 460 instructors from 83 other vocational training organizations, and had an impact outside the project as well. The courses set up by the project in these three fields were established as the "Vietnam-Japan Center (VJC)", and continues to be run to this day. It produces 350 skilled persons a year, and many graduates have found employment even in companies in the industrial zones in the northern region. In addition, the college was promoted to Hanoi University of Industry (HaUI) in December 2005 after this project was completed. JICA has been implementing technical cooperation projects based in VJC to this date. In other words, long-time cooperation with HaUI started from the success of this project.

Project for Construction of Viet Nam - Japan Human Resources Cooperation Center in Hanoi City and HCMC (Grant Aid, FY2000)

Vietnam-Japan Human Resources Cooperation Center (Hanoi and HCMC) (Phase 1) (TCP, FY2000-2005)

Human resource development due to economic liberalization was ranked as one of the main issues in the Seventh SEDP. Meanwhile Japan established the “Vietnam-Japan Human Resources Cooperation Center (VJCC)” as part of its ongoing support in human resources development for Asian economies in transition, and started projects for the Vietnam-Japan Human Resources Cooperation Center at two places, Hanoi and Ho Chi Min, in Vietnam with Foreign Trade University (FTU) as a counterpart in 2000. The purpose of this project was that the VJCC would become an important organization to develop necessary human resources for the market-oriented economic reform of Vietnam, to improve mutual understanding between Japan and Vietnam, and to strengthen the relationship between them. Three courses, business, Japanese language and promoting mutual understanding were created. In the business course for the five years, about 10,000 people studied practical management technology and the experience of Japanese-style management according to a market economy, with a focus on the fields of management strategy, production management, personnel management, financial management and marketing.

(4) Support for developing individual sub-sectors that support the market economy

Study on the Promotion of the Small and Medium Scale Industrial Enterprises (Development Study, FY1998-1999)

Small and Medium Enterprises Finance Project (Loan, FY1998)

The Study on the Promotion of the Small and Medium-Scale Industrial Enterprises was implemented to create the SME promotion policy, with a focus on manufacturing. The importance of promoting SME in Vietnam was pointed out in the “Ishikawa Project” mentioned above; and GOV also recognized the need to develop a promotion policy and organizational structure. The study proposed promotion policies for the sub-sectors including the machinery and parts industry, electricity and electronics industry, and the textile industry, which were the priority fields of the SEDS at that time.

On the other hand, the SMEs Finance Project offered the two-step loan through the State Bank of Vietnam and other banks, and provided consulting services in order to develop small and medium-scale enterprises. Its purpose was to promote small and medium-scale enterprises and market-oriented economic reforms in Vietnam. The amount supplied to the small and medium

enterprises greatly exceeded the planned value in this project, and supported recovery from the Asian Currency Crisis of Vietnam. Moreover, the training provided to the banks through the consulting services disseminated business technology.

In addition, several study projects were conducted during this period to promote industrialization by supporting GOV to develop master plans. “The Study on Master Plan of Industrial Development in the Hanoi Area” presented plans on infrastructure development, system and institutional development to promote investments, and examined potential sectors to be promoted, focusing on the development of industrial zones as the center of regional development. The study concluded that north Thang Long area had the highest potential among several candidate areas for industrial zones, which later led to the Thang Long Industrial Park developed by a Japanese firm as the main shareholder. Another example was “The Master Plan and Feasibility Study on the Hanoi High Tech Park Project”, which included the development of a master plan to promote high-tech industry (See Column 4-1). In summary, Japan’s approach and focus of cooperation during this period was in agreement with human resources development and institutional building to support the transition process to a market economy, and this answered Vietnam’s search for direction in development as well as its pursuit for a stable economy and market-oriented economic reforms.

4.3.2 Start of Active Support for Institutional Building and Operational Improvement for Better Investment Climate: From around 2002

Japan’s Country Assistance Plan for Vietnam instituted in 2000 followed the support policy in the 1990s, and human resources development and institutional building were regarded one of the priority fields to support market-oriented economic reforms. The preparatory work for making the next Assistance Plan started around 2002 and the plan was published in 2004. In the new plan, “Growth promotion support” was specified among the basic support policies, and under “Growth Promotion,” a priority area, each category of economic reform such as investment environment development, small and medium enterprises and private sector promotion, transport, electric power, telecommunication, human resource development to support growth, and SOE reform were included. The priority action items of each field except the field chiefly related to the infrastructure were as follows.

- Development of the investment environment

implementation of an FDI strategy; review of investment-related regulations; capacity enhancement for implementing organizations (including appropriate protection of intellectual property rights); development of soft infrastructure related to business; and proposals for industrial policy

- Promotion of SMEs and the private sector

policy planning, managerial guidance, technological improvements, and improvement of access to funds in policy aspects; and to development of supporting industries, and inter-SME exchange in business-related aspects

- Human resource development to support growth

Areas that are important or influential in promoting growth (economics and technology, that contribute to the market economy and enhancement of industrial competitiveness) and to development of human resources with the knowledge of Japan; human resource development for those with advanced managerial capabilities

- Economic reforms, including state-owned enterprises reform

Programs to activate reforms of state-owned enterprises

GOV also recognized the importance of foreign investment, and it began to encourage the policy to promote foreign capital and undertake activities at the beginning of the 2000s due the drop in foreign investments stemming from the Asian Currency Crisis described in 4.2.3. However, the amount of investment was far less than the peak level in the middle of the 1990s despite the increase in the number of new investment projects. Under these circumstances, Japan included assistance to promote “further growth” in its basic assistance policy. Promoting growth has since continued to be one of the pillars of Japan’s assistance to the present.

The period from 2003 to 2005 was a time when assistance for institutional building and operational improvement leading to improvements in the investment climate, the key to promoting growth, was successively implemented. Moreover, a collaborative effort that played a major role in improving the investment climate of Vietnam was initiated at that time by the both countries. Additionally, support for Vietnam’s economic reforms toward a market-oriented economy was started with participation in the Poverty Reduction Support Credit (PRSC) explained below.

(1) Support for institutional building and operational improvement to improve the investment climate

The cooperation related to institutional building and operational improvement was intensively begun in the following fields at this time. Many of them were continued afterwards.

- 1) Cooperation in the field of industrial statistics: from FY 2004
- 2) Cooperation in the field of intellectual property rights: from FY 2000
- 3) Cooperation in the field of Customs administration: from FY 2004 (Refer to Chapter 3)
- 4) Cooperation in the field of tax administration: from FY 2005 (Refer to Chapter 3)
- 5) Cooperation related to competition law enforcement: from FY 2005 (Refer to Chapter 3)

1) Cooperation in the field of industrial statistics

In this field, the following series of cooperation was implemented until 2012.

Study on the Development of Industrial Statistic in Vietnam (Development Study, FY2004-2006)

Project for Establishment of New Industrial Statistics in the Socialist Republic of Vietnam (TCP, FY2006-2008)

Project for Improvement of New Industrial Statistics in Vietnam (TCP, FY2011-2012)

The General Statistics Office of Vietnam (GSO) proceeded to develop economic statistics recognizing its importance to strengthen the competitive edge of its economy where internationalization was ongoing. In the report on the “Japan-Vietnam Joint Initiative” announced in December 2003, it was mentioned that the development of economic statistics would lead to the improvement of the investment climate of Vietnam, and contribute to strengthening the competitiveness of Vietnamese economy. “The Study on the Development of Industrial Statistics” and “The Project for Establishment of New Industrial Statistics” were conducted in order for Vietnam to develop the Monthly Survey of Major Industrial Products (MSMIP) and the Index of Industrial Production (IIP). MSMIP and IIP were introduced formally in 2007 through large-scale trial surveys and the preparatory surveys. In the “Project for Improvement of New Industrial Statistics in Vietnam,” cooperation was conducted to revise the MSMIP and IIP base year from 2005 to 2010. As a result, the IIP with the new base year was successfully announced in December 2012.

2) Cooperation in the field of intellectual property rights

The first technical cooperation projects were initiated in 2000 in this field followed by two other projects.

Modernization of Industrial Property Administration Project (TCP, FY2000-2003)

Utilization of Intellectual Property Information in Vietnam (TCP, FY2004-2008)

Project for Strengthening the Enforcement of Intellectual Property Rights in Vietnam (TCP, FY2012-2015)

In Vietnam, intellectual property rights were originally included in the Civil Code legislated in July 1996. Soon after that, the first expert was dispatched from the Japan Patent Office as a JICA long-term expert to the National Office of Intellectual Property of Vietnam (NOIP). JICA experts were constantly dispatched to provide guidance or technical advice on the mechanization of the work process and examination of applications. In the first half of the 2000s, the relevant laws on intellectual property rights were being prepared since participation in WTO was being contemplated and necessitated the strengthening of NOIP's implementation capacity as well. This led to the JICA project for "Modernization of Industrial Property Administration," where a computer system called "IPAS" (Industrial Property Administration System) was developed and introduced to improve the efficiency of processing applications in NOIP. The subsequent project was implemented to further strengthen the administrative efficiency of NOIP, by developing three computer systems: the property right information search system for NOIP examiners; the search system for the public, and the electronic application system. According to an interview with NOIP, IPAS has been utilized for internal processing of property right applications and is highly appreciated for making the work efficient. The search system for the public is also used by a wide variety of users, such as applicants, right holders, and agents. However, a few attempts such as the electronic application system were not able to produce adequate results (Ex-Post Evaluation Report, 2004).

Following the two projects, "Project for Strengthening the Enforcement of Intellectual Property Rights in Vietnam" launched in 2012 to enhance the administration of intellectual property rights by developing the capacity of NOIP officials and other enforcement authorities and to strengthen coordination among the concerned authorities.

It is recognized that the cooperation in this area has deepened over the years both in content and coverage, from the establishment of the internal computer system to the system for external users, to the strengthening of the entire administrative system involving all relevant authorities.

(2) Launching of the Vietnam- Japan Joint Initiative

Various efforts have been made to improve the investment climate of Vietnam by Japan and Vietnam from the 1990s. One such effort was by a private consultative body, the Vietnam-Japan Trade and Investment Working Group, which was mainly conducted by the Japanese Business Association of Vietnam, did not have any practical effect. Moreover, after the Asian Currency

Crisis, the recovery pace of investment from Japan was slow.

A problem occurred in 2002 when the production of Japanese companies was held up by an import control measure for parts that was suddenly adopted by GOV. Mr. Norio Hattori, the Japanese ambassador (at that time) gave a speech that became a preface of the Japan-Vietnam Joint Initiative at the Consultative Group in December of that year. It was followed by an agreement to start-up the “Vietnam-Japan Joint Initiative to improve the investment climate” between Prime Minister Koizumi (at that time) and Prime Minister Khai (at that time) who visited Japan in April 2003. The purpose of this initiative was to strengthen the competitiveness of the Vietnamese economy by calling on foreign direct investment, especially from Japan, by improving the investment climate of Vietnam.

The first action plan of this initiative was prepared in December 2003, and submitted by the leaders of both countries. The progress of the action plan is monitored every half year since then, and the achievement status of the evaluation items is confirmed by the evaluation promotion committee. Moreover, support by Japan’s ODA is conducted for items set in the action plan through various schemes. The Vietnam-Japan Joint Initiative has continued even after the end of Phase 1 in 2005; and the Phase 5 just started in July 2013.

The Vietnam-Japan Joint Initiative itself is not an ODA project but a public and private cooperation framework, with the embassy playing a leading role, and JETRO, JICA, and the Japan Business Association in Vietnam as the principal members.

On the Vietnam side, ministries concerned participate in the discussion according to the content of the action plan, with the Ministry of Planning and Investment as the lead organization. JICA’s engagement in the initiative is as follows.

- 1) Support for the management of the initiative as a part of the investment climate advisor’s work,
- 2) Participation in working teams by JICA experts and JICA officials,
- 3) Support to resolve problems related to the items set in the action plan by ODA.

This initiative, which is a very unique framework in Japan’s ODA all over the world, plays the role of “a problem detector” to improve the investment climate (JICA/IDCJ, 2012), and an important ODA platform that adequately responds to needs of enterprises to increase investment.

(3) Poverty Reduction Support Credit (PRSC) and Participation of Japan

PRSC is a budget support loan newly introduced by the World Bank in May 2001. It is extended

to support the execution of the Poverty Reduction Strategy based on Poverty Reduction Strategy Paper (PRSP) and National Development Plan that the recipient country settled on. In the past Structural Adjustment Credit (SAC), the policy framework which the recipient country had to aim for was presented by the World Bank and IMF, and loans were granted according to the achievement status. In case of PRSC, it was a loan to support the strategy formulated by the recipient country itself, and the policy framework and the target are decided by the recipient country.

PRSC to Vietnam was initiated in June 2001, and Japan began participating from the third stage (PRSC3) in 2004 in the form of co-financing. From then on, Japan financed until PRSC10 in 2011 almost continuously. In PRSC, after the policy items based on the pillars of the policy in the SEDP were set¹⁰ and the achievement levels were confirmed every year, financing for the following PRSC was decided.

In the discussions to compose the policy package PRSC, Japan participated proactively especially for such policy items as “improvement of the investment climate”, “public expenditure management”, “financing and banking sector reform”, “state-owned enterprise reform”, and “planning process.” Especially, in the area of improving the investment climate, Japan attempted to promote solutions by taking up a part of the items that had been dug up through the Vietnam-Japan Joint Initiative. Moreover, it became possible to support reforms through the PRSC framework for state-owned enterprise reform and the financial sector reform where no individual cooperation had been provided at that time, though they were listed in the above-mentioned issues in the Country Assistance Plan for Vietnam.

As shown above, an important approach was started aimed at improving the investment climate for Japan during this period, which was in agreement with the recognition and the response in the Seventh SEDP of GOV.

4.3.3 Support for Development of SMEs and Supporting Industry and Industrial Human Resources Development: From around 2005

Soon after the support started for institutional building and operational improvement in order to improve the investment climate shown in 4.3.2, the cooperation to develop small and medium enterprises as well as the support industries, and industrial human resource development were begun in full swing from the latter half of the 2000s. This cooperation corresponds to the

¹⁰ From the PRSC 1 to 5, the individual policy items and the indexes were set up under the three pillars: Transition to a market economy, Social inclusion and environmental durability, and Modernized governance. From the PRSC 6 to 10, those were set up under the four pillars: Business development, Social inclusion, Natural resources management, and Modernized governance.

“promotion of small and medium enterprises and the private sector” and “human resource development for supporting growth” as priority issues to promote growth in the Country Assistance Plan instituted in 2004.

In the Country Assistance Plan revised in 2009, the four important priorities shown in 4.3.2 were maintained. The revised plan, however, emphasized “supporting Vietnam to become an industrialized country departing from a low-income nation”, and expressly announced “strengthening competitiveness in the global economy” as a priority area that relies on economic growth as explained below. The change coincided with GOV’s emphasis on competitiveness in the global economy in the Eighth SEDP (2006 -2010).

Priority Area “Promotion of Economic Growth and Strengthening of International Competitiveness”

Based on the studies under the “Vietnam-Japan Joint Initiative to Improve Business Environment with a View to Strengthen Viet Nam’s Competitiveness,” Japan will cooperate in the fields of business environment improvement and private-sector development, sustainable resource and energy supplies, and urban development, transportation and communications network development.

● **Business Environment Improvement and Private Sector Development**

- Establishment and operation of economic systems for statistics, intellectual property rights, customs, tax administration and other aspects of the foundation of a market economy
- Reforms in the financial sector and state-owned companies
- Private-sector development, from the perspectives of developing small and medium enterprises, including supporting industries
- Fostering industrial personnel (engineers, and top managers)

The investment of Japanese enterprises in Vietnam had increased rapidly from around 2006 when the Vietnam-Japan Joint Initiative entered Phase 2, and the development of small and medium-sized enterprises and the supporting industry, and industrial human resource development were recognized as pressing issues for those enterprises. Cooperation for institutional building and operational improvement for improving the investment climate, which had started in the early 2000s, continued during this period; and a project in the field of industrial standards and conformance was newly started. Support for individual institutions in the financial sector was also initiated. The trend of major cooperation is outlined below.

(1) Support for the development of small and medium scale enterprises and the supporting industry

Support in this field was implemented as “the program to develop small and medium-sized enterprises and the supporting industry” by JICA until 2011. Its overall approach was to use various schemes in various areas such as policy, institutional building and operation, administrative human resources development, and financing. (Table 4-5).

Japan’s support for SME promotion had started in 1990s as seen in the Study on the Promotion of the Small and Medium Scale Industrial Enterprises which was conducted based on the result of the Ishikawa Project. Some of the cooperation during this period originated from such past efforts. For example, as one of the SME promotion strategies, the Ishikawa Project proposed the establishment of technical research center to train instructors, which was followed by the proposal of the Study on the Promotion of the Small and Medium Scale Industrial Enterprises on the establishment of the SME assistance center. In 2001, GOV stipulated the establishment of the SME Technical Assistance Center (TAC) in its newly issued Decree No. 90. Based on the policy developments, Japan agreed to support GOV to establish the TAC in the discussions of the Vietnam-Japan Joint Initiative, which led to the implementation of the project for Reinforcement of the SME Technical Assistance Center starting in 2006.

Table 4-5: JICA’s Major Cooperation for SME and Supporting Industries (after 2005)

Approach	Major project (cooperation scheme)
Policy support	Advisor on Small and Medium Enterprise Policy (Advisor)
	Policy implementation advisor on SME development (Advisor)
Institutional building and strengthening implementation	Reinforcement of the SME Technical Assistance Center (TCP)
	Project for Strengthening Public Functions for Supporting Small and Medium Enterprises (TCP)
	Advisor for organizing national skill testing system in Vietnam (Advisor)
Human resource development of public sector	Promotion of coordination for SMEs support (Training Course)
Financial support	Small And Medium-Sized Enterprises Finance Project (II) (III) (Loan)
On-site support to the private sector	Human Resource Development for Supporting Industries (Senior Volunteer)
	Program for Improving Plant Management of Manufacturers in Hai Phong (Grass-roots TC)

Note: Though the projects related to the Vietnam-Japan Human Resources Cooperation Center and Hanoi University of Industry were included in the above-mentioned program, they will be explained separately as cooperation for the industrial human resource development in this report.

(Source: Study Team)

The outlines of the projects as the main cooperation are explained as follows.

Project for Strengthening Public Functions for Supporting Small and Medium Enterprises (TCP, FY2011-2014)

The development of small and medium enterprises in Vietnam is promoted by the Agency for Enterprise Development (AED) as the lead organization, based on the decree on Small and Medium Enterprises instituted in 2001 and partially revised in 2009. Other organizations such as the Ministry of Science and Technology and local governments like the Hanoi City have also implemented support for small and medium enterprises on their own. However, these measures are insufficiently coordinated, and the inefficiency is recognized. Against this background, the project is to help AED to conduct effective support for small and medium enterprises by collaborating with the other related agencies and organizations. The project activities include developing a guidebook on SME support measures through pilot activities and building capacity to promote business matching between local enterprises and assemblers in the pilot area.

(2) Industrial human resource development

Support for industrial human resource development is divided into the following two groups. 1) the continuation and deepening of the cooperation projects for human resource development that were initiated in around 2000, and 2) the cooperation to support human resource development for advanced technology to strengthen the competitiveness in the global economy. The former group is a series of cooperation projects with Hanoi University of Industry and the Japan-Vietnam Human Resources Cooperation Center. The latter includes cooperation for Hanoi University of Science and Technology in the IT sector and for the ASEAN University Network/Southeast Asia Engineering Education Development Network project.

1) Continuation and deepening of cooperation for human resource development of the skilled person or management

Project for Human Resource Development of Technicians at Hanoi University of Industry (TCP, FY2009-2012)

Project for Strengthening TOT Functions at Hanoi University of Industry (TCP, FY2013-2016)

Successive cooperation for Hanoi University of Industry, former Hanoi Industrial College, was begun in 2009 to expand the cooperation range to other faculties for the purpose of establishing educational training programs corresponding to needs of the industry sector for the Vietnam Japan Center (VJC) of the university, which was established under the technical cooperation project conducted until 2005. It introduced a management system based on the PDCA (Plan, Do,

Check, Act) cycle, and a pilot skill test in the machining field was executed. 5S activity introduced by the project was adopted by the entire university, and cooperation with the private organizations was strengthened through short-term training courses and internships at companies.

The activities on the skill test were executed in cooperation with the JICA adviser on skill test dispatched to the Ministry of Labor, Invalids and Social Affairs (MOLISA), and the first national skill test in the CNC machining field was implemented in December 2012 after the pilot examination. Hanoi University of Industry was authorized as the national certificate examination center from the General Department of Vocational Training of MOLISA, and executed this examination by sending examiners (the Project Final Report, 2013).

The new project begun in June 2013 aims at establishing the capacity development program for instructors in cooperation with other vocational training schools, utilizing the know-how that the university had acquired from past cooperation projects.

Vietnam-Japan Human Resources Cooperation Center (Phase 2) (TCP, FY2005-2010)

Project for Capacity Development of Business Persons through Vietnam-Japan Human Resources Cooperation Center (TCP, FY2010-2014)

In the two cooperation projects followed by Phase 1 begun in FY 2000, in addition to the human resources development to contribute to market-oriented economic reforms that was the basic purpose from the beginning, the focus was narrowed down according to the industrialization policy of Vietnam. In other words, the focus was on “high quality human resources development to strengthening competitiveness” in Phase 2, and “the human resource development of managers at small and medium enterprises and the supporting industry of Vietnam” in the succeeding project. In addition, the “Keiejuku (Management school)” was initiated as a new course for managers who would lead the industry sector in Vietnam. The course has a good reputation due to its graduates. About 20 future management candidates per batch are fostered over the long term.

According to the data obtained from VJCC, about 33,000 people attended lectures in the business course from 2000 to March 2013, about 18,000 people participated in the Japanese course, and 240,000 people participated in the mutual understanding events¹¹. The management school has produced 90 graduates.

¹¹ The Vietnam-Japan Human Resources Cooperation Center manages the Japanese course and the mutual understanding promotion business outside Japan’s support in the post-phase 2 project. The number of students and participants are the total results from JICA cooperation and the independent business.

2) Cooperation to support human resource development in advanced technology to strengthen the competitiveness in the global economy

Higher Education Development Support Project on ICT (Loan, FY2005)

Strengthening the capacity of ITSS education at Hanoi University of Technology (Phase 1-2) (TCP, FY2006-2012)

As Japanese investment in Vietnam has been rising, and the need for IT professionals who are able to speak Japanese has been also increased. The cooperation was implemented for model education corresponding to Information Technology Skill Standard (ITSS) that the Ministry of Economy, Trade and Industry of Japan systematized and decided. It was planned for the above-mentioned financial assistance to synchronize with the technical cooperation project. This pair of projects was called HEDSPI (Higher Education Development Support Project on ICT) program.

The yen loan provided machines and equipment, books related to IT, Japanese teachers' salaries, and the scholarship cost. The technical cooperation included development of the curriculum, the syllabus and the teaching materials, management of the adult training course, activities for collaborating with the industry sector, and training in Japan for 38 instructors and personnel from HUST. HEDSPI accepted about 120 students every year from 2006, and the top 20 students in IT and the Japanese language were entitled to study at a university in Japan. The first group of graduates of the IT course were judged to be excellent. All members of the first group, who went to study at Ritsumeikan University or Keio University, completed their course with a high GPA. In fact, among the first group were those who graduated top of the class at the two universities. 80 percent of the first group of graduates found employment in Japanese companies, foreign enterprises or domestic companies, and many of the remainder went on to graduate schools. University of Aizu started to receive HEDSPI students from the third group. Thanks to the HEDSPI program, a total of 80 undergraduates went to Japan to study at any of the three universities. In addition, the program also sent 13 graduate students to master or doctor courses at Ritsumeikan University or Keio University.

The feature of this cooperation was to foster the human resources with a high degree of technical knowledge and Japanese language education needed by Japanese enterprises. As a result, the targeted human resources have been successfully fostered. However, it is also recognized that there were some problems such as difficulty coordinating the two cooperation schemes. For example, supplying the IT equipment by the yen loan was delayed and failed to meet the time that was expected in the curriculum designed for the IT course (Goba, 2012; JICA, 2012).

ASEAN University Network/Southeast Asia Engineering Education Development Network (TCP, FY2002-2017)

ASEAN University Network/Southeast Asia Engineering Education Development Network (AUN/SEED-Net) is a project that aims to develop human resources in engineering and to strengthen education and the research capacity of all top universities of the ten ASEAN countries through a network of member and supporting institutes in Japan.

From 2013, Phase 3 began following Phase 1 (from FY 2002 to 2007) and Phase 2 (from 2007 to 2012). The number of member institutes was 19 universities in Phase 1 and 2, and among them were two universities from Vietnam: the Hanoi University of Science and Technology and Ho Chi Minh City University of Technology.

In the nine key engineering fields, various programs have been implemented such as joint research, the dispatch of Japanese teachers, holding of regional meeting, in conjunction with the core master and doctoral degree programs within the ASEAN region and Japan for the young teachers at the member institutes. The AUN/SEED-Net was highly evaluated because it played a major role in the internationalization of the universities in the ASEAN region where the exchanges among universities from different countries were rarely seen when the program started. There were 66 academics in HUST who acquired a Master's degree in other ASEAN countries or Japan, and 36 received their PhD in Japan or Singapore until the phase-2 project was completed.

According to an interview with the HUST, the university budget was inadequate when the AUN/SEED-Net began, because the opportunities and the resources to train PhD students were limited after the Soviet Union collapsed. Through this cooperation, young teachers were provided opportunities to pursue their degree. Moreover, cooperation with the universities of other ASEAN nations was established by participating in international conferences. As a result, the education and the research capacity of the university improved, and relations with the industry sector have deepened. There have been 1,500 master degrees and 100 doctoral degrees have been granted every year from this university (2010/ 2011) (JICA, 2012).

A lot of HUST graduates are working as engineers in the major manufacturing enterprises such as Panasonic and Mitsubishi Heavy Industries, while the university has gotten the chance to learn the technology of the enterprises. For example, Toyota offers a training course in manufacturing for the faculty and the students.

(3) Support for institutional building and operational improvement for a better investment climate

Project on Strengthening the System and Operation on Standards and Conformance (TCP, FY2009-2013)

As the world economy is more globalized, Vietnam has been required to work further on facilitating trade. For instance, the WTO requests member countries to promote policies on standards and conformance based on the WTO/TBT (Technical Barrier to Trade) agreement. In the ASEAN region, member countries had agreed that compulsory standards and conformance assessment for electrical and electronic (EE) equipment would be aligned by 2010. While GOV was considering the introduction of compulsory certification for 13 electrical and electronic items in response to the WTO/TBT notification, it was not fully prepared to implement the system before the project because of the lack of experience and technical infrastructure for their accreditation and certification. Against this background, the project was initiated to improve the administrative capacities in accreditation, certification and testing of EE products, thus enhancing the quality of EE equipment manufactured in Vietnam and abroad as well as assuring consumer safety. The project was also a product of the proposal made and agreed in the Vietnam-Japan Economic Partnership Agreement (VJEPA) that came into effect in 2009.

The project was characterized by comprehensive support responding to every stage of the standard and conformance administration, such as policy planning, development of standards and regulations, accreditation, certification and testing. It involved the relevant government organizations corresponding to the respective levels, i.e. the Directorate for Standards, Metrology and Quality (STAMEQ) as a coordinating organization, the Bureau of Accreditation (BOA), the Vietnam Certification Center (QUACERT), and the Quality Assurance and Testing Center (QUATEST). According to an interview with STAMEQ, the project is highly appreciated for its contribution to the steady enhancement of the administrative capacity of these organizations through the provision of advanced testing equipment as well as appropriate technical guidance offered by experienced Japanese experts.

(4) Support for financial sector

As stated above, while Japan participated in the PRSC from 2003 to support Vietnam's economic reforms including the financial sector, it began cooperation in the field of financial administration through the dispatch of experts and technical cooperation projects in the late 2000s. Behind this move was need for Vietnam to conform more to international standards in financial supervision and entry regulation in preparation for entry to the WTO. GOV was trying to accelerate the modernization of the financial sector, taking advantage of the approval of the

banking sector development plan mentioned in the PM Decision 112/2006. In response to this, developing partners supported the implementation of action plans set in the development plan based on the technical assistance road map, and tried to avoid duplication in support areas. Japan's cooperation has mainly focused on a series of projects aimed at strengthening the capacity of the State Bank of Vietnam (SBV), which serves as the central bank, and institutional support for policy lending institutions. The outline of the former is stated below.

Project for Strengthening Capacities of State Bank of Vietnam (TCP, FY2008-2010)

Project for Strengthening Function of Central Bank (TCP, FY2010-2011)

Project for Strengthening Function of Banking Supervision (TCP, FY2010-2012)

Prior to the above series of projects, JICA dispatched a financial policy advisor to SBV from 2006 to 2008. The task of the advisor covered a wide range of SBV's work in the process of implementing the banking sector development plan, including support for revising the Law on State Bank of Vietnam and Law on Credit Institutions, support for policy implementation based on projections for the macro economy, and support to develop settlement and issue systems. According to an interview with SBV, Japan is the only country that has ever dispatched long-term experts to SBV, with the exception of the IMF. The activities of the advisor in liaison with various sections in SBV greatly contributed to the enhancement of institutional capacity. As the next step, concentrating resources on particular areas was planned in order to effectively promote the implementation of the development plan. After considering Japan's strength and avoiding duplication with other donors' support, "Project for Strengthening Capacities of State Bank of Vietnam" was carried out to promote modernization of the issue and vault operation and to strengthen banking supervision. This project was succeeded by the "Project for Strengthening Function of Central Bank" for the issue and vault operation and "Project for Strengthening Function of Banking Supervision" for the banking supervision.

(5) Support for formulating industrial policies

It must be stated that Vietnam and Japan have jointly worked on formulating Vietnam's industrial policies at a higher level. These supports are not necessarily categorized as a particular type of Japan's aid scheme, but rather considered as comprehensive cooperation involving various resources from the government, academic and private sectors. Cooperation in this area originated from the Vietnam Japan joint research for industrial development conducted as part of the Ishikawa project.

From 2008, Japan supported Vietnam in formulating action plans for its master plan for the supporting industries. The cooperation was in line with the agreed items in the Vietnam Japan Joint Initiative and the Vietnam Japan Economic Partnership Agreement (VJEPA). The draft

action plan was developed and submitted by the Japanese side. In 2011, the two countries started the cooperation in the formulation of Vietnam's industrialization strategy, followed by the confirmation of establishing a high level committee to promote the cooperation in the Joint Statement on the Actions Taken Under Strategic Partnership for Peace and Prosperity in Asia signed by the prime ministers of the two countries. Under the committee, the working group co-chaired by Professor Kenichi Ohno of the National Graduate Institute for Policy Studies (GRIPS) of Japan and Dr. Le Xuan Ba, Director of the Central Institute for Economic Management (CIEM) under the Ministry of Planning and Investment of Vietnam, led the work of analyzing and selecting potential industrial sectors. The strategy including 6 priority industries was endorsed by Prime Minister Nguyen Tan Dung in July 2013.

Column 4-1: Cooperation for Development of Hoa Lac Hi-Tech Park

Development of Hoa Lac Hi-Tech Park (HHTP) is an ambitious project creating a core city for science and technology based on collaboration between industry, academia and government. It is recognized as one of the three cooperation projects agreed on by the prime ministers of Vietnam and Japan. The project is not just about developing an industrial estate for high-tech firms. In 1,586 hectares of the total area after completion, the park is expected to contain the zones for hi-tech industry (550 ha), research and development (229 ha), software park (76 ha), education and training (108 ha), residential use, and so on. The Financing and Promoting Technology Corporation (FPT), Vietnam's major IT company, has already opened the FPT University in the park. Other prominent educational institutions such as the Vietnam National University and the Vietnam Academy of Science and Technology plan to move in or around the park. In September 2012, the ground breaking ceremony of the Vietnam Space Center took place. The development of the center is supported through Japanese ODA loans. HHTP is expected to become a city with a population of 220 thousand residents by 2020. In regard to access to the park located about 30 km west of the city center of Hanoi, a six-lane highway connecting to Hanoi City was completed in 2010, and construction of urban railway is also planned.

Back in the 1990s, Japan rendered support for GOV to formulate the master plan of HHTP as well as the regional development plan including the Hoa Lac area. Although investment in the park was approved by the government in 1998, subsequent progress remained stagnant. Entering the 2000s, the government decided to accelerate the development of HHTP as a national project. While its economy has shown steady growth, the government has come to recognize the importance of exploring its own path to economic development more strategically in the future,

as the world economy becomes more globalized. The Global Competitiveness Report shows that Vietnam still lags behind the ASEAN first member countries in competitive indexes for science and technology (World Economic Forum, 2013).

At present, there are only 3 Japanese firms among 54 in total accommodated in the HHTP (JETRO, 2013). Delay in land acquisition is also pointed out. It is increasingly important to draw up and implement a scenario for preparing an attractive investment environment for foreign investors including R&D institutions, and for realizing collaborative activities between industry, academia and government. JICA is currently supporting the development of HHTP through ODA loans for basic infrastructure of common use sections, and technical cooperation for formulating an investment invitation strategy for the R&D zone.



Vast Land for Construction of HHTP



FPT University

4.4 Contribution of Japan's ODA to the Development of Economic and Business

Institutions

Contributions of Japan's ODA to the development of this area in the last 20 years are summarized as follows:

4.4.1 Support for Forming the Basic Direction in the Transition Process to a Market Economy

“Study on the Economic Development Policy for the Transition toward a Market-Oriented Economy (Ishikawa Project)” greatly contributed to the process in which GOV formed their basic stance in the latter half of the 1990s, when the *Doi Moi* policy got on the right track and the government tried to ascertain the direction of the transition to a future market economy.

For examples, it was observed that the project had impacts on government decision-making on the following issues.

In regard to Japan’s suggestion to the draft for the sixth SEDP in Phase 1, though the average rate of growth from 1996 to 2000 was initially planned at 10 to 11 percent, or 11 to 12 percent if possible, the target on the approved plan resulted in 9 to 10 percent. Moreover, according to Le Kha Phieu, General Secretary of the Communist Party (at that time) in 1998, the stability of the agricultural sector was achieved by placing a high emphasis on agriculture in the SEDP as recommended by the Ishikawa Project (Academic group of Japan side from the Japan –Vietnam Joint Study, JICA, 2002). In addition, the postal savings system was actually introduced by GOV after it was proposed as an approach to domestic savings mobilization as a result of the discussion in the fiscal and monetary group of the phase 1 project (The academics from Japan side of the Vietnam-Japan Joint Research, JICA, 2002)¹².

Table 4-6: Summary of Ishikawa Project (Phases 1 and 2)

Objective
Phase 1: Submit opinions from the Japanese side on the issues relating to the draft documents about the 6th Five-Year Plan
Phase 2: Analyze and present policy proposals on the new issues relating to the implementation of the 6th Five-Year Plan
Output
Major proposals submitted to the Vietnam side are as follows:
1) The expected rate of GDP growth may be too ambitious.
2) Increasing the domestic savings ratio shall be important.
3) Insufficient attention be corrected on the urgent need of agricultural development
4) For Vietnam's industrial progress, two-tier development (large and smaller enterprises) may be desirable.
5) Vietnam's stance for international trade liberalization
i) Policy for AFTA, APEC, WTO
ii) Effective approach to trade liberalization

(Source: Ishikawa and Hara (eds.) (1998))

Though the Ishikawa Project played a role in indicating a basic direction and choices of economic development for Vietnam, it did not address the details of legal and institutional reforms. It can be easily imagined, however, that the project had some influence on the basic ideas and orientation of the policy and measures taken afterwards, because the government officials actually involved in policy and institutional issues participated (Ministry of Foreign Affairs, International Development Center of Japan, 2002). Moreover, the project's style of joint research by the two countries is considered to have improved the effect. The majority of the Japanese academics were “amateurs” about Vietnam though they were specialists in each field

¹² According to the interim report, “Self-evaluation of the Vietnam-Japan Joint Research,” Thuc MPI Vice Minister at that time commented that the introduction of the postal savings system in Vietnam was an achievement of the fiscal and monetary group of the project.

of economics. In contrast, there was a tremendous need for learning basic stances toward a market-oriented economy by the Vietnamese side. The situation made one side need the other mutually, leading to close discussions between the two sides at every stage of the study, from policy recommendation to creating mutual trust and friendship (Ministry of Foreign Affairs¹³, 2004).

The World Bank and IMF were promoting the structural adjustment reform at that time, and they had some conflict with GOV in the negotiations on the assistance. The Ishikawa Project played a role to ease the friction, and it influenced the aid approach of international organizations afterwards (Column 4-2).

Column 4-2: Approach of Ishikawa Project - Testimonies

Among the Japanese academics who had participated in the Ishikawa Project, there were a lot of prominent scholars in development economics, who were also well-versed in development experience of Asian countries such as Japan and China. Moreover, these economists were pioneers of the Japanese development economics that valued the supply side and gradualism, which differed from the standpoint of the so-called Washington Consensus on reform and development of the transitional economy (Tran, 2010). Based on an idea that a healthy market economy would not grow in Vietnam with the laissez-faire approach, a major theme of this project was how to establish the industries and the systems supporting the market economy (Ohno, 2000).

As shown above, the structural adjustment loans of World Bank and IMF (SAC-I and ESAF) that had been provided since 1994, ended by 2000, because they did not agree with GOV on its continuation. In a report published in 2011 which reviewed past assistance to Vietnam, the World Bank described that while SAC-I contributed to the structural adjustment process, the World Bank learned the lesson that the ownership of the country in preparing the development plans was extremely important for the sustainability of the reforms, accommodating other donors' opinion that the policy conditionalities placed uniformly on many countries by the World Bank's structural adjustment loans did not meet with the pace of reform, time, priority issues of recipient countries (World Bank, 2011). These experiences led to the subsequent Poverty Reduction Support Credit (PRSC).

¹³ Column I-8 from "Experience of the Study on the Support for the Economic Transition and Development in Vietnam; Ishikawa Project--- Shigeru Ishikawa, a professor emeritus at Hitotsubashi University", "*White Paper for Official Development Assistance 2004*", Ministry of Foreign Affairs, 2004.

The Ishikawa Project attempted to have close contact and dialogues with international organizations including the World Bank. For instance, the international workshop was held in Tokyo in March, 1998, invited the representatives of four international organizations and GOV, and it was a success. Ishikawa describes the project in the self-evaluation report as follows.

“(About the success in the rudimentary development of the market-oriented economic reform of Vietnam through the Sixth Five-Year Plan), it has to be admitted that the main contributor was the assistance of the World Bank and IMF. The advice of World Bank and IMF was however, too radical and inflexible for GOV to follow immediately, often causing friction and confrontation. The analysis and the proposal of ‘the Vietnam-Japan Joint Research’ were useful in easing the friction and confrontation.”

Column 4-3: Voice of Counterpart Expert of Ishikawa Project
(Dr. Le Quoc Ly, Vice President of Ho Chi Minh National Academy
of Politics and Public Administration)

Dr. Ly participated in the fiscal and monetary policy group of the Ishikawa Project as one of the key members of the MPI as counterpart organization on the Vietnamese side. He was involved in all phases of the project, as an expert in Phase 1 and the leader of research team of the Vietnamese side in the other phases.

Dr. Ly recalls that the Project was very important and conducted in a timely manner. At that time, it was critically needed for Vietnam to study policy options it might take in the process of transforming to a market-oriented economy. The fiscal and monetary policy group examined policies on fiscal issues and financial sector comprehensively. For the fiscal part, for example, recommendations were provided on the budget and tax system. Since the Ishikawa Project undertook Vietnam’s policy responses to the economic environment after the Asian Currency Crisis as the main agenda, the Vietnamese side learned about not only policy orientation but also policy management, which was a highly valuable experience.

On the other hand, the Vietnamese side faced a lot of difficulty participating in the Project since the country had just started an open-door policy toward a market-oriented economy at that time. The first practical problem was the selection of Vietnamese experts. It was not easy to find experts who had relevant knowledge on the market economy. In addition, many people felt anxious about the “transition” because no one was sure what would actually be brought by a market economy. The joint research of the Project was a step-by-step learning process. Now after 15 years, “Reform thinking” is rooted in the society.

Among the Vietnamese officials who were involved in the Ishikawa Project, many were later promoted to higher positions in the government. Some examples in the fiscal and monetary policy group include Director and Vice Director of State Bank of Vietnam (SBV), Vice Minister of Planning and Investment, and Vice Minister of Finance. Dr. Ly, who served as Director General of the finance and fiscal department of MPI and is now Vice President of Ho Chi Minh National Academy of Politics and Public Administration (HCMA), is another example. This may provide some evidence that the Ishikawa Project succeeded in contributing to the development of human resources to take the central role in Vietnam's policy orientation and management.

(Source: Compiled by the Study Team based on the interview with Dr. Le Quoc Ly)

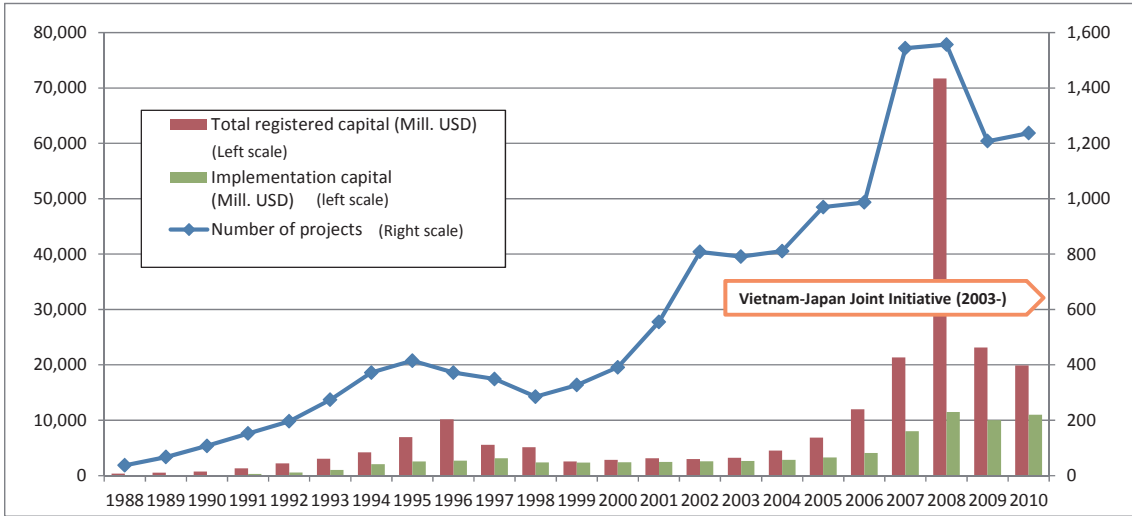


Dr. Ly, Vice President of HCMA

4.4.2 Effective Mechanism for Improving the Investment Environment

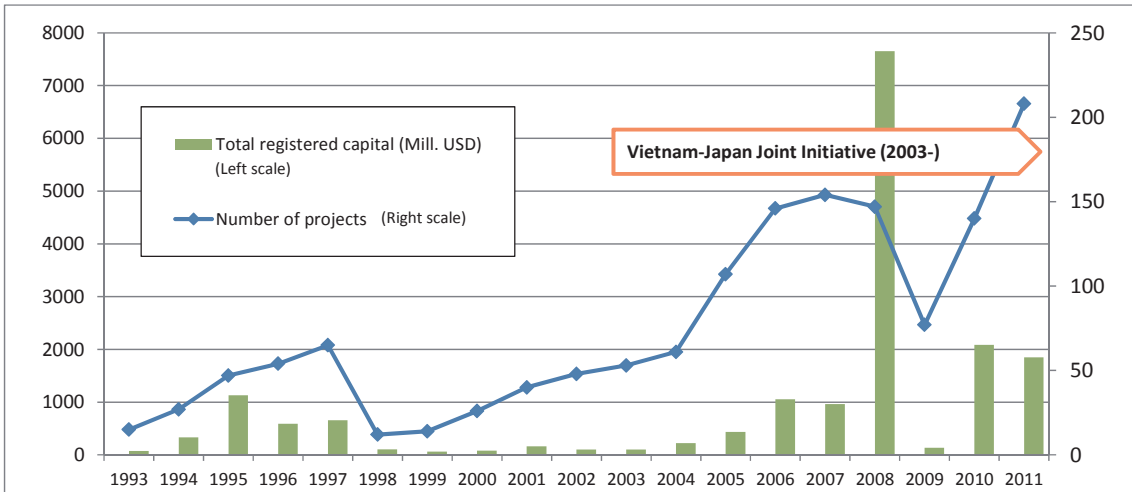
In order to support GOV to improve its investment environment, “the Vietnam-Japan Joint Initiative” has played a great role as an effective platform, coupled with the individual projects for developing institutions or improving implementation that started since 2000. The initiative can benefit not only Japanese firms but also all foreign investors. As indicated in Figures 4-3 and 4-4, direct investments to Vietnam have drastically increased both from Japanese as well as all foreign investors since the initiative started.

The investment boom for Japanese firms since the mid-2000s may be the result of multiple factors such as economic recovery from the Asian Currency Crisis, risk aversion from concentrated investments into China, progress of legal and institutional development in Vietnam, manufacturers' move to establish the regional production system taking advantage of Vietnam's entry to WTO, appreciation of the Japanese yen, and other factors. There is little doubt, however, that the initiative has contributed to encouraging the trend by resolving the individual problems faced by existing and potential investors cumulatively.



(Source: General Statistics Office)

Figure 4-3: Foreign Direct Investment Licensed Projects



(Source: Moribe (2012))

Figure 4-4: Japan's Licensed Direct Investment Projects

Table 4-7 shows the issues discussed in the initiative from phases 1 to 4, and the achievement status of evaluation items set in the action plan for each phase. The same table also indicates some of the major results achieved in each phase that are recognized to have particularly great impact, according to literature reviews and interviews.

The achievement ratio exceeded 80% for all phases. It is assumed that the steady implementation of agreed items has increased the effectiveness of the initiative. In addition, the initiative may have had a secondary effect of promoting inter-ministerial collaboration in GOV, since the responsible ministries that are assigned according to the issues in the action plan are

required to lead the concerned parties, in order to proactively solve the problems.

Table 4-7: Issues, Evaluation, and Achievement of the Vietnam-Japan Joint Initiative

Phase 1 (December 2003- November 2005)			
Category	Number of evaluation items	Rate of achievement	Main achievement
Supporting industries Investment policy and law Taxation Legal institution Custom and logistics Intellectual property protection Infrastructure Development of manufacturing industry etc.	125	85%	<ul style="list-style-type: none"> • Visa waiver for short-term stay (within 15 days) • Reducing the maximum personal income tax rate (from 50 to 40%) • Abolishing dual pricing in electricity • Abolishing local content duty for the automobile industry • Abolishing capital requirements according to the Foreign Investment Law • All FDI companies may obtain land use rights with a lump-sum payment
Phase 2 (July 2006- November 2007)			
Category	Number of evaluation items	Rate of achievement	Main achievement
Investment policy and law Taxation Labor Custom and logistics Legal institution and enforcement Supporting and manufacturing industries Infrastructure	80	94%	<ul style="list-style-type: none"> • Integrating the minimum wage for local and foreign enterprises • Abolishing the import planning system • (Many items on customs and trade related issues)
Phase 3 (November 2008- December 2010)			
Category	Number of evaluation items	Rate of achievement	Main achievement
Investment policy and law Taxation Wages and strikes Customs Intellectual property protection Supporting and manufacturing industries Power Port and road Telecommunication Urban transport	62	81%	<ul style="list-style-type: none"> • Introducing 24-hour custom operations for international land transports • Improving institutions for intellectual property reights • Establishing Japan Desk in MPI
Phase 4 (July 2011- November 2012)			
Category	Number of evaluation items	Rate of achievement	Main achievement
Power Labor Macro economy Supporting industries Legal institution and enforcement Logistics, custom, telecommunication Taxation Retail and food security Infrastructure development under PPP	70	87%	<ul style="list-style-type: none"> • Introducing the national skill test system for die machining • Issuing operational criteria for economic needs test for foregin retail investors • Producing report on request items for improving investment environment for infrastructure development under PPP • Disclosing basic economic indicators on SBV web site

(Source: Prepared by the Study Team)

Column 4-4: Key factors for the success of the Vietnam-Japan Joint Initiative

The framework of the Vietnam-Japan Joint Initiative is highly evaluated by both GOJ and GOV. According to an official of the Foreign Investment Agency under the Ministry of Planning and Investment, the two countries faced some difficulties due to differences in perception in the early phases, since priority was not given as much on foreign investment within the government. However, the importance of that is fully recognized now and the result of the initiative have provided benefits to non-Japanese foreign investors such as Taiwanese and Singaporeans. A person involved in a Japanese government organization says that such a large number of Japanese companies would not be investing without the initiative.

Some of the key success factors of the initiative as an effective framework broadly recognized by the concerned parties are as follows.

- (1) The initiative was started by an agreement between the two countries at a high government. The agreement between the two prime ministers was a driving force to ensure the implementation of issues raised in the action plans.
- (2) The initiative stresses the nature of “joint work”, whereby the issues are discussed and tackled together by both parties.
- (3) Issues to be improved are not only compiled in the action plans, but also monitored carefully after implementation. In other words, following the PDCA (Plan, Do, Check and Act) cycle leads to results.
- (4) The Vietnamese side can expect GOJ to provide support through its ODA to implement the issues in the action plans. Despite the comment that whether ODA is an incentive for the Vietnamese side to actively work on the action plans depends on the area of the issues, it is commonly understood that the possibility of receiving financial support (by ODA) enhances the actual results of the initiative in comparison to the Vietnam Business Forum (VBF).

(Source: JICA/IDCJ (2012) and the study team)

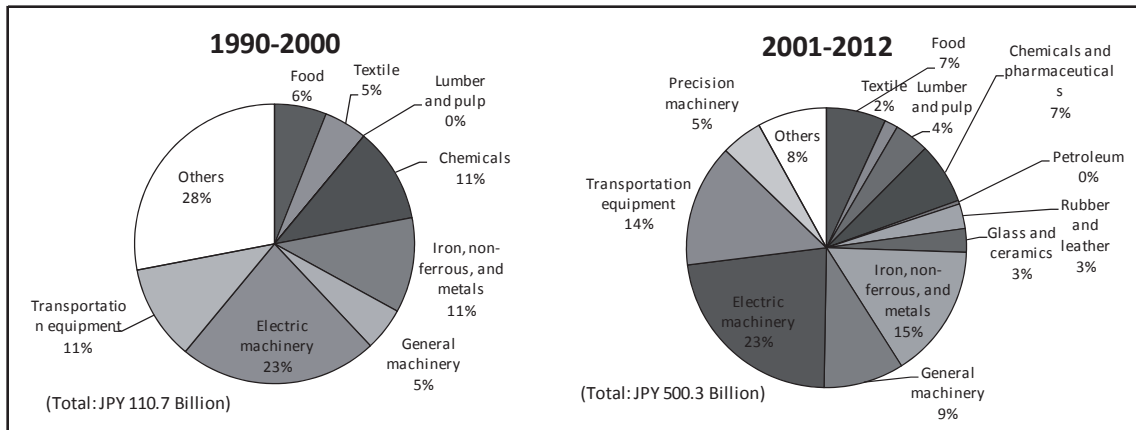
In addition, from a wider perspective including ODA for infrastructure development, analyzing the trend of Japanese investment patterns in more detail creates the relationship between the FDI by Japanese firms and Japan’s ODA, which is suggestive of ODA’s role in the improved investment environment.

The FDI including Japanese investment in the 1990s was concentrated in the southern part of Vietnam, which provided a relatively favorable infrastructure, mainly by small and medium enterprises in the light industry and parts manufacturers in the electric and electronics industry

for export processing (Figure 4-5). Infrastructure including industrial parks was not developed adequately in the northern part of the country to attract foreign investment at that time. As stated in Chapter 2, promoting development of the north was one of the priority issues of gOV, and Japan responded to the needs by supporting the rehabilitation and upgrading of the infrastructure in the north with ODA. This effort resulted in the completion of important infrastructure successively in the 2000s, such as the rehabilitation of National Highway No. 5 and No.18, the rehabilitation of Hai Phong Port, and the expansion of Cai Lan Port.

The Thang Long Industrial Park, whose development was supported by JICA through preparation of the master plan as well as the development of infrastructure in the neighboring areas, was achieved by the private firms in 2000. In line with the trends, from the 2000s, Japanese companies started to concentrate their investment in the north (Figure 4-6). The investment of major assembly manufacturers in Thang Long Industrial Park triggered the ensuing investment of parts and component suppliers. As mentioned above in this chapter, the second investment boom starting from the mid-2000s was the result of multiple factors, but there is no doubt that the development of infrastructure for production and logistics prompted the massive investment of export processing companies in the northern part of the country.

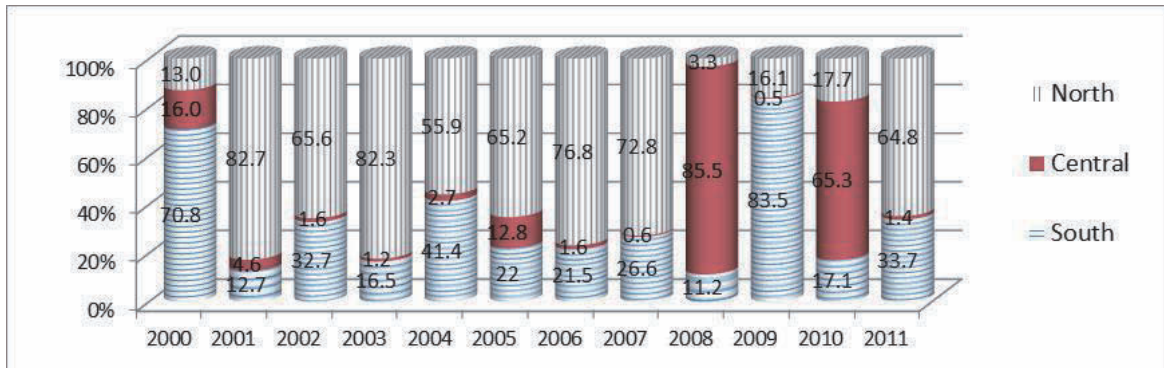
On the other hand, the Vietnam-Japan Joint Initiative has supported the increase of Japanese direct investment since the mid-2000s, by resolving the institutional or procedural problems faced by Japanese investors, and by creating a more favorable environment for potential investors. It has been pointed out that the local procurement rate for foreign manufacturers is still low in Vietnam compared with other ASEAN major countries and that there is still room for improvement in business institutions and procedures. Vietnam has, however, steadily grown in its attractiveness as a place of investment for Japanese firms throughout the 2000s, as seen in the results of the questionnaire survey conducted every year by the Bank for Japan International Cooperation (JBIC) on recognition of the relative attractiveness to investing countries (Figure 4-7).



Note: Disclosed classification was changed in 2005.

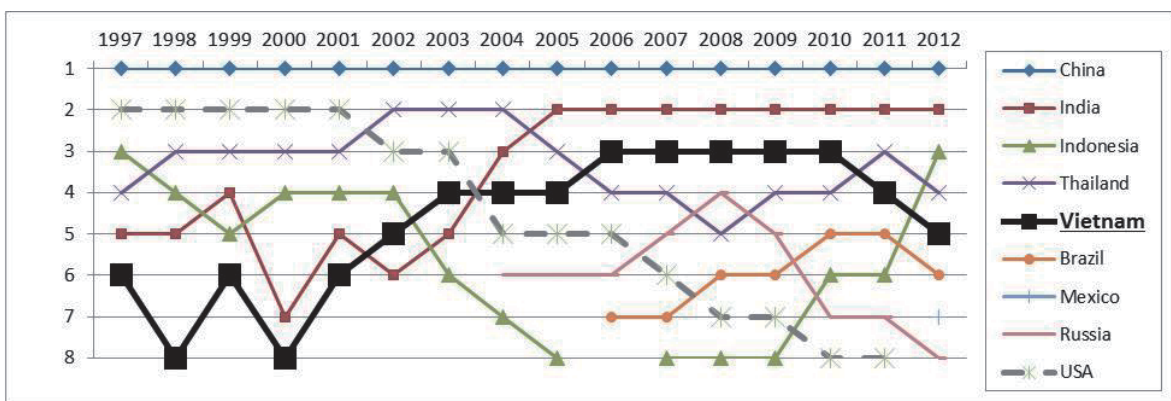
(Source: Made by the Study Team based on data from Japanese MOF and Bank of Japan)

Figure 4-5: Trend of Japan's Direct Investment in Manufacturing to Vietnam



(Source: Made by the Study Team based on data from JETRO)

Figure 4-6: Trend of Japan's Direct Investment to Vietnam by Region



(Source: Made by the Study Team based on JBIC surveys)

Figure 4-7: Trend of Order of High Potential Countries in the Medium Term Recognized by Japanese Enterprises

4.4.3 Support for Orienting Policies and Institutions in Individual Areas

Japan has supported GOV to orient its policies and institutions as well as to improve the implementation process in individual areas related to the investment environment. These cooperation projects have been conducted due to the Vietnam-Japan Joint Initiative. Much of the cooperation is involved in improving the work process on the ground, hence it is sometimes difficult to specify their clear results of particular policies. However, some examples of strong achievement are as follows.

First, through a series of cooperation projects in the area of industrial statistics, the General Statistics Office (GSO) successfully completed the following tasks.

- Introduction of Survey on Major Industrial Products (MSMIP)
- Introduction of Index of Industrial Production (IIP)
- Revision of the base year of MSMIP from 2005 to 2010
- Revision of the base year of IIP from 2005 to 2010

These achievements have contributed to improvement in the business environment in the sense that they enabled a more accurate understanding of industrial production conditions in Vietnam and a greater comparability with neighboring countries. In fact, Vietnam is one of the few countries that have already introduced the IIP with the base year 2010 in ASEAN. Japan's IIP with the base year 2010 was introduced recently, in June 2013.

According to a senior official of GSO, a feature of Japan's cooperation is characterized by the long-term, dedicated work of experts in comparison to relatively short and small-scale projects conducted by other partners. He attributed the success of the above cooperation on industrial statistics to the nature of Japanese cooperation. In addition, GSO staff members have been sent to Japan constantly for training from the mid-1990s, which has greatly contributed to improving organizational capacity.

Second, in the area of support for development of small and medium enterprises and supporting industries, Japan dispatched policy advisors, who supported the counterpart organization, namely the Agency of Enterprise Development (AED), at critical moments in the process to develop and promote the SME policy. Vietnam's SME policy originated from Decree No. 90 of 2001 and the predecessor agency of AED was established. The next important step was the issuance of Decree No. 56 of 2009, which is the foundation of the current SME policy. According to an interview with the AED officials, Japanese policy advisors supported the preparation and implementation processes of the Decree, by orienting policy and individual measures. In addition to the dispatch of advisors, Japan has conducted technical cooperation

projects to strengthen administrative functions, and dispatch senior volunteers to provide direct services to SMEs in the supporting industry. In an interview with the AED, it was indicated that the AED has been trying to follow the “Japanese approach,” which is described as consecutive steps from developing the framework of individual programs to its implementation. In addition, it may be pointed out that Japan’s ODA has contributed to a change in the consciousness of the AED to some extent, since the importance of providing direct support to SMEs appears to be more understood by AED than in the past.

In contrast to Japan’s cooperation, which focused on improving implementation in on-site work, other major development partners were concerned with the cooperation aimed at improving the investment environment comprehensively, as seen in UNIDO’s support to introduce the company registration system. AED’s view is that both types of cooperation are necessary. Thus, Japan has contributed to the development of Vietnam’s SME policy is a unique way by supporting policies from a long-term perspective.

4.4.4 Support for Economic Reforms

Japan (JBIC) started to co-finance with the PRSC program from the PRSC3, and participated actively in the discussions on policy framework, attaching particular importance to investment promotion and improvement of the business environment and improvement of public financial management. Later, priorities were also placed on financial sector reform, SOE reform, and the planning process. Participation in the PRSC enabled Japan to support Vietnam’s economic reforms such as SOE reforms, since these issues are not always easy to be put on the table for a bilateral partner country. As a major lender from PRSC3 to PRSC10, Japan co-financed about 20% of the total amount financed aside from the World Bank (Table 4-8). As Table 4-9 shows, almost all indicators reached the 2011 targets in the areas of global integration and private sector development. Improvements were observed though some indicators did not reach the targets in the areas of the state sector and financial sector reform.

Table 4-8: PRSC Co-financing Amounts by Partner

Donor	PRSC 1 ²	PRSC 2	PRSC 3	PRSC 4	PRSC 5	PRSC 6	PRSC 7	PRSC 8	PRSC 9 ⁶	PRSC 10 ⁶
ADB			6.4	15.0	15.0	15.0	20.0	100.0	24.8 ⁴	
Australia ¹					7.7	14.3	11.5			
Canada			5.8	7.0	3.4	9.2	4.9	4.5	3.9	2.9
Denmark	9.7	3.3	13.5	10.0	10.6	12.0	11.1	11.1	10.7	10.7
UK ¹	19.7	17.3	36.0	34.9	39.3	39.6	36.4	31.8	31.5	31.5
EC			19.9	10.3	12.4	30.9	20.7	18.2	23.0	
Ireland				1.7	3.9	11.0	11.9	1.4		
Germany					7.8	8.8	9.6			
Japan			18.6	20.8	21.5	30.0		70.0 ³	41.0	TBA
Netherlands	13.4	10.0	16.0	17.6	31.0	17.6	9.6			
New Zealand							2.0	1.0		
Sweden	1.9									
Spain				2.6	3.9	7.3	11.9	7.0	8.1	4.7
Switzerland ¹								3.7	3.8	3.8
DPs subtotal	45	31	116	120	156	196	155	253	147	
World Bank	250	100	100	100	100	175	150	350	150	150
Total	295	131	216	220	256	371	305	503	297	TBA

Note: (1) Unit: US\$ Million. (2) Japan's contribution to PRSC10 was JPY 3.5 billion.
(Source: World Bank, PRSC10 IDA Program Document, 2011)

Table 4-9: PRSC Monitoring Status (2011)

Area	Indicator	Definition	Source	Baseline (year)	Update (year)	Most recent (year)	Target ^a
Pillar I: Business development							
Global integration	1. Openness to trade	Merchandise exports as a proportion of GDP and merchandise imports as a proportion of GDP	GSO	61% 69% (2005)	61.3% 71.5% (2009)	69.7% 81.9% (2010)	Above 70% for both
	2. FDI Inflows	Inflows of FDI (as recorded in BoP)	BOP (SBV)	\$2,315 million (2006)	\$6,550 million (2007)	\$6,900 million (2009)	Three times the baseline
State sector reform	3. State Economic activities in National accounts	Share of state sector in Gross Domestic Product	Statistical yearbook (GSO)	38.4% (2005)	35.9% (2007)	35.1% (2008)	Below 33.3%
	4. State investments in SOEs as share of total investment	Share of state investments in total investments, where total is defined as state, non-state and FDI	Statistical yearbook (GSO)	47.1% (2005)	37.2% (2007)	33.9% (2008)	Below 33.3%
Financial sector reform	5. Quality of loan portfolio	Required provisioning for possible non performance in all outstanding credit	SBV	6-9%	2.8% (Sept 2008)	2.22% (Feb 2011)	Less than 5%
	6. Number of banks using qualitative criteria for borrowers	Banks following the qualitative criteria (international standards) for loan classification	SBV	0		3 (July 2011)	5
Private sector development	7. Employment in private enterprises	Number of paid employees in non-state enterprises, excluding collective enterprises	GSO (Annual Enterprise Survey)	4.04 million (2005)	4.8 million (2006)	5.0 million (2009)	More than 5 million
	8. Private domestic investment	As a proportion of total investment	GSO	30% (2001-2005)	33.9% (2009)	36.1% (2010)	35.3%

Note: The above four areas all belong to Pillar I (Business development) of the PRSC policy framework.

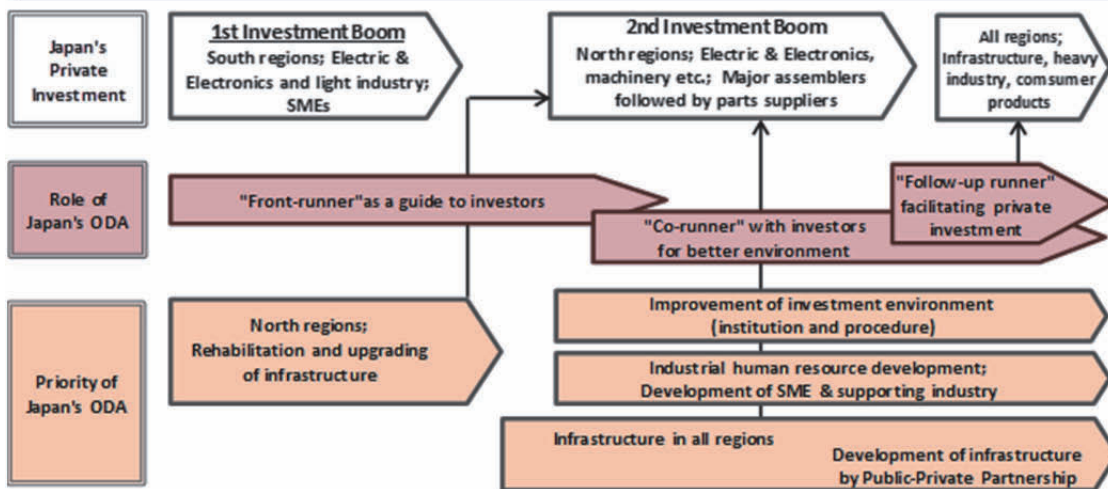
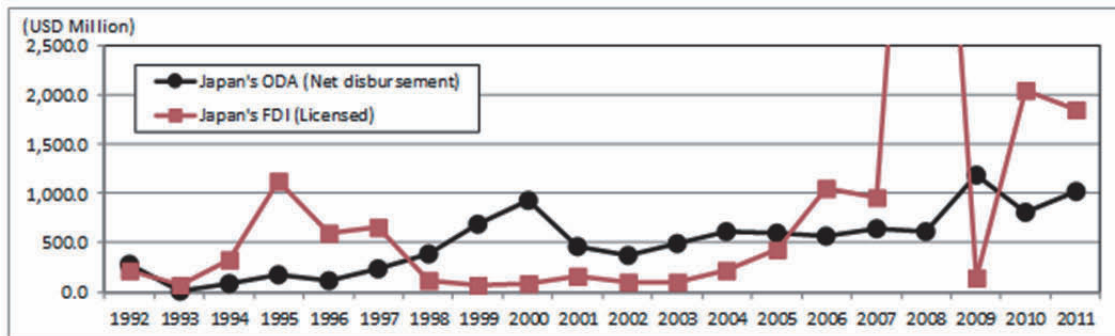
(Source: World Bank, PRSC10 IDA Program Document, 2011)

4.5 Features of Japan's ODA and Lessons Learned from Past Collaboration in Economic and Business Institutions

4.5.1 Presenting a Collaboration Model between the Private Sector and ODA

Japan's ODA has been carried out in Vietnam in collaboration with the private sector in various ways. It has developed from a role of guiding investors, to a role of working with the private sector to improve the investment environment, and to a role of facilitating increased and efficient private investments (Figure 4-8). ODA's active investment in infrastructure in the north part of the country in the late 1990s induced massive private investment by Japanese firms in the 2000s. Since the mid-2000s, Japan's ODA has been tackling the problems faced by the private sector in line with the framework of Vietnam-Japan Joint Initiative. More recently, ODA tries to sustain active private investments in such areas as infrastructure to effectively address the development needs of Vietnam. This approach was made possible by utilizing a variety of Japanese ODA schemes, as well as the strong involvement of GOJ at a higher level such as the Embassy of Japan in designing and implementing the framework to promote investment.

The change in ODA roles can be a good reference model for Japan and other donor countries or development organizations when they consider providing assistance for certain developing countries to improve the investment environment from a long-term perspective.



Note: The licensed amount of Japan's direct investment in 2008 was USD 7,653 Million.
 (Source: Made by the Study Team based on data of JETRO and OECD-stat)

Figure 4-8 : Trend of Japan's FDI and ODA to Vietnam

4.5.2 Taking a Separate Aid Approach to Support Sector Reforms and Individual Agendas

Since Vietnam is a developing country with a transitional economy, donor countries and organizations were faced with the major challenge of responding to huge development needs and promoting economic reforms of Vietnam concurrently. As explained in section 4.4.4, Japan joined the PRSC3 in 2003 to co-finance Vietnam's sector reforms, and this marked Japan's full-scale start of providing general budget support to developing countries. This decision was welcomed by GOV and the other PRSC participants including the World Bank, making it possible for Japan to have other channels of communication with the government, in addition to the existing one. Meanwhile, the "Vietnam-Japan Joint Initiative" was launched in the same year as a new bilateral framework, which functioned as an anchor to individual ODA projects. In this way, Japan characteristically took a separate approach to each of Vietnam's two agendas. Given that both approaches appeared as quite new challenges to Japan, the leadership role of the embassy of Japan assumedly played an important role. In addition, as stated above, Japan

participated actively in the discussions on the policy framework during the PRSC process, to make the Vietnam-Japan Joint Initiative more effective. Thus an effective promotion of both economic reforms and better investment environment was explored with a definite intention. This type of approach may serve as a useful reference when considering support for countries with similar needs.

4.5.3 Providing Substantial Support for Work Improvement by Long-term Experts

As is the case with other sectors, a number of counterpart organizations of GOV in this sector appreciate the work of Japanese experts, who are stationed long term and provide practical advice based on their deep knowledge and experience, leading to substantial improvement in the work operation. This form of cooperation is broadly recognized as a salient feature of Japan's technical cooperation. In many cases, Japanese experts have constantly been dispatched from the Japanese ministry or related agencies in their relevant field. The long-term relationship between the organizations of the two countries has contributed to the establishment of mutual trust and human relationships at a high level.

Among the technical cooperation projects provided in the economic institution and business sector, those with a clear objective have tended to produce steady results, such as projects intending to introduce systems or institutions according to international standards, or trying to develop computer systems. While this type of cooperation will remain needed, other types of projects seem to be increasing to a certain degree, as a result of the strengthened capacity of counterpart organizations. For instance, there are a couple of ongoing projects that focus on improving the entire policy implementation system involving not only the counterpart organization, but also a wide range of other related organizations. This kind of project can be described as relatively difficult, since the result is not always visible. Therefore, how to achieve in improvement in higher and extensive policy issues, while keeping the counterpart organization motivated will appear as one of the challenges of Japan's ODA for Vietnam in the future.

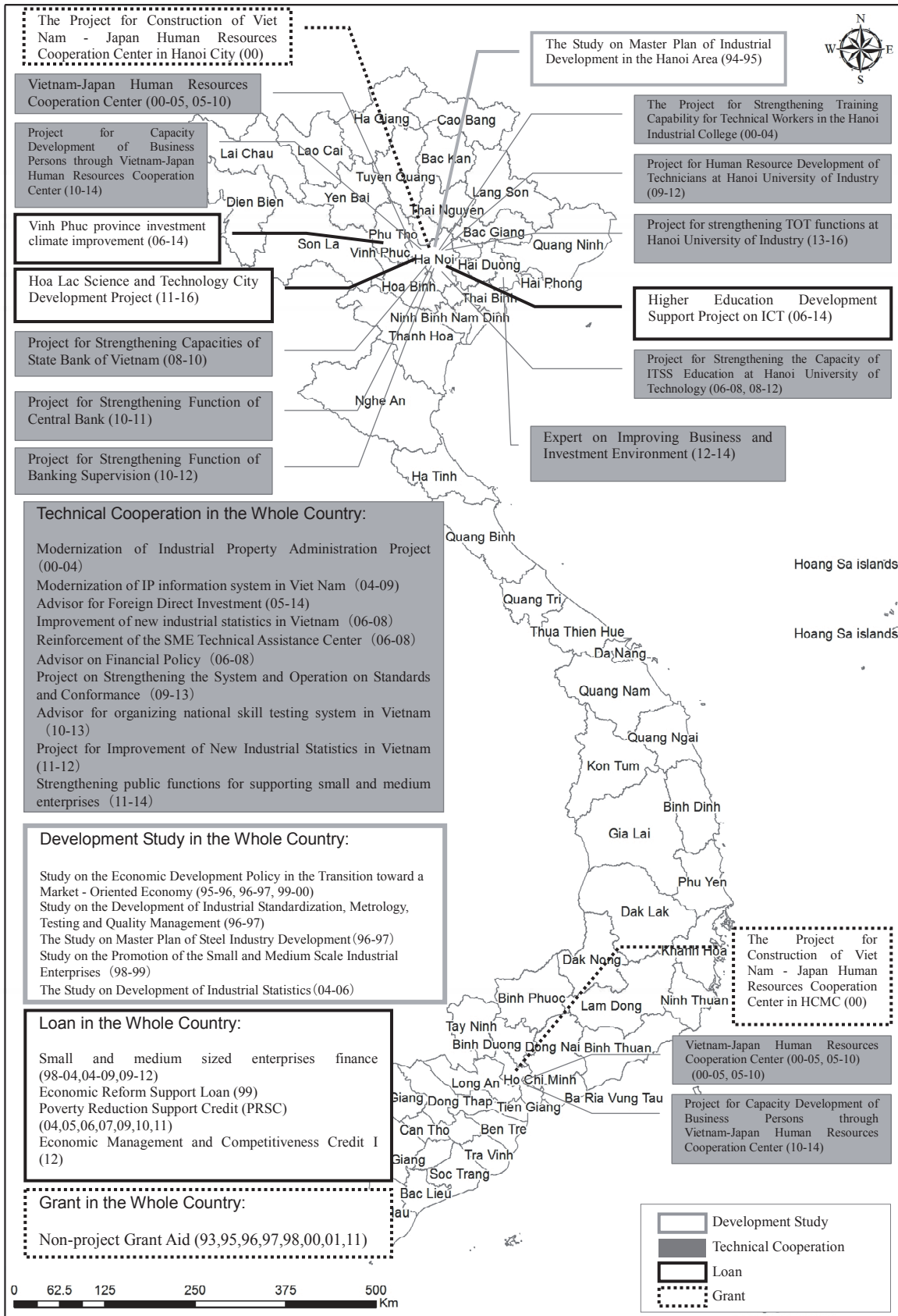


Figure 4-9: Project Sites in the Economic and Business Institutions Sector in Vietnam

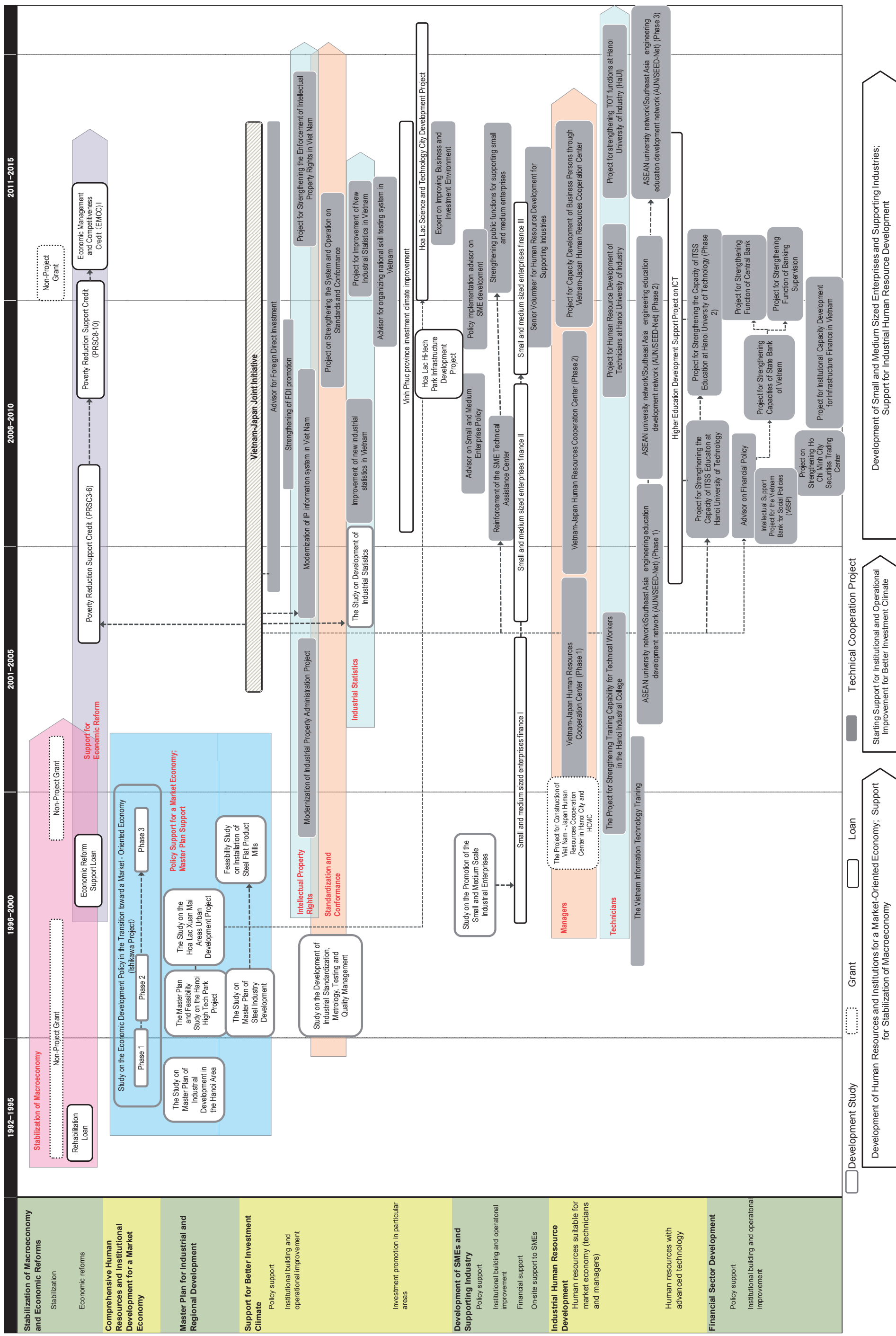


Figure 4-10: JICA Country Strategies and Projects for Economic and Business Institutions in Vietnam

