

**Country Assistance Program  
for  
the Socialist Republic of Viet Nam**

**Government of Japan**

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## Contents

1. Philosophy and Objectives .....	1
2. Development Situation in Viet Nam	
2.1 Current issues .....	2
2.2 Overview: politics, society and the economy .....	3
2.3 Economic situation and issues .....	5
2.4 Current status of lifestyle and social aspects and challenges .....	9
2.5 Economic and social foundations .....	12
3. Development Strategy Trends	
3.1 Responding to development needs (Efforts by Viet Nam's Government and an evaluation to them).....	12
3.2 Analysis and evaluation of Japan's assistance to Viet Nam to date.....	13
3.3 Trends in assistance to Viet Nam from each donor and NGOs.....	15
4. Basic Policy for Assistance to Viet Nam	
4.1 Basic recognition and objectives .....	17
4.2 Volume of assistance to Viet Nam .....	19
4.3 Priority areas for assistance to Viet Nam .....	21
4.4 Comprehensive and cross-sectoral approach to priority areas .....	23
4.5 Response to aid coordination.....	26
Appendix:	
Priority Areas and Issues in Japanese Assistance to Viet Nam.....	30

## **1. Philosophy and Objectives**

In order to ensure the security and prosperity of Japan, it is of extreme importance that balanced economic growth and stability in the countries of the Association of South-East Asian Nations (ASEAN) are sustained, and that based on such balance and stability, Japan maintains its close relations with ASEAN. Viet Nam has potentiality of further vigorous economic development with the second largest population among the ASEAN 10, and its industrious and high-achieving people. Viet Nam is also an important country in the context of Japan's foreign policy toward China, given the shared borders between the two countries. That Viet Nam, a frontrunner of the new ASEAN members (Cambodia, Laos Myanmar and Viet Nam) achieves steady development can provide a model for the other new members and be also desirable for realizing balanced development between the new and old members of ASEAN. In addition, since Viet Nam is significant for Japan as a manufacturing base, a potential future export market and an energy supply base, Japan's assistance for improvements in the investment, trade and business environment in Viet Nam is expected to lead to a virtuous economic cycle not only between Japan and Viet Nam, but also between Japan and ASEAN as a whole. In this way, Japan's assistance to Viet Nam and resulting development have considerable significance for bilateral relations with Viet Nam and also for Japan's regional relations with the ASEAN region.

At the same time however, Viet Nam still remains a low-income developing country. Despite the considerable improvements in social indicators brought about by the high growth of recent years, absolute income and living standards remain at persistently low levels, with many people, mainly in rural areas, living in poverty. Japan's assistance and its contribution to aspects of lifestyle and social development in Viet Nam which responds to humanitarian and social needs in Viet Nam is significant from the perspective of

balanced implementation of Japanese Official Development Assistance (ODA).

In terms of global development assistance policy by donor countries, Viet Nam is a country that has been attracting attention and there are many cases in which aid organizations have implemented new strategies in Viet Nam ahead of introduction to other countries. That Japan has taken an intellectual lead in implementing its concepts pertaining to economic development and foreign assistance in Viet Nam, and has then gone on to transmit them to the international donor community, is meaningful as its contribution to global development assistance policy.

## **2. Development Situation in Viet Nam**

### **2.1 Current issues**

Although Viet Nam has achieved a relatively high rate of growth so far, it currently faces difficult challenges both at home and abroad. In particular, amidst an environment of intensifying international competition, Viet Nam is at a crossroads to determine whether to boost its economic growth to a higher level, or whether to remain stationary and be left behind in global competition as a result. Given this milieu, the challenges of key importance that are currently facing Viet Nam are thought to be the following:

- To what extent will it be possible to promote growth and boost competitiveness through the promotion of market economy reforms, the improvement of the investment, trade and business environment, the promotion of the small and medium enterprise (SME) and private sector and the development of economic infrastructure?
- How will it be possible to resolve lifestyle and social issues such as regional disparities and environmental issues, which have not been resolved by the achievement of growth alone, but rather, in some cases, could be worsened?

- How will it be possible to improve an inefficient and opaque administration, and underdeveloped legal systems?

## **2.2 Overview: politics, society and the economy**

### **2.2-1 Politics and society**

Viet Nam is a socialist state led under one-party rule by the Communist Party, which plays a dominant role in all aspects of government. However, it is characterized by its determination to advance the transition to a market economy while maintaining the political status quo. Political inclination has been, through the 9<sup>th</sup> National Congress of the Communist Party in 2001 and the general elections of 2002, to follow a policy of Doi Moi (reconstruction), which promotes the emergence of a market economy, while at the same time maintaining a socialist base.

In contrast to economic growth, lifestyle and social issues exist that cannot be solved merely through growth alone, but in some cases may deteriorate. Specific issues that require due attention include disparities between urban and rural areas; poverty among ethnic minorities; issues relating to the informal sector; environmental degradation; lack of urban infrastructure; problems in the transportation sector; and new forms of poverty being brought about by advances in the market economy and progress in information and communications technology. Regional disparities within the respective regions of northern, central and southern Viet Nam are also requiring due consideration.

### **2.2-2 Economy**

Following the adoption of the Doi Moi policy at the end of 1986, Viet Nam began to introduce elements of market economy and advanced a policy designed to open the

country. After 1992, it achieved a high economic growth rate (an annual rate between 7% and 9% growth) that is favorably compared with other ASEAN countries. Although the growth rate took a temporary downturn after 1998, it has subsequently recovered to a range of 6 to 7%.

The macroeconomic conditions in Viet Nam would indicate a degree of stability, viewed from a relatively high growth rate, low inflation, an almost balanced trade account, stable exchange rate and reductions in external debt. External debt has now reached a sustainable level, which causes voices towards realizing Viet Nam's "graduation" from the list of Heavily Indebted Poor Countries (HIPCs).

In terms of the external economy, although the proportion of exports accounted for by clothing, footwear and processed foods has risen in recent years, primary commodities such as crude oil and coffee still account for a large share of Viet Nam's exports. Such primary commodities are vulnerable to fluctuations in the international commodity markets and there is a possibility that export figures could stagnate over the mid- to long-term. At the same time, the Vietnamese economy is dependent on imports of raw materials, intermediate products and capital goods, which contribute to a structure whereby any deterioration in the international market for primary commodities could easily lead to a concomitant degradation in the trade balance of Viet Nam. The balance of trade in services is in deficit, and although the balance of transfers (remittances from overseas Vietnamese) supports the current account balance, the structure is fundamentally fragile. Another point is that the in-flow of foreign direct investment (FDI) has not increased as expected.

In spite of improvements in the domestic savings rate, with substantial development funding needs being projected for Viet Nam in the future, a dearth of mid- to long-term

funding, and the limitations on its financing functions, ODA still has a significant role to play.

## **2.3 Economic situation and issues**

### **2.3-1 Industrial structure and the international environment**

In Viet Nam's industrial structure the agricultural sector still accounts for the majority of the labor force, although by GDP weighting, the importance of the mining and manufacturing and the service sectors is increasing. Looking on a sectoral basis, state-owned enterprises are underperforming and their share of the economy remains significant, which inhibits overall growth. Under such circumstances, the private and foreign investment sectors take on the role of the driving force for growth. It can be seen therefore that even in planning the realization of a multi-sectoral economy, through the development of the state-owned, private and foreign investment sectors, various issues remain within each sector.

With regard to the international environment, Viet Nam's integration into the international economy is progressing through such developments as the US-Viet Nam Bilateral Trade Agreement, the ASEAN Free Trade Agreement (AFTA), negotiations on accession to the World Trade Organization (WTO), and the launch of negotiations on a China-ASEAN FTA. It is projected that such moves will lead to an intensification of competition among China and the ASEAN members. With AFTA negotiations entering their final stages, work to lower intra-regional tariffs is causing a considerable degree of confusion in policy formulation and implementation aspects. In addition, with the process of full-fledged competition and weeding out having already begun, Viet Nam is facing a situation in which the weeding out of weaker companies is bringing about unemployment problems.

It is therefore incumbent on Viet Nam to foster industries that are able to compete with other countries, in order to avoid losing out to competition and not to become part of a vertically divided world's industrial structure, in which Viet Nam provides labor capacity and primary commodities only.

### **2.3-2 Emergence of market economy and structural reforms**

#### **(a) Fostering private sector enterprise, introducing foreign capital (through developing the trade and investment environment) and trade reforms**

Private sector companies are the sector recording the highest rate of growth, and yet they still face various issues such as difficulties in access to capital, lack of business scale, and a low-level of technical know-how. Efforts are therefore required to promote people's entrepreneurial spirits and nurture entrepreneurs. The fostering of the private sector has seen a degree of progress through reforms laid out in the enactment of the Enterprise Law, and yet challenges still remain, including the discriminatory treatment of state-owned enterprises over private enterprises and how to foster small and medium enterprises (SMEs), which account for more than half of all private sector enterprises.

Foreign capital has supported growth to date in Viet Nam, but foreign direct investment has not expanded according to initial expectations. Viet Nam has been pointed to as a superior location for FDI, given its cheap and high-quality labor force, stable politics and security situation, and as an alternative location to avoid over-concentration of investment in China. An objective analysis of the current status of Viet Nam, however, reveals that the current reality is that supporting industries remain undeveloped, leading to difficulties for foreign business seeking to expand the Viet Nam, domestic market and improve local procurement rates. In comparison with other ASEAN countries, therefore, Viet Nam's



FDI competitiveness cannot be viewed as being particularly high. Although some progress has been witnessed in the trade and investment environment in Viet Nam, the following problems remain, which require drastic improvement measures if Viet Nam is to move to a higher growth track in the midst of intensifying international competition.

- High utilities rates, transportation and communication costs;
- Remaining regulations on entry of foreign capital relating to foreign investment laws;  
Regulations on land-use rights;  
Inadequate structure for the protection of intellectual property rights;  
Inadequate structure for standards and conformance;  
Need for more efficient distribution systems;  
Inadequate procedural regulations;  
Persistence of a centrally planned economic structure;  
Lack of various statistical data;  
Lack of observance of market principles;  
Complex and opaque legal structure and implementation;  
Inefficiency of administrative institutions directly involved in economic activities;  
Problems in implementation aspects of foreign assistance;  
Need to develop competent administrative officials

In addition, from the viewpoint of strengthening industrial competitiveness, it is necessary to clarify Viet Nam's position as a manufacturing base, giving due consideration to the external environment.

- Given the increased integration that AFTA will bring about, it is necessary to demonstrate priority policies and a future vision for the mid- to long-term that will be required in order to strengthen industries, SMEs and supporting industries in a

manner that will make them competitive in the ASEAN region;

- It is necessary to consider progress of the current negotiations on Viet Nam's accession to the WTO targeted for 2005,
- It is necessary to clarify Viet Nam's position within the ASEAN region as a base for export-oriented processing and labor-intensive production, given the proximity of China.

In addition, with regard to trade liberalization, although progress has been achieved in trade reforms, including the abolition of regulations on quantitative import restraints (tariffication), abolition of export regulations and introduction of an auction system, and tariff reductions, it is also necessary to steadily implement reforms towards the realization of Viet Nam's accession to the WTO, while ensuring transparency.

#### **(b) Reform of state-owned enterprises, financial and banking reform**

State-owned enterprises continue to play a central role in key industries. However, with the exception of some state-owned enterprises that have access to overseas markets or have linked up with foreign partners, most suffer from inefficient management, a surplus of personnel, obsolete equipment, and many are running in deficit. Given these circumstances, it is recognized that the preservation of such inefficient state-owned enterprises is a problem.

The reform of state-owned enterprises has been an important challenge on the agenda of economic reform for a long time, and reforms have been implemented since 1989 with advances in equitization. Through such efforts, the number of state-owned enterprises was reduced at a stroke from 12,000 to 6,000 in 1990, but subsequent reforms have stagnated (eleven years later, in 2001, there were still 5,195 state-owned enterprises). Although

there are plans to proceed with reforms through further equitization, sell-offs, transfers, dissolutions and mergers, it is still necessary to erase persisting background factors that are obstacles to reform, including state intervention, the provision of incentives to managers, and the delinking of unemployment issues. In the financial and banking reforms, it is necessary to address the issue of non-performing loans held by the four major state-owned commercial banks, as well as improving rigid and inefficient financial functions.

### **2.3-3 Status of economic infrastructure**

Although over the last decade significant improvements have been achieved in economic infrastructure such as transportation, power and telecommunications, which serve as the basis for economic activities, supply still fails to meet rapidly increasing demand, and economic infrastructure still lags behind neighboring countries in terms of quality, quantity and cost. This lack of economic infrastructure is causing a bottleneck that is persistently blocking sustainable economic growth. In addition to developing economic infrastructure, human resources development and improvement of systems and policies, including the efficient operation of such infrastructure, remain issues.

## **2.4 Current status of lifestyle and social aspects and challenges**

### **2.4-1 Status of poverty**

Although the poverty rate declined from 58% in 1993 to 32% in 2000, much of the population lives in a situation barely above the poverty line, and many households exist that can easily fall back below the poverty line due to external factors such as natural disasters or disease. In addition, regional disparities are severe and there is a widening gap

between the rich and the poor in Viet Nam. Also in urban areas, new poverty problems are arising due to influxes of poor people.

#### **2.4-2 Education**

Although the literacy rate and primary school enrollment rate are at high levels compared with the international level, the ratio of enrollment in secondary education and beyond remains low. Moreover, quality is a serious issue in primary education, with many schools still operating on the two- or three-shift system. Other challenges include how to bridge the regional and ethnic disparities in enrollment rate and measures to tackle and reduce the dropout rate.

#### **2.4-3 Health and medical care**

Although improvements have been attained in the national average for basic health indicators such as infant mortality and average life span, levels of medical care remain rudimentary at the local level and a challenge is to establish a system of referral in both soft and hard aspects. Also it is still the case that the main causes of disease and mortality are those generally seen in developing countries, including infectious diseases, malnutrition and underdeveloped measures to deal with maternal and child health.

#### **2.4-4 Environment**

Many years of war, population increase as well as industrialization and urbanization brought such environmental problems as deforestation and degradation of forest resources, enhanced load on water and atmosphere conditions, and increase in volume of solid wastes. At the same time, administrative capacity in environmental management and

conservation is not yet sufficiently developed.

#### **2.4-5 Agricultural and rural development/regional development**

In many regions, inadequate water supply systems and lack of basic awareness concerning hygiene cause the situation that a supply of safe drinking water has yet to be secured, and due to inadequate infrastructure required for basic daily needs such as transportation, power and communications, many regions are still unable to receive adequate social services. The agriculture, forestry and fisheries industry, one of the key industries in Viet Nam, faces a fundamental problem of balancing a large population with limited natural resources such as land. Such problems are compounded by the fact that production base and technologies are inadequate. In addition, due to delays in implementing adequate flood control measures, flood damage occurs frequently, causing serious damage to both daily life and production.

#### **2.4-6 Urban development**

Rapid urbanization led by economic growth has brought about a deterioration in the urban living environment, with issues arising such as a lack of water for daily use, lack of sewerage and drainage systems, waste issues, traffic congestion and accidents and housing shortages.

#### **2.4-7 Other aspects**

Other issues facing Viet Nam include the empowerment of women and gender issues, governance, grassroots democratic movements and the formation of civil society, ethnic minorities and issues concerning persons with disabilities and the socially vulnerable.

## **2.5 Economic and social foundations**

The administrative structure of Viet Nam is faced with inefficiency issues, arising from complexities and ambiguities in administrative procedures, which lack coherence and are subject to regular and arbitrary change. This has led to opacity in administrative systems and policies. In addition, there is room for improvement of the public servant structure, given that structural weakness in administrative functions and relatively low salaries have led to abuses of the system, including corruption in some areas. It has also been pointed out that the rule of law has yet to be thoroughly established in administrative procedures, leading to the problem of unilateral and arbitrary application of procedures by officials. With regard to the legislative process, issues arise from inadequate legal structures, including a low standard of quality in laws and other legal regulations, a number of which are contradictory in their stipulations. Insufficient measures have been taken to address individual legislation required for the introduction of a market economy. With regard to the judicial system, in addition to issues of the capabilities of judges and the inaccuracy of legal judgments, other problems that have been pointed out include the complexity of judicial processes, delays in deliberations and difficulties experienced in carrying out judgments.

## **3. Development Strategy Trends**

### **3.1 Responding to development needs (Efforts by Viet Nam's Government and an evaluation to them)**

Viet Nam has been compiling a basic document that indicates the direction for economic and social development in the form of a Five-year Plan, and has formulated and

implemented policies based on this plan so far. In addition, the Socio-Economic Development Strategy for the period 2001-2010 that was formulated in 2001, describes a vision for Viet Nam to carry out the transition to an industrial economy by 2020. The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) (See 3.3-2, below, for further details) is the Vietnamese version of the Poverty Reduction Strategy Paper (PRSP), which sets out an action plan to realize a variety of development strategies and plans, setting goals for the achievement of economic growth and poverty reduction. The Vietnamese government has also formulated development strategies and plans for five and ten-year periods in major sectors.

On the basis of the above-mentioned strategies and plans, Viet Nam has identified the following three items as development challenges for the future (first announced in a speech delivered by Deputy Prime Minister Vu Khoan at the Consultative Group (CG) meeting in December 2002). These three items are consistent with the challenges analyzed in section 2. above.

- (i) To enhance quality, efficiency, and competitiveness of the economy with a view to ensuring rapid and sustainable growth.
- (ii) To make significant progress in comprehensive human resources development, address urgent social issues, and improve the social and natural environment.
- (iii) To build a clean, strong and effective public administration, combat and tackle corruption, wastefulness and excessive bureaucracy, and promote democracy and transparency while enforcing disciplines in state organs and society.

### **3.2 Analysis and evaluation of Japan's assistance to Viet Nam to date**

Japan resumed full-fledged assistance to Viet Nam from 1992, and since 1995 has been

the country's top donor. The country assistance program for Viet Nam, formulated in 2000, identifies five priority areas for the implementation of assistance to Viet Nam: (i) human resource and institutional building (particularly assistance for market economy reforms), (ii) infrastructure development, including power, transportation and so on, (iii) agricultural and rural development, (iv) education, health and medical care, and (v) environment. Japan's assistance to Viet Nam to date has been characterized by balanced assistance for economic infrastructure development and assistance in the social sector, and also by active assistance to policy research, human resource development and institutional building, which contributes to the creation of a market economy. This assistance is considered to have made a significant contribution to Viet Nam's economic growth, and improving lifestyle and social conditions including poverty reduction. At the same time, the following issues have been highlighted from the perspective of further improving Japan's assistance:

### **3.2-1 General assessment**

- Issue of linking assistance with Viet Nam's own reform efforts should be addressed.
- There is room for improvement in the application of aid coordination as a means of implementing effective and efficient assistance.

### **3.2-2 Issues for the adoption and implementation of projects**

- Lack of clarity concerning a mid-term vision for assistance objectives in each sector.
- There is room to further specify priority areas in sub-sectors, and it is necessary to clarify assistance policy for each sub-sector.
- Lack of policy dialogue with the Viet Nam counterparts concerning selection of



projects, and a limit to request-based procedures and project studies and adoption in the context of each assistance scheme (Issue of conveying and consulting over Japan's policy plans under a mid-term vision. There is room to improve the demarcation of each assistance scheme).

- There is room for improvement in coordination and partnership with other donors.
- There is room for improvement in cooperation and partnership with non-governmental organizations (NGOs) in sectors in which projects could be jointly undertaken.
- Issues arising from implementation of assistance schemes (issues of grant aid costs, and response to trust funds) exist.

### **3.3 Trends in assistance to Viet Nam from each donor and NGOs**

#### **3.3-1 Trends in assistance from each donor and NGOs**

Looking at trends in assistance from each donor shows that in financial terms, Japan, the World Bank and the Asian Development Bank (ADB) are the top donors to Viet Nam. In the same way as Japan, the World Bank and ADB focus their assistance on support for the transition to a market economy, human resource development and institutional building, in addition to economic infrastructure development and social sector assistance. Although the World Bank takes a different approach from that of Japan, by placing priority on providing program loans for policy and institutional reforms as laid out in the Vietnamese government's PRSP (refer to 3.3-2, below), the efforts of Japan and the World Bank are mutually complementary. The World Bank also places emphasis on the three items for development identified by Viet Nam and detailed in 3.1 above, taking an approach that aims to address these issues. Although assistance from European countries is on a limited scale, it is focused on the social sector, including basic education, forestry, natural disaster

control and regional transportation and governance.

There are currently more than 400 NGOs operating actively in Viet Nam, and looking at trends in their activities shows a wide range of activity areas that are being targeted, including assistance from a humanitarian perspective, such as urban poverty issues including street children, assistance for persons with disabilities and nutritional improvements, rural development projects, research activities including poverty assessments, as well as policy proposals targeting poverty reduction. Given their activities at the front-line of assistance work, local information they have and richness and diversity of their experience, the importance of NGOs as ODA partners is continuing to grow. In addition, in a country under one-party rule like Viet Nam, NGOs play an important role not only in implementation aspects of ODA, but also in gauging public opinion.

### **3.3-2 Recent developments**

When the World Bank launched the Comprehensive Development Framework (CDF) in 1999, Viet Nam was chosen as the pilot country, and working groups were formed in each sector and dialogue (partnership) between the Vietnamese government and donors was initiated. The Vietnamese government also initiated full-fledged work on the formulation of its PRSP in 1999, and the resulting CPRGS was formulated in May 2002 as the first PRSP in Asia. The CPRGS purposefully added “growth” in the title of the strategy and described the importance of economic growth. However, as the CPRGS did not make any reference to the contribution of growth promotion measures such as large-scale infrastructure development to poverty reduction, Japan took an initiative in reviewing the CPRGS so that it would address this point. Consequently, the revised strategy included a chapter on large-scale infrastructure, which was reported to the Consultative Group

Meeting(CG) held in December 2003. In addition, currently, in the international arena, vigorous discussions are ongoing on the harmonization of assistance procedures, from the perspective of improving the effectiveness and efficiency of development assistance. Under the circumstances, Viet Nam became a pilot country for multilateral development banks' efforts on this subject, and efforts have been promoted to harmonize procedures among the Japan Bank for International Cooperation (JBIC), the World Bank, ADB, the French Development Agency (AFD), and the KfW Banking Group (KfW, Germany). In the area of grant aid also, the Like-minded Donor Group mainly made up of Europe, the Europe Union (EU) and United Nations (UN) organizations have been making various internal efforts towards harmonization. In these developments, both the Vietnamese government and donors have trended to focus on the importance of capacity building for Viet Nam in the implementation of assistance.

#### **4. Basic Policy for Assistance to Viet Nam**

##### **4.1 Basic recognition and objectives**

###### **4.1-1 Basic assistance policy**

As described above in 1. "Philosophy and Objectives", Japan's position is to support Viet Nam's development from the dual perspectives of foreign policy and economic interdependence as well as from the viewpoint of humanitarian and social concerns. Among these basic underpinnings, it is the dual perspectives of foreign policy and economic interdependence from which Japan assists the promotion of dynamic economic growth in Viet Nam. Specifically, Japan provides assistance for promotion of growth and enhancement of competitiveness through the promotion of market economy, improvement of the investment environment and development of economic infrastructure.

Since Japan's assistance to Viet Nam leads to improving economic and social circumstances as a whole, it can be said that it also meets humanitarian and social needs. In addition, Japan provides assistance for improving lifestyle and social aspects including poverty reduction, in the light of humanitarian and social concerns which is one of the above-mentioned basic underpinnings. Such improvements will not only alleviate problems that cannot be solved merely through growth or in some cases deteriorate through it, but will also create basic conditions for future growth promotion. In addition, Japan supports institutional building which is fundamental to both promoting growth and improving lifestyle and social conditions.

In this way, in order to achieve humanitarian and social objectives, Japan recognizes that an optimum combination of overall improvement in the economic level through economic growth and direct assistance for humanitarian and social areas is essential.

In addition to respecting the ownership of the Vietnamese government, Japan values the vision for development as described above in 3. and carries out a policy of assisting economic growth, improving lifestyle and social aspects including poverty reduction and institutional building.

#### **4.1-2 Methodology of assistance implementation**

The volume of assistance to Viet Nam is determined through the mechanism to evaluate the status and degree of achievement of various issues, including the institutional and policy environment, and conduct a review on qualitative directions in terms of volume, in consultation with the Vietnamese government.

Undertaking policy dialogue with the Vietnamese government in which a mid-term vision for the direction of assistance in each sector is to be discussed, Japan attempts to

formulate and adopt projects in “dialogue-based” manner rather than “request-based” manner.

Through coordination and partnership with a broad spectrum of stakeholders, including other donors, NGOs, universities, local governments and business organizations, Japan aims to make its assistance more effective and efficient. Japan also utilizes the superior technology, know-how, human resources and systems it possesses. In the implementation of ODA, Japan works to ensure the consistency of its overall policies by aligning assistance policies with other key policies, while duly considering the relationship with Japan’s own economy and society.

## **4.2 Volume of assistance to Viet Nam**

### **4.2-1 Examination mechanisms**

Utilizing policy dialogue and other means, the status and degree of attainment of the items detailed below in 4.2-2 over the previous year are evaluated. These results are shared with the Viet Nam side and a commitment is gained on measures that the Viet Nam side should take in the future. And then qualitative direction in terms of volume will be reviewed.

### **4.2-2 Items for consideration**

When assessing the volume of assistance to Viet Nam, items to be considered and evaluation of current circumstances for each item are as follows:

- Relationship with “Philosophy and Objectives”: Bearing in mind the rapid economic development of China, the necessity for balanced development by ASEAN and the development of Japanese companies in East Asia, it is considered that the importance

of Japan's assistance to Viet Nam is growing from Japan's perspective.

- Development needs: Bearing in mind the status of Viet Nam's development, it is considered that there still remain significant development needs.
- Institutional and policy environment: Although it can be seen that reform efforts are headed in a favorable direction in general, various issues are arising in individual cases (e.g. issues for motorcycles and taxation on automobiles). There are a number of policy recommendations that have yet to be reflected in action, and efforts under "the Viet Nam-Japan Joint Initiative" for improvement of the investment environment could be seen as a test case in this sense. It will be necessary to continue to pay due attention to these points.
- Aid absorption capacity: Issues arise in the rate of implementation of assistance due to the implementation system of the Vietnamese government and the procedural delays. On the other hand, concerns about debt-sustainability are decreasing although further vigilance in the future will be required.
- Relationship with "Principles of ODA Implementation" detailed in the ODA Charter: No deterioration tendencies have been witnessed, but human rights and ethnic minority issues should continue to be monitored.

#### **4.2-3 Concept concerning volume**

In summarizing the points made above in 4.2-2, it would appear to be appropriate to take the past level of aid volume to Viet Nam as a baseline when considering future levels, given that substantial development needs remain as before in Viet Nam. However, due consideration should be given to the institutional and policy environment and the aid-absorption capacity (progress status of existing projects, and debt repayment capacity

in relation to realization of repayment of principal in the future). (As for the future, assistance volume will be considered annually in order to reflect the evaluation of the status and degree of attainment of the above-mentioned items at that given point in time, and consultations with the Vietnamese government in the fora like policy dialogues will take place as part of the implementation and operation of the country assistance program).

### **4.3 Priority areas for assistance to Viet Nam**

The Japanese government has established the following three priority areas (or “three pillars”): promotion of growth, improvement of lifestyle and social aspects, and institutional building. Bearing in mind the significance which the assistance to Viet Nam has for Japan (refer to 1. Philosophy and Objectives), assistance will be implemented with a focus on a broad range of sectors under the concept of the “three pillars,” as detailed below. However, in implementation, Japan will identify further priority issues in each sector and focus on them from the perspectives of the significance of the assistance for Viet Nam’s development, the significance of the assistance for Japan, the response of other donors and the assistance capacity of Japan (For specific information refer to the Appendix. The specific approach of implementation of assistance is detailed in 4.4 below).

#### **4.3-1 Promotion of growth**

In order to promote economic growth, important factors are to have an “engine for growth” (the private sector, including FDI), appropriate institutions and policies, and a foundation for economic activities (economic infrastructure and human resources). Given this recognition, the targeted sectors are as follows:

- Development of investment environment
- Promotion of SMEs and private sectors
- Development of economic infrastructure (transport, power and information and telecommunications)
- Human resources development to support growth
- Economic reforms including state-owned enterprises reform

#### **4.3-2 Improvement in lifestyle and social aspects**

Issues relating to lifestyle and social aspects incorporate various items responding to poverty issues, as well as the challenge of achieving the Millennium Development Goals (MDGs). Such issues appear in cases where people lack the basic necessities required for basic living needs. Hence, the following sectors are targeted from the perspective of “human security” focusing on the needs of the individual, and efforts to reduce poverty and respond to humanitarian and social needs:

- Education
- Health and medical care
- Agriculture and rural development/local development
- Urban development
- Environment

#### **4.3-3 Institutional building**

The development of institutions, which form the foundation of society and the economy is essential in order to achieve the promotion of growth and to overcome lifestyle and social challenges. Although issues relating to institutional building in individual sectors are



incorporated in 4.3-1 and -2 above, cross-sectoral issues that are also targeted include the following:

- Development of the legal system
- Administrative reforms (civil service and financial reform).

#### **4.4 Comprehensive and cross-sectoral approach to priority areas**

##### **4.4-1 Planning and implementation of a consistent assistance policy**

(a) Taking into consideration the strategy, planning and objectives of the Vietnamese government and the response of other donors and NGOs, Japan shares a mid-term vision with the Vietnamese government concerning the direction of assistance in each sector, in order to provide assistance in an integrated and consistent manner. Assistance is implemented on such a basis. Specifically, assistance is implemented in the following forms:

- Prior to receiving requests from the Viet Nam side, policy dialogues are to be held to discuss the mid-term vision for assistance in each sector and through the dialogues Japan presents its assistance policy to the Viet Nam side. This enables Japan's assistance to be reflected in Viet Nam's development strategy and the development strategy of Viet Nam and the assistance policy of Japan are to be harmonized. In so doing, the aim is to achieve project formulation and adoption that transcends a "request-based" formula, and is rather "dialogue-based."
- In this process, due consideration is given to ensuring that the three factors of "hard" (infrastructure, etc.), "soft" (systems and policies) and "human resources development" interrelate organically with each other. In so doing, due consideration is given to synergetic cooperation and role sharing among Japan's various assistance

schemes, including loans, grant aid and technical cooperation. Through these efforts “policy support assistance” related to systems and policies is applied in a manner that enhances its policy impact. In addition, in infrastructure development, Japan actively involves itself in improving systems and policies, including maintenance and management aspects.

- In addition, in this process, focus is placed on dialogue and coordination with other donors and NGOs, from the perspective of implementing effective and efficient assistance.
- Japan’s assistance is implemented in an integrated and consistent manner by aligning operational implementation plans and policies of JICA and JBIC with the country assistance program and the mid-term vision in the priority sectors, as described above.
- Individual projects are formulated and considered in accordance with the mid-term vision for assistance in each sector, and the organizations involved share the work and information relating to mid-term planning and project formulation through the Local ODA Taskforce.

(b) In conducting the operations described above, to make Japan’s assistance schemes applicable to the needs of the age, the Japanese government considers improvements to its assistance schemes and participation in new schemes including a trust fund for aid coordination as a pilot effort.

(c) As mentioned above, the active utilization of policy dialogue applies not only to individual sectors and projects, but also to items relating to the fundamental direction for development in Viet Nam, such as the formulation of Viet Nam’s next five-year development plan.

#### **4.4-2 Improving effectiveness and efficiency in the implementation of individual projects**

(a) Cooperation is to be strengthened to promote “public participation” in ODA, through the participation of NGOs, academia, local governments and business organizations in the ODA process, and to enable their technologies and know-how to be effectively utilized. Cooperation with NGOs is also to be strengthened both in the project formulation and project implementation stages and the role of the “ODA Embassy” as a forum for sharing information among local organizations involved in assistance and NGOs should be further enhanced. In addition, Japan calls on the Vietnamese government to facilitate NGO activities where necessary. The technologies and know-how of Japanese companies are also utilized where appropriate in the implementation of ODA projects.

(b) Links with private sector funding are being considered for economic infrastructure development.

(c) Assistance to Viet Nam takes into account not only the development effect on Viet Nam alone, but also a regional perspective, including enhanced integration among ASEAN countries, and the Mekong Region Development.

#### **4.4-3 Considerations for the implementation of effective and efficient assistance**

(a) Due consideration is given to environmental and social aspects in the formulation and implementation of individual projects. Specifically, comparative analysis of alternative plans is undertaken, and projects are formulated and implemented providing sufficient prior information to all stakeholders, including local people. In the event that the involuntary resettlement of residents would be necessary, a detailed and careful response

is made to those residents. Due consideration is also given to institutional building on the Viet Nam side, which is capable of dealing with environmental and social issues.

(b) In the implementation of individual projects, ex-ante, mid-term and ex-post evaluations are conducted in a consistent manner, and they are being further enhanced through the evaluation of third parties, who possess specialist knowledge. Efforts are being made to use the knowledge and lessons learned from evaluations to formulate and implement subsequent assistance in an effective and efficient way. In addition, evaluation, including that of individual projects, is incorporated into the implementation and revision process of the country assistance program, and the formulation of future country assistance program will be based on the evaluation of the current program.

#### **4.4-4 Strengthening on-site implementation structures**

The local implementation structures in Viet Nam will be strengthened to enhance dialogue and coordination with the Vietnamese government, other donors and NGOs.

### **4.5 Response to aid coordination**

#### **4.5-1 Basic approach**

It is important that Japan implements its assistance based on the shared development strategy, under the ownership of the Vietnamese government in cooperation with other stakeholders in development activities including other donors and NGOs, in order to obtain a development effect at macro level. Japan will actively continue to implement its assistance in this manner.

Viet Nam has attracted attention in international discussions of assistance, and therefore demonstrating the modalities for effective and efficient assistance that actively utilize aid

coordination will enable Japan to demonstrate intellectual leadership in global assistance trends and to convey Japan's concepts on development and assistance to the international donor community. In this context, Japan will need to tackle the dual challenges of "participation in and transmission of idea to the international community" and "improvements in assistance modalities for greater effectiveness and efficiency."

In particular, Japan is leading discussions with regard to the role of economic growth in development. Given that the development of economic infrastructure and investment environment as well as a coherent combination of industrialization and trade policy are vital when promoting economic growth, Japan will actively take the initiative in such areas. As the first country to achieve social and economic development in Asia, Japan is making efforts to promote mutual understandings and cooperation between the Vietnamese government and other donors, by urging other donors to understand the importance of Viet Nam's ownership and of dialogue with the Vietnamese government, as well as the necessity for assistance in self-help efforts.

#### **4.5-2 Responding to individual issues**

(a) Response to PRSP: Japan will continue to actively involve itself in the CPRGS, the Viet Nam version of PRSP. Japan will also make efforts to ensure that the CPRGS identifies measures for promotion of growth, including large-scale infrastructure development, as one of its important pillars and are linked to resource allocation mechanisms in an appropriate manner.

(b) Improvement of effectiveness and efficiency of assistance (procedural harmonization and capacity building), and a sectoral response: In efforts to improve effectiveness and

efficiency of assistance, Viet Nam is positioned as an international pilot country. Given the consensus among donors on the importance of ownership, a country-based approach, and respect for diversity in harmonization, Japan will make proactive steps to contribute to the effective and efficient utilization of ODA. In the area of loans, Japan continues its previous efforts such as harmonization among JBIC, the World Bank and ADB which have been highly praised in the international donor community, and later joined by AFD and KfW. In the area of grant aid, from the perspective of respecting ownership of Viet Nam, Japan attaches an importance to dialogue with Vietnamese counterparts and makes efforts to improve effectiveness and efficiency of its assistance, including assistance for capacity building. As for a sectoral approach, in accordance with 4.4-1 above, policy dialogue and coordination with the Vietnamese government, other donors and NGOs are being enhanced, and efforts are being strengthened to participate in the formulation process of Viet Nam's sectoral plan, and provide assistance in accordance with those sectoral plans formulated by Viet Nam. In addition, efforts are also to be made to improve the application of assistance schemes, and utilize new assistance schemes. Particular emphasis is being placed on the areas such as education, health and medical care, in the response to aid coordination.

(c) Partnership: Fora for dialogue between the Vietnamese government and donors are valuable opportunities. Particular importance is attached to the fora dealing with the following issues; poverty reduction, transportation, SME promotion, education, health and medical care, assistance for legal system development, and fiscal management reforms.

(d) MDGs: The Vietnamese government localized the MDGs as its own national goals, based on the current situation in Viet Nam and the goals laid out in each sector plan. Japan will support efforts to attain the goals set by the Vietnamese government in the light of the importance of the MDGs, through the provision of assistance to one of the priority areas identified by Japan, “Improvement in lifestyle and social aspects” as detailed in 4.3-2 above. In addition, assistance for the priority area “Promotion of growth” will contribute to strengthening economic foundations to attain the goals relating to improvements in lifestyle and social aspects.

## Priority Areas and Issues in Japan's Assistance to Viet Nam

Japan has identified the promotion of growth, improvement in lifestyle and social aspects and institutional building as the “three pillars” of its assistance to Viet Nam. Specifically, in each of the sectors below, Japan places priority on the following issues. (The phrase “Priority for assistance is given to” is used to refer to the issues that are given highest priority, whereas “Assistance is considered for ” refers to issues in which the Japanese government should become involved in or may regard as a priority area in the future. Any items not listed here are not subject to priority listing.)

### **1. Promotion of growth**

- Development of the investment environment
  - Priority for assistance is given to the 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
  - Priority for assistance is given to 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. Assistance is considered for a system of SME diagnosis.
- Transportation



- Priority for assistance is given to major international and domestic transportation trunk lines (in the northern and southern priority economic growth areas, and the north-south main line); and urban transport (Hanoi and Ho Chi Minh)(Assistance to these areas is given priority, whereas other areas are not subject to priority listing).
- Priority for assistance is given to transportation and traffic safety (for motor vehicle traffic, maritime transportation and civil aviation only – other sectors are not subject to priority listing).
- Assistance is considered for cross-border traffic and traffic in the broader Indochina region.
- Priority for assistance is given to developing financial resources and systems, capacity enhancement for implementing organizations, and capacity enhancement for policy and planning formulation.
- Power
  - Priority for assistance is given to power generation. (Priority for assistance is given to new construction or expansion of major power generation facilities and directly related transmission facilities as well as rehabilitation of the existing aging power facilities, whereas other issues are not subject to priority listing. With regard to transmission and distribution (in urban areas), since other donors are already engaged in this area, with the exception of assistance to promote the introduction of private-sector finance or to improve efficiency as well as the above-mentioned assistance, these issues are not subject to priority listing.)
  - Priority for assistance is given to improving efficiency of power systems and businesses; institutional building (including power-related legislation and formulation of sectoral development plans, etc.); policy aspects (including the introduction of cost

sharing projects for multi-purpose dams and promotion of private-sector finance).

- Information and telecommunications

- In infrastructure development, priority for assistance is given to development of major communications networks in which private-sector capital participation cannot be expected.
- For human resource development, priority for assistance is given to maintaining digital communications system and promoting the IT industry. Assistance is considered for a high-speed communications network as well as network protection and management.
- Priority for assistance is given to the formulation of a development plan, with assistance considered for institutional building, the introduction of competition policy and development of legislation.
- Other assistance not mentioned above, including communications systems for mobile telephones are not subject to priority listing.

- Human resource development to support growth

- In higher education, priority for assistance is given to 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 (including acceptance of foreign students in Japan).
- Priority for assistance is given to human resource development for those with advanced managerial capabilities, with assistance considered for the diffusion of technical skills training, fostering an entrepreneurial class, and developing human resources to contribute to tourism promotion, as well as the diffusion of broadcasting

services.

- Economic reforms, including state-owned enterprises reform

- For business reform of state-owned enterprises, priority for assistance is given to programs to activate reforms, with assistance considered for implementing audits of large-scale state-owned enterprises.
- For financial and banking reform, assistance is considered for banking system reform.
- For trade sector reforms, assistance is considered for institutional building for integration with the international system.
- Other issues not mentioned above, including policymaking in relation to state-owned enterprises, enhancement of competitiveness, debt reduction and development of the social security system are not subject to priority listing.

## **2. Improvement in lifestyle and social aspects**

- Education

- For primary education, priority for assistance is given to improving quality, with assistance considered for improvements in school enrollment (correcting regional and ethnic disparities, improving the drop-out rate).
- Assistance is considered for secondary education and education for persons with disabilities.
- Other issues not mentioned above, including pre-school education are not subject to priority listing.

- Health and medical care

- For enhancing the functions of medical institutions, given that it is necessary to establish a “referral system” in coordination with other donors whereby cooperation

and division of roles are allocated among the primary (commune), secondary (provincial) and tertiary (state) levels, priority for assistance is given to policy areas, as well as the development of facilities and installation of equipment, human resources development and management support at the tertiary (state) level and at the secondary (provincial) level in model provinces.

- For fighting infectious diseases, priority for assistance is given to control of measles, with assistance considered for newly emerging and re-emerging diseases (other issues not mentioned above are not subject to priority listing).
- Priority for assistance is given to improving reproductive health.
- Assistance is considered for raising awareness concerning public health.
- Other issues not mentioned above, including advanced medical care and the establishment of a medical insurance system, are not subject to priority listing.
- Agricultural and rural development/local development
  - Priority for assistance is given to the development and management of social and economic infrastructure (including water supply, rural roads, electrification, irrigation and flood control) (Priority is given to assistance to regions experiencing poverty and nutritional issues, and improving capacity for planning formulation and implementation, and other issues not mentioned above are not subject to priority listing).
  - Priority for assistance is given to development of regional trunk-line infrastructure (including regional trunk-line routes that form a transportation network, regional power distribution and regional communications networks).
  - Priority for assistance is given to improving and disseminating agricultural, forestry and fishery technologies (Priority is given to assistance to strengthening the functions

of core research institutes and universities, and to regions experiencing poverty and nutritional issues, and other issues not mentioned above are not subject to priority listing).

- For other measures aimed at income raising and diversification, priority for assistance is given to establishment and management of organizations to support farmers, promotion of rural financing, and promotion of local industries, with assistance considered for improving plant quarantine measures (other issues not mentioned above are not subject to priority listing).

- Urban development

- Priority for assistance is given to development, maintenance and management of urban water supply and sewerage systems (Priority is given to major cities and industrial locations, and other areas are not subject to priority listing).
- Priority for assistance is given to urban planning and institutional building (Priority is given to major cities such as Hanoi, and other areas are not subject to priority listing).
- Assistance is considered for housing (Priority is given to the development of systems to expand opportunities for low-income and those living below the poverty line to acquire housing, and other issues are not subject to priority listing).

- Environment

- Priority for assistance is given to forest preservation and afforestation projects
- For measures to counter environmental pollution and damage, priority for assistance is given to improvement of water and air quality, and other issues are not subject to priority listing.
- For river basin management, priority for assistance is given to promotion of the plan for the Huong River basin, and to development of flood control and irrigation

facilities. For other river basins, the selection of priority river basin will be undertaken and assistance for the basins will be considered .

- Assistance is considered for preservation of biodiversity.
- For waste management, assistance is considered for related institutions and policies and for enhanced effectiveness and efficiency of waste disposal, with any other issues not being subject to priority listing.
- Priority for assistance is given to the absorption and emissions reduction of greenhouse gases, with due consideration given to the introduction of the Clean Development Mechanism.
- Cross-sectoral issues for the improvement of lifestyle and social aspects
  - Assistance is considered for the welfare of the socially vulnerable, including welfare for persons with disabilities.
  - Issues such as gender equality and ethnic minorities are taken into due account when providing assistance to each of the sectors mentioned above.

### **3. Institutional building**

While issues involving institutional building in individual sectors are covered in 1. and 2. above, cross-cutting issues are detailed below:

- Development of the legal system
  - Priority for assistance is given to 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 through enhancing the functions of institutions for the training of legal professionals. Assistance is also considered for the development

and dissemination of legal information that is required in connection with judicial system reform.

- Administrative reform

- Priority for assistance is given to reform of 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).
- Other issues not mentioned above, including the debt management of state-owned enterprises, are not subject to priority listing.