

Evaluation Study of Japanese ODA for Vietnam

Summary

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1. Evaluation result

- The purposes of this evaluation study are to assess the impact of Japanese official development assistance (hereafter 'ODA') for Vietnam, which was re-started in 1992, and to have recommendations for improvement of future Japanese ODA. The other purpose is to suggest evaluation framework based on 'the Country Assistance Program for Vietnam' prepared in 2000 by Ministry of Foreign Affairs of Japan (hereafter 'MOFA') for future review and program planning.

<Assessment of impact on the Vietnamese macro-economy>

- Japan has provided ODA to Vietnam in various areas including: (1) infrastructure development such as ports, railroads, power plants and hospitals; (2) human resource development such as dispatch of experts and counterpart training at ministries, universities, institutes and hospitals; (3) health and education sector development such as renovation and development of hospitals, primary schools and universities; (4) rural development such as dispatch of technical experts to agricultural universities; and other important areas. Regarding the amount of ODA, Japan provided 48 % of the total amount of ODA received by Vietnam in 1999.
- The expenditure and the revenue of Vietnamese governmental budget in 1999 were US\$ 6,376 billion¹ and US\$5,458 billion², respectively³. Total budget deficit including repayment for the past domestic borrowing of US\$ 108 billion reached US\$1,025 billion. Since the amount of ODA provided by Japan at that year was US\$680 billion, 74.1 % of the total deficit was covered by Japanese ODA⁴. Also the ratio of Japanese ODA in the total budget expense of that year reached 10.7 percents. Since Japanese ODA was mainly invested into various infrastructure projects not only economic infrastructure such as national roads, trade ports and large-scale power plants, but also social infrastructure such as schools, hospitals and water pipelines, it is appropriate to evaluate Japanese ODA as indispensable for Vietnamese governmental budget.
- The study team tried to estimate the impact of Japanese ODA on Vietnamese economic growth using econometric techniques for the last 8 years since Japan re-started its ODA.

One estimation generated by the study team is that Japanese ODA pushed up the Vietnamese GDP by 1.5 percent, capital stocks by 4.65%, imports by 5.94% and exports by 3.84% in the year 2000.

- The study team also tried to calculate 'internal rate of return' (hereafter IRR). When the total amount of Japanese ODA is considered as 'cost' and the increase in Vietnamese total GDP generated by Japanese ODA is considered as 'benefit', the IRR was 19%.
- Considering the results of the analysis and quantitative estimations, the study team concluded that Japanese ODA has generated concrete enough impact to satisfy the intention of the investment. On the other hand, the impact of the ODA provided has not been fully realized yet. It is actually observed that just two or three years have passed since 1999 when the actual execution remarkably increased. It is usual that economic infrastructures, such as national roads and trade ports, require large scale initial investment and their impact will continue for about 20 – 40 years or more. Expectation is that projects financed by Japanese ODA loan will be completed in the coming years and their impact on Vietnamese socio-economic conditions will be gradually realized in the long period.

<Human resource development and institutional building>

- Japanese ODA for Vietnam has two main characteristics. Japan has provided significant amount of loans for the development of economic infrastructures explained above. The other characteristic is that Japan has assisted in human resource and policy development in order to promote market-oriented economic development in Vietnam.
- In addition to general human resource development projects, Japan assisted with 'economic reform support loan' (so-called 'New Miyazawa Initiative' and successive programs) and 'development policy study toward market economy' (so-called 'Ishikawa project'). These policy-oriented aids were very fresh trials for all of Japanese ODA.
- According to the economic reform support loan, Japan requested the Vietnamese government to conduct economic transition toward market economy and set this as the conditionality for the loan. Evaluation by Vietnamese officials shows that this conditional loan helped to promote private sector development, reform of state-owned enterprises and reform of trade and tariff systems in Vietnam.
- 'Development policy study toward market economy' was also highly valued by the Vietnamese officials. Policy dialogues have been held between Vietnamese and Japanese experts in various areas and their fruits were reflected in the five-year national development plan (1996–2000). The topics studied and discussed included macro-economy policy, reform of industry structure, industry promotion, reform of the banking system, reform of state-owned enterprises, agriculture and rural development and so on.

- Japan started providing training courses on legal systems in 1996 before other donor countries conducted them. This was also highly valued by the Vietnamese government officials because of its leading role of similar activities provided afterward in this area.
- Vietnamese officials in respective ministries clearly recognize Japanese ODA and their impacts. The officials have long thought that human resource development and institutional building were the key to national development. The officials commented that Japanese officials and experts understood those needs well and provided effective training courses that matched the requests by the Vietnamese government. On the other hand, other donor representatives commented that not only Japanese policy studies such as Ishikawa Project contributed to the latest five year national development plan, but also other important policy studies and dialogue done by other donors were reflected in the national plan.

<Infrastructure development>

- In the infrastructure sector, Japan assisted mainly in transportation development and power plant construction. Total approved ODA for transportation sector in Vietnam from 1992 to 1997, according to World Bank's estimation, was US\$ 1.5 billion, of which Japanese share was 33 % (US\$ 0.492 billion) (see Figure 1).

Figure 1. ODA to the Transportation Sector in Vietnam (1992 – 1997)

Source: World Bank estimation

- Furthermore, officials of the Ministry of Transport commented that those projects in the transportation sector financed by Japanese ODA have effectively contributed to the transportation development in Vietnam, which has also contributed to socio-economic development and poverty reduction in Vietnam.
- Counting only completed projects, Japan has contributed to the construction of 1,865 MW capacity of electric power supply, which counts for 23 % of the current total capacity of electric power supply in Vietnam (see Figure 2). In terms of the increased capacity of electric power supply during the period of 1992 – 2001, Japanese ODA has contributed 38 % of the increased capacity (4,861 MW) (see Figure 3).

Figure 2. Contribution of Japanese ODA to the electric power supply capacity as of the year 2001

Source: Electricity of Vietnam

Figure 3. Contribution of Japanese ODA to the increased electric power supply capacity during the period of 1992 – 2001

Source: Electricity of Vietnam

- One of the completed projects is National Highway No. 5 Improvement Project. National Highway No. 5 connects Hanoi and Hai Phong Port, which is the largest port in the northern region, and the total length is 106 km. Japanese loan financed the improvement of the existing highway and the extension from two-lane to four-lane highway for the length of 91 km. Before the project, it took more than five hours between Hanoi and Hai Phong by car, now it only takes less than two hours. Other transportation projects include a part of National Highway No.1 (Hanoi–Ho Chi Minh City), East–West Highway in Ho Chi Minh City, but some part of those projects are still under construction.
- Since infrastructure development was one of the top priorities both in the Vietnamese five-year development plan and in the Japanese ODA Country Assistance Program for Vietnam, this kind of intensive assistance in infrastructure development is considered to be consistent with both Vietnamese and Japanese objectives. However many of the approved loan assistance projects are behind the schedule and have not been completed yet due to various causes.
- In our interviews with Vietnamese governmental officials, they highly appreciated that Japanese ODA, which focuses on infrastructure development. Certain amount of loans has continuously provided to infrastructure development since Japan restarted its ODA.

Many Vietnamese governmental officials also commented that transportation and electricity power infrastructure projects are indispensable to economic growth and requested for a continued assistance in these sectors.

<Agriculture and rural development>

- The number of Japanese ODA projects in agriculture and rural development sector is limited. However, the study team estimated the impact from transfer of technology and of institutional reform has been much larger than the impact generated by expansion of farming land and by increase in labor force. Research cooperation at universities and technical assistance are the main projects provided by Japan, which are the most effective ways for cooperation. The Vietnamese counterparts also note the advantages of this way of cooperation.

<Education sector>

- 195 elementary schools were constructed or are now under construction throughout the country, and the number of classrooms has also been increased by Japanese ODA. The evaluation reveals that this aid has contributed to improvement of the environment for primary education. The schools constructed by Japanese ODA are sturdy and have provided shelters for residents around the schools against typhoons that frequently hit this country.

<Health sector>

- Japan has provided ODA in the form of constructing facilities, providing equipments and dispatching experts both at the Bach Mai hospital and at Cho Rai hospital. Those aids have been highly effective. As national-level hospitals, Bach Mai hospital and Cho Rai hospital have achieved the role of major health institutions in northern and southern Vietnam, respectively. These two hospitals also provide training to the staff of the regional- and district-level hospitals, and these two hospitals cooperate with one another, which is rather unique case. The study team confirmed that facility and equipments provided by Japanese ODA are utilized effectively. Japan has provided cooperation in the treatment of HIV/AIDS at these hospitals, and these cooperation have been effective. The importance of cooperation in HIV/AIDS care and prevention has increased recently; Japan should provide more assistance in coordination with the international organizations and other donor countries.
- Cho Rai hospital has successfully obtained income operating CT Scan equipment provided by Japanese ODA and, by investing the accumulated income, bought two more CT scan equipments and a MRI equipment. This is a good example of sustainable and self-support management after aid provision.

- Additionally the team observed that other equipments provided to Hanoi City Mother and Children hospital, to National Tuberculosis and Respiratory Institute and to Hai Ba Trung Hospital are being effectively utilized.

<Environment sector>

- In the environment sector, Japanese ODA has been focused on natural environment conservation, residential (urban) environment improvement and pollution prevention. In particular, Japan has provided projects to improve residential (urban) environment, such as water supply, drainage, and sewage system in major cities like Hanoi and Ho Chi Minh City. Vietnamese five-year national development plan has also addressed a need in improvement of residential environment as one of the important objectives. Japanese Country Assistance Program for Vietnam has also stated the improvement of residential environment as an important objective. Therefore, Japanese ODA in the environment sector has been consistent with both Vietnamese and Japanese objectives.
- In terms of the achievement of the objectives, major projects in this sector assisted by Japanese ODA are yet to be completed, therefore the achievement is currently not observed fully.
- On the other hand, regarding natural environment conservation and pollution prevention, the projects that have been conducted so far are highly appreciated, but the number of projects and scale of Japanese assistance in these areas are limited.

<Impact of Japanese ODA on bilateral relationship between Vietnam and Japan – focusing on trade and investment – >

- The impact of Japanese ODA on private sector investment in the northern region is quite different from that in the southern region. Intensive interviews in the southern region (=Ho Chi Minh City and its surrounding area) revealed that Japanese-affiliated firms started operation in the industrial districts where private sector had invested, before infrastructures were consolidated mainly by Japanese ODA. So these firms did not recognize certain relationships between increase of private sector investment and provision of Japanese ODA. On the other hand, the interviews in the northern region (=Hanoi City and its surrounding area) revealed that the firms decided their investment after they confirmed the consolidation of infrastructure development such as 2 – 4 lane highway (the National Highway No.5) between the industrial district and the trade port, the international trade port (Hai Phong port) equipped with facilities capable of operating 40/20 x 20 inch containers, and stable and large-scale provision of electricity and water. Those infrastructures were mainly consolidated by Japanese ODA.
- Based on the above comments from private firms, the study team concludes that Japanese ODA was appropriate to the needs of the northern region and that of the south region. In the southern region, the assistance by Japan focused on increasing the capacity

of stable electricity provision, while in the northern region, the assistance to develop road and trade port matched the needs of private firms under operation as well as those considering investment. Sometimes, this observed relationship in the north is called 'attracting effect' of public investment on private sector investment. Since most infrastructure projects aided by Japan, except the National Highway No.5 and Phu Mai power plant, has just completed or is still under construction, it is too early to evaluate full impact of those projects.

- In short, Japanese-affiliated firms recognize and pay attentions to Japanese ODA on infrastructure development, human resource development, legal system reform and economic reform to the extent that Vietnamese officials and private sectors often raised Japanese ODA as a topic. The team also observed positive effect on the relationship between the private sectors of the two countries.

<Role and impact of Japanese ODA in the international community>

- In addition to the above evaluation of respective sectors, the study team tried to get comments and views on Japanese ODA from other countries providing ODA to Vietnam (hereafter called 'donors'). Donors know well representative Japanese ODA such as road projects, power plant projects, the development policy study for economic transition (so called 'Ishikawa project') and economic reform support loan (so called 'New Miyazawa Initiative'), and they also know the process of decision-making and administration of Japanese ODA.
- Recently a new movement emerged in the donor community. Representatives of donors and recipient countries get together to have intensive discussions and to try to make development plans, sometimes called development strategies. Vietnam is recognized as one of the front-runners in the new movement. Some donors shift their aid resources from the conventional project-type aid to support for policy and strategy formulation.
- Though Japan is recognized as a newcomer in this movement, the donor community well recognizes and appreciates Japanese contribution to support plan and strategy formulation and donor coordination at infrastructure sector. The study team got one interesting comment from the interview with some donor representatives: If Japan withdraws from project-type aid such as infrastructure development and moves into support for making development plans and strategies just like other donors, who will fill the huge needs gap in infrastructure development in this county? It means that Japan should not choose one of the two positions but pursue both positions, which are provision of project-type aid and support to formulate development policies and strategies. The study team agrees with this comment and recommends this position.
- Another useful comment is that the grassroots-level cooperation conducted by some other donors and NGOs, such as village-level health promotion, and the large-scale cooperation provided by Japan, such as consolidation of national-level hospitals,

supplement each other and their effect can be realized more by using each other's function. Therefore Japan does not have to stick to trying the same assistance that other donors conduct. Furthermore, Japanese ODA should be planned not only based on Vietnamese development plans but also taking into account the strategies and programs of other donors.

<Recognition of Japanese ODA in Vietnam>

- Japanese activities are well known among the people of Vietnam: the national-level hospitals, roads and schools aided by Japan are visible. Not only the direct beneficiaries but also the general public know the existence of Japanese ODA projects, because central and regional governments and Japanese Embassy have endeavored to improve public relations so that Japanese ODA projects are frequently introduced on television programs and newspapers.

2. Recommendations

2.1 Recommendations for aid management

- In Vietnam, aid coordination has become active in recent years. Aid coordination targets 30 sectors, such as transportation, health and basic education. Led by 'Ownership' of Vietnamese government, representatives of donors, governmental officials and representatives of general public get together and have intensive dialogue on formulation of development policies and strategies and their implementation in a coordinated manner. At the same time European donors (UK, Netherland, Sweden, Norway, Finland and Switzerland) started the discussion on coordination of aid procedures. Important decisions are frequently made and agreed in those meetings held at local level instead of each donor's headquarters. Though Japanese Embassy and local offices of JICA and JBIC have tried to be more involved in the discussion of those meetings, they feel there are some difficulties because the meetings are so many and the discussions are so specialized. Vietnam is one of the most progressive countries in donor coordination and UK and Scandinavia try actively to make it mainstream. It is necessary for Japan to participate more actively in this activity.
- More specifically, Japan should join donor meetings on formulation of development policy, strategies and plan more frequently. Regarding the sectors and themes on which Japan set priorities, Japan should take a lead on the discussion of development of national policies and strategies held between Vietnamese government and donors. (This does not mean the shift from request-driven approach but is more collaborate approach in order to make policies, strategies and plans, which are base of the requests, effective and rational.)

- Even though Japan is duly involved in the policy and strategy discussion with Vietnamese government and donors, Japan should continue with provision of significant amount of aid to fill the huge development needs in Vietnam. In other word, Japan should seek its 'dual function', consisting of a new role of *active participant in policy discussion, and the existing role of leading aid provider*.
- In order to achieve 'dual function', the study team recommends even more decentralization in the organizations of MOFA, JICA and JBIC, respectively. It means that local offices of those organizations should have power of decision-making at the locally held donor discussions. Since the discussions of the donor meetings are becoming more technical, staffing of the offices should be more strengthened.
- Additional proposals are that yearly action plan should be made by the Embassy based on the Japanese five-year Country Assistance Program (CAP) and its revision, which is expected to be done five years later, should be drafted by the Embassy, rather than MOFA's head office, taking into account JICA's and JBIC's country project implementation plans⁵.
- It seems that major changes to Japanese ODA policies have not been clearly informed to Embassies. By ensuring notification of major changes of the policies to the development front-line (Embassies and local offices of JICA and JBIC), Japanese common aid objectives and policies should be realized⁶.
- Some of the approved loan assistance projects are behind schedule and have not been completed yet due to various causes such as delay in portion to which Vietnamese government is responsible; especially the projects that need large financing such as road and power plant constructions. Japanese government should request the Vietnamese government to complete these projects as soon as possible.

2.2 Strategic Priority areas for Japanese ODA

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- The study team proposes three priority areas for Japanese ODA to Vietnam.
 - (1) Human resource development both in public and private sectors in line with transition from centrally-planned economy to market-oriented economy.
Vietnam is now on track on integration with global economy. To achieve integration
 - (2) with the mechanism such as AFTA and WTO, necessary legislations and law enforcement system should be developed.
 - (3) Demand for infrastructure development is still large to support the continuous increase in expected industry production. Strategic approach is necessary.
- In the coming 10 years, the Vietnamese government has the objective of having the industry sector absorb a larger portion of the labor force and of decreasing the ratio of

population in the agricultural sector significantly. According to this economic structural change, the following aid need is expected to emerge in the long run.

(4) Human resource development both in public and private sectors in line with transition from centrally-planned economy to market-oriented economy.

- Additionally, it will be the task to avoid the inner-city area slum emerging, even though it has not happened yet.
- Above mentioned needs are recognized by the Vietnamese government and donors, and volume of each need is tremendously large. It is indispensable for continuous growth of Vietnamese economy to address these needs. If Japan just reacts to requests submitted by the Vietnamese government, it cannot provide necessary aid at appropriate timing. Japan should estimate the future direction of Vietnamese economy and the future need of aid and prepare before the formal requests come up. The first step would be to conduct a holistic development study to understand the future shape of Vietnamese economy and society. On the other hand, it is important for Japan to formulate a clear aid strategy reflecting the result of that study as well.
- Priority areas should be more clearly identified in the revision of the CAP prepared in 2000 based on the above proposed areas.

<Recommendation for human resource development and institutional building>

- Vietnam is now on track on integration with global economy targeting AFTA and WTO affiliation. To achieve them smoothly, integrated policies and legislations should be developed. Human resource development is the key to formulate necessary laws and policies and to enforce them effectively. Specific areas of human resource development include public administration, law enforcement system, firm management, trade management, machinery industry and information technology.

<Recommendations for infrastructure sector>

- In Vietnamese 7th five-year national development plan (2001– 2005), the infrastructure development, especially transportation and electric power sectors, is assigned one of the top priorities. Therefore, the study team recommends that Japan should continue to provide assistance to the transportation and electric power sectors.
- The telecommunication infrastructure becomes one of the most important infra-structures. Japan should consider increasing aid to telecommunication infrastructure projects.
- Privatization movement in electric power sector and telecommunication sector needs to be carefully monitored and be taken in consideration for future Japanese ODA.

<Recommendations for agriculture sector>

- Recently the possibility of so-called 'Boomerang' effect has been concerned in Japan. This means that Vietnamese agricultural export to Japan might increase due to the Japanese ODA, and such increase would be harmful to Japanese domestic agricultural sector. To address this concern, the ideal relationship between the Vietnamese agricultural sector and Japanese should be discussed and identified as soon as possible. Then possible concrete assistances, including support for increase in agricultural production for the Vietnamese domestic market and establishment of mutual complementing relationship in agricultural production, should be discussed.
- Some ideas for assistance in the agricultural sector continue to be as follows;(a) support for study, planning, implementation of agriculture and rural development which should be consistence with environmental protection, poverty reduction, sustainable development, employment, and diversification of agriculture; (b) support for stockbreeding and vegetable production and hygiene; (c) support for the study and conduct of pilot projects seeking prevention of deterioration of Mekong Delta soil; (d) technical cooperation for study and training at agricultural universities and other related research institutions; and (e) technical and financial cooperation and grant aid to develop and strengthen irrigation and drainage.

<Recommendations for education sector>

- Priorities should be given to; (1) on a regional basis, mountain areas where minority ethnic groups live; (2) on a sub-sector basis⁷, middle-high and high school education; and (3) consolidation of facilities for street children who are expected to increase in the inter-city areas in accordance with economy transition toward market-oriented economy.
- In addition to the above identified priorities, the 7th five-year national development plan (2001–2005) includes seven strategic areas in the education sector. Three areas among the seven have not been assisted by donors so far, namely; (1) establishment of universities in regional areas, whose standard level should be meet the existing ones; (2) preparation of high level education which provides high quality labor force for the high technology industry; and (3) preparation of nationwide vocational education as soon as possible.
- In the field trip, the study team found that the construction of an elementary school contributed to increase in study hours of middle-high school students. Though Japanese ODA's principle of 'request-driven approach' should be kept, some additional study conducted by Japanese side should be employed if necessary in order to identify the real objectives and needs of the recipient countries.

<Recommendations for Health Sector>

- Improvement in values of the health indicators can be achieved by improving health service in rural areas where people do not have access to health institutions located at urban areas. Priorities should be given to increase outreach activities which are already provided at Cho Rai hospital and Bach Mai hospital and to strengthen health service activities based on the primary healthcare strategy. Special training for health workers in rural area will be the key to success.
- On the other hand, increase in the number of sickbed and establishment of new tertiary level (= national-level) health institution are not necessary except in the country's central region because the unit number of sickbed in Vietnam, 380 per capita, is bigger than that of Thailand (1995).
- However, a national-level health institution should be established in the central region where Da Nang and Hue are located, and it is necessary to choose the area where a new institution can collaborate with the existing health research institutes like universities.
- From a public health viewpoint, priority is placed on preventative healthcare and appropriate distribution of limited resource is important especially for tuberculosis, malaria and diarrhea. Additionally prevalence of HIV/AIDS becomes very high in Ho Chi Minh City according to the recent statistics. Quickly formulating some treatment program to the current HIV/AIDS situation, consisting of dispatch of experts and provision of equipments for preventative activities is necessary. The project-type technical cooperation on reproductive health launched at Giang province is a good example, and the same type of project in cooperation with city health department and Cho Rai hospital is desirable to apply in Ho Chi Minh City.
- Last year the possibility of triangle cooperation among Vietnam, Laos and Japan was discussed at Bach Mai Hospital. Japanese assistance for Lao's SETIRATO hospital should be promoted (grant and project-type technical cooperation) in order to maximize effect of Japanese ODA.
- Japanese experts dispatched to Vietnam commented that Vietnamese counterparts have high capacity of adoption and utilization of external aid but tend to need a long time to make a certain progress. Some cases revealed that promoting project ownership and pointing out only where obstacles exist contributed to make the aid more effective. This suggestion should be kept in mind for future cooperation.

<Recommendations of environmental sector>

- In Vietnamese latest five-year national development plan, Vietnamese government stated improvement of residential environment, pollution prevention, and protection of natural environment as important objectives. Japan should expand its assistance to seek these objectives.
- Additionally if moving of local residents is inevitable in accordance with large-scale infrastructure development, the detailed study about the alternative location where they

can be resettled should be carefully conducted in order to improve their residential environment.

1: 88.9 billion Dong multiplied by the exchange rate (US\$1=13,943Dong) (Data: EIU, Vietnam Country Profile 2001, p50; Original Data: IMF, Vietnam: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility – Staff Report,; Statistical Appendix and Background Note.)

2: This figure does not include the amount of Japanese grant aid (US\$172 million)

3: Total revenue (78.5billion Dong) minus Japanese grant aid converted (2.4billion Dong) and multiplied by the exchange rate (US\$1=13,943Dong)(Data: the sama as above)

4: DAC statistics calculated the total amount of aid received as US\$1,421 million (Grant : US\$460 million, Loan: US\$ 961million)and this statistics has difference from the statistics prepared by the Vietnamese government. The reason for this gap, the study team presumes, is the existence of so-called 'off-budget aid', which is a direct grant aid and not through the Vietnamese governmental budget, as well as the difference in the applied exchange rate. If the calculation follows the DAC statistics, the budget deficit is calculated as US\$ 1,421million (the budget deficit the government reported of US\$ 1,025 million plus DAC's additional estimation of US\$ 396 million). Therefore the rate of the budget deficit covered by Japanese aid is calculated as 46.5% and the ratio of Japanese aid in the total budget expenditure is 9.7%.

5: Recently the decision was made that each Embassy would prepare the draft of Country Assistance Program (CAP). So it can be said that this recommendation has already been adopted. (Comment from MOFA)

6: Recently the head office of MOFA decided common policies on aid coordination and notified each Embassy. Considering this example, this recommendation has already been realized. (Comment from MOFA)

7: In Vietnamese 7th five-year national development plan, the rate of entrance for middle-high school attendance is targeted to be raised from the current rate of 49.9% (1999) to 80% in the target year 2005, and also the rate of entrance for high school attendance from 27.3% (1999) to 60% in 2005.