

Third Party Evaluation Report 2015  
Ministry of Foreign Affairs of Japan

# **Country Assistance Evaluation of Vietnam**

February 2016

KPMG AZSA LLC

## Preface

This report, under the title “Country Assistance Evaluation of Vietnam”, was undertaken by KPMG AZSA LLC entrusted by the Ministry of Foreign Affairs of Japan (MOFA) in fiscal year 2015.

Since its commencement in 1954, Japan’s Official Development Assistance (ODA) has contributed to the development of partner countries, and has contributed to bringing solutions for international issues which vary over time. Recently, in both Japan and the international community, implementing ODA requires higher effectiveness and efficiency. MOFA has been conducting ODA evaluations every year, of which most are conducted at the policy level with two main objectives: to improve the management of ODA; and to ensure its accountability. The evaluations are conducted by third parties, to enhance transparency and objectivity.

This evaluation study was conducted with the objective of reviewing Japan’s overall policies on assistance to Vietnam, including the Country Assistance Policy for Vietnam, 2004 and 2009, drawing on lessons from this review to make recommendations for reference in policy planning and its effective and efficient implementation of future assistance to Vietnam by the Government of Japan, and ensuring accountability by making the evaluation results widely available to the general public. Tatsufumi Yamagata, Professor and Secretary General of Institute of Developing Economies served as a chief evaluator to supervise the entire evaluation process, and Kenta Goto, Professor, Faculty of Economics at Kansai University served as an advisor to share his expertise on Vietnam. They have made enormous contributions from the beginning of the study to the completion of this report. In addition, in the course of this study both in Japan and in Vietnam, we have benefited from the cooperation of MOFA, Japan International Cooperation Agency (JICA), and the local ODA Task Force, as well as government agencies in Vietnam and donors. We would like to take this opportunity to express our sincere gratitude to all those who were involved in this study.

Finally, the evaluation team wishes to note that opinions expressed in this report do not necessarily reflect the views or positions of the Government of Japan.

February 2016  
KPMG AZSA LLC

*Note: This English version of the Evaluation Report is a summary of the Japanese Evaluation Report of “Country Assistance Evaluation of Vietnam”*

# Country Assistance Evaluation of Vietnam (Brief Summary)

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Nhat Tan Bridge

(Source: IHI Infrastructure  
Systems Co., Ltd.)

## Period of the Evaluation Study

August 2015 – February 2016

## Field Survey Country

Socialist Republic of Vietnam

## Background, Objectives and Scope of the Evaluation

Vietnam is located on the eastern part of the Indochina. With a population of approximately 92 million people, Vietnam has become a lower middle-income country in 2010 and GNI per capita reached over USD 2,000 in 2014. The importance of Vietnam is increasing from the point of promotion of future regional development in the Mekong region. On the other hand, the country is facing several challenges inherent to this abrupt economic growth. The objectives of this evaluation are Japan's Official Development Assistance (ODA) to Vietnam and to derive some recommendations and lessons learned as references for the formulation and implementation of future ODA policies. The evaluation scopes the Country Assistance Program for Viet Nam (2009) and the Country Assistance Policy for the Socialist Republic of Viet Nam (2012).

## Brief Summary of the Evaluation Results

### ● Development Viewpoints

#### (1) Relevance of Policies

Japan's ODA policies for Vietnam encompass a broad range of areas, including economy, society and environment, and are consistent with the Government of Vietnam's development strategy; therefore, the evaluation team concluded that relevance of the policies is high. Furthermore, it was ascertained that Japan's development assistance involves a significant contribution by the Japanese companies and experts.

#### (2) Effectiveness of Results

In terms of the priority areas of Japan's assistance projects/programs for Vietnam, there were no outstanding obstacles to achieve the expected results. The results were within the expectations; therefore, the evaluation team concluded that the effectiveness of results is rated high. Major assistance projects have resulted in the transfer of

cutting-edge technologies, recommended operation procedures, and safety control methods etc., which can be evaluated as positive contribution by Japan's ODA.

### **(3) Appropriateness of Processes**

Regarding the formulation of assistance policies, the evaluation team confirmed that the whole process had been conducted based on mutual understanding. As for the implementation process, it was confirmed that a multi-layered program approach had been taken to achieve the goals. Measures to prevent recurrence of ODA-related fraud and corruption incidents had been formulated and implemented rapidly and substantially and it was confirmed that a good progress and continuous efforts were being made. Therefore, the appropriateness of the processes is evaluated as high.

#### **● Diplomatic Viewpoints**

Japan and Vietnam have an extensive strategic partnership and the leaders of the two countries frequently visit each other; therefore, Japan's assistance has a considerable diplomatic importance. Japan's assistance is contributing to strengthening economic relationship and interpersonal/cultural exchanges, and its diplomatic impact is also considered to be high.

### **Recommendations**

#### **(1) Utilization of the Assistance for Vietnam as a front runner in international cooperation**

Japan's assistance has shown a number of characteristics which shall be a model for Japan's ODA in other countries. These shall be shared among responsible officers in charge of economic cooperation at Japanese Embassies and JICA Offices in other developing countries as good practices of Japan's ODA. In this regard, it will be vital to effectively formalize diverse tacit knowledge created by Japan.

#### **(2) Effective promotion of assistance in social sectors**

While Japan's ODA is effectively promoted for economic infrastructure, interviews held in Vietnam have shown that Japan's assistance performance in social sectors receives relatively little attention. Specifically, achievements in such fields as environment and health care shall be more emphasized. Environmental issues, and global warming policies in particular are the focus international community's attention nowadays. Under these circumstances, Japan has become a central donor for the Support Program to Respond to Climate Change in Vietnam. As such, it is considered to be noteworthy that Japan has played a leading role in mitigating global warming in Vietnam.

#### **(3) Continuous efforts for Anti-ODA-related Corruption Measures**

Both Japan and Vietnam have been consistently implementing measures to prevent recurrence fraud and corruption incidents. It is necessary for the Government of Japan to consistently implement improvement and prevention measures for recurrence and to maintain alertness among the parties concerned, in order to eradicate fraud and corruption incidents between Japanese companies and the Government of Vietnam.

## Contents

<b>Chapter 1. Implementation Policy of the Evaluation</b> .....	1
1.1 Evaluation Background and Objectives .....	1
1.2 Scope of Evaluation .....	1
1.3 Evaluation Methods .....	2
1.3.1 Analytical methods of the evaluation .....	2
1.3.2 Points to be Considered for the evaluation.....	3
1.3.3 Conditions of the evaluation .....	3
<b>Chapter 2. Overview of Vietnam and Development Trends</b> .....	4
2.1 Overview of Vietnam.....	4
2.1.1 Economic environment.....	4
2.1.2 Social environment.....	4
2.2 Development Trends in Vietnam .....	4
2.2.1 Ten-year Socio-Economic Development Strategy (SEDS) .....	4
2.2.2 Five-Year Socio-Economic Development Plan (SEDP).....	5
2.3 Trends in International Aid .....	6
2.3.1 Bilateral aid trends.....	6
2.3.2 Multilateral aid trends .....	6
2.3.3 Initiatives of the 6 Banks .....	6
2.4 Trends of Japan's Assistance for Vietnam .....	7
2.4.1 Overview of the assistance for Vietnam .....	7
2.4.2 Japan-Vietnam Joint Initiative.....	7
<b>Chapter 3. Japan's Assistance for Vietnam: Evaluation from Development Viewpoints</b> .....	8
3.1 Relevance of Policies.....	8
3.1.1 Consistency with Vietnam's development plan.....	8
3.1.2 Consistency with Japan's ODA policy .....	9
3.1.3 Consistency with international priority issues .....	9
3.1.4 Summary of the Relevance of Policies.....	10
3.2 Effectiveness of Results.....	10
3.2.1 The performance of Japan's assistance for Vietnam (Total from 2006 to 2014) .....	11
3.2.2 Promotion of Economic growth and Strengthening International competitiveness.....	11
3.2.3 Response to fragility .....	13
3.2.4 Good governance.....	14
3.2.5 Summary of the Effectiveness of Results .....	15

3.3 Appropriateness of Processes .....	15
3.3.1 Planning and implementation of assistance policies .....	16
3.3.2 Aid coordination.....	17
3.3.3 Anti-ODA-related Corruption Measures.....	18
3.3.4 Summary of the Appropriateness of Processes .....	20
<b>Chapter 4. Japan’s Assistance for Vietnam: Evaluation from Diplomatic Viewpoints .....</b>	<b>22</b>
4.1 Diplomatic Importance .....	22
4.1.1 Diplomacy towards Vietnam in Japan .....	22
4.1.2 Geopolitics .....	22
4.1.3 Japan-Vietnam high level official visits .....	22
4.1.4 Conclusion on Diplomatic Importance .....	22
4.2 Diplomatic Impact .....	23
4.2.1 Japan-Vietnam economic relations .....	23
4.2.2 Japan-Vietnam human exchange.....	23
4.2.3 Japan-Vietnam Joint actions in the international society .....	24
4.2.4 Japan-Vietnam mutual understanding.....	24
4.2.5 Conclusion of Diplomatic Impact .....	24
<b>Chapter 5. Recommendations and Lessons Learned.....</b>	<b>25</b>
5.1 Recommendations.....	25
5.1.1 Utilization of the Assistance for Vietnam as a front runner in international cooperation .....	25
5.1.2 Effective promotion of assistance in social sectors .....	25
5.1.3 Continuous efforts for Anti-ODA-related Corruption Measures.....	25
5.2 Lessons Learned .....	26

## **Chapter 1. Implementation Policy of the Evaluation**

### **1.1 Evaluation Background and Objectives**

Vietnam is located on the eastern part of the Indochina. With a population of approximately 92 million people, Vietnam has become a lower middle-income country in 2010 and GNI per capita reached over USD 2,000 in 2014. The importance of Vietnam is increasing from the point of promotion of future regional development in the Mekong region. The relationship between Japan and Vietnam has rapidly strengthened their ties. For example, Japan-Vietnam Joint initiative launched in 2003 as a public-private joint framework to improve the investment climate. Furthermore, Japan signed the Economic Partnership Agreement (EPA) with Vietnam in 2009, which was the first bilateral EPA for Vietnam. On the other hand, the country is facing several challenges inherent to this abrupt economic growth, such as insufficient infrastructure development, environmental pollution, increasing disparities, underdeveloped legal and judicial system, and lack of governance. As one of Vietnam's top donors, Japan provides support for Vietnam to maintain sustainable growth, overcome fragility, and build a fair society/nation. In particular, Japan introduced Public Private Partnership (PPP), Local Government Partnership, and other new assistance schemes in Vietnam prior to other recipient countries.

The corruption scandals related to the Saigon East-West Highway Construction Project in Ho Chi Minh City (2008) and the Line 1 Urban Railway Construction Project in Hanoi City (2014) were detected. It is important to review the influence of these incidents on Japan's ODA in Vietnam and obtain recommendations and lessons learned for future ODA policies. Meanwhile, some donor agencies of other countries have a trend to redirect their aid policies since they regard Vietnam as a middle-income country. Furthermore, the rise of emerging donors is affecting the relationship among the traditional aid agencies, as well as the relationship between donors and Vietnam.

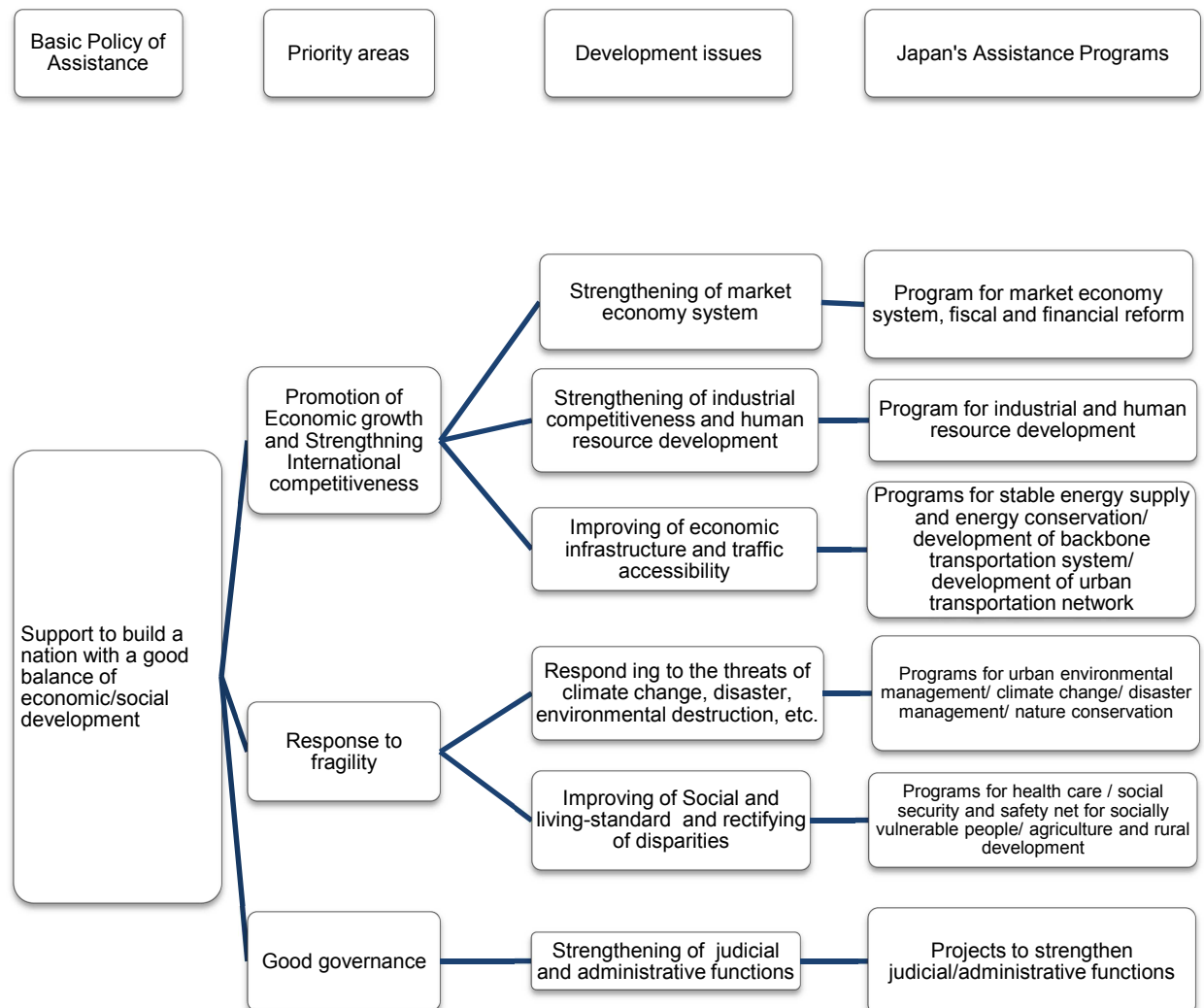
By taking into consideration of the importance of Japan's ODA to Vietnam, the objectives of this evaluation are Japan's Official Development Assistance (ODA) to Vietnam and to derive some recommendations and lessons learned as references for the formulation and implementation of future ODA policies. Additionally, in order to fulfill accountability to public, the evaluation results will be publicized, with feedback to the Government of Vietnam and other donors.

### **1.2 Scope of Evaluation**

In order to set the scope of evaluation, the evaluation team summarized the Objective Framework for Japan's Assistance for Vietnam shown below, based on the Country Assistance Policy for the Socialist Republic of Viet Nam (December 2012) and the Country Assistance Program for Viet Nam (July 2009). Japan's ODA to Vietnam has previously been evaluated in FY2001 and FY2006. Therefore, in order to secure

continuity between this study and the previous ones, this evaluation undertakes an overall review of assistance policies implemented during the period starting just after the previous evaluation up to and including the most recent developments in ODA.

### Objective Framework for Japan's Assistance for Vietnam



### 1.3 Evaluation Methods

#### 1.3.1 Analytical methods of the evaluation

The evaluation team conducted comprehensive evaluations from development and diplomatic viewpoints in accordance with MOFA's ODA Evaluation Guidelines (9th Edition).

From the development viewpoints, the evaluation criteria are the relevance of policies, the effectiveness of results, and the appropriateness of processes.

From the diplomatic viewpoints, the evaluation team conducted evaluation in criteria of diplomatic importance and diplomatic impact.



### 1.3.2 Points to be Considered for the evaluation

Through this evaluation study, the evaluation team shows recommendations and lessons learned with the evidence that includes specific improvement methods.

In order to ensure high quality and usefulness evaluation, the evaluation team considered carefully (1) improving the quality of evaluation content, (2) ensuring independence and neutrality, and (3) matching the policy needs.

### 1.3.3 Conditions of the evaluation

When assessing the impact of ODA in each of the priority areas, particularly in the effectiveness of results, the best way to ensure objectivity is to use quantitative evaluation methods. However, for this evaluation study, qualitative evaluation methods were used if quantitatively measurable indicators and baseline data were not available. Furthermore, it should also be noted that it is difficult to determine the direct causality between Japan's ODA and Vietnam's progress in development, because other donors are also providing aid to Vietnam and each of them is contributing to Vietnam's achievement of its goals in the priority development areas. These conditions should be taken into consideration when analyzing and comprehending the evaluation results.

## **Chapter 2. Overview of Vietnam and Development Trends**

### 2.1 Overview of Vietnam

#### 2.1.1 Economic environment

Vietnam made a rapid recovery from the Asian currency crisis in 1997 and achieved an annual Gross Domestic Product (GDP) growth rate of 6-7% at an early stage, and continues to maintain a high growth rate since 2000. Steady economic growth has allowed Vietnam to make impressive achievements with regard to poverty reduction. Compared to 2006, Vietnam's GNI per capita in 2014 is twice as high, export to Japan has also doubled, and import to Japan is up 1.8-fold. The number of Japanese companies in Vietnam has more than tripled, from 501 companies in 2006 to 1,417 companies in 2014.

#### 2.1.2 Social environment

Ever since the adoption of Doi Moi policy in 1986, Vietnam has been promoting market economy under the socialist system (socialist-oriented market economy). The goal to become an industrialized nation by 2020, adopted at the 11<sup>th</sup> National Congress of the Communist Party in 2011, has become the main development goal for Vietnam. In order to achieve this goal, various measures are being taken to overcome diverse inherent challenges. These include stable energy supply, infrastructure development, urban environmental management, climate change measures, nature conservation, disaster management, development of healthcare and social welfare system, rectifying of income disparity, legal and judicial development, strengthening of governance, and reform of state-owned enterprises.

### 2.2 Development Trends in Vietnam

Under the “10-year Socio-Economic Development Strategy (SEDS) (2001–2010, 2011–2020)” and the “5-Year Socio-Economic Development Plan (SEDP) (7<sup>th</sup> SEDP, 2001-2005; 8<sup>th</sup> SEDP, 2006-2010; 9<sup>th</sup> SEDP, 2011-2015)”, Vietnam pursues a development policy to ensure sustainable development, economic growth, and the establishment of a self-reliant economy on the international arena. In addition to the need for improvement of investment climate, development of legal and judicial base for intellectual property protection, and capacity-building of financial institutions, there is an urgent need to ensure stable energy supply to support the economic growth and to develop various infrastructures, including arterial roads and urban transportation networks. Japan is actively supporting Vietnam in addressing these challenges.

#### 2.2.1 Ten-year Socio-Economic Development Strategy (SEDS)

Current SEDS (2011-2020) was adopted at the 11<sup>th</sup> National Congress of the Communist Party held in 2011. It describes the approaches to enhance the goals set

forth in the previous SEDS, i.e. to become an industrialized nation by 2020. Based on the achievements and lessons learned in the 10-year period of the previous SEDS (2001-2010), the new SEDS was developed with the following goals for the next decade starting from 2011.

General Objective (2011 onwards)

<p>Strive to make Vietnam a modern and industrialized country by 2020 with:</p> <ul style="list-style-type: none"> <li>♦ Socio-political stability and agreement</li> <li>♦ Democracy, discipline, improved physical and spiritual life of the people</li> <li>♦ Firmly maintained independence and territorial unification</li> <li>♦ Continually improved position in international arena</li> </ul>
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In order to achieve the above objective Vietnam's development policies were further specified in newly formulated SEDP.

2.2.2 Five-Year Socio-Economic Development Plan (SEDP)

Overall objectives of SEDP (7<sup>th</sup> SEDP, 2001-2005; 8<sup>th</sup> SEDP, 2006-2010; 9<sup>th</sup> SEDP, 2011-2015) are summarized in the table below.

Objectives of 7<sup>th</sup>-9<sup>th</sup> SEDP

Objectives of 7 <sup>th</sup> -9 <sup>th</sup> SEDP	
<p>7<sup>th</sup> SEDP (2001- 2005)</p>	<ul style="list-style-type: none"> <li>♦ Accomplish rapid and sustainable economic growth</li> <li>♦ Improve and stabilize people's lives</li> <li>♦ Promote economic structural reform/ Employment structural reform</li> <li>♦ Promote industrialization/modernization programs</li> <li>♦ Strengthen economic competitiveness, expand trade</li> <li>♦ Promote major reform in education and vocational training</li> <li>♦ Promote science and technology</li> <li>♦ Promote employment creation</li> <li>♦ Ensure hunger eradication and poverty reduction</li> <li>♦ Strengthen economic/social infrastructure</li> <li>♦ Develop socialist-oriented market economy</li> <li>♦ Ensure political stability, order, and social security</li> <li>♦ Protect national independence, sovereignty, territorial integrity, and public safety</li> </ul>
<p>8<sup>th</sup> SEDP (2006 – 2010)</p>	<ul style="list-style-type: none"> <li>♦ Improve economic growth rate</li> <li>♦ Accomplish a shift to rapid and sustainable development</li> <li>♦ Graduate from low growth country</li> </ul>

	<ul style="list-style-type: none"> <li>♦ Significantly improve people’s material, cultural, and spiritual life</li> <li>♦ Establish the foundation for boosting the industrialization/modernization process</li> <li>♦ Develop knowledge-based economy</li> <li>♦ Ensure stability of political order and public safety</li> <li>♦ Protect sovereignty as an independent nation</li> <li>♦ Improve Vietnam’s domestic/ international status</li> </ul>
9 <sup>th</sup> SEDP (2011 - 2015)	<ul style="list-style-type: none"> <li>♦ Establish foundation for becoming an industrialized nation by 2020</li> <li>♦ Develop a growth model for economic innovation</li> <li>♦ Restructure economy for better quality and higher competitiveness</li> <li>♦ Enhance diplomatic activities and firmly protect social security and safety</li> <li>♦ Ensure social welfare and social security</li> </ul>

## 2.3 Trends in International Aid

### 2.3.1 Bilateral aid trends

Currently, more than 25 countries are providing bilateral aid to Vietnam. In terms of the total amount of ODA loans on disbursement basis (by calendar year), Japan, France, Korea, and Germany rank as the top bilateral donors. In particular, Japan’s ODA accounts for more than 80% of the total amount. As for grant aid, Japan, Australia, and USA are the top 3 donors. For technical cooperation, Japan, Germany, and Australia claim the largest share (based on actual results of 2014).

### 2.3.2 Multilateral aid trends

Assistance provided by the World Bank and ADB account for 90% of the total amount in multilateral aid. The total amount of aid from all donors has shown a significant increase, more than tripling from 2006 to 2014. Aid coordination in Vietnam is realized in the framework of comprehensive policy consultations among donors through co-financing for the World Bank’s Poverty Reduction Support Credit (PRSC), the Economic Management and Competitiveness Credit (EMCC), which replaced PRSC, and the Support Program to Respond to Climate Change (SPRCC).

### 2.3.3 Initiatives of the 6 Banks

The “6 Banks” refers to a donor group consisting of 6 aid agencies; the World Bank, Asian Development Bank (ADB), JICA, French Development Agency (AFD), German Development Bank (KfW), and the Export-Import Bank of Korea (KEXIM). This started in July 1999 as a Joint Portfolio Performance Review mechanism, which was launched

by the World Bank, ADB, and Japan Bank for International Cooperation (JBIC, later reorganized into JICA) with an aim to establish the legal framework to manage the funds for ODA projects, harmonize the procedures, and to explore opportunities for development of project monitoring and evaluation systems. In 2002, the 3 Banks reached an agreement on the harmonization action plan for procurement, financial management, and environment. AFD and KfW joined in May 2003 and KEXIM joined in 2013, creating the current 6 Banks-structure to function as a modality to promote harmonization and improvement of aid effectiveness.

## 2.4 Trends of Japan's Assistance for Vietnam

### 2.4.1 Overview of the assistance for Vietnam

#### (1) Japan's ODA Charter (The ODA Charter) and Development Cooperation Charter

The ODA Charter, which had been revised in 2003, outlined the following five basic policies: (1) Supporting self-help efforts of developing countries, (2) Perspective of "Human Security", (3) Assurance of fairness, (4) Utilization of Japan's experience and expertise, and (5) Partnership and collaboration with the international community.

The ODA Charter was originally formulated in 1992 and was revised in 2003. In February 2015, a Cabinet decision was made to revise it for the second time, and to rename it to "Development Cooperation Charter", which encompasses a broader concept. This revision was triggered by, (1) more diverse, complex, and widespread development challenges, (2) Increasing role of funds and activities other than ODA for development of developing countries, and (3) Globalization.

#### (2) Country Assistance Program, Country Assistance Policy

At the time of the target period of this evaluation study, the ODA Charter (2003 revision) was the main document of Japan's high-level ODA policies. The Country Assistance Program and the Country Assistance Policy were formulated and the actual programs/projects were implemented based on the ODA Charter. The Country Assistance Programs and Policies that were effective during the target period are the Country Assistance Program for Vietnam (April 2004), Country Assistance Program for Vietnam (July 2009), and the Country Assistance Policy for the Socialist Republic of Vietnam (December 2012).

### 2.4.2 Japan-Vietnam Joint Initiative

"Japan-Vietnam Joint Initiative to Improve the Business Environment with a view to strengthening Vietnam's competitiveness" is agreed and decided to launch in 2003 by the heads of both countries.

## **Chapter 3. Japan's Assistance for Vietnam: Evaluation from Development Viewpoints**

### **3.1 Relevance of Policies**

In the Relevance of Policies, the evaluation team verified consistency with Vietnam's development plan, consistency with Japan's ODA policy, and consistency with the international priority issues.

#### **3.1.1 Consistency with Vietnam's development plan**

This section examines the level of consistency between Vietnam's 5-year SEDP (7<sup>th</sup> SEDP, 2001-2005; 8<sup>th</sup> SEDP, 2006-2010; and 9<sup>th</sup> SEDP, 2011-2015) and Japan's assistance policies described in the Country Assistance Program for Vietnam (April 2004, July 2009) and the Country Assistance Policy for the Socialist Republic of Viet Nam (December 2012).

##### **(1) Consistency between SEDP (2001-2005) and Country Assistance Program for Vietnam (April 2004)**

The content of the Country Assistance Program (2004) is consistent with the objectives and priority measures described in Vietnam's 5-year SEDP (7<sup>th</sup> SEDP). Among the objectives of the 7<sup>th</sup> SEDP, the highest priority is given to boosting the economic growth, and the following measures are enlisted as the priority measures to achieve this objective: economic structural transformation, strengthening of competitiveness, international economic integration, and human resource development. As support for the promotion of growth is also the top priority area in the Country Assistance Program for Vietnam, the intentions of the two countries coincide. The 7<sup>th</sup> SEDP also defines poverty reduction as one of its objectives, placing importance on human resource development and job creation. Since improvement of social and living standards, including poverty reduction, is one of the basic policies of the Country Assistance Program, it can be said that the two development plans pursue the same direction. Furthermore, the 7<sup>th</sup> SEDP sets forth a strong intention to develop socialist-oriented market economy system. Support for institutional building is one of the main pillars of the Country Assistance Program, so the two development plans are also consistent on this point.

##### **(2) Consistency between SEDP (2006-2010) and Country Assistance Program (July 2009)**

The content of the Country Assistance Program (2009) is consistent with the objectives and priority measures described in Vietnam's 8<sup>th</sup> SEDP, which applies to the period 2006-2010. Among the objectives of the 8<sup>th</sup> SEDP, the highest priority is given to boosting the economic growth. Similarly, the first goal mentioned in the basic policy of the Country Assistance Program is the provision of support for the promotion of growth, with a target to become an industrialized nation by 2020; therefore, the intentions of the

two countries coincide. Another objective mentioned in the 8<sup>th</sup> SEDP is to significantly improve people's material, cultural, and spiritual life. Since support to improve the living conditions of the Vietnamese people and to realize a fair and just society is included in the basic policy of the Country Assistance Program, it can be said that the two development plans pursue the same direction.

(3) Consistency between SEDP (2011-2015) and Country Assistance Policy (December 2012)

The content of the Country Assistance Policy (2012) is consistent with the objectives and priority measures described in Vietnam's 9<sup>th</sup> SEDP, which applies to the period 2011-2015. Among the objectives of the 9<sup>th</sup> SEDP, the highest priority is given to the creation of the foundation for becoming an industrialized nation by 2020. Assistance toward the achievement of industrialization in 2020 is also a top priority in the Country Assistance Policy; therefore, the intentions of the two countries coincide. Another objective described in the 9<sup>th</sup> SEDP is economic restructuring to ensure better quality and higher competitiveness. Since improvement of the market economy system and promotion of growth and competitiveness are also defined as the priority areas in the Country Assistance Policy, it can be said that the two plans pursue the same direction.

(4) Transition of SEDP

There are some similarities between the 7<sup>th</sup>, 8<sup>th</sup> and the 9<sup>th</sup> SEDP: economic growth is the primary objective throughout the 3 terms and all 3 SEDPs aims to improve social and living standards, including poverty reduction, and to develop, promote, and establish a socialist-oriented market economy system.

(5) Results of the field survey

Vietnam is striving to accelerate its economic growth in accordance with the nine consecutive 5-year plans. In order to achieve this goal, it is essential for Vietnam to promote industrial development. When the evaluation team visited the Ministry of Transport of Vietnam for a hearing, the Team received a request to increase opportunities for the Vietnamese companies to participate in Japan's assistance projects. In fact, the Japanese side was also fully aware of this kind of demand.

### 3.1.2 Consistency with Japan's ODA policy

When the evaluation team compared Japan's ODA policies, namely the ODA Charter (August 2003) and the Development Cooperation Charter (February 2015), with the Country Assistance Program for Vietnam (April 2004, July 2009) and the Country Assistance Policy for the Socialist Republic of Viet Nam (December 2012), the Team confirmed consistency between the ODA policies as a whole.

### 3.1.3 Consistency with international priority issues

International priority issues are defined in the Millennium Development Goals (MDGs)

and the Sustainable Development Goals (SDGs). Japan's ODA has been supporting Vietnam to achieve the MDGs and the SDGs. For example, under the integrated child development program, various sectors have implemented different programs targeting the ethnic minorities, including maternal and child health activities, support for nutrition improvement, and technical cooperation for the development of agricultural produce. As a result, an improvement of nutrition status was observed in the ethnic minority neighborhood. Vietnam successfully achieved 5 out of 8 MDGs by the target date of 2015, with the support from the international community and own efforts in Vietnam.

#### 3.1.4 Summary of the Relevance of Policies

Under the 10-year SEDS (2011-2020) and the 5-year SEDP (2011-2015), Vietnam aspires to promote an economically, socially, and environmentally balanced development. Japan's ODA policies for Vietnam encompass a broad range of areas, including economy, society and environment, and are consistent with the Government of Vietnam's development strategy. In addition, the Development Cooperation Charter emphasizes that the result of international cooperation would also lead to ensuring Japan's national interests. Since Japan's development assistance involves a significant contribution by the Japanese companies and experts, particularly in the area of economic infrastructure development, it follows that strengthening friendly ties with Vietnam also serves Japan's national interests from the perspective of ensuring national security in East Asia. Furthermore, development assistance for Vietnam mobilizes funds from wide-ranging sectors, for example through Private Sector Partnership and Local Government Partnership. This is reflected in the outcomes of the 4th High-Level Forum on Aid Effectiveness (Busan, 2011), which shift the focus of development aid "from Aid Effectiveness to Development Effectiveness"<sup>1</sup>. The Support Programme to Respond to Climate Change (SPRCC) is also conducive to the SDGs formulated in September 2015. Therefore, in general, development assistance for Vietnam is highly consistent with the policy objectives of the international community. Since nearly all of the evaluated items were rated highly relevant, the evaluation team concluded that relevance of the policies is high.

#### 3.2 Effectiveness of Results

In the Effectiveness of Results, the evaluation team verified the performance of Japan's development assistance. Promotion of growth and competitiveness, response to fragility, and good governance will be evaluated by comparing with the neighboring countries that are more economically advanced, such as China and Thailand, as well as

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<sup>1</sup> For details refer to Homi Kharas, Koji Makino and Woojin Jung eds., *Catalyzing Development: A New Vision for Aid*, Brookings Institution Press, 2011.



the less developed neighbors such as Cambodia and Laos. When assessing the effectiveness of Japan's development assistance, it should be taken into consideration that there are inputs from various stakeholders, e.g. other donors, beneficiaries, and NGOs, and that any development outcome is a consequence of diverse factors.

### 3.2.1 The performance of Japan's assistance for Vietnam (Total from 2006 to 2014)

A large amount of finance has been spent on the Japan's ODA for Vietnam since the resumption of bilateral aid in 1992. In this section, each scheme (ODA loans, grant aid, and technical cooperation) is verified to analyze and quantitatively evaluate the actual results and trends of development assistance for Vietnam from 2006 to 2014.

#### (1) ODA Loans

The amount of ODA Loans provided by each donor has been increasing since 2011, especially Japan's contribution shows the highest increase rate among all donors. The reason is thought to be the increasing expenditures for the development of roads, ports, electrical energy sector and other large-scale infrastructures that are essential for strengthening international competitiveness.

#### (2) Grant Aid

Japan also maintains the top-donor position for Grant Aid, but compared to the ODA loans, the amount of difference with other donors is not as large. The reason is that Grant Aid projects are implemented by a larger number of organizations compared to ODA loans.

#### (3) Technical Cooperation

Japan is also the top-donor for technical cooperation. However, the total amount from all donors has been decreasing since 2011.

### 3.2.2 Promotion of Economic growth and Strengthening International competitiveness

In this section, promotion of economic growth and strengthening international competitiveness is evaluated from development outcomes based on various indicators and actual results achieved in line with the Rolling Plan.

#### (1) Development outcomes based on various indicators

Promotion of growth and competitiveness were analyzed based on indicators for (i) economic growth, and (ii) foreign investment promotion.

##### (i) Economic growth

In Vietnam, the Gross National Income (GNI) per capita was USD 1,890 in 2014. The country has been in the middle-income category since 2009, based on the World Bank's financing guideline which uses GNI as the criteria for income classification<sup>2</sup>. While

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<sup>2</sup> Until 2009, the World Bank was classifying the countries with GNI per capita of USD996 - USD 3,945 as Lower Middle Income economies. The classification criteria have been revised and the income range for the same category is now USD 1,046 – USD 4,125.

Vietnam's GNI per capita was USD 760 (i.e. less than USD 1,000) in 2006 - at the beginning of the target period of this evaluation - the GNI per capita in China and Thailand was approximately USD 2,000, almost triple that of Vietnam. This ratio hasn't changed a great deal even in 2014 and the GNI per capita in China and Thailand is still almost three times higher than that of Vietnam. Regarding GDP growth rate, however, Vietnam maintains an average of 6% growth rate. The growth rate of Vietnam is stable, unlike Thailand and Cambodia, which shows rapid fluctuations, or China, which shows stagnation.

(ii) Foreign investment promotion

The foreign fund has made an important contribution to Vietnam's recent economic growth supported by the industrial development. Foreign Direct Investment (FDI) inflows per capita have steadily increased between 2006 and 2008, almost to the level of China and Thailand. However, the global financial crisis triggered by the Lehman Brothers bankruptcy in 2008 greatly affected the amount of FDI flowing into these countries. The total amount hovers around USD 20 billion and doesn't seem to rise back to the level of 2008. As for Vietnam, the amount of FDI from Japan dropped from USD 6,308 million in 2008 to USD 439 million in 2009, but has steadily increased since and has reached USD 5,875 million in 2013, returning almost to the level of 2008.

(2) Actual results achieved in line with the Rolling Plan

The annex document of the Country Assistance Policy, called the Rolling Plan for the Socialist Republic of Vietnam (April 2015), sets forth 3 development issues (development issues) related to the promotion of growth and competitiveness: (i) strengthening of market economy system, (ii) strengthening of industrial competitiveness and human resource development, and (iii) improving of economic infrastructure and traffic accessibility. These cooperation programs are as follows;

(i) Strengthening of market economy system

Cooperation program: Program for Market Economy System, and Fiscal and Financial Reforms

(ii) Strengthening of industrial competitiveness and human resource development

Cooperation program: Program for Industrial and Human Resource Development

(iii) Improving economic infrastructure and traffic accessibility

Cooperation program: Program for the Development of Backbone Transportation System and Program for Urban Transportation Network

During the field survey in Vietnam, hearings were held with the relevant organizations regarding the plans to improve corporate financial management capacity as a

preparation for the reform of state-owned enterprises, as well as the plans to introduce E-customs and National Single Window (NSW) for customs modernization. These plans are included in the Program for Market Economy System, and Fiscal and Financial Reforms, which aims to resolve the issue of strengthening of market economy system. Hearings were also held with the relevant organizations about the Noi Bai International Airport Terminal 2 Project, Project for Support on Establishment of the Programs for Operation & Maintenance in Noi Bai International Airport, Nhat Tan Bridge (Japan-Vietnam Friendship Bridge) Construction Project, Saigon East-West Highway Construction Project, and Hanoi City Urban Railway Construction Project that are included in the Program for Urban Transportation Network Development which aims to resolve the issue of improving economic infrastructure and traffic accessibility.

### 3.2.3 Response to fragility

In this section, response to fragility is evaluated from development outcomes based on various indicators and from the performances achieved in line with the Rolling Plan.

#### (1) Development outcomes based on various indicators

Regarding the response to fragility, the Team analyzed the (i) indicators related to poverty rate, and (ii) indicators related to Human Development Index (HDI).

##### (i) Poverty rate

The World Bank's Gini index<sup>3</sup> can be used as an indicator for income disparity. A higher Gini Index means a larger income disparity and Vietnam's Gini Index continues to be higher than that of the neighboring countries.

##### (ii) Human Development Index (HDI)

Human Development Index (HDI) is a simple index measuring average achievement in 3 dimensions of human development – health, education, and income. HDI is calculated and published in the Human Development Report of United Nations Development Programme (UNDP). Vietnam's HDI had been steadily increasing from 0.57 in 2006 to 0.67 in 2014 and is ranked 116<sup>th</sup> out of 188 countries. Among the neighboring countries, Vietnam's position is not far from China (90<sup>th</sup>) and Thailand (93<sup>th</sup>).

#### (2) Performances achieved in line with the Rolling Plan

The Rolling Plan for the Socialist Republic of Vietnam (April 2015) sets forth the following 2 development issues: (i) responding to the threats of climate change, disasters, and environmental destruction, and (ii) improvement of social and living standards, poverty reduction, and rectifying disparities. These cooperation programs are as follows;

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<sup>3</sup> Website of the World Bank, Gini Index  
<http://data.worldbank.org/indicator/SI.POV.GINI>

(i) Responding to the threats of climate change, disasters, and environmental destruction

(a) Urban environmental management

Cooperation program: Program for Urban Environmental Management

(b) Climate change policies

Cooperation program: Program for Climate Change

(c) Disasters

Cooperation program: Disaster Management Program

(d) Nature conservation

Cooperation program: Program for Nature Conservation

(ii) Improvement of social and living standards, poverty reduction, and rectifying disparities

(a) Health Care

Cooperation program: Health Care Program

(b) Strengthen support for vulnerable people and social security

Cooperation program: Program for Social Security and Safety-Net

(c) Agricultural and rural development

Cooperation program: Program for Agricultural and Rural Development

### 3.2.4 Good governance

In this section, good governance is evaluated from development outcomes based on various indicators and from the actual results achieved in line with the Rolling Plan.

(1) Development outcomes based on various indicators

Indicators related to governance are analyzed below.

Efforts to improve the impacts of development aid are closely associated with the recipient government's commitment to improve its country systems. Issues such as the development and implementation of the legal system, administrative procedures, and anti-corruption measures are also included in the efforts to improve investment climate through Japan-Vietnam Joint Initiative. The concept of governance encompasses all these issues, and various organizations are trying to systemize them.

(2) Actual results achieved in line with the Rolling Plan

The Rolling Plan for the Socialist Republic of Vietnam (April 2015), the annex document of the Country Assistance Policy, sets forth the following development issue (fundamental goal) related to good governance: (i) strengthening judicial and administrative functions. These cooperation programs are as follows;

(i) Strengthening judicial and administrative functions

In addition to the existing development cooperation for legal and judicial reform, Japan supports the Vietnamese Government and Party to strengthen administrative functions.

- (a) Legal and judicial reform
- (b) Strengthening administrative functions
- (c) Enhancing citizen participation in public administration

Cooperation program: Projects to strengthen judicial/administrative functions

### 3.2.5 Summary of the Effectiveness of Results

Firstly, from the point of inputs (i.e. Japan's ODA share of the recipient country's development budget), Japan fulfilled the role as the top donor and Japan's quantitative inputs, in terms of the amount of funding, number of projects, and the scope of the projects, was sufficiently significant to ensure high outputs and outcomes.

Secondly, from the point of outputs (i.e. achievement of initially-set goals), the overall achievement level was high because many of the initiatives succeeded in achieving the program-level objectives.

Lastly, from the point of outcomes (i.e. the kind of assistance provided to address the initial priority areas, and the extent of impact), the multi-faceted approach for the priority areas (mid-level goals), using ODA loans, grant aid, and technical cooperation, contributed to the achievement of the basic policy (basic objective). In terms of the priority areas of Japan's assistance projects/programs for Vietnam, there were no outstanding obstacles to achieve the expected results, and they were within the expectations.

Furthermore, major assistance projects, such as the construction of the Nhat Tan Bridge (Vietnam – Japan Friendship Bridge) and the Saigon East-West Highway, have resulted in the transfer of steel pipe-piled well method, submerged tunnel method, and other cutting-edge technologies. Such aspect, together with the technical transfer of the tacit knowledge<sup>4</sup> related to recommended operation procedures and safety control methods etc., is something to be proud of and can be evaluated as a positive contribution of Japan's ODA. Significant effects were ascertained in nearly all aspects of the evaluation study; therefore the evaluation team concluded that the effectiveness of results is rated high.

### 3.3 Appropriateness of Processes

In the Appropriateness of Processes, the evaluation team verified planning and implementation of assistance policies, aid coordination, and measures to prevent recurrence of ODA fraud and corruption (Anti-ODA-related Corruption Measures).

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<sup>4</sup> Unlike the describable knowledge of a patent etc., tacit knowlege is indescribable, as are technical skills embodied in technicians and engineers. Refer to Robert E. Evenson and Larry E. Westphal, "Technological change and technology strategy," Jere Behrman and T. N. Srinivasan, *Handbook of Development Economics*, Vol. 3A, Elsevier, 1995, pp. 2209-2299 etc.

### 3.3.1 Planning and implementation of assistance policies

Concerning planning and implementation of assistance policies, the evaluation team verified the following efforts; (1) active commitment toward program-based approach, (2) utilization of Special Terms for Economic Partnership (STEP) projects, (3) commitment to new assistance schemes through partnership with private sectors and local governments, (4) implementation of assistance with consideration for ASEAN connectivity.

#### (1) Active commitment toward program-based approach

Regarding health sector, Japan has assisted in establishing health and medical care network through a referral system, i.e. establishing a framework for coordinating activities among primary institutions (community level), secondary institutions (provincial level) and third institutions (center hospitals directly managed by the Central Government).

In an effort to create a model for establishing a referral system, Japan has provided its assistance through combining different schemes, namely a technical cooperation project for strengthening health service provision in a secondary care institution in Hoa Binh Province, a grant aid project for the improvement of Hoa Binh General Hospital, and ODA loans projects for developing regional hospitals. All these projects were implemented in coordination with the Direction Office for Healthcare Activities in Bach Mai Hospital, a third institution, which received Japan's technical cooperation during the period from 2000 through 2005. This example of establishing health care network through a referral system is considered to be a good practice of the program-based approach.

#### (2) Utilization of STEP Projects

In September 2011 STEP scheme was applied to the Project for Disaster & Climate Change Countermeasures Using Earth Observing System (EOS). By then, the field of space science (satellite technologies) had been identified as a target field for STEP for some time already, however never before did Japan provide ODA loans in this field. Also, for the first time in the health sector, in March 2013 STEP was applied to the Regional and Provincial Hospital Development Project (II). The original purpose of introducing STEP was to provide "visible assistance", and as this project has been made known as "Japan's assistance" not only to stakeholders but also to wide Vietnamese public, the purpose of STEP is regarded fulfilled. On the other hand, in terms of Japanese companies' active commitment and competitiveness in participating in the Vietnam's construction market, it was pointed out that Japanese companies have been excessively depending on STEP projects and, even in those, the competition between them was lacking.

#### (3) Commitment to new assistance schemes through partnership with private sectors and local governments

(i) Partnership with Private sectors

When Japanese private sectors conduct various projects and business activities in developing countries, this may result in creation of employment/job opportunities in the host countries, increase in tax incomes of the host governments, expansion of trade and investment, increase in foreign currency earnings, transfer of Japan's superior technologies, etc. This evaluation study examined feasibility studies for Public-Private Partnership (PPP) infrastructure projects, SME assistance, overseas investment and financing, REDD<sup>5</sup>.

(ii) Partnership with Local Governments

In order to implement more effective ODA, Japan has been utilizing practical knowledge of local governments of Japan as well as knowledge and experiences stocked by Japan's regional communities, cooperating with them to improve the quality of ODA projects and to train aid professionals, and promoting active expansion of overseas cooperation projects initiated on a regional level.

(4) Implementation of assistance with consideration for ASEAN connectivity

(i) Strengthening physical connectivity

Japan supported through its ODA the improvement of National Road No. 9 and the East-West Economic Corridor through construction of the Second Mekong Bridge etc. In addition, assistance was provided for establishment of Southern Economic Corridor which is an economic center for the Mekong region, and it is expected that the logistic activities will be expanding inside ASEAN region.

(ii) Strengthening institutional connectivity

Japan has promoted regional integration based on Japan and ASEAN Comprehensive Economic Cooperation Agreement, improved soft infrastructures such as intellectual property rights, international standardization and standard certification, trade and investment institutions, thus supporting economic growth in ASEAN countries.

(iii) Strengthening people to people connectivity

In addition to physical connectivity and institutional connectivity, through ODA Japan has provided support in strengthening people to people connectivity by developing human resources and establishing networks between Japan and ASEAN.

### 3.3.2 Aid coordination

Regarding aid coordination, Paris Declaration, Accra Action Plan, and Pusan Partnership Document were formulated for the purpose of enhancement of aid quality

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<sup>5</sup> REDD+ (red plus) is a framework where the international society provides economic profits to activities committed by the developing countries to protect their own forests. This is a policy measure to prevent forest destruction and global warming by making forest conservation more profitable than forest cutting. <http://www.wwf.or.jp/activities/nature/cat1248/redd/>

and aid effects.

(1) Poverty Reduction Support Credit (PRSC)

PRSC was provided to Vietnam in 10 stages from 2002 to 2012, as a framework to support its Comprehensive Poverty Reduction Growth Strategy (CPRGS) that was formulated in May 2002 to address such policy issues as national enterprises reform, private sector promotion, financial sector reform, accelerating market economy, trade liberalization, policy enhancement and institutional development for social sectors including education and health, administrative reform and strengthening governance.

(2) Economic Management and Competitiveness Credit (EMCC)

EMCC is a program-based loan that succeeded PRSC. Since 2013, it has established three pillars of reform that are key for strengthening economic management and competitiveness enhancement, including i) promoting macroeconomic stability, ii) enhancement of transparency, efficiency, accountability in public sector, iii) improvement of business environment. Based on these pillars, seven target fields for reforms were identified as follows: 1. Stabilization of financial system, 2. Strengthening fiscal discipline, 3. Administrative reform, 4. Improvement of public enterprises management, 5. Improvement of public investment, 6. Improvement of efficient business environment, 7. Improvement of fair business environment, and these reforms supposed to be implemented by 2015. In addition to co-financing with the World Bank, it is coordinated with ADB (supported within ICP framework), Switzerland's State Secretariat for Economic Affairs (SECO), and Canadian International Development Agency (CIDA).

(3) Support Programme to Respond to Climate Change (SPRCC)

SPRCC has been initiated to implement measures to respond to climate change in Vietnam, based on "National Target Program to respond to climate change (NTP-RCC) (2009-2015)" formulated in 2008 as a comprehensive endeavor of the Government of Vietnam to tackle climate change policies. SPRCC has implemented to formulate policy actions and promote their implementation in relation to the three priority issues as follows: 1. Mitigation (promotion of renewable energy and saving energy, forest management, waste treatment, etc.); 2. Adjustment (water resource management, integrated coastal management, etc.); 3. Interdisciplinary issues (introducing financial mechanism for measures to respond to climate change, mainstreaming of measures responding to climate changes, advocacy, etc.).

### 3.3.3 Anti-ODA-related Corruption Measures

It was regrettable to note that there were two fraud and corruption incidents related to ODA in Vietnam since the previous evaluation study was conducted for Vietnam. The first one was violation of the Law Preventing Unfair Competition committed by Pacific Consultants International Co. Ltd (hereinafter referred to as "PCI"), which caused some



of those involved to be arrested in 2008 (bribery involving foreign public servants; hereinafter referred to as “PCI case”), while the second case was violation of the Law Preventing Unfair Competition committed by Japan Transportation Consultants Inc. (hereinafter referred to as “JTC”) as a case of illegal payoff to foreign public servants (hereinafter referred to as “JTC case”).

(1) Summary of PCI case

In December 2003, PCI paid 600,000 US\$ to the officials of East-West Highway and Water Environment Affairs Management Bureau Office at their office in Ho Chi Minh City as a reward for the PCI’s contracting the consulting work for the Saigon East-West Highway Construction Project as ordered by the Management Bureau. In addition, in August 2006 PCI paid 220,000 US\$ to the officials of the Management Bureau at their office as a reward for its contracting consulting work for the Saigon East-West Highway Construction Project. These were regarded as bribery cases involving foreign public servants, the bribe amount reaching 820,000 US\$ in total.

(2) Measures to prevent recurrence of fraud and corruption in ODA based on PCI Case

PCI case was a serious incident which could threaten not only the public trust to Japan’s ODA for Vietnam but also the whole of ODA, which uses the public tax as its basic funds. The awareness of the seriousness of the case emphasized the necessity for the both governments of Japan and Vietnam, related organizations and industrial associations to urgently implement practical actions and policies to prevent recurrence of fraud and corruption in order to recover the public trust. Consultations between the two governments were held from September 18 to 20, 2008 that resulted in agreement to establish “Japan-Vietnam ODA Anti-Corruption Joint Committee” as well as to take the measures. This was publicized in a report issued in February 2009.

(3) Summary of JTC case

Regarding Hanoi City Urban Railway (No.1) Construction Project, then the President of JTC, a managing director (International Department Director), and an officer in charge of accounting were indicted without arrest for having violated Unfair Competition Prevention Law (prohibition such as grants of the fraud benefits for the foreign public servants). Allegedly they paid a rebate of a total of 69.9 million yen to concerned officials of Vietnamese Railroad Public Corporation (VNR) which was an implementing agency. They were convicted as guilty (penal servitude two-three years, suspended sentence of three-four years). Furthermore, JTC was indicted as a company, to be imposed a fine of 90 million yen as of February 18, 2015. Meanwhile, on the Vietnamese side, Deputy Prime Minister Nguyen Xuan Phuc ordered to the Ministry of Public Security to conduct an investigation in collaboration with People’s Prosecution House, the Ministry of Traffic and Transportation and the Ministry of Foreign Affairs in Vietnam. As a result, on October 27, 2015 six executives of VNR were arrested to be sentenced for the term from five years and six months to 13 years.

(4) Measures to prevent recurrence of fraud and corruption in ODA based on JTC Case

The second meeting of “the Japan-Vietnam Council for Prevention of Fraud and Corruption in ODA Projects in Transport Sector” was held in Hanoi City on June 2, 2014. The Japan side stated that approvals for new projects involving VNR would be withheld until thorough investigations were made into factual relations and treatment of those involved in the case as well as measures preventing recurrence of similar cases were determined. As to other new projects, it was stated that they would be approved only under condition that the Government of Vietnam should promise to conduct the investigation and formulate prevention measures for recurrence of similar cases. On June 24 in the same year, “the Japan-Vietnam Council for Prevention of Fraud and Corruption in ODA Projects” was held in Hanoi City. On the council, Vietnamese side shared the results of the investigation into fraud and corruption in contracts involving JTC and VNR. In addition, the Government of Vietnam presented its considerations on the formulation of measures to prevent recurrence of incidents and their implementation, which was followed by continuous consultations. Based on these consultations, the measures to prevent recurrence of incidents will be formulated in the form of revised Report of Japan-Vietnam ODA Anti-Corruption Joint Committee, which was prepared after PCI case in 2009 in order to strengthen efforts to eradicate fraud and corruption from ODA projects.

(5) Progress on measures to prevent recurrence of fraud and corruption in ODA

During the field survey of the evaluation study, the evaluation team visited Vietnamese government organizations, and conducted interviews with officials of the Ministry of Traffic and Transportation supervising the projects, in which fraud and corruption incidents occurred, as well as the Ministry of Planning and Investment in charge of ODA as a whole. All of the interviewed officials stated that they considered the incidents regrettable, giving an impression that they have with all due solemnity taken measures to prevent fraud and corruption.

Given below are steps taken by the Japan side to prevent recurrence of incidents.

- (i) Strengthening contacts for consolidating information on fraud and corruption
- (ii) Further strengthening of stipulations regarding punishments to companies involved in fraud and corruption
- (iii) Formulating JICA fraud/corruption prevention guidance
- (iv) Policies to strengthen corporate compliance
- (v) Further appealing to the counterpart government
- (vi) Supporting governance development and capacity building to prevent fraud and corruption of the counterpart government

### 3.3.4 Summary of the Appropriateness of Processes

There are two points to note in evaluating appropriateness of processes. The first

point is the importance of Japan's role in the 6 banks group which provides loans as ODA to the Government of Vietnam. Regarding the formulation of assistance policies, the evaluation team confirmed that the whole process had been conducted based on mutual understanding. As for the implementation process, it was confirmed that a multi-layered program approach had been taken to achieve the goals. The second point is the measures to prevent fraud and corruption in Japan's ODA for Vietnam. Measures to prevent recurrence of ODA-related fraud and corruption incidents had been formulated and implemented rapidly and substantially and it was confirmed that a good progress and continuous efforts were being made. On this basis, it is evaluated that nearly all surveyed possesses were duly conducted. Therefore, the appropriateness of the processes is evaluated as high.

## **Chapter 4. Japan's Assistance for Vietnam: Evaluation from Diplomatic Viewpoints**

In terms of evaluation from diplomatic viewpoints, Japan's ODA for Vietnam and its diplomacy were analyzed based on the two evaluation criteria, "Diplomatic Importance" and "Diplomatic Impact".

### **4.1 Diplomatic Importance**

With regard to the bilateral relations, Japan has been a "wide range strategic partner" for Vietnam, cooperating in all fields. Especially in the economic field, Japan has been the biggest ODA provider and the second largest investing country.

#### **4.1.1 Diplomacy towards Vietnam in Japan**

Forty years have passed in 2013 since Japan and Vietnam established their diplomatic relations. The bilateral relations have steadily become intimate after the Japan visit of then Prime Minister Kiet, in March 1993. It is noteworthy that, since 2006, several meetings of highest level as well as between foreign ministers have been held every year.

#### **4.1.2 Geopolitics**

At the present, after having achieved Vietnam's participation in WTO, the coming few years for Vietnam will be an important period when it is decided whether or not it could go through continuously and steadily its path to economic growth without falling in the Middle Income Country Trap. It will be an influential factor for not only Japan but also for the development in Asian region as a whole, whether or not Vietnam could overcome development issues during this period. In terms of trade and investment expansion for Japan and Mekong region, Industrial Districts, such as Thang Long Industrial Park and Hai Phong Industrial Zone, which were developed through Japan's ODA funds, have been functioning as production bases for Japanese companies, which entered in Vietnam market. In addition, improvement of social infrastructure including roads, ports, airports, electricity, water and sewage has been promoted by utilizing ODA funds as well.

#### **4.1.3 Japan-Vietnam high level official visits**

Since 2006 until the present, high level officials of Japan and Vietnam have been making mutual visits every year, as well as holding summits and meetings of foreign ministers. Through these mutual visits between the two countries, the importance of Vietnam for Japan as well as importance of Japan for Vietnam becomes clear.

#### **4.1.4 Conclusion on Diplomatic Importance**

Japan and Vietnam have an extensive strategic partnership and the leaders of the

two countries frequently visit each other. Several summits and foreign minister meetings have been held every year, establishing intimate good relations. In addition, Japan has been the biggest ODA provider for Vietnam, and the second largest investing country. It could be said that Vietnam has potential of economic growth and promising market, and therefore, it possesses high diplomatic importance. While Japan has insisted on peaceful solutions that would comply with the International Law over the South China Sea issues currently facing Vietnam, Vietnam has shown its understanding to Japan's policies over the North Korea issues facing Japan. In terms of appropriate management of geopolitical risks, Japan's assistance has a considerable diplomatic importance.

#### 4.2 Diplomatic Impact

With regard to diplomatic impact (ripple effect) that Japan's aid to Vietnam has given, the analysis focuses on expansion and deepening of economic relations and interpersonal exchanges between Japan and Vietnam, joint actions and deepening mutual understanding between the two nations.

##### 4.2.1 Japan-Vietnam economic relations

Following the signing of Japan-Vietnam Investment Agreement in November 2003, Japan-Vietnam Economic Partnership Agreement was signed in December 2008 (effective since October 2009). It was the first bilateral EPA for Vietnam and the 11<sup>th</sup> EPA for Japan. It was clarified from some interviews of the Tax Authority in the Ministry of Finance in Vietnam that, although custom duties had not been able to catch up with the Vietnamese rapid economic growth since its participation in WTO, procedures regarding export and import as well as custom duties have become shorter and more efficient due to Viet Nam Automated Cargo Clearance System (VNACCS) which was introduced by Japan's grant aid. Economic infrastructure strengthened by Japan's ODA for Vietnam has contributed to stimulating economic relations between the two countries.

##### 4.2.2 Japan-Vietnam human exchange

While the number of students from China and Korea studying in Japan, who used to be dominant among the foreign students in Japan, have gradually been decreasing every year, the number of students from Vietnam shows rapid growth in recent years. The number of students from Vietnam in 2006 was 2,119, ranking fifth among countries (areas) of origin, but it has increased to 26,439 in 2014 (ranking second among countries of origin). The evaluation team encountered some of the graduates of studies in Japan and now actively working at the visited some interviewed organizations during the field survey in Vietnam.

#### 4.2.3 Japan-Vietnam Joint actions in the international society

In terms of regional security, Vietnam has shown its understanding that denuclearization of Korean Peninsula shall be important for the regional stability in East Asia as well as Southeast Asia. As for the abduction issue, the Vietnamese top officials have expressed their understanding and support to Japan. Prime Minister Abe announced the current situations over South China Sea, which Japan has been concerned about increasing tensions in the region due to the unilateral commencement of drilling activities by China and it shall appeal the significance of the rule of law. As such, Japan and Vietnam share the common understandings as to the regional security in East Asia and Southeast Asia that the both countries belong to. In addition, Vietnam has supported Japan to become a permanent member of the United Nations Security Council. It could be concluded that Vietnam is a very important partner from which Japan's foreign policies could obtain its support, and their bilateral relations have contributed to strengthening presence of Japan in the international society.

#### 4.2.4 Japan-Vietnam mutual understanding

In 2013, the 40<sup>th</sup> anniversary since an establishment of the bilateral diplomatic relations between Japan and Vietnam, around 250 cultural exchange events were organized both in Japan and Vietnam, deepening interactions between the two countries. According to the website of JICA Vietnam Office, in 2011, when the Great East Japan Earthquake occurred, an alumni association for the former trainees turned into a forum calling for support for Japan. A director of the Vietnamese National Broadcasting, who was one of the former trainees, suggested donations through TV and it was televised as a charity program for the disaster relief.

#### 4.2.5 Conclusion of Diplomatic Impact

Japan's assistance to Vietnam has extended to a wide range of fields, through different schemes including ODA loans, grant aid, technical cooperation, and Grant Assistance for Grassroots. It has been steadily and continuously implemented for many years, strengthening the diplomatic relations between the two nations in the process. As a result of these deepened relations not only in economic aspects but also through interpersonal and cultural exchanges, the governments of Japan and Vietnam have shared common understanding on the issues of Korean Peninsula and South China Sea. In addition, it could be considered to be one of the good examples of diplomatic impact that Vietnam has expressed their support for Japan to become a permanent member of the United Nations Security Council and it has contributed to strengthening presence of Japan in the international society. Considering the above, Japan's assistance is contributing to strengthening economic relationship and interpersonal/cultural exchanges, and its diplomatic impact is also considered to be

high.

## **Recommendations and Lessons Learned**

### **5.1 Recommendations**

#### **5.1.1 Utilization of the Assistance for Vietnam as a front runner in international cooperation**

Japan's assistance for Vietnam has shown a number of characteristics which shall be a model for Japan's ODA in other countries. Specifically, this concerns (1) transfer of the world's most advanced technologies and tacit knowledge created by Japanese-style management, (2) (not passive but) active commitment to aid coordination, (3) prompt introduction of new trends in international cooperation such as PPP (Public-Private Partnership), Local Government Partnership, and climate change policies (REDD+, etc.), (4) implementation of flagship projects aimed at transportation nodes that serve as hubs of people's activities such as airports, ports, and arterial roads, together with effective public relations (from the diplomatic viewpoint). These shall be shared among responsible officers in charge of economic cooperation at Japanese Embassies and JICA Offices in other developing countries as good practices of Japan's ODA. In this regard, it will be vital to effectively formalize diverse tacit knowledge created by Japan.

#### **5.1.2 Effective promotion of assistance in social sectors**

While Japan's ODA is effectively promoted for economic infrastructure, interviews held at the Ministry of Natural Resources and Environment, the Ministry of Health, and the Ministry of Agriculture and Rural Development in Vietnam have shown that Japan's assistance performance in social sectors receives relatively little attention. Specifically, achievements in such fields as environment and health care shall be more emphasized. Environmental issues, and global warming policies in particular are the focus international community's attention nowadays. Under these circumstances, Japan has become a central donor for the Support Programme to Respond to Climate Change in Vietnam. Japan and France led the way in budgeting the Program, and approximately half of the cumulative total of funds disbursed by donors was contributed by Japan. As such, it is considered to be noteworthy that Japan has played a leading role in mitigating global warming in Vietnam.

#### **5.1.3 Continuous efforts for Anti-ODA-related Corruption Measures**

Both Japan and Vietnam have been consistently implementing measures to prevent recurrence fraud and corruption incidents. These measures were added following Saigon East-West Highway Construction Plan Project bribery affair as well as Hanoi City Urban Railway Construction Project (Line No. 1) rebate affair. It is necessary for the Government of Japan to consistently implement improvement and prevention measures

for recurrence and to maintain alertness among the parties concerned, in order to eradicate fraud and corruption incidents between Japanese companies and the Government of Vietnam.

## 5.2 Lessons Learned

As a final conclusion, here are some points which will be useful for future ODA planning and implementation processes in Vietnam and other countries as well.

Vietnam's economic growth is highly evaluated by everyone in the world. In general, it is thought that economic growth has two aspects: an aspect of market expansion caused by income increase (demand side) and another aspect of increase in production capacity (supply side). The first aspect of market expansion has been attracting a number of donors into Vietnam. In addition to the neighboring emerging Asian donors such as Korea and China, it is assumed that Asia Infrastructure Investment Bank (AIIB) is to enter into the infrastructure development in Vietnam in the near future. As for the second aspect of increase in production capacity, it becomes apparent from the stronger intent that Vietnamese companies have shown to their participation in the infrastructure development.

As Japan clearly declared its national interests on the "Development Cooperation Charter" (February 2015), the field survey of this evaluation study clarified that the Government of Vietnam (the Ministry of Traffic and Transportation) has also regarded the Vietnamese companies' participation in Japan's ODA projects as a part of the Vietnamese national interests to be realized. With regard to Japan's ODA as a whole, including infrastructure projects, Japan has promoted its assistance with an emphasis on high quality and professionalism among those who are engaged in ODA projects. This point was underlined in "High Quality Infrastructure Partnership" announced by Prime Minister Abe, in May 2015. It is an important direction for Japan to continue in the coming period as Japan works on the infrastructure development in Vietnam based on such characteristics of Japan's ODA as high professionalism underpinned by high quality. In the meantime, the Government of Japan should be more aware of the fact that both the Government and people of Vietnam have been cost-conscious for all the projects, and that there are now more and more competitors such as other donors and Vietnamese companies.

To facilitate smooth implementation of Japan's ODA for Vietnam in the coming period, it will be more and more important for Japan to have a higher awareness in "sharing national interests" with other countries as well as to be more cost-conscious. These are the points to be noted as lessons learned from the evaluation team.