

## Supporting a Shift to a Market Economy in Viet Nam - Supporting Small and Medium Sized Enterprises Finance in Addition to Basic Infrastructure Improvement -

OECF (the Overseas Economic Cooperation Fund, Japan: President, Chairman of the Board: Mr. Kyosuke Shinozawa), has committed to provide loans to the Socialist Republic of Viet Nam as a necessary fund of up to 88 billion yen for 9 projects in fiscal 1999 and signed the loan agreements on March 30, 1999.

The loan agreements were signed at OECF head office in Tokyo by Mr. Kyosuke Shinozawa, OECF's President and Ms. Le Thi Bang Tam, Vice Minister of Finance in the Socialist Republic of Viet Nam.

The cumulative total of ODA loan commitments to Viet Nam now stands at 506.4 billion yen, covering 56 projects.

Loan to Viet Nam resumed in November 1992, with a commodity loan amounting to 45.5 billion yen, followed by project loans amounting 52.304 billion yen provided in fiscal 1993, and 58.0 billion yen in fiscal 1994 (loan agreements were signed in fiscal 1995), 70.0 billion yen in fiscal 1995, and 81.0 billion yen in fiscal 1996 and 85.0 billion yen in fiscal 1997.

The fiscal 1998 loan package to Viet Nam follows this series of loans, and the Japanese government made a prior notification of at the Consultative Group Meeting for Viet Nam held in Paris in December 1998.

The amount, terms and conditions of the loans and project descriptions are as follows.

### 1. Characteristics of the Loans

Under its policy of Doi Moi (Renovation) started in 1986, Viet Nam has promoted a transition toward the market economy, and, supported by a high level of foreign investments, has maintained a high rate of economic growth exceeding 8% annually from 1992 to 1997. However, under the influence of the Asian currency crisis of 1997, inflows of foreign capital from neighboring countries have decreased, causing the GDP growth rate for 1998 to fall to 5.8%, and making the future economic outlook of Viet Nam uncertain.

In order to overcome these economic difficulties, the Viet Nam government must implement structural reforms such as the reform of state-run enterprises, the development of the private sector and strengthening of financial system, as well as make the economy more efficient and increase the competitiveness of Viet Nam's companies. To restore foreign investments, Viet Nam also needs to improve the investment climate by modernizing its infrastructure, which has fallen behind that of neighboring countries, at the same time as it makes policy improvements such as the ones described above.

OECF has been providing loans to Viet Nam since 1992 to help it build up its basic infrastructure. The fiscal 1998 ODA loan package will contribute to building up Viet Nam's infrastructure through projects including power generation, roads and ports. The package also supports regional development projects contributing to the alleviation of poverty and raising living conditions in the countryside converging water supply, small-scale irrigation, and afforestation.

Moreover, the fiscal 1998 ODA loan package also includes Small and Medium Sized Enterprises Finance Project, which is a new field of cooperation under ODA loans to Viet Nam. This project is designed to support the promotion of private small and medium sized companies by providing medium and long-term funds disbursed through the Viet Nam's commercial banks.

The fiscal 1998 ODA loan package was prior notified by the Japanese government at the Consultative Group Meeting for Viet Nam held in December 1998. The ODA loan amount represents more than one third of the total of US\$2.2 billion aid from the governments of donor countries and international organizations, making the OECF Viet Nam's biggest donor, ahead of the World Bank and the Asian Development Bank (ADB).

#### Characteristic of Each Project

All these projects are positioned as top priority development projects in Viet Nam's major sectors whose implementation is urgently needed. The project objectives are as follows.

	Project Name	Purpose of Each Project
Electric Power	Phu My Thermal Power Plant Project (IV)	Aims for stable supply of electric power by building a thermal power plant using natural gas as fuel in southern Viet Nam.
	Pha Lai Thermal Power Plant Project (IV)	Aims for stable supply of electric power by building a thermal power plant using coal as fuel in northern Viet Nam.
	Dai Ninh Hydropower Project (I)	Aims for stable supply of electric power in southern Viet Nam by building hydropower plant using the water power resources of the Don Nai water system in southern Viet Nam.
Transportation	Second National Highway No. 1 Bridge Rehabilitation Project (3)	Aims to improve National Road No. 1 that crosses Viet Nam from north to south, and thereby raise transportation efficiency and contribute to the development of the surrounding region.
	Hai Van Tunnel Construction Project (II)	Aims to build a tunnel in the central part of the Hai Van ridge, a natural formation that blocks transportation between north and south Viet Nam, in order to improve physical distribution efficiency.
	Da Nang Port Improvement Project	Aims to contribute to improving physical distribution in the central area of Viet Nam and thereby contribute to the development of the area by building the Da Nang Port.
Regional Development	Rural Infrastructure Development and Living Standard Improvement Project (III)	Aims to rehabilitate small canals and implement an afforestation project by creating a provincial farming village and mountain infrastructure (roads, electrification, water supply).
Urban Development	Transport Infrastructure Development Project in Hanoi	Aims to solve problem of traffic congestion and make physical distribution more efficient by constructing and improving roads and crossings in Hanoi.
Development Finance	Small and Medium Sized Enterprises Finance Project	Aims to support development of small and medium sized private sector companies by providing medium and long-term funds through Viet Nam's commercial banks.

### 2. Amount, Terms and Conditions

Project Name	Amount (Mil. Yen)	Interest Rate (% p.a.)		Repayment Period / Grace Period (years)		Tying Status	
		Goods and Services	Consulting Services	Goods and Services	Consulting Services	Goods and Services	Consulting Services
1 Phu My Thermal Power Plant Project (IV)	13,090	0.75**	0.75**	40/10	40/10	General Untied	Bilateral Tied
2 Pha Lai Thermal Power Plant Project (IV)	8,510	1.80	-	30/10	-	General Untied	-
3 Dai Ninh Hydropower Project (I)	4,030	0.75**	0.75**	40/10	40/10	General Untied	Bilateral Tied
4 Transport Infrastructure Development Project in Hanoi	12,510	1.80	0.75**	30/10	40/10	General Untied	Bilateral Tied
5 Hai Van Tunnel Construction Project (II)	10,000	1.80	0.75**	30/10	40/10	General Untied	Bilateral Tied
6 Da Nang Port Improvement Project	10,690	1.80	0.75**	30/10	40/10	General Untied	Bilateral Tied

7	Second National Highway No. 1 Bridge Rehabilitation Project (3)	13,170	1.80	0.75**	30/10	40/10	General Untied	Bilateral Tied
8	Rural Infrastructure Development and Living Standard Improvement Project (III)	12,000	1.80 1.30* 0.75**	0.75**	30/10 30/10 40/10	40/10	General Untied	Bilateral Tied
9	Small and Medium Sized Enterprises Finance Project	4,000	0.75***	0.75***	40/10	40/10	General Untied	Bilateral Tied
	Total	88,000						

\* Standard environmental project

\*\* Special environmental project

\*\*\* Supporting small- and medium-scale enterprises project

8: Standard environmental project is applied for water supply portion and special environmental project for afforestation portion.

### 3. Project Descriptions

#### (1) Phu My Thermal Power Plant Project (IV)

The demand for electric power in Viet Nam has been growing along with the country's economic growth in recent years. Viet Nam has experienced a growth in average power consumption of 18.3% from 1995 to 1997. The power consumption is forecasted to increase between 11% and 14% on average until 2005, and supporting this demand will require developing energy sources with a good balance between hydroelectric and thermal energy.

This project is designed to build a 1,090 MW gas combined cycle electric power plant, related transmission lines and substations in Phu My, located south-east of Ho Chi Minh City, in order to support pressing electric power demand in southern Viet Nam, which is an area centering on Ho Chi Minh City, a power consumption giant.

OECF has already provided ODA loans for the Project in fiscal 1993 (Phase I: 26.492 billion yen), fiscal 1994 (Phase II: 10.262 billion yen) and fiscal 1996 (Phase III: 11.638 billion yen). This loan, representing the final phase, covers expenses required until the completion of the project.

The proceeds of the loan will be used for procurement of goods and services for the construction of the thermal power plant, transmission lines and substations, and consulting services (construction supervision, etc.). This project is expected to contribute to the development of Viet Nam's expanding industry and improvements in the living standard by enabling stable supply of electric power to southern Viet Nam.

The executing agency is the Electricity of Vietnam: EVN (Address: 18 Tran Nguyen Han St., Hanoi, Viet Nam, TEL/FAX: 844-8253553).

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#### (2) Pha Lai Thermal Power Plant Project (IV)

Viet Nam is experiencing a sharp increase in electric power accompanying economic growth in recent years. This project is designed to support the electric power needs of a large electric power consumption area that includes Hanoi, Viet Nam's capital, and Hai Phong City in northern Viet Nam. In northern Viet Nam, the construction of the Hoa Binh Hydropower Plant (1,920 MW) with the former Soviet Union aid and the completion of a North-South 500kV power transmission line in the early 1990s expanded the electric power supply capacity and enabled the transmission of electric power to the energy-stricken south. Yet power shortages are still a concern due to the fact that the power generation capability of the above-mentioned hydroelectric plant is subject to decline during periods of lower precipitation.

This project is designed to build a new coal thermal power plant with a total capacity of 600 MW (300 MW x 2 generators) next to the existing Pha Lai Coal Thermal Power Plant (former Soviet Union-made: 110 MW x 4 generators), some 65 km north-east of Hanoi, along with related transmission lines and substations in order to deal with the increasing power demand in northern Viet Nam.

The proceeds of the loan will be used for procurement of goods and services for the construction of the power plant, transmission lines and substations.

The implementation of this project, by improving northern Viet Nam's electric power generation capability and enabling stable supply of electric power, is expected to contribute to the industrial development of the region and a higher living standard for its inhabitants.

Following fiscal 1993's engineering service (E/S) loan (730 million yen), the project has been provided three loans (Phase I: 11.057 billion yen in fiscal 1994, Phase II: 20 billion yen in fiscal 1995 and Phase III: 25.529 billion yen in fiscal 1996).

The executing agency is the Electricity of Vietnam (EVN) (Address: 18 Tran Nguyen Han St., Hanoi, Viet Nam, TEL/FAX: 844-8253553).

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#### (3) Dai Ninh Hydropower Project (I)

This project is expected to promptly materialize a hydropower plant construction plan that envisions the use of the abundant hydroelectric resources of the Dong Nai River water system in southern Viet Nam, in order to support the demand for electric power which is forecasted to increase rapidly in near future.

Following the on-going construction of the Ham Thuan and Da Mi Hydropower Plants (total capacity of 475 MW) using the hydroelectric resources of the same water system, which are also funded by ODA loan, this project is to construct a hydropower plant with a total capacity of 300 MW and related transmission lines and substations at a location spanning Lam Dong Province and Binh Thuan Province (260 km north-east of Ho Chi Minh city). Moreover, the dam is planned to be constructed as a multipurpose dam, which will supply water for agriculture to the dry downstream region in addition to generating electric power.

The proceeds of the loan will be used for procurement of goods and services for the construction of the power plant, related transmission lines and substations and consulting services (bidding assistance, construction supervision, etc.).

The implementation of this project aims for stable supply of electric power to southern Viet Nam, which is experiencing a tight demand-supply situation, and is expected to contribute to the development of agriculture in downstream areas through the implementation of an irrigation project in the future.

The executing agency is the Electricity of Vietnam: EVN (Address: 18 Tran Nguyen Han St., Hanoi, Viet Nam, TEL/FAX: 844-8253553).

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#### (4) Transport Infrastructure Development Project in Hanoi

Hanoi, Viet Nam's capital, is the largest city in northern Viet Nam with a population of 2.5 million. Following its adoption of the policy of Doi Moi in 1986, Hanoi has achieved rapid economic growth, but there is a continuing inflow of people to existing cramped urban areas and economic activity is growing increasingly concentrated. As a result, traffic volume in the city is increasing at a very high pace and the population density is increasing to the point that the construction of urban infrastructure such as water supply and drainage water networks cannot keep apace, and a worsening of the urban environment and other urban health problems are arising.

The transportation infrastructure, in particular, has basically remained unchanged since the days of French colonization, and the road network has not been able to support the rapid rise in the number of motorbikes following the start of Doi Moi, causing severe traffic congestion in the inner city and making the expansion and new construction of city roads an urgent requirement.

This project is designed to build and improve various roads and crossings that have become a transportation bottleneck in Hanoi city so as to alleviate traffic congestion in the Hanoi city center and make physical transportation more efficient, as well as implement infrastructure development at locations experiencing immigration, in order to enable the smooth people's resettlement required for this project.

The OECF has provided support from the formation stage of this project, by implementing Special Assistance for Project Formation (SAPROF) from February 1998 to June 1998.

The proceeds of the loan will be used for civil works, procurement of equipment and materials and consulting services (detailed design, bidding evaluation assistance, construction management).

The executing agency is the Hanoi People's Committee (Address: 79 Dinh Tien Hoang, Hanoi, Viet Nam, Tel: 84-4-8240187, Fax: 84-4-8253584).

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#### (5) Hai Van Tunnel Construction Project (II)

National Road No. 1 is a major artery for physical distribution that crosses Viet Nam from North to South, that forms part of the East-West Corridor Plan. On the other hand, the Hai Van ridge segment of National Road 1 (approx. 14-km segment in central Hue-Da Nang) is narrow and steep like a mountain road, with many sharp curves. Moreover, during the rainy season, falling rocks and shoulder collapses are frequent occurrences. This makes it the most dangerous segment of National Road No. 1 and very difficult to maintain.

Currently, traveling this segment takes approximately 1 hour by regular vehicle, which makes it a bottleneck impeding smooth physical transportation on National Road 1 and holds up development of the central region.

This project is designed to construct a 6.3-km tunnel (2 lanes each way) in the Hai Van ridge segment of National Road 1 that will ensure road transport safety and more efficient physical transportation, as well as the approach road and bridges (including the Lang Co Bridge).

OECD has already provided a loan for Phase I of this project in fiscal 1996 (5.5 billion yen), and this will be the second commitment for this project (Phase II).

This proceeds of the loan will be used for civil works including a tunnel, roads, and bridges, procurement of equipment and materials and consulting services (detailed design, construction management, environment related tasks).

The implementation of this project is expected to expand the transport network in the central region and promote the economic development of the central region through progress in the East-West corridor.

The executing agency is the Ministry of Transport (Address: 80 Tran Hung Dao, Hanoi, Viet Nam, Tel: 84-4-8254012, Fax: 84-4-8267291).

One of the most important parts of the Expansion Maekong Regional Development Plan, an expansion plan linking North-East Thailand, Laos, and central Viet Nam. The Asian Development Bank (ADB) has implemented a feasibility study (F/S) and OECD has provided a loan this fiscal year for improvement of the Da Nang Port, which is an eastern entrance port of the East-West corridor. Moreover, detailed design (D/D) and ODA loan by the Japan International Cooperation Agency (JICA) are planned (prior notification was made December 1998) for the 2nd Maekong International Bridge at the Thailand-Laos border. (back)

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#### **(6) Da Nang Port Improvement Project**

Viet Nam's freight is transported mainly by road for short distance haul and mainly by sea for medium and long distance haul, reflecting the geographical characteristics of the country, which is elongated along the north-south axis. Moreover, along with the economic development of the country, long haul freight and international freight have increased, making the construction of ports very important. On the other hand, existing ports are getting old and the shift toward containers is slow, so that ports are not fully fulfilling their expected role, and the construction of a modern port with modern facilities is essential for raising the efficiency of physical transportation in order to reduce the North-South gap. The Da Nang Port, while being Viet Nam's third international port, is also positioned as an entrance port for the East-West Corridor (mentioned earlier), which is an expansion Maekong development project, and is the main port that will serve as the base for this regional development. Moreover, accompanying the economic development of the central area, the amount of freight handled at the Da Nang Port has greatly increased (370,000 tons in 1992, 880,000 tons in 1997), and at the same time, there is increasing use of containers for marine freight as part of the worldwide trend toward containers.

This project, in order to raise the port's freight handling capacity and cope with the increase in freight, will promote the shift to containers including the construction of berths in the Tien Sa district and the procurement of equipment. The project will also build access roads to the National No. 1 Road and the New Tuyen Son Bridge across the Van River.

The implementation of this project is expected to contribute to the expansion of the transport network in the central area and the economic development of the central area by promoting the East-West Corridor Plan.

The proceeds of the loan will be used for civil works including the port, roads, bridges, procurement of equipment and materials and consulting services (detailed design, construction management, environment related tasks).

The executing agency is the Ministry of Transport (Address: 80 Tran Hung Dao, Hanoi, Viet Nam, Tel: 844-8254012, Fax: 844-8267291).

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#### **(7) Second National Highway No. 1 Bridge Rehabilitation Project**

The National No. 1 Road is a 2,300-km road that begins in Lang Son at the China-Viet Nam border, crosses Hanoi and Hoc Chi Minh City in the central area, and ends in Ca Mau at the southern extremity. It is a very important road in Viet Nam's road network as a major artery for North-South physical transportation. The Viet Nam government has implemented in stages road improvement work using financing from the World Bank and the Asian Development Bank (ADB), and OECD has provided a total of five commitments to rebuilding bridges in the same segment financed by the World Bank and ADB since 1993.

This project is designed to construct bridges for the 689-km segment from Dong Ha to Nha Trang of National Road No. 1 and improve road transport on National Road No. 1.

Through this project, physical distribution in Viet Nam will be improved, and thus contribute to the development of the Viet Nam's economy.

The proceeds of the loan will be used for civil works, procurement of equipment and materials and consulting services (detailed design, bidding evaluation assistance, construction management).

This project provides co-financing with the ADB. ADB will finance civil work, procurement of equipment and materials, and consulting services for the road improvement portion.

The executing agency is the Ministry of Transport (Address: 80 Tran Hung Dao, Hanoi, Viet Nam, Tel: 844-8254012, Fax: 844-8267291).

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#### **(8) Rural Infrastructure Development and Living Standard Improvement Project (III)**

In Viet Nam, the reduction of the economic gap between cities and provinces, and the development of farming areas, where the greater part of the people live on, are major issues.

OECD, in order to support province development needs, has provided commercial loans for equipment and materials imports for the road, electric power, and water sectors, rehabilitation loans (I) and (II) (1993: 2.5 billion yen, 1994: 4.8 billion yen). Furthermore, following these rehabilitation loans, in order to promote the smooth implementation of subprojects, the OECD has also provided loans (1995: 7 billion yen, 1996: 4 billion yen) for Rural Infrastructure Development and Living Standard Improvement Project (I) and (II) including construction costs.

This project is designed to implement Phase III of the Rural Infrastructure Development and Living Standard Improvement Project based on heretofore obtained results, and by developing a basic infrastructure for the province targeting the road, electric power and water sectors, and is designed to strengthen the activity base of the province and farming sector and to raise the standard of living. This project also aims to contribute to agricultural development and environmental protection by covering the irrigation and afforestation sectors.

The proceeds of the loan will be used for procurement of equipment and materials and consulting services (bidding evaluation assistance, construction management).

The executing agency is the Ministry of Planning and Investment (Address: 2 Hoang Van Thu, Hanoi, Viet Nam, Tel: 844-8458241, Fax: 844-8230161).

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#### **(9) Small and Medium Sized Enterprises Finance Project**

Although the Viet Nam government has worked on developing a market economy under the policy of Doi Moi since 1986, small- and medium-sized companies in the private sector are experiencing a more difficult business environment than state-owned enterprises due to the dearth of medium- and long-term financing and insufficient management capability and technological know-how. The government is under increasing pressure to raise the competitiveness of industry based on its plan to join AFTA in 2006 due to the influence of the Asian currency crisis, and it has seriously launched programs to reform state-owned enterprises and revitalize the private sector.

This project, by providing medium- and long-term financing to small- and medium-sized companies in Viet Nam, in the form of "two-step" loans via the Viet Nam government and financial institutions, aims to alleviate the shortage of funds, which is currently the greatest problem affecting small- and medium-sized companies. Moreover, the financing work and the technical support provided by the consultants in this project are also expected to contribute to reforms in related aspects of financial institutions and strengthen the organization.

The proceeds of the loan will be used for capital investments by small- and medium-sized companies in Viet Nam, which will be the final beneficiaries and consulting services (appraisal, project management, and other technological guidance and assistance).

The executing agency is the State Bank of Vietnam (Address: 47-49 Ly Thai To, Hanoi, Viet Nam, Tel: 844-9342318, Fax: 844-8250612).

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