

## **JBIC Signs ODA Loan Agreement with Vietnam: --Supporting Vietnam's Policy and Institutional Reforms for Economic Growth and Poverty Reduction--**

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1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today an ODA loan agreement totaling up to 2.5 billion yen with the Government of the Socialist Republic of Vietnam for the Fourth Poverty Reduction Support Credit (PRSC 4). The loan constitutes part of the PRSC 4 provided in international collaboration with the World Bank, Asian Development Bank (ADB) and other donors. The combined total of this assistance by JBIC and other donors is expected to reach 226 million US dollars.
2. The Government of Vietnam, as it strives to achieve economic growth and poverty reduction, has been pushing forward policy and institutional reforms based on the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) drafted in May 2002. To support its efforts, the donors led by the World Bank have provided a series of credits as PRSC for Vietnam. PRSC, offered in international collaboration, has three pillars: (1) transition to a market economy, (2) inclusive and sustainable development, and (3) modern governance. Specifically, the present PRSC supports the country's policy and institutional reform agenda, including trade liberalization, state-owned enterprise (SOE) reform, financial sector reform, infrastructure development, private sector development, public financial management and anti-corruption. This ODA loan follows the PRSC3 signed in December 2004.
3. Amid growing interest in Vietnam among Japanese firms as an investment destination, the Governments of Japan and Vietnam agreed on the Japan-Vietnam Joint Initiative in December 2003, which supported the relaxation of regulations on foreign direct investment and other reforms. In participating in PRSC, JBIC has taken care to incorporate part of the action plan set forth under this initiative into PRSC 4, particularly supporting further steps forward in reforms to improve the business environment, the investment climate and the efficiency of government expenditures. Since there still remain a number of issues to be addressed in order to improve the business environment, including an underdeveloped legal framework and lack of transparency in the application of laws, the progress in these reforms is expected to lead to increased foreign, not to mention Japanese, investment in Vietnam.
4. Of Vietnam's total population of over 80 million, the population living in poverty (those with an annual spending of 128 US dollars or less) currently accounts for 24%. Thus, in order to reduce poverty, it is essential to maintain sustainable growth with appropriate development policy while strengthening measures to redress disparities, thereby increasing employment and income opportunities. To date, JBIC has provided comprehensive support for Vietnam by financing the development in poor regions of basic infrastructure such as rural roads, and the development of key infrastructure such as power generation in which Japanese firms participate as well as national highways and ports. Furthermore, this ODA loan will support comprehensive sets of policy and institutional reforms, which are difficult to address through individual project loans. It will thereby ensure sustainable growth and contribute to poverty reduction.

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## 1. Loan Amount and Terms

Name of the Loan	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period(Years)	Procurement
Fourth Poverty Reduction Support Credit	2,500	1.3	30/10	General Untied

## 2. Outline of the Loan

Fourth Poverty Reduction Support Credit

### (1) Background and Necessity

The progress being made in the transition to a market economy has enabled Vietnam to achieve sustainable economic growth at an annual rate of about 7 percent in real terms over the past several years. As a result, the country's poverty rate fell from 58% to 24% in the 11-year period from 1993 to 2004. Despite this development, however, much of the population classified above the poverty line still remains barely above the line (has an annual spending of 128 US dollars). And since a majority of these people depend on precarious income from agriculture, they are vulnerable to natural disasters and unfavorable weather. They could be very easily pushed back into poverty. Thus, it may be said that a decline in the poverty rate still remains an achievement built on a fragile basis. The country is also facing increasing economic disparities between rural and urban areas.

To reduce poverty, it is essential to strengthen measures to redress disparities with appropriate development policy, while continuing sustainable economic growth. Given this recognition, the Government of Vietnam adopted the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) in May 2002 and has since been addressing its policy agenda, which includes introduction of elements of a market economy with state-owned enterprise (SOE) reform, private sector development, financial sector reform and trade liberalization, integration into the international economy, policy improvement and institutional capacity enhancement in the educational and health sectors, and strengthening of administrative reform and governance.

To support these efforts, a number of donors including the World Bank, Asian Development Bank (ADB) and European countries have provided assistance as part of Poverty Reduction Support Credit (PRSC). Japan has participated in cofinancing PRSC since the PRSC3 in 2004. Indeed, there is an increasing need to continue assistance.

In addition, the Governments of Japan and Vietnam agreed on the Japan-Vietnam Joint Initiative in December 2003 to improve the business environment with a view to strengthening Vietnam's international competitiveness. Accordingly, Japan is currently providing assistance to achieve this objective. Support for poverty reduction with this ODA loan has reflected the provisions set forth in this initiative. JBIC is thereby providing multi-faceted and integrated support for Vietnam's reform efforts.

### (2) Purpose and Description

The objective of this ODA loan is to support various reforms being undertaken by the Government of Vietnam in the framework of CPRGS, address the policy agenda in each sector as set forth in CPRGS, and thereby contribute to poverty reduction through sustainable economic growth.

This ODA loan consists of three pillars: (1) the transition to a market economy, (2) inclusive and sustainable development, and (3) modern governance. Specifically, it covers adjustment to international rules on trade, SOE reform, financial sector reform, private sector development, infrastructure development, education, health, land reform, social security, public financial management, the process of drawing up an investment plan and anti-corruption. The loan offers financial support to these reform efforts, and also features the monitoring of progress in individual sectoral reforms. The proceeds of the loan will be disbursed for import settlement for general commodities.

The executing agency is the State Bank of Vietnam (Address: 47-49 Ly Thai To, Hanoi, Vietnam, Tel: 84-4-9343361, Fax: 84-4-8250612).