

Signing of Japanese ODA Loans with Vietnam Addressing the Global Financial and Economic Crisis with Sustainable Development

1. Today, JICA (President Sadako Ogata) signed an agreement with the government of the Socialist Republic of Vietnam to provide Japanese ODA loans for up to 119.791 billion yen.

2. The details of the loans are provided below.

(1) The Global Financial and Economic Crisis

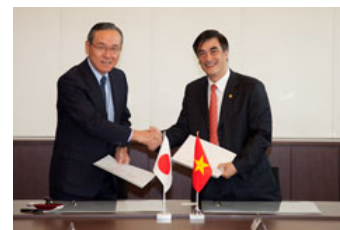
Vietnam recorded high growth from 2005 to 2007 that exceeded eight percent while it reduced the percent of the population classified as impoverished from 37.4 to 16.0 percent between 1998 and 2006 (refer to the graph and the table below). Due to the impact of the global financial and economic crisis that erupted last fall, growth has decelerated such that the gross domestic product (GDP) is expected to grow only four to five percent in 2009. The Eight Poverty Reduction Support Credit with Economic Stimulus Support will provide the necessary support to back the Vietnamese government's efforts to maintain a high growth rate by relaxing the monetary policy combined with an expansionary fiscal policy for economic stimulation. This program represents the first initiative for the emergency budget support Japanese ODA loans announced by Japan at the London Summit this past April. Floating interest rate will be included so that flexible financing can be provided to developing countries (such as Vietnam) hindered by the worldwide financial and economic crisis. This will ensure such nations can implement the tax reductions and other economic measures necessary to expand domestic demand.

The effects of the crisis must be alleviated as well, which is why these loans include support for small- and medium-sized businesses as well as for regional infrastructures under the Small and Medium-Sized Enterprises Finance Project (III) and the Small-Scale Pro Poor Infrastructure Development Project (III).

(2) Sustainable Development over the Mid-term

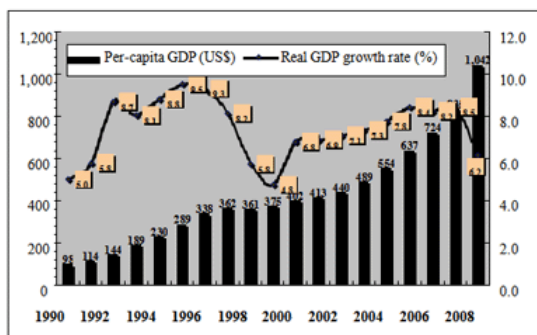
While managing the financial and economic crises, Vietnam needs to continue building its economic infrastructure as an instrumental step to forming an investment environment if it is to promote sustainable development over the mid-term. To assist with this, these Japanese ODA loans will provide assistance with transportation and power infrastructures under the National Highway No.1 Bypass Road Construction Project (II) and the Thai Binh Thermal Power Plant and Transmission Lines Construction Project (I). Vietnam also needs to address the environmental issue of climate change. To assist with this, the Energy Efficiency and Renewable Energy Promoting Project aims at improving the energy use efficiency at the business level.

3. Before the global financial and economic crises took hold in Vietnam, the nation posted high economic growth around eight percent per year and formally joined the World Trade Organization in January 2007. Further integration into the international economy is expected, and Vietnam is thus considered to be an important country for business development by Japanese companies. For Vietnam to achieve sustained economic growth and poverty alleviation, it must deal with the global financial and economic crisis while addressing climate change and revitalizing the public sector through the creation of economic and investment infrastructures. Through these Japanese ODA loan projects, the new JICA will provide a higher level of assistance to Vietnam with its technical cooperation and grant aid.



Signing Ceremony

Graph. Economic growth in Vietnam



Source: Created using data from the IMF World Economic Outlook Database (October, 2009)

Table. Poverty alleviation in Vietnam

	1993	1998	2002	2004	2006
Overall	58.1	37.4	28.9	19.5	16.0
Northeastern region	86.1	62.0	38.4	29.4	25.0
Northwestern region	81.0	73.4	68.0	58.6	49.0
Red River Delta region	62.7	29.3	22.4	12.1	8.8
North Central Coast region	74.5	48.1	43.9	31.9	29.1
South Central Coast region	47.2	34.5	25.2	19.0	12.6
Central Highlands region	70.0	52.4	51.8	33.1	28.6
Southeastern region	37.0	12.2	10.6	5.4	5.8
Mekong River Delta region	47.1	36.9	23.4	15.9	10.3

Source: Created using data from the Vietnam Living Standards Survey

Reference : Loan Amount and Terms

Reference : Projects Summary

Reference

Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)		Repayment Period	Grace Period (years)	Procurement
		Project	Consulting services			
(1) Small and Medium-sized Enterprises Finance Project (III)	17,379	1.2%	0.01	30	10	Untied
(2) Energy Efficiency and Renewable Energy Promoting Project*	4,682	0.25%	0.01	40	10	Untied
(3) Thai Binh Thermal Power Plant and Transmission Lines Construction Project (I)	20,737	1.2%	0.01	30	10	Untied
(4) National Highway No.1 Bypass Road Construction Project (II)	4,141	1.2%	0.01	30	10	Untied
(5) Small-Scale Pro Poor Infrastructure Development Project (III)	17,952	1.2% 0.55%**	0.01	30 40**	10 10**	Untied
(6) Eighth Poverty Reduction Support Credit with Economic Stimulus Support	7,000	1.2%	-	30	10	Untied
	47,900 (economic stimulus assistance portion)	Yen LIBOR rate (Six months)***	-	15***	3***	Untied
Total	119,791					

* Qualifies for low interest as a Japanese ODA loan whose objective is to fight climate change.

** Preferred loan terms apply to the water supply construction portion that will contribute to poverty alleviation.

*** These are special terms for the portion of the project that corresponds to emergency budget support Japanese ODA loans announced by Japan in the April London Summit whose purpose is to assist Asian nations in quickly alleviating the effects of the current crisis and furthering growth and domestic demand.

Projects SummaryProjects Summary

(1) Small and Medium-Sized Enterprises Finance Project (III)

Background and Necessity

Since the introduction of the doi moi policy in 1986, Vietnam has accelerated the integration into the world economy and registered high economic growth. It is vitally important to strengthen the private sector so as to further continue the current pace of economic expansion. In doing so, the small and medium-sized enterprises (SMEs) play a vital role. As a result of reforms to state enterprise, as of 2007, the private sector now produces 45.9 percent of Vietnam's gross domestic product and 42.0 percent of net turnover of all enterprises. The majority of this derives from SMEs, which represented 98 percent of all private businesses as of the end of 2006. However, the lack of funding access, administrative know-how and technology hinder development, with the lack of funding being the most pressing issue. One factor in the deficiency of financing is that the financial system is itself still in development; relationship banking, for example, has not yet matured to the point where financing is provided based on an evaluation of a company's organization and business plan, so that even favorable businesses are hard put to obtain funding. Another factor is the serious effects of the recent economic crisis, which has impacted export companies most.

Even the Japan-Vietnam Joint Initiative—an agreement involving both the official and private sectors of the two countries which encapsulates the specific action plans required to create an investment climate in Vietnam—emphasizes growing the supporting industries of Vietnam; the development of SMEs is a matter of particular interest to Japanese companies.

Objective and Summary

Phases I and II of the Small and Medium-Sized Enterprises Finance Project (SMEFP) were funded with Japanese ODA loans whose agreements were signed in March 1999 (4 billion yen) and 2004 (6.1 billion yen). This project, phase III of the SMEFP, seeks to support the development of the SMEs in Vietnam, by providing the medium and long-term funds through the participating financial institutions (PFIs), to strengthen the capacity of the executing agency and the PFIs, and to contribute to the development of the financial sector of the country.

The ODA loan will be allocated to the funds to SMEs through the PFIs and to consulting services for the project implementation.

To date, JICA has provided assistance to increase the capacity of a number of government agencies supporting SMEs. There are further plans for establishment of an information system to provide the PFIs with information on promising SMEs that received JICA's assistance.

Executing agency: State Bank of Vietnam
Address: 49 Ly Thai To, Hanoi, Vietnam
Phone: +84 (4) 3934-3483, fax: +84 (4) 3824-1097

Planned implementation schedule

- (1) Completion of project: December 2012, with completion of disbursement
- (2) Issuing of letters of invitation for consulting services: February 2010
- (3) Tender announcement for initial procurement package for international competitive bidding on project work: In this project, no bidding is expected to be made for the main construction, however, procurement activities will be held for the sequential implementation for sub-loans granted by financial intermediaries

(2) Energy Efficiency and Renewable Energy Promoting Project

Background and Necessity

Vietnam boasts one of the highest rate of economic growth among Asian nations, posting a gross domestic product growth rate of around eight percent for the past several years. In January 2007, Vietnam formally joined the World Trade Organization, and a high rate of growth is predicted to continue into the future given the support from overseas direct financing. With such rapid growth, however, energy consumption has increased 500 percent over the period from 1990 to 2006, and demand—primarily in the industrial sector—is predicted to continue its rapid ascent. The efficient use of energy on the demand side, along with supply side development and diversification of new energy sources that curb the burden on the environment are therefore in need.

Despite these needs, the technology and expertise for investing in energy-efficient and renewable energy equipment is limited in Vietnam, and moreover, the awareness of the need for such costly measures is low particularly given the current low cost of power. The private sector therefore remains largely uncommitted to taking voluntary steps toward energy efficiency and renewable energy.

Objective and Summary

The Energy Efficiency and Renewable Energy Promoting Project is for providing assistance in the form of two-step loans through the Vietnam Development Bank (VDB) to companies that handle such goods as steel, cement and food that consume a large quantity of energy. The project will finance the medium- and long-term loans required to promote the use of energy-saving devices and renewable energy. Included in the project are measures to educate companies on capital investment and other steps that promote energy saving and renewable energy use; these measures are coordinated with technical cooperation projects implemented separately which will raise the level of awareness of energy issues. It is expected that more efficient energy use at the company level will contribute to environmental improvements, sustained economic growth and a decreased impact on global warming.

The ODA loan will be allocated to the funds to enterprises in Vietnam which need mid to longer term finance to promote energy efficiency and renewable energy use through VDB and to consulting services for the project implementation.

Japan has a history of promoting energy-saving policies, which has resulted in a financial system keyed toward energy that is promoted by policy-guided financial institutions. Under this project, the capacity of the Vietnam Development Bank to evaluate energy-related financing will be strengthened using Japan's experiences, and assistance will be provided in creating and managing energy-saving and renewable energy device lists in conjunction with technical cooperation in progress elsewhere. Because this project is expected to decrease the greenhouse gases emitted, there are also plans for investigating the feasibility of participating in the Clean Development Mechanism and assisting with that process.

Executing agency: Vietnam Development Bank
Address: 25 Cat Linh Str. Dong Da District, Hanoi, Vietnam
Phone: +84 (4) 3736-5659, fax: +84 (4) 3736-7600

Planned implementation schedule

- (1) Completion of project: December 2012, with completion of disbursement
- (2) Issuing of letters of invitation for consulting services: March 2010
- (3) Tender announcement for initial procurement package for international competitive bidding on project work:
In this project, no bidding is expected to be made for the main construction, however, procurement activities will be held for the sequential implementation for sub-loans granted by financial intermediaries

(3) Thai Binh Thermal Power Plant and Transmission Lines Construction Project (I)

Background and Necessity

Vietnam has experienced a high GDP growth rate at around 8% in recent years. Reflecting such rapid economic growth, the power demand was increased at an average rate of 15% annually, and the power demand during the peak hour was more than tripled for the past ten years up till 2005. While recent world economic crisis may affect the continuation of such increasing trend, in 2010, Vietnam's economic growth will recover and reach the highest level of 6.5 percent in the region, based on the analysis by the Asian Development Bank. The Sixth National Power Development Master Plan approved in 2007 predicts that, from 2006 to 2015, power demand is expected to increase at 17 percent per annum,

which will require the development of nearly 30 GW of power plants between 2008 and 2015. However, such plan has largely fallen behind, bringing instability in the power demand-supply balance in Vietnam.

Objective and Summary

The objective of the project is to achieve appropriate level of power demand-supply balance in Vietnam, by constructing 2 unit of 300 MW coal-fired thermal power plants. The power plant will be constructed in Thai Binh Province, northern Vietnam. The plant will be run by domestic coal in order to keep the production cost low. It will also contribute to the efficient power supply by constructing power plant in the demand area, reducing long-distance power transmission. The project will further contribute to reduce high dependency on a particular source of power, namely, hydroelectric power, currently accounts for 37 percent of the total power production in the country.

The ODA loan will be used for procurement of goods and civil works related to the construction of power plant and transmission lines, procurement of consulting services and civil works related to the construction of facilities which will commonly be used by another power plant to be constructed nearby.

Possible cooperation may be sought with existing technical assistance on the capacity building related to O&M of the power plant and technical and safety standards of the power station.

Executing agency: Vietnam Electricity (EVN)

Address: 18 Tran Nguyen Han Street, Hoan Kiem District, Hanoi, Vietnam

Phone: +84 (4) 2220-0977, fax: +84 (4) 2220-1386

Planned implementation schedule

(1) Completion of project: May 2015, with operation of the installed thermal power plant

(2) Issuing of letters of invitation for consulting services: January 2010

(3) Tender announcement for initial procurement package for international competitive bidding on project work:

Procurement package title: Engineering Procurement Construction Package

Public announcement: April 2011

(4) National Highway No. 1 Bypass Road Construction Project (II)

Background and Necessity

The transportation system in Vietnam is chiefly dependent on road transportation as it carries 90 percent of all passengers and 70 percent of all freight. Of the total 240,000 km of roadway in Vietnam, only about 40,000 km of 17 percent are national and provincial roads, which play a vital role as the main thoroughfares connecting major cities, so that the interurban road network is inadequately developed. Budget constraints have left roads (many damaged by war) inadequately maintained and repaired. As the number of registered vehicles rapidly increases in step with economic development, improper road maintenance has become a hindrance to transportation.

National Highway No.1, which runs the length of the country from the northern border with China to Nam Can in the south, is a critical trunk road for Vietnam, which the government of Vietnam placing its improvement the highest priority in road sector. National Highway No.1 is interrupted at the crossing of the Hau Tributary of the Mekong River and ferries are being used for the section instead, which causes traffic problems, particularly when weather conditions affect the ferry service.

Objective and Summary

The objective of the project is to meet the transport demand and develop efficient distribution system in Cuu Long (Mekong) Delta through construction of bypass roads in National Highway No.1 at the section of 170km from Ho Chi Minh City, which is the largest economic area in Vietnam, leading to a bridge (currently under construction) that will cross the Hau Tributary, thereby contributing to promote socio economic development and competitiveness of Vietnam in global economy.

The Japanese ODA Loan will be allocated to the construction works, procurement of equipment and materials and consulting services. The first phase of the project was also funded by a Japanese ODA loan in March 2001.

Executing agency: My Thuan Projects Management Unit (PMUMT), Ministry of Transport

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Phone: +84 (8) 3841-3545, fax: +84 (8) 3841-1872

Planned implementation schedule

(1) Completion of project: March 2010, with operation of the constructed road

(2) Consulting services: (already selected)

(3) Tender announcement for initial procurement package for international competitive bidding on project work:

(Contracts have been already concluded)

(5) Small-Scale Pro Poor Infrastructure Development Project (III)

Background and Necessity

The poverty rate in Vietnam declined from 37.4 to 16.0 percent during the 9-year period from 1998 to 2006 due to the high economic growth that accompanied the transition to a market economy. However, whereas the urban poverty rate declined significantly to 3.9%, the poverty rate in rural areas, where 90% of the poor are concentrated, still remains high at 20.4%. Thus, the economic disparity between urban and rural areas is expanding. Factors in the expansion of this disparity include the fact that, in many cases, the rural poor live in areas that are geographically disadvantaged because they are prone to natural disasters, and in addition, feature poor living environments and fragile infrastructure. In addition to the limitations on expansion of farming activities due to the geographical features of these areas (mountains and remoteness), the reason for the poverty is considered to be the limited access to growth opportunities and limited benefit from the effects of growth during the high economic growth period of the 1990s due to their limited access to infrastructure and susceptibility to the impact of natural disasters. In these rural regions, a major issue is thus improving access to markets and public services by providing infrastructures and raising agricultural productivity.

Objective and Summary

Under the Small-Scale Pro Poor Infrastructure Development Project, certain provinces has been selected based on poverty indices and other factors, and small-scale infrastructures consisting of rural roads, rural electrification, rural water supply system, and rural irrigation system will be upgraded and constructed. The better access to market, improved power and water services, and irrigation infrastructures is expected to increase the agricultural productivity, contributing to poverty alleviation. A pilot project will be carried out to seek a community development model that benefits the rural poor by increasing capacity of agricultural production through comprehensive infrastructure development.

The ODA funds will be allocated to public works, to the procurement of equipment and materials, and to as consulting services.

Executing agency: Ministry of Planning and Investment

Address: 2 Hoang Van Thu, Hanoi, Vietnam

Phone: +84 (8) 044-426, fax: +84 (4) 823-4453

Planned implementation schedule

(1) Completion of project: October 2013, with operation of the developed infrastructure

(2) Issuing of letters of invitation for consulting services: March 2010

(3) Tender announcement for initial procurement package for international competitive bidding on project work:

In this project, no bidding is expected to be made for the main construction, however, procurement activities will be held for the sub-projects to be implemented in targeted local provinces.

(6) Eighth Poverty Reduction Support Credit with Economic Stimulus Support

Background and Necessity

Since the doi moi reform policy of 1986, the Vietnamese government has advanced a policy of openness to foreign business, and has promoted economic growth while alleviating poverty through integration into the international economy. This has resulted in the country maintaining a high gross domestic product (GDP) with a real growth rate around seven percent. The poverty ratio for the total population (approximately 83 million) has dropped from 37.4 percent in 1998 to 16.0 percent in 2006. While dealing with the issues of economic disparity and the environment conservation on the one hand and maintaining the economic growth on the other, the Vietnamese government has the additional difficult task of implementing a variety of reforms as per its international pledge to the World Trade Organization, which Vietnam officially joined in January 2007. With the entire world plunging into recession due to the current financial and economic crisis, the real GDP in Vietnam has decelerated to 3.9 percent for the first half of 2009, bringing pressure to quickly implement measures to stabilize the macro-economy and create employment.

Objective and Summary

Under the Eighth Poverty Reduction Support Credit with Economic Stimulus Support, financial support will be provided for the reforms being advanced by the Vietnamese government, particularly: investment including that in infrastructure, enhancements to the private sector development, public financial management, planning process, environmental management, fighting corruption, and financial sector and state sector reforms. This will assist Vietnam in achieving the following policy objectives of its eighth Five Year Socio-Economic Development Plan of 2006-2010 (the 8th SEDP):

- (1) Promoting growth and the transition to a market economy
- (2) Reducing poverty and ensuring social inclusion
- (3) Managing the environment and natural resources in a sustainable manner
- (4) Building the institutions that support the strategy [of SEDP]

These policy issues include items in the Japan-Vietnam Joint Initiative, an effort between the government and private sectors in Japan and Vietnam for outlining specific action plans required to bolster the investment climate in Vietnam; also, the reforms of this project are significant for Japanese companies.

With the global financial and economic crisis, Vietnam cannot easily take steps such as tax reductions to expand the domestic demand. By providing the financial assistance to encourage the economic stimulus policies the government is promoting, this project will not only contribute to sustainable development in Vietnam, but assist as well in the economic growth of other developing countries (primarily in Asia), further supporting the international economy. This project is a part of the first effort to apply the emergency budget support Japanese ODA loans announced by Japan in the April London Summit, and the portion of the financing required to implement the necessary economic policies will be provided at adjustment interest so that these loans can be provided in a flexible manner.

Executing agency: State Bank of Vietnam
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Phone: +84 (4) 934-3361, fax: 84 (4) 825-0612

Planned implementation schedule

- (1) Completion of project: December 2009, with completion of disbursement
- (2) Issuing of letters of invitation for consulting services: No consultant will be hired under this program.
- (3) Tender announcement for initial procurement package for international competitive bidding on project work:
No actual construction work will be implemented under the program.