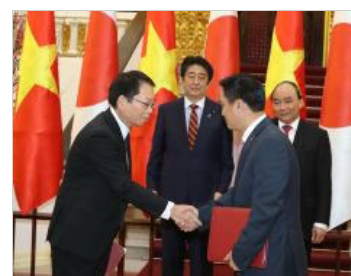


Signing of Japanese ODA Loan Agreements with Vietnam: Support for improving policy and institutional framework to enhance international competitiveness and to respond to climate change

On January 16, the Japan International Cooperation Agency (JICA) signed loan agreements with the Government of the Socialist Republic of Vietnam to provide Japanese ODA loans of up to a total of 21 billion yen for assistance for two projects.

Since the 1990s, Vietnam has maintained steady economic growth (see reference 1). By 2010, Vietnam achieved status as a lower middle-income country, which had been a national goal, while drastically reducing its poverty rate.* Tariff barriers were abolished within the ASEAN region in 2015, and while progress is being made toward industrialization goals, Vietnam must make economic structural and governance institutional reforms, including improvements to the financial system, as well as developing infrastructure that improves the investment environment, to provide mid- to long-term macroeconomic stabilization and strengthen international competitiveness. Vietnam must also raise the income of rural residents who make up about 70 percent of the country's population and have a higher poverty rate than urban regions, improve public sanitation which has worsened with rapid urbanization, and address vulnerabilities to the effects of climate change.



signing ceremony

With such circumstances, these ODA loans will support policy and institutional improvements with financial assistance and policy dialogue to both strengthen international competitiveness and address climate change. The features of the two projects are summarized below.

(1) Support for strengthening international competitiveness through policy and institutional reforms

Economic Management and Competitiveness Credit (III) is assistance for supporting the reliable execution of policy and institutional reforms, including stabilizing the financial sector, strengthening fiscal discipline, reforming governance, improving the management of state-owned enterprises, improving public investment and streamlining administrative procedures through financial support and policy dialogue, to strengthen the international competitiveness of Vietnam's economy, and cofinancing from the World Bank and others is planned.

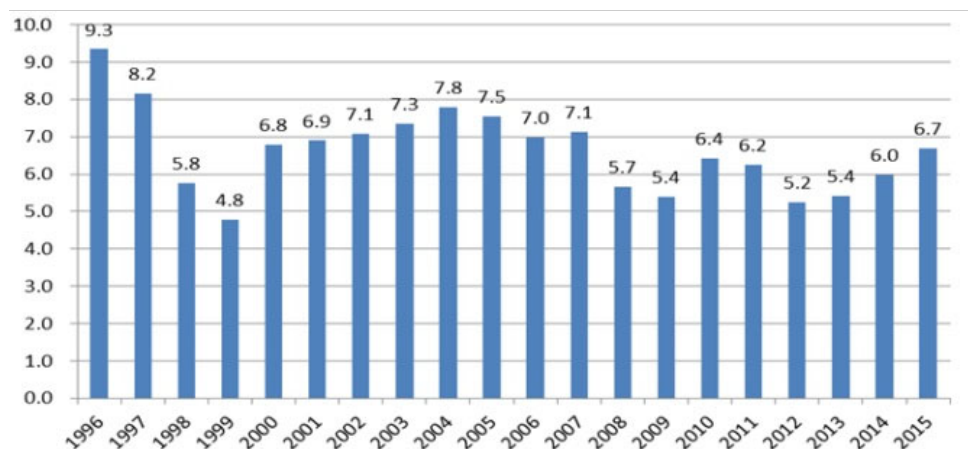
(2) Support to fight climate change toward overcoming vulnerabilities

The Support Program to Respond to Climate Change (VII) will provide support for mitigating and adapting to climate change and for solving cross-sectoral issues through financial support and policy dialogue in Vietnam, one of the world's most susceptible countries to the effects of climate change.

JICA's policy is to dynamically implement projects that address development issues in Vietnam while coordinating JICA's various types of assistance, which include Japanese ODA loans, technical cooperation and grant aid.

* According to the "Vietnam Living Standards Survey" by the General Statistics Office, the poverty rate in Vietnam dropped from 37.4 percent in 1998 to 8.4 percent in 2014. (Source: "Country Report: 15 years achieving the Viet Nam Millennium Development Goals" by the United Nations Development Programme.)

Reference 1. Growth Performance of Vietnam



Real GDP Growth Rate (%)

Source: Based on the IMF World Economic Outlook Database

Reference 2. Terms and Amounts of Loans

Project title	Amount (million yen)	Annual interest rate (%/year)		Repayment period (years)	Grace period (years)	Procurement
		Project	Consulting services			
(1) Economic Management and Competitiveness Credit (III)	11,000	1.4	-	30	10	General untied
(2) Support Program to Respond to Climate Change (VII)	10,000	0.3	-	40	10	General untied

Notes:

Preferential terms for environmental and climate change considerations apply to project 2.

To ensure fairness and competitiveness in the procurement process, the Government of Vietnam and JICA will consult and specify items for which Vietnam will implement post-project monitoring by a third party agency. The expenses for this monitoring are not included in the Japanese ODA loan.

(1) Economic Management and Competitiveness Credit (III)

Background and Necessity of the Project

Between 1990 and 2010, the average GDP growth rate of Vietnam exceeded 7.0 percent per year, and while this subsequently dropped for a few years when there was a focus on macroeconomic stability, Vietnam again achieved firm economic development in 2015 with a GDP growth rate of 6.7 percent. As another indication of economic development in Vietnam, the per capita GDP exceeded 1,000 dollars in 2010, establishing Vietnam as a lower middle income country, and then grew beyond 2,000 dollars in 2014. In addition, the poverty rate dropped from 49.2 percent in 1998 to 3.2 percent in 2012.

Such factors notwithstanding, there are concerns that industrial productivity is stagnating, primarily in labor-intensive industries that have supported such economic growth. Competition is expected to increase within the ASEAN region due to the abolition of tariffs there and for trade with China, and the economic rise of lesser-developed ASEAN countries, such as Laos, Cambodia and Myanmar. The elimination of the tariffs became fully effective in 2015 (except those for certain goods which will be delayed until 2018) with the establishment of the ASEAN Economic Community (AEC) in 2015 and in conjunction with the economic rise of lesser-developed ASEAN countries.

To strengthen international competitiveness, Vietnam must wean itself off of its labor-intensive industrial structure, and improve the added value of industry. Although short-term improvements are being made, Vietnam has structural macroeconomic issues, such as a constant trade deficit, depreciation of its currency, inflation, inadequate foreign currency reserves and a fiscal deficit. To strengthen international competitiveness and achieve economic growth while stabilizing the macro economy over the mid- to long-term, Vietnam needs to convert its industrial structure, as well as making fundamental economic structural reforms and improvements to its governance organization, including strengthening public fiscal management, improving its vulnerable financial system and streamlining the administration of state-owned enterprises.

Objective and Summary

This program will support the reliable execution of stabilization to the financial

sector, improvements in fiscal discipline, reform to governance, management improvements for state-owned enterprises, improvements to public investment, and the streamlining of administration procedures through financial support and policy dialogue. Through these measures, economic management and competitiveness will be strengthened in Vietnam, contributing to sustainable growth and poverty reduction.

The first two phases of Economic Management and Competitiveness Credit were also financed by Japanese ODA loans in the amount of 15 billion yen each in March 2013 and 2014, respectively. Economic Management and Competitiveness Credit (III) is the third phase of the program and will provide backing for further efforts by the Government of Vietnam based on a favorable evaluation of policy and institutional reforms implemented between February 2014 and December 2015. During execution of this program, JICA is also providing assistance for policy and institution formulation and strengthening execution through technical cooperation and grant aid for the policy and institutional reforms supported by this project.

This project will be co-financed by the World Bank and other organizations. The financing will be allocated in foreign currency to the settlement funds required for the import of general commodities.

Executing Agency

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Planned Implementation Schedule

- (i) Completion of project: March 2017– when the final loan disbursement is made
- (ii) Issuing of letters of invitation for consulting services: No hiring of consultants is planned for this project.
- (iii) Tender announcement of initial procurement package for international competitive bidding on project construction: No work in conjunction with tendering procurement is planned for this project.

(2) Support Program to Respond to Climate Change (VII)

Background and Necessity of the Project

Accompanying rapid economic growth, Vietnam has seen its energy consumption increase 2.8 times between 1995 and 2011 along with the second-largest increase in greenhouse gas emissions among ASEAN countries. Developing and promoting renewable energy, encouraging energy savings, curbing the decrease of forestland and other countermeasures that reduce greenhouse gas emissions are therefore priorities.

With a long coastline extending some 3,400 kilometers and home to vast delta regions, Vietnam is one of the world's most susceptible countries to the impacts of climate change. A rise in the sea level of one meter, for example, would inundate 40 percent of the Mekong Delta and 11 percent of the Red River Delta, resulting in a loss of an estimated 10 percent of the country's gross domestic product. There is concern that an increase in the frequency and severity of natural disasters that come with climate change will be a grave risk to sustained development in Vietnam.

Objective and Summary

This project will provide support to the Government of Vietnam, including financial support and policy dialogue support for climate change countermeasures to: 1) mitigate the impacts of climate change by increasing greenhouse gas absorption and curbing its emissions, 2) strengthen the capacity to adapt to the adverse impacts of climate change, and 3) address cross-sectoral challenges relating to climate change. While alleviating climate change, this will contribute to sustainable economic development by lowering the risk of natural disasters in the country accompanying climate change.

This project has been provided ODA loans in the amounts of 10 billion yen in June 2010 for the first phase, 10 billion yen in November 2011 for the second phase, 15 billion yen in March 2013 for the third phase, 10 billion yen in March 2014 for the fourth phase, 15 billion yen in March 2015 for the fifth phase, and 10 billion yen for the sixth phase in March 2016.

The seventh phase has been approved based on the evaluation result of

accomplishments made by the Government of Vietnam between January and December 2015 in implementing policy actions for climate change mitigation and adaptation in cross-sectoral fields for backing further climate change countermeasures by the Government of Vietnam.

The financing will be allocated in foreign currency to the settlement funds required for the import of general commodities.

Executing Agency

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Planned Implementation Schedule

- (i) Completion of project: March 2017 – with completion of the loan disbursement
- (ii) Issuing of letters of invitation for consulting services: No hiring of consultants is planned for this project.
- (iii) Tender announcement of initial procurement package for international competitive bidding on project construction: No work in conjunction with tendering procurement is planned for this project.