

Japan News

JAPANESE ASSISTANCE TO VIETNAM

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Japan's New Country Assistance Program for Vietnam finalized

On April 28, Japan's new Country Assistance Program for Vietnam was approved by the Council of Overseas Economic Cooperation-Related Ministers. The new program is a revision of the previous Country Assistance Program for Vietnam adopted in 2000, and it will serve as a basic policy for future Japanese assistance here.

Unlike the previous program, which was drafted under the leadership in Tokyo, the new Country Assistance Program was formulated mostly under the leadership of the Japan's ODA Task Force (Japan Team) established locally. Since the summer of 2002, the Japan team made up of the Embassy of Japan and local offices of JICA, JBIC, and JETRO worked and cooperated for the creation of a "new age" Country Assistance Program. The team also kept close contact with related offices and personnel in Tokyo, including Professor Kenichi Ono, a member of the Board on Comprehensive ODA Strategy. In addition, the Japanese team engaged in successive discussions with the Vietnamese government, and held frequent opinion exchanges with related donors and agencies. In this way, the team advanced its work while maintaining the maximum transparency of Japan's aid policy and gaining the complete understanding of others.



(Three characteristics of Japan's New Country Assistance Program)

Alignment to the Vietnamese Development Vision

The new Country Assistance Program aligns itself to the development vision of Vietnam, and it stipulates three important pillars: "promotion of growth", "improvement of living and social conditions", and "institution building". Incorporated into these three pillars is an approach whereby Japan will tackle both economic growth and poverty reduction in Vietnam. Although Japanese assistance is sometimes mistakenly believed to have set priority in economic growth, the truth is that Japan has always been the top donor in Vietnam not only in assistance for large-scale infrastructure through loans, but also in grants that are directly addressed to improvement of social and living conditions. The new Country Assistance Program reconfirms that Japan will continue to pour its efforts into assistance for both areas. It should be noted that these three pillars correspond to priority challenges set in the Vietnamese government's development vision, which is presented in CPRGS. This is a clear indication of Japan's posture of providing assistance by respecting the ownership of the Vietnamese government.

Dialogue-based approach

The new program incorporates a shift toward dialogue-based project formation and selection that goes beyond the "request-based" approach used heretofore. Prior to the submission of project requests from Vietnam, a policy dialogue meeting is held where the medium-term aid vision for individual sectors is discussed. Through this dialogue, Japan's aid policy is presented to the Vietnamese side, and coordination between Vietnam's development policy and the aid policy of Japan would ensure that Japanese assistance is utilized to its full potential within Vietnam's development strategy. Such a dialogue is designed to support Vietnam's ownership for the project and enhance partnership between the two countries.

Linkage between size of ODA and institution/policy environment

The program clearly identifies five items that will be considered in deciding the scale of assistance. These five items are: 1) Japan's bilateral relationship with Vietnam, 2) development needs in Vietnam, 3) institution and policy environment in Vietnam, 4) Vietnam's aid absorption capacity, and 5) the situation related to "principles for aid implementation" in Japan's ODA Charter. Thus, after evaluating the conditions and level of achievement of these items, the results of evaluation are shared with the Vietnamese side and, while gaining a commitment from the Vietnamese side to take necessary measures, qualitative orientation of the size of assistance will be examined. Hereby, the Country Assistance Program is devised to secure effectiveness in development aid by embedding "institution and policy environment" as an item to be considered, and to ensure Japan's active participation in improving the institution and policy environment in Vietnam.

Strengthening Policy Dialogue

In order to move toward steady and practical application of this new Country Assistance Program, it will be necessary to change its traditional way of managing assistance. The key to doing this is to strengthen policy dialogue.

Traditionally, annual consultative meetings between Japan and Vietnam have been organized by respective aid schemes with a focus on the selections of new projects, rather than sectoral policy issues. From now on, policy dialogues should be carried out in a crosscutting manner that covers all aid schemes, and much time should be devoted to discussions of sectoral and cross-cutting policy issues.

In order to transform this idea into concrete actions, from May 2004, Japan team in Vietnam and concerned ministries of Vietnamese government initiated "field-level sector dialogues" with a view to discussing medium-term aid visions for individual sectors. Following this field level dialogues; a mission from Tokyo will come to Vietnam in order to discuss crosscutting policy issues.

Through these policy dialogues, Japan intends to implement more effective aid that matches the development vision of the Vietnamese government, in line with the new Country Assistance Program.

- Embassy of Japan, JBIC, JICA, JETRO

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The Japan-Vietnam Joint Initiative Action Plan

The action plan for the Japan-Vietnam Joint Initiative to Improve the Business Environment was compiled and submitted to the leaders of both countries in December of 2003.

It is now in a follow-up and implementation stage. Through its implementation, it is hoped that the Japan-Vietnam Joint Initiative will contribute to economic growth in Vietnam by improving the investment environment, creating a level playing field, and accelerate private sector development.

The Initiative was triggered when Japanese Ambassador to Vietnam Norio Hattori proposed work with a view to dramatically improve the investment environment in Vietnam. Then, in April 2003, Vietnamese Prime Minister Phan Van Khai agreed, in his talk with Japanese Prime Minister Junichiro Koizumi, to establish the Japan-Vietnam Joint Initiative during his visit to Japan. Based on this agreement, a Joint Committee was formed of representatives of the Vietnamese and Japanese governments and Japanese business community. Then, the work began to prepare a report and action plan for the Initiative. After concentrated activity over eight months, a report containing an action plan with 44 items of concrete action was approved at the third meeting of the Joint Committee, held on December 4 in Hanoi.

The action plan clarifies current problems in the business environment in Vietnam (which were identified through interviews with investors), and presents altogether 44 items as specific responses to these problems (see Box of page 3). Thus, it is expected that, if actions on these 44 items proceed according to the plan, problems in Vietnam's investment environment will be largely improved and a better business environment will be created.

Many of the 44 items are related to the international business community. Business people from various countries showed considerable interest when the action plan was presented by Japan and Vietnam at the Vietnam Business Forum in December 2003. These processes have resulted in shared and wide-ranging understanding that the Initiative benefits FDI not only from Japan but also from all countries, and that it will have a comprehensively positive effect on development in the private sector.

ACHIEVEMENTS ALREADY MADE

The following are examples of recent policymaking in Vietnam that is in line with the Japan-Vietnam Joint Initiative's action plan. The examples show that actual and specific results are already being generated by the Initiative.

• Reform of the land law

The National Assembly passed a land law reform bill in November last year. This bill allows transfer of land use rights and assets that are attached to the land, provision of collateral to financial institutions, etc., through lump-sum payment of loan-term land rental fees.

Although the decision to take this step was made prior to adoption of the action plan on December 4, 2003, it was incorporated into the plan because the Japanese side had been pressing the Vietnamese government to make improvements in this area in discussions leading up to the Japan-Vietnam Joint Initiative. The follow-up on the steady implementation of reformed law is expected to take place within the framework of the Initiative.

• Lower Personal Income Tax

In March 2004, the Vietnamese government lowered the maximum individual income tax rate from 50% to 40%. This will improve the business environment for representatives of overseas companies doing business in Vietnam.

• Abolition of restrictions on overseas asset management by financial institutions

In March 2004, the Vietnamese government decided to allow foreign banks and joint venture banks to

freely manage their funds in overseas financial institutions. Through this, foreign banks can engage in wide-ranging fund management using their own assets, without limitation on activity in Vietnam.

FOLLOW - UP MEASURES

Follow-up for the Japan-Vietnam Joint Initiative's action plan will occur in the following four areas.

• **First**, a framework will be set up whereby a Monitoring Committee will meet once every six months, and an Evaluation and Facilitation Committee will meet once a year to see if the Vietnamese side has made proper progress under its commitments in the action plan.

• **Second**, information related to the efforts made by Vietnam will be disseminated both inside and outside the country. In March 2004, a workshop on the Japan-Vietnam Joint Initiative was held in Osaka, Japan. At this workshop, which was attended by Vietnamese Deputy Prime Minister Pham Gia Khiem, Vietnam explained that it is serious in its effort in improving the country's investment environment. Furthermore, Japanese Ambassador Norio Hattori explained to the audience of Japanese companies how the Initiative is improving the investment environment and how investment is expected to grow considerably.

• **Third**, proactive study will be made with a view to make use of Japan's ODA to support the action plan. The application of Japanese ODA to support Vietnam's efforts to improve the investment environment is one of the pillars on which the Japan-Vietnam Joint Initiative is built.

• **Fourth**, appropriate items will be incorporated into the policy action program of the World Bank's PRSC3. The World Bank has supported Vietnamese government reform through PRSC 1 and 2, and Japan is currently examining co-financing with other donors for PRSC3. The idea here is to support economic reform in Vietnam by incorporating related items of the Initiative into PRSC action items.

- Embassy of Japan, JBIC, JICA, JETRO



The monitoring Committee meeting for Japan-Vietnam Joint Initiative

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Co-financing for Third Poverty Reduction Support Credit (PRSC3)

The World Bank and other donors are reviewing the contents of PRSC3, and since last year, Japan has been participating in preparation process towards co-financing PRSC3. PRSC is a policy loan, co-financed by multiple donors, to support the implementation of Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The first and second credits (PRSC1 and 2) were approved in June 2001 and June 2003 respectively by the World Bank's Board.

Japan's intentions in this area are outlined in its New Country Assistance Program in Vietnam, which states that Japan shall actively involve in "institution building and policy reform". When PRSC3 co-financing in Vietnam is realized, it will represent Japan's first venture into PRSC co-financing anywhere in the world.

In preparing for PRSC3 co-financing, Japan put emphasis in two areas of priority and interest: public financial management and improvement of business environments. Japan thus provided comments to raise following issues in these areas and to reflect them into the PRSC3 policy action program.

Better Public Financial Management

In the area of public financial management, Japan proposed that efforts be made to reinforce resource allocation mechanisms, whose importance was identified in discussions on incorporating the role of large-scale infrastructure into Vietnam's CPRGS (expansion of CPRGS). Specifically, appropriate evaluation of large-scale infrastructure projects should be strengthened based on investment efficiency, etc. Then, effective mechanisms for coordination within the Vietnamese government should be established to strengthen coordination between capital and recurrent budget and to improve operation and maintenance.

Improving Business Environment

In improving business environments Japan made proposals in the areas of private sector development, legal development, and public administration reform, while making use of results achieved through the Japan-Vietnam Joint Initiative. Specifically, various barriers for foreign investors should be eliminated in order to ensure a level playing field in private sector development.

In the area of legal development, a prior consultation mechanism with relevant stakeholders should be established during the promulgation and reform process of legal documents in order to secure stability and transparency in the legal system. And, in the area of public administration reform, clear rules and guidelines should be formulated for administrative procedures.

Active Participation

In coordination with the World Bank, Japan has

been leading the co-financiers on issues pertaining to integration into the international economy/trade liberalization, financial sector reform, private sector reform, and infrastructure. Japan has also participated in discussions with the line ministries in the Vietnamese government and played an active role in the program formulation process.

In addition to project assistance, Japan intends to utilize PRSC-type aid modalities to support development and reform efforts of Vietnam in order to implement further effective aid.

- Embassy of Japan, JBIC



Japan-Vietnam Joint Initiative Action Plan (Excerpts)

- ❖ **Development of Supporting Industry (Item 1)**
 - ✓ Formulation of a Master Plan for supporting industry development
 - ✓ Development of industrial parks particularly for supporting industry development
 - ✓ The application of CEPT when EPZ and EPE companies sell their products in the domestic market on the condition that the products meet the requirements of CEPT.
- ❖ **Improvement of Personal Income Tax (PIT) (Item 3)**
 - ✓ Reduction of the maximum tax rate [The ordinance on PIT was amended in March 2004 and the maximum tax rate was lowered from 50% to 40%]
 - ✓ Introduction of deduction system of PIT suitable for Vietnam. The Law on PIT to the National Assembly in planned in 2006 submission.
- ❖ **Deregulation for foreign trading companies (Item 7)**
 - ✓ The number of trading commodities should be increased and the rule of import-export balance should be less restrictive. Currently the number of commodities to be imported is very limited. The amendment of the law on commerce is to be submitted to the National Assembly in early 2005.
- ❖ **Removal of restrictive investment rules (Item 8)**
 - ✓ Elimination of 80% export requirement. It will be eliminated, except for some items such as beer, cigarette and NPK fertilizer, by the time the Investment Agreement between Japan and Vietnam becomes effective. The requirement of 80% is currently applied to 14 items.
 - ✓ Elimination of the unanimous rule of board of directors by the time the Investment Agreement becomes effective.
 - ✓ Local contents requirement and double price system will be eliminated by the time the Investment Agreement becomes effective.
- ❖ **The land law (Item 11)**
 - ✓ All FDI companies may obtain land use right with a lump-sum payment.
 - ✓ Land use right and attached assets which have been leased with a lump-sum payment may be leased, used as investment in kind or may be mortgaged for loans from credits institutions lawfully operating in Vietnam.
- ❖ **Elimination of import plan registration for parts and raw materials (Item 12)**
 - ✓ It may be eliminated within two years.
- ❖ **Promotion of technology transfer (Item 13)**
 - ✓ Elimination of the ceiling on the value of technology transfer agreement (currently it is 5% of turnover) applied for private companies (local private and 100% foreign invested companies) within one year.
 - ✓ For state-owned enterprises, deregulation measures will be taken to move towards the elimination of the restriction of the 5%.
 - ✓ Elimination of ceiling on the period of technology transfer agreement may be proposed at the following revision of the Civil Law.
- ❖ **Elimination of capital requirement (Item 17)**
 - ✓ Minimum capital requirement (Currently it is 30% of total investment capital, and reduction of the capital is not permitted) may be revised (in the next amendment of Foreign Investment Law).
- ❖ **Enforcement and protection of intellectual property right (Item 22)**
 - ✓ Strengthening of the committee 127 (guiding and supervising all activities concerning intellectual property right and informing results of investigation on infringements on the investors requests.)
 - Implementation of campaign for IPR protection [as soon as possible]
- ❖ **Strengthening the legal enforcement (Item 26)**
 - ✓ Ensuring prompt and proper response to investors' inquiries on legal matters by creating a window at concerned ministries/agencies, and local Peoples Committee
- ❖ **Other items**
 - ✓ Capacity building (costumes, tax office)
 - ✓ System improvements (accounting system and economic statistics)
 - ✓ Infrastructure improvement (urban transport, transport, electricity, telecommunications and waste management)

JAPAN'S ODA TO VIETNAM

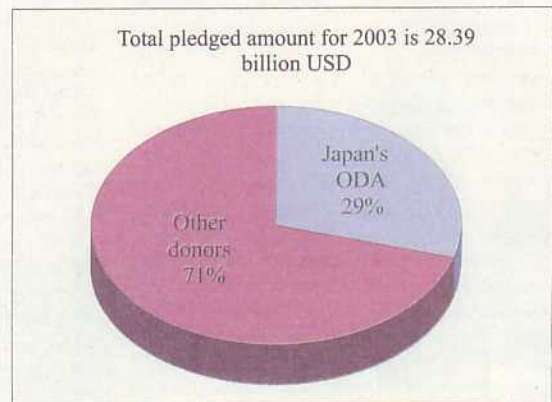
Japan has committed 837 million USD for the fiscal year of 2003

Japan resumed its ODA to Vietnam in 1991. Total amount of Japanese ODA to Vietnam from 1991-2003 is 1,015.5 billion yen. It includes 885 billion yen (loan), 76.1 billion yen (grant aid) and 54.5 billion yen (technical cooperation).

Japan's ODA (commitment) in fiscal year 2003 was 91.7 billion yen (about 837 million USD) and it shares 29.5% of total ODA of all donors in Vietnam. It includes 79.3 billion yen (about 723 million USD) of loan and 12.4 billion yen (about 113 million USD) of grant aid.



Japan's share in total ODA to Vietnam



The primary school built in Bac Giang Province with the Grant Assistance for Grass-roots Human Security Project, aiming to improve the educational environment in northern mountainous region of Vietnam.

Participatory Poverty Assessment in Nghe An Province

Development of PPA in Vietnam

The report on Participatory Poverty Assessment (PPA) in Nghe An Province, which was implemented by the Institute of Sociology (IOS), was completed in January 2004 with assistance from JICA.

The poverty rate in Vietnam improved markedly through the 1990s from 58% to 37% and the Vietnamese government is currently working to further reduce poverty. In 2002, the Vietnam Household Living Standards Survey (VHLSS) was implemented, which clarified actual poverty conditions in quantitative form. However, in the effort to further promote effective poverty reduction, it is essential to understand the situation in terms of qualitative aspects; i.e., to understand needs by listening to impoverished people directly. In order to do this, the PPA was implemented in the summer of 2003 as a Poverty Task Force activity. The PPA, which was conducted jointly by donors and NGOs, targeted 13 provinces and 43 communes throughout Vietnam. Among them, JICA was responsible for Nghe An Province. The results of the assessment are expected to be compiled into 13 provincial reports and 8 regional reports.

Overview of Nghe An Province

Nghe An Province is the largest in Vietnam in terms of area (16,370 km) and it stands third in terms of population (2.8 million people). Although the province has gained substantial achievements in poverty alleviation for the last decade, it is classified as one of the poor provinces with severe climate, poor socio-economic development, slow growth rate and its mountainous location. Its Human Development Indicator ranks it 26th in the country (UNDP, 2001).

Tuong Duong, one of the poorest districts in the province where ethnic minorities live in mountainous areas, and Nghi Loc, which is located on a plain along the coast, were selected as the target districts for this poverty assessment.

Findings from the Nghe An PPA

According to the results of the assessment, which were mainly based on interviews and focused group discussions, about 80% of non-poor households and half of poor households indicated that they sense their living standards are improving. Reasons mentioned for this include improved access to markets, better agricultural policies, improved access to agricultural financing and agricultural extension services, promotion of livestock breeding and aquaculture, and improvement of infrastructure. Although the benefits of this have contributed to better educational opportunities for children, benefits for women remain low compared to men. Furthermore, approximately 6% of impoverished residents feel their lives have worsened.

JICA's Assistance to Nghe An Province

Since 1997, JICA has been implementing a reproductive health project in Nghe An Province with the cooperation of JOICEF (Japanese Organization for International Cooperation in Family Planning), a Japanese NGO. The project aimed to realize an environment, with better facilities and better quality of services of Commune Health Center, in which rural women could safely give birth. All 19 of the districts are targeted in the province. The results of the PPA will be also utilized to further improve this project's activities.

- JICA

The "Ogata Reform" and steps toward local initiative - JICA Vietnam is selected as a pilot office

JICA recently announced its plan for a major institutional reform aiming at strengthening its overseas program management. In this plan, the JICA Vietnam Office was selected as one of eight "pilot offices" adopting new business model. In principle, most of authority and responsibilities from project formulation to project implementation and evaluation will be transferred to the Vietnam office as a pilot model from

October 2004. When this model is fully realized, the office's capacity will dramatically increase with a view to meet the needs promptly and precisely. It is also expected that the office will contribute to the enhancement of the Japan's aid policy formulation to Vietnam by actively participating in the Japan's ODA Task Force (Japan Team), which is a field-based aid coordination mechanism among Embassy, JICA, JBIC and JETRO.

Ogata Reform and field-oriented management

Last October, JICA took a new step forward as an Independent Administrative Institution. Mrs. Sadako Ogata, the former UN High Commissioner for Refugees (UNHCR), was appointed as the new JICA president. Since taking office, Mrs. Ogata has put forward the concept of "field-oriented management" while promoting the



Trainers of training workshop organized by Reproductive Health Project in Nghe An Province

Voice of the poor

- excerpts from the Nghe An PPA report -

Use of loan

"Living standard is better than three years ago because the State has provided small loans. But on the other hand, they also owe large debts; if they sell their household appliances and other things to pay these debts, then they will become very poor."
(Male, aged 70, Nghi Thai commune)

Women's situation

"Men have enjoyed more benefits from development over the past three years. In contrast, women have to work harder because they have to bring up children and have more work to do."
(female, aged 40, Thai Binh)

Illiteracy

"As for the really illiterate people, there are deaf people who do not know how to hold pens. They went to class for some days, then felt disgusted and broke off study."
(female, aged 35, Thai ethnicity, Quang Yen village)

Educational socialisation

"Children from poor families often drop out of school. Poor students who don't have money to pay school fees, when they are reminded by teachers of payments and contributions to be made, feel embarrassed, disgusted and shy with their friends and just drop school."
(Aged 47, Thai ethnicity, Tam Dinh commune)

Agricultural extension

"After attending four training of agricultural extension programme, the people known how to apply the technique of planting of rice, ground nut, and Soya bean. Training in livestock raising has yielded results in the development of breeding cows and sows."
(Male, aged 46, in Thai Cat village)

Migration

"Many labourers in my village have gone to work in Ho Chi Minh City. Only a few of them come from poor households because working in production establishments requires good health and meeting a designated working age, while poor households often have small or ailing children who cannot go."
(Male, aged 37, in Thai Cat village)



Mrs. Ogata (President of JICA) visiting 5th Junior High school in Thua Thien Hue province

agency's restructuring with focus on significant transfer of authority and responsibilities to field offices.

JICA Vietnam Office's selection as a pilot office is part of this process. From this April, JICA Headquarters has introduced a "team system" in its organiza-

tion in order to enhance flexibility and mobility. Other remarkable changes include the reassignment of 200 staff from the headquarters to the field by the end of the fiscal year 2006 to undertake broadened field mandates.

- JICA



Time to Take Action: Enhancing Aid Effectiveness

Since the latter half of 2003, collaborative efforts by the Vietnamese government and the donor community toward enhancing aid effectiveness have been intensively going on. Included in this trend was the launching of the Partnership Group on Aid Effectiveness (PGAE) in January 2004 as a framework for regular discussion and crosscutting coordination

between Vietnamese government and donors on aid effectiveness issues. Furthermore, the "Vietnam Action Plan on ODA Simplification and Harmonization: 2004" was finalized as a comprehensive action plan for both the Vietnamese government and donors. The plan incorporates a variety of efforts intended to improve aid effectiveness, and a number of initiatives are currently underway. These include a plan entitled the "Comprehensive Capacity Building Program for ODA Management (CCBP)", promotion of alignment to the National Development Plans utilizing policy matrices initiative, elaboration of the "Discussion Paper on Budget and Sector Support"

(formulated through discussions by related donors based on an original proposal prepared jointly by Japan and the UK-DFID), and harmonization of procedures among the five banks and the Vietnamese government.

Japan has been actively involved and made a variety of contributions in joint work processes related to enhanced aid effectiveness through participation in the PGAE and so on. Japan is also making efforts to improve the efficiency and effectiveness of its own aid on a bilateral basis, called "Sit Down and Talk" initiative. This page outlines the progress of these efforts toward aid effectiveness.

- Embassy of Japan, JICA, JBIC

Progress of Harmonization of the Loan Procedures of the 5 banks

Together with the other members of the five banks (ADB, AFD, KfW, and the WB) and the Vietnamese government, JBIC has been continually working to harmonize procedures in the areas of procurement, financial management, environmental consideration and resettlement, and portfolio management. The objectives of this harmonization initiative are to reduce transaction costs for both the Vietnamese government and the five banks and to improve aid effectiveness.

The five banks plan to take a selective approach from feasible areas of harmonization that 1) greatly reduce transaction costs, 2) can produce tangible results in a short period of time, and 3) produce benefits for both banks and Vietnam. Following the CG meeting of December 2003, the five banks have been working toward harmonization in the area of "environmental safeguards". Based on a study conducted by the ADB, the five banks are engaged in a discussion on possibilities for harmonizing EIA practices. This involves a comparative examination of the environmental guidelines of the five banks and that of the Vietnamese government on their procedures and the extraction of commonalities and differences. Future discussions will look at specific means for achieving results based on the needs of the Vietnamese government.

In addition, in the area of harmonizing project preparations and feasibility studies (F/S), JBIC conducted a comparative analysis of its procedures and F/S form and content against those of the Vietnamese government. It is expected that, as a next step, work to establish a specific agenda for harmonization based on the JBIC analysis and the results of studies implemented by other banks will be carried out.

- JBIC



Coastal Communication System Project

Comprehensive Capacity Building Program for ODA Management

The "Comprehensive Capacity Building Program (CCBP) for ODA Management" will be announced at this mid-term Consultative Group meeting. It is expected that this program will serve to improve the disbursement rate of ODA projects.

The program will have three major elements:

- Improvement of Vietnamese government systems
- Improvement of project-type management skills
- Dissemination of knowledge of new ODA modalities

It has been pointed out that Vietnam needs to improve its ability for ODA absorption. At the same time, both the Vietnamese government and donors recognize that improvement of the ODA disbursement is a pressing issue.

At a workshop held in June of last year, the Vietnamese government noted how its ODA management capacity must be reinforced, and it proposed that a program toward this end should be carried out jointly by itself and donors. The theme of "capacity building" was taken up as an important topic of discussion at the mid-term CG meeting in June as well as at the Regional Aid Effectiveness Workshop that was cosponsored by Japan, the UK, and Vietnam in October. And, at the CG meeting in December, the Vietnamese government and donors presented a Joint Statement declaring that the CCBP would be formulated by the next mid-term CG meeting.

Japan has actively participated in the formulation of this program from the beginning. Through successive discussions at small-scale working groups and the Partnership Group for Aid Effectiveness (PGAE), Japan has been engaged in formulating the program together with the Vietnamese government and other donors.

In formulating and implementing the program, Japan puts particular emphasis on the following:

- Early improvement of the ODA disbursement rate
- Efforts toward not only training but also institutional improvement by the Vietnamese government (improvement of legal documents, etc.) should be dealt with as urgent issues so that full potential in terms of ODA efficiency and effectiveness can be displayed
- Early program implementation and gleaning of results are extremely important

Japan expects the Vietnamese government to show both ownership and leadership of the program so that capacity building in the country can be realized in a sustainable manner.

- Embassy of Japan, JICA, JBIC

Efforts to improve the effectiveness of Japans grant aid ("Sit Down and Talk")

While the efforts toward harmonization among the five banks are progressing in the area of loans, Japan (the Japanese Embassy and JICA) and the Ministry of Planning and Investment (MPI) are engaged in bilateral discussions (entitled the "Sit Down and Talk Initiative") intended to increase the effectiveness of Japan's grant aid.

The initiative, which is also included in the MPI's "Harmonization Action Plan", was launched under the recognition that there would be considerable room for reducing transaction costs and improving aid effectiveness on a bilateral basis in parallel with the harmonization of procedures among donors. The initiative is also positioned as a follow-up process of the JICA-implemented study "Donor Practices in Vietnam - Grant Aid and Transaction Costs" (March 2003). From September 2003 to May 2004, four plenary dialogue sessions and several informal meetings were held between MPI and Japan. In the course of these dialogues, MPI compiled and submitted a proposal to Japan suggesting concrete measures to improve its Grant Aid operations. As a result, MPI and Japan finalized a joint action plan to improve the effectiveness of Japan's grant aid starting from June 2004.

The joint action plan addresses the issues such as "strengthening dialogue", "information sharing on procedures", "improving transparency", "participation in project formulation and implementation", and "disclosure of project budgets". The plan will be announced at the Mid-term CG meeting in June and move on to the implementation stage, beyond the "sitting down and talking" stage.

Meanwhile, dialogue process will also continue so as to discuss the remaining medium-term issues such as "reducing and rationalizing missions" "improving volunteer operations" etc. Progress in implementing action plan as well as discussions on mid-term issues will be reported to the CG meeting in December 2004 with a view to sharing the lessons learned with the donor community.

- Embassy of Japan, JICA