

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)