

## (Private Sector Investment Finance)

### Ex-Ante Evaluation

#### 1. Name of the project

Country: Socialist Republic of Viet Nam  
Project: Utility Management for Industrial Parks and Water Supply Project (Private sector investment finance, loan project)  
L/A signed on: January 30, 2013  
Borrower: Vietnam Joint Stock Commercial Bank for Industry and Trade (VietinBank)  
Project Company: Thuan Dao Utility Management Company Limited, Phu An Thanh Utility Management Company Limited, and Ben Luc Water Supply Company Limited

#### 2. Background and necessity of the project

Vietnamese economy is rapidly expanding and industrializing, and accordingly new industrial parks are being developed. The country's manufacturing sector, one of the major pillars of growth, faces serious problems of environmental pollution, namely surface water, groundwater and soil pollution caused by inappropriate management of waste water discharged from factories and industrial parks. The underlying cause of the pollution is a lack of strict water quality regulations to control factories and industrial parks' industrial effluent treatment. The government of Viet Nam has been working to address the issue - for instance, its "five-year socio-economic development plan (2011-2015)" prioritizes industrial pollution prevention and proper use of water, and the government's designation of 17 "pollution industries" in 2009, which requires the designated industries in urban areas to relocate their operations to rural areas.

In the suburbs of Ho Chi Minh City where a number of industrial parks are situated, industrial parks are relocating to rural areas and nearby cities. In such a circumstance, Long An province located close to Ho Chi Minh City has been taking aggressive economic development initiative to develop local supporting industries through creation of eco-industrial parks. The province hopes to attract businesses including the "pollution industries"\* to the eco-industrial parks there. Long An has been actively inviting Japanese companies as well. Since the province's heavy dependence on groundwater for residential and industrial uses has been causing land subsidence, Long An prioritizes and promotes establishment of effective water supply system using surface water. Simultaneously, it also promotes to increase water supply for residential use.

Japan's "Country Assistance Program for Viet Nam" indicates that to address the issues of environmental management under rapid economic growth and accelerated urbanization, Japan's assistance focuses on developing facilities related to water quality management, water supply, wastewater and sewage treatment and solid waste management. This project provides eco-industrial parks and water supply companies in Long An province with utilities and water supply systems using surface water to alleviate environmental deterioration in the province. Accordingly,

this project is relevant to the government of Viet Nam's policy and Japan's assistance policy and is highly necessary.

\*Note: Currently, local governments are generally reluctant to accept the "pollution industries", and concern arises over decline in many related industries that support the country's industrialization. Very few local governments, except for Long An province's, are willing to provide these "pollution industries" with positive investment environment.

### **3. Overview of the project**

#### (1) Objective

This project aims to assist promote environmental preservation around the industrial parks and attract/increase private sector investment and new businesses including the government-specified 17 "pollution industries" (many of which are a viable base for the manufacturing sector) and Japanese companies to the industrial parks there, thus contributing to improvement of commercial base in the south of Viet Nam and sustainable economic growth. To achieve this goal, this project provides loans to help develop facilities to supply utility services (supply of electricity and effluent treatment) in eco-industrial parks in Long An, Viet Nam.

Furthermore, the project helps build facilities with surface-water supply systems in the eco-industrial parks to improve the province's water supply capacity and preserve environment, thus contributing to improvement of commercial base in the south of Viet Nam and sustainable economic growth

Simultaneously, by providing technical assistance related to these efforts, JICA aims to assist develop the eco-industrial parks in which Japanese small and medium-sized enterprises (SMEs) can set up their units and also to facilitate Japanese SMEs to expand their business overseas, thus contributing to Japan's economic growth.

#### (2) Project Site/Target Area: Long An, Viet Nam

#### (3) Project component

This project consists of two kinds of sub-projects, 1) utility management and 2) water supply. (Three SPCs are established, i.e. two utility management companies to provide utility services to eco-industrial parks in Long An and one water supply company with treatment facilities that use surface water.)

##### ① Outline

##### (a) Utility services for industrial parks

This sub-project is for the two utility companies to construct and manage utility facilities that supply electricity and treat industrial effluent in two eco-industrial parks, Thuan Dao II IP and Phu An Thanh IP.

##### (b) Water supply

This sub-project is for the water supply company to construct and manage a surface water treatment facility to supply water to industrial parks in Ben Luc area and Long An Water Supply One Member Co., Ltd.,

##### ② Outline of Loan by JICA

Loan amount: 70% of the total cost (max loan limit)

JICA lends money to the three SPCs through VietinBank.

(4) Project implementation schedule: The loan will be made from 2013 to 2016. The construction period of the facilities in these sub-projects is two to three years. These sub-projects will be completed when a period of one year from the date of the completion of the respective facilities is over (warranty period).

(5) Borrower: Vietnam Joint Stock Commercial Bank for Industry and Trade (VietinBank)

(6) Executing agency: Three SPCs

(7) Necessity of assistance by JICA through Private Sector Investment Finance

Utility charges for services provided under this project will be added to utility rates chargeable to tenants. Failing to offer low-cost utility will cause the industrial parks to lose their competitiveness, which, in turn, will be a deterrent to the project goal, i.e. the promotion of economic growth by attracting private sector investment in the country. Therefore, long term, low interest loan is needed to achieve the desired effects of development assistance, including proper environmental management, while enabling the SPCs to run their business independently. In addition, JICA also considers providing technical assistance to develop factories for rent and provide one-stop service in the industrial parks to attract Japanese SMEs. These eco-industrial parks can be a model for future projects in Viet Nam and other countries, setting an example for industrial parks as a solid base for Japanese SMEs that desire to advance into Viet Nam.

(8) Environmental and social considerations, poverty reduction and social development

① Environmental and social considerations

a) Category: B

b) Reason for categorization: This project's potential adverse impact on environment is considered to be not significant, based on the "Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations" (April 2010): This is not a project in any of sensitive sectors as defined under the above guidelines. This project does not have sensitive characteristics and is not implemented in a sensitive area as defined under the above guidelines.

c) Environmental permit: Environmental Impact Assessment (EIA) on this project was prepared by investors in Viet Nam and approved by the Department of Natural Resources and Environment of Long An.

d) Pollution control measures: Construction noise and vibration mitigation measures will be implemented to comply with national and international standards. Drainage water will be treated at the project's treatment plant to comply with national and international standards.

e) Natural environment: Negative impact on the natural environment is considered to be minimum, as the project is not implemented in the "sensitive areas" as defined under the above guidelines, e.g. national parks and their vicinity.

f) Social environment: No land acquisition and resettlement will be required, as land for the project is owned by either industrial parks or the government.

g) Other aspects/monitoring: The SPCs will monitor noise, vibration and water/soil quality during construction and will monitor drainage after the SPCs start their services.

② Promotion of poverty reduction: Nothing in particular

③ Promotion of social development: Nothing in particular

(9) Technical Assistance: With objectives to assist Thuan Dao II and Phu An Thanh industrial parks in attracting businesses and reinforce the local industrial base through improved investment environment for Japanese SMEs, JICA plans to provide technical assistance to help set up one-stop service center in the industrial parks. JICA also considers implementing technical assistance for capacity development and management enhancement of Long An Water Supply One Member Co., Ltd., which will participate in the water supply sub-project and will offtake water to be supplied to industrial parks other than those targeted in the sub-projects 1 and 2, and households.

#### **4. Project Output**

This project will contribute to sustainable economic growth by controlling land subsidence caused by excessive dependence on groundwater for industrial use and improving living environment through proper treatment of drainage from industrial parks. It will also enhance the industrial base in Long An by improving the investment environment for the “pollution-causing industries” and Japanese SMEs, and facilitate job creation for local residents.

#### **5. External factors and risk control**

Earnings of each project will be affected by number of tenants in the industrial parks. JICA will help attract businesses to the industrial parks by improving investment environment, specifically by giving assistance to build one-stop service center in the both industrial parks.

Since the water treatment plants to be constructed under the water-supply sub-project will supply water to Long An Water Supply One Member Co., Ltd and through distribution pipes, a key to project success will be the SPC’s management capacity and distribution pipelines. JICA will provide technical cooperation to assist the SPC in building capacity and preparing related plans and putting them into practice. JICA will also meet regularly with the SPC’s management.

#### **6. Lessons learnt from past projects and methods to reflect them on the project**

Ex-Post evaluations of JICA’s private sector investment finance projects (bank loans) point out the importance of establishing a monitoring framework. JICA will monitor the project through progress status report from borrowers and report from the SPCs every six months.

Ex-Post evaluations of JICA’s drainage treatment plant projects indicate that project plan should include key components of effective service delivery and also highlight the importance of realistic project plan and confirmation of schedule and scope of the project. Status of electricity distribution networks and pipelines in the industrial parks have been already confirmed for the sub-projects Nos.1 and 2, and status of distribution pipelines and their development plan have been confirmed for

the service areas of Long An Water Supply One Member Co., Ltd., or the offtaker of the water supply project (No.3). Commencement of the project will not be approved unless the provincial government approves of the budget for relevant pipeline construction and construction is ready. With regards to infrastructure development, the industrial park management companies and SPCs share interests and there is no problem as to incentive structure. In implementing the project, JICA will be prepared for possible contingency by sharing information among related parties.

Ex-Post evaluations on industrial park projects find that in industrial development projects and regional development plans, JICA and private companies should take a holistic-organic approach towards achieving effective service delivery and should be flexible regarding revisions of the project contents and scale. This project allows the SPCs, to run businesses so that the SPCs can quickly adapt to business environmental changes. Simultaneously, JICA provides technical cooperation to the two industrial parks and Long An Water Supply One Member Co., Ltd., aiming to enhance their management capacity to improve effectiveness of service delivery.

## **7. Plan for future evaluation**

- (1) Indicators to evaluate the project
  - (a) Utility services for industrial parks
    - ① Drainage volume
    - ② Operating rate
    - ③ Power sales
    - ④ Total land sold to tenants in the industrial park
    - ⑤ Of which, land area sold to Japanese companies
  - (b) Water supply sub-project
    - ① Water supply volume
    - ② Operating rate
- (2) Timing

Two years after project completion