

Ex-Ante Evaluation

1. Name of the Project

Country: Socialist Republic of Vietnam

Project: Rental Factory Development Project for SMEs(Loan Project under the Private Sector Investment Finance)

Loan Agreement: August 13, 2015

Borrower: Bank for Investment and Development of Vietnam (BIDV)

2. Background and Necessity of the Project

Due to elimination of AFTA tariffs in 2015, competition within ASEAN region is expected to be more intensive in near future. In Vietnam, transforming the industrial structure from fabricating industry with cheap labor led by foreign companies into more high-value-added industry including supporting and material industries is a major development challenge to maintain high economic development and achieve industrialization until 2020. Nonetheless, supporting industries such as machinery manufacturing, electronics and information communication, and automotive component assembly have not been fully developed in the country. For example, the local content rate by Japanese companies in Vietnam remained 32.2% (FY 2013), relatively lower comparing to other neighborhood countries such as China (64.2%) and Thailand (52.7%). Given these circumstances, the Government of Vietnam emphasizes on development of supporting industries as a priority issue to make Vietnamese industry more competitive in the market, and tries to grow domestic supporting industries by encouraging foreign companies with technological capacity to have business with domestic companies, and promoting them to transfer technological knowhow and management capacity.

Japan has contributed to grow supporting industries in Vietnam in accordance with Japan-Vietnam Joint Initiative as one of priority areas. Also, Japan's Country Assistance Policy for Socialist Republic of Vietnam formulated in December 2012 highlights economic development as well as improving competitiveness in the market through supporting its industrial development and human resource development to create a base toward building a modern industrial country by 2020. In addition, JICA'S Country Analysis Paper (March 2014) indicates that domestic SMEs play a key role to develop supporting industries, therefore it is highly important that improving their level of technical knowledge and management capacity of production control and quality control thereby promotion of matching activities between foreign and domestic companies.

This project aims to attract investment from Japanese SMEs as well as build business relationships between companies with development capacity and domestic supporting industries by inviting a number of Japanese SMEs and making company agglomerations, thereby contributing to growth of supporting industries in Vietnam. Along with this finance project, technical assistance will be

provided to create a favorable environment for Japanese SMEs to expand their business in Vietnam. In details, activities related to improvement in investment climate and promotion of business between tenant and domestic companies will be carried out. Since the objective of this project is in line with Vietnamese national policy, and Japan and JICA's assistance policy for Vietnam, it is highly necessary and adequate for JICA to implement this project.

3. Project Description

(1) Project Objective

The objective of this project is to provide support of SMEs overseas investment in Vietnam by managing the lease-type industrial complex (about 18 ha) as well as supporting Japanese companies to address the bottleneck that they face to, thereby contributing to development of supporting industries and promotion of industrialization.

(2) Project Site/Target Area

Dong Nai Province, Socialist Republic of Vietnam

(3) Project Components

- ① Management of rental factory: acquisition of land, maintenance of factories and other related facilities including utility line, and operation and maintenance
- ② Overseas investment support: prior consultation and support to create F/S, support to apply for permission, recruitment, marketing, support to select business partners (all services provided in Japanese)

(4) Schedule

Construction period: 2015-20019, the project ends in December 2019

(5) Environmental and Social Consideration

- ① Category : B
- ② Reason for Categorization: this project does not located in a sensitive area, nor has sensitive characteristics, nor falls into sensitive sectors under the JICA Guidelines for Environmental and Social Considerations (April, 2010), and its potential adverse impacts on the environment are not likely to be significant.

(6) Other Important Issues: None

4. Targeted Outcomes

As quantitative effects, area to be developed, area to be rented, the occupancy rate will be monitored. As qualitative effects, development of supporting industries, job creation as well as increase in investment opportunities in Vietnam are expected.

5. Lessons Learned from Past Projects

- (1) Lessons learned from past projects: results from ex-post evaluation of

private sector investment finance executed by bank loan (e.g. industrial water supply project in Changchun, China) show importance to establish the monitoring system

- (2) Application on lessons learned to the project: in addition of reporting from the borrower, direct reports from the project executor will be provided, this enables JICA to adequately understand the status quo of the project.

6 . Plan for Future Evaluation

- (1) Indicators to be used
 - ① Area to be developed (ha)
 - ② Area to be rented (ha)
 - ③ Occupancy rate (%)
- (2) Timing : 2 year after project completion (2021)

END