

## Ex-ante Evaluation

### 1. Name of the Project

Country: The Socialist Republic of Viet Nam

Project: Ninth Poverty Reduction Support Credit

L/A signed on: January 24, 2011

L/A amount: ¥3,500,000,000

Borrower: The Government of the Socialist Republic of Viet Nam

### 2. Background and Necessity of the Project

#### (1) Current issues in socioeconomic development of Viet Nam

Since the *doi moi* reform policy of 1986, the government of Viet Nam has been promoting a policy of opening the country to foreign business, and has been facilitating economic growth while reducing poverty through integration into the international economy. The first round of Poverty Reduction Support Credits, or PRSCs, consisted of PSRC 1–5 and was implemented between 2001 and 2006. During this period, increase of exports and foreign direct investment were the driving forces that set the country on a track of economic expansion. Economic stimulus measures and financial reform efforts by the government kept real GDP at a high annual growth rate of around seven percent. In the last three years, Viet Nam has demonstrated the strength of its economic recovery by managing to stay at a growth rate of over 6% despite repeated setbacks in the form of SARS, the avian flu virus, adverse weather conditions, sharply rising commodity prices, inflation, and dumping charges. During this period, the poverty rate also dropped from 28.9% in 2002 to 16.0% in 2006. While dealing with the issues of economic disparities and environmental protections on the one hand and maintaining the economic growth on the other, the government has the additional difficult task of implementing a variety of reforms in accordance with its accession to the World Trade Organization, which Viet Nam officially joined in January 2007. In addition the recent global recession slowed annual real GDP growth to 5.3% in 2009. The IMF predicts that the GDP growth rate in 2010 will reach 6%, and though this is a sign of economic recovery, Viet Nam must still work harder to stabilize macroeconomic conditions and create jobs for its people.

#### (2) Development policy in Viet Nam and the priority of the project

The National Assembly of Vietnam approved its Socio-Economic Development Plan 2006–2010 (hereafter referred to as the “Five-year Plan”) in June of 2006, and in the five years between 2006 and 2010, vowed to shrug off its status as a low-income country and become a middle-income country. The government established four core targets designed to reach this goal: (i) the promotion of growth and transition to a market economy (Business Development), (ii) poverty reduction and social inclusion (Social Inclusion), (iii) sustainable management of the environment and natural resources (Natural Resources), (iv) organizational structural adjustment for supporting the strategy (Modern Governance). As a countermeasure against economic impact from global recession, the government introduced emergency economic package in the government decision No. 30 in December of 2008, and

in 2009 the National Assembly approved an economic stimulus package equivalent to eight billion US dollars.

### (3) Japan and JICA's policy and operations regarding PRSC

In partnership with the World Bank and other multinational donors, Japan has continually and actively collaborated with and contributed to the government of Viet Nam—both during the formulation of the Five-year Plan and beyond. Japan's policy was to support the solid implementation of the Five-year Plan, as it addressed two interlinked core issues of economic growth and poverty reduction. During the second round of Poverty Reduction Support Credits (PSRC 6–10) as well, Japan has defined four priority policy themes with the aim of achieving poverty reduction in Viet Nam through economic growth. They are: (1) encouraging investment and solidifying the business environment by supporting the implementation of Japan-Viet Nam joint initiative, (2) optimizing the public finance management through the resource allocation mechanisms stipulated in the Five-year Plan, (3) efficient mobilization/allocation in growth sectors for domestic and overseas funds through the qualitative and quantitative development of financial systems (financial sector reforms), and (4) boosting international competitiveness by reforming state-owned enterprises. ODA loan totaling seven billion yen was extended to Viet Nam in fiscal 2009 under PRSC 8, and additional budget support of 47.9 billion yen was carried out to back Viet Nam's economic stimulus package. JICA has defined four priority areas ("pillars") to support Viet Nam's national development targets: (1) promoting economic growth and strengthening international competitiveness, (2) alleviating disparities in social structure and quality of life, (3) environmental protection, and (4) strengthening governance.

### (4) Assistance by other aid organizations

The World Bank and the International Monetary Fund (IMF) decided on a poverty reduction strategy for Viet Nam after evaluating the Five-year Plan in terms of its (1) comprehensive approach to poverty reduction and other key issues, (2) formulation based on consultation with a wide range of experts, (3) the introduction of a monitoring and evaluation mechanism aimed at ensuring results-oriented plan formulation and implementation. The second round of PRSC projects was designed as a support framework for these aspects of the plan and supported by a variety of donors in addition to the World Bank, including the Asian Development Bank (ADB), EU, UK, Germany, the Netherlands, Canada, and Australia. The World Bank and the ADB also extended additional budget support at the end of 2009 in light of recent economic conditions.

### (5) Necessity of the project

The Ninth Poverty Reduction Support Credit is designed to support the implementation of Viet Nam's Five-year Plan, which addresses two interlinked core issues of economic growth and poverty reduction. Japan and JICA are in agreement in terms of priority support areas, so the necessity and relevancy of this project are considered high.

## **3. Project description**

(1) Project objectives

The objective of this project is to achieve policy goals stated in the SEDP 2006-2010 that can be summarized in four broad pillars: (1) the promotion of growth and transition to a market economy (Business Development), (2) poverty reduction and social inclusion (Social Inclusion<sup>1</sup>), (3) sustainable management of the environment and natural resources (Natural Resources), (4) organizational structural adjustment for supporting the strategy (Modern Governance), by financing implementing policy reforms of the Viet Nam's government, and thereby contributing to economic growth and poverty reduction in Viet Nam.

(2) Project site/target area: Nationwide areas of the Socialist Republic of Viet Nam

(3) Program components:

This project is organized around four pillars, each representing priority areas stipulated under the Five-year Plan. They are: (1) business development, (2) social inclusion, (3) natural resources, and (4) modern governance. Together they cover a total of seventeen sectors that are targeted for reform.

Pillar	Sector
Business development	Global Integration, State Sector Reform, Financial Sector Reform, Private Sector Development, Infrastructure
Social inclusion	Education, Health, Social Protection, Gender
Natural resources	Land and Forests, Water and Sanitation, Environment
Modern governance	Planning Process, Public Financial Management, Legal Development, Public Administration Reform, Fighting Corruption

(4) Total project cost

Total donor support for PRSC 9: An estimated 300 million US dollars, which includes the 3.5 billion yen PRSC 9 loan by JICA (equivalent to about 38.8 million US dollars)

(5) Schedule (cooperation period):

from June 2009 to the end of May 2010

The loan is scheduled to be disbursed in January 2011. In terms of the overall PRSC initiative, the entire second round of PRSC projects (PRSC 6–10) is scheduled for completion by the end of December 2011.

(6) Implementation structure

1) Borrower: The Government of the Socialist Republic of Viet Nam

2) Guarantor: None

3) Executing agency: State Bank of Viet Nam (SBV)

4) Operation and maintenance system: The National Steering Committee for PRSCs of related ministries and SBV representatives and headed by the first deputy prime minister was established. The SBV has a role as the executing agency for the PRSC projects, and the program coordination unit (PCU) was established within the SBV to handle all the preparation and implementation tasks. Monitoring of reform items discussed by the committee were again deliberated by the government of Viet Nam and various donors, and progress evaluations are scheduled to be evaluated and confirmed.

(7) Environmental and Social Consideration, Poverty Reduction, and Social Development

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<sup>1</sup> Social Inclusion: a state whereby all sectors of society are able to participate in plan formulation and other decision-making processes

- 1) Environmental and social consideration:
- i. Category: C
  - ii. Justification: This project concerns a sector (financial support) that is thought to have no particular environmental impact. At the same time, it does not fall into a category of “Sensitive Sectors or Sensitive Areas” as per the JBIC Guidelines for Confirmation of Environmental and Social Considerations (issued April 2002), and is therefore classified as Category C.
  - iii. Poverty reduction: This project supports the SEDP 2006–2010, which aims to reduce poverty and spur growth in Viet Nam. Furthermore, the project itself is designed to remove some of the handicaps and restrictions facing impoverished citizens. The reform efforts demanded by this project include those directly targeting the poor, including establishing a new poverty line and drafting poverty reduction programs based on the new standard. The project also defines the establishment of basic infrastructure and better access to education and healthcare services in poor rural communities (particularly small ethnic enclaves) as an ongoing priority issue.
  - iv. Promotion of social development: Reform items under this project include discussing a budget and holding public consultations with the aim of (1) formulating a notice administrative regulations related to gender equality laws and laws against domestic violence, (2) introducing a unified licensing system for healthcare professionals, and (3) introducing full-time education (primary schools).
- (8) Partnership with other donors: Participation is expected from the World Bank, the Asian Development Bank, the European Union, England, Germany, the Netherlands, Canada, Australia, and other donors.
- (9) Other important issues: None in particular

#### 4. Project's effects

##### (1) Operation and effect indicators

Indicator	Baseline (2008 actual)	Target (2011) Upon completion of PRSC 10
Proportion of people below the new Vietnam poverty line	14.5%	10% or less
Number of enterprises with 100% state ownership	1,546	500 or less
Required provisioning for possible non performance in all outstanding credit	2.8%*	5% or less
Proportion of enterprises citing infrastructure as either a major or severe constraint for conducting business	Transportation: 10% Electricity: 13% (2009)	5% or less
Private domestic investment as a proportion of total investment	41.3%*	At least 35.3%
Number of provinces that have issued guidelines for screening public investment projects at the pre-appraisal stage, including sound cost benefit analysis	0	At least 30

Ratio of public debt to GDP, inclusive of publicly guaranteed debt at all levels of government	44%*	55% or less
Fraction of enterprises who say corruption is a major or very severe obstacle; Fraction of enterprises who say corruption is no obstacle.	5% (2009)	5% or less

\*Target value exceeds the baseline value because the target set at the beginning of the second round of PRSC projects (in 2006) has already been achieved

(2) Internal rate of return: not calculated

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

None in particular

### **6. Lessons learned from findings of similar projects undertaken in the past**

None in particular

### **7. Plans for future evaluation**

(1) Indicators for future evaluation

- 1) Proportion of people below the new Vietnam poverty line
- 2) Number of enterprises with 100% state ownership
- 3) Required provisioning for possible non performance in all outstanding credit
- 4) Proportion of enterprises citing infrastructure as either a major or severe constraint for conducting business
- 5) Private domestic investment as a proportion of total investment
- 6) Number of provinces that have issued guidelines for screening public investment projects at the pre-appraisal stage, including sound cost benefit analysis
- 7) Ratio of public debt to GDP, inclusive of publicly guaranteed debt at all levels of government
- 8) Fraction of enterprises who say corruption is a major or very severe obstacle; Fraction of enterprises who say corruption is no obstacle.

(2) Timing of next evaluation

Upon completion of the second round of PRSC projects (PRSC 6-10)