

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the Program

Country : Socialist Republic of Viet Nam

Program : Economic Management and Competitiveness Credit (I)

Loan Agreement : March 22, 2013

Loan Amount : 15 Billion Yen

Borrower : The Government of the Socialist Republic of Viet Nam

2. Background and Necessity of the Program

(1) Current State and Issues of the Socio Economic Development in Viet Nam

Since 1986 when Doi Moi Policy was introduced, Vietnamese economy achieved GDP annual growth rates higher than 7% from 1990 to 2010. Though the growth rates declined to 5.9% in 2011 and 5.0% in 2012, due to the macro economy stabilization policy adopted since 2011, the country has realized steady economic growth so far. In addition, the GDP per capita exceeded 1,000 US Dollar in 2010, enabling the country to make a lower middle income country. The share of poor population declined from 58% in 1993 to 10.4% in 2010. These achievements could be attributed to the steady implementation of transforming its economic system into a market-oriented economy and opening the country to the international economy, successful attraction of foreign direct investment focusing on the processing and manufacturing industries, strengthening export industries, consolidating the economic infrastructure, and so on. Meanwhile, taken into account there are concerns about slowing economic growth due to the production decline mainly in the labor-intensive industry, the country needs to depart from the labor-intensive industrial structure to a value-added industrial structure, in order to strengthen its international competitiveness, especially under the circumstances where the competitions are inevitably to become harsher inside ASEAN, due to complete tariff elimination which is to take place in 2015 within ASEAN and the trade with China as well as emerging latecomers of ASEAN. In addition, there are structural challenges in the macro economy in Viet Nam, including endemic deficit of trade balance, depreciated national currency, inflation, shortage of foreign reserve, budget deficit, etc, though they have improved in the short term. What is needed for the country includes drastic economic structural reforms and improvement of administrative system supporting this reform, covering enhancement of public budget management and improvement of vulnerable financial system, so that Viet Nam could maintain the macro economy stabilization, strengthen its international competitiveness, and realize sustainable economic growth in a mid and long term.

(2) Development Policies for the Economic Management and Competitiveness in Viet Nam and the Priority of the Program

The Government of Viet Nam has raised 'the industrialization before 2020' as a national goal in "10-Year Socio Economic Development Strategy (2011-2020)". "The Ninth Socio Economic Development 5-Year Plan", a planning document of the Strategy, set the development pillars of 'economy', 'society' and 'environment', together with main policy issues including (i) sustainable economic growth with high growth rates, (ii) the consolidation of a basis for making a modern industrial country, (iii) the accumulation of high scientific technology, (iv) human resources development due to educational improvement, (v) the enhancement of living standards, (vi) environmental conservation, and (vii) political stability. It was approved in the National Assembly in November 2011 to boldly implement the reform focusing on the most prioritized issues, including (i) public investment reform, (ii) state-owned enterprises reform, (iii) banking sector reform. The Program aims at supporting the implementation of the reform.

(3) Japan and JICA's Policy and Operations in Economic Management and Competitiveness

"Country Assistance Policy for Viet Nam", issued in December 2012, has set 'growth and competitiveness' and 'governance reinforcement' as its focal fields. In this regard, the Government of Japan has already contributed to the consolidation of various economic systems and executive operations, fiscal and financial reform, investment environment, small medium enterprises/supporting industries development, etc. In addition, "Poverty Reduction Support Credit (hereinafter referred to as 'PRSC') was provided to support the promotion of institutional reform from 2004 to 2012.

(4) Other Donor's Activities

As a support to the enhancement of economic management and competitiveness, through PRSC, the World Bank, Asia Development Bank, British, Germany, France and other organizations have supported the implementation of the institutional reform. Among multilateral aid organizations, World Bank has focused to support macroeconomic stabilization, articulating the country's competitiveness enhancement in the regional economy and international economy as one of the three aid focal points. Concretely, it has implemented technical cooperation and project loan (tax administration management system development, etc) regarding public financial management.

Asia Development Bank has set economic structural reform as one of its focal fields in the country partnership strategy, implementing financial sector program loan and project loan (restructuring of specific state-owned enterprises) with an emphasis on the consolidation of capital market.

As for the bilateral aid organizations, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has been implementing technical cooperation for the revision procedures of Law on State Bank of Vietnam and Law on Financial Institutions and the

human resources development of State Bank of Vietnam. Economic State Secretariat for Economic Affairs (SECO) of Switzerland has been implementing a technical cooperation for risk control enhancement of national commercial banks. Canadian International Development Agency (CIDA) has implemented a technical cooperation regarding bank supervision enhancement.

Meanwhile, IMF has continuously implemented the cooperation in finance and monetary fields, through the 4th Article Consultation and technical cooperation, in addition to the implementation of “Financial Sector Assessment Program” in collaboration with the World Bank. As aforementioned, there are many aid organization have supported the country’s economic management and economic structural reform. (The participating conditions of other aid organizations in the Program are mentioned in 3. (8)).

(5) Necessity of the Program

Strengthening economic management and competitiveness is essential through the implementation of proper economic development policies, in order for Viet Nam to realize its industrialization and promote its sustainable economic growth in the coming period. The Program is to support the implementation of various policy institutional reforms, such as enhancing financial sector stability, maintaining of fiscal discipline, improving public administration and accountability, strengthening state enterprise management, enhancing public investment management, improving business environment, etc, which are all required for better economic management and stronger competitiveness. This is in line with aid focal fields of the Government of Japan, represented by JICA, and therefore, the necessity and relevance to support this program is considered to be high.

3. Program Description

(1) Program Objectives

The objective of the Program is to support the implementation of the policy reforms necessary for strengthening economic management and competitiveness; such as enhancing financial sector stability, maintaining of fiscal discipline, improving public administration and accountability, strengthening state enterprise management, enhancing public investment management, improving business environment, and thereby contributing to strengthening economic management and competitiveness to sustain economic growth in Vietnam.

(2) Program Site/Target Area:

Across the Socialist Republic of Viet Nam

(3) Program Components

The Program sets the three pillars (3) for the reform to strengthen economic management and competitive, comprising i) Macroeconomic Stability, ii) Transparent, Efficient, Accountable Public Sector, and iii) iii) Improvement of Business Environment. Based on these pillars, the Program identifies the seven (7) fields for the reform ((i) Enhancing Financial Sector Stability, (ii) Maintaining Fiscal Discipline, (iii) Improving Public Administration and Accountability, (iv) Strengthening State Enterprise Management, (v) Enhancing Public Investment Management, (vi) More Efficient Business Environment, and (vii) ⑦ Greater Transparency and Equity of Business Environment), and is to support the reform to be implemented before up to 2015. The Program is scheduled to be implemented over three (3) phases, and this is the 1st Phase to support the reform process conducted from January 2012 to January 2013.

<Reform Areas Supported by the Program>

Objective	Reform Pillars	Reform Area
Strengthening Competitiveness	i) Macroeconomic Stability	① Enhancing Financial Sector Stability ② Maintaining Fiscal Discipline
	ii) Transparent, Efficient, Accountable Public Sector	③ Improving Public Administration and Accountability ④ Strengthening State Enterprise Management ⑤ Enhancing Public Investment Management
	iii) Improvement of Business Environment	⑥ More Efficient Business Environment ⑦ Greater Transparency and Equity of Business Environment

(4) Estimated Program Cost (Loan Amount)

15 Billion Yen (Yen Loan Amount: 15 Billion Yen)

(5) Schedule :

From January 2012 to January 2013

(6) Program Implementation Structure

- 1) Borrower : The Government of the Socialist Republic of Viet Nam
- 2) Executing Agency : State Bank of Viet Nam
- 3) Operation and Maintenance Structure : The Steering Committee has been established as an upper decision making body, with the participation of representatives from relevant ministries (Government Office, Ministry of Planning and Investment, Ministry of Finance, Ministry of Industry and Trade, Ministry of Labor, Invalids and Social Affairs, Government Inspectorate, State Bank of Viet

Nam). In addition, a technical working group was established under the Committee, represented from relevant ministries and each donor organization, to conduct analyses and monitoring consultation of policy actions/triggers supported by the Program. State Bank of Vietnam, an executing agency, is in charge of implementing the coordination tasks of the Program, through setting and program coordination unit.

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

1) Environmental and Social Consideration

(1) Category: C

(2) Reason for Categorization: Undesirable impacts on environment possibly caused by the Program are to be limited at a minimum level in light with “Japan International Cooperation Agency Environmental and Social Consideration Guideline” issued in April 2010.

2) Promotion of Poverty Reduction: The Program aims at sustainable economic growth and poverty reduction through strengthening competitiveness in Viet Nam. It is to contribute to promoting poverty reduction by strengthening competitiveness through improving various policies and systems targeted by the Program.

3) Promotion of Social Development (e.g. Gender Perspective, Measure for Infectious Diseases Including HIV/AIDS, Participatory Development, Consideration for the Person with Disability etc.): No information to be specifically mentioned

(8) Collaboration with Other Donors:

In addition to a syndicated loan to be conducted in collaboration with the World Bank, there are collaborative activities with CIDA (Canada) and SECO (Switzerland) through grant aid cooperation. The assistance to the formulation and execution of policy actions/triggers is to be provided through the implementation of the on-going technical cooperation program in the fields of the reform which is supported by the Program.

(9) Other Important Issues:

No information to be specifically mentioned

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicators)

Reform Pillars	Reform Items	Performance Indicators (Operation and Effect Indicator)
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		Indicator	Baseline (2012)	Target (2015)
Macroeconomic Stability	Enhancing Financial Sector Stability	Banking Sector Country Risk Assessment Score (on a scale of 10 for evaluation) *Note 1	Group 9	Group 8
		Reduced proportion of outstanding loans defined as non-performing (%)	8.6	5
	Maintaining Fiscal Discipline	Number of Fiscal Years with public debt ratio to GDP consecutively below 65% (number of time)	1	4
Transparent, Efficient, Accountable Public Sector	Improving Public Administration and Accountability	Number of ministries and local governments' websites disclosing information on land management and administrative procedures (ministry and local governments' website) *Note 2	6	45
		Degree of accountability about income of public servants and declared assets (%)	0	50
	Strengthening State Enterprise Management	Number of economic groups with non core business (company)	10	5
	Enhancing Public Investment Management	Ratio capital spending to capital budget (%)	135	115
Improvement of Business Environment	More Efficient Business Environment	Percentage of domestic firms spending over 10 percent of their time dealing with bureaucracy or bureaucratic regulations. (%)	11.26	Less than 10
	Greater Transparency	Time needed to comply with tax payment requirements.	CIT : 217 VAT : 320	CIT : 150 VAT : 220

	and Equity of Business Environment	(hour)	*Note 3	
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* Note 1 : Referred to Standard & Poor's. Banking systems in the countries are categorized and evaluated on a scale of 10 degrees, extending from the strongest country (Group 1) to most vulnerable country (Group 10). The evaluation is conducted based on economic environment, regulatory environment, legal environment, and competitive environment in a given country's domestic market.

* Note 2 : Anti-corruption investigation jointly conducted by the Government of Viet Nam and WB identified the land transaction to be a field where corruptions frequently took place.

*Note 3: VAT and CIT stand for Value Added Tax and Corporate Income Tax, respectively.

(2) Qualitative Effects:

The implementation of the Program is to promote sustainable economic growth. Capacities of the Government of Viet Nam in policy formulation and implementation are to be strengthened.

5. External Factors and Risk Control

No information to be specifically mentioned

6. Lessons Learned from Past Programs

(1) Evaluation results from similar programs

The ex-post evaluation of PRSC3~5, which was conducted in 2007, indicated that effects and viability could be achieved only by the steady implementation of operation and execution of policies and systems. This point could lead to a lesson for the Program that careful capacity development and institutional building at the sites responsible for executing and operating policies and system are essential, not only the formulation of policies and systems per se.

(2) Lessons for this Program

Based on the aforementioned suggestion, regarding the target reform items, the Program has considered with the Government of Viet Nam and other aid organizations as to the implementation of monitoring activities on the operation and execution after the Program's completion. JICA plans continue to support the operation and execution of specific reform items after the completion of the Program.

7. Plan for Future Evaluation

(1) Indicators to be Used

- 1) Banking Sector Country Risk Assessment Score (on a scale of 10 for evaluation)
- 2) Reduced proportion of outstanding loans defined as non-performing (%)
- 3) Number of Fiscal Years with public debt ratio to GDP consecutively below 65% (number of time)
- 4) Number of ministries and local governments' websites disclosing information on

land management and administrative procedures (ministry and local governments' website)

- 5) Degree of accountability about income of public servants and declared assets (%)
- 6) Number of economic groups with non core business (company)
- 7) Ratio capital spending to capital budget (%)
- 8) Percentage of domestic firms spending over 10 percent of their time dealing with bureaucracy or bureaucratic regulations (%)
- 9) Time needed to comply with tax payment requirements (hour)

(2) Timing

After the completion of the Program

END