

## Ex-Ante Evaluation (for Japanese ODA Loan)

### 1. Name of the Program

Country: Socialist Republic of Viet Nam

Program : Economic Management and Competitiveness Credit (III)

Loan Agreement: January 16, 2017

Loan Amount: 11 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 Economic Management and Competitiveness in Viet Nam

Since 1986 when the Doi Moi Policy was introduced, the Vietnamese economy achieved GDP annual growth rates higher than 7% from 1990 to 2010. Though the growth rates became slow down for a while due to the macro economy stabilization policy adopted since 2011, the country has shown a steady recovery to 5.42% in 2013, to 5.98% in 2014, and to 6.68% in 2015, realizing steady economic growth so far. In addition, the GDP per capita exceeded 1,000 US Dollar in 2010, enabling the country to become a lower middle income country. The share of poor population declined from 49.2% in 1992 to 3.2% in 2012. 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. In addition, Viet Nam plans to become a member of the Trans-Pacific Strategic Economic Partnership Agreement (TPP). As the country will be the member with the lowest GDP per capita, it is expected that the investment to Viet Nam as an export base within the TPP region is expanded especially in the garment industry.

Meanwhile, taking into account that there are concerns about slowing economic growth due to the production decline mainly in labor-intensive industries, 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 it is inevitable for competition to become harsher inside ASEAN, due to complete tariff elimination which is to take place in 2015 (in 2018 for some goods) 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 the 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 the administrative system supporting this reform, covering enhancement of public budget management, improvement of the vulnerable financial system and management efficiency of state-owned enterprises in addition to the transformation of the industrial structure so that Viet Nam can maintain the macro economy stabilization, strengthen its international competitiveness, and realize sustainable economic growth in the mid- and long-term.

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

The Government of Viet Nam has raised 'industrialization before 2020' as a national goal. "The Ninth Socioeconomic Development 5-Year Plan (2011-2015)," 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) consolidation of a basis for making a modern industrial country, (iii) accumulation of high scientific technology, (iv) human resources development due to educational improvement, (v) 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, and

(iii) banking sector reform. The Program aims at supporting the implementation of the development policy. The Fourteenth Socioeconomic Development 5-Year Plan (2016-2020) succeeds to the direction of previous 5-year plan to achieve stable macro-economy and higher economic growth rates and develop foundations to become a modern industrialized country.

#### (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. Governance reform, strengthening of public financial management and improvement of financial system, improvement of management efficiency of state-owned enterprises are also recognized as important areas in "JICA Country Analysis Paper for Viet Nam," issued in March 2014. Therefore, this program is consistent with these policy and analysis. JICA has provided its support through the Economic Management and Competitiveness Credit (hereinafter referred to as "EMCC"). EMCC has been implemented since 2012 over three phases and this program is to be implemented as the final phase.

Through the first phase (Loan Agreement in March 2013 with Loan Amount of 15,000 million yen) and the second phase (Loan Agreement in March 2014 with Loan Amount of 15,000 million yen) contributed to the development of medium-term plans and strategies of reform areas that form the basis of the policy system to be supported by the program. Based on these operations, the final phase is to establish the subordinate laws and promote the implementation of specific measures on the basis of the policy system.

#### (4) Other Donors' Activities

To enhance economic management and competitiveness, the World Bank, Asia Development Bank, UK, EU, Germany, France and other donor agencies support promoting institutional development through "Poverty Reduction Support Credit" (hereinafter referred to as 'PRSC') or EMCC. Besides, the donor agencies provide technical cooperation and project finance in public financial management, financial sector reform, state-owned enterprise reform, private sector development and other areas. Following the first and second phases, this program is co-financed with the World Bank (150 million dollars).

#### (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 by 2020 and promote its sustainable economic growth in the coming period. The Program is to support the implementation of various policy institutional reforms. This is in line with the aid focal fields of the Government of Japan, represented by JICA, and therefore, the necessity to support this program is considered to be high.

### **3. Program Description**

#### (1) Program Objectives

The objective of the Program is to support the steady implementation of the policy institutional reforms, such as enhancing financial sector stability, maintaining fiscal discipline, improving public administration and accountability, strengthening state-owned enterprise management, enhancing public investment management, improving the business environment through financial support and policy dialogues, and thereby contributing to strengthening economic management and competitiveness to sustain economic growth and reduce poverty in Viet Nam.

#### (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 competitiveness, comprising i) Macroeconomic Stability, ii) Transparent, Efficient, Accountable Public Sector, and iii) Improvement of the Business Environment. Based on these pillars, the Program identifies the six (6) fields for the reform ((i) Enhancing Financial Sector Stability, (ii) Maintaining Fiscal Discipline, (iii) Improving Public Administration and Accountability, (iv)

Strengthening State-Owned Enterprise Management, (v) Enhancing Public Investment Management, and (vi) Improving Facilitation of Administration Procedures), and is to support the reform to be implemented up to 2015. The Program is scheduled to be implemented over three (3) phases, and this is the final phase to support the reform process conducted from February 2014 to December 2015.

<Reform Areas Supported by the Program>

| Objective                     | Reform Pillars  | Reform Area   |
|-------------------------------|---|---|
| Strengthening Competitiveness | i) Macroeconomic Stability                            | ① Enhancing Financial Sector Stability<br>② Maintaining Fiscal Discipline   |
|                               | ii) Transparent, Efficient, Accountable Public Sector | ③ Improving Public Administration and Accountability<br>④ Strengthening State-Owned Enterprise Management<br>⑤ Enhancing Public Investment Management |
|                               | iii) Improvement of Business Environment              | ⑥ Streamlining of Administration Procedures   |

(4) Estimated Program Cost (Loan Amount)  
11 Billion Yen (Yen Loan Amount: 11Billion Yen)

(5) Schedule

Commenced from January 2014. Policy actions are to be achieved in December 2015 and the program will be completed with the loan disbursement scheduled in March 2017.

(6) Program 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 Structure: SBV, an executing agency, is in charge of implementing the coordination tasks of the Program among ministries relevant to policy actions, including the Ministry of Finance, monitoring of the program implementation progress and policy dialogue, and organize donor meetings. Policy actions were discussed between the Vietnamese Government and donors when the program was commenced.

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

1) Environmental and Social Consideration

(1) Category: C

(2) Reason for Categorization: Undesirable impacts on the environment possibly caused by the Program are to be limited to a minimum level in light of the “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 Persons with Disabilities, etc.): According to the surveys of the World Bank and the United Nations Industrial Development Organization, in Viet Nam, female entrepreneurs have higher complaint about complex tax collection procedures than male entrepreneurs but they have less experience in informal tax payment (male: 20%, female: 9%). Streamlining the tax collection procedures through this program will contribute to improving business environment of female

entrepreneurs.

(8) Collaboration with Other Donors:

In addition to a syndicated loan to be conducted in collaboration with the World Bank, there will be collaborative activities with the CIDA (Canada) and SECO (Switzerland) through grant aid cooperation.

(9) Other Important Issues:

Through technical cooperation and other schemes implemented in the reform areas to which this program provides support, formulation of target policy system and their implementation are supported.

#### 4. Targeted Outcomes

##### (1) Quantitative Effects

##### 1) Performance Indicators (Operation and Effect Indicators)

\* Note 1: Target values by the end of the 3<sup>rd</sup> phase

| Reform Pillars                                    | Reform Items                                       | Performance Indicators (Operation and Effect Indicator)   |                        |                        |
|---|--|---|------------------------|------------------------|
|   |  | Indicator*1   | Baseline*2<br>(2012)   | Target*3<br>(2017)     |
| Macroeconomic Stability                           | Enhancing Financial Sector Stability               | Reduced proportion of outstanding loans defined as non-performing (%)   | 8.6                    | 5                      |
|   |  | Number of commercial banks  | 39                     | 30                     |
|   | Maintaining Fiscal Discipline                      | Number of Fiscal Years with public debt ratio to GDP consecutively below 65% (number of time)   | 1                      | 5                      |
|   |  | Number of treasury accounts   | 701                    | 5                      |
| Transparent, Efficient, Accountable Public Sector | Improving Public Administration and Accountability | Number of local governments' websites disclosing information on land management and administrative procedures of land transactions (local governments' website) *Note 4 | 6                      | 45                     |
|   |  | Share disclosed public officials' income and asset declarations (%)   | 0                      | 50                     |
|   | Strengthening State-Owned Enterprise Management    | Share of risk-based audits in total audits for corporate taxpayers(%)   | 0                      | 50                     |
|   |  | Reduced investments by SEGs in high risk non-core areas as a share of SEG capital(%)  | 2.3                    | 0                      |
|   |  | Number of economic groups disclosing their audited financial statements on their website (company)  | 4                      | 8                      |
|   | Enhancing Public Investment Management             | Capital expenditure arrears from the central budget (Trillion VND)  | 43                     | 30                     |
| Improvement of Business Environment               | Streamlining of Administration Procedures          | Share of direct contracting over total contracting value(%)   | 40                     | 30                     |
|   |  | Time needed to comply with tax payment requirements. (hour)   | CIT : 217<br>VAT : 320 | CIT : 150<br>VAT : 220 |

\*Note 1: Indicators of EMCC3 are organized and limited in those more directly link to program outcomes and policy actions based on the current revision of policy actions.

\*Note 2: Values before 2012 are used for some indicators: Number of local governments' websites disclosing information on land management and administrative procedures of land transactions (values in 2010), share disclosed public officials' income and asset declarations (values in 2011),

share of risk-based audits in total audits for corporate taxpayers (values in 2010), and time needed to comply with tax payment requirements (values in 2011)

\* Note 3: Target value to be achieved through EMCC over the first to third phases (2012-2015). Due to the extension of the period of policy action achievement in this program from the end of 2014 to the end of 2015 and other reason, the target is amended from 2015 to 2017.

\* Note 4: Anti-corruption Diagnostic jointly conducted by the Government of Viet Nam and WB identified land transaction to be a field where corruption frequently took place.

## (2) Qualitative Effects

The implementation of the Program is to contribute to promoting sustainable economic growth and poverty reduction. The capacities of the Government of Viet Nam in policy formulation and implementation are to be strengthened.

## (3) Internal Rate of Return

As this program is to provide financial support, internal rate of return is not calculated.

## **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 PRSC3,4 and 5, which was conducted in 2007, indicated that the effects and viability of PRSC 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 not only the formulation of policies and systems per se but also careful capacity development and institutional building at the sites responsible for executing and operating policies and system are essential. Even in light of the planning process of policy system in Japan, existing policy systems cannot be improved without accumulation of issues and lessons learned through operation and execution, and a series of policy formulation process, such as planning of a policy system, its operation and execution for a certain period, analysis of issues and lessons learned through the operation and execution, and reflection of issues and lessons learned to the policy system are established. Therefore, the inclusive support which further ensures the policy formulation process in Viet Nam should be considered.

### (2) Lessons for this Program

Based on the aforementioned suggestion, JICA will implement monitoring activities on the operation and execution of the policies and systems supported by the Program through aid organizations' meetings set up for each reform field and provide necessary support in the relevant fields after coordination among aid organizations. In addition to the monitoring above, JICA also plans to implement monitoring and operation and execution support through related technical cooperation and grant aids.

## **7. Plan for Future Evaluation**

### (1) Indicators to be Used

- 1) Reduced proportion of outstanding loans defined as non-performing (%)
- 2) Number of commercial banks
- 3) Number of Fiscal Years with public debt ratio to GDP consecutively below 65% (number of time)
- 4) Number of treasury accounts
- 5) Number of local governments' websites disclosing information on land management and administrative procedures of land transactions (local governments' website)
- 6) Share disclosed public officials' income and asset declarations (%)
- 7) Share of risk-based audits in total audits for corporate taxpayers (%)

- 8) Reduced investments by SEGs in high risk non-core areas as a share of SEG capital
- 9) Number of economic groups Disclosing their audited financial statements on their website (company)
- 10) Capital expenditure arrears from the central budget (Trillion VND)
- 11) Share of direct contracting over total contracting value (%)
- 12) Time needed to comply with tax payment requirements. (hour)

(2) Timing

1 year after the completion of the Program