

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

### 1. Name of the Project

Country: Socialist Republic of Viet Nam

Project: Eighth Poverty Reduction Support Credit with Economic Stimulus Support

Loan Agreement: November 10, 2009

Loan Amount: 54,900 million Yen

Borrower: The Government of the Socialist Republic of Viet Nam

### 2. Background and Necessity of the Project

#### (1) Current State and Issues of Social and Economic Development in Viet Nam

Since the *doi moi* reform policy of 1986, the government of Viet Nam has taken the policy of opening the country to foreign business, and has promoted economic growth by accelerating its integration into the global economy while at the same time it has endeavored to alleviate poverty. Supported by the first round of the Poverty Reduction Support Credit (PRSC1-5) between 2001 and 2006, the country has taken steady steps toward economic growth driven by the expansion of exports and foreign direct investment (FDI). Also owing to the government's economic stimulus policies and promotion of economic reforms, annual growth rates in real GDP have hovered at a high 7% level. During the past three years, Viet Nam has struggled with SARS and avian flu, adverse weather conditions, price escalations, inflation, dumping charges and others, but despite these negative impacts, it has achieved growth rates exceeding 6% and has clearly demonstrated to the world the powerful resilience of its economy. Meanwhile, the percentage of people living in poverty has dropped from 37.4% in 1998 to 16.0% in 2006. However, the government of Viet Nam still faces an extremely difficult challenge in policy administration. It must continue to deal equally with issues of economic disparity and environmental conservation on the one hand and issues in economic growth on the other, while also implementing a variety of reforms as per its international pledge to the World Trade Organization (WTO), which Viet Nam officially joined in January 2007. Moreover, the recent worldwide recession has slowed real GDP growth in Viet Nam to 3.9 percent for the first half of 2009, and has brought pressure to bear on the government of Viet Nam to promptly implement measures to stabilize the macro-economy and create employment.

#### (2) Development Policies in Viet Nam and the Priority of the Project

The government of Viet Nam announced a goal of moving out of the low-income country status and attaining middle-income status over the five years up to 2010 in Social-Economic Development Plan 2006-10 (SEDP2006-10; hereinafter referred to as the "Five-year Plan"), approved by the National Assembly in June 2006. The plan also set forth four pillars of action for attaining that goal: ① Promoting growth and transition to a market economy; ② Reducing poverty and ensuring social inclusion<sup>1</sup>; ③ Managing the environment and natural

<sup>1</sup> Social Inclusion refers to a society where all social sectors are given the opportunity to participate in the formulation of plans

resources in a sustainable manner; and ④ Building institutions that can support the strategy. Additionally, in the wake of the recent worldwide recession, the government introduced Resolution No. 30 on urgent measures to prevent the economic slowdown on December 2008, and the National Assembly adopted an economic stimulus package worth 8 billion USD in 2009.

### (3) Japan and JICA's Policy and Operations Related to PRSC and Other Economic Stimulus Support

Japan has made consistent and proactive cooperation and contribution efforts in multilateral conferences with the government of Viet Nam, the World Bank (WB) and other donors, on various issues including the formulation of the above-mentioned Five-year Plan, and is prepared to support the steady implementation of the plan toward the realization of economic growth and poverty reduction, the two wheels of the plan. Furthermore, it presented assistance policies for reducing poverty through economic growth in the second round of the PRSC process following the first round, and proposed to promote the following: ① Development of the investment and business environment through support for the implementation of the Viet Nam-Japan Joint Initiative; ② Improvement of public finance management under the resource allocation mechanism of the Five-year Plan; ③ Efficient mobilization and distribution of domestic and foreign funds to growth sectors through qualitative and quantitative development of financial systems (financial sector reforms); and ④ Strengthening of international competitiveness of Viet Nam's industries by reforming state-owned companies. Additionally, Japan offered a yen loan worth 3.5 billion Yen to PRSC6 in fiscal 2007.

JICA, on its part, has identified four priority areas in its assistance to Viet Nam's efforts toward realizing its national development goals: ① Promotion of economic growth and international competitiveness; ② Livelihood improvement and narrowing disparities; ③ Environment protection; and ④ Governance strengthening.

Also note that Japan has announced at the G20 London Summit held in April 2009 that it will provide financial assistance to stimulate domestic demand policies in countries that have been hit hardest by the global financial and economic crisis and face a drastic decrease in tax revenues.

### (4) Other Donors' Activity

The World Bank (WB) and the International Monetary Fund (IMF) approve of the above-mentioned Five-year Plan, in that it adopts a comprehensive approach with emphasis on poverty reduction, it has been formulated based on wide-ranging consultations, and it incorporates a monitoring and evaluation mechanism for ensuring an achievement-oriented plan formulation and implementation process, and they have adopted it as the poverty reduction strategy for Viet Nam. As the framework for supporting the strategy, the second round of the PRSC (PRSC6-10) have been organized with the participation of WB, the Asian Development Bank (ADB), the European Union (EU), the UK, Germany, the Netherlands, Canada, and

Australia. WB and ADB are also planning additional financial assistance measures in response to recent economic conditions.

#### (5) Necessity of the Project

As described above, the necessity and relevance of providing continuous assistance to the joint financing of the Eighth PRSC (hereinafter referred to as the “Project”) and providing additional financial assistance aimed at promoting economic stimulus policies that are needed to complement financial gaps accompanying the worldwide recession, is extremely high.

### 3. Project Description

(1) Project Objective: The objective of the project is to contribute to promoting economic growth and poverty reduction in Viet Nam by providing financial assistance in support of the various reforms being implemented by the government of Viet Nam (in particular, the development of investment and business environments (incl. infrastructures), public finance management, plan formulation processes, environmental management, anti-corruption measures, and financial sector and state sector reforms), and thereby help Viet Nam to achieve the following policy objectives that have been set forth in the Eighth Five Year Socio-Economic Development Plan 2006-2010 (the 8th SEDP): ① Promoting growth and the transition to a market economy; ② Reducing poverty and ensuring social inclusion; ③ Managing the environment and natural resources in a sustainable manner; and ④ Building institutions that can support the strategy. Furthermore, the project will contribute to sustainable development in Viet Nam by providing the financial assistance that Viet Nam needs in order to advance the government’s economic stimulus policies in a situation where the implementation of domestic demand expansion policies to counter the drastic decrease in tax revenues is proving difficult, due to the global financial and economic crisis.

(2) Project Site/Target Area: The entire country of the Socialist Republic of Viet Nam

(3) Project Components: In accordance with the four priority areas set forth in the Five-year Plan, the project promotes the following 17 sector reforms under the four pillars of ① Business development, ② Social inclusion, ③ Natural resources, and ④ Modern governance.

Pillar	Sector
Business development	International integration in trade, State-run sector reform, Financial sector reform, Private sector development, Infrastructures
Social inclusion	Education, Healthcare, Social security, Gender
Natural resources	Land and forests, Water, Environment
Modern governance	Plan formulation process, Financial management, Development of legal systems, Administrative reforms, Anti-corruption measures

(4) Estimated Project Cost (Loan Amount)

Total assistance by the donors of PRSC8: Approx. 650 million USD (planned)

(Note) As additional financial assistance, the government of Viet Nam anticipates 1.5 billion USD from WB, 0.5 billion USD from ADB, and 0.5 billion USD from Japan.

Current loan amount: ① From PRSC 7,000 million Yen (approx. 70 million USD)

② Additional financial assistance: 47,900 million Yen (approx. 500 million USD)

(5) Schedule (Cooperation Period): Duration of the PRSC8, June 2008 – end of May 2009. To be completed with the completion of disbursement (December 2009, planned).

(6) Project Implementation Structure

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

2) Guarantor: None

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

4) Operation and Maintenance System: A National Steering Committee (NSC) has been established with the deputy prime minister as chair and members from relevant ministries and agencies and SBV. SBV is assigned as the agency responsible for implementing the PRSC, and a Program Coordination Unit (PCU) has been established at SBV to deal with the preparation and implementation of the series of PRSC processes. The government of Viet Nam and donors plan to hold conferences to assess and confirm the progress of monitoring the pre-discussed reform items.

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

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: The project is classified as Category C, because it applies (provides financial assistance) to a sector in which no particular environmental impact is expected, and because it does not have characteristics that are liable to cause adverse impacts nor is it located in a sensitive area, as defined in the “JBIC Guidelines for Confirmation of Environmental and Social Considerations” (April 2002).

2) Promotion of Poverty Reduction: The project supports poverty reduction and growth in Viet Nam under SEDP2006-2010, which itself aims to eliminate distortions and regulations that are disadvantageous to the poor population. Additionally, the reforms to be addressed in the project include items that directly benefit the poor, such as the operation and management of social security funds. Basic infrastructure development and improvement of access to basic education and healthcare services in poor agricultural communes (particularly in minority communities) will continue to be priority issues.

3) Promotion of Social Development: The project includes such social development reforms as the development of gender equality laws and laws for the prevention of domestic violence, the introduction of completion standards for medical workers, and the formulation of a progress schedule for the introduction of full-time education (primary education).

(8) Collaboration with Other Donors: WB, ADB, EU, UK, Germany, the Netherlands, Canada, Australia, and other donors are planning to participate as co-finance donors.

(9) Other Important Issues: None

#### 4. Targeted Outcomes

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

Indicator	Baseline (Actual value in 2006)	Target (2011) [Expected value at completion of PRSC10]
Percentage of population living below the new poverty line (%)	16%	10%
Percentage of companies in which the lack of infrastructure is a primary or serious impediment to conducting business (%)	Transportation: 11.9% Power: 8.3%	< 5%
Number of regional provinces that have a pre-appraisal screening guideline for public investment works (incl. cost effectiveness analysis) (no. of provinces)	0	> 30 provinces
Percentage of companies which have responded that corruption is a serious or primary impediment to conducting business (%)	9.9%	5%
Ratio of public debt (incl. government guarantee at all levels) to GDP (%)	43.5%	< 55%
Ratio of nonperforming loans (%)	6–9%	< 5%
Total number of state-owned enterprises (SOE) owned 100% by the state (no. of companies)	2,100	< 500

In order to confirm the effectiveness of economic stimulus policies, real GDP growth will be monitored in 2009 and 2010.

(2) Internal Rate of Return: Not calculated

#### 5. External Factors and Risk Control

None

#### 6. Lessons Learned from Past Projects

None

#### 7. Plan for Future Evaluation

##### (1) Indicators to be Used

- 1) Percentage of population living below the new poverty line (%)
- 2) Percentage of minority populations living below the new poverty line (%)
- 3) Ratio of domestic private investment in total investment (%)

- 4) Percentage of companies in which the lack of infrastructure is a primary or serious impediment to conducting business (%)
- 5) Ratio of public debt (incl. government guarantee at all levels) to GDP (%)
- 6) Ratio of nonperforming loans (%)
- 7) Number of SOEs owned 100% by the state (no. of companies)
- 8) Number of regional provinces that have a pre-appraisal screening guideline for public investment works (incl. cost effectiveness analysis) (no. of provinces)
- 9) Percentage of companies which have responded that corruption is a serious or primary impediment to conducting business (%)

(2) Timing

At the time of completion of the second round of the PRSC (PRSC6-10)