Vietnam

Small and Medium Sized Enterprises Finance Project

External Evaluators: Tadashi Kikuchi, Sastoshi Ohira
(Keio University)

Field Survey: August 2006

1. Project Profile and Japan's ODA Loan

The Socialist Republic of Vietnam

State Bank of Vietnam (SBV)

1.1 Background

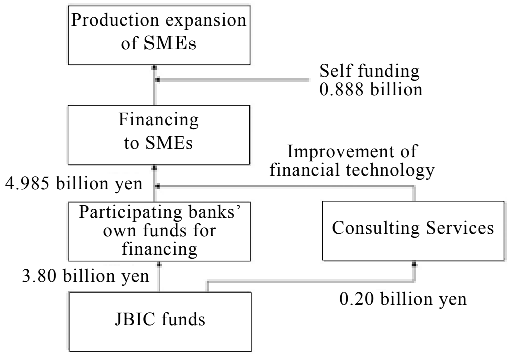
In Vietnam, where the Doi Moi (innovation) policy has been promoted since 1986, economic slow down was expected in 1998 and 1999 due to the change in the external environment resulting from the Asian economic crisis and, in fact, a sharp decline in economic activities occurred. At that time, it was widely recognized that the reform of state-owned enterprises and the development of the private sector as well as the structural reform of the financial sector were indispensable for continuous growth. Under such circumstances, special attention was paid to the development of small- and medium-sized enterprises (SMEs) from the viewpoint of enhancing competitiveness, creating employment opportunities, and nurturing the supporting industries. To this end, it was urgently required to facilitate the incorporation of state-owned enterprises and strengthen business structure. Joining as the 150th member of WTO in 2007, Vietnam is pursuing integration with the global economy while undergoing transition to a market economy. In order to achieve high economic growth and promote activities of private enterprises amid intensifying competition, various systems have been improved and the number of private enterprises is steadily increasing.

However, SMEs can obtain loans only in limited circumstances. For sustainable economic growth of Vietnam, low-cost financing and development of financial institutions to provide such financing remain urgent tasks.

1.2 Objective

The objective of the project was to increase the quantity and quality of medium-/long-term financing to SMEs by providing two-step loans via the State Bank of Vietnam and participating financial institutions in the four metropolitan areas associated with consulting services, thereby contributing to the development of SMEs in the private sector and to the transition to a market economy.

Figure 1: Project Scheme



1.3 Borrower/Executing Agency

The Socialist Republic of Vietnam/ State Bank of Vietnam (SBV)

Participating Financial Institutions (PFIs) are as follows.

ICB: Industrial and Commercial Bank of Vietnam
BIDV: Bank for Investment and Development
ACB: Asia Commercial Bank
EAB: Eastern Asia Commercial Bank

1.4 Outline of Loan Agreement

Loan Amount / Loan Disbursed Amount	4 billion yen / 4 billion yen
Exchange of Notes / Loan Agreement	March 1999 / March 1999 (took effect March 2000)
Terms and Conditions -Interest Rate -Repayment Period (Grace Period) -Procurement	 0.75% 40 years (10 years) General untied (bilateral tied for the consulting service portion)
Final Disbursement date	March 2005
Main Contractors	The Socialist Republic of Vietnam / Ministry of Finance
Consulting Services	UFJ Institute, Ltd. (merged and changed name to UFJ Research & Consulting Co., Ltd. in January 2006)
Feasibility Study (F/S), etc.	SAPROF (1998)

2. Evaluation Result

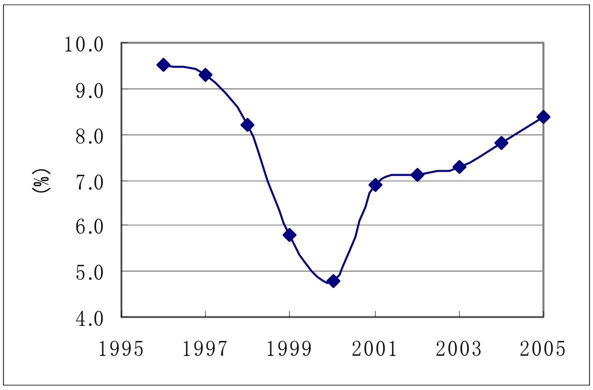
2.1 Relevance

The objective of the project was consistent with the country's national and sector policies. The project is under strong necessity at both the time of appraisal and that of ex-post evaluation and, therefore, the project plan was highly relevant.

2.1.1 Relevance at the time of appraisal

As a consequence of the Asian currency crisis in 1997, direct foreign investments that supported the high economic growth of Vietnam declined while, due to the globalization of the economy, imports of goods sharply increased. As a result, the exporting competitiveness of the country declined in relative terms and the economic growth rate which had been around 8–9% in the 1990s was forecasted to slow down in 1998 and 1999. In order for the government of Vietnam to cope with this difficult situation and achieve further economic development in a competitive international environment where economic integration under AFTA and WTO, the reform of state-owned enterprises and the development of the private sector as well as the structural reform of the financial system were indispensable. Under such circumstances, in light of the enhancement of competitiveness, employment creation and nurture of supporting industries, attention was paid to the development of SMEs in the Five-Year Plan (1996–2000) which aimed to achieve a real annual GDP growth rate of 9–10% on average.

Figure 2: Real GDP Growth Rate of Vietnam



The Five-Year Plan set importance on the development of the banking industry to both finance state-owned enterprises to be privatized and existing private enterprises. However, due to the lack of a relevant legal system and accounting standards, banks had not been well-prepared for the modernization of the financial system. They were inexperienced in basic lending activities such as loan screening and credit management and, therefore, sector policies such as the establishment of laws were needed.

This project was to provide two-step loans via the government of Vietnam and participating financial institutions (PFIs). The project was highly necessary as it aimed to alleviate the shortage of investment funds through medium- and long-term financing to SMEs and contribute to the improvement of both banking services and organization of the financial institutions through technical assistance by consultants.

2.1.2 Relevance at the time of ex-post evaluation

Vietnam, which became the 150th member of WTO in January 2007, is pursuing integration with the global economy while undergoing transition to a market economy. In order to achieve high economic growth amid intensifying competition, the government is tackling the reform of state-owned enterprises and improvement of the system to promote the activities of private enterprises.

In the Five-Year Socio-Economic Development plan for 2001–2005, the government set the target of doubling GDP from that of 1995 and estimated that the average real GDP growth rate of 7.4% per annum would be necessary to achieve the target. For the achievement of this target, it was important to develop and privatize the banking sector. As part of the measures to facilitate the transition to a market economy which was reiterated in this Five-Year Plan, the Small- and Medium-Sized Enterprises Development Agency was established under the Ministry of Planning and Investment in accordance "Decision 90," issued in November 2001. The task of the agency was to design the framework to stimulate the development of SMEs. The objective was to nurture SMEs necessary for stable economic development and support the development of the supporting industries.

In the new Five-Year Plan, the government of Vietnam set up a development vision for "Early graduation from low-income status," showing its commitment to maintain the growth policy. The government set the targets of achieving an average GDP growth rate goal of 7.5−8% for 2006–2010, increasing GDP per capita to over 1,000 dollars by 2010, and transforming the country into a modernized industrial country by the year 2020. In the Vietnam Consultative Group Meeting held in Nha Trang in central Vietnam in June 2006, IMF pointed out the delay in the economic reform and emphasized the importance of further accelerating the reform in the financial sector (the reform of state-owned commercial banks, write-off of bad loans, strengthening of the supervising function of the central bank, etc.) and the state-owned enterprises.[1]

Development of SMEs remains an important issue in the Five-Year Plan (2006–2010). The plan is pursuing to increase the number of SMEs to 320,000. The reform of state-owned enterprises is planned to progress at the same pace as in the 2001–2005 period when the number of state-owned enterprises was reduced from 5,715 to 2,508.[2]

[1] IMF also sounded an alarm on the fiscal and financial expansion policy of the government of Vietnam, citing the risk of increased vulnerability to the acceleration of the inflation rate and external shocks.

[2] According to "Decision 236" by the Ministry of Planning and Investment, 320,000 SMEs are planned to be established by 2010 at an annual increase rate of 22%.

In addressing these issues, it is necessary to alleviate the shortage of investment funds for private enterprises by providing medium- and long-term financing to SMEs. For that purpose, it is also important to help financial institutions improve their services and organization. In the Phase 2 of this project, which has already been approved, the plan is to increase the amount of lending in response to strong demand that cannot be met with this project and provide support for the establishment of the Management Information System (MIS).

This project is important also in terms of consistency with the Japanese government's policy toward Vietnam. The Japanese government has been taking a leadership role in the assistance to Vietnam and the improvement of the investment environment for the development of SMEs through bilateral political dialogue such as the "Japan-Vietnam Investment Agreement" and "Japan-Vietnam Joint Initiative" (April 2003). Also, the project is consistent with the Japanese government's support for policy reform which "Economic Reform Support Loan" under the New Miyazawa Initiative (September 1999) pursued.

2.2 Efficiency

Although the start of the project was delayed due to the slow effectuation of the loan agreement, the output and the project cost were satisfactory as compared with those initially planned. Therefore, the efficiency of the project is considered high in general. In principle, the portion of a subproject to be financed with an ODA loan must be within 65%, and the portion to be financed by PFI and the end user's own funding must be over 20% and 15%, respectively.[3] The initiatives of increasing the portion of own funding and utilizing the ODA loan effectively lead to the increase in output.

2.2.1 Outputs

Amount: The target amount was 6,073 million yen (foreign currency portion: 5,873 million yen; local currency portion: 2,183 million yen) as lending for capital investment and working capital while the total of the loans in 2004 amounted to 10,805 million yen (foreign currency portion: 3,803 million yen; local currency portion: 7,002 million yen).

Category of borrowers and the loan cap: Eligible borrowers are basically private SMEs. However, state-owned enterprises which are planned to be incorporated can also obtain loans of up to 30% of the ODA loan amount. In principle, the loan cap is 20 billion dong (VND) and the start-up financing must not be more than 20% of the total investment

[3] If the amount of imports exceeds 65% of the total investment amount, the maximum share of the ODA loan can be raised to 80% of the import amount. In this case, at least 20% of the total investment amount must be financed by PFI and prior approval of SBV is required.

amount.

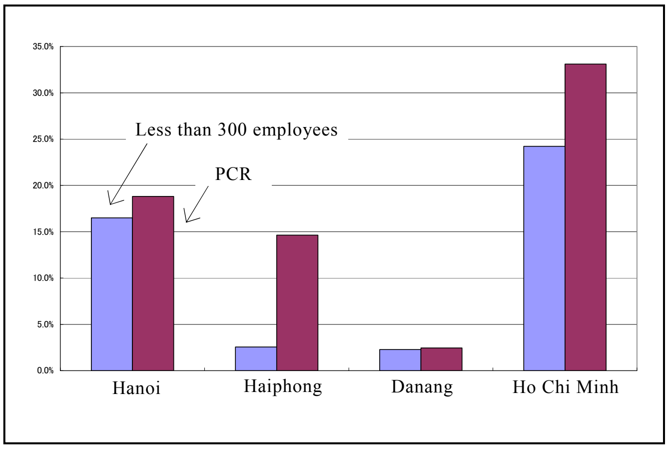
Definition of SMEs: SMEs were initially defined as enterprises with registered capital of less than 10 billion VND or less than 500 employees on annual average. During the period of the project, the limit of the average number of employees was changed to less than 300.[4] In the interview conducted for the field survey, many doubted whether the appropriateness of the limit on the number of employees to less than 300 is a part of the definition of SMEs. Labor-intensive light industries are required to increase the number of workers for further production.

Further discussion and studies are required to determine the appropriate number of employees to define SMEs. If a business financed with a loan succeeds, it would be natural to increase the number of employees. Setting a limitation on the number of employees may not be advisable from the viewpoint of nurturing the supporting industries in long run. It would be an option to reassess the initial definition of "less than 500 employees" again.

Target region: 266 SMEs in the four major provinces/cities of Hanoi, Haiphong, Danang and Ho Chi Minh and other provinces obtained loans under the project.[5] The numbers of SMEs with less than 300 workers in the four major provinces are 11,334 in Hanoi, 1,755 in Haiphong, 1,565 in Danang, and 16,644 in Ho Chi Minh.[6] In these provinces there are more SMEs than other provinces, accounting for 69% (31,298 enterprises) of the total.

We focus on these four major provinces to analyze the distribution of SMEs in Vietnam that received loans under the project in comparison with the ratios of SMEs in each region to the total number of enterprises in the country.

Figure 3: Distribution of SMEs in Four Major Provinces



Based on p481 and p495 of Statistical Yearbook of Vietnam2004 and the corporate data from PCR

The ratios of enterprises in Hanoi and Danang that received loans under the project are almost equal to the ratio of SMEs to the total number of enterprises in the country. In

[4] The current definition by the Ministry of Planning and Investment
[5] As of 2004
[6] According to Statistical Yearbook of Vietnam (2004)

Haiphong and Ho Chi Minh, the ratio of such enterprises is high in relative terms considering the distribution of SMEs in Vietnam.

The subloans were extended to various enterprises not only in the manufacturing industry but also the commercial and industrial sector in general. Subloans were not extended to the unqualified sectors such as real estate, financing, precious metal dealing, restaurant business, entertainment, weapon and ammunition dealing, and other businesses harmful to social and public morals.

Figure 4: Examples of Borrower SMEs

Copper line factory (ICB)

Socks factory (BIDV)

Printing factory (ACB)

Flour mill (EAB)

The lender PFI is indicated in parentheses.

According to the original plan, 200 million yen was allocated to consulting services while 133 million yen was actually expensed for a training program on the management of financial institutions, which was held 12 times, and for the establishment of MIS connecting each PFI to SBV.

The participants are highly satisfied by the training program. For the future, however, there is a stronger demand for the sharing of information based on actual experience among PFIs and the information of the experience of other countries than that for similar kinds of training, indicating that they are not at the stage of requiring training on basic theories but they need information directly useful in their business experience.

MIS is working in each PFI for the transaction of business. However, partly due to the limitation of funds available under the project, a system for information exchange with the central bank has not been established. An information system like MIS is difficult to build even in Japan and other advanced countries and requires a long time and large amount of cost. In this light, the loan amount should have been increased from a long-term perspective so that MIS could be established. Alternatively, the establishment of MIS should be dealt with under a separate project or under Vietnam's own-funded large-scale project. In doing so, it is preferable to consider developing a system covering not only PFIs of the JBIC loan project but all banks in Vietnam.

Merely developing computer software is not enough to enable full operation of MIS. There remain aspects that must be handled manually by bank clerks and training for them is indispensable.

Column

In this project, a rule was introduced to exclude SMEs of certain types of businesses such as finance and entertainment from eligible borrowers in order to prevent unintended use of funds for purposes other than facilitating economic growth through industrial development. However, there are some cases that may be allowable as exceptions to this rule, as with any rule.

A leasing company in Thanh Hoa, a city in the central region, desired to receive a loan under the project with the intention of enhancing the level of medical care in the region by installing expensive medical equipment. Although the hospital has the know-how on how to use medical equipment, its knowledge on how to install and maintain them is insufficient. Therefore, the leasing company considered setting up a joint enterprise with the hospital to introduce medical equipment. For the enhancement of the medical level of the region, it would be desirable to provide financing. However, it is impossible under the project because of the rule restricting the types of businesses. In order for Vietnam to promote balanced economic growth, it would be allowable to make an exception in this case.

Expensive medical equipment installed at a hospital in Thanh Hoa. This equipment, which raised the level of health care and sanitation in this region, cannot be covered by the project.

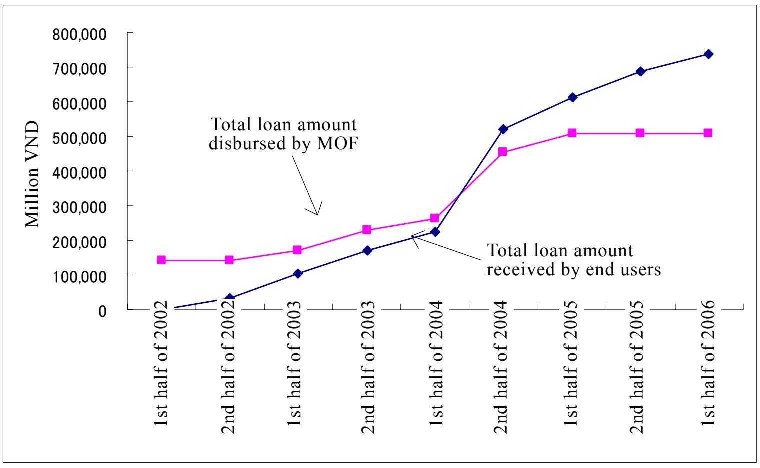
Given the high potential of Thanh Hoa as a tourist city, it is worth considering using the funds provided in this project to stimulate the tourism industry including hotels and restaurants. However, because Vietnamese recognize tourism as part of the entertainment industry, the tourism industry is excluded from industries eligible for loans under the project. In this case, a gap in the understanding between Japan and Vietnam became an issue.

For the future, further study and dialogue between Japan and Vietnam concerning the meaning of the restrictions on eligible business types and how to operate the funds will be necessary.

2.2.2 Project period

The project implementation period was planned to be 64 months at the time of appraisal, while actually it took 72 months.[7] The main cause of the delay was the delay in the loan agreement taking effect and the excessively complicated policy manual prescribing the loan procedure of PFIs.

Figure 5: Operation of Revolving Fund



Based on SBV's data

The conditions for the loan agreement to take effect were (1) submission of the list of state-owned SMEs which have been incorporated and which are planned to be incorporated, (2) notification of the establishment of the steering committee and the project management unit, and (3) submission of the memorandum concerning subloans among the Ministry of Finance, SBV and PFIs. The delay in the loan agreement taking effect was due to the delay in the submission of (3).

The biggest factor that contributed to the delay in the project was excessively complicated policy manual which made the loan procedure strict and complicated. In the interview conducted in the project area, an opinion was expressed that the provision to restrict the eligible SMEs to those located in the four metropolitan areas was a major limiting factor. In fact, the amount of financing began to increase sharply when the policy manual was simplified and the location requirement for borrower enterprises was abolished (June 2004).

The consulting services which accounted for a small portion of the total amount financed were completed in 19 months against the planned implementation period of 24 months.

2.2.3 Project cost

The planned and actual total project costs were both 4 billion yen. Of the disbursed amount, 96.6% was used as subloans to SMEs and 3.4% was expended for the consulting services.

[7] JBIC makes it a rule to count the project period from the date of the signing of the loan agreement. However, it would be better to consider that the project period starts on the date on which the loan agreement takes effect in order to evaluate the content of the project more properly. This issue requires further discussion.

2.3 Effectiveness

The project objective was to help increase the quantity and quality of financing by the Vietnamese financial institutions to SMEs. Specifically, it aimed to (1) provide medium- and long-term financing necessary for the development of SMEs using the framework of the two-step loan, and (2) improve the financial system of Vietnam and strengthen the organization of financial institutions. These targets have been achieved in terms of the increase in the number of enterprises that received financing and quantitative expansion of the scale of financing. As mentioned above ("2.2.1 Outputs"), the integration of MIS that was included in the consulting services has not been fully achieved due to constraints such as the limitation of funds. The capacity building of financial institutions to provide lending to SMEs which face severe shortage of funds and the development of system which supports the SME finance remains issues after the implementation of the project.

2.3.1 Provision of funds for the development of SMEs

A sufficient amount of funds has been provided to SMEs as clearly shown by the outputs in 2.2.1 and Figure 5. The entire amount of the ODA loan was disbursed from JBIC to the Ministry of Finance of Vietnam. By using these funds, the financing to SMEs and the use of the revolving fund from repaid loans have been carried out as planned. The amount of financing to SMEs exceeded the amount disbursed by JBIC in 2004. This indicates that the disbursed loan were utilized effectively.

2.3.2 Enhancement of capabilities of financial institutions

Here we determine the loan screening capability of financial institutions based on whether they provided loans to promising enterprises. The SMEs that received loans under this project generally recorded substantial increases in sales and profit (after tax) by 68.2% and 69.8%, respectively. The number of employees increased by approximately 25% from 25,641 (before) to 31,914(after). However, data from a commercial bank shows that the extent of growth of SMEs varies and depends on banks.

Table 1: Financial Conditions of Borrower Enterprises

Bank	Gross Sales			After-Tax Profit			Equity Capital		
	Before Project	After Project	Growth Rate (%)	Before Project	After Project	Growth Rate (%)	Before Project	After Project	Growth Rate (%)
ACB	12,842	21,306	65.9	419	796	90.0	4,137	6,142	48.5
BIDV	15,888	29,099	83.2	498	1,244	149.7	6,135	9,607	56.6

EAB	n.a.	69,673	------	n.a.	836	------	8,394	10,399	23.9
ICB	18,964	19,082	0.6	371	325	-12.3	4,774	6,426	34.6
Total	16,155	27,169	68.2	413	701	69.8	5,375	7,687	43.0

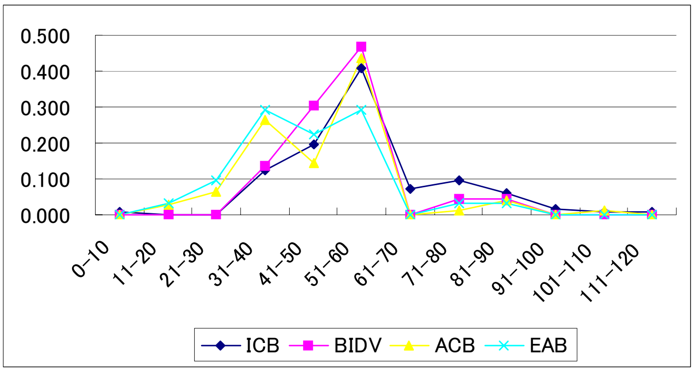
Based on the corporate data from PCR. Values are averages weighted by the pre-project values. "n.a." stands for not available. The total number of loans were 252, including 64 by ACB, 60 by BIDV, 25 by EAB, and 103 by ICB.

According to Table 1, the profit of enterprises that received loans from ACB and BIDV increased sharply after the loans were provided, marking increases of 149% and 90% respectively.

On the other hand, the SMEs to which ICB provided loans experienced little increase both in sales and profit. However, we cannot determine that financing by ICB is inefficient solely from these figures.

The periods of ICB loans are longer than those of the other three banks and ICB adopts a financing policy of pursuing long-term results rather than short-term profit. Because the data in Table 1 are those for the loans that were disbursed within two years, performance of long-term financing is reflected unfavorably [8]. Table 1 was based on the data from PCR. In fact, as a result of our research of the current management conditions of the borrower enterprises that contributed to the poor performance of ICB, all such enterprises have been rapidly growing after they experienced short-term declines in financial performance indexes immediately after taking loans when PCR was prepared. It should be noted that if a financial institution focuses on long-term financing which is the original purpose of financing to SMEs, borrower enterprises may record conspicuous declines in financial performance indexes in the short term. In addition, careful examination is required to grasp the amount financed in provincial areas except four metropolitan areas. As already mentioned, after the restriction that limited the location of borrower enterprises to four metropolitan areas

Figure 6: Relative Frequency of Financing by Loan Period (months)

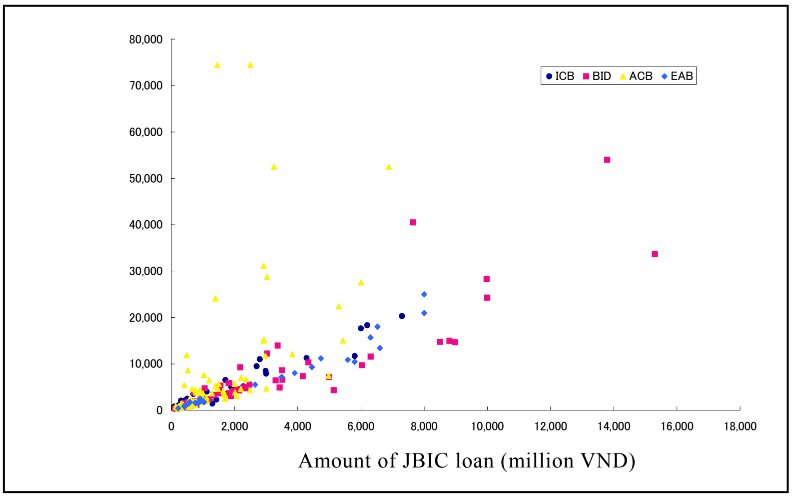


Based on the data from PCR

[8] The sales value of borrowers from EAB before the project was not presented in PCR. In order to collect and manage this data properly, is it necessary to establish a network (MIS) connecting commercial banks in major cities and the central bank (SBV) in Hanoi.

was alleviated, the amount of lending increased substantially. Actually, however, a large number of loans are provided in the regions around the four metropolitan areas. The main borrowers are those SMEs relocated from the four metropolitan areas to their suburbs. One of the significant aspects of the SME development is the contribution to regionally balanced economic growth through the development of enterprises which support the economy outside the urban areas. However, looking at the current situation, it has not been fully realized. Although regional restrictions are not desirable for smooth implementation of the project, imposing some restrictions would save efforts to coordinate the allocation of funds when there is an extremely strong demand for lending. According to the interview conducted in Hue and Thanh Hoa in central Vietnam, the need for lending under this project is high in provincial areas. As it is difficult to satisfy all such needs under the current situation, it is necessary to seek a proper balance between smooth allocation of funds by certain restrictions and ensuring fairness among regions. In the enhancement of the capabilities of financial institutions, the highest priority is placed on a departure from the "collateral-first" principle. It has been a customary practice for financial institutions to demand high-value collateral when lending to SMEs whose financial condition is difficult to assess. As a result, banks have been inactive in providing loans to SMEs. One of the objectives of this project was to enhance the capabilities of financial institutions so that they can identify enterprises with high potential and properly allocate funds without demanding collateral assets.

Figure 7: Value of Security for Loans (million VND)



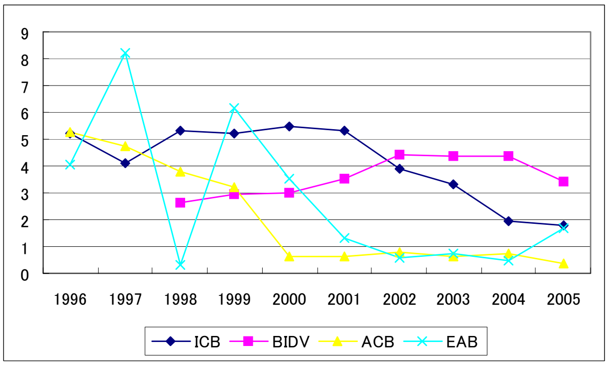
Based on the data from PCR. Loans were extended to 211 enterprises; 77 by ACB, 24 by EAB, 45 by ICB, and 65 by BIDV.

Although the "collateral-first" lending policy is still widely practiced, financial institutions started providing loans to SMEs without depending on collateral alone by quantitatively assessing the project risk or taking into particular consideration the continued business relations with the borrower and its reputation. On the other hand, some express concern over financial statements of SMEs which are considered less credible than those of large enterprises, indicating that the importance of collateral in financing to SMEs will not be denied easily. The ratio of collateral assets held against loans is particularly high for ACB as shown in Figure 7.

The bad loan[9] ratios of the four banks have generally decreased since the project started.[10] Taking into account that there have been only a few cases out of the loans provided under the project became bad loans, it can be concluded that each PFI has been implementing sound financing.[11]

In general, the project has succeeded in strengthening the organization of financial institutions, assuming the loan amount is a key performance index. In addition, all four banks say that they are satisfied with the seminars which ere given as part of the consulting services. However, as the establishment of MIS, which was initially planned under the project, was suspended and ended up unsatisfactorily, a new program to make up for it is necessary, as already mentioned.

Figure 8: Bad Loan Ratio (%)



Based on the data from PCR

2.3.3 Internal rate of return (IRR)

IRR is not calculated based on the experience of similar projects.

---

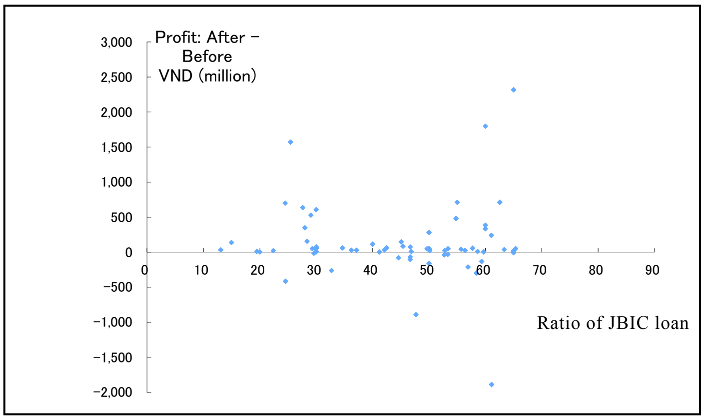
[9] Bad loan is defined as a loan past due 90 days or more.

[10] The bad loan ratio of EAB increased in 2005, though it was only a small increase of approximately 2%.

[11] We cannot see this as totally desirable. An excessively safety-oriented financing policy is not desirable. The balance between the risk and return should be properly maintained. The fact that little bad loan was generated under the project means that excessively high-value security is taken. See the thematic evaluation “Evaluation of Sector Loans”.

2.4 Impact

Figure 9: Ratio of JBIC Loan and Difference in Profit before and after the Project



Based on the data from PCR

The overall objective of the project was to facilitate transition to a market economy. Development of private enterprises is roughly divided into two aspects: privatization of state-owned enterprises and growth of private enterprises. Lending under the project helped increase profit of SMEs. Looking at the difference in profit of the borrower enterprises before and after the project, they are divided into two groups according to the ratio of the JBIC loan to the total project cost (%), which is up to 35% on average for Group 1 and 50–60% on average for Group 2 as we can see in Figure 9.[12]

However, there is no significant difference in probability of success[13] between these two groups.[14] The probability of success is 81.8% for Group 1 and 73.1% for Group 2. A notable difference is found in the variation of the amount of increase in after-tax profit. The variation is larger for Group 2 than for Group 1[15]. These analyses suggest that, although there is little difference in the probability of success or failure, Group 1 should be given higher priority in lending because of the risk factor. If the focus is to promote transition to a market economy and steadily improve the management of SMEs, which is a fundamental condition for such transition, more loans should allocated to enterprises of Group 1 that can raise relatively larger amounts of their own funds when obtaining JBIC loans.

Taking into consideration the existence of these two groups, we examined the factors

---

[12] The subjects of analysis are SMEs that received loans under the project and were found in PCR. The data used are the change in profit before and after the loan was provided, the ratio of JBIC loan to the total project cost (%), and the ratio of self-raised funds to the total cost (%). These three variables are available for 70 enterprises.
Null hypothesis (H_0): There is no difference in the ratio of JBIC loan between the two groups
Alternative hypothesis (H_1): There is a difference in the ratio of JBIC loan between the two groups
The t-test statistic is -2.568 (the number of observed values for Group 1 is 44, and N_2 is the number of observed values for Group 2 which is 26). According to the t-distribution table, this value means that "assuming that the null hypothesis true, the probability is 0.62%".

[13] The probability of success is defined as the percentage of the enterprises whose profit increased after they obtained loans.

[14] The SMEs whose profit increased after they obtained loans are considered success cases (55 cases) and the SMEs whose profit decreased are considered failure cases (15 cases). The success probability is defined here as the percentage of succeeding enterprises against the total number of enterprises.

[15] The coefficient of variation of after-tax profit is 3.59 for Group 1 and 4.02 for Group 2.

determining the success or failure of the project. As a result, the relation described below is statistically confirmed.

Success or failure of the project	⟺ Statistical relation ⟺	Ratio of raised funds = self-raised fund/fund financed by JBIC

In other words, whether the profit of borrower (SMEs) increases or not (success or failure) can be explained by the ratio of self-raised funds to the funds financed by JBIC, which indicates that the project contributed to the development of SMEs in Vietnam and that the probability of success is higher for those enterprises with higher ratio of self-raised funds.[16]

Column: Statistical Analysis of Success and Failure of the Project

As shown in Figure 7, there are two groups of enterprises that received JBIC loans. Therefore, the factor determining the success of the project was estimated using a logit model with a dummy variable D, which is 1 for SMEs where JBIC loan occupies less than 51% of the total cost and 0 for SMEs where JBIC loan occupies 51% or more of the total cost. The results are shown below.

	Inclination β_1	Dummy Variable β_0
Estimate Value (standard error)	0.9413 (0.4207)	-0.1938 (0.7803)
t Value (P Value)	2.2370 (0.025)	-0.2484 (0.804)
Log Likelihood	-35.7037	
Determination Coefficient	0.0253	
Number of Observed Values	70	

Notable in this model is that the estimate value of inclination β_1 is 09413, which is a positive value and statistically significant given the significant level of 5%.

Because the dummy coefficient is not significant in this estimation, the effect of the ratio of JBIC loan cannot be identified. Here it should be confirmed that the odds of JBIC loan (ratio of profit increase/profit decrease) of Group 1 is approximately 1.65 times higher (more likely to succeed than the group with lower ratio of JBIC loan) than that of Group 2.

Relation between JBIC loan and change in profit after the loan provision shown in odds ratio

	Odds	Odds Ratio
Group 1	4.50	1.65 (= 4.50/2.74)
Group 2	2.74	

Estimated by authors based on the corporate data from PCR

2.5 Sustainability

2.5.1 Technical capacity

There is no cause for concern over the technical capacity of each PFI that affects the sustainability of the project.

In our interviews, every PFI expressed satisfaction with the seminar that was held when the project started. For the future, they expressed a strong demand to receive training on

[16] From these analyses, it is presumed that the enterprises that have conservative financing policy are more likely to increase profit because they tend to be conservative also in business management and less likely to invest in speculative businesses.

knowledge and techniques or acquire practical skills in training courses, not in the form of half-day or multiple-day seminars or workshops. Every PFI has been striving in order to move away from excessive “collateral-first” policy. Some mentioned that the bank employees who participated in the seminar conducted under the project serve as instructors to give training to employees of their banks, thus facilitating the spread and establishment of techniques.

At the time of evaluation, the cash recovery rate of each PFI is nearly 100%.

Table 2: Cash Recovery Rate

	ICB	BIDV	ACB	EAB
2004	98.04	85.44	99.28	99.49
2005	98.22	88.36	99.61	98.28
2006	n.a.	n.a.	99.67	99.01

Among the loans extended in connection with this project, there has been no case of past-due loan except a loan by BIDV, which became past-due in 2004, and the cash recovery rate of loans provided by EAB in 2006 is reported as 97.83%. This is because in most cases they provide short-term loans repeatedly backed by steady economic growth.

There remains some concern over the unsatisfactory establishment of MIS which is not working at present.

2.5.2 Operation and maintenance system

The executing agency of this project is the State Bank of Vietnam (SBV) which implemented the project by organizing the Project Management Unit (PMU) with PFIs. Although PMU has been disbanded, former members continue exchanging information and maintain a system to ensure continuation of the project.

In each PFI, an Asset Liability Committee (ALCO) is organized pursuant to a regulation. Each PFI has a internal system to comprehensively manage assets and liabilities. In addition, a department dedicated to this project has been established and extends financing to good standing SMEs in cooperation with other departments.

2.5.3 Financial status

Financial indicators of PFIs are shown in Table 3.

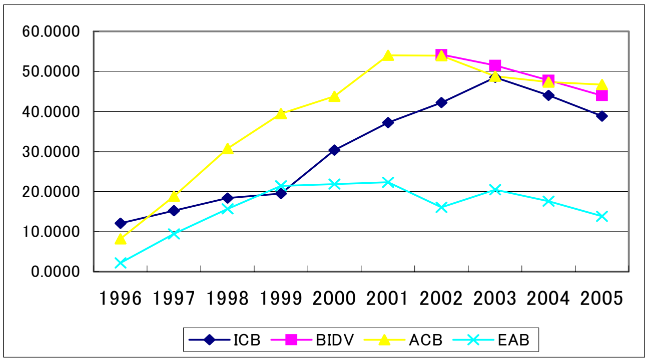
Table 3: Financial Indicators of PFIs

	Capital Adequacy Ratio (CAR)	Return on Equity (ROE)	Return on Assets (ROA)
ICB (2005.12)	6.07	7.95	0.35
BIDV (2005.12)	3.2	8.81	0.50

ACB (2006.6)	9.62	24.81	1.23
EAB (2005.12)	8.94	14.17	1.18

Based on the annual report of each bank

Figure 10: Medium- and Long-term Loans by PFIs



Based on the data from PCR

The capital adequacy ratio of ACB and EAB is over 8%, while those of the other two banks are less than 8%. As mentioned in 2.3.2, ICB and BIDV are state-owned banks which are intended to provide policy-based lending by providing long-term loans rather than pursuing short-term profit and therefore they cannot be simply compared with private banks like ACB and EAB. Improvement of financial indicators is desirable. However, if four banks reduced medium- and long-term loans for the purpose of improving their financial indicators in the short term, it would pose some concern for the long-term development of the SME sector in Vietnam.

2.5.4 Operation and maintenance status

The use of the revolving fund is shown in Figure 5. After the restriction that limited the location of borrower enterprises to four metropolitan areas was abolished in 2004, loans to end users rapidly increased and the revolving fund has been operating effectively.

3. Feedback

3.1 Lessons Learned

Selection criteria of the beneficiaries of the project (SMEs in this project) should be determined in accordance with the project objectives. In this project, SMEs have been defined as “enterprises with less than 300 employees or capital of less than 10 billion VND.” However, it is unclear whether such definition was determined in line with the objective of the project. The possibility of adopting less strict requirements should have been assessed.

When building an information system, sufficient budget and time should be allocated. Moreover, consideration should be given to establishing a system covering all financial institutions not only those involved in the project.

3.2 Recommendations

N.A.

Comparison of Original and Actual Scope

Item	Plan	Actual
(1) Outputs 1. Financial assistance for capital investment and operational fund (subloan portion)	6,073 million yen (foreign currency portion: 5,873 million yen; local currency portion: 2,183 million yen)	10,815 million yen (foreign currency portion: 3,803 million yen; local currency portion: 7,002 million yen)
1) Eligible borrower enterprises	: In principle, private SMEs (state-owned enterprises which are planned to be incorporated can also obtain loans of the amount up to 30% of the ODA loan amount) : SMEs are defined as enterprises with registered capital of less than 10 billion VND or less than 500 employees on annual average	: SMEs are defined as enterprises with registered capital of less than 10 billion VND or less than 300 employees on annual average
2) Target region	SMEs located in Haiphong, Danang and Ho Chi Minh	There is no restriction on location as long as the borrowers are located in service areas of branch offices of PFIs
2. Consulting services	200 million yen (foreign currency portion: 145 million yen; local currency portion: 55 million yen) - Construction of MIS - Sreening, monitoring, education and training, technical and management advice for customers	133 million yen (foreign currency portion: 108 million yen; local currency portion: 25 million yen)
(2) Project Period		
Signing of L/A	February 1999	March 1999
Start of disbursement to PFIs	March 1999	April 1999
Disbursement for subloans	March 1999–March 2004	April 1999–March 2004
Project completion	March 2004	March 2004
(3) Project Cost		
ODA loan	4 billion yen	4 billion yen