

## Vietnam

### Third, Fourth and Fifth Poverty Reduction Support Credits (PRSCs)

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#### 1. Program Profile and Japan's ODA Loan



The Socialist Republic of Vietnam



Feedback Seminar

#### 1.1 Background

The Vietnamese government has promoted a policy of openness toward other countries ever since the adoption of the *Doi Moi* policy in 1986. The government has been promoting economic growth and poverty reduction through further development of market economy and integration into the international economy.<sup>1</sup>

The Vietnamese government has formulated the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) in May 2002, and has been addressing its policy agenda, which includes state-owned enterprise (SOE) reform, private sector development, financial sector reform, further transition to a market economy and integration into the global economy, policy improvements and capacity enhancement in social sectors such as education and health, and strengthening of administrative reform and governance.

Through these reforms, Vietnam continued to maintain high economic growth rates exceeding 7% in 2002, 2003 and 2004, respectively. The ratio of the overall population living in poverty declined from 58.1% in 1993 to 28.9% in 2002, and 19.5% in 2004, however, the majority of people who were classified non-poor lived within a whisker of the poverty line. In addition, regional economic gaps between urban and rural areas were in an expansionary trend. Given

<sup>1</sup> Vietnam has successfully become a WTO member as the 150th member in January 2007.

the vulnerable nature of such people to external factors such as natural disasters, the basis of improvement in the poverty rate was still fragile.

As a framework to support the CPRGS, the World Bank has been extending Poverty Reduction Support Credits (PRSCs) to Vietnam. The Japanese government and JBIC have joined this framework since PRSC3, with concrete policy messages in relation to the “expansion”<sup>2</sup> of the CPRGS as well as Japan-Vietnam Joint Initiative.<sup>3</sup> The former had close link with policy issues related with developing large-scale infrastructures, and the latter with issues in improving the business climate in Vietnam. As such, Japanese government and JBIC have attached particular weight to (1) improvement of public financial management through resource allocation mechanisms of CPRGS, and (2) investment promotion and improvement of business climate (see [Figure 1](#)). For the succeeding PRSCs 4 and 5, the Japanese government has added (3) financial sector reform and (4) SOE reform to Japan’s priority areas. The Japanese government and JBIC have continued to collaborate actively, make adjustments in and contribute to the policy dialogue among the Vietnamese government, the World Bank and other donors.

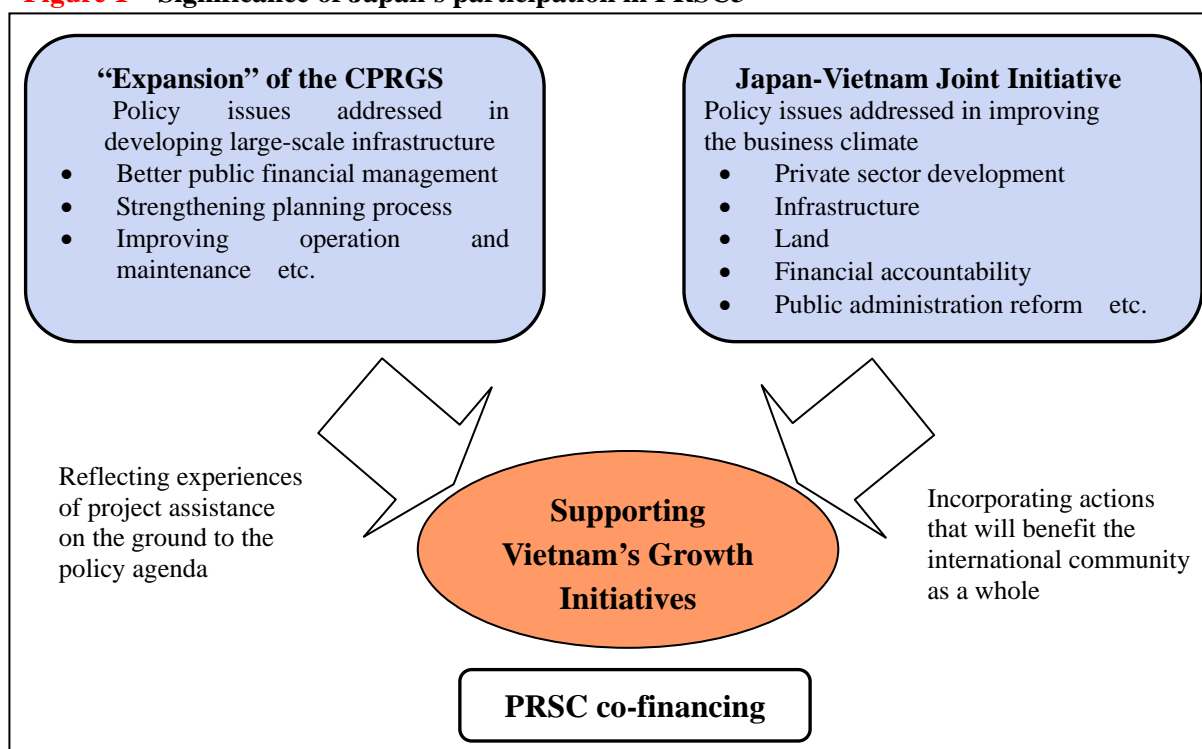
The Japanese government and JBIC have continued to support Vietnam’s economic growth and poverty reduction, which are the objectives of the CPRGS, through PRSCs. JBIC’s Medium-Term Strategy for Overseas Economic Cooperation Operations to Vietnam clearly stipulates its strategy to support both “sustained economic growth and strengthening of international competitiveness” and “poverty reduction”. It also clearly specifies a priority area for assistance as improvement of policies and institutions. Given this, JBIC has continued to provide assistance for the second round of PRSC (starting from PRSC6).

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<sup>2</sup> In response to the proposal made by the Japanese government, the Vietnamese government has added a new chapter on the role of large-scale infrastructure to the CPRGS.

<sup>3</sup> A bilateral initiative to improve Vietnam’s business environment with the aim to strengthen competitiveness.

**Figure 1** Significance of Japan’s participation in PRSC3



Source: Masumi Shimamura (2005) *Vietnam in okeru nihon-no seido seisaku eno Noudoukannyo* GRIPS Development Forum Discussion Paper No.11

## 1.2 Objectives

The objective of the PRSC program was to address the policy challenges articulated in the CPRGS and summarized as (1) transition to a market economy, (2) social inclusion and environmental sustainability, and (3) building modern governance by supporting various reforms undertaken by the Vietnamese government, and thereby contribute to poverty reduction and economic growth of Vietnam (see [Table 1](#)). As for Japan and JBIC, particular emphasis has been put on the areas of public financial management, development of investment and business environment, and reform of SOEs and financial sector (see [Table 2](#)).

**Table 1** PRSC reform areas

Pillars	Reform areas
(1) Transition to a Market Economy	Trade integration, SOE reform, financial sector reform, private sector development, infrastructure
(2) Social Inclusion and Environmental Sustainability	Education, health, social protection, land and forests, water, environment, gender
(3) Building Modern Governance	Planning process, public financial management, financial accountability, legal development, public administration reform, anti-corruption, information availability

**Table 2 PRSC reform areas with particular emphasis by Japanese government and JBIC**

Japan/JBIC's priority areas	Relevant reform areas
Public financial management	Public financial management, planning process
Investment promotion and improvement of business climate in relation to Japan-Vietnam Joint Initiative	Trade integration, private sector development, infrastructure, land and forests, environment, financial accountability, public administration reform, anti-corruption
SOE reform	SOE reform
Financial sector reform	Financial sector reform

### 1.3 Borrower/Executing Agency

The Government of the Socialist Republic of Vietnam/State Bank of Vietnam

### 1.4 Outline of Loan Agreement

	PRSC3	PRSC4	PRSC5
Loan Amount/ Disbursed Amount	2,000 million yen/ 2,000 million yen	2,500 million yen/ 2,500 million yen	2,500 million yen/ 2,500 million yen
Loan Agreement	December 2004	December 2005	March 2007
Terms and Conditions			
- Interest Rate	1.3% per annum	1.3% per annum	1.3% per annum
- Repayment Period (Grace Period)	30 years (10 years)	30 years (10 years)	30 years (10 years)
- Procurement	General untied	General untied	General untied
Final Disbursement Date	2005/3/28	2006/1/27	2007/8/17

## 1. Existing Monitoring and Evaluation Initiatives

While this ex-post evaluation has been conducted under the initiatives of JBIC, as part of its results-based management of JBIC assisted programs/projects, due consideration of the results of the existing monitoring and evaluation initiatives of the PRSC program has taken place. Following major assessments, conducted by different organizations, were available for reference, and relevant data and materials drawn from them have been utilized for analysis in the JBIC ex-post evaluation.

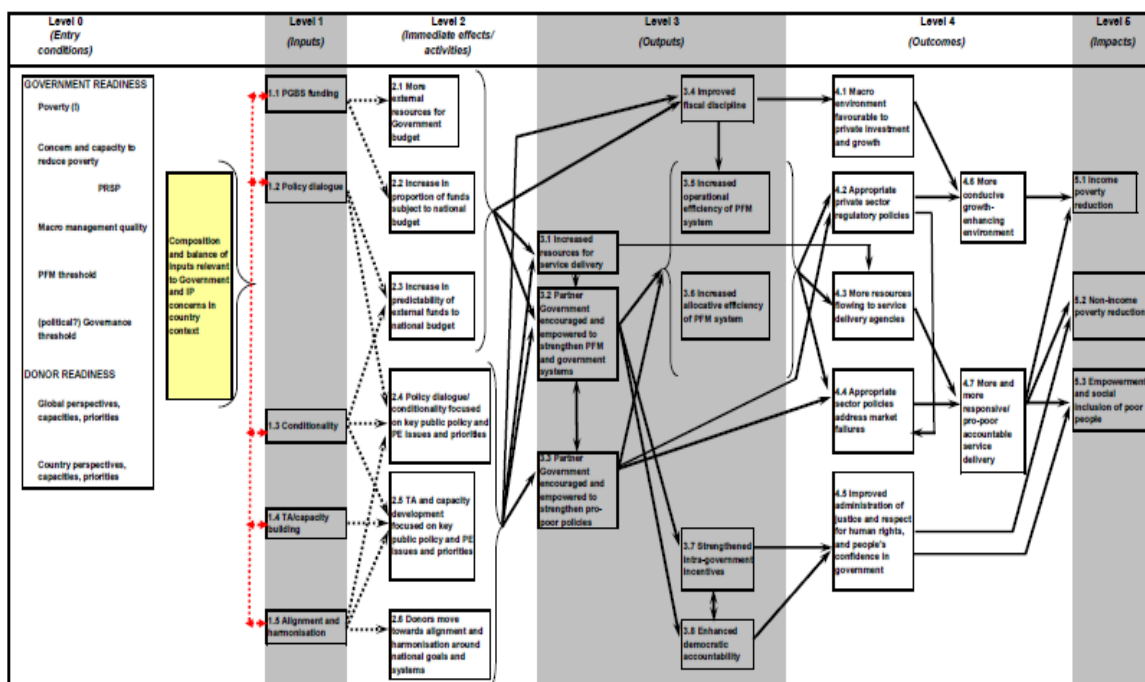
- 1) Quality at Entry Panel (for PRSC 2)
- 2) Joint Donor Evaluation (by PRSC 4)
- 3) Implementation Completion and Results Report (for PRSC1-5)
- 4) Independent Evaluation Group (by PRCS 6), now on-going initiative

Of the above, "2) Joint Donor Evaluation" was conducted under the initiative of the OECD

DAC as part of its Joint Evaluation of General Budget Support covering 7 countries<sup>4</sup> including Vietnam. This independent evaluation was based on consultations with the World Bank, relevant donors and key government counterparts. The JBIC ex-post evaluation has taken advantage of the evaluation methodology of this Joint Donor Evaluation. Figure 2 provides an overview of the Enhanced Evaluation Framework (EEF) that the Joint Donor Evaluation has specially developed to carry out its evaluation. Some of the key features of the EEF are as follows: (Source: Joint Donor Evaluation Report (2006))

- Application of the five standard evaluation criteria of the OECD DAC.
- Application of a logical framework depicting the possible sequence of effects of General Budget Support (GBS), allowing them to be systematically tested.
- Incorporation of “Level 0” in the logical framework, showing the entry conditions (i.e. the circumstances in which GBS is introduced) for GBS.
- Conceiving three main types of effect – flow-of-funds effects, institutional effects and policy effects – in GBS.
- Paying particular attention to monitoring and feedback effects at all levels of the framework.

**Figure 2 Causality Map for the Enhanced Evaluation Framework for Joint Donor Evaluation**



Source: Joint Donor Evaluation Report (2006)

Figure 3 shows the PRSC logical framework focusing on Japan/JBIC’s priorities of the PRSC reform areas. The OECD DAC’s five evaluation criteria have been applied for this evaluation.

<sup>4</sup> Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam

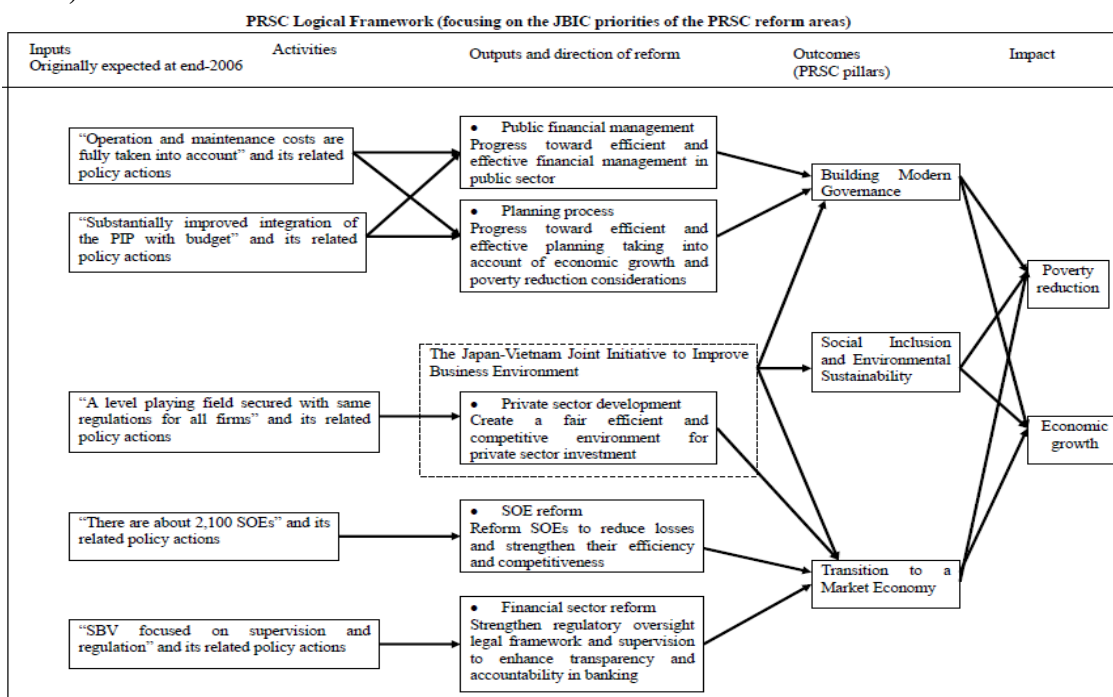
The logical framework consists of following items:

- Inputs and activities: PRSC funding, policy dialogues, conditionality, technical assistance/capacity building, donor coordination.
- Outputs: Among the PRSC reform areas, JBIC ex-post evaluation has focused on the following five;
  - Public financial management
  - Planning process
  - Private sector development
  - SOE reform
  - Financial sector reform

(Refer to Table 5 for the Operation and Effect Indicators in respective reform areas that JBIC has identified during the preparation for PRSC3, 4 and 5.)

- Outcomes: Three pillars of the PRSC – (1) Transition to a Market Economy, (2) Social Inclusion and Environmental Sustainability, (3) Building Modern Governance
- Impact: Vietnam’s poverty reduction and economic growth

**Figure 3 PRSC Logical Framework (focusing on the JBIC priorities of the PRSC reform areas)**



In addition, “(3) Implementation Completion and Results Report of PRSC1-5” by the World Bank (Report No: ICR0000483, June 29, 2007) and series of its Program Documents have also been fully utilized for this JBIC ex-post evaluation.

## 2. Evaluation Result (Rating: A)

### 3.1 Relevance (Rating: a)

Relevance is evaluated from two aspects; first the relevance of the PRSC approach, particularly the ownership of Vietnam Government and alignment to the Vietnam's national policies and development needs, second, the appropriateness of Japan/JBIC's joining the PRSC framework particularly achievement of Japan's objective for joining PRSC and Japan's contribution to the PRSC process.

#### 3.1.1 Relevance of PRSC as an aid approach

PRSC has been highly relevant with Vietnam's national policies both at the time of the appraisal and at the time of the ex-post evaluation. PRSC aims to support the CPRGS and the government's reform programs. It has flexibly evolved over time in light of Vietnam's changing development needs and priority. PRSC1 has taken over the features of Structural Adjustment Credits under the Washington Consensus, and the focus of its conditionality was mainly macroeconomic, structural reforms.<sup>5</sup> PRSC2 has broadened its coverage to social agenda and crosscutting issues, such as governance, reflecting a multidimensional nature of poverty. PRSC3 and subsequent PRSCs have given greater consideration towards the linkage between economic growth and poverty reduction. The "expanded" CPRGS, with additional chapter on the role of large-scale infrastructures has become the base document for PRSC 3, 4 and 5.

PRSC has effectively functioned as a tool for donor assistance, respecting the government's ownership and facilitating alignment with the government policy. The backward-looking<sup>6</sup> operation of the PRSC process has facilitated the Vietnamese government and relevant donors to constantly monitor and evaluate reform program in a partnership approach. PRSC has been functioning as one-stop base for policy dialogue, and playing a significant role as a "coat hanger" by formulating important framework for reform in coordination with relevant stakeholders.<sup>7</sup>

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<sup>5</sup> PRSC1 was originally designed as a SAC II. In the course of the preparation of the SAC II, PRSC was introduced as a new lending instrument to support implementation of Vietnam's poverty reduction strategy – Vietnam was finalizing an Interim Poverty Reduction Strategy Paper (I-PRSP), at the same time, it completed the ten-year Socioeconomic Development Strategy Document in early 2001. The World Bank decided to support the implementation of the I-PRSP reform program with a PRSC, rather than the SAC II. (World Bank, PRSC1 ICR, June 27 2003)

<sup>6</sup> While Structural Adjustment Credits have taken traditional multitranches operations with forward-looking approach, which relied on promises for future actions to justify disbursements, under the PRSC operation, each single-tranche loan under a programmatic approach is approved following actual performance – that is, on the basis of already completed actions – and thus contributes to systematic policy implementation. (*Review of World Bank Conditionality, Operations Policy and Country Services*, World Bank, Sept.9, 2005)

<sup>7</sup> Pointed out by relevant stakeholders at the donor side.

### 3.1.2 Appropriateness of Japan/JBIC's joining the PRSC framework

Japan/JBIC has strategically utilized bilateral assistance (e.g. project assistance, Japan-Vietnam Joint Initiative etc.) and multilateral assistance (e.g. PRSC), paying due consideration to the synergetic effects among them. Japan has actively involved in the PRSC process with clear policy messages to support Vietnam's growth initiatives and has made intellectual contribution with high level of predictability and transparency. Japan/JBIC's participation to the PRSC framework has contributed to enhance donor balance among the co-financiers that possess respective interest and priority areas for assistance.<sup>8</sup>

### 3.1.3 Evaluation of Relevance

PRSC has flexibly evolved over time in light of Vietnam's changing development needs and priority and effectively functioned as a tool for donor assistance, respecting the government's ownership and facilitating alignment with the government policy. Japan/JBIC has strategically utilized bilateral assistance and multilateral assistance, paying due consideration to the synergetic effects among them. Japan has been actively involved in the PRSC process with clear policy messages. Its contribution to the PRSC process has been highly appreciated by other donors. Therefore, this program has been highly relevant with Vietnam's national policies and needs both at the time of the appraisal and at the time of the ex-post evaluation.

## 3.2 Efficiency (Rating: a)

This criterion is evaluated by examining fund, time, and transaction costs.

### 3.2.1 PRSC funding

PRSC funding has covered substantial additional expenditures for the government's respective reform areas. **Table 3** shows that significant increase in expenditures in the areas of social safety net, health care funds and education budget has taken place. This implies that PRSC funds have given priority consideration in support of pro-poor policy agenda to mitigate the budget burden to the Vietnamese government.<sup>9</sup>

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<sup>8</sup> Pointed out by relevant stakeholders at the donor side.

<sup>9</sup> A stakeholder at the donor side pointed out the benefit of the PRSC from donor perspective as follows: "Each donor can acquire comprehensive information about Vietnam's reform initiatives with minimum financing through the PRSC framework. Hence, the rate of return of PRSC would be infinite so long as reform initiatives are moving forward."



**Table 3 PRSC funding: cost of reforms**

(US\$ million; estimated)	2002	2003	2004	2005	2006
SOCB Recapitalization	307	292	101	0	0
Social safety net	2	34	83	178	104
Health care funds	0	33	46	48	91
Education budget	0	46	160	362	537
Total	309	405	389	587	731
Contribution of PRSC (%)	39.5	31.3	42.9	30.7	29.1

Source: World Bank materials

### 3.2.2 Amount of time spent

While issues related with approval of law, which some policy actions require, is beyond the authority of the Vietnamese government (the executive branch), by and large, outputs have been produced effectively under a certain degree of time pressure based on the PRSC cycle. The Vietnamese government (the executive branch) plays a very important role in the process of formulation of legal documents (both laws and under-law documents), however, it is the National Assembly that gives approval to most laws. As such, delays could happen occasionally, and part of the reasons for the slow reform in the financial sector has been pointed out on this account.

### 3.2.3 Transaction costs required

Effective coordination mechanisms among relevant organizations have been established (within Vietnamese government, among relevant donors, and within Japanese relevant organizations). The Vietnamese government has effectively accumulated experiences in the PRSC process so far.<sup>10</sup> Figures 4, 5, 6, and 7 illustrate the coordination mechanisms within the Vietnamese government. The National Steering Committee (NSC), headed by the First Deputy Prime Minister as a Chairman, was established in 2002. The NSC has the authority over the CPRGS implementation and the entire PRSC policy decisions at the highest level. The State Bank of Vietnam (SBV) is the agency responsible for preparation and implementation of the PRSC.

The PRSC Program Coordination Unit (PCU), in particular, has effectively played the role of the one-stop base for policy dialogue and coordination within the government and with the donors.<sup>11</sup> In light of the increasing workload and the importance of the PRSC initiatives, the PCU – a full time coordination unit – was set up under the International Cooperation Department of the SBV since PRSC3 to exclusively take charge of every matter related with the PRSC operations. As mentioned above, PRSC has evolved over time and expanded its coverage to wider range of the economy and society. The administrative costs of the PCU

<sup>10</sup> Pointed out by a relevant stakeholder at the Vietnamese side.

<sup>11</sup> Pointed out by a relevant stakeholder at the Vietnamese side.

(including salaries for the personnel) have been covered by the assistance from donors.

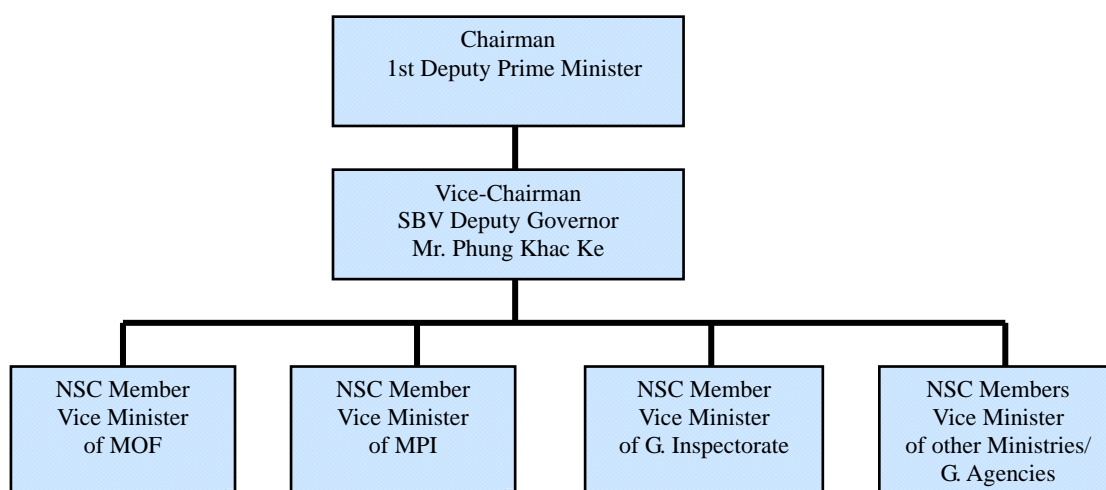
While transaction costs have increased as growing number donors participate, they have been kept within a manageable level. The process for choosing policy actions and benchmarks has become complicated due to the different areas of priority and interest for each donor. The World Bank, as a focal donor, has incurred most of the burden concerning coordination among donors and with the Vietnamese government. The fact that both the government and the donors working together in a harmonized manner throughout the process have greatly contributed to improve efficiency. The government has strengthened its ownership and become more active in the PRSC process as it accumulated experiences.

Coordination within the Japanese relevant organizations has been taken place with full utilization of the ODA Task Force at the field level (Embassy, JBIC, JICA and JETRO). In addition to a close communication between the field side and the Tokyo side, coordination has been taken place among the relevant Ministries and JBIC/JICA headquarters in Tokyo.

#### Coordination mechanisms within the Vietnamese government

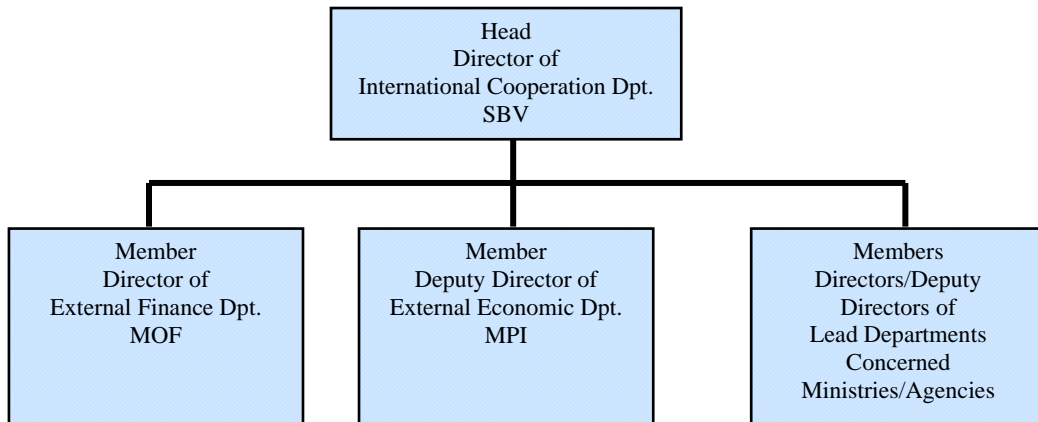
(Sources of all the diagrams below: SBV PCU)

**Figure 4 The National Steering Committee for PRSCs**

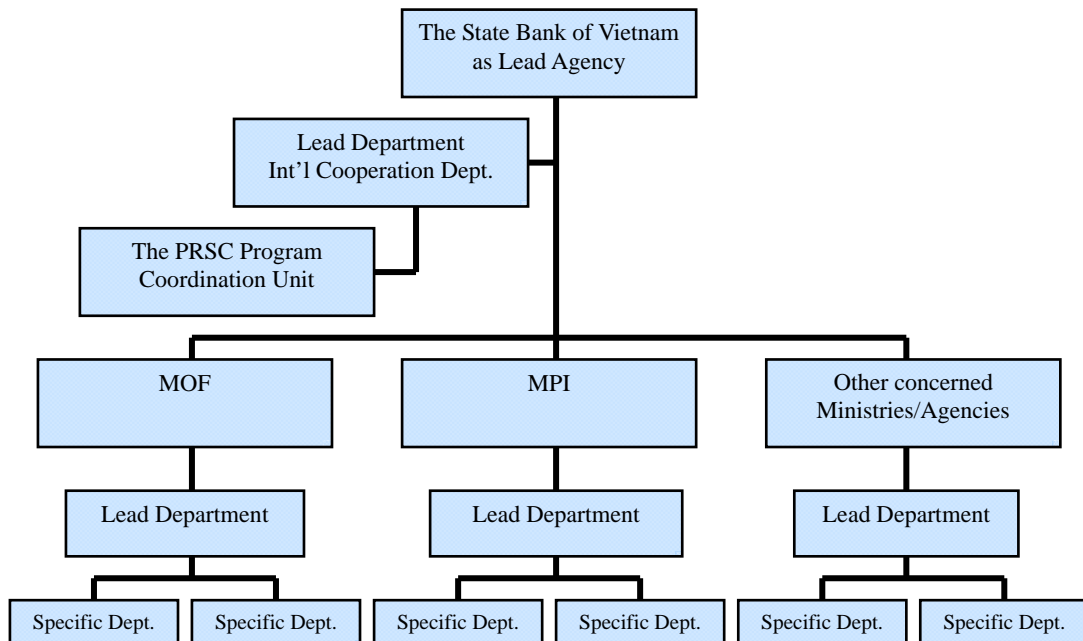


\* The National Steering Committee for the implementation of the CPRGS and PRSCs was established in 2002. The member Vice Minister is appointed by the respective Minister.

**Figure 5 The Secretariat for PRSCs**

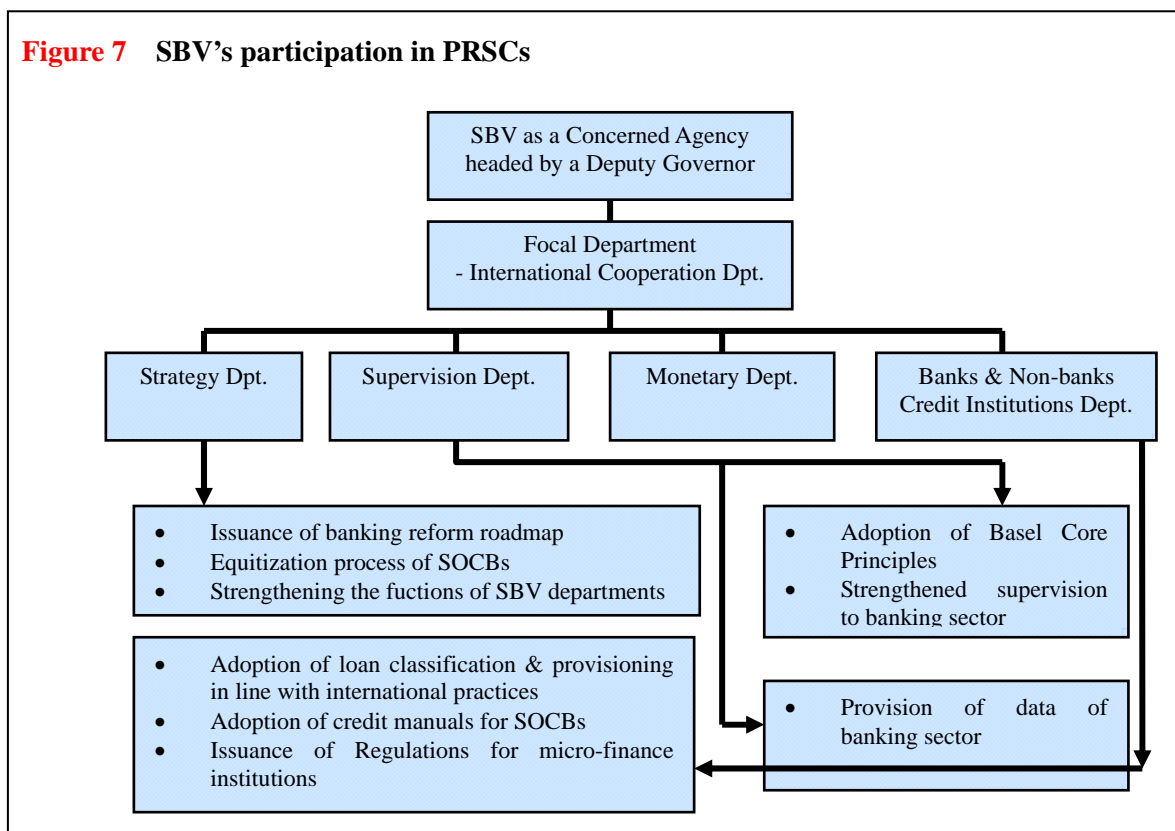


**Figure 6 The Ministerial-level Management**



\* The PRSCs Program Coordination Unit was only established since PRSC 3, but has shown valuable contribution to supporting the broadly concerned ministries in the preparation, implementation and monitoring of the operations and to the coordination between the Government and the World Bank & other donors.

**Figure 7 SBV's participation in PRSCs**



The fact that Vietnam has been implementing PRSC constantly every year has shown that workable PRSC process has been progressing in Vietnam (see Table 4). In the cases of other countries in Asia, transaction costs are likely to be huge for constant implementation of PRSC. In fact, Vietnam has been considered as a role model from other country for PRSC good practice. Missions from the Laotian government have visited Vietnam twice to learn Vietnam's PRSC experiences.

**Table 4 PRSCs in International Perspective (for Asian countries)**

Region	Country	FY01	FY02	FY03	FY04	FY05	FY06	FY07
East Asia	Cambodia							1
	Lao PDR					1	2	3
	Vietnam	1 (I)	1 (II)	2	3	4	5	6
South Asia	Nepal				1			
	Pakistan					1	1 [+]	
	Sri Lanka			1		2		

Source: World Bank materials

### 3.2.4 Evaluation of Efficiency

PRSC funding has covered substantial additional expenditures for the government's respective

reform areas. With regards to the amount of time spent, while issues which some policy actions require, is beyond the authority of the Vietnamese government (the executive branch), by and large, outputs have been produced effectively under a certain degree of time pressure based on the PRSC cycle. As for the transaction costs required, effective coordination mechanisms among relevant organizations have been established (within Vietnamese government, among relevant donors, and within Japanese relevant organizations). While transaction costs have increased as growing number donors participate, they have been kept within a manageable level.

Considering the above, efficiency of the project is evaluated as high.

### 3.3 Effectiveness (Rating: a)

Effectiveness is evaluated from two aspects; first the achievement of PRSC outcome, second, the effectiveness on the Japanese parties particularly in improving the business climate, Japan-Vietnam Joint Initiative and as a method of addressing and formulating technical assistance and projects.

#### 3.3.1 Achievement of PRSC outcomes by use of outputs

While progress has been slower in financial sector reform, in general, reform process has been moving forward as expected in other policy areas of Japan/JBIC's priority (i.e. public financial management, planning process, private sector development, and SOE reform). In the case of financial sector reform, there are challenges in securing coherence among legal documents, which can be considered as part of the reasons for delay.<sup>12</sup>

**Table 5** summarizes the Operation and Effect Indicators in respective reform areas that JBIC has identified during the preparation for PRSC3, 4 and 5. The information in the column of status was drawn from the Implementation Completion and Results Report prepared by the World Bank on June 29, 2007.

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<sup>12</sup> Several people pointed out during the interview that a major breakthrough would be expected in this reform area if Vietcombank's initial public offering (IPO) were to succeed.

**Table 5 Progress towards development outcomes**

Indicators	Baseline (2003)	Target (2006)	Status
Public financial management: Operation and maintenance costs are fully taken into account	U: Unsatisfactory (Limited progress)	Improve from U	Satisfactory: Ban on public investment projects without proper funding. Medium Term Expenditure Frameworks (MTEFs) better integrate capital and recurrent expenditure in four sectors <sup>13</sup>
Planning process: Substantially improved integration of the Public Investment Program (PIP) with budget	S: Satisfactory (Expansion of CPRGS to infrastructure)	Maintain or improve from S	Satisfactory: Improved criteria to prepare, appraise and implement public investment projects leading to better selection and more transparent funding
Private sector development: A level playing field secured with same regulations for all firms	U: Unsatisfactory (Limited progress)	Improve from U	Satisfactory: New land Law improves access to land Corporate tax unified.
SOE reform: There are about 2,100 SOEs	PS: Partially Satisfactory (decreased from 5,334 SOEs in 2001 to 4,361 SOEs in 2003)	Maintain or improve from PS	Satisfactory: About 2,000 SOEs. Large SOEs being transformed. SOE shares sold through auctions.
Financial sector reform: SBV focused on supervision and regulation	U: Unsatisfactory (Conflicting SBV responsibilities as owner and regulator)	Improve form U	Partially Satisfactory: Banking reform roadmap approved to remove conflicts and focus SBV on supervision.

The important issue concerning effectiveness is how to secure adequate enforcement on the ground, after the framework for reform (e.g., legal documents) has been established. The PRSC can facilitate reform process by setting appropriate milestones and policy measures such as implementation guidelines.<sup>14</sup> However, limitations exist as the PRSC cannot be considered a panacea for every reform (see 3.5.1 “Functional sustainability” of PRSC mechanism).

### 3.3.2 Effectiveness on the part of Japanese parties

In relation to Japan-Vietnam Joint Initiative to improve business climate, although it is difficult to trace the attribution, the increase in investment (in total and from Japan, respectively) has coincided with the PRSC assistance period (see Figures 8 and 9). It should be noted that the

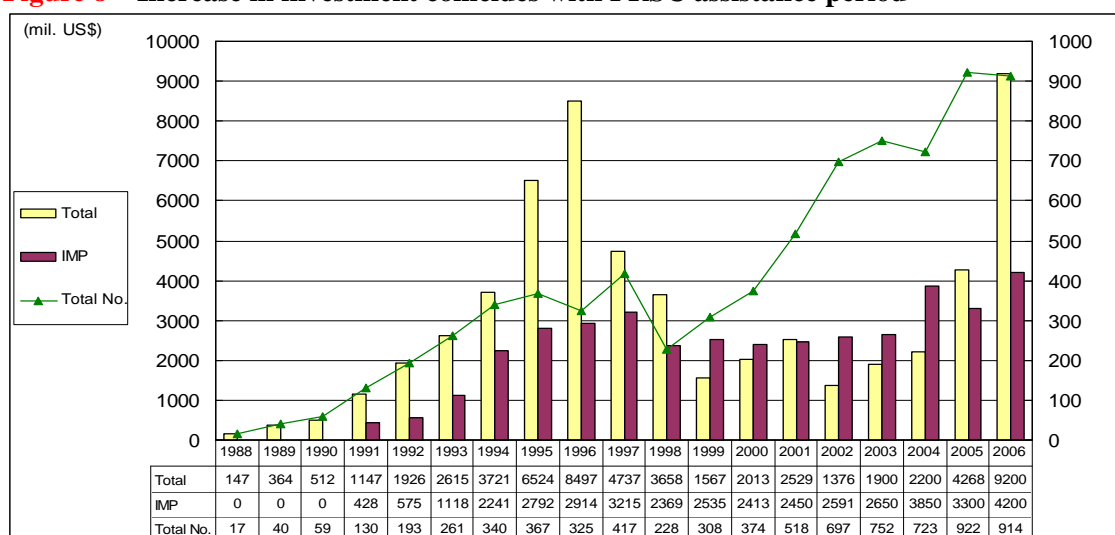
<sup>13</sup> Four sectors refer to: education, agriculture and rural development, health, and transport.

<sup>14</sup> For example, a number of decrees provide guidelines for implementing the new Enterprise Law and Investment Law.

increasing investment trend started around 2000, when Vietnam has decided to strengthen trade integration with the aim to become a WTO member. In fact, WTO accession was one of the conditions in the US-Vietnam Bilateral Trade Agreement, which was concluded in July 2000. As such, the direction of Vietnam’s reform initiatives has been set at the time. In fact, PRSC policy actions have been consistent with WTO compliance, and PRSC may well be considered as one of the available tools to support Vietnam’s WTO accession. Accordingly, Vietnam has increased its attractiveness as a destination for investment, since potential investors may have perceived the investment risks to come down.

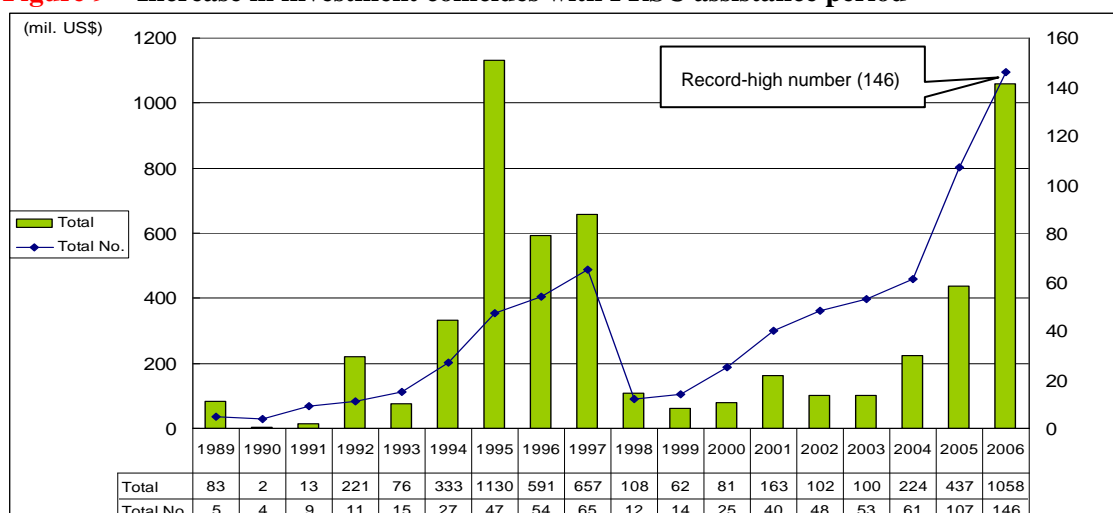
One of the breakthrough achievements, pointed out by Japanese investors in Vietnam, was the “elimination of unanimous or consensus rule” under the new Enterprise Law. Many Japanese investors have recognized this restrictive investment rule as a serious bottleneck. While enforcement issues still remain, there are big expectations on the side of the investors for improvement in a real sense.

**Figure 8 Increase in investment coincides with PRSC assistance period**



Source: materials from a JICA expert

**Figure 9 Increase in investment coincides with PRSC assistance period**



Source: materials from a JICA expert

From the perspective of the availableness to generate opportunities for project/program formulation, PRSC has lead to formulate and implement concrete projects and programs to support reform process on the ground by strengthening capacity and facilitating institution building.

Table 6 shows some specific examples of cases that policy dialogue under the PRSC framework has let to generate opportunities for project/program formulation. Supporting policy reform under the PRSC framework and supporting individual projects/programs will have reinforcing impact with each other. PRSC policy dialogue has lead to implementation of concrete projects and programs to support reform process on the ground.

**Table 6 Availableness to generate opportunities for project/program formulation**

Policy measures taken up at the PRSC policy dialogue (examples)	JICA projects/programs	JBIC projects/programs
Issues for enhancing transparency of Development Assistance Fund (DAF)	Preparation of a technical cooperation project underway for SBV capacity building	A study underway for the preparation of action plans to strengthen risk management system of the Vietnam Development Bank
Traffic safety issues	Development study on National Road Traffic Safety Master Plan underway	Northern Vietnam National Roads Traffic Safety Improvement Project underway
Adoption of regulations for master and regional plans	Development study on Master Plan for the Improvement of Rural Living Conditions in North Western Mountainous Region underway	Small-Scale Pro-Poor Infrastructure Development Project (III) to be prepared for implementation
Preparation of pilot MTEF for transport sector	Support provided through Transport Partnership group activities (Co-chairs: MOT and JBIC)	



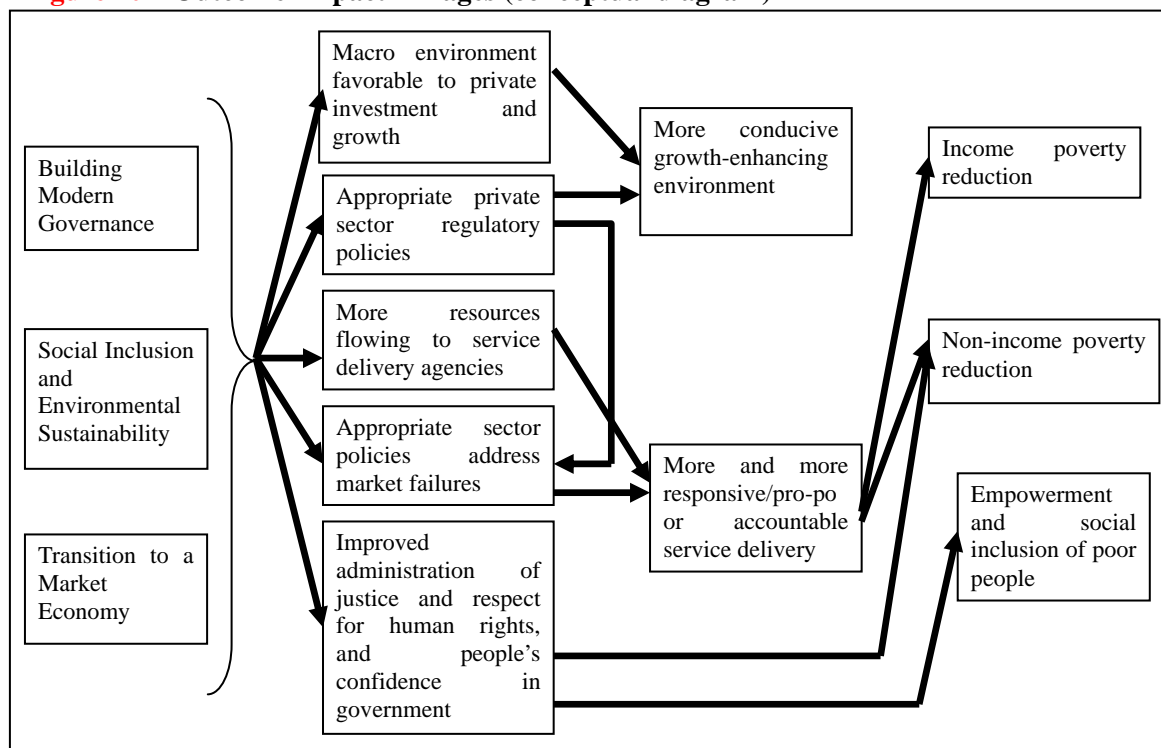
### 3.3.3 Evaluation of Effectiveness

While progress has been slower in financial sector reform, in general, reform process has been moving forward as expected in other policy areas of Japan/JBIC's priority. With respect to the initiatives to improve business climate, the increase in investment (in total and from Japan, respectively) has coincided with the PRSC assistance period. Furthermore, PRSC has led to formulate and implement concrete projects and programs to support reform process on the ground by strengthening capacity and facilitating institution building. Therefore, this program has largely achieved its objectives, and effectiveness is highly satisfactory.

### 3.4 Impact

Figure 10 shows the conceptual diagram on the linkages between outcomes and impacts. Outcomes are the three pillars of the PRSC: (1) Transition to a Market Economy, (2) Social Inclusion and Environmental Sustainability, (3) Building Modern Governance. The diagram was drawn from the causality map in the Joint Donor Evaluation report.

**Figure 10 Outcome-Impact linkages (conceptual diagram)**



Source: Modification of Joint Evaluation of GBS report

#### 3.4.1 Economic growth

Vietnam has made remarkable achievements in economic growth and firm accomplishments in poverty reduction. And such records have been consistent with the increasing trend of investment to Vietnam. The Vietnamese economy has continued to develop in a robust manner, exceeding 7 percent GDP growth per year from 2002 to 2004, and over 8 percent growth since

2005. Foreign Direct Investment (FDI) inflows, boosted by Vietnam's accession to the WTO, have surged (see [Figure 11](#)).

**Figure 11 Key economic indicators**

	2002	2003	2004	2005 r/	2006 e/	2007 p/	2008 p/
	Year	Year	Year	Year	Year	Year	Year
<b>Output, Employment and Prices</b>							
GDP (% change previous year)	7.1	7.3	7.8	8.4	8.2	8.3	8.2
Industrial production index (% change, previous year)	14.5	15.5	16.0	17.2	17.0	17.5	17.5
Unemployment rate (% , urban areas)	6.0	5.8	5.6	5.3	4.4	4.0	4.0
Consumer price index (% change, period-end)	4.0	3.0	9.5	8.4	6.6	8.0	7.3
<b>Public Sector</b>							
Government balance (% GDP, excluding off-budget item)	-1.4	-1.2	0.9	-1.2	-0.3	-3.4	-2.1
Domestic public sector debt (accumulated, % GDP) (including guaranteed and off-budget items)	10.1	13.7	15.4	17.4	18.6	19.4	20.8
<b>Foreign Trade, BOP and External Debt</b>							
Trade balance (\$US million)	-3,027	-5,107	-5,451	-4,531	-5,010	-7,822	-8,922
Exports of goods, (\$US million)	16,706	20,176	26,485	32,447	39,826	47,393	56,398
Exports of goods (% change, previous year)	11.2	20.8	31.3	22.5	22.7	19.0	19.0
Key exports, (value, % change) - crude oil	4.6	16.8	48.3	30.3	12.1	-10.0	0.0
Imports of goods, (\$US million, cif)	19,733	25,256	31,954	36,978	44,836	55,215	65,320
Imports of goods (% change, previous year)	22.1	28.0	26.5	15.7	21.2	23.2	18.3
Current account balance (\$US million)	-670	-1,930	-1,565	-500	-165	-2,200	-2,560
Current account balance (percent GDP)	-1.9	-4.9	-3.4	-0.9	-0.3	-3.2	-3.2
Foreign direct investment (inflows, US billion)	2.0	1.9	1.9	2.0	2.4	2.8	3.2
Total external debt -DOD- (\$US billion)	12.3	13.4	15.3	17.1	18.4	21.3	24.0
as percent of GDP	35.0	33.8	33.5	32.2	30.2	30.8	30.2
Debt service ratio (% exports of g&s)	8.3	7.5	6.0	5.6	5.3	5.5	5.6
Reserves, including gold (\$US billion)	3.7	5.6	6.3	8.6	11.5	19.9	23.6
Reserves (in weeks of imports of g&s)	7.2	8.7	8.4	9.4	10.4	15.2	15.5
<b>Financial Markets</b>							
Credit to the economy (% change, period-end)	22.2	28.4	41.6	31.7	25.4	30.0	25.0
Short-term interest rate (3-M deposits, period-end)	7.0	6.3	6.7	7.8	8.3	8.3	8.0
Stock market - VN index (Jul 2000 =100)	183	167	239	308	754	---	---

Sources: GSO, SBV, IMF and WB

### 3.4.2 Poverty reduction and attainment of MDGs

Positive changes are also seen in the social development with the rate of poverty headcount reduced to 19.5 percent in 2004 (see [Figure 12](#)). Vietnam has already achieved four of the ten main MDG targets set for 2015, and likely to achieve five more targets ahead of time (see [Figure 13](#)). Vietnam's role in the international arena has been improved, and Vietnam has become an economy with enormous prospects for development and an attractive destination for foreign investors. (MPI, World Bank)

**Figure 12 Trends in poverty**

Poverty headcount	1993	1998	2002	2004
North East	86.1	62.0	38.4	29.4
North West	81.0	73.4	68.0	58.6
Red River delta	62.7	29.3	22.4	12.1
North Central coast	74.5	48.1	43.9	31.9
South Central coast	47.2	34.5	25.2	19.0
Central Highlands	70.0	52.4	51.8	33.1
South East	37.0	12.2	10.6	5.4
Mekong delta	47.1	36.9	23.4	15.9
Kinh and Chinese population	53.9	31.1	23.1	13.5
Ethnic minorities	86.4	75.2	69.3	60.7
All of Vietnam	58.1	37.4	28.9	19.5
All of Vietnam (food poverty)	24.9	15.0	10.9	7.4

*Note:* GSO and World Bank staff estimates. The poverty headcount indicates the percentage of the population with expenditures below the food and non-food consumption bundle needed to sustain an intake of 2100 calories per person per day. The food poverty rate refers to expenditures below the value of the food component of that bundle.

**Figure 13 Progress towards the Millennium Development Goals**

Goal 1	Eradicate extreme poverty and hunger	Progress	Status
Target 1	Halve between 1990 and 2015 the proportion of people living in poverty	Poverty reduced by two thirds between 1993 and 2004	Already achieved
Target 2	Halve between 1990 and 2015, the proportion who suffer from hunger	Proportion reduced by more than two thirds between 1993 and 2004	Already achieved
Goal 2	Achieve universal primary education	Progress	Status
Target 3	By 2015 boys and girls to complete a full course of primary schooling	Grade 5 completion rate has risen has reached 89 percent	Likely to be achieved
Goal 3	Promote gender equality	Progress	Status
Target 4	Eliminate gender gaps in primary and secondary education no later than 2015	Gender equality at all school levels, except for ethnic minorities	Already achieved
Goal 4	Reduce child mortality	Progress	Status
Target 5	Reduce by two thirds between 1990 and 2015, the under-five mortality rate	Reduced by 60 percent between 1990 and 2002, now at 23/1000	Likely to be achieved
Goal 5	Improve maternal health	Progress	Status
Target 6	Reduce maternal mortality by three quarters, between 1990 and 2015	Fell by two thirds, from 250 per 100,000 births in 1990 to 85 now	Likely to be achieved
Goal 6	Combat HIV/AIDS and other diseases	Progress	Status
Target 7	By 2015 have halted and begun to reverse the spread of HIV/AIDS	Infection rate went up from 0.34 percent in 2001 to 0.44 in 2005	Likely to be achieved
Target 8	By 2015 halted and reverse the incidence of malaria and other diseases	Malaria cases severely reduced	Already achieved
Goal 7	Ensure environmental sustainability	Progress	Status
Target 9	Embrace sustainability and reverse the loss of environmental resources	Forest cover up but loss in closed-canopy forest and biodiversity	Uncertain to achieve
Target 10	Halve, by 2015 the share of people without drinking water and sanitation	Share without improved water source fell by almost three quarters	Likely to be achieved

*Source:* United Nations Development Program (UNDP), General Statistics Office (GSO) and World Bank.

### 3.5 Sustainability (Rating: b)

Sustainability is evaluated from two aspects; first the functional sustainability of PRSC mechanism, achievement of PRSC outcome, second, the continuity of Japan/JBIC's participation in the PRSC framework.

#### 3.5.1 “Functional sustainability” of PRSC mechanism

While PRSC mechanism itself may come to an end with Vietnam's graduation from the IDA eligible status (most probably after 2011), in order for the effectiveness of PRSC outputs and outcomes to continue in medium and long term, “functional sustainability” of PRSC mechanism becomes a critical factor.

“Function” referred here could be understood as accumulated experiences, knowledge, skill etc., which have been fostered through the past PRSC initiatives by relevant parties. Such function is highly valuable not only for the future PRSC operations *per se*, but also for the Vietnamese government's overall policy making and reform initiatives in a forward looking manner. The Vietnamese government has translated such function into their daily work – through enhancing communication and coordination mechanisms, and strengthening channels for policy dialogue within the government as well as with donors and investors.<sup>15</sup> Through PRSC process, the donor side has also strengthened coordination and channels for policy dialogue with the Vietnamese government.

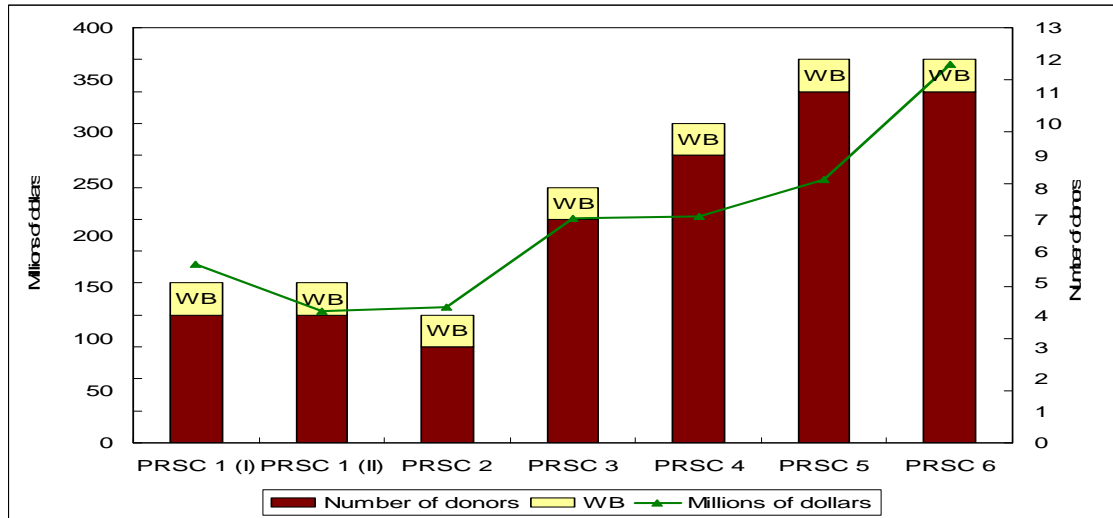
“Sustainability” here refers to whether or not, and to what extent the abovementioned functions would be retained and utilized later on, even without PRSC after Vietnam graduates from IDA. Configuration of donor support corresponding to the post-PRSC mechanism, if any, may change, and the SBV may no longer play the role as a focal point within the government after 2011. In fact, the Vietnamese government may choose some other agencies as focal point to carry over and utilize such accumulated functions. In this sense, “function” and “institution” should be distinguished clearly here – it is the function that needs to be retained and enhanced, not the institution itself (e.g., SBV).

Despite the number of donors participating in the (post-)PRSC mechanism may increase in the future, PRSC “function” should continue to be workable, keeping transaction costs for coordination within a manageable level. **Figure 14** shows the total disbursement by operation and the number of co-financiers. As new rounds of PRSC proceed, disbursement amount and the number of co-financiers have also increased. The fact that Vietnam can continue new rounds of PRSC constantly has shown that these increasing transaction costs for coordination have been managed effectively. Hence, the bases for “functional sustainability” of PRSC mechanism can be considered existent.

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<sup>15</sup> Pointed out by a relevant stakeholder at the Vietnamese side.

**Figure 14 Total Disbursement by Operation and Number of Co-financiers**



Source : modification of World Bank material

Through PRSC experiences, the government has learned how to manage changes to the economy and society. As Vietnam is rapidly undergoing transition to a market economy, effective management of changes becomes highly critical. Vietnam is facing a new challenge, and PRSC function should be developed in order for the Vietnamese government to quickly and adequately respond to changing environment in the international market, which Vietnam is more and more exposed to. Post-PRSC needs to address market participants in the international financial market (i.e., external stakeholders), in addition to the existing FDI investors, who have been one of the target audience in the past PRSCs. In fact, true policy stance/fiscal stance needs to be signaled to such external stakeholders in order for the Vietnamese government to effectively manage expectations about the economy.

As Vietnam will have more options for funding sources to cover the country's development needs (especially after 2011), whether the Vietnamese government would still be interested in borrowing from donors in softer terms or rather opt to procure funds from other sources in harder terms would become a question to be noted. The Vietnamese government would give careful consideration to various conditions to decide on the most desirable option – transaction costs for donor coordination could be one of the items that the government would examine. Such being the case, donors may start to consider the strategies for working with middle income country.

The effectiveness of PRSC outputs and outcomes will be sustained only when they are complemented by technical assistance on the ground. As mentioned earlier, PRSC can not be considered a panacea for every reform. Because PRSC policy actions are the essence of the most important milestones for reform, limitation exists in dealing with step-by-step capacity building on the ground – and it is the role of the technical assistance to do the job. Therefore, PRSC needs to be complemented by technical assistance for institution building and capacity

enhancement to make real changes. They should go hand in hand to exert synergetic effects.

In view of Vietnam's further economic integration, technical assistance should address the needs of market participants in the international financial market. The level of challenge is expected to increase as new round of PRSC proceeds.

### 3.5.2 Continuity of Japan/JBIC's participation in the PRSC framework

A Japanese investor has made an important point, in relation to Japan-Vietnam Joint Initiative, that establishing the rule of the game is not the end in itself, but how to ensure its effectiveness is the issue. Japanese investors are eager to see practical gain from the initiatives.

By the same token, preparation of policy actions is not the end in itself in the PRSC initiatives. Actual institutional reform and capacity building at the field are indispensable to achieve real reform. Therefore, JBIC/JICA should provide appropriate technical assistance so as to secure enforcement for real changes and to strengthen PRSC effectiveness and sustainability.

### 3.5.3 Evaluation of Sustainability

While PRSC mechanism itself may come to an end with Vietnam's graduation from the IDA eligible status (most probably after 2011), in order for the PRSC "functions" to be sustainable, following measures are necessary;

- Effective coordination mechanisms for further reform should be developed.
- PRSC function should be developed in order for the government to quickly and adequately respond to changing environment in the international market.
- Appropriate technical assistance should be provided to complement PRSC and to facilitate reform in a real sense.

The level of challenge is expected to increase as new round of PRSC proceeds and difficulty in implementing future PRSCs may increase. Thus the sustainability of the program is moderate.

## 4. Feed Back

### 4.1 Conclusion

In light of the above, relevance, effectiveness and efficiency is evaluated as high and the program as a whole is evaluated to be highly satisfactory. In order to strengthen PRSC sustainability, mechanisms for effective coordination, quick adoption to changing environment and reinforcing the PRSC with appropriate technical assistance should be developed.

### 4.2 Lessons Learned

<To be addressed to JBIC and Japanese relevant organizations>

- As the PRSC is a field-based operation that requires relevant stakeholders to constantly participate, strengthening the functions relevant to work on the PRSC at the field level (JBIC/JICA local offices as well as ODA Task Force) becomes a critical issue. At the same time, sufficient support from the Tokyo side (relevant Ministries and JBIC/JICA headquarters) is also necessary.

- In order to reduce transaction costs and to facilitate coordination/decision making process among the Japanese relevant parties, it is important to clarify the division of roles and authority within the ODA Task Force.
- As the PRSC deals with the government's comprehensive reform initiatives across the board with many cross cutting issues, it is indispensable to deeply understand and analyze the country's reform agenda from a broader standpoint in a medium- and long-term perspective. Japan/JBIC should actively participate in the PRSC process by identifying pragmatic entry point for policy dialogue.
- Japan/JBIC should continue utilizing both multilateral and bilateral assistance to support Vietnam's reform process and to increase its effectiveness. Support for policy reform under PRSC framework (multilateral assistance) and support for ODA projects and programs (bilateral assistance) have given mutually reinforcing impact. In doing so, following issues need to be carefully considered:
  - Coherent assistance among different donors needs to be secured.
  - Synergetic effects among different donor assistance should be taken into account.
  - Vietnamese government's ownership and diversity among different donors should be respected.
- In particular, technical assistance and PRSC can be mutually enforced through various stages of policy action – which comes first does not matter. Technical assistance can bring about policy agenda that has been identified on the ground to the PRSC policy dialogue. Concurrently, technical assistance can enforce specific actions that have been addressed during the policy dialogue in the PRSC framework.

#### 4.3 Recommendations

<To be addressed to JBIC>

- JBIC should be mindful of overall flow/sequence of its assistance – from PRSC to technical assistance to project assistance – when actively participating in policy dialogue to support Vietnam's reform process. Each type of assistance has its own role to support the country's reform process at different levels to different stakeholders, and has complementary effects to strengthen the effectiveness of PRSC outputs and outcomes.

<To be addressed to Vietnamese government and relevant donors>

- In response to the rapidly changing international economic environment, and to deal with emerging challenges that Vietnam is facing, PRSC function should be developed so as to effectively communicate with market participants in the international financial market and to manage market expectations appropriately.

<To be addressed to Vietnamese government>

- The Vietnamese government may consider new institutional arrangements for policy coordination and enforcement to continue on its reform process under the post-PRSC framework. In light of the evolution of the PRSC mechanism and policy agenda

(e.g., coverage has become comprehensive – from macroeconomic, structural reforms to a broader reform agenda), another focal point could be assigned/created within the government as a successor body to the SBV. A possible suggestion would be to assign/create a coordination body directly under the Government Office as a secretariat to take charge of Vietnam’s comprehensive reform process. In that case, close coordination with the National Steering Committee, relevant Ministries and Department etc. are expected to take place by fully utilizing the PRSC functions accumulated from the past experiences.

[END]