

## Ex-ante Project Evaluation

<b>1. Name of the Project</b>
Country: The Socialist Republic of Vietnam Project: The Fourth Poverty Reduction Support Credit (Loan Agreement: December 2, 2005; Loan Amount: 2,500 million yen; Borrower: The Government of the Socialist Republic of Vietnam)
<b>2. Necessity and Relevance of JBIC's Assistance</b>
<p>In May 2002, the Vietnamese government formulated the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which incorporates policy issues such as reform of state-owned enterprises (SOE), private sector promotion, reform of the financial sector, further transition to a market economy and integration into the global economy through trade liberalization, etc., policy improvements and system reinforcement in social sectors such as education and health, and public administrative reform and reinforcement of good governance.</p> <p>Due to the above-mentioned reforms, Vietnam continued to maintain a high economic growth rate in excess of 7% in FY2004. As a result, the ratio of the overall population living in poverty declined from 58% in 1993 to 24%* in 2004 (*based on preliminary reports). However, in addition to the fact that regional economic gaps between urban and rural areas are in an expansionary trend, there is a large population in rural areas living near the poverty line. Given the vulnerable nature of such people to external factors such as natural disasters, the basis of improvement in the poverty rate is still fragile.</p> <p>The World Bank is extending Poverty Reduction Support Credit (PRSC) in stages as part of its framework to support CPRGS. The Japanese government and JBIC conducted policy discussions through local task forces, etc., with emphasis on (1) improving public financial management through the CPRGS resource-allocation mechanisms and (2) supporting implementation of Japan-Vietnam joint initiatives and ended up with the co-financing of the Third Poverty Reduction Support Credit (PRSC3) through an ODA loan in December 2004. For the consecutive PRSC4, the Japanese government announced its intention to add (3) financial sector reform and (4) SOE reform to Japan's priority areas at the CG Conference in December 2004. The Japanese government continues to actively collaborate, make adjustments in, and contribute to the discussions among the Vietnamese government, the World Bank, and other donors.</p> <p>As stated above, it is the policy of the Japanese government and JBIC to actively support economic growth and poverty reduction, which are the objectives of CPRGS, through PRSC. Moreover, because the two main axes in JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations to Vietnam are (1) support for poverty reduction, and (2) support for sustainable economic development and strengthening of greater international competitiveness, and because improvement in policies and institutions is one of the prioritized areas, there is high necessity and urgency for the co-financing of PRSC4 (hereinafter referred to as "this program.")</p>
<b>3. Project Objectives</b>

This program aims to address the policy challenges articulated in CPRGS and summarized as (1) transition to a market economy (2) inclusive and sustainable development and (3) construction of modern governance, by supporting various reforms promoted by the Vietnamese government (particularly public financial management, development of the investment/business environment, and reform of SOEs and the financial sector), and thereby contribute to poverty reduction and economic growth of Vietnam.

#### 4. Project Description

##### (1) Project Outline

This program organizes the concepts of CPRGS into the three pillars of (1) transition to a market economy, (2) inclusive and sustainable development, and (3) construction of modern governance. This program promotes reforms in the following 19 sectors.

Pillar	Sector
Transition to a Market Economy	Trade integration, state-owned enterprise reform, financial sector reform, private sector, and infrastructure
Inclusive and Sustainable Development	Education, health, social protection, land and forests, water, environment, and gender
Construction of Modern Governance	Planning processes, public financial management, financial accountability, legal development, public administration, anti-corruption, and information availability

##### (2) Total Project Cost/Loan Amount

Total co-financing by donors for this program: US\$226 million (approx.)

Yen loan amount: 2.5 billion yen

World Bank IDA funds: US\$100 million

Other donors include the United Kingdom, ADB, France, Denmark, the Netherlands, EC, etc.

##### (3) Implementation Structure

(a) Borrower: The Government of the Socialist Republic of Vietnam

(b) Executing Agency: The State Bank of Vietnam

(c) Operation and Maintenance System

The State Bank of Vietnam will undertake the preparation and implementation of this program. Concerning monitoring of the reform items discussed in this program, the Vietnamese government and all the donors will hold consultations, and the progress will be assessed and confirmed.

##### (4) Environmental and Social Considerations

(a) Environmental Effects/Land Acquisition and Resident Relocation

(i) Category: C

(ii) Reason for Categorization

This project is classified as Category C because it is in a sector (structural adjustment credit) where no particular environmental effects are anticipated, and moreover, it is not in a region that is susceptible to or has characteristics likely to cause the effects declared in “Japan Bank

for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established April 2002).

(b) Promotion of Poverty Reduction

This program, as a support to CPRGS which aims to achieve poverty reduction and growth in Vietnam, is intended to remove distortions and regulations that are disadvantageous for the poor. Moreover, reform components that contribute directly to the poor are contained in a portion of the reform program for the education and health sector incorporated in this program. PRSC4 also includes preparing new social insurance laws as triggers for PRSC5.

(c) Promotion of Social Development (from the standpoint of gender, etc.)

PRSC5 articulates as one of its reform items the preparation of a planning manual that includes considerations for gender in the central government and the ministries.

(5) Other Important Issues

None

5. Outcome Targets

(1) Evaluation Indicators (operation and effect indicators)

In implementing the PRSC, the World Bank has established FY2006 targets for all sectors included in the PRSC, based on discussions with the Vietnamese government and the scheduled co-financers such as JBIC. Based on the four evaluation levels of highly satisfactory (HS), satisfactory (S), partially satisfactory (PS), and unsatisfactory (U) in the interim evaluation by the World Bank, JBIC has set, as operational and effect indicators, output targets related to five items which JBIC is particularly emphasizing, i.e., management of public expenditure, planning processes, business environment development, and reform of SOEs and the financial sector.

Indicator	Base-line (2003)	Target (2006)
Development Output (Public financial management: Ensure adequate consideration for operation and maintenance expenses)	Unsatisfactory (U) (Limited progress)	Improve the base level (U)
Development Output (Planning process: Select and examine public investment projects using criteria based on impact on growth and poverty alleviation)	Satisfactory (S) (Incorporate role of infrastructure installation in CPRGS)	Maintain or improve the base level (S)
Development Output (Private sector development: Ensure fair competition by applying the same regulations to all companies)	Unsatisfactory (U) (Limited progress)	Improve the base level (U)
Development Output (State-owned enterprise reform: Reduce the number of state-owned	Partially Satisfactory (PS) (Reduced from 5,334 enterprises in FY2001 to	Maintain or improve the base level (PS)

enterprises to approximately 2,100 enterprises)	4,361 enterprises in FY2003)	
Development Output (Financial sector reform: Separate the supervisory and regulatory functions of the State Bank of Viet Nam [SBV])	Unsatisfactory (U) (The state-owned bank management and supervision functions of SBV have not been separated)	Improve the base level (U)

(2) Internal Rate of Return: N/A

### (3) Qualitative Effects

The implementation of PRSC is expected to promote the transition to a market economy, achieve inclusive and sustainable development, and improved governance. In addition to accelerating the reforms connected with strengthening the consistency of the Expenditure Plan for Operation and Maintenance and the Investment and Expenditure Plan in the public expenditure management sector, improvements were promoted in the investment environment through comprehensive system improvements which are also reflected in the Japan-Vietnam Joint Initiative Action Plan. Moreover, poverty reduction effects can also be anticipated due to removal of distortions and regulations that place the poor at a disadvantage.

## 6. External Risk Factors

Progress in Vietnam's economic growth and poverty reduction may be affected by global economic conditions through trends in trade and investment.

## 7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

It has been learned that, in co-financed projects, particularly when there are numerous co-financing institutions involved, it is necessary to give adequate consideration so as to maintain thorough contact among all the co-financing institutions and to ensure that they agree on the various understandings concerning the project at all times. In the process of project formation for this loan, JBIC has had meetings with the Vietnamese government and the co-financing institutions on each reform issue and endeavored to share information, coordinate program content, and build consensus.

## 8. Plans for Future Evaluation

### (1) Indicators for Future Evaluations

Results related to:

- public financial management (ensuring adequate consideration of operation and maintenance expenses)
- planning processes (select and examine public investment projects using criteria based on impact on growth and poverty alleviation)
- private sector development (ensuring fair competition by applying the same regulations to all companies)
- SOE reform (reduction of the number of SOEs to approximately 2,100)

- financial sector reform ( the State Bank of Vietnam [SBV] focuses on supervisory and regulatory functions)

(2) Timing of Next Evaluation

After program completion.