

1. Name of Project
Country: The Socialist Republic of Vietnam Project: Sixth Poverty Reduction Support Credit (Loan Agreement: 01/29/2008; Loan Amount: 3,500 million yen; Borrower: Government of the Socialist Republic of Vietnam)
2. Necessity and Relevance of JBIC's Assistance
<p>Since the government of Vietnam launched the Doi Moi (renovation) policy in 1986, it has pushed forward its open-door policy and focused on economic growth and poverty reduction through integration of the country into the world economy. During 2001 to 2006, assisted by Round 1 (PRSC 1-5) of the Poverty Reduction Support Credit (PRSC), Vietnam's economic development got underway, driven by growth in exports and foreign investment. Due to the government's promotion of economic stimulus policies and economic reforms, the economy has sustained an average annual real GDP growth rate of about 7%. Despite the adverse impact during the past two years of SARS, bird flu, bad weather, price inflation, and charges of dumping, the Vietnamese economy has demonstrated its strong resilience by achieving a growth rate in excess of 8%. The Vietnamese poverty rate also declined from 28.9% in 2002 to 19.5% in 2004. However, the government is called upon to manage the extremely difficult policy task of carrying out the reforms which must be implemented as part of Vietnam's international commitment to the WTO, to which it was formally granted membership in January 2007, while also continuing, on one hand, to reduce regional disparities and conserve the environment and, on the other hand, to maintain economic growth.</p> <p>The Vietnamese government set the goal of moving out of the group of low-income counties and attaining middle-income status within 5 years, by 2010, through its Eighth Socio-Economic Development Plan 2006-2010 (SEDP2006-10), which was approved by Vietnam's National Assembly in June 2006. To achieve this goal, the four pillars are (1) promotion of growth and the transition to a market economy, (2) reduction of poverty and ensuring of social inclusion,¹ (3) management of the environment and natural resources in a sustainable manner, and (4) building of institutions that support the strategy of SEDP.</p> <p>The World Bank and the IMF decided to accept SEDP 2006-2010 as Vietnam's poverty reduction strategy, based on their evaluation of its adoption of a comprehensive approach that sufficiently emphasizes poverty issues, the usage of broad-ranging consultations (i.e., a participatory process) in preparing the plan, and the inclusion of monitoring and evaluation mechanisms which ensure that evaluation indicators are incorporated into plan preparation and implementation. Thus, the World Bank plans to implement Round 2 of PRSC (PRSC 6 to 10) as a framework to assist SEDP.</p> <p>Japan has continued active collaboration, coordination, and contribution in multilateral talks among the Vietnamese government and donors such as the World Bank, including talks on the process of preparing the above-mentioned SEDP 2006-2010. Japan will continue to actively support the Vietnam government's steady implementation of SEDP 2006-2010, which aims at both economic growth and poverty reduction. Moreover, in continuation from Round 1 of the PRSC, Japan has indicated a policy toward Round 2 that places emphasis on assistance for achievement of economic growth and poverty reduction through (1) development of the investment and business environment through the Vietnam-Japan Joint Initiative, (2) proper management of public finances through a resource-allocation mechanism in SEDP 2006-2010, (3) efficient usage and allocation of domestic and foreign funds to growth sectors through qualitative and quantitative development of finance (i.e., finance sector reforms), and (4) strengthening of the international competitiveness of Vietnamese industry through reform of state-owned enterprises. In JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations, two key areas in assistance to Vietnam are</p>

¹ "Social Inclusion" refers to the situation in which socially underprivileged persons are not excluded from plan preparation and other parts of decision-making processes.

“sustainable economic growth and strengthening of international competitiveness” and “poverty reduction.” Assistance for policy and institutional reforms is a prioritized area.

Given the above, provision of continued assistance through co-financing of the Sixth PRSC (hereinafter referred to as the “PRSC”) is highly necessary and relevant.

3. Project Objectives

The PRSC aims to promote achievement of policy tasks in multiple sectors in Vietnam as stated in the Eighth Socio-Economic Development Plan 2006-2010 and summarized as (1) promotion of growth and the transition to a market economy, (2) reduction of poverty and ensuring of social inclusion, (3) management of the environment and natural resources in a sustainable manner, and (4) building of institutions that support the strategy of SEDP. Promotion of achievement of these tasks is to be achieved through financial assistance for the reforms being promoted by the Vietnamese government (particularly development of the investment and business environment (including infrastructure) and reforms in public finance management, planning processes, environmental management, corruption countermeasures, and the financial sector and state-owned enterprises). The PRSC will thereby contribute to economic growth and poverty reduction in Vietnam.

4. Project Description

(1) Project Outline

Reforms are being pursued in the following 17 sectors, which are organized around the four pillars of (1) business development, (2) social inclusion, (3) natural resources, and (4) modern governance, which conform to the four prioritized areas stated in SEDP 2006-2010.

Pillar	Sector
Business development	International integration in trade, reform of state-owned enterprises, reform of the financial sector, development of the private sector, and development of infrastructure
Social inclusion	Education, public health, social insurance, and gender
Natural resources	Land and forests, water, and environment
Modern governance	Plan preparation process, management of public finances, legal infrastructure, administrative reforms, and corruption countermeasures

(2) Total Project Cost/Loan Amount

US\$353 million approximately

(Yen Loan Amount: 3.5 billion yen (equivalent to approximately US\$29 million))

World Bank funds: US\$175 million

In addition, planned participants include the Asian Development Bank, European Commission, Great Britain, the Netherlands, Denmark, Germany, and Australia, etc.

(3) Schedule: The PRSC6 target period is mid-May 2006 to mid-May 2007

(4) Implementation Structure

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

(b) Executing Agency: State Bank of Vietnam (SBV)

(c) Operation and Maintenance System: Same as (b). The plan is to monitor items reformed through multilateral consultation by holding repeated discussions among the Vietnamese government and the donors and then evaluating and checking the items.

(5) Environmental and Social Considerations

(a) Environmental Effects/Land Acquisition and Resident Relocation

(i) Category: C

(ii) Reason for Categorization: This PRSC is likely to have minimal adverse impact on the environment due to the fact that the sector (financial assistance) is not likely to exert impact and the PRSC is not located in a sensitive area under the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations”

(established in April 2002). Thus this PRSC is classified as Category C.

(b) Promotion of Poverty Reduction

This PRSC is to support SEDP 2006-2010, which aims to achieve poverty reduction and economic growth in Vietnam. The thrust of the PRSC itself is to eliminate distortions and regulations that are disadvantageous to the poor. Moreover, included in the reforms to be undertaken by this PRSC are reforms that contribute directly to the poor class with transparent fund disbursement allocations based on standards such as the poverty conditions and ethnic group affiliation, etc. Development of basic infrastructure in poor communes in rural areas (particularly in minority ethnic residential areas) and improvement of access to basic educational and healthcare services will continue to be priority issues.

(c) Promotion of Social Development (e.g., Gender Perspective, etc.)

Included among items for reform by this PRSC are correction of the gender gap in existing legal documents and expansion of women's participation in decision-making processes, development of a policy and legal framework for expansion of HIV/AIDS countermeasures, insitutional improvements to promote citizens' participation in creation of the legal system, and measures to improve the school attendance rate of handicapped children.

(6) Other Important Issues: N.A.

5. Outcome Targets

(1) Quantitative Effects

(a) Evaluation Indicators (Operation and Effect Indicator)

Indicator	Baseline (2006)	Target (2011, at completion of PRSC10)
Population under the new poverty line (%)	20% ^(Note 1)	10% or less
Ethnic minorities under the new poverty line (%)	61% ^(Note 1)	40% or less
Domestic private investment as a percentage of total investment (%)	30% ^(Note 2)	35% or more
Companies that regard infrastructure as a major or serious bottleneck to doing business	Transportation: 11.9% Electric power: 8.3%	5% or less
Public debt (including government guarantees at all levels) as a percentage of GDP (%)	43.5% (including provincial government guarantees) ^(Note 3)	55% or less
Bad debts (%)	6-9%	5% or less
Number of 100% state-owned companies (SOEs) (companies)	2,100 companies	500 companies or fewer
Number of provinces that have screening guidelines for public investment projects at the time of the pre-appraisal (including cost-benefit analysis method) (provinces)	0 provinces	30 provinces or more
Companies that regard corruption as a major or serious bottleneck to doing business (%)	9.9%	5% or less

Note 1: Actual figures for 2004. Currently, actual figures for 2006 are being analyzed at GSO.

Note 2: 2001-2005.

Note 3: Actual figures for 2005.

(b) Number of Beneficiaries: N.A. because it is difficult to calculate the number of direct beneficiaries

(c) Internal Rate of Return (Financial and Economic Internal Rate of Return): N.A.

(2) Qualitative Effects: Through the implementation of this PRSC, transition to and growth of a market economy will be promoted, comprehensive and sustainable development will be achieved, and improvement of governance will be realized. The PRSC will also promote betterment of the investment environment through comprehensive institutional improvement, which also reflects the action plan of the Vietnam-Japan Joint Initiative. The PRSC can also be expected to strengthen social justice through the elimination of distortions and regulations that are disadvantageous to the socially

underprivileged, including the poor.

6. External Risk Factors

Changes in the international economic situation such as crude oil prices and exchange rate fluctuations as well as trends in trade and investment.

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

(1) In co-financing schemes, particularly in cases in which there are a large number of co-financing institutions, it has been learned that it is necessary to take steps to ensure that there is full communication among all co-financing institutions, so that they always share a consistent understanding of all aspects of the plan. In this PRSC, for the selection of the items to be reformed and the monitoring and the evaluation method, information-sharing and a cooperative system have been established by the other donors participating in this PRSC in addition to the Vietnamese government and the World Bank, which is one of the co-financing institutions. The donors are working to coordinate information-sharing and agree on the program content while actively participating in technical meetings where policy consultations are conducted on each reform item and in partnership meetings attended by the government and donors for each sector.

(2) “PRSC Stock Taking 2005,” a study conducted by the World Bank, states that it is necessary to ensure accountability through a legislative report in Vietnam’s National Assembly, in addition to implementing program monitoring by the donors, for proper monitoring and evaluation of the plan. The Vietnamese government is taking the initiative in coordinating related bodies such as donors in the preparation of its new 5-year plan for 2006 to 2010, and moreover, it is boosting its ownership by being listed as a joint implementer in 2004 of the public expenditure review implemented heretofore by the World Bank. Thus, the Vietnamese government is making endeavors to ensure accountability that goes beyond reliance on monitoring by donors.

(3) The “Vietnam Development Report 2007: Aiming High,” which was produced jointly by donors for the CG meeting in December 2006, mentions that a problem point in CPRGS is the fact that there was no clear monitoring and evaluation framework, and the report points out the need to construct a framework for measuring specific results, based on the monitoring and evaluation framework of the Vietnamese government. This PRSC improves the monitoring and evaluation framework by setting specific objectives for achievement in each sector, in accordance with the monitoring and evaluation mechanism adopted in the Vietnamese government’s new 5-year plan.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

- (a) Population under the new poverty line (%)
- (b) Ethnic minorities under the new poverty line (%)
- (c) Domestic private investment as a percentage of total investment (%)
- (d) Companies that regard infrastructure as a major or serious bottleneck to doing business (%)
- (e) Public debt (including government guarantees at all levels) as a percentage of GDP (%)
- (f) Bad debts (%)
- (g) Number of 100% state-owned companies (SOEs) (companies)
- (h) Number of provinces that have screening guidelines for public investment projects at the time of the pre-appraisal (including cost-benefit analysis method) (provinces)
- (i) Companies that regard corruption as a major or serious bottleneck to doing business (%)

(2) Timing of Next Evaluation

At the time of the completion of Round 2 (PRSC6-10).