

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

### 1. Name of the Project

Country: Socialist Republic of Viet Nam

Project: Small and Medium-sized Enterprises Finance Project (III)

Loan Agreement: November 10, 2009

Loan Amount: 17,379 million Yen

Borrower: The Government of the Socialist Republic of Viet Nam

### 2. Background and Necessity of the Project

#### (1) Current State and Issues of the Private Sector in Viet Nam

Since the introduction of the *doi moi* reform policy of 1986, Viet Nam has accelerated its integration into the world economy and registered high economic growth.<sup>1</sup> It is vitally important to strengthen the private sector in order to further continue the current pace of economic expansion. In doing so, small and medium-sized enterprises (SMEs) play a significant role. As a result of reforms in state enterprises, as of 2007, the private sector produces 45.9 percent of Viet Nam's gross domestic product and 42.0 percent of net turnover of all enterprises. The majority of this derives from SMEs, which represented 98 percent of all private businesses as of the end of 2006.<sup>2</sup> However, the lack of funding access, administrative know-how and technology hinder development, with the lack of funding being the most pressing issue. One factor in the deficiency of financing is that the financial system is itself still in development. For example, relationship banking has not yet matured to the point where financing is provided based on an evaluation of a company's organization and business plan, so that even favorable businesses are hard put to obtain funding. Another factor is the serious effects of the recent economic crisis (worldwide recession), which has impacted export companies most.

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

In 2001, the government of Viet Nam established the Agency for SME Development (ASMED) under the Ministry of Planning and Investment as a central government agency responsible for the development of SMEs in Viet Nam. It also installed SME Technical Assistance Centres (TAC) under ASMED to provide technical consultancy to SMEs.<sup>3</sup> In 2006, it announced "SME Development Plan 2006 – 2010," which provided a basis for the formulation of various policies to streamline administrative

<sup>1</sup> According to the Viet Nam General Statistics Office (GSO), the country achieved a GDP growth rate of 6.2% in 2008, with a 3.8% increase in agricultural production over the previous year, a 6.3% increase in mining and manufacturing production, and a 43.2% increase in direct investment, corresponding to 11.5 billion yen.

<sup>2</sup> Government Decree No. 90 (dated Nov. 23, 2001) defines SMEs as enterprises with "a capital of no more than 10 billion VND or no more than 300 employees."

<sup>3</sup> ASMED was renamed Enterprise Development Agency by Government Decree No. 116 (dated Nov. 14, 2008).

procedures, develop industrial personnel, and strengthen SME competitiveness. With the emergence of the effects of the global financial crisis in 2008, the government further adopted a series of assistance measures in support of SMEs, including a 30% cut in SME corporate tax, an extension of the corporate tax payment period, and a 4% interest-rate subsidy.

The State Bank of Viet Nam (SBV) notes that demand for medium and long-term funding remains strong among SMEs, but they are finding it difficult to acquire funding in the market. Given this situation, the project is expected to bear an important role in supplying funding to SMEs, in line with the agenda of the government of Viet Nam. By providing financial support to SMEs, the project would also contribute to increasing economic and social stability in Viet Nam, because SMEs constitute the backbone of the country's economy. Moreover, as the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA) will come into full force in 2018, Viet Nam is hard pressed to develop its domestic local industries and increase the international competitiveness of its market. Therefore, the financial support that the project will extend to SME manufacturers of electronic devices and mechanical parts is also expected to stimulate the development of supporting industries, which the Japanese government is promoting through the Viet Nam-Japan Joint Initiative.<sup>4</sup>

### (3) Japan and JICA's Policy and Operations in the Private Sector

Japan's Country Assistance Program (CAP) for Viet Nam (July 2009) calls for cooperation in private sector development as an important part of "Growth Acceleration," one of the priority areas of Japan's assistance to Viet Nam. Therefore, the project conforms to Japan's assistance policy. In response to the CAP, JICA plans to address the issue of private sector development as a measure related to "Promotion of Economic Growth and International Competitiveness" and will implement the project as part of the policy.

(Major achievements)

ODA loan: "Small and Medium-sized Enterprises Finance Project (I), (II)" (approved 1999, 2004)

Technical cooperation: "Reinforcement of the SME Technical Assistance Center in Hanoi" (Aug. 2006 – Aug. 2008)

Technical cooperation: "Strengthening the Capacity of ITSS Education at Hanoi University of Technology" (Apr. 2000 – Mar. 2005)

Development study: "Study on the Promotion of the Small and Medium Scale Industrial Enterprises" (1998 – 1999)

Dispatch of senior overseas volunteers for private sector promotion, etc.

### (4) Other Donors' Activity

Various donors have so far implemented projects for private sector promotion and SME assistance in Viet Nam.

(Major achievements)

Asian Development Bank (ADB): "SME Sector Development Program Loan" (2004 – 2008)

European Union (EU): "EU-Vietnam Private Sector Support Programme" (2005 – 2008)

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<sup>4</sup> Framework established by Viet Nam and Japan to improve the investment climate by formulating specific action plans through public-private cooperation and mutually monitoring and evaluating those plans. Finalized and commenced in December 2003.

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ): “SME Development Programme” (2005 – 2009), etc.

#### (5) Necessity of the Project

The project accords with Japan’s and JICA’s priority assistance areas, and the necessity and relevance of its implementation is high.

### **3. Project Description**

#### (1) Project Objective

The objective of the Project is to improve the financial access of the Small and Medium-sized Enterprises (SMEs) by providing medium and long-term finance through the Participating Financial Institutions (PFIs) and to strengthen the capacity of the financial institutions, thereby contributing to the SMEs development and economic growth of Vietnam.

#### (2) Project Site/Target Area

Nationwide

#### (3) Project Components

- 1) Two-step loan: Provision of medium and long-term funds to SMEs through PFIs
- 2) Consulting services: Project implementing assistance, upgrading of information management systems, etc.

#### (4) Estimated Project Cost (Loan Amount)

27,628 million Yen (Loan amount: 17,379 million Yen)

#### (5) Schedule

November 2009 – December 2012 (38 months; planned). To be completed at the end of the loan period (December 2012).

#### (6) Project Implementation Structure

- 1) Borrower: The Government of the Socialist Republic of Viet Nam
- 2) Executing Agency: The State Bank of Viet Nam (SBV)
- 3) Operation and Maintenance System: The State Bank of Viet Nam will loan funds to SMEs through PFIs based on the results of loan application examinations by those institutions. PFIs will be selected in view of their disclosure status of financial data, financial soundness, and record of SME lending.

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

##### 1) Environmental and Social Consideration

① Category: FI

② Reason for Categorization: The project is classified as Category FI under the “JBIC Guidelines for Confirmation of Environmental and Social Considerations (April 2002),” because funding of the project is provided through financial intermediaries, the sub-projects cannot be specified prior to JICA’s approval of funding, and those sub-projects are expected to have potential impact on the

environment.

- ③ Environmental Permit: The project implementing agency will be responsible for taking environmental and social considerations in accordance with relevant domestic laws in Viet Nam and the “JBIC Guidelines for Confirmation of Environmental and Social Considerations,” and will properly address each sub-project as required by the relevant category. No Category A sub-projects are expected to be implemented.
- 2) Promotion of Poverty Reduction: None
- 3) Promotion of Social Development: None
- (8) Collaboration with Other Donors: None
- (9) Other Important Issues: Collaboration with other cooperation projects is being considered within the framework of the SME development program.

#### 4. Targeted Outcomes

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

| Indicator  | Baseline<br>(Actual Value in 2008)                                       | Target (2014)<br>[Expected value 2 years<br>after project completion] |
|--|--|---|
| Sales of the benefited SMEs (billion VND)  | Performance of previous year<br>(Collect data at the time of<br>lending) | Expansion from the<br>baseline data                                   |
| Profit of the benefited<br>SMEs (billion VND)  | Same as above  | Same as above   |
| Total loan outstanding of the PFIs to<br>the joint stock and limited companies<br>(billion VND)                      | 171,794<br>(2008 figure. Total of 9 PFIs<br>in Phase 2)                  | Expansion from the base<br>number                                     |
| Ratio of lending to the SMEs in total<br>loan outstanding o the PFIs to the<br>joint stock and limited companies (%) | 65<br>(2008 figure. Average of 9<br>PFIs in Phase 2)                     | Same as above   |

(2) Internal Rate of Return: Not calculated

#### 5. External Factors and Risk Control

None

#### 6. Lessons Learned from Past Projects

Ex-post evaluations of past phases have noted that considerations should be given to the definition of SMEs. Therefore, at the screening stage of the project, a

consultation has been held with the Enterprise Development Agency and the State Bank of Viet Nam (SBV) regarding the modification of SME definition in Viet Nam. The following three points were confirmed in the discussion: ① The revision of Government Decree No. 90 will not drastically reduce the population of SMEs in the project; ② Different definitions of SMEs have originally been introduced to each industry as a reflection of the government's priority growth areas; and ③ It has become possible to more accurately assess SME business conditions based on total asset instead of registered capital. The project will adopt the definition provided in Government Decree No. 56 (dated June 30, 2009), which is a revised version of Government Decree No. 90.

Table: Comparison of SME definitions

|                          | No. of employees                               |            | Business scale* (VND) |
|--------------------------|--|------------|-----------------------|
| Government Decree No. 90 | $\leq 300$                                     |            | $\leq 10$ billion     |
| Government Decree No. 56 | Agriculture, forestry and fisheries industries | $\leq 300$ | $\leq 100$ billion    |
|                          | Manufacturing and construction industries      | $\leq 300$ | $\leq 100$ billion    |
|                          | Trade and service industries                   | $\leq 100$ | $\leq 50$ billion     |

\*: As the variable for business scale, registered capital was used in Government Decree No. 90, but total asset was adopted in Government Decree No. 56.

## 7. Plan for Future Evaluation

### (1) Indicators to be Used

- 1) Sales of the benefited SMEs (billion VND)
- 2) Profit of the benefited SMEs (billion VND)
- 3) Total loan outstanding of the PFIs to the joint stock and limited companies (billion VND)
- 4) Ratio of lending to the SMEs in total loan outstanding of the PFIs to the joint stock and limited companies (%)

### (2) Timing      2 years after project completion