Socialist Republic of Viet Nam

Ex-Post Evaluation of Japanese ODA Loan Project
Small and Medium-Sized Enterprises Finance Project (II)

External Evaluator: Ryujiro Sasao, IC Net Limited

0. Summary

This Project aimed to develop the Vietnamese small and medium-sized enterprises (SMEs), to improve their access to funding, and to develop the capacities of participating financial institutions (PFIs) by providing medium and long term funding to SMEs through PFIs and by helping PFIs to strengthen their capacities to finance SMEs.

The Project has been highly relevant with the Vietnamese government's development plan, development needs and Japan's ODA policy; therefore its relevance is high. Total sales for all enterprises that received funding under the Project increased at a strong annual average rate of 32.4% from 2007 to 2011. The profits of these enterprises have also increased over the years. In addition, the Project supplied medium and long term funding which became the source of PFIs' lending to SMEs and conducted capacity building of the staff of State Bank of Vietnam (SBV) and PFIs through training. Accordingly, the effectiveness and the impact of the project are high. The project cost was lower than planned and the Project was completed within the planned project period, so the Project was highly efficient. No major problems have been observed in the institutional, technical or financial aspects of project operation and maintenance; therefore sustainability of the Project effect is high.

In light of the above, the Project is evaluated to be highly satisfactory.

1. Project Description

Project locations
(Entire Vietnam)

Machinery purchased with Project funding
(For manufacturing electrical wire)

1.1 Background

The Vietnamese economy expanded rapidly after the government initiated the Doi Moi Policy in 1986 and promoted economic policy to open Vietnam to foreign business through a market economy.

State-run enterprises played a central role in the country's socialist economy system, but their number is decreasing since they began converting into joint-stock companies in the early 1990s. Most private enterprises are SMEs, and private SMEs were expected to be the driving force behind the Vietnamese economy in the future, while the state-run enterprises continued their reform. Despite those expectations, there was no good environment where SMEs can raise funds. The promotion of medium and long term financing to SMEs and the capacity development of financial institutions to conduct that financing was urgently needed to bring sustained economic growth to Vietnam. Hence, the first phase of the SMEs Finances Project contracted in 1999 was implemented with support from the Japanese government. Implementing the Project provided potential growth opportunities in the form of two-step loans to SMEs which was unable to procure adequate funding despite their need for it. However, the intermediary function of the banking sector to finance the private sector was still in the development stage. The mobility of medium and long term funding and the capacity to fund private SMEs, in particular, were still limited.

1.2 Project Outline

The objectives of this Project are to develop the Vietnamese small and medium-sized enterprises (SMEs), to improve their access to funding, and to develop the capacities of participating financial institutions (PFIs) by providing medium and long term funding to SMEs through PFIs and by helping PFIs to strengthen their capacities to finance SMEs, thereby contributing to the promotion of Vietnamese SMEs and the growth of the Vietnamese economy.

Loan Approved Amount/ Disbursed Amount	6,146 million yen / 6,131 million yen
Exchange of Notes Date/ Loan Agreement Signing Date	March 2005 / March 2005
Terms and Conditions	(Loan) Interest Rate: 1.3 % Repayment Period: 30 years (Grace Period: 10 years) General untied (Consulting) Interest Rate: 1.3 % Repayment Period: 30 years (Grace Period: 10 years) General untied
Borrower / Executing Agency	Government of the Socialist Republic of Viet Nam / State Bank of Vietnam
Final Disbursement Date	July 2010
Main Consultants	Nomura Research Institute (Japan) / Vision & Associates (Vietnam) (JV)
Feasibility Studies, etc.	Special Assistance for Project Formulation in 2004.
Related Projects	(Related Japanese ODA Loans) Small and Medium-Sized Enterprises Finances Project (1999–2005) (Other Organizations' Projects)

	• World Bank: Implementation of first and second phase of rural finance projects in the form of two step loan. • Asian Development Bank: Implementation of financial support loan "SME Development Program Loan". • EU: Provision of a line of credit to SMEs similar to JICA's SMEs Finance Project.

2. Outline of the Evaluation Study

2.1 External Evaluator

Ryujiro Sasao, IC Net Limited

2.2 Duration of Evaluation Study

Duration of the Study: September 2012–July 2013

Duration of the Field Study: November 11–December 1, 2012 and March 17–31, 2013

2.3 Constraints during the Evaluation Study

Obtaining some effectiveness indicators required PFIs to ask end users (SMEs that borrowed money) to provide information on past sales and profits. End users in loan agreements that had already been fulfilled were not obligated to provide information and would only do so as a favor. Thus, the External Evaluator was unable to obtain results on some indicators because it was difficult to gather complete information from all related end users.

3. Results of the Evaluation (Overall Rating: A[1])

3.1 Relevance (Rating: ③[2])

3.1.1 Relevance to the Development Plan of Vietnam

During the appraisal, the Vietnamese government enacted the Law on Enterprises in 2000 and was working to improve the business environment for the private sector by doing things such as simplifying the procedures required to establish an enterprise. It also enacted Government Decree No. 90/2001/CP-ND in November 2001 as part of the framework for SME growth after restating its determination to promote a market economy in Vietnam's Five-Year Plan for Socio-Economic Development (2001–2005).[3]

The SME Development Plan (2011–2015) had been devised by the time of this ex-post evaluation. The plan aims to enhance economic growth of the nation and its competitiveness in international economy by improving the growth rate and competitiveness of SMEs through establishing an appropriate investment environment for them. In addition, the following three are the recently, i.e.,

[1] A: Highly satisfactory; B: Satisfactory; C: Partially satisfactory; D: Unsatisfactory

[2] ③: High; ②: Fair; ①: Low

[3] This government decree contained a clear definition of SMEs; determined to establish a credit-guarantee program for SME, promote policy encouraging export and investment and establish a technical support center; and established an SME development bureau in the Ministry of Planning and Investment and put it in charge of SME growth.

since 2009, announced policies that are directly related to financial assistance to SME[4]s. (Please see the Appendix 1 for the details.)

- Provision of a guarantee for SMEs to obtain bank loans (Decision)
- Provision of credit for all businesses for investment and export activities (Decree)
- Establishment of the SMEs Development Fund (Decision)

This Project is in line with the above policies because it has the same objective as theirs.

The Vietnamese government has emphasized SME promotion and devised related policy, laws and ordinances consistently since the time of the appraisal until this ex-post evaluation. In that light, the Project is highly consistent with the development policy.

3.1.2 Relevance to the Development Needs of Vietnam

During the appraisal, the conversion of state-run enterprises to joint-stock companies in line with the introduction of a market economy in Vietnam was continuing, but private SMEs were expected to become the driving force behind the economy in future. However, while state-run enterprises were able to receive financing from state-run commercial banks rather easily, SMEs struggled to secure loans from banks, and many of them counted their main source of funding on relatives, friends and elsewhere in the informal sector. They faced particular difficulty when asking banks for medium and long term loans needed for capital investment and this became the biggest obstacle standing in the way of SME expansion, technical standard improvement and other private-sector development. The banks also faced challenges on their end. With no developed bond market, Vietnamese banks procured most of their funds from savings, consumer confidence in banks remained low, and it was especially difficult to procure medium and long term funds. These were obstacles to medium and long term financing for enterprises.

The SME sector has grown since the time of the appraisal till the time of ex-post evaluation. According to the "White Paper on Small and Medium-Sized Enterprises in Vietnam" (2011), the number of SMEs in Vietnam increased from 107,989, or 95.6% of all the enterprises, at the time of the appraisal in 2005, to 242,453, or 97.4% of all the enterprises, in 2009. Furthermore, the total sales of all the enterprises in 2009, i.e., 5,596 trillion VND, the sales of SMEs accounted for 3,351 trillion VND, i.e., 56.2%. (In 2007, SMEs' share in the total enterprises' sales was 47.0%).

According to the SME White Paper (2011), however, a majority of Vietnamese SMEs did not have funding capacity they needed to run and expand their businesses, and a Vietnam Chamber of Commerce and Industry survey revealed that only 5 to 10 percent of SMEs had secured financing from banks.[5] The intermediary function of banking sector's financing to private sector is still under

[4] In the Vietnamese legal system, the following is the order of priority in enforcement: i) Constitution; ii) Law; iii) Ordinance and Resolution; iv) Decree; and v) Decision and Circular.

[5] According to the "Characteristics of the Vietnamese Business Environment: Evidence from SME Survey in 2011," 30% of the roughly 2,500 SMEs (in the manufacturing industry) surveyed had applied for a loan at a bank, and 70% of those received funding without any particular problems. The low percentage of SMEs that applied is due to the many cases in which personal money was used in investment or loans were secured from informal sources.

development. It is difficult for private financial institutions to procure medium and long term funding, and possibly 80 to 90 percent of funds procured are said to be short term.[6] Under such circumstance, the needs for the Project are strong and it is expected to respond to the promising SMEs' needs for medium and long term funds by supplementing such funds through two step loan, to contribute to the increase of the competitiveness and technology standard of SMEs, and to increase the sustainability of loans for private SMEs through strengthening banking sector.

As demonstrated above, evaluations prior to and after the Project confirmed that SMEs and private financial institutions had a pressing need for medium and long term funding. In that light, the Project was executed in the midst of considerable development needs, and it is still very consistent with development needs as of this ex-post evaluation.

3.1.3 Relevance to Japan's ODA Policy

During the appraisal, the Japanese government addressed SME and private sector growth in its Vietnam Country Assistance Policy (released April 2004). It vowed "to make focused efforts toward policy planning, guidance on business management, improvement of technology and improved access to funding, in terms of policy; and toward supporting industry development, interaction among SMEs, in terms of operations" and "to consider support for an SME management consulting program." The Japanese government also said it would "consider support for banking system reform" in reference to state-run enterprise reform and other economic reforms. The 2005–2008 version of the Mid-Term Strategy for Overseas Economic Cooperation Operations puts forth "sustained economic growth focused on private sector promotion" as one of the main pillars of support.

Thus, the Project is consistent with the issues recognized at the time of the appraisal.

In light of the above, the Project has been highly relevant to the Vietnamese government's development plan, development needs, as well as Japan's ODA policy; therefore its relevance is high.

3.2 Effectiveness[7] (Rating: ③)

3.2.1 Quantitative Effects (Operation and Effect Indicators)

The Project provided funding to end users (SMEs) through two-step loans including the on-lending loan from the State Bank of Vietnam (SBV) to PFIs and helped enhance the ability of PFIs[8] to finance SMEs. (See Appendix 2 for details about the financing scheme.)

[6] According to an interview with the State Bank of Vietnam (SBV).
[7] Sub-rating for Effectiveness is to be put with consideration of Impact.
[8] Vietnamese commercial banks that fulfilled certain selection standards, which include financial soundeness, governance, risk management systems, transparency of financial data, record of financing SMEs and medium and long term funding procurement status.

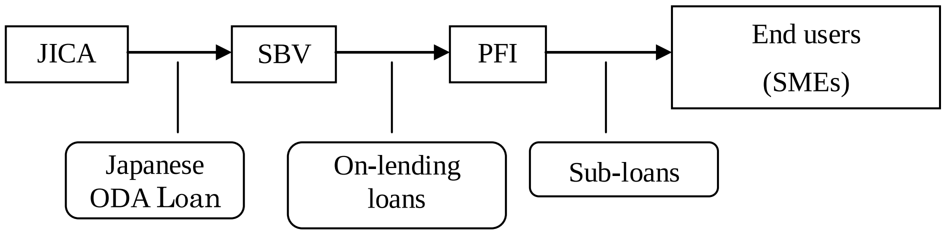

Figure 1: Project Financing Scheme

The table below shows the definition of SME as confirmed in field studies.

Table 1: Definition of SME

Sector	Micro	Small		Medium	
	No. of Employees	No. of Employees	Total Capital	No. of Employees	Total Capital
1. Agriculture, Forestry, Fisheries	10 or fewer	10–200	20 or fewer	200–300	20–100
2. Industry, construction	10 or fewer	10–200	20 or fewer	200–300	20–100
3.Trade, service	10 or fewer	10–50	10 or fewer	50–100	10–50

Source: Decree 56 (Decree No.56/2009/ND-CP enacted in 2009).
Note: Capital is expressed in billions of VND.

The table below shows the Project's initial targets.

Table 2: Operation and Effect Indicators

Indicator	Baseline data (2004)	Target Value (2010, first year after Project completion)
1. End user sales	Data recorded when sub-loan was provided	Growth from when the sub-loan was provided
2. End user profits	Data recorded when sub-loan was provided	Growth from when the sub-loan was provided
3. Percentage of bad debt on sub-loans by monetary value (%)	N/A	Manageable range in terms of PFI financial situation
4. Percentage of bad loan by case (%)	N/A	Manageable range in terms of PFI financial situation
5. Total PFI financing of enterprises under Law on Enterprises*1	VND 7.989 trillion (total of six PFI candidate banks)*2	Expansion over current figure
6. Percentage of PFI financing balance lent to SMEs	43% (six candidate bank average)	Expansion over current figure

Source: Baseline and target values are included in the appraisal document.
Note:
*1. One of end user requirements is an enterprise established under Law on Enterprises.
*2. 6 banks acknowledged by SBV as PFI candidates at the time of appraisal

The table below shows results in terms of the above indicators.

Table 3: Results of Operation and Effect Indicators

Unit: VND 1 billion

Indicator	2007 (Sub-loan first year)	2008	2009 (First year after Project completion)	2010	2011
1. End user sales*1	3,755	5,913	8,465	9,136	11,551
2. End user profits*2	186	228	290	360	772
3. Percentage of bad debt on sub-loans by monetary value (%)*3	0	0.52	1.24	0	0
4. Percentage of bad loan by case (%)*4	0	0.40	1.15	0	0
5. Total PFI financing of enterprises under Law on Enterprises*5	N/A	135,149	222,540	276,858	309,492
6. Percentage of PFI financing balance lent to SMEs*6	N/A	42.3	48.0	48.8	53.1

Notes:
*1-2: Seven of the 10 PFIs.
*3-6: Nine of the 10 PFIs. Note that "bad debt" refers to debt that was not repaid by the due date.
*5-6: Include the loan under the Project

Table 3 shows that sales for end users (Indicator 1) are growing robustly. Total sales for all enterprises that received funding in the Project increased at an average annual rate of 32.4% from 2007 to 2011[9]. Those rates are high compared to the Vietnamese GDP growth rate of five to eight percent over the same period. However, end users have been good customers at these banks according to interviews with PFIs, and the Project may not be the only reason that these SMEs enjoyed such rapid growth. End users' profits (Indicator 2) have also increased over the years. Very few sub-loans have become bad debt (Indicator 3,4). This is likely because end users are good customers at their banks who carefully manage their credit.[10]

Over the years, PFIs have increased their funding of enterprises under the Law of Enterprises (Indicator 5). Though the percentage is small, some of that funding is for the Project (The share of the Project loan is 0.13% by balance base). The percentage of PFI financing balances lent to SMEs gradually increased from 42.3% in 2008 to 53.1% in 2011 (Indicator 6). Reasons for this increase include growing demand for medium and long term funding for SMEs with the increasing number of SMEs and a number of PFIs adopting a business policy that prioritizes SMEs.

On the whole, it appears that initial target indicators have been satisfied at a high level.

The effectiveness of the Project was verified as follows. First, the features of end users were confirmed, next, the ways to use the loan funds were confirmed, finally the effect of the Project was assessed from the point of view of industrial sectors.

[9] The growth rates depend on the timing of loan execution. For example, sales for enterprises that received funding in 2008 increased at an average annual rate of 20.2% over the same period.
[10] Reflecting on the importance of the Project, SBV also advised PFIs to select appropriate enterprises.

(Features of end users in the Project)

As of June 2010, there were 322 eligible SMEs[11] and 354 relevant funding projects.[12] According to the executing agency, 322 end users are located in 42 out of the 63 provinces and province-level municipalities of Vietnam. Thus the Project covers a wide area. The geographical distribution of the end users is as follows.

Table 4: Geographical Distribution of End Users

Area	Number of end users	Ratio (%)	Total number of enterprises*	Ratio (%)
North	175	54.4	84,303	33.9
Middle	66	20.5	43,902	17.7
South	81	25.2	120,473	48.4
Total	322	100	248,678	100

Source: White Paper on SMEs (2011)

Table 5 shows that 80% of end users have 100 or fewer employees, and they belong to the "small" or "micro" SME groups as defined in Decree 56. Similarly, in the table 6 below, in the registered capital amount, 66% of all end users belong to "small" or "micro" SME groups and PFIs put emphasis on the smaller size of companies. The smaller the enterprise, the more difficult it is to secure funding. Therefore, this approach taken by PFIs is desirable.[13]

Table 5: Number of Employees at End Users

No. of Employees	Funding Projects		Percentage of Total Funding (%)
	No. of Projects	Total Funding (millions of VND)	
10 or less	39	100,969	6.0
10–100	262	1,250,429	74.7
100–200	36	207,479	12.4
200–300	13	92,577	5.5
300–500	2	12,500	0.7
500–1,000	1	10,000.0	0.6
More than 1,000	1	838.0	0.1
Total	354	1,674,792	100.0

Source: SBV

Table 6: End Users' Capital

Registered Capital	Funding Projects		Percentage of Total Funding (%)
	No. of Projects	Total Funding (millions of VND)	
VND 1 billion or less	42	85,788.0	5.12
VND 1–5 billion	169	551,056.0	32.90
VND 5–10 billion	80	462,468.1	27.61
More than VND 10 billion	63	575,480.0	34.36
Total	354	1,674,792.1	100.00

Source: SBV

[11] Of the enterprises targeted for funding under the Project, 196 (61%) are limited liability companies, 94 (29%) are joint stock companies, 31 (10%) are private businesses and one is a partnership. Statistics have not been gathered from all projects, but interviews with two PFIs revealed that a certain number of enterprises targeted for funding were new customers receiving funding for the first time.

[12] Project Completion Report

[13] This position differs depending on the PFI. Two of the 10 PFIs lend to both large corporations and SMEs; the remaining eight put more emphasis on lending to SMEs.

(Utilization of loan funds)

Table 7 shows the reasons for borrowing and more than 50 % are for the expansion of existing business and about 40 % are for starting a business. Table 8 shows that all funding is being used for capital investment; no funds are being used as operating capital, as originally planned[14]. Thus, this funding can be expected to contribute to the sustainable manufacturing activities.

Table 7: End Users' Reasons for Borrowing

Reason for Borrowing	Funding Projects		Percentage of Total Funding (%)
	No. of Projects	Total Funding (millions of VND)	
Start a business / new business	121	660,856.0	39.46
Expand existing business	225	945,900.1	56.48
Other	8	68,036.0	4.06
Total	354	1,674,792.1	100.00

Source: SBV

Table 8: End users' Use of Funds

Purpose of Loan	Funding Projects		Percentage of Total Funding (%)
	No. of Projects	Total Funding (millions of VND)	
Plant construction	102	674,603.0	40.28
Machinery / equipment purchase	109	539,804.1	32.23
Other building construction	5	14,156.0	0.85
Vehicle purchase	138	446,229.0	26.64
Total	354	1,674,792.1	100.00

Source: SBV

(Effect of the project in terms of industrial sectors)

The Project's policy aimed to avoid giving priority to any specific line of business, and Table 9 shows a wide range of 12 business fields. All of the top three fields, i.e., transportation, manufacturing and construction / engineering, that accounted for 80% of the total are in the secondary industry.

14 According to the questionnaire sheets collected from the participating PFIs, most of the loan periods are between 24 and 120 months.

Table 9: End Users' Business Fields

No.	Business Field	Funding Projects	Share (%)
1	Transportation	125	35.31
2	Manufacturing	103	29.10
3	Construction / Engineering	64	18.08
4	Agriculture / Forestry / Fisheries	19	5.37
5	Wholesale / Retail	14	3.95
6	Printing / Publishing	7	1.98
7	Mining	6	1.69
8	Health care / Education / Training	4	1.13
9	Waterworks / Electricity / Water / Infrastructure	2	0.56
10	Distribution / Storage	1	0.28
11	Trade	1	0.28
12	Other	8	2.26
	Total	354	100.00

Source: SBV

In summary it is concluded that the Project has contributed to the sustainable production activities by supporting mainly micro and small enterprises in their capital investment in the wide range of Vietnam.

According to the PFIs, many end users were existing customers of those PFIs. While it seems that an extremely small portion of loans became bad debt, due to the practice of selecting enterprises with a certain level of performance from these lending relationships, limited direct benefits were extended to enterprises that had not been able to secure funding from those PFIs in the past. On a survey of end users, 28 SMEs (82% of respondents) replied that they would have been able to procure business loans without the Project.[15] However, SMEs overall have an enormous amount of need for funding, and the Project increased the amount of loan money provided to SMEs as a whole. According to plural PFIs, there are many good enterprises worth financing which have not borrowed funds from commercial banks and it is certain that those SMEs (non-end users) were also able to secure some kind of funding indirectly as the effect of the Project.

3.2.2 Qualitative Effects

(1) Strengthening finance capacity of PFIs: Commercial banks in Vietnam have difficulties in raising long term funds because of the lack of a mature financial bond market and a system of time and savings deposit. Meanwhile, SBV restricts the commercial banks' use of short-term funds as a source of medium and long term loan to 20–30% of such loan amount in order to maintain the soundness of their balance sheets. Thus, the Project served as a catalyst for their lending by providing medium and long term capital to those commercial banks.

(2) Contribution to the business performance of SMEs: The Project contributed to the development of

[15] 50 enterprises were selected for the survey based on the following criteria: 1) Five to seven enterprises for each PFI; 2) Enterprises with a loan balance as of 2012 (These enterprises are relatively approachable and cooperative toward the interviews.); 3) Avoid regional biases; 4) Include micro, small and medium-sized enterprises from within the SME category; and 5) Industrial field should be in line with the total share.

Vietnamese SMEs in various business fields. The survey to end users asked them to rate on how the loan in the Project contributes to their companies' performance on a scale of 1-3 (3: very much; 2: to a certain degree; 1: in a limited way), and more than 70 percent selected "3". Actual benefits enjoyed include procuring funds at low cost (71%), expanding production capacity and operation scale (58%) and improving product quality by introducing new facilities (13%).

(3) Capacity building of human resources in banking sector: Under the Project, a total of 503 trainees participated in 11 training programs in order that the financial institutions can improve their capacity to appraise the loans to SMEs. Topics of training programs include appraisal methods; risk and loan portfolio management; and how to use management information systems (MIS). The training was meant for the members of SBV's ODA International Credit Projects Management Unit (ICPMU), the implementing unit for the Project, and PFI employees. This training helped develop the abilities of people in the banking sector as follows.

a. ICPMU personnel participated in six of the 11 training programs, and the trainees were generally very satisfied with the training, giving an average score of four (in the five grade evaluation, with five as the highest) to the six programs. They were particularly impressed with the unit on "Credit appraisal and operation management" and indicated that it had contributed significantly to improving their operations. They felt the training was linked to the streamlining of lending procedures and practices across their entire organizations.
b. A majority of PFI employees replied on a survey that the training helped them improve their skills related to credit analysis and that it was linked to streamlining lending practices at an organizational level. Four banks replied that they improved their operation manuals because of their participation in the Project.

3.3 Impact

3.3.1 Intended Impacts

The Project intended to "stimulate Vietnamese SMEs and encourage economic growth."

The number of people working for all the end users has grown from 23,234 before the Project to 32,368 after the completion of the project, owing to the expansion of the scale of individual businesses as a result of the loans by the project.[16] PFIs had an average profit margin (lending interest rate minus borrowing cost) of 3.9 to 4.9 percent per project; thus this Project also contributed to PFI profits.[17]

As of June 2010, there were 322 end users, which is 0.13% of the total of 242,453 SMEs in 2009.[18] End users posted VND 8.5 trillion in sales in 2009 (from the seven banks that reported), which is 0.25% of the total sales of all SMEs, VND 3,351.4 trillion. End users from the Project earned VND 0.3 trillion in 2009 (from the seven banks that reported, after taxes) compared to VND 78.4 trillion of

[16] Project Completion Report (PCR)
[17] Survey of PFIs
[18] Statistics on SMEs here and below are based on the SME White Paper (2011).

pre-tax profit by all SMEs.

Thus the Project has contributed to the promotion of end users, but as a single project, those effects were limited in terms of quantitative contribution to achieving the Overall Goal of the project. It is likely that an effort with a broader scale of policy is needed to promote the financial growth of SMEs. Incidentally, establishment of a SMEs Development Fund is planned in response to the SME Development Plan (2011–2015) announced last year (the fund is expected to be VND 2 trillion). If commercial banks can hold time deposits longer than the current maturity, those deposits can also function as capital for medium and long term loans to SMEs, so it would be desirable to increase those deposits in the long term.[19]

3.3.2 Other Impacts

(1) Indirect impact of the Project

As mentioned above, 80% of end users belong to the second industry and the Project is probably having an indirect, positive impact on the supply chain to which end users belong (among such end users, 20[20] are in “supporting industries” as defined by the Vietnamese government[21]). In the survey of end users during this ex-post evaluation study, 27 of 31 respondent enterprises indicated that their improved performance has benefited other enterprises in their supply chains. Specific benefits include “purchases of more products,” “purchases of products at lower prices,” and “purchases of higher-quality products.”

(2) Impacts on the natural environment

The necessity of environmental considerations was explained during training for PFIs on lending procedures carried out under the Project. The policy manual clearly stated that sub-loans could not be made unless they met the JICA’s “Guidelines for Confirmation of Environmental and Social Considerations” (issued in April 2002). As a result, the loan agreement includes these kinds of conditions. In the survey of end users, nearly all respondents indicated that PFIs had explained and advised them on environmental considerations in line with the JICA environmental guidelines in the course of receiving funding.

(3) Land acquisition and resettlement

SBV said that it did not receive any reports concerning resettlement in the Project.

In light of the above, this project has largely achieved its objectives; therefore its effectiveness and impact is high.

---

[19] Time deposits make up 30 to 40 percent of the total assets of major commercial banks, but the term on most of them is six months or less (according to publicized bank balance sheets and interviews).

[20] Total number of end users in supporting industries themselves and those whose work falls under the definition of supporting industry.

[21] Lines of business that fall under this definition: manufacturing materials, components or partially-finished goods and selling to enterprises that manufacture or assemble finished goods. Relevant sectors are machinery manufacturing, electrical/communications information, automobile parts assembly, spinning/sewing, leather/footwear, advanced technology development.

3.4 Efficiency (Rating: ③)

3.4.1 Project Outputs

Below are the results of loans under the Project.

Table 10: Loan Performance (Cumulative Base)

Unit: VND 1 million

Item	As at June 2010	As at November 2012
Japanese ODA Loan	882,866	882,866
Loans from SBV to PFIs (on-lending loans)	1,228,492	1,735,114
Loans from PFIs to end borrowers (sub-loans)	1,674,792	2,366,966

Source: SBV

As shown above, actual loans are expanding on a cumulative basis. In addition, the balance of revolving funds between 2008 and 2012 stayed at around 12 % of the total yen loan disbursement amount. Therefore, it is concluded that Japanese ODA loan under the Project are being used effectively and lending is being done successfully.

This Project provided the following consulting services focused on support for program implementation (project supervision, PR, etc.) and support for SME financing strategies and operational improvement (enhancing capability of ICPMU and PFI staff):

(1) Support for Program Implementation

- Assist the executing agency in formulating procedures (policy manual, reporting manual) for implementing the Project
- Host workshops to familiarize PFIs with Project processes (including familiarization with JICA environmental guidelines)
- Develop PR methods for the Project
- Propose methods for monitoring PFI and SME and support monitoring conducted by the executing agency
- Build management information systems (MIS) to manage Project implementation
- Assist the executing agency in preparing reports for JICA

Because of incompatibility between the internal system of PFIs and the MIS installed in the Project, the MIS did not function properly in the beginning but in the end the MIS became useful in grasping the progress of and reporting on the project activities.

(2) Support for SME Financing Strategies and Operational Improvement

Under the Project, a total of 503 trainees (ICPMU and PFI staff) participated in 11 training programs[22] on topics like appraisal methods, risk and loan portfolio management and how to use MIS.

3.4.2 Project Inputs

3.4.2.1 Project Cost

The planned Project cost was JPY 9,619 million (6,176 million in foreign currency and 3,443 million in domestic currency). Japanese ODA loans were to make up JPY 6,146 million of the total Project cost[23].

Table 11: Project Cost (Planned)

Unit: 1 million yen

Item	Foreign currency		Domestic currency		Total	
	Total	Eligible for ODA	Total	Eligible for ODA	Total	Eligible for ODA
Two-step loan	6,000	6,000	3,412	0	9,412	6,000
Consulting services	176	116	31	30	207	146
Total	6,176	6,116	3,443	30	9,619	6,146

Exchange rate: USD 1 = JPY 110; VND 1 = JPY 0.007
Price escalation rate: Foreign currency 1.4%; domestic currency 0.0%
Contingency: 5%
Cost calculation base period: October 2004

Table 12: Project Cost (Actual)

Unit: 1 million yen

Item	Foreign currency		Domestic currency		Total	
	Total	Eligible for ODA	Total	Eligible for ODA	Total	Eligible for ODA
Two-step loan	6,000	6,000	13,814	0	19,814	6,000
Consulting services	97	97	34	34	131	131
Total	6,097	6,097	13,848	34	19,945	6,131

Source: SBV (as at June 2010)
Exchange rate: VND 1 = JPY 0.007

As shown by the tables above, both foreign and domestic portions of Japanese ODA loan money were within the plan. The total project cost is, however, as twice as much as the plan. This is because i) the portion shouldered by the end users was much bigger than the original plan and the total project cost became much bigger than planned 9,619 million yen at the completion of first series of sub loan and ii) as at June 2010 the loan went into second generation, and the total project cost had kept

[22] 11 programs include the same programs conducted in different places. Other topics are “Introduction of the Project and sharing some experiences in the first phase”, “Experiences of SME financing in other countries”, “Workshop on policy manual and reporting manual” and “Enhancing the capacity of ICPMU”.
[23] In the table 11 and 12 the domestic currency portion shows the amount of end users’ own investment and the amount of sub-loans covered by PFIs.

increasing.

3.4.2.2 Project Period

Initial plans called for the loan agreement (L/A) to be signed in March 2005 and the Project to be completed by April 2009[24] (a total of 50 months). The L/A was actually signed in March 2005, but the final day on which loans were executed fell in September 2008 (a total of 43 months). In other words, the Project was completed in 86% of the time allotted and the actual project period was shorter than planned.

The following are some reasons why Project loans were executed smoothly:

- In an environment where SMEs generally had considerable need for funding, PFIs had a firm understanding of their customers' circumstances and were able to smoothly match supply and demand.
- This was Phase II of a project. Thus the project did not face the issues of the policy manual being too complicated and the time consuming loan procedure. (Situation had been improved midway through Phase I).
- No rigid funding limits had been established for each PFI and the PFIs consumed portions of the credit limit as a whole, based on their requests. That is to say, there was competition among PFIs, which made the sub-loan execution smooth.

In light of the above, both project cost and project period were within the plan, therefore efficiency of the project is high.

3.5 Sustainability (Rating: ③)

3.5.1 Institutional Aspects of Operation and Maintenance

(1) Revolving Fund Operating Structure

A revolving fund was operated according to initial plans. On-lending loans repaid by PFIs[25] to SBV were managed through the revolving fund and reused to finance PFI-mediated sub-loans to end users.

(2) Loan Monitoring System

Monitoring has been done according to initial plans. PFIs conduct monitoring on the repayment from the end users in accordance with each bank's guideline. SBV also sets the basic framework on monitoring by policy manual and reporting manual and receives obligatory reporting from PFIs. SBV

[24] The time when sub-loans from PFIs to end users were to be completed.

[25] Six commercial banks were envisioned at the time of the appraisal, but the following 10 banks satisfying the pre-set criteria were selected in practice: 1. Asia Commercial Bank (ACB); 2. Vietnam Technological and Commercial Joint Stock Bank (TCB); 3. Bank for Investment and Development of Vietnam (BIDV); 4. Central People's Credit Fund (CCF); 5. Dong A Commercial Bank (DAB); 6. Ho Chi Minh Housing Development Commercial Joint-Stock Bank (HDB); 7. Mekong Housing Bank (MHB); 8. Sacombank (STB); 9. Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank); 10. Namviet Bank.

also formulates progress reports containing PFI loan amounts, numbers of loans, lines of business and other classifications, the revolving fund balance and delinquency status of PFIs.

Incidentally, revolving fund trend analysis from semi-annual balances yields an average balance of VND 102.669 billion from June 2008 to June 2012, which is 11.6% of the total amount of loans executed with yen loan money. This demonstrates that Project funding is continuously being used well.

(3) Project Implementation System by Agency

1. SBV

The following four divisions of ICPMU within SBV were involved in the Project:

- Appraisal Division: Receives and examines requests for loans from SBV to PFIs (on-lending loans) and, if it deems the requests appropriate, asks the Accounting Department to move money from the revolving fund to PFIs. Supervises and advises overall PFI financing operations. Consists of nine people.
- Accounting Division: Manages the schedule of borrowing from JICA and repaying the Ministry of Finance. Manages overall movement of funds related to the Project and manages the revolving fund balance. Consists of eight people.
- PFI Monitoring and Accreditation Division: Prepares reports on the Project to submit to the SBV Board of Directors. Selects PFIs. Consists of five people.
- Project Implementation Support Division: Works with consultants to implement training related to the Project. Also engages in work related to strengthening organizations for the Project.

According to interviews with the executing agency, the workforce is stable; it has enough personnel to execute operations and only one worker left the office in the past three years (while hiring four new ones).

2. PFIs

On a questionnaire survey, nearly all PFIs said that they had a sufficient number of personnel to implement operations.

3.5.2 Technical Aspects of Operation and Maintenance

(1) SBV

All employees in all departments hold degrees in economics, accounting and other fields associated with bank operations and Project operations, and many hold master’s degrees. Furthermore, each department contains multiple staff members who have more than 10 years of experience in the business, so there seems to be sufficient experience and knowledge to execute the Project. The actual work is done according to the policy and reporting manuals, and the manuals are revised when necessary.

SBV also has much experience working on the same Small and Medium-Sized Enterprises

Finances Project through two phases. Interviews with SBV personnel revealed that they faced no particular technical problems or issues in the course of executing the Project.

(2) PFIs

On the survey, each PFI gave a self-evaluation that its Project personnel possessed sufficient skills for credit and debt recovery operations and said that it faced no issues in particular in its work. All PFIs use standardized operation manuals in the course of executing operations. Seven banks implemented internal employee training after the Project as well.

3.5.3 Financial Aspects of Operation and Maintenance

The table below shows how ICPMU has used the budget. The required administrative expenses have been allocated sufficiently within SBV.

Table 13: ICPMU Budget Use

Unit: VND 1 million

Fiscal Years	2010	2011	2012
Budget	2,723	2,735	3,420
Expenditures	2,696	2,674	3,382
- Wages	1,689	2,013	2,895
- Other operational expenses	1,007	661	487

The following updated management indicators for the 10 PFIs demonstrate that banks are in an almost healthy state overall. (Detailed information on banks are shown in Appendix 3.)

(1) Equity Ratio: The 10 banks averaged 15.8% in 2011. Incidentally, the average for 104 regional banks in Japan was 9.2% in the year ending March 2011[26]; the PFI figure is relatively high.

(2) Return on Assets Ratio: The 10 banks averaged 1.3% in 2011. The average for 104 regional banks in Japan was 0.2% in the year ending March 2011; PFI profitability is also high.

(3) Total Assets: The largest bank (VietinBank) had VND 460.317 trillion in 2011, and the smallest bank (CCF) had VND 12.187 trillion. The average annual growth rate (weighted) for the 10 banks from 2009 through 2011 was 27.5%.

(4) Loan Balance: The largest bank (VietinBank) had VND 291.915 trillion in outstanding loans in 2011, and the smallest bank (CCF) had VND 5.813 trillion. The average annual growth rate (weighted) for the 10 banks from 2009 through 2011 was 24.6%.

(5) Non-performing Loan Rate: In 2011, the rate varied among banks from 2.96% of BIDV at the highest to 0.56% of STB at the lowest. The period from 2009 through 2011 showed that the rates were on a gradually increasing trend.

[26] Source: “Monthly Financial Journal”(September 2011)

(6) Loan-deposit Rate: In 2011, the rate varied among banks from 120.05% of BIDV at the highest to 51.43% of HDB at the lowest. However, the period from 2009 through 2011 did not show any common trend in the rates among banks.

3.5.4 Current Status of Operation and Maintenance

PFIs have never delayed repaying on-lending loans from SBV. Furthermore, as described in Effectiveness (Quantitative Effects), very few SMEs have delayed in repaying sub-loans from PFIs.

Each bank has made allowances for bad debt as prescribed in government decisions (Decision 493/2005/QD-NHNN dated April 22, 2005 and Decision 18/2007/QD-NHNN dated April 25, 2007).

No major problems have been observed in the operation and maintenance system; therefore sustainability of the project effect is high.

4. Conclusion, Lessons Learned and Recommendations

4.1 Conclusion

The Project has been highly relevant with the Vietnamese government's development plan, development needs and Japan's ODA policy; therefore its relevance is high. Total sales for all enterprises that received funding under the Project increased at a strong annual average rate of 32.4% from 2007 to 2011. The profits of these enterprises have also increased over the years. In addition, the Project supplied medium and long term funding which became the source of PFIs' lending to SMEs and conducted capacity building of the staff of State Bank of Vietnam (SBV) and PFIs through training. Accordingly, the effectiveness and the impact of the Project are high. The project cost was lower than planned and the Project was completed within the planned project period, so the Project was highly efficient. No major problems have been observed in the institutional, technical or financial aspects of project operation and maintenance; therefore sustainability of the Project effect is high.

In light of the above, the Project is evaluated to be highly satisfactory.

4.2 Recommendations

4.2.1 Recommendations to the Executing Agency

The Project was executed successfully on all fronts, so the External Evaluator does not have any particular recommendations on improving execution. However, funding may need to be provided to SMEs on a larger scale in order to have an even greater impact on SME sector. As a concrete measure, it would be best to move ahead steadily on the concept of the SMEs Development Fund planned under the policy of the SME Development Plan (2011–2015). In the long term, if commercial banks can hold more time deposits of the term longer than the current period, those deposits can function as capital for medium and long term loans to SMEs. Accordingly, it is expected that the health of the entire banking sector continues to improve so that banks can increase those deposits.

4.2.2 Recommendations to JICA

None.

4.3 Lessons Learned

(1) Encouraging Competition between PFIs

Behind the smooth execution of loan operations for this Project was the principle of competition at work among PFIs because funding limits were not established for each bank. This should serve as an example of good practice when executing the same kind of two-step loans.

(2) Using MIS Effectively

Because of an insufficient budget of the Project, PFIs were not able to build complete MIS for information sharing between SBV's ICPMU and FPIs.[27] As a result, PFIs had no choice but to prepare reports manually, which was extremely inefficient.[28] It will be critical for executing agencies as well as PFIs to make sure the compatibility of MIS with their existing computer system when executing the same kind of two-step loans.

BOX: The Results of Examining the Ripple Effects of Two-Step Loan Projects

The ripple effects of two-step loan projects were examined for three projects that were selected out of the FY 2012 Ex-Post Evaluations, namely the "Micro, Small and Medium Enterprises Energy Saving Project" in India, the "Small and Micro Industries Leader and Entrepreneur Promotion Project (III)" in Sri Lanka, and the "Small and Medium-Sized Enterprises Finances Project (II)" in Vietnam, all of which are yen-loan projects. The following are the three main areas studied.

- The relationship between the subject projects and the degree to which the business development service (BDS) market has developed in the respective countries[29]
- The macro-political and financial effects of two-step loan projects
- Whether or not local Japanese-affiliated companies benefited from the projects through supply chains which include end users

1. The Relationship between Two-Step Loan Projects and the Degree to Which the BDS Has Developed

The following explains the degree to which the BDS market has developed and the characteristics of the BDS providers in the three countries.

In Vietnam, it is reported that BDS sales account for about 1.5% of GDP. The main tasks of

[27] PFIs needed to build new systems because their internal systems were not compatible with the system installed in the Project.

[28] MIS are currently serving PFIs at the main office level.

[29] For the purpose of this detailed analysis, BDSs were defined as follows. In principle, BDSs are services which help companies to grow and become competitive. They include training, consulting, marketing assistance, information provision, legal and accounting services, technical development and dissemination. However, they do not include financial assistance ("The Follow-up Study Report for Projects in Mining and Manufacturing Industries" [Japan International Cooperation Agency, August 2003], p. 87).

the BDS providers include the following: mediating clients and assisting market development; creating personal connections between companies; giving advice on government rules and regulations; training; consulting on marketing, management strategies and business management; and assisting with the preparation of financial statements. Government-managed agencies, trade associations and business organizations preceded other types of organizations in providing BDS, but their services had some room for improvement[30]. The number of private BDS provider companies has gradually increased in recent years and they have begun to provide high-quality services to relatively large corporations. In India, there are various actors who provide BDS including government agencies, business organizations, private firms, research institutes, NGOs, and individuals. BDS providers provide services in various fields such as accounting and marketing, assistance for export procedures, and training programs. More than 14,000 BDS providers are registered on the web portal operated by the Small Industries Development Bank of India (SIDBI). In Sri Lanka, it is reported that there are between 300 and 500 BDS providers nationwide. They are generally classified into government-managed providers, private providers, and NGOs. There are no significant differences in the types of services provided, but the fees and quality levels vary significantly.

Next, when we look at the overall situation of these three countries regarding the relationship between BDS and end user companies in two-step loan projects, it cannot be said that the end user companies have been utilizing BDS frequently but the end users who ever used BDS replied that the BDS were effective. In addition, end users, including those that had not used BDS, expressed an interest in using it from now on. Although there are a certain number of BDS providers in Vietnam, only one company out of 50 replied that it contacted a (private) BDS provider to receive advice on business in the questionnaire survey. BDS was not essential for the development of vast majority of end users. There are, however, quite a few end users which are interested in the use of BDS in the future. In India as well, except for the services of daily administration such as accounting and tax reporting, the use of BDS for the purpose of business improvement is limited.(Eight companies out of 45 replied that they used BDS.) The fact that micro, small and medium enterprises (MSMEs) do not know the existence of BDS and how to access BDS providers is a major obstacle to BDS utilization. Meanwhile, more than a half of the end users who did not use BDS are interested in the future use of BDS. In Sri Lanka, the questionnaire survey confirmed that the use of BDS by end users is limited and only 3 companies out of 50 used BDS. A major problem is that MSMEs are not familiar with what a BDS is and how they can access it. However, many end users want to use BDS when their business becomes stable.

Although JICA implemented relevant projects for supporting BDS providers in Vietnam and Sri Lanka, these projects did not create any particular synergistic effect with the two-step loan

[30] In interviews, many stakeholders stated that the content of seminars and consulting provided by government-managed agencies, trade associations and business organizations is very basic and not practical. On the contrary, private BDS providers seem to have many MBA holders and deliver services that meet the international standards.

projects. The reason is that the projects were conducted separately and no joint activities between them were organized. In India, such relevant project for supporting BDS providers has not been implemented by JICA.

Accordingly, the two-step loan projects have realized a certain level of effect even without BDS, as confirmed by the individual ex-post project evaluations. However, it does not mean that MSMEs in all three countries have no need for BDS. It is still possible that, in the future, MSMEs will actively utilize BDS to enhance the quality of their businesses. The following three factors should be regarded as basically common in all three countries: (1) MSMEs have needs for BDS after growing to a certain level; (2) it is confirmed that utilizing BDS has provided a certain level of effect; and (3) matching between MSMEs with needs for BDS and BDS providers is not sufficient but can be improved, because companies are interested in the use of BDS.

2. Macro Policies and Two-Step Loan Projects

The two-step loans carried out in the three subject projects have not provided any ripple effects in the governmental policies of India or Sri Lanka; this was confirmed by the interviews with officials responsible for financial policies. Nor do they seem to have provided any clear effects in the policies of Vietnam. However, according to officials of Vietnam's Ministry of Finance and Ministry of Planning and Investment, the success in JICA's two-step loan projects in the country appears to have had a certain amount of influence on the recently announced plan of “SMEs (Small and medium-sized enterprises) Development Funds”.

In all three countries, we were unable to confirm any particular effect such as increased financing to MSMEs by financial institutions which did not participate in the two-step loan projects. Financing by the two-step loan projects is not remarkably different to existing schemes of private financial institutions for financing companies except for the fact that financing in India was limited to investment in the procurement of energy-saving equipment. On the other hand, there are advantages to the two-step loan projects such as having relatively low interest rates for Vietnam and India, and a longer repayment period in Sri Lanka.

3. Beneficial Effects to Local Japanese-Affiliated Companies of Two-Step Loan Projects

In Sri Lanka, there is no local Japanese-affiliated company in the end users' supply chain. We confirmed the presence of a few local Japanese-affiliated companies in the end user companies' supply chain in Vietnam and India by conducting questionnaire surveys to end users, but it is very rare that local Japanese-affiliated companies are customers of end users. In conclusion, we were unable to fully confirm benefits for Japanese-affiliated companies by the two-step loan projects.

Appendix 1: Table: Vietnam government's policies directly related to financial assistance to SMEs (in and after 2009)

Policies and categories*1 (in parenthesis)	Effective Date	Responsible agencies and functions	Outline of policies and the results
Provision of a guarantee for SMEs to obtain bank loans (Decision No 03/2011/QD-TTg)	February 2011	- Ministry of Finance (MOF): Guiding, examining and supervising the implementation; - Vietnam Development Bank (VDB): guarantee organization; - Commercial Banks: providing loans	Outline: The Vietnam Development Bank (VDB) will act as a guarantee organization for SMEs to take middle- and long-term loans in VND to implement their projects. To be eligible for obtaining a loan guarantee by the VDB, the SMEs shall be required to: • Belong to sector such as agro-forestry-fishery, processing industry, manufacturing, gas and water supply, waste treatment and management, construction and so on • Have a minimum 15% of its equity participating in the investment project ; and • Not have any bad debts at the time of the guarantee application. Results: VDB has conducted appraisal and issued about 1,500 Letters of guarantee to businesses, of which the total value is about VND 10,692 billion. (confirmed by MOF) Commercial Banks has provided about VND 9,000 billion of loans to businesses under the Letter of guarantee*2.
Provision of credit for all businesses for investment and export activities (Decree 75/2011/NĐ-CP replacing for Decree 151/2006/NĐ-CP)	Initial issuance: 2007 Replacement: 2011	- MOF: making related policies, supervising the implementation; - VDB: providing loan and/or guarantee	Outline: VDB conducts the following activities: • Lending for investment projects • Guarantee for investment projects • Lending for exporting contracts • Guarantee for exporting contracts Results*2: • Lending for Investment projects: VDB provided about VND19,000 billion of loans to 437 projects owned by about 300 SMEs.

			• Guarantee for investment projects: 30 billion VND of total 6 cases of guaranty was provided. • Lending for Exporting contracts: VDB has financially supported about 162 SMEs. The total value of loans is up to VND 17,000 billion. • Guarantee for exporting contracts: Results are not confirmed.
Establishment of the SMEs Development Fund (Reconfirmed by Decision 1231/QD-TTg)	Reconfirmed in September 2012	MPI (Ministry of Planning and Investment)	Outline: Establishing a Governmental Fund which is specialized in lending and guaranteeing SMEs' lending. Current status: The authorized capital of the Fund is budgeted to be about VND 2,000 billion. Proposal of Fund establishment was presented to Prime Minister and under study.

Source: The external evaluator summarized information collected during the ex-post evaluation.
Note:
*1. In the Vietnamese legal system, the order of strength of validity is i) Constitution, ii) Law, iii) Ordinance and Resolution, iv) Decree, v) Decision and Circular.
*2. Figures extracted from reports by Agency of Enterprises Development, MPI

The first two of the above three policies have a limited number of beneficiary companies, but bank loans based on guarantee and credit provision are already implemented. In addition to these financial assistance schemes, the SMEs Development Fund is to be established on the basis of the "SME Development Plan (2011–2015)" that was announced last year. According to the Ministry of Planning and Investment (MPI) in charge of the Fund, MPI, MOF and SBV are the three candidates for the executing agency. With regard to a concrete financial assistance scheme, the options are as follows: i) capital investment into SMEs; ii) two-step loan; and iii) direct loan from MOF. Concrete proposals on the options have already been submitted to the Prime Minister's Office, and are being studied at the time of the ex-post evaluation study in March 2013.

Appendix 2: Project Financing Scheme

Plan	Results (Note: Only items that have changed from Plans are shown.)
(a) Two-step loan (1)Loan scheme: Yen loan funds are transferred from the account of Ministry of Finance, the borrower, to the account of SBV, then, PFIs borrow on-lending loan from SBV and PFIs provide end users (SMEs) with the medium and long term funds.	(a) Two-step loan
(2) Loan Conditions 1) End user eligibility requirements a) Legal status/form ・ A judicial entity established under the Law on Enterprises; that is, either a joint stock company, a limited company, a partnership or a private enterprise; ・ A joint venture company duly established under the Law on Foreign Investment in which Vietnamese non-state sector controls majority of the shares;	(2) Loan Conditions 1) End user eligibility requirements a) Legal status/form 2005 revisions to laws have removed "joint venture corporations based on foreign investment legislation" of the second item in the left legal status. An additional eligibility requirement for the Project is at least 50% private enterprise ownership.
b) Size: registered capital not exceeding VND 10 billion (about 100 million yen) or annual average number of employees less than 300 persons. c) Business sector: Not limited, such as manufacturing, mining, and agriculture/forestry/fishery. (Except for real estate, finance/insurance, precious metal dealing, restaurant, entertainment, transaction of weapons and other socially harmful sectors) d) Area: Entire Vietnam	b) Size: The left provision is based on the government decree enacted November 2001 (defining SMEs), but this government decree was revised in June 2009, so the scale of enterprises in the Project follows it. The point is that the number of employees is nearly the same, but the size of capital funds is increased (to VND 100 billion for agriculture, forestry and fisheries, industry and construction and to VND 50 billion for commercial and service industries).
2) Terms and conditions: Sub-loan from a PFI to an end-borrower(end user) A sub-loan contract shall be made between PFI and End-borrower. Detailed terms and conditions are as follows. a) Eligible investment ・ Plant and machinery ・ Initial working capital associated with the above-mentioned investment b) Loan limit: The amount of a single sub-loan shall not exceed VND 20 billion. (the above mentioned initial working capital should be 20 % of the total investment or less.) c) Authorization of the sub-loan: PFIs shall conduct credit analysis of the end users by themselves and SBV only confirms the	2) Terms and conditions: Sub-loan from a PFI to an end-borrower(end user)

formality. d) Currency: Vietnamese Dong or US dollar. e) Interest rate: Interest rates of sub-loans shall be, in principle, freely determined by each PFI. f) Maturity and grace ・ 10 years for a loan for capital investment (A grace period will be 2 years at the longest.) ・ Working capital: one year or less g) Share of financing: ・ End-borrower: 15 % or more of a total sub-project cost ・ PFI: 25% or more of the remaining project cost after the share of end-borrower being subtracted ・ Yen loan: not more than 75% of the remaining project cost after the share of end-borrower being subtracted h) Collateral: In line with the Vietnamese governmental regulations i) Credit risk: PFIs shall bear end-borrower's credit risk. j) Environment clearance: Sub-loans shall be in accordance with the relevant governing regulations in Vietnam and JICA's guideline on environment.	e) Interest rate: The discretion of PFIs to set interest rates has been assured. It appears that interest rates for SMEs for the Project have been several percentage points below market standard. h) Collateral: Currently, a collateral needs to be provided for all projects in principle. Recently, however, it has become easier to receive financing because facilities and machinery purchased by PFIs can be used as a collateral. Nearly all SME respondents to a survey indicated that they had no particular difficulty receiving financing. (Besides, there is no particular difference of policies of PFIs concerning collateral requirement between the loans in the Project and other loans.) i) Credit risk: Credit risk in the Project was analyzed for each individual eligible SME according to manuals and checklists prepared by each bank. The rates of interest on loans were determined under guidance from the main branch in line with the credit level of eligible SMEs based on results of said analysis.
3) On-lending loans from SBV to PFIs a) Currency: Vietnamese Dong b) Interest rate: The interest rate of 364-days Treasury Bill (TB). c) Maturity: Same as sub-loan d) Credit risk: SBV shall bear each PFI's default risk. e) Collateral ・ In principle, collateral for on-lending is not required. ・ When a PFI is in a financially difficult situation, SBV is entitled to require the PFI to submit collateral. In this case, the type of collateral shall be decided by	3) On-lending loans from SBV to PFIs b) Interest rate: Conditions have changed from the left mentioned one to the following: "Weighted average of deposit interest rates reported to SBV by PFIs on a quarterly basis." The background of the above change is explained below. PFIs did not lower interest rates to SMEs when the TB rates were lower than market interest rates (deposit interest rates), and loans to SMEs stagnated when the TB rates were higher than market interest rates. In light of these circumstances, the Ministry of Finance

SBV. 4) Transfer from MOF to SBV a) Currency: Vietnamese Dong b) Maturity and grace period: Same as those of JICA loan c) Foreign exchange risk: MOF shall bear the exchange risk between yen and VND. d) Operation cost: SBV collects interest from PFIs. SBV shall obtain 0.2 % of the total outstanding balance of transfer from MOF to SBV and return the rest to MOF.	advised that SBV set interest rates on on-lending loans for the Project to the prime rate, and the new standard went into effect July 2009. However, the prime rate has diverged from the market rate after two years, so the Ministry of Finance reviewed on-lending loan interest rate standards and advised that SBV use regularly updated weighted averages from all deposit interest rates, and the new standard has been in effect since April 2012. PFIs have not reported any particular disruptions resulting from the aforementioned rule changes.

Appendix 3: Business performance indicators of PFIs

Indicator	Equity Ratio (%)			Return on Asset Ratio (%)			Total Assets (VND1 Billion)		
Year	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
ACB	9.73	10.33	9.24	1.49	0.02	0.02	167,724	202,454	278,856
TCB	9.60	12.94	11.29	2.32	0.02	2.28	92,534	149,503	178,191
BIDV	9.53	9.32	10.01	1.20	0.01	0.99	294,340	366,268	406,919
CCF	47.12	41.12	43.40	0.47	0.01	1.65	8,103	11,113	12,187
DAB	10.64	10.03	9.07	1.78	0.02	1.94	42,157	54,525	64,546
HDB	15.67	12.70	15.01	1.33	1.02	1.26	19,127	34,389	45,025
MHB	8.05	13.39	21.46	0.17	0.22	0.24	39,712	51,211	47,282
STB	11.41	9.97	11.66	1.93	1.71	1.96	98,474	141,799	140,137
VietinBank	8.06	7.44	9.50	0.62	0.01	1.71	242,667	367,068	460,317
NaviBank	8.87	19.07	16.94	1.01	0.01	0.99	18,686	20,015	22,496

Indicator	Loan Balance (VND1 Billion)			Non-performing Loan Rate (%)*1			Loan-deposit Rate (%)*2		
Year	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
ACB	62,021	86,648	101,898	0.40	0.34	0.89	54.94	60.06	53.29
TCB	42,093	52,928	63,435	2.49	2.29	2.83	62.47	55.38	56.78
BIDV	200,858	254,192	291,761	2.82	2.71	2.96	101.36	100.90	120.05
CCF	3,841	4,945	5,813	-	-	-	-	-	-
DAB	34,356	38,321	44,003	1.32	1.59	1.69	108.53	90.01	107.49
HDB	8,231	11,728	13,848	1.10	0.83	1.63	69.77	55.70	51.43
MHB	20,136	22,689	22,954	2.03	1.90	2.31	128.59	95.23	100.94
STB	55,248	77,359	78,449	0.69	0.52	0.56	71.97	74.52	84.89
VietinBank	162,335	233,062	291,915	0.61	0.66	0.75	103.85	108.10	109.34
NaviBank	9,960	10,767	12,915	2.45	2.24	2.92	87.21	94.36	85.63

Note:

*1. "Non-performing Loan" means a loan which is more than 90days overdue and in high risk category.

*2. In the calculation of the rate "deposit" includes financial bonds.

Major Plans / Results Comparison

Item	Planned	Actual
(1)Outputs (Loan performance from the Project)	Japanese ODA loan amount: JPY 6 billion Loans from SBV to PFIs (on-lending loans): No planned value Loans from PFIs to end borrowers (sub-loans): No planned value	Japanese ODA loan amount: JPY 6 billion Loans from SBV to PFIs (on-lending loans): 1,228,492 Loans from PFIs to end borrowers (sub-loans): 1,674,792 (Unit: VND 1 million, as of June 2010)
(2)Time Period	March 2005–April 2009 (50 months)	March 2005–September 2008 (43 months)
(3) Project cost Foreign currency Domestic currency Total Japanese ODA loan portion Exchange rate	 6,176 million yen 3,443 million yen (VND 491.9 billion) 9,619 million yen 6,146 million yen VND 1 = JPY 0.007 (as of October 2004)	(as of June 2010) 6,097 million yen 13,849 million yen (VND 1.9784 trillion) 19,945 million yen 6,131 million yen VND 1 = JPY 0.007 (Same as left)