Socialist Republic of Vietnam
Ex-Post Evaluation of Japanese ODA Loan Project
“Sixth, Eighth, Ninth, and Tenth Poverty Reduction Support Credit”
External Evaluator: Masumi Shimamura
Mitsubishi UFJ Research and Consulting Co., Ltd.

0. Summary

The program provided budget support to achieve policy goals related to (1) promoting growth and transition to a market economy, (2) securing poverty reduction and social inclusion, (3) achieving sustainable management of the environment and natural resources, and (4) establishing formulation of organizational structures for supporting the strategy in each relevant area, and to contribute to economic growth and poverty reduction in Vietnam. The program objectives of Poverty Reduction Support Credits (hereinafter referred to as “PRSCs”) are consistent with Vietnam’s development policy and with the development needs. Priority areas for Japan/Japan International Cooperation Agency (JICA) in PRSCs are consistent with Japan’s assistant strategy for Vietnam, and the initiatives to cope with development issues including Japan-Vietnam Joint Initiative. PRSC framework design is flexible in response to changing circumstances. The fact that JICA participated in PRSC is deemed appropriate in light of circumstances surrounding development assistance, and terms and conditions of development policy loans at the time. Providing PRSC funds and the size of PRSC funds were also appropriate. As regards effectiveness/impact, PRSC prior actions have been fulfilled, and steady progress of reform can be observed. Furthermore, results of interviews with Japanese companies in Vietnam have confirmed that legal development related with investment climate has benefitted them. On the other hand, selection of policy actions has not necessarily taken place in a reasonable manner in theory, however, it did not diminish the effectiveness of PRSC. PRSC is deemed to have made contribution as a policy reform support tool in that it pushed forward reform efforts of the Vietnamese government and contributed to the acceleration of reform. PRSC funds have contributed to the fiscal consolidation and economic soundness of Vietnam, and examples of coordination between PRSCs and JICA’s technical cooperation have also been identified. Lessons in the implementation of PRSCs have been made use of in the preparation and implementation of the subsequent program.
1. Project Description

Socialist Republic of Vietnam

Meeting with the State Bank of Vietnam (SBV)

1.1 Background

Since the *doi moi* reform policy of 1986, the government of Vietnam has been promoting a policy of opening the country to foreign business, and has been facilitating economic growth while reducing poverty through integration into the international economy. The World Bank and other development partners have appreciated such initiatives by the Vietnamese government, and provided support as the first round of PRSCs (PSRC 1-5) between 2001 and 2006. (JICA started its support from PRSC3.) During this period, increase of exports and foreign direct investment were the driving forces that set the country on a track of economic expansion. Economic stimulus measures and financial reform efforts by the government kept real GDP at a high annual growth rate of around seven percent every year. The poverty rate also dropped from 28.9% in 2002 to 19.5% in 2004 during the same period.

On the other hand, the government had the difficult task of implementing a variety of reforms in accordance with its accession to the World Trade Organization (WTO), which Vietnam officially joined in January 2007. In addition, in order for Vietnam to achieve the national target to become a middle income country by 2010 and an industrialized nation by 2020, strengthening the country’s international competitiveness was necessary through institutional development and its appropriate enforcement to enable effective business development under a market economy, employment promotion and technology transfer via foreign direct investment (FDI), state sector reform, financial sector reform, as well as growth of local small and medium-sized enterprises and private sector, and development of human resources for industries. Furthermore, the government was required to distribute the fruits of economic growth appropriately, and to achieve a good balance between the issues of redressing disparity, protecting natural environment, and maintaining economic growth.
Issues and progress of major reform areas during the time of PRSC are summarized in the Attachment.

1.2 Program Outline

The objective of the program is to achieve policy goals stated in the five-year development plan that can be summarized in four broad pillars: (1) promoting growth and transition to a market economy, (2) securing poverty reduction and social inclusion, (3) achieving sustainable management of the environment and natural resources, and (4) advancing formulation of organizational structures for supporting the strategy, by financing the implementation of policy reforms by the government of Vietnam (especially development of investment climate and business environment, public financial management, financial sector reform, state sector reform, public administration reform, environmental management, infrastructure development, education, health, and fighting corruption), and thereby contributing to economic growth and poverty reduction in Vietnam.

<table>
<thead>
<tr>
<th></th>
<th>PRSC6</th>
<th>PRSC8</th>
<th>PRSC9</th>
<th>PRSC10</th>
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<tr>
<td>Loan Approved Amount/ Disbursed Amount</td>
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<td>7,000 million yen / 7,000 million yen</td>
<td>3,500 million yen / 3,500 million yen</td>
<td>3,500 million yen / 3,500 million yen</td>
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<td>Terms and Conditions</td>
<td>Interest Rate: 1.3%, Repayment Period: 30 years (Grace period: 10 years), General Untied</td>
<td>Interest Rate: 1.2%, Repayment Period: 30 years (Grace period: 10 years), General Untied</td>
<td>Interest Rate: 1.2%, Repayment Period: 30 years (Grace period: 10 years), General Untied</td>
<td>Interest Rate: 1.4%, Repayment Period: 30 years (Grace period: 10 years), General Untied</td>
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<td></td>
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<td>N.A.</td>
<td>N.A.</td>
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<td>Technical Cooperation</td>
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<td>• Reinforcement of the SME Technical Assistance Center (August 2006 – August 2008)</td>
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<td>• Vietnam-Japan Human Resources Cooperation Center (Phase 2) (September 2005 – August 2010)</td>
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<td>• Project for Human Resource Development of Technicians at Hanoi University of Industry (January 2010 – January 2013)</td>
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<td>• Project for Institutional Capacity Development for Infrastructure Finance in Vietnam (September 2008 – March 2012)</td>
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<td>• Project for Strengthening Function of Central Bank (August 2010 – August 2011)</td>
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<td>• Project for Strengthening Capacity of Consumer Protection Administration (June 2010 – May 2012)</td>
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<td>PRSC6-10 Co-financiers</td>
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<tr>
<td></td>
<td>World Bank, Asian Development Bank, EU, UK, Netherlands, Denmark, Germany, Australia, Ireland, Spain, Canada, Sweden, Switzerland, NZ (total of 15 development partners including JICA)</td>
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</tbody>
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<Explanation of Words and Terms>
Development Policy Loan: PRSC is a name of development policy loan provided in Vietnam. A development policy loan is an ODA loan to support developing countries aiming to improve policy and to carry out overall institutional reform. Compared with the former structural adjustment lending, it supports implementation of national strategy and poverty reduction strategy in a longer time span. In recent years, so-called backward looking type – a type of loan in which development partners confirm the implementation of
reform items by the government of the recipient countries, followed by conclusion of loan agreements for its fulfillments, and then provide funding which is to be incorporated into the government’s budget – has become predominant. As regards confirmation of fulfillments, future reform items are also the target for discussion, and support for reform will be provided under a long-term framework. As in the case of PRSC, this loan is often provided in the form of co-financing with Multilateral Development Banks such as the World Bank.

Prior Actions: Reform items for which prior fulfillments are required in each reform area. Development partners confirm the implementation of prior actions by the Vietnamese government, and then provide funding for its fulfillments. PRSC is a backward looking operation in the sense that it monitors implemented reforms in that phase and gives credit to what has been fulfilled.

Triggers: Policy actions of great importance within the roadmap of each reform area, by which development partners are to confirm their virtual fulfillments before the next phase of PRSC starts. In other words, they are regarded as interim performance indicators in order to commence the next phase of PRSC. As such, the assessment of fulfillments of triggers takes place prior to the official start of the next phase of PRSC process.

2. Outline of the Evaluation Study

2.1 External Evaluator

Masumi Shimamura, Mitsubishi UFJ Research and Consulting Co., Ltd.

2.2 Duration of Evaluation Study

Duration of the Study: July, 2014 – August, 2015


2.3 Constraints during the Evaluation Study

The evaluation was conducted focusing attention on “relevance” and “effectiveness” / “impacts” among the existing five criteria of DAC. “efficiency” and “sustainability” were excluded from the evaluation criteria since quantitative comparison between inputs and outputs is difficult to make for the former, and the effects of budget support are provisional or irreversible (subject to external factors such as international economic environment

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1 PRSC funds are provided in the form of disbursement for import settlement, and after compensating for import settlement, the equivalent local currency will be incorporated into the government’s budget. Therefore, the use of PRSC funds is not limited to cover expenditures for any specific projects.
surrounding Vietnam, and politics, economy, and social trend within the country) for the latter.

As regards rating, since evaluation of budget support takes into consideration each country context, and does not adapt to unified rating, unlike the cases of evaluation of ODA loan projects, it was decided not to give overall rating nor sub-rating for each evaluation criterion.

Support for policy and institutional reform through PRSC is an integral part of Vietnamese government’s own reform program, and it is difficult to separate out PRSC policy actions from the government’s own program. Moreover, it is difficult to measure PRSC contribution to the enforcement of reform for each reform area in a quantitative manner because reform progress is largely affected by external factors such as international economic environment surrounding Vietnam, and politics, economy, and social trend within the country. Therefore, the evaluation was conducted thorough both quantitative analysis at the macro level as well as qualitative analysis of information gathered from interviews with relevant stakeholders and by referring to their actual voices.

2.4 Evaluation Approach

Since the evaluation methodology for budget support is not necessarily established internationally, methodology was set based on JICA’s awareness of the issues and its needs, taking into account evaluation methodologies of co-financiers including the World Bank. Following approaches were adopted in this evaluation.

- PRSC which has focused on the improvement of medium to long term policy and institutional reform and structural issues of the Vietnamese government is an annual, continuous initiative which has been extended for more than 10 years when adding the former round (PRSC 1-5). In this evaluation, analysis and evaluation of each reform area were conducted, by dynamically grasping the reform efforts of the Vietnamese government from comprehensive and overall perspectives.

- PRSC covers wide range of reform areas (17 sectors), and inputs from Japan/JICA were provided not in a uniform way. Therefore, while fully utilizing the existing related documents of co-financiers such as the World Bank (program documents and program completion reports etc.), in-depth analysis and evaluation were conducted for the reform areas where Japan/JICA put special priority and made proactive involvements in the preparation of policy matrix.

- Attention was paid to the selection process of policy actions, and reviews were conducted whether the selection of policy actions in each phase was carried out appropriately and rationally, taking into account the status, logic and levels of each policy action in the entire reform.
Under this development policy loan, decision to provide financing was made by confirming the fulfillments of policy actions (prior actions) at the time of appraisal. The evaluation of the appropriateness of decisions made by JICA and co-financiers including the World Bank on assessing the fulfillments of prior actions and providing funding was carried out under the “effectiveness”.

It is assumed that effectiveness of PRSC contains effectiveness as a reform support tool, that is, inputs provided in the course of PRSC process (policy dialogue, coordination among the development partners and formulation of institutional frameworks for reform enforcement to implement policy actions) will create reform facilitation effects which support Vietnam’s reform process. Evaluation of these effects was conducted, which was categorized into three: “pushing effect\(^2\)”, “symbolizing effect\(^3\)”, and “coordination effect\(^4\)”. Qualitative analysis was conducted focusing on the synergy effects between PRSC and JICA’s other assistance scheme – analysis was made on the concrete examples in which Japan/JICA’s strengths in its assistance contributed to the fulfillments of policy actions in the policy making process (planning stage) and its implementation stage.

### 3. Results of the Evaluation

#### 3.1 Relevance

**3.1.1 Relevance to the Development Plan of Vietnam**

Vietnam’s 10-year Socio-economic Development Strategy (2001-2010) put up major policy goals of: (1) Further integrating to global economic community, and achieving annual average of 7% economic growth through further industrialization and urbanization, and (2) resolving regional disparities and realizing poverty reduction for securing equitability. In addition, the 5-year Socio-economic Development Plan (2006-2010) which was prepared based on the 10-year Strategy put up its target to “graduate from a low income country status and to become a middle income country”. In order to realize the target, the government has indicated four pillars: (1) promoting growth and transition to a market economy, (2) securing poverty reduction and social inclusion, (3) achieving sustainable management of the environment and natural resources, and (4) advancing formulation of organizational structures for supporting the strategy.

The 10-year Strategy (2011-2020) puts up national development goal of “becoming an

\(^2\) An effect impacting on Vietnamese government’s reform initiative itself, through supporting champions within the government.

\(^3\) An effect to demonstrate the strong ownership and commitment of Vietnamese government towards reform, both in and outside the country.

\(^4\) An effect to formulate an institutional framework for reform implementation and to facilitate and strengthen coordination within the government, between the government and development partners and among development partners.
industrialized country by 2020”. The 5-year Plan (2011-2015) which was prepared based on the 10-year Strategy puts up following policy objectives to achieve the goal: (1) Sustainable and rapid economic development, and (2) improvement of quality of economy and strengthening competitiveness through transition of growth model and economic restructuring. PRSC is a name of development policy loan extended to support achieve policy issues identified by the Vietnamese government in the 10-year Strategies and 5-year Plans, and its objectives at the time of appraisal, implementation process, and ex-post evaluation are consistent with the above-mentioned policies.

In fact, the second round of PRSC (PRSC6-10), which is the target of this ex-post evaluation, covers total of 17 reform facilitation areas under the following four pillars based on the four priority areas identified in the 5-year Plan: (1) Business development, (2) social inclusion, (3) natural resources, and (4) modern governance. (Table 1)

Table 1: Policy Issues under the Second Round of PRSCs (PRSC6-10)

<table>
<thead>
<tr>
<th>Four Pillars of Reform</th>
<th>Reform Sectors (17 Sectors)</th>
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<tbody>
<tr>
<td>Business development</td>
<td>Global Integration, State Sector Reform, Financial Sector Reform, Private Sector Development, Infrastructure</td>
</tr>
<tr>
<td>Social inclusion</td>
<td>Education, Health, Social Protection, Gender</td>
</tr>
<tr>
<td>Natural resources</td>
<td>Land and Forests, Water and Sanitation, Environment</td>
</tr>
</tbody>
</table>

Source: Information provided by JICA

3.1.2 Relevance to the Development Needs of Vietnam

The second round of PRSC coincided mostly with the process after Vietnam’s acquisition to the WTO\(^5\), and the period for which the government continued its reform efforts to realize its target stipulated in the 5-year Plan (2006-2010) to “graduate from a low income country status and to become a middle income country”\(^6\). Moreover, after 2008, issues to cope with emergency situation and to reconstruct economy were added due to the effects from external factors – global financial and economic crisis triggered by the Lehman Shock.

Under such circumstances, the reform facilitation areas for which the second round of PRSC covered were consistent with Vietnam’s development needs and priority. As regards

\(^5\) Target period of the first round of PRSC (PRSC1-5) coincided with the period of government’s making reform efforts to realize its big goal of “WTO accession”.

\(^6\) Vietnam achieved its goal to become a lower middle income country in 2011.
crisis response and economic reconstruction, policy dialogues on financial sector reform and private sector development etc. were conducted based on the macroeconomic situation then, and therefore implementation of PRSC was consistent with the development needs. In fact, the agenda taken up in the Vietnam Consultative Group meetings where Vietnamese government and development partners gathered to discuss development issues in Vietnam was covered in the PRSC policy dialogue as important policy issues that the government must cope with in the PRSC framework, and eventually embedded in PRSC policy actions. In other words, PRSC policy actions, which make up policy matrix, have supported to achieve assistance objectives of development partners participating in the meeting.

In addition, policy matrix has been prepared through interview survey with the Vietnamese government, coordination with relevant development partners, and policy dialogues between the government and development partners. In this way, legitimacy of the process and consistency with the priority reform issues of the government have been secured.

Regarding PRSC reform areas, analysis was made on the relevance of covering the reform areas such as state sector reform and financial sector reform which have been affected significantly by political influence and where the reform process was lagging. Because PRSC is a tool which supports reform facilitation emphasizing on the principle of economic rationality, issues were raised from the stakeholders about the pros and cons of providing PRSC support to the reform areas susceptible to political influence. However, these reform areas are consistent with the reform intention of the Vietnamese government from a comprehensive viewpoint, and therefore it is deemed relevant. Originally, Vietnam’s transformation from a planned economy to a market economy had taken place adopting gradualism approach, and reform for areas susceptible to political and social resistance has been slowly tackled with from workable issues. However, for Vietnam to achieve further economic growth under a situation where globalization and regionalization of economy was advancing and competitive pressure to Vietnam was intensifying, it was necessary to realize integration to global and regional economy, to further promote SOE reform and financial sector reform, and to promptly develop an attractive investment climate for foreign investors/foreign companies who hold the key to economic growth. In such circumstances, PRSC was introduced and has been utilized as a tool to support Vietnam’s economic reform and growth strategy based on the principle of economic rationality. In other words, PRSC has been playing a role of “external pressure” based on economic principle for difficult issues Vietnam was facing politically and socially, and it can be

Following issues were discussed: Macroeconomic stability, trade integration, state sector reform, financial sector reform, private sector development, social inclusion, environment, planning process, public financial management, legal development, public administration reform, anti-corruption and so on.
considered that Vietnamese government has taken advantage of PRSC in order to facilitate reform. In fact, State Bank of Vietnam (hereinafter referred to as “SBV”) and Ministry of Finance (hereinafter referred to as “MOF”) have pointed out in the interviews as follows: “External pressure called PRSC is necessary to push forward further reform. SOE reform and financial sector reform are the top priorities of the Vietnamese government, and the government will continue to tackle these issues with strong political will.” Other development partners\(^8\) pointed out as follows: “Focus of reform has been shifting to challenging areas – SOE reform and financial sector reform. Who would encourage Vietnamese government’s reform, if development partners turn a blind eye? If the issues are left unresolved, then Vietnam itself will eventually have to pay a price in medium to long term.”, “If reform is pursued with sound political judgment, in addition to economic principle, then Vietnam will benefit on the whole.”

From the above, the implementation of PRSC is fully consistent with the development needs in Vietnam.

3.1.3 Relevance to Japan’s ODA Policy

The Japanese government’s Country Assistance Policy for the Socialist Republic of Vietnam (April 2004) has indicated three areas of priority: Promotion of economic growth, improvement of people’s life and social aspects, and development of institutions. Among them, under promotion of economic growth, the importance of “engine to growth” (private sector including FDI), appropriate “institutions and policy”, and base of economic activities (economic infrastructure and human resources) has been pointed out. Japanese government’s priority sectors for cooperation in Vietnam are shown in Table 2.

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\(^8\) PRSC co-financiers (major organizations) are as follows:

- **World Bank**: The World Bank is involved in all 17 areas as the coordinator of development partners. In the areas of business development and modern governance, the World Bank has put up ‘strengthening Vietnam’s competitiveness in domestic and international economy’ as one of priority pillars. Under this pillar, the World Bank has provided support for macroeconomic stability as well as technical cooperation and project loans on public financial management (such as development of tax administration management system).
- **Asian Development Bank**: Asian Development Bank has put up ‘reform of economic structures’ as one of priority areas, and has provided financial sector program loans and project loans (for business improvement of specific SOEs) focusing on support for capital market development.
- **Canadian International Development Agency (CIDA)**: CIDA has provided technical cooperation for strengthening banking supervision.
- **Swiss State Secretariat for Economic Affairs (SECO)**: SECO has provided technical cooperation for improving risk management of state owned commercial banks (SOCBs).
- **Department for International Development, UK (DFID)**: European donors including DFID and the Like Minded Donor Group have been involved in the areas of policy and institutions mainly in social sectors.
Table 2: Japanese Government’s Priority Sectors for Cooperation in Vietnam

| Various reforms in economic areas including: development of investment environment, promotion of small and medium-sized enterprises (SMEs) and private sector, development of economic infrastructures (transportation, power, information and communication), human resource development to support growth, SOE reform |

Source: Information provided by JICA

In addition, the Strategy for Overseas Economic Cooperation Operations of Japan Bank for International Cooperation (JBIC) (2005-2007) and the Country Operational Strategy of JICA (April 2009) indicated “infrastructure development for sustainable growth” as one of priority areas. Especially for Vietnam, with an aim to the four pillars: (1) Sustainable development, (2) social equity, (3) environmental protection, and (4) governance (policy and institutions), “sustainable economic growth and strengthening international competitiveness taking into account private sector development” was regarded as one of critical axis. And cross-cutting issues of “improvement of policy and institutions”, “improvement of economic infrastructures”, “coping with environmental protection”, and “developing human resources” have been prioritized for support.

PRSC policy matrix incorporates a part of concrete “action plans” which the Vietnamese government must implement in order to improve its investment climate. These actions have been agreed by both countries under the bilateral framework of “Japan-Vietnam Joint Initiative”. The incorporation of action plans into PRSC framework is significant from the perspectives of reform promotion as public goods – (1) In addition to the perspective of “benefitting Japanese companies” through “strategic partnership” between Japan and Vietnam, it has another aspect of (2) “benefitting overall international community” through the multilateral PRSC framework. Unlike the case of PRSC, Japan-Vietnam Joint Initiative supports Vietnam’s policy and institutional reform without providing financial assistance, however, looking from the background of its establishment, it has a high level commitment, and is a top down initiative based on a long term relationship of mutual trust.

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9 The official name is “Vietnam-Japan Joint Initiative to Improve Business Environment with a view to strengthen Vietnam’s Competitiveness”. It was established on April 2003 under the agreement of both leaders of Japan and Vietnam with the objective of improving Vietnam’s investment climate and strengthening its competitiveness. In coping with problems that Japanese companies investing in Vietnam was facing, issues which Vietnamese government must tackle with to improve investment climate were compiled in doable and monitorable action plans. Enforcement is required through high level commitment of both countries. Japan has been securing Vietnam’s commitments in the form of action plans and encouraging their implementation through providing comprehensive support by utilizing various ODA tools.

10 It was established under the agreement between Prime Minister Koizumi and Prime Minister Khai at the time, and action-oriented and output-oriented approach was introduced, involving high level leadership of both countries.
between Japan and Vietnam, and is grounded on strong political will. Therefore the effectiveness of reform is high. While Japan-Vietnam Joint Initiative has been focusing on policy and institutional reform related to the types of industry such as manufacturing and infrastructure, which many Japanese companies are investing, PRSC provided support for overall development of investment climate covering broader types of industry. To put it shortly, Japan has been providing support to improve Vietnam’s investment climate from different channels – strategically approaching from different perspectives.

In this way, Japan’s priority areas of PRSC are consistent with Japan’s Country Assistance Policy for the Socialist Republic of Vietnam and initiatives to cope with Vietnam’s development needs including the Japan-Vietnam Joint Initiative.

3.1.4 Relevance of PRSC Design

PRSC is a framework to facilitate reform through continuous policy dialogue between Vietnamese government and related development partners on direction of reform and concrete actions, by considering the government’s development policy to be a benchmark. It has a characteristic of grand sum of the Vietnamese government’s reform program. The overall design of PRSC framework is deemed appropriate, judging from the interview results with local stakeholders from a comprehensive perspective. SBV appreciated PRSC by mentioning as follows: “Unlike the period of structural adjustment, PRSC does not impose strict conditionality to Vietnamese government but is based on partnership between the government and development partners, and contains flexibility in its design that can accommodate changing situations.” In fact, the PRSC evaluation report by EU pointed out the characteristic of PRSC as “soft conditionality” in the Vietnamese context. This term represents the basic stance that “even for cases where all the triggers were not fulfilled, if the World Bank and related development partners were satisfied with the overall progress of reform, then it is deemed acceptable.” In other words, PRSC framework under the Vietnamese context allowed flexibility to revise and prepare triggers based on the actual progress of reform. In addition, SBV pointed out that “the second round of PRSC has introduced more flexible approach compared with that of the first round based on the reform progress, and consistency between PRSC and the government’s own reform program has strengthened.” In fact, when looking back at the first round, PRSC1 has taken on the features of structural adjustment credits under the Washington Consensus, and the focus of its conditionality was mainly macroeconomic, structural reforms. PRSC2 has broadened its coverage to social development sectors and crosscutting issues, such as governance, reflecting a multidimensional nature of poverty. PRSC3, 4 and 5 have given

greater consideration towards the linkage between economic growth and poverty reduction when selecting policy actions. Through these processes, the second round of PRSC contained a feature symbolized as a term “soft conditionality”, and introduced flexible approach that can correspond to the changing situations. This resulted in strengthening of consistency between PRSC and the government’s own reform program. Following comments were indicated during the local interview. “It was true that the second round of PRSC encountered unmet triggers as a result of Vietnamese government’s weakened decision making that required coordination across ministries, however, it was due to fatigue and inertia\textsuperscript{12} of the stakeholders, and was never due to a loose design of PRSC framework. On the other hand, it was very good that a platform function for policy dialogue was established and mutual understanding among the stakeholders was secured as a result of participation of various concerned ministries and development partners to the PRSC framework.”

Table 3: Implementation of Triggers under the PRSC 6-10 (Number of triggers)

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<thead>
<tr>
<th></th>
<th>No. of triggers fully met</th>
<th>No. of triggers partially met</th>
<th>No. of triggers not met</th>
<th>Total</th>
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<tr>
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<tr>
<td>PRSC10</td>
<td>7</td>
<td>3</td>
<td>1</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: World Bank, Implementation Completion and Results Report for PRSC6-10 (December 2012)

Note 1) Triggers for PRSC6 have not been set. (However, 12 prior actions – conditions for financing – had been set.)

Following comments were also indicated at the local interview. “Because the coverage of PRSC reform areas was extensive and there was involvement of many stakeholders, there was a limitation as to the depth of discussion in each reform area, however, there was a trade-off between conducting deep discussion by narrowing down the number of reform areas, and securing platform function for policy dialogue for many stakeholders\textsuperscript{13}.”

\textsuperscript{12} Following reasons can be considered as a result of comprehensive judgment from the interviews with local stakeholders.

\textbullet{} The degree of difficulty to facilitate reform increased as PRSC phase progressed.

\textbullet{} It became an outstanding issue to maintain motivations of line ministries (ministries in charge of reform on site) as PRSC phase progressed. (Although participation in PRSC policy dialogue was an additional work for the line ministries, there was no benefit to them from financial perspectives.)

\textsuperscript{13} Vietnam has been receiving attention as a country of good practice for aid effectiveness initiatives including donor coordination and harmonization, and there were cases that new strategies by the development partners were introduced as pilot cases prior to introducing them to other developing countries. By the same token, PRSC has been utilized as an important tool for facilitating alignment (harmonization at the policy level). If PRSC covered limited areas of reform, then number of development partners participating in PRSC would have been limited and the number of ministries/agencies on the Vietnamese side would also have been less. And PRSC process may not have continued for ten years, either.
respect, it was extremely significant that PRSC covered both issues on “economic growth” and “poverty reduction” based on the development circumstances at the time, because the government could mobilize various relevant ministries/agencies, and facilitated reform while getting support from international community/major development partners. In other words, the government secured legitimacy of reform process. Number of sectors, ministry/agencies and policy actions under PRSC is shown in Figure 1.

![Figure 1: Number of Sectors, Ministry/Agencies and Policy Actions under PRSC 1-10](chart)


3.1.5 Relevance of Japan/JICA’s Participation in PRSC

PRSC as an assistance tool was anticipated to be a means to resolve Japan/JICA’s issues (aid environment and challenges it faced) at the time of appraisal. Consideration was also made in light of the conditions to provide development policy loan. In fact, these issues have been coped with at the time of ex-post evaluation. In addition, since individual project assistance has limitation to deal with cross-sectoral reform issues that covers the government’s overall reform, and in light of the fact that no other tool exists except PRSC which requires government to ensure achievements within a specific timeline, JICA’s participation in PRSC is deemed relevant. Interview results on the objectives of JICA’s participation in PRSC are summarized below.

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14 Japanese government has clarified the following situations that it would aggressively promote implementation of development policy loans in the “Improvement of ODA Loan System” dated March 31, 2007: (1) A situation in which development policy loan would contribute to facilitate economic activities by the Japanese companies through resolving their pending issues on investment in the recipient country, (2) a situation in which Japan can make proactive involvements in policy and institutional reform of the recipient country through providing knowledge of Japan’s comparative advantage, i.e., provision of value added, and (3) a situation in which Japan’s participation in policy and institutional reform through financial contribution would bring significant effects on high quality ODA loan projects for realization of their development goals.
• A viewpoint of bringing benefits to Japanese companies: To resolve pending issues on policy and institutional aspects of Vietnam’s investment climate in light of Japanese investors’ business development.

• Institutionalizing the results of technical cooperation: To establish and expand JICA’s knowledge, technology and skills in the Vietnamese system and to further enhance JICA’s overall aid effectiveness through providing technical cooperation and budget support in a mutually complementary manner.

• Coping with potential risk (internalizing external risk factors): To internalize what have been regarded as external factors such as trends and changes regarding upper policy and institutional environment surrounding projects/executing agencies/counterparts for implementing projects – i.e., internalizing external risk factors through JICA’s participation in PRSC and its proactive involvement in policy and institutional reform.

• Securing Japan/JICA’s presence: To enhance Japan/JICA’s presence and to support Vietnam’s steady reform by gaining a greater voice in the areas of Japan/JICA’s priority through participating in policy dialogues regarding upper policy issues.

• Further strengthening continuous linkage with the Vietnamese high-level officials in macroeconomic related ministries/organizations: To strengthen continuous, direct linkage with relevant officials in macroeconomic related ministries/organizations such as MOF through participating in PRSC. In addition, it is expected that Japan/JICA would be able to raise the issues of Japan/JICA’s concern directly with high-level reform promoters in government, to obtain high-level commitment for reform from them, and to continuously monitor the government’s implementation of reform.

On the other hand, when asking the Vietnamese government officials regarding the significance of PRSC for the Vietnamese government, following response was presented. “Through policy dialogues and related technical cooperation, we can gain ideas and knowledge of high value from development partners, and can learn international practice. So to say, we can receive high quality consulting services through PRSC.”

Therefore, Japan’s participation in PRSC framework is considered relevant.

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15 Prior to Japan/JICA’s participation in PRSC, there were daily contacts with the MOF officials regarding borrowing plans and repayment for project type assistance. However, point of view of ‘individual project implementation’ seemed to have been the main issue. After Japan/JICA participated in PRSC, discussion with the MOF became extensive and more comprehensive, covering the reform areas such as financial sector reform, planning process, public financial management etc. Daily contacts with the MOF hereby seemed to have further strengthened.
3.1.6 Relevance of Providing PRSC Funds and the Size of PRSC Funds

PRSC is a general budget support, and the PRSC funds are to be incorporated into the national general revenue. Moreover, unlike the ordinary project type of assistance, PRSC funds are not linked to expenditures of any specific project activities. For this reason, relevance of PRSC funds/size of PRSC funds is analyzed from macroeconomic perspective.

Table 4 shows the trend of general government budgetary operations in Vietnam. For example, according to the estimation of International Monetary Fund (IMF), total government expenditure in 2010 was 648 trillion VND, which corresponds to US$ 33.23 billion, using the exchange rate for dollar to Vietnam dong at the end of the period of the same year (US$ 1 = 19,498 VND). From this, PRSC funds\(^{16}\) additionally injected to the budget accounted only 0.9% of the government annual expenditure, and were by no means a big amount compared with the entire budget of the government. On the other hand, general fiscal balance in Vietnam remained in deficit, and the budget deficit in 2010 was 2.8% of GDP, amounting to 59 trillion VND (approximately US$ 3.03 billion), and general budget support through PRSC in the same year in the amount of US$ 297.8 million was equivalent to approximately 9.8% of budget deficit. Of these, the amount of JICA support accounted about 14.1% of the entire PRSC funds in the same year, equivalent to approximately 1.4% of budget deficit. (See Table 5 for the actual total financing for PRSC 1-10.)

| Table 4: General Government Budgetary Operations in Vietnam |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                | 2008            | 2009            | 2010            | 2011            | 2012            | 2013            |
| Total Revenue and Grants (trillion VND) | 430             | 463             | 588             | 719             | 733             | 821             |
| Expenditure (trillion VND)      | 437             | 572             | 648             | 749             | 954             | 1,021           |
| Net Lending(+)/Borrowing(▲) (trillion VND) | ▲8             | ▲109            | ▲59             | ▲29             | ▲221            | ▲200            |
| Net Lending(+)/Borrowing(▲) In percent of GDP (%) | ▲0.5           | ▲6.0            | ▲2.8            | ▲1.1            | ▲6.8            | ▲5.6            |
| Exchange Rate (VND/1US$, end of period) | 17,486          | 18,479          | 19,498          | 21,035          | 20,825          | 21,105          |

Source: IMF Vietnam, 2014 Article IV Consultation – Staff Report, October 2014

\(^{16}\) Precisely speaking, the actual disbursement year varied among donors even if the figures are listed under the same PRSC phase. Here, the amount of PRSC9 funds is assumed to be US$ 297.8 million.
Table 5: Total Financing for PRSC 1-10 (Actual) (US$ million)

<table>
<thead>
<tr>
<th></th>
<th>World Bank</th>
<th>Asian Development Bank</th>
<th>Japan</th>
<th>Other Development Partners</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRSC1</td>
<td>250</td>
<td>0</td>
<td>0</td>
<td>44.7</td>
<td>294.7</td>
</tr>
<tr>
<td>PRSC2</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>30.6</td>
<td>130.6</td>
</tr>
<tr>
<td>PRSC3</td>
<td>100</td>
<td>6.4</td>
<td>18.6 (2 billion yen)</td>
<td>91.1</td>
<td>216.1</td>
</tr>
<tr>
<td>PRSC4</td>
<td>100</td>
<td>15</td>
<td>20.8 (2.5 billion yen)</td>
<td>84.1</td>
<td>219.9</td>
</tr>
<tr>
<td>PRSC5</td>
<td>100</td>
<td>15</td>
<td>21.5 (2.5 billion yen)</td>
<td>119.9</td>
<td>256.4</td>
</tr>
<tr>
<td>PRSC6</td>
<td>175</td>
<td>15</td>
<td>30 (3.5 billion yen)</td>
<td>150.5</td>
<td>370.5</td>
</tr>
<tr>
<td>PRSC7</td>
<td>150</td>
<td>25</td>
<td>0</td>
<td>129.5</td>
<td>304.5</td>
</tr>
<tr>
<td>PRSC8</td>
<td>350</td>
<td>100</td>
<td>70 (7 billion yen)</td>
<td>82.3</td>
<td>452.3</td>
</tr>
<tr>
<td>PRSC9</td>
<td>150</td>
<td>25</td>
<td>42 (3.5 billion yen)</td>
<td>81.4</td>
<td>297.8</td>
</tr>
<tr>
<td>PRSC10</td>
<td>150</td>
<td>24.8</td>
<td>45 (3.5 billion yen)</td>
<td>53.6</td>
<td>273.4</td>
</tr>
</tbody>
</table>

Source: Data obtained from SBV during field survey
Note) For PRSC8, Japan provided additional funding of about US$ 500 million (47.9 billion yen) as economic stimulus support on top of the above amount (7 billion yen)

From Vietnam’s macroeconomic perspectives, the government needed to fill the financial gap with PRSC fund. In the interview with MOF, it was pointed out that PRSC funds have brought about following effects: (1) Vietnam could secure high concessional fund compared to the conditions in financing through the market, including national bonds, and (2) Vietnam increased the ability to foresee the financial funding, allowing more stable fiscal management. In addition, MOF and the Ministry of Planning and Investment (hereinafter referred to as “MPI”) pointed out that PRSC funds are “flexible” funds since their use is not restricted. As shown in Table 6, when comparing the 10-year national bond coupon rates in Vietnam and the Japanese ODA loan interest rates, the former were in the range of 8.5-11.5% whereas the Japanese ODA loan helped to procure the finances at cheaper cost, between 1.2-1.4%. 17

Table 6: Vietnam’s National Bond Coupon Rate and Japanese ODA Loan Interest Rate

<table>
<thead>
<tr>
<th></th>
<th>10-year National Bond Coupon Rates Note 1)</th>
<th>Japanese ODA Loan Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>8.5-8.8%</td>
<td>1.3% (PRSC6)</td>
</tr>
<tr>
<td>2009</td>
<td>8.5%</td>
<td>1.2% (PRSC8)</td>
</tr>
<tr>
<td>2010</td>
<td>10.3-11.3%</td>
<td>—</td>
</tr>
<tr>
<td>2011</td>
<td>11.5%</td>
<td>1.2% (PRSC9)</td>
</tr>
<tr>
<td>2012</td>
<td>9.5-11.1%</td>
<td>1.4% (PRSC10)</td>
</tr>
</tbody>
</table>

Source: Information provided by Vietnam MOF and by JICA
Note 1) 10-year National Bond Coupon Rates in local currency (VND)

17 It should be noted, however, exchange cost is taken into account to the ODA loan.
In addition, local currency bonds outstanding and share of world total in six South East Asian Countries are summarized in Table 7. Both government bonds outstanding and its share of world total in Vietnam are significantly below those of the other South East Asian Countries, and it can be understood that government’s financing arrangements through issuing bonds are extremely limited.

Table 7: Local Currency Bonds Outstanding and Share of World Total in Six South East Asian Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Local Currency Bonds Outstanding (US$ billion)</th>
<th>Share of World Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>111</td>
<td>0.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>298</td>
<td>0.4</td>
</tr>
<tr>
<td>Philippines</td>
<td>87</td>
<td>0.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>211</td>
<td>0.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>250</td>
<td>0.4</td>
</tr>
<tr>
<td>Vietnam</td>
<td>20</td>
<td>0.03</td>
</tr>
</tbody>
</table>


The size of PRSC funds was relevant with the view to the following consideration process and the status of the achievement of JICA’s objectives. The disbursed amount of the first phase of the second round of PRSC –PRSC6– was 3,500 million yen (approximately US$ 30 million), which has been increased by 1,000 million yen from that of the last phase of the previous round –PRSC5– in the amount of 2,500 million yen (approximately US$ 21.5 million). Following factors were taken into consideration when deciding the size of PRSC funds: (1) To secure Japan’s presence as the largest bilateral development partner to Vietnam, (2) to provide commensurable support in terms of funding as a development partner who has been strongly encouraging Vietnamese government to tackle policy and institutional reform, and (3) to keep the balance with other development partners (the World Bank, Asian Development Bank, and development partners in Europe including the Like Minded Donor Group18). It is judged that these three objectives have been achieved through increasing the disbursement amount.

18 See footnote 8 for reference.
19 Information source from JICA internal documents.
Furthermore, PRSC funds have played a significantly important role especially at the time when Vietnam was struggling for economic recovery in the face of difficult macroeconomic conditions against the global financial and economic crisis triggered by the Lehman Shock. Under the global financial and economic conditions at the time, financing instruments available for Vietnamese government were extremely limited. Under such situation, Japan/JICA provided emergency budget support loan\textsuperscript{20} to Vietnam by concluding ODA loan agreement to provide additional funds on top of the ordinary PRSC fund\textsuperscript{21}, and the fund was disbursed immediately. In this regard, SBV pointed out as follows: “The fund was used as part of the fiscal funds necessary for the measures to stimulate the economy by the Vietnamese government. Through this, the government could implement the designated measures to stimulate the economy in a timely manner. As a result, the economy has quickly recovered from the economic crisis through the years from 2009 to 2010.” As seen from the above, Japan/JICA was able to provide fiscal funds to Vietnam at appropriate times in the face of economic crises because it had an existing policy support framework which enabled Japan/JICA to provide additional funding to Vietnam.

3.2 Effectiveness, Impact
  3.2.1 Achievement of PRSC Policy Actions and Progress of Reforms
    3.2.1.1 Achievements of Reform in the Areas of Japan/JICA’s Interest

The prior actions in each phase of PRSC have been fulfilled, and steady progress of reform can be observed including in the areas of Japan/JICA’s interest. Table (1) in the

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
Phase & Achievement & Reform Progress \\
\hline
Phase 1 & & \\
\hline
Phase 2 & & \\
\hline
Phase 3 & & \\
\hline
Phase 4 & & \\
\hline
\end{tabular}
\caption{Achievement of PRSC Policy Actions and Progress of Reforms}
\end{table}

\textsuperscript{20} The official name is “Eighth Poverty Reduction Support Credit with Economic Stimulus Support.”

\textsuperscript{21} Japan provided emergency budget support of 47.9 billion yen on top of PRSC8 financing (7 billion yen).
Attachment summarizes the achievements and accomplishments of the reform areas of Japan/JICA’s Interest. The actual figures of the operation and effect indicators set forth at the time of appraisal are also included in the table. In addition, laws and regulations which are considered having direct and indirect contribution to the development of investment climate for Japanese companies are shown in Table (2) in the Attachment. Various initiatives for improving the investment climate of Vietnam, including PRSC and Japan-Vietnam Joint Initiative, have lead to facilitation and the promotion of business activities of Japanese companies as described below. In this regard, it is deemed appropriate that JICA decided to provide PRSC funds as a result of assessing Vietnam’s fulfillment of the prior actions.

3.2.1.2 Examples of Improvement of Investment Related Legal Systems Benefitting Japanese Companies

Table 8 shows the interview results conducted by JICA in its past study regarding concrete examples of the improvement of legal systems and related regulations which brought benefits to business activities of Japanese companies. It can be confirmed that initiatives through PRSC have benefitted Japanese companies.

<table>
<thead>
<tr>
<th>Area</th>
<th>Improved Issues</th>
<th>Results of Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Integration</td>
<td>Improvements in customs related legal system</td>
<td>• While there are many small problems, big bottlenecks have been eliminated for Japanese companies. (“Prior confirmation system” such as customs procedures, HS code and rules of origin has been clarified.)</td>
</tr>
<tr>
<td>Global Integration</td>
<td>Improvements in intellectual property rights related legal system</td>
<td>• As a result of improvements in intellectual property rights related legal system, parts manufacturers have advanced to Vietnam and more number of these companies have moved into industrial parks as indirect effect.</td>
</tr>
<tr>
<td>Private Sector Development</td>
<td>Improvements in investment related legal system</td>
<td>• Investments from Japanese companies were facilitated and their advancement into industrial parks was increased.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Big achievement was made in attracting enterprises.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Establishment of joint ventures became easier as a result of elimination of unanimous or consensus rule</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Japanese companies benefitted from the harmonization of investment conditions for both foreign and domestic investments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• It is significant for Japanese companies that JICA investment advisors have been making proposals to the Vietnamese side regarding improving investment climate from neutral standpoint</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Indirect investment increased by diversification of forms of investment (through capital injection, acquisition, investment fund etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Clarification in investment regulated areas has brought about</td>
</tr>
</tbody>
</table>

20
significant results in investment attraction such as time savings and increase of areas of investment
- There was contribution in real estate investment and development of industrial parks.

<table>
<thead>
<tr>
<th>Infrastructure Development</th>
<th>Improvements in infrastructure related legal system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Significant contribution was made to promote Build Operate Transfer (hereinafter referred to as “BOT”) projects.</td>
</tr>
<tr>
<td></td>
<td>• Two power projects were initiated as a result of introduction of BOT law. (Vung Ang 2 Power Plant Project and Vinh Tan 3 power Plant Project.) In response to these results, the company decided to work on BOT projects in Vietnam, which further spread to other projects such as Long Thanh International Airport, railway and seaport.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Sector Reform and Public Financial Management</th>
<th>Improvements in financial and tax related legal system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Problems related with operational aspects for Japanese companies were resolved as a result of contribution from JICA support</td>
</tr>
<tr>
<td></td>
<td>• Opportunity for equity investment was opened up</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private Sector Development</th>
<th>Improvements in labor related legal system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Once enacted, the revised labor law would be effective for measures against strikes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private Sector Development</th>
<th>Development of SMEs and Supporting Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Clear targets have been prepared.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Infrastructure Development</th>
<th>Traffic Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Traffic accidents of the workers decreased as a result of development of infrastructures surrounding industrial park (such as development of intersections) by Japanese ODA loan</td>
</tr>
<tr>
<td></td>
<td>• A certain level of results has been achieved such as enforcement of traffic safety education (safety week and safety months) and installation of traffic signals</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Anti-corruption</th>
<th>Anti-corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• A certain level of results has been achieved.</td>
</tr>
</tbody>
</table>

Source: An excerpt from JICA “Poverty Reduction Support Credit Review Study” (June 2011)

Figure 3 and Figure 4 are the data on the approval amount of FDI in Vietnam, and the accumulated approval amount of investment in Vietnam, respectively. Although it is difficult to show direct correlation between development of investment related legal system through PRSC and its effect on the growth of FDI in Vietnam, it can be judged that there were contributions to the expansion of investment in Vietnam, taking into account interview results summarized in Table 8.
3.2.2 Contribution to the Improvement of Vietnam’s Domestic Policy Making Process through PRSC

3.2.2.1 Establishing Policy Actions Contributing to the Improvement of Policy Making Process

In the first round of PRSC, “Publication of legal documents issued by the government in the Official Gazette (in the area of “modern governance” (legal development))” was selected as PRSC2 policy action, which has been fulfilled. Concretely, a new decree which stipulated this action was passed in 2005, and through this, clear guidelines were prepared for the collection of comments from the stakeholders directly affected by legal normative documents. The guideline clearly specifies that consultations with the stakeholders should be conducted for at least 20 days. In the second round of PRSC, following indicator was set under PRSC 7: “Consultation in the law-making process: Percentage of draft laws and ordinances posted in the National Assembly website for comments from the public (in the area of “modern governance”
While the percentage was zero at the end of December 2006, the figure became 100% by the end of November 2012. As just described, the improvement of Vietnam’s domestic policy making process can be confirmed from objective information and data.

3.2.2.2 Series of PRSC Cycle (Mechanism) – Setting Triggers, Monitoring Periodically and Fulfilling Actions –

As regards policy actions of each PRSC phase, review on the following three types of assessment carried out by JICA and the World Bank etc. during PRSC implementation process was conducted.

1. Whether their evaluation of prior actions fulfilled by the government in that PRSC phase was appropriate and reasonable;
2. Whether their evaluation of prior actions fulfilled by the government in the next PRSC phase was appropriate and reasonable; and
3. Whether their evaluation of the prospects of achievable overall goal was appropriate and reasonable.

All policy actions were not necessarily selected through appropriate and reasonable assessment. For example, Japan played an active role in the selection of a prior action under PRSC 6: “Adopt wastewater charges based on cost recovery, with provisions to protect the poor (in the area of “Infrastructure”)).” This action can be regarded as single-shot and its targeted level of issues was different from those of the other actions. The reason behind this may be the fact that many development partners participated in PRSC with different motivation. Table 9 summarizes “JICA’s stance in selecting policy actions” and “the requirements for selecting policy actions” that the World Bank, as a coordinator, has expected other development partners to comply with. There is a gap between the World Bank’s requirements and JICA’s stance.

<table>
<thead>
<tr>
<th>JICA’s Stance</th>
<th>Requirements which World Bank has Indicated to Other Development Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Institutionalization: Actions that are considered appropriate to institutionalize in the sense that results of JICA’s technical cooperation would be developed into</td>
<td>• Actions must originate in national policy and plans of the Vietnamese government.</td>
</tr>
<tr>
<td></td>
<td>• Actions must be able to confirm strong commitment by the Vietnamese government to enforce reform.</td>
</tr>
</tbody>
</table>

legal documents such as laws, decrees and notifications.

- Spreading out pilot initiatives:
  Actions that may not reach the point of institutionalization but would encourage Vietnam’s reform efforts through implementing pilot initiatives such as introduction of Medium Term Expenditure Framework (hereinafter referred to as “MTEF”) at provincial level.

- Improving project environment:
  Actions that will address policy and institutional bottlenecks in attaining results of JICA technical cooperation itself.

- Actions must make sense from an economic point of view.
- Actions must be of strategic importance.
- Actions must be monitorable (possible to make judgments and monitoring) including concrete actions.
- Number of actions should be narrowed down to the level that does not lose the whole balance.
- Actions should not be a single-shot but must be regarded as milestones to be placed properly in a road map of the reform.
- Actions should not be too detailed but should keep the same levels with other actions.

Source: Information provided by JICA and results from interview survey

Each development partner including JICA intended to utilize PRSC by trying to incorporate actions that are closely related with their project implementation in order to facilitate their own ODA projects etc., based on the areas of their interest and the purpose of participating in PRSC. The final policy matrix was a product of consolidation of comments and inputs from various development partners, and the World Bank made some adjustments to it. As a result, there were some single-shot actions due to political judgments of development partners at the time, lacking consistent logic looking from chronological order, which were not in harmony with other actions in terms of their level. In fact, comments as follows were raised in the interview survey: “The level of policy actions vary in different reform areas.”, “While there were reform areas in which actions with strategic importance in the higher policy level have been selected, there were areas in which actions with operational level have been selected.”

As regards triggers, there was a case that coherence and consistency were lacking between the original and the replaced triggers – this happened when a trigger originally agreed between the Vietnamese government and development partners turned out that it would not be fulfilled, and an alternative trigger was selected. For example, when the initial trigger for PRSC 10: “Enhance the management of transport infrastructure assets

23 The former World Bank task manager was cautious about such approach by each development partner, using an expression, “risk of hijacking”.
through decentralization and adoption of financial mechanisms for investment, operation and maintenance” was not going to be met, an alternative trigger: “MOF issues an annual exercise of publishing the synthesis report based on financial statements of state-owned Economic Groups and General Corporations” was selected. However, although these two triggers were categorized under the same reform area of “public financial management”, the linkage between these triggers cannot be seen. Therefore, such measure has left an impression that the alternative trigger might have been chosen to maintain the number of total triggers.

However, it is not realistic to pursue perfection on the theory. Taking into account what was mentioned above as features of PRSC – PRSC has functioned as a platform to facilitate alignment (harmonization at the policy level), and PRSC in Vietnamese context encapsulated flexibility symbolized by an expression of “soft conditionality” – it can be judged that the effectiveness of PRSC would not be undermined by the fact that selection of policy actions was not necessarily carried out through appropriate and reasonable assessment.

3.2.3 Effectiveness of PRSC as an Assistance Tool for Policy Reform

Analysis was made on the following three effects which has been created and enhanced through policy dialogues, coordination among the development partners and formulation of institutional frameworks for implementing policy actions in the course of PRSC process in reform support areas.

- Pushing effect: An effect impacting on Vietnamese government’s reform initiative itself, through supporting champions within the government.
- Symbolizing effect: An effect to demonstrate the strong ownership and commitment of Vietnamese government towards reform, both in and outside the country.
- Coordination effect: An effect to formulate an institutional framework for reform implementation and to facilitate and strengthen coordination within the government, between the government and development partners, and among development partners.

As a result of interviews with the stakeholders, it can be judged that PRSC has pushed up reform efforts of the Vietnamese government and has contributed to accelerate reform and to improve quality of reform. In addition, the fact that PRSC was extended over more than

24 General Corporations refer to the SOE groups which was reorganized based on the Prime Minister Decision 90 and 91 issued in 1994. General Corporations based on the former Decision is referred to as General Corporation 90, which belong to Central Government Ministries and Local People’s Committees. The latter is referred to as General Corporation 91, which is under the direct control of the Office of the Prime Minister, and is comprised of relatively large SOEs.
ten years embodies the symbolizing effect. As regards coordination effect, unified judgment cannot be shown because opinions of stakeholders concerned were divided. However, it is considered that PRSC has made contributions to a certain extent as a reform support tool since the abovementioned effects would not have been created were it not for PRSC. The following summarizes the interview results obtained from the Vietnamese side.

- Reform issues taken up in PRSC would have been implemented by each relevant ministry in accordance with its plans as Vietnamese government’s own reform agenda even without PRSC, however, PRSC has pushed up their initiatives and contributed to accelerate reform. Vietnam needed PRSC as an “external pressure” to facilitate reform in the future.

- Knowledge and technical cooperation provided by development partners in the course of PRSC implementation process have become useful inputs to the Vietnamese government. Moreover, through continuous policy dialogues, issues that the government must tackle with and direction of reform have become clearer. PRSC has also contributed to the improvement of quality of reform.

- The fact that PRSC has been implemented every year continuously for more than ten years until PRSC 10 since its commencement in 2001 symbolizes its success of coordination and cooperation between the Vietnamese government and development partners. During the PRSC process, the number of co-financiers increased to fifteen and platform for policy dialogue was established. It can be considered that this was realized due to the attractiveness of PRSC as a reform support tool.

3.2.4 Impact on Macro Economy

As regards PRSC funding effect, while the amount of PRSC funds that take up the government expenditures is limited, it can be considered that there was a certain contribution in filling Vietnam’s financial gap. In addition, PRSC funds have high concessionality, and are regarded as useful, convenient fund in the Vietnamese government. Because trend of macroeconomic indicators is affected by various external factors such as world economic trends and individual corporate strategies and performances, it is difficult to separate PRSC funds and to measure only its contributions.

As mentioned in “3.1.6 Relevance of Providing PRSC Funds and the Size of PRSC Funds” above, PRSC funds accounted for only 0.9% of government expenditure (2010) and 9.8% of fiscal revenue and expenditure deficit of the same year. In this regard, it can be considered that PRSC funds have marginally contributed to fill the financial gap. (The

25 While positive response was presented from the Vietnamese side that inter-ministerial coordination by the National Steering Committee has largely contributed to the coordination within the government, development partners pointed out the problems on the weakness of the government’s coordination ability in decision making process, and the issues on vertically-segmented administrative system.
amount of PRSC funding by JICA was about 1.4% of fiscal and revenue expenditure deficit, which is minimal.

The trend of basic economic indicators in Vietnam (GDP, growth of consumer price index, current account balance etc.) is shown in Table 10. Figure 5 indicates trend of real GDP growth rates.

Table 10: Basic Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth Rate (%)</td>
<td>6.3</td>
<td>5.3</td>
<td>6.8</td>
<td>5.9</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Industrial Production Index (% change, previous year)</td>
<td>13.9</td>
<td>7.6</td>
<td>8.8</td>
<td>7.3</td>
<td>4.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Unemployment Rate (urban areas) (%)</td>
<td>4.7</td>
<td>4.6</td>
<td>4.3</td>
<td>3.6</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Consumer Price Index (annual average) (%)</td>
<td>23.1</td>
<td>6.7</td>
<td>9.2</td>
<td>18.7</td>
<td>9.1</td>
<td>6.6</td>
</tr>
<tr>
<td>General Fiscal Balance (% GDP, including off-budget items)</td>
<td>▲1.2</td>
<td>▲9.0</td>
<td>▲2.8</td>
<td>▲1.1</td>
<td>▲4.8</td>
<td>▲5.6</td>
</tr>
<tr>
<td>Trade Balance (BOP definition, US$ billion)</td>
<td>▲12.8</td>
<td>▲8.3</td>
<td>▲5.1</td>
<td>▲5.0</td>
<td>9.8</td>
<td>10.6</td>
</tr>
<tr>
<td>Exports of Goods (FOB, US$ billion)</td>
<td>62.7</td>
<td>57.1</td>
<td>72.0</td>
<td>97.0</td>
<td>115.0</td>
<td>132.0</td>
</tr>
<tr>
<td>Imports of Goods (FOB, US$ billion)</td>
<td>75.5</td>
<td>65.4</td>
<td>85.0</td>
<td>107.0</td>
<td>114.0</td>
<td>131.0</td>
</tr>
<tr>
<td>Current Account Balance (US$ billion)</td>
<td>▲10.8</td>
<td>▲6.1</td>
<td>▲4.3</td>
<td>0.2</td>
<td>9.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Current Account Balance (% GDP)</td>
<td>▲11.9</td>
<td>▲6.5</td>
<td>▲3.8</td>
<td>0.2</td>
<td>6.0</td>
<td>5.6</td>
</tr>
<tr>
<td>FDI (net inflows, US$ billion)</td>
<td>9.3</td>
<td>6.9</td>
<td>8.0</td>
<td>6.5</td>
<td>7.2</td>
<td>7.4</td>
</tr>
<tr>
<td>External Debt as percent of GDP (%)</td>
<td>31.4</td>
<td>39.0</td>
<td>29.5</td>
<td>27.2</td>
<td>28.0</td>
<td>28.5</td>
</tr>
<tr>
<td>Poverty Rate (%)</td>
<td>14.5</td>
<td>N.A.</td>
<td>N.A.</td>
<td>10</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

Source: MOF, MPI, General Statistics Office (GSO), IMF, World Bank, JETRO

Figure 5: Real GDP Growth 2005-2012

The real GDP growth rate of 8.5% in 2007 has dropped to 5.3% in 2009 due to the effect of global financial and economic crisis, however, it increased to 6.8% in 2010. Economic growth has slowed down in recent years due to a tight monetary policy introduced as an inflation control measure since around 2011. (5.0% in 2012, and 5.5% in 2013.)

General fiscal balance has shifted within negative territory prior to global financial and economic crisis, and it has aggravated considerably from ▲1.2% of GDP in 2008 to ▲9.0% in 2009 as a result of introduction of economic stimulus measures. Although it improved to 1.1% in 2011, it has been deteriorating after 2012, in the figures of ▲4.8% and ▲5.6%.

New FDI (net inflows) significantly decreased in 2009 to 74.2% compared from the previous year due to global financial and economic crisis, however, it recovered in 2010. Although the figure fell again in 2011 compared with the previous year, it turned upward after 2012.

With budget deficit as a background, foreign borrowing increased in order to fill the financial gap, which led to increased external debt as percent of GDP from 31.4% in 2008 to 39% in 2009. After 2010, the figures have turned to decreasing trend.

Poverty rate has decreased to 10% in the end of December 2011, and have achieved the target (below 10%) which had been set as monitoring and evaluation indicator.

This program has mostly achieved its objectives as planned through implementation of PRSC. Therefore effectiveness and impact of the program are high.

3.2.5 Synergy Effects among JICA’s Other Assistance Scheme (Technical Cooperation, Project Loan etc.)

The time of commencement of the second round of PRSC (PRSC6-10), coincides with the time when discussions on ODA implementation system – the way to manage technical cooperation, ODA loan and grant assistance in an integrated manner – among those concerned with development assistance was activated, with a view to a creation of new JICA in October 2008. In preparation and implementation of PRSC, selection of prospective policy actions was considered taking into account not only experiences of

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26 Poverty rate based on the new poverty line. The definition under the new poverty line is the ratio of households that cannot buy food of 2,100 calories per day per person and minimum supplies.

27 The new JICA was launched in October 1, 2008, inheriting the overseas economic cooperation operation of JBIC and the grant aid of the Ministry of Foreign Affairs (*). Through this reorganization, the new JICA became an organization that implements three schemes of ODA: “technical cooperation”, “ODA loan”, and “grant aid” in an integrated manner.

(*) This excludes grant aid which the Ministry of Foreign Affairs carries out by itself out of the need in fulfilling diplomatic policy.
ODA loan projects but also initiatives of technical cooperation. In other words, ODA loan as a source of PRSC fund itself was considered as a tool to realize programming, and aid approach was strengthened to enhance development effectiveness through stronger coordination between PRSCs and technical cooperation. Table 11 shows the examples of coordination between PRSCs and technical cooperation. These three examples are considered as good practice in the sense that experiences of technical cooperation projects have provided useful inputs to PRSC policy actions. Moreover, a policy action has led to the implementation of technical coordination project in the Case 2 below, hence it is noteworthy that the Case 2 has realized the interactive stream between PRSC and technical cooperation.

Table 11: Examples of Coordination between PRSCs and Technical Cooperation

<table>
<thead>
<tr>
<th>PRSC Policy Action (Area, Phase)</th>
<th>Case 1: Promote SME development through revising regulations, formulating action plan for supporting industries, and improving coordination among responsible ministries (Private Sector Development, PRSC8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approach</td>
<td>The importance of promotion of SMEs and supporting industries has been addressed from different channels – PRSC (multilateral channel) and Japan-Vietnam Joint Initiative (bilateral channel). Japan has pointed out its concrete awareness of issues to Vietnamese government and other development partners from the perspective of Japan/JICA’s practical experiences in the field (from bottom-up), which has produced following results.</td>
</tr>
<tr>
<td>Results</td>
<td>Decree 90/2001/ND-CP, which intends to support SME development, was revised in May 2009. In addition, the 12th Prime Minister Decision announced in February 2011 specified the supporting industries to be promoted (machinery manufacturing, electronics and computers, assembling production of automobiles, textile and garment, leather and shoes, and high-tech industry) and the concrete promotion and preferential treatments. Furthermore, Prime Minister Decision to ratify proposal regarding providing support to SME development on supporting industries was promulgated in October, 2012. The Ministry of Commerce and Industry issued Decision 9028/QĐ-BCT in October, 2014 and approved supporting industry master plan until 2020 and its vision until 2030.</td>
</tr>
</tbody>
</table>

JICA facilitates “program approach” emphasizing coordination and creation of synergy effects beyond individual projects and the framework of assistance scheme.
| Related JICA Support | • Reinforcement of the SME Technical Assistance Center  
| | • Sending SME policy advisers  
| | • Offering business courses at the Vietnam-Japan Human Resource Corporation Center  
| | • Sending senior overseas volunteers to SMEs in Vietnam  
| | • Small and Medium-sized Enterprises Finance Project (III)  
| | • Project for Human Resource Development of Technicians at Hanoi University of Industry  
| | • Sending technical advisors of skill examination to the General Department of Vocational Training  
| | • Sending investment advisors to the Foreign Investment Agency etc.  
| PRSC Policy Action (Area, Phase) | Case 2: Develop a medium-term strategy for Vietnam Development Bank (Financial Sector Reform, PRSC9)  
| Approach | Based on the Project for Institutional Capacity Development for Infrastructure Finance of Vietnam Development Bank (VDB) \(^{29}\), JICA intended to encourage VDB to issue their medium-term strategy paper, and additionally, to deepen policy-level discussion with the VDB’s stakeholders – MOF and SBV – through PRSC. On preparing the medium-term strategy, the project intended Japanese experts to provide inputs for the mid-term direction of VDB based on the Japanese preceding experiences. Through ever opportunity, JICA made efforts to promote discussions related with the VDB policy directions, including utilization of contribution from relevant experts. These active initiatives have led to two-way flows: “PRSC policy actions providing inputs to implementation of technical cooperation projects” and “technical cooperation projects providing inputs to PRSC policy actions”.  
| Results | Based on VDB’s medium-term strategy, knowledge regarding credit risk management, performance monitoring, financing and general management of assets and liabilities has been strengthened. A policy direction to apply International Accounting System has also been indicated.  
| Related JICA | • Project for Institutional Capacity Development for Infrastructure Finance in Vietnam  

\(^{29}\) Government-affiliated financial institution, 100%-owned by the Vietnamese government. It provides trade finance and project investment finance though head office and local branches in Vietnam.
<table>
<thead>
<tr>
<th>Support</th>
<th>Project for Strengthening Function of Central Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRSC Policy Action (Area, Phase)</td>
<td>Case 3: Develop effective legal framework on consumer protection (Legal Development, PRSC9)</td>
</tr>
<tr>
<td>Approach</td>
<td>Companies have shown strong interests in this reform area. Providing support to Vietnam’s new development needs as such is important because risks regarding problems which would adversely affect consumers’ rights will increase as market economy and trade liberalization proceeds. JICA has been providing support for drafting the Consumer Rights Protection Law through the Project for Strengthening Capacity of Consumer Protection Administration, and has provided inputs to the PRSC policy dialogue, which has led to the selection of this policy action.</td>
</tr>
<tr>
<td>Results</td>
<td>The Consumer Rights Protection Law, which includes provisions of cooling-off system and recall system, was approved in congress on November 2010 (came into force in July 2011), and consumer consultation service has been established.</td>
</tr>
<tr>
<td>Related JICA Support</td>
<td>Project for Strengthening Capacity of Consumer Protection Administration</td>
</tr>
</tbody>
</table>

Source: JICA “PRSC Review Study” Report, June 2011

JICA’s “intellectual contribution” other than the technical cooperation framework would be: (1) Improvement proposals based on the actual investment experiences of Japanese companies though Japan-Vietnam Joint Initiative, (2) inputs with the aim to create effectiveness of ODA loan projects (internalizing “external factors” in implementing individual projects) (integration of investment budget and recurrent budget in road sector, preparation of decree on wastewater which include the introduction of wastewater charge system, for example), (3) inputs made by Japan Bank for International Cooperation at the time with a leading role under the 5Banks\(^{30}\) initiatives (providing comments on decree on ODA management (Decree 131 etc.), conducting a study on PMU\(^{31}\) structures in transportation sector, facilitating public consultation process on Environmental Impact

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\(^{30}\) 5Banks refer to Japan Bank for International Cooperation (at the time), the World Bank, Asian Development Bank, KfW (Germany) and AFD (France). Initiatives to reduce transaction costs through harmonization of aid procedures were carried out by the 5Banks.

\(^{31}\) Project Management Unit
Assessment, promoting transition to a market based pricing for making cost estimations for construction projects, providing comments on public investment decree, for example.) Such inputs from Japan have all contributed to the selection and implementation of prior actions and triggers.

3.3 Characteristics of the Subsequent Development Policy Loan

As policy and institutional reform support (budget support) framework in Vietnam after the completion of PRSC 10, Economic Management and Competitiveness Credit (hereinafter referred to as “EMCC\(^{32}\)) has been implemented since 2012, and Japan/JICA has been co-financing EMCC with the World Bank and other development partners. In starting up EMCC, repeated discussions were carried out among related parties on challenges regarding PRSC implementation, which have been utilized for institutional design and operational aspects of EMCC.\(^{33}\) Characteristics of EMCC include following five points.\(^{34}\) These characteristics reflect Vietnam’s development stage and development needs/changes in priority, government’s institutional and organizational capacity, and the positions of development partners. Such shift of characteristics can be considered as a result of “evolution” of development policy loan from PRSC to EMCC.

- **Reform areas and number of policy actions were narrowed down**

In accordance with the name of EMCC, the reform target areas were specialized in strengthening Vietnam’s economic management and competitiveness, and were focused on reform support for economic management where impacts across different areas are expected. The fact that Vietnam became a lower middle income country in 2011 was the background that the main development challenges shifted from poverty reduction to economic growth. In addition, challenges identified in the PRSC process (PRSC covered a wide range of reform areas and quality of policy dialogue and contents of policy matrix varied) may have been taken into consideration.

- **The number of EMCC co-financiers reduced**

\(^{32}\) EMCC sets following three reform pillars necessary to help strengthen economic management and competitiveness: “Macroeconomic stability”, “a transparent, efficient and accountable public sector”, and “an enabling business environment”. Under these pillars, seven reform areas ((1) financial secretor stability, (2) fiscal discipline, (3) public administration and accountability, (4) state enterprise management, (5) public investment management, (6) efficient business environment, (7) transparency and equity of business environment) are established to support reform to be implemented by 2015. (However, completion of EMCC may be extended beyond 2015 based on the state of fulfillment of policy actions by the government.)

\(^{33}\) However, as mentioned in “3.1.4 Relevance of PRSC Design”, PRSC has a “platform function regarding overall reform in Vietnam”, and when taking into account the situation of Vietnam then, it was extremely significant to secure legitimacy of the process.

\(^{34}\) Information source: Interview with the World Bank and the World Bank’s Program Document for EMCC 1.
By narrowing down the reform target areas, number of development partners also reduced. JICA has been co-financing in EMCC with the World Bank, Asian Development Bank, Canadian International Development Agency (CIDA), and Swiss State Secretariat for Economic Affairs (SECO), five development partners in total (there were total of fifteen development partners at the time of PRSC). Herewith the issue on reduction of coordination costs has been dealt with, which had been regarded as challenges for PRSC implementation.

- **The number of related ministries in the Vietnamese government was also reduced**

By narrowing down the reform target areas, the number of related ministries in the Vietnamese government was reduced to six. In light of the challenges for PRSC – participation of government ministries varied among reform areas – stronger leadership and ownership of the government is expected in EMCC compared to those of PRSC.

- **In selecting policy actions, the linkage between technical cooperation and analytical study was strengthened**

Challenge recognized under the PRSC process was the necessity of creating incentives for the line ministries (ministries undertaking reform on the ground) for their active participation. From line ministries’ perspectives, participation in the PRSC process was an additional work load for them, although additional budget allocation or increase of personnel for these activities have not taken place, and the lack of linkage between policy and funding was pointed out as its background. Therefore, through strengthening the linkage between technical cooperation and analytical underpinning, it is expected that incentives of the line ministries would be reinforced, government’s capacity for policy implementation and institutions for law making would be strengthened, and enforcement of reform would be enhanced on the ground.

- **EMCC would continue until phase 3, and would not stick at an annual cycle**

As challenges of the PRSC process, following issues were pointed out: “Annual cycle of PRSC was not necessarily relevant”, “setting realistic timeframe and conditions in accordance with the level of reform challenges was important”, “hurdles of the remaining issues have become higher as reform progressed, and more time was necessary to cope with these issues.” EMCC has adopted a framework to flexibly set the program period so as to strengthen the linkage between policy actions and their results, and to further secure effectiveness of reform.

Vietnamese government’s response to EMCC was very positive, pointing out as follows: “Technical cooperation from development partners became clearer in EMCC compared
with the times under PRSC, and enforcement of implementation has been strengthened in
EMCC.” Furthermore, it was pointed out that “Based on the challenges identified in PRSC
process, EMCC has realized in-depth discussion by narrowing down reform areas. And by
strengthening the linkage between policy actions and technical cooperation of development
partners, measures to enhance line ministries’ incentives for participation have been
introduced.”

4. Conclusion, Lessons Learned and Recommendations

4.1 Conclusion

The program provided budget support to achieve policy goals related to (1) promoting
growth and transition to a market economy, (2) securing poverty reduction and social
inclusion, (3) achieving sustainable management of the environment and natural resources,
and (4) establishing formulation of organizational structures for supporting the strategy in
each relevant area, and to contribute to economic growth and poverty reduction in Vietnam.
The program objectives of PRSCs are consistent with Vietnam’s development policy and
with the development needs. Priority areas for Japan/JICA in PRSCs are consistent with
Japan’s assistant strategy for Vietnam, and the initiatives to cope with development issues
including Japan-Vietnam Joint Initiative. PRSC framework design is flexible in response to
changing circumstances. The fact that JICA participated in PRSC is deemed appropriate in
light of circumstances surrounding development assistance, and terms and conditions of
development policy loans at the time. Providing PRSC funds and the size of PRSC funds
were also appropriate. As regards effectiveness/impact, PRSC prior actions have been
fulfilled, and steady progress of reform can be observed. Furthermore, results of interviews
with Japanese companies in Vietnam have confirmed that legal development related with
investment climate has benefitted them. On the other hand, selection of policy actions has
not necessarily taken place in a reasonable manner in theory, however, it did not diminish
the effectiveness of PRSC. PRSC is deemed to have made contribution as a policy reform
support tool in that it pushed forward reform efforts of the Vietnamese government and
contributed to the acceleration of reform. PRSC funds have contributed to the fiscal
consolidation and economic soundness of Vietnam, and examples of coordination between
PRSCs and JICA’s technical cooperation have also been identified. Lessons in the
implementation of PRSCs have been made use of in the preparation and implementation of
the subsequent program.

4.2 Recommendations

4.2.1 Recommendations to the Executing Agency

None
4.2.2 Recommendations to JICA (Recommendations for implementation of subsequent EMCC)

In order to secure coherence of selection criteria for policy actions and triggers on the side of development partners, it is important that JICA strengthens coordination and collaboration among development partners in cooperation with the World Bank, the coordinator of development partners. To this end, JICA is expected to further strengthen capacity for policy analysis by mobilizing all knowledge obtained from experts, various studies, individual projects and so on. Thereby, JICA will be able to make persuasive arguments among development partners for the selection of coherent and strategically important policy actions and triggers.

4.3 Lessons Learned

The importance of creating incentives for active participation of the line ministries (lessons to be generally applied for developing policy loans including PRSC)

Development policy loans including PRSC is a support tool for framework setting for policy and institutions. In order to secure enforcement of reform, framework setting and improvement of service delivery on the ground are important. Both exist in a complementary relationship, and active participation of the line ministries is the key to facilitate reform in the target support areas. In other words, the line ministries are expected to strengthen its initiatives on the ground as well as to actively participate in the decision making process regarding policy and institutional framework setting and coordination among relevant ministries/development partners through participation of PRSC. However, incentives for their active participation in PRSC is weak since it is an additional work load for them although tangible benefits to their initiatives on the ground cannot be seen. Therefore, it is important to create the line ministries’ incentives for their active participation. Concretely, it is considered effective that technical cooperation and analytical studies, with the line ministries being counterparts, would be carried out with priority so that the same line ministries that participate in the development policy loan can directly benefit. It is also effective that capacity development of the line ministries would be carried out to strengthen their ability for preparing laws and regulations. In this way, by strengthening the linkage between development policy loans and technical cooperation, and consciously creating a mechanism which brings concrete benefit to the line ministries, active participation of the line ministries can be expected in development policy loans.

End
< Issues and Progress of Major Reform Areas during the Time of PRSC >

【Development of Investment Climate and Business Environment】

In Vietnam, the role of private sector rapidly increased after the enforcement of the Enterprise Law, which enabled private enterprises to register easily. While issues on developing “level playing field” such as removing unfair treatments to private companies compared with those of the SOEs regarding access to finance and land etc. was pending, the Unified Enterprise Law was promulgated in November 2005 and all the SOEs were to comply with the Law by 2010. However, for further development of private sector, appropriate enforcement of the Competition Law and reform of General Corporations were necessary to ensure competitive business environment. There were also agenda to be addressed: establishing a framework to reflect private sector opinions appropriately to policy, rationalizing administrative procedures, publicizing economic and financial statistics promptly and appropriately, reforming tax, providing support to develop stock market and to establish lending and loan guarantee system for long-term finance and so on.

As regards foreign investment, Vietnam was considered as one of promising investment destinations. However, while investment climate was improving through the Unified Enterprise Law and the Investment Law which came into effect around the same time, delays have been pointed out in the core areas of reform such as infrastructure development, regulations on foreign companies’ entry, development of basic legislation and institutions, industrial personnel, supporting industries and so on.

As regards infrastructure, although development of major economic infrastructures such as transportation and power was on the way, they remained as a bottleneck to attain sustainable economic growth. It was impossible to cover all the infrastructure development needs only by a government budget and therefore, utilization of private sector finance was indispensable. In addition, issues on low investment efficiency were pointed out – public investment projects have become less effective due to the insufficient allocation of operation and maintenance budget. Thus, strengthening project cycle management for public investment – planning, appraisal, implementation, operation and maintenance – was critical.

【Public Financial Management】

Financial conditions were in red, and the main causes of the budget deficit were pointed out as follows: increase in subsidy expenditure with a salary increase of civil servants and the rise of crude oil price, increase of public investment projects, and unexpected increase
of extra-budgetary expenditures with a progress of SOE reform. Therefore, strengthening public expenditure management capacity was crucial. While improvement was seen in enhancing predictability of budget and securing transparency in budget process, and disclosure of information on detailed government expenditures were advancing, following issues remained: integration of recurrent budget and investment budget, introduction of International Accounting Standards in public sector, enforcement of effective internal audit, tax reform, strengthening of extra-budgetary expenditures and so on.

【Financial Sector Reform】

Vietnam’s financial system before the introduction of doi moi reform was characterized as single banking system. SBV had the function of both central bank and commercial bank. Comprehensive financial sector reform has been implemented to increase business efficiency through introduction of two tiered banking system in 1988 (separation of functions of central bank and commercial bank), creation of non-State Owned Commercial Banks (SOCBs), relaxation of interest rates and regulatory environment with regard to lending, separation of policy-based finance, equitization of SOCBs and introduction of private capital and so on. However, SOCBs still accounted for around 55% of the entire balance of loans outstanding (data at the end of 2010). Furthermore, management capacity of financial policy, quality of commercial loans, market surveillance capacity of stock market were weak, and there were inherent risk of triggering instability of the financial system at the time of unexpected recession. While a comprehensive roadmap for the reform of the banking sector was issued in 2006 and the capacity of SBV on drafting and enforcing banking and monetary policy, and its bank supervision function have been strengthened, it became increasingly important to evaluate the quality of the assets of SOCBs based on International Accounting Standards and to strengthen credit risk management capacity. Since autumn of 2009, the government/SBV announced the introduction of fiscal and monetary restraints aiming to curb inflation and to stabilize macro economy, responding to inflationary pressure due to sharp rise in global food and fuel market and reduction of local currency VND. In this situation, sudden credit contraction occurred in the banking sector and non-performing loans grew into a serious problem as economic conditions aggravated. SBV aiming to avoid further aggravation of the situation and to secure soundness in the banking sector announced an outline of roadmap for baking sector reform in November 2011 at the National Assembly. In that, SBV made clear to further strengthen credit risk management, to promote mergers among banks and to help transform banks into internationally competitive banks.

35 Data source: SBV
[SOE Reform]

Although efforts to improve investment climate were successful and investments from private and foreign companies continued, the role of SOEs in Vietnam’s economy was still dominant. While trade integration kept track of progress through conclusion of US-Vietnam Bilateral Trade Agreement, ASEAN Free Trade Area, and WTO accession, it was expected that competition would intensify for trade and investment in relation to China and ASEAN countries. For this reason, further implementation of SOE reform was indispensable to strengthen competitiveness.

[Redressing Disparity]

In order to appropriately distribute the fruits of growth, it was crucial to strengthen policy and institutions that benefit directly to the poor, and to improve access of the poor to social services (health etc.) through infrastructure development. The importance of policies to support the poor taking into consideration area specific features and socially vulnerable groups including ethnic minorities as well as to capture the needs of the poor and to facilitate their participation in administrative process through participatory approach was pointed out.

[Environmental Protection]

With the rapid economic growth and urbanization, coping with environmental problems including air pollution, water pollution, and waste has become an urgent matter. The Vietnamese government strengthened these initiatives and added “environment” as one of the three pillars of national priority in parallel with “economy” and “society” to the 5-year Development Plan (2006-2010). The Revised Environmental Protection Law was enforced in 2006 and related regulations and punishment clause have been developed, thus legal bases for environmental management were on the way. However, administrative and institutional aspects on environmental management for central and local government as well as environmental protection policy/plans were still inadequate. Development of enforceable environmental management mechanism remained an issue.

[Public Administration Reform]

After the introduction of doi moi reform, public administration reform including restructuring and development of national mechanism was implemented, however, reform progress was slow in this area compared with other economic reform areas, and has become shackles crippling to promote market based economy. In addition, it was necessary to strengthen administrative capacity of local government and monitoring mechanism of
central government as decentralization and delegation of authority proceed from central to local government. In this respect, it was important to develop transparent, robust, and modern administrative system and to enhance development of human resources of civil servants.

【Anti-corruption】
It is pointed out that background of corruption in Vietnam stems from the fact that considerable discretions are left to the officers of executing organizations as a result of ambiguous laws and regulations. Companies including foreign companies recognize corruption as a bottleneck to their economic activities and expected government to tackle medium to long term anti-corruption initiatives.

Table (1): Achievements and Accomplishments of the Reform Areas of Japan/JICA’s Interest

<table>
<thead>
<tr>
<th>Development of Investment Climate and Business Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>[Trade Integration]</strong></td>
</tr>
<tr>
<td>Development of legal systems to achieve WTO accession, appropriate implementation of various post-WTO compliances and measures to mitigate negative impacts</td>
</tr>
<tr>
<td>Improvement in the tariff and customs related legal system</td>
</tr>
<tr>
<td>• Develop the revised customs law</td>
</tr>
<tr>
<td>• Direct the use of transaction value as the basis for customs valuation</td>
</tr>
<tr>
<td>• Harmonized Classification and Coding System applies to all trading partners</td>
</tr>
<tr>
<td>Improvement in the export control</td>
</tr>
<tr>
<td>• Eliminate 80 percent export requirements on FDI</td>
</tr>
<tr>
<td>Improvement in the related legal system with intellectual property rights along WTO requirements</td>
</tr>
<tr>
<td>• Design the Law on Intellectual Property</td>
</tr>
<tr>
<td>• Develop the related regulations to strengthen appropriate implementation of the Law on Intellectual Property</td>
</tr>
<tr>
<td>Provisions to negative impacts on WTO accession</td>
</tr>
<tr>
<td>• Establish consultation and early warning mechanism to identify the social and environmental impacts of WTO accession</td>
</tr>
</tbody>
</table>

【Private Sector Development】
Develop the legal infrastructure securing the establishment of level playing field by promulgating Unified Enterprise Law, Investment Law, and relevant guidelines. Improve accesses for private companies, especially SMEs, to finance, lands etc. Develop the infrastructures for private sector development. Simplify and rationalize administrative
procedures.

Improvement in the investment related legal system
• Promulgate Unified Enterprise Law and Investment Law
• Clarify authority on investment certificates and conditional sectors for investment
• Establish single-window mechanism to streamline licenses and oversee implementation of new investment-enterprise regime for registration, tax and seal registration
• Establish a competition law and independent competition authority to address restrictive commercial practices

Improvement in the tax accounting related legal system
• Rationalize incentive related to Enterprise Income Tax

Improvement in the labor related legal system
• Establish the revised Labor Law

Promote SME development and supporting industries
• Promote SME development through coordination among responsible ministries
• Embody a supporting industry master plan

<Operation and Effect Indicators>
• The proportion of domestic private investment to total investment: 33.9% (2009) ➔ 36.1% (2010) Note 1) ➔ 38.5% (2011) ➔ 38.1% (2012) ➔ 37.6% (2013 tentative)
  Note 1) Already accomplished target figure for 2011 (35.3% or more) in 2010 which was set in 2009

【Infrastructure】
Improvement in the Infrastructure related legal system
• Expansion of the CPRGS\textsuperscript{36} to address large-scale infrastructure issues
• Decentralize investment ownership to better integrate capital and recurrent budgets in the road transport sector
• Issue Electricity Law
• Establish a regulator for electricity, responsible for guidance on establishing electricity tariff, providing license, and supervising institutions
• Clarify contract specifications, investor qualifications and treatment of unsolicited proposals for BOT\textsuperscript{37} projects
• Adopt market-based pricing systems to estimate the costs of state-funded civil engineering investments
• Plan to implement the Single Buyer System to open electricity field to competition

\textsuperscript{36} Comprehensive Poverty Reduction and Growth Strategy. It is a Vietnamese version of Poverty Reduction Strategy Paper.
\textsuperscript{37} Build Operate Transfer
• Open internet and mobile telephone services to competition
• Reduce international telephone and leased line rates to regional levels

Road safety
• Reduce traffic fatalities through strengthened regulations and improved education programs (strengthening regulations for wearing helmets)
• Revise the Road Law
• Strengthen legal framework and institutional capacity of the National Transport Safety Committee (NTSC)

<Operation and Effect Indicators>

• The proportion of the companies who thought the infrastructures were their core or significant bottlenecks on their business: Transportation; 27%, Electricity; 19% (2006) ➔ Transportation; 11.7%, Electricity; 6.6% (2009) Note 2)

Note 2) The target figure in 2011 which was set in 2009 is 5% or less

Public Financial Management

Establish various laws and regulations to improve fiscal transparency and to improve public information disclosure. Strengthen consistency between investment budget and ordinary budget.

【Planning Process】

• Establish clear criteria for selecting public investment projects and mechanisms to monitor their financing and implementation
• Revise the investment laws to improve efficiency in state capital expenditures and strengthen the management of public investment projects

【Public Financial Management】

• Revise the Budget Law (the legislative powers, the Congress and People’s Committee, have become responsible for the decision making on budget expenditures, and the administrative agencies have become responsible for securing accountability for budget execution)
• Establish the financial department at all levels of governmental institutions as a responsible authority for budget use and fiscal management, and unify the accounting systems with the budgets and its implementation
• Approve a public expenditure review leading to better integration of capital and recurrent budgets
• Establish the State Audit of Vietnam (SAV) as technically independent authority with reporting obligation to the Congress
• Disclose results of audits conducted by the SAV and its annual audit plan
• Disclose external public debt and its composition including defense expenditures and costs for public investment projects to improve transparency
• Implement pilot MTEF for four sectors including transport to unify the investment and recurrent expenditure
• Formulate public debt management law consolidating the management of domestic and external debt
• Issue all relevant accounting and auditing standards consistent with international practice

<Operation and Effect Indicators>

• Number of provinces with the public expenditure screening guidelines including cost and benefit analysis, at the pre-appraisal stage: 0 province (2006) ➔ 0 province (2008) ➔ 0 province (2010)
  Note 3) Target value in 2011 which was set in 2006 is 30 or more

• The proportion of public debt including all levels of government security to GDP: 43.5% (2006) ➔ 44% (2008) ➔ 55% (2011) ➔ 56% (2012)
  Note 4) Target value in 2011 (55% or less) which was set in 2006 was already achieved, however, it increased to 56% in 2012

Financial Sector Reform

Strengthen functions, improve services and ensure transparency of the central bank (SBV), SOCBs and policy finance institutions. Strengthen regulation supervision function on stock market. SOCBs gradually retreat from policy finance and convert to joint stock corporation.
• Announce the separation of the SOCB management and supervision functions of SBV
• Produce and estimate of the current stock on non performing loans in SOCBs, based on International Accounting Standards
• Issue a comprehensive roadmap for the reform of the banking sector
• Require public disclosure of financial statements of SOCBs in line with internationally accepted standards
• Approve and complete the equitization of SOCBs
• Develop a medium-term strategy for Vietnam Development Bank
• Design the Security Law

<Operation and Effect Indicators>

• Bad debt ratio: 2.8% (September 2008) Note 5) ➔ 2.22% (February 2011) ➔ 8.6% (2012) ➔ 4.73% (October 2013) ➔ 3.86% (February 2014)
Note 5) Already achieved the target value in 2011 (5% or less) which was set in 2006, however, it increased to 8.6% in 2012. Then gradually decreasing afterwards

<table>
<thead>
<tr>
<th>SOE Reform</th>
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<tbody>
<tr>
<td>Reduce the 100% state owned areas. Promote equitization of the large-scale SOEs. Strengthen the function of Special State Capital Management Organization (SCIC). Clarify financial status of SOEs and promote SOE reforms through publishing it.</td>
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<tr>
<td>• Classify performance of SOEs and publicize its results</td>
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<tr>
<td>• Approve plans for the restructuring of selected large SOEs based on the holding company model</td>
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<tr>
<td>• Allow foreign strategic investors in equitization of SOEs</td>
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<tr>
<td>• Classify all SOEs according to performance and publish the results</td>
</tr>
<tr>
<td>• SCIC to begin receiving state ownership rights in equitized SOEs from ministries and provinces</td>
</tr>
<tr>
<td>• Announce the new government ordinance to strengthen financial management of SOEs and their investment in other entities</td>
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</tbody>
</table>

<Operation and Effect Indicators>
- Number of 100% SOEs: approximately 5,600 (2001) → approximately 2,100 (end of 2006) → 1,546 (2008) → 1,309 (2011)

Note 6) Target value in 2011 which was set in 2006 is 500 or less

<table>
<thead>
<tr>
<th>Environment</th>
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<tbody>
<tr>
<td>Develop the revised Environmental Protection Law and relevant policies. Arrange various institutions to ensure effectiveness. Ensure effectiveness of Environmental Impact Assessment (EIA)</td>
</tr>
<tr>
<td>• Establish the revised Environmental Protection Law</td>
</tr>
<tr>
<td>• Establish the “polluter pays” principle on environmental pollution</td>
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<tr>
<td>• Issue regulation to the worst pollution offenders</td>
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<tr>
<td>• Issue directive to strengthen the management of solid waste in urban and industrial zones</td>
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<tr>
<td>• Develop economic tools and pilot strategic environmental assessments for environmental protection</td>
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<tr>
<td>• Decentralize responsibility for EIA of investment projects to local levels</td>
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<tr>
<td>• Approve national target program on adaptation to climate change and allocate institutional responsibilities for its implementation</td>
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<tr>
<td>• Issue regulations on national environmental data collection, and collect the data</td>
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Public Administration Reform

Improve public administration services in line with the users’ needs, civil service reform, government restructuring

• Continue efforts to streamline administrative process using the existing One Stop Shop
• Apply principle to strengthen competitiveness and transparency in recruitment, appointment, promotion and dismissal of civil servants
• Issue regulation and approve pilot project to strengthen competitiveness and transparency in recruitment, appointment, promotion and dismissal of civil servants
• Promulgate Public Administration Reform master plan

Anti-corruption

Initiatives to prevent corruption.

• Disclose analysis results on mechanism to increase public awareness and involvement in the fight against corruption
• Prepare a revised Press Law to encourage thorough reporting on corruption
• Issue a Comprehensive Anti-corruption Strategy
• The recipient has (a) carried out annual procurement compliance and performance audits of projects funded by state budget; (b) made public the findings of selected audits; (c) adopted a pilot procurement code of ethics for participants; and (d) launched an open access electronic bidding system
• Develop an enabling legal framework to protect and reward witnesses and whistle-blowers
• Develop a framework for monitoring progress on the implementation and results of efforts to prevent and combat corruption

<Operation and Effect Indicators>

• The proportion of companies who thought the corruption was a core or significant bottleneck on their businesses: 9.9% (2006) ➔ 5.1% (2009)

Note 7) The target value in 2011 which set was in 2006 is 5% or less


Table (2): Impact Indicators (Operation and Effect Indicators)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Trend of Actual Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of people below the new Vietnam poverty line (%)</td>
<td>20% (2004) ➔ 14.5% (2008) ➔ 10% (2011) Note 1</td>
</tr>
<tr>
<td>Proportion of ethnic minorities below the new Vietnam poverty line (%)</td>
<td>61% (2004) ➔ 45.5% (2010) ➔ 40% (2011) Note 2</td>
</tr>
</tbody>
</table>

Source: World Bank, Implementation Completion and Results Report for PRSC6-10 (December 2012)
Note 1) Target value in 2011 (10% or less) which was set in 2006 was achieved in 2011
Note 2) Target value in 2011 (40% or less) which was set in 2006 was achieved in 2011
Table (3) Laws and Regulations having Direct and Indirect Contribution to the Development of Investment Climate for Japanese Companies

<table>
<thead>
<tr>
<th>Policy Issues</th>
<th>Related Laws and Regulations</th>
</tr>
</thead>
</table>
| 1. Improvement in Customs Related Legal System | (1) Revised Law on Customs  
  - Law on Customs (revised) (Law 42/2005/QH11) of June 14, 2005  
(2) Introduction of the use of transaction value as the basis for customs valuation  
  - Decree 40/2007/ND-CP of March 2007, guidance for customs valuation and tax calculation of imported and exported goods  
(3) Introduction of Harmonized Classification and Coding System for application to all trading partners |
| 2. Improvement in Intellectual Property Related Legal System in Compliance with WTO Requirements | (1) Law on Intellectual Property  
(2) Relevant Regulations on appropriate enforcement and implementation of Law on Intellectual Property  
  - Decree 56/2006/N-CP of June 2006, on sanctioning administrative violations in cultural and information activities  
  - Decree 100/2006/ND-CP of September 2006, detailing and guiding the implementation of a number of articles of the Civil Code and the Intellectual Property Law regarding protection of copyright and related rights, audit, and punishment for violation  
  - Decree 47/2009/ND-CP of September 2009 on sanctioning administrative violations of copyright and related rights (the highest penalty fee for each violation and order to dispose products which have been manufactured through violating act)  
  - Decree No.103/2006/ND-CP of September 2006, detailing and guiding the implementation of a number of articles of the Law on Intellectual Property and the Law Amending and Supplementing a Number of Articles of the Law on Intellectual Property regarding rights to plant varieties  
  - Decree 105/2006/ND-CP of September 2006, detailing and guiding the implementation of a number of articles of the Law on Intellectual Property on Protection of intellectual property rights and on state management of Intellectual Property  
  - Joint Circular 01/2008/TTLT-TANDTCVKSDTC-BCA-BTP of February 2008, of the Supreme People's Court, the Ministry of Public Security and the Ministry of Justice regarding the study on |
the investigation of criminal liability, guiding the application of a number of legal provisions to the settlement of disputes over intellectual property rights at People’s Courts

| 3. Improvement in Investment Related Legal System | (1) Elimination of 80% Export Requirements on FDI  
- Decree 27/2003/ND-CP (March 19 2003): Amending and supplementing Decree 24/2000/ND-CP detailing the implementation of the Law on Foreign Investment in Vietnam. 80% export requirements on FDI was eliminated  
(2) Promulgation of Unified Enterprise Law and Investment Law  
- These two Laws came into effect on July 1 2006. With the promulgation of these Laws, level playing field for investment for both SOEs and private as well as both domestic and foreign was guaranteed.  
(3) Clarifying authority on investment certificates and conditional sectors  
- Decree No. 108/ND-CP (September 22 2006) to clarify authority on investment certificates and conditional sectors was promulgated  
(4) Establishing single-window mechanism for businesses to cover registration, tax, and seal formalities  
- Circular 02/2007/TTLT/BKH-BTC-BCA (February 27 2007) was enacted. Based on this Circular, The mechanism has been piloted in Hanoi, Haiphong and Laocai.  
(5) Establishing Competition Law and independent authorities to administer competition activities  
- Competition Law went into force on July 1 2005. Competition Commission and Competition Council were established under the Ministry of Industry and Trade.  
(6) Promulgation of Consumer Protection Law  
- The Law was promulgated in December 2010 and to be in force on July 1 2011. The Law regulates responsibilities of enterprises and individuals handling products and services as well as consumer rights and duties.  
(7) Facilitation of foreign investors in equitization of SOEs  
- Decree 109/2007/ND-CP allows foreign strategic investors. Strategic investors shall be allowed to buy at least 25-30% of capital of the equitized SOE provided, however, that no more than 50% of such allowed shares may be given to the strategic investors.  
(8) Revised Land Law  
- Revised Land Law was promulgated on July 1 2004. By this Law, land use rights were allowed for foreign investors base on lump-sum payment.  
(9) Establishing guideline for land registration and valuation  
- Circular 17/2009/TT-BTNMT providing for certificates of land use rights and house and land-attached asset ownership was established. |

| 4. Improvement in Infrastructure | (1) Establishing Electricity Law  
- The Law went in force on July 1 2005. The Law stipulates |
| 5. Improvement in Finance, Tax and Accounting Related Legal System | 1. Establishing accounting and auditing standards in line with international practices  
- Concrete regulations and guidelines of the Accounting Law approved by the National Assembly in 2003 was prepared and officially announced.  
2. Clarifying items for inclusion in deductible expenses for enterprise income tax  
- Circular 134/2007/TT-BTC (November 23 2007) which stipulates items for inclusion in deductible expenses was issued. Based on this Circular, advertisement costs, sales promotion costs, and welfare expenses could be regarded as deductible expenses.  
3. Promulgating Law on Securities  
- The Law went into force on January 1 2007. It regulates establishment and management of companies making transactions in the area of securities including securities companies, securities investment fund management companies, and public companies.  
4. Equitization of SOCBs  
- Among six SOCBs, equitization was realized for Joint Stock Commercial Bank for Foreign Trade of Vietnam, Mekong Housing Bank, Vietnam Bank for Agriculture and Rural Development, Vietnam Bank for Industry and Trade, and Bank for Investment and Development of Vietnam (incorporated as a company with limited liability) (only the equitization of the Bank for Investment and Development of Vietnam was not fulfilled) |
### Legal System

- New Labor Code and New Union Law passed the National Assembly (June 2012)
- Regulations on New Labor Code (detailed rules of some provisions of the Law and implementation guidelines) was issued:
  - Decree No. 41 (entities forbidden to strike) (May 2013)
  - Decree No. 44 (labor contract) (June 2013)
  - Decree No. 45 (labor hour) (June 2013)
  - Decree No. 46 (labor dispute) (June 2013)
  - Decree No. 49 (wage) (June 2013)
  - Decree No. 55 (dispatched workers) (June 2013)
  - Decree No. 60 (democratic rule in the workplace) (June 2013)
  - Decree No. 95 (punishment at the time of violation of Labor Law) (August 2013)
  - Decree No. 102 (foreign workers) (September 2013)
  - Circulation of Decree No. 102 (foreign workers) (January 2014)

### Development of SMEs and Supporting Industries

1. Facilitation of SMEs through improving coordination among relevant ministries and agencies
   - A Decree to promote SMES (Decree90/2001/ND-CP) was revised (May 2009)

2. Realization of master plan for supporting industries
   - Prime Minister Decision No.12 stipulating measures to encourage development of supporting industries and their concrete preferential treatment was enacted on February 2011. Following supporting industries are the target for preferential treatment: machinery manufacturing, electronic/computer, automobile assembly, textile/ sewn products manufacturing, leather/shoes, high-tech industries
   - Prime Minister Decision that ratified a proposal to provide support to develop SMEs in supporting industries went into force in October 2012. MOIT issued a Decision 9028/QĐ-BCT on October 2014 and approved Master Plan for Supporting Industries and its vision up to 2030.

### Traffic Safety

1. Promulgation of Revised Road Law
   - Revised Road Law on 23/2008/QH12 came into effect on November 2006. The Law stipulates strengthening traffic safety through improvement of road standard and strengthening supervision of drivers of commercial vehicles. Action plan on traffic safety was also approved by the Prime Minister.

2. Strengthening of legal framework of National Traffic Safety Committee (NTSC) and its institutional capacity
   - PM Decision 35/2010/QD-TTg regulating strengthening authority of NTSC and Provincial Traffic Safety Committee was approved on April 8 2010

### Food Safety

1. Preparation of a National Strategy on Food Safety (taking into account economic incentives of farmers)
   - Resolution 63 on National Food Security was issued on December 2009 (continuous support is necessary as economic incentives of farmers regarding land use have not been fully
| 10. Environment | (1) Establishing the revised Environmental Protection Law  
• (Current Law) Became effective on July 2006. The Law regulates environmental protection policy and its activities, and stipulates rights and duties of stakeholders for environmental protection. All entities are subject to this Law.  
• (New Law) Passed the National Assembly on June 2014. Became effective on January 2015.  
(2) Establishing the “polluter pays” principle on environmental pollution  
• Decree No. 67/2003/ND-CP on the environmental protection charges for waste water was issued. Also, Decision No.64, 2003/QD-TTg was issued regarding anti-pollution measures for companies which create serious pollution.  
(3) Development of various institutions (budget process, tariff system, management and enforcement mechanism, information management mechanism etc.)  
(4) Decentralize responsibility for EIA of investment projects to local levels |
| 11. Anti-corruption | (1) Promulgating Law on Tendering  
• The Law went into force on April 1 2006. It stipulates regulations for implementing government procurement (public bidding and tendering by public announcement). Its guideline, Decree No. 58/2008/ND-CP was issued in 2008.  
(2) Promulgation of Anti-corruption Law  
• The Law became effective on June 2006. The Law stipulates mandatory publication of property and income of civil servants, exhaustive institutional development for anti-corruption organizations and so on.  
• It prescribes the forced publication of the property of the government official and the income, the exhaustive system development of the prevention of corruption period.  
• As related regulations, Prime Minister Decision 64/2007/QD-TTg (May 2007) on giving, receipt and hand-over of gifts by state budget-funded agencies, organizations and units and cadres, public employees and servants, Decree No. 37/2007/ND-CP on publicizing properties and income of civil servants and its administrative instructions (November 2007) were issued. |