

Socialist Republic of Viet Nam

FY2016 Ex-Post Evaluation of Japanese ODA Loan Project

“Small and Medium-sized Enterprises Finance Project (III)”

External Evaluator: Tomoo MOCHIDA, OPMAC Corporation

## 0. Summary

The Project aimed to provide Small and Medium-sized Enterprises (hereinafter referred to as “SME”) with medium- and long-term loans through Participating Financial Institutions (hereinafter referred to as “PFI”) from the executing agency, the State Bank of Vietnam (hereinafter referred to as “SBV”), while improving loan access for SME by enhancing the capacity of PFI in extending loans to SME.

The Project was consistent with Viet Nam’s SME policy and development needs, and with Japan’s ODA policy. Therefore, the relevance of the Project is high. While the actual cost of the Project fell within the planned one, the Project period exceeded that planned. Therefore, the efficiency of the Project is fair. The access to medium- and long-term loans for end-borrowers, SME, was improved and the loans were utilized for the investment purpose. In some cases, this led to effects such as the enhancement of production and sales of enterprises, and the maintenance and creation of employment. Therefore, the effectiveness as well as the impact are high. Concerning the sustainability, at the time of this ex-post evaluation, no major problems were observed in the institutional, technical, financial aspects and the current status of the operation and maintenance of the Project.

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

## 1. Project Description



Project Location



The company introduced plastic molding equipment by utilizing a medium- and long-term loan extended under the Project and thus increased its production capacity.

## 1.1 Background

Viet Nam has accelerated its transition to a market-based economy and its integration into the world economy, resulting in significant economic development. In order to maintain the steady growth of the economy, promotion of the private sector was found to be an urgent issue to be addressed. As a result of restructuring state-owned enterprises, the private sector accounted for 46% of the Gross Domestic Product (GDP) in 2007 and 42% of the net profits of the entire enterprises, out of which SME took the majority share. However, loan access, a shortage of management know-how, technology, etc. were found to be bottlenecks for SME. In particular, capital shortage for SME, among others, posed a significant problem.

## 1.2 Project Outline

The Project was designed to provide two-step loan and technical assistance through on-lending to PFI from SBV, thereby improving loan access for SME and subsequently, contributing to an acceleration of economic growth and a strengthening of international competitiveness through private sector development.

Loan Approved Amount/ Disbursed Amount	17,379 million yen / 16,926 million yen						
Exchange of Notes Date/ Loan Agreement Signing Date	October, 2009 / November, 2009						
Terms and Conditions	<table> <tr> <td>Interest Rate</td> <td>1.2% (0.01% for consulting services)</td> </tr> <tr> <td>Repayment Period (Grace Period)</td> <td>30 years (10 years)</td> </tr> <tr> <td>Conditions for Procurement</td> <td>General Untied</td> </tr> </table>	Interest Rate	1.2% (0.01% for consulting services)	Repayment Period (Grace Period)	30 years (10 years)	Conditions for Procurement	General Untied
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Repayment Period (Grace Period)	30 years (10 years)						
Conditions for Procurement	General Untied						
Borrower / Executing Agency	The Government of the Socialist Republic of Viet Nam / State Bank of Vietnam (SBV)						
Project Completion	December, 2014						
Main Contractor (Over 1 billion yen)	NA						
Main Consultant (Over 100 million yen)	Nomura Research Institute, Ltd. (Japan) / Vision and Associates, Ltd. (Viet Nam) (Joint Venture)						
Feasibility Studies, etc.	The Special Assistance for Project Formation Study for Small and Medium-sized Enterprises Finance Project (III) (2008)						
Related Projects	<p>[Japanese ODA Loan]</p> <ul style="list-style-type: none"> <li>• Small and Medium-sized Enterprises Finance Project (I) (Loan Agreement Signing: March 1999)</li> <li>• Small and Medium-sized Enterprises Finance Project (II) (Loan Agreement Signing: March 2005)</li> </ul>						

	<p>[Technical Cooperation]</p> <ul style="list-style-type: none"> <li>• The Project for Strengthening Training Capability for the Technical Workers Course in Hanoi Industrial College (2000 - 2005)</li> <li>• Vietnam-Japan Human Resources Cooperation Center (2000 - 2010)</li> <li>• Policy advisor on SME development (2004 - 2009)</li> <li>• Reinforcement of the SME Technical Assistance Center (2006 - 2008)</li> <li>• Senior Volunteers to organizations relevant to SME promotion (2001 - Present)</li> <li>• Project for Strengthening Public Functions for Supporting Small and Medium Enterprises (2011 - 2014)</li> </ul> <p>[Multilateral Agencies]</p> <ul style="list-style-type: none"> <li>• Asian Development Bank (ADB): “SME Sector Development Program Loan” (2004 - 2008)</li> <li>• European Union (EU): “EU-Vietnam Private Sector Support Programme” (2005 - 2008)</li> <li>• Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ): “SME Development Programme” (2005 - 2009), etc.</li> </ul>
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## 2. Outline of the Evaluation Study

### 2.1 External Evaluator

Tomoo Mochida, OPMAC Corporation

### 2.2 Duration of Evaluation Study

This ex-post evaluation study was conducted with the following schedule:

Duration of the Study: December, 2016 - February, 2018

Duration of the Field Study:

February 18, 2017 - March 22, 2017, May 13, 2017 - May 26, 2017

## 3. Results of the Evaluation (Overall Rating: A<sup>1</sup>)

### 3.1 Relevance (Rating: ③<sup>2</sup>)

#### 3.1.1 Consistency with the Development Plan of Viet Nam

At the time of the Project appraisal, it was found that a clear definition of SME had been laid out and decisions had been made to establish a Small and Medium Enterprise Development Department<sup>3</sup> responsible for the support of SME under the Ministry of

<sup>1</sup> A: Highly satisfactory, B: Satisfactory, C: Partially satisfactory, D: Unsatisfactory

<sup>2</sup> ③: High, ②: Fair, ①: Low

<sup>3</sup> It was referred to as the “Small and Medium Enterprise Development Department” under Government Decree 90/2001/ND-CP, but called the “Agency for Enterprise Development (hereinafter referred to as “AED”)” at the time of the ex-post evaluation.

Planning and Investment (hereinafter referred to as “MPI”). Technical Assistance Centers (hereinafter referred to as “TAC”) were also established and were responsible for technical support to SME in Hanoi, Da Nang and Ho Chi Minh city through Government Decree 90/2001/ND-CP aiming to develop SME. The *SME Development Plan (2006-2010)* (Prime Minister Decision 236/2006/QD-TTg) laid out an SME support plan, which consisted of seven groups of measures including the simplification of administrative procedures concerning support for SME, the quality development of a labor force of SME, and the facilitation of access for SME to finance. Furthermore, the Ministry of Industry and Trade (hereinafter referred to as “MOIT”) formulated the *Planning on development of supporting industries to 2010, vision to 2020* in order to take measures to strengthen the competitiveness of local industries (Decision of Minister of Industries 34/2007/QD-BCN). Government Decree 90/2001/ND-CP was later revised to Government Decree 56/2009/ND-CP. In the revised decree, the definition of SME was sub-divided and given more details, measures were described to soften the loan conditions of credit institutions, the roles and functions of governmental organizations concerning SME support were clarified and so on. It was intended that support for SME, which are vulnerable to adverse impacts of economic downturns, would be strengthened.

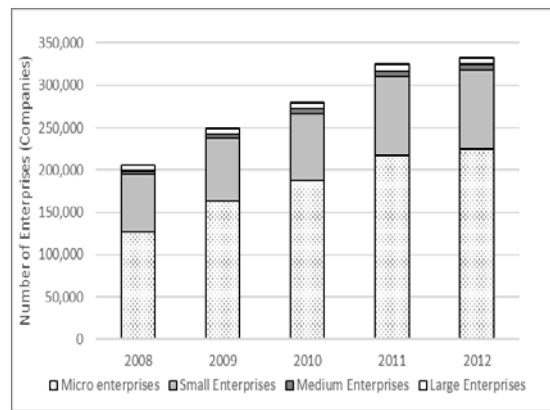
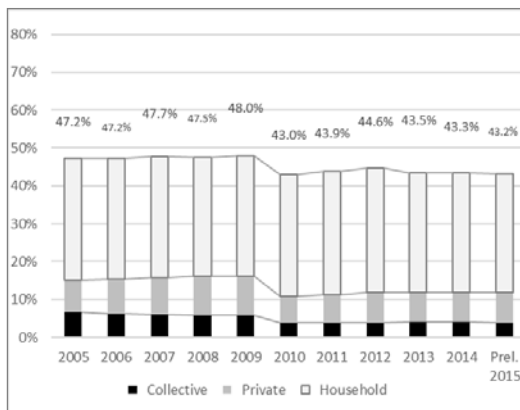
In 2012, the *Decision approving the plan for developing small and medium enterprises 2011 - 2015*, which covers the implementation period of this Project, was issued (Prime Minister Decision 1231/2012/QD-TTg). The SME development plan in the above decision aimed to improve investment environment for SME, thereby contributing first to an increase in the growth rate and the competitiveness of SME and then to the economic growth of the country and improvement in competitiveness in the international economy. Furthermore, based on the *Planning on development of supporting industries to 2010, vision to 2020*, the government prepared *policies on development of a number of supporting industries* (Prime Minister Decision 12/2011/QD-TTg), which is considered as a basic policy to promote supporting industries in Viet Nam.

At the time of the ex-post evaluation, a new decree on the development of supporting industries was issued (Government Decree 111/2015/ND-CP). In relation to that decree, SBV issued detailed guidance on policies on granting loans to develop supporting industries (SBV Circular 01/2016/TT-NHNN). In addition, at the time of the ex-post evaluation, drafting of a law for support for SME was under way. According to the draft received at the beginning of 2017, the draft stipulates the principle of supporting SME, the content of support (including support to improve access to bank loans), support programs, the tasks, authority and responsibilities of agencies, organizations and individuals that are engaged in supporting SME, budgets for supporting SME, a mechanism for coordination, supervision and evaluation in supporting SME, and so on.

Based on the above, implementation of the Project, which aimed to improve access for SME to investment loans, was deemed to be relevant to the direction of Viet Nam’s development policy in supporting SME.

### 3.1.2 Consistency with the Development Needs of Viet Nam

At the time of the appraisal, it was found that development of the private sector would be key to the achievement of steady economic growth. In Viet Nam, as a result of reforms of the State-Owned Enterprises (SOE), the non-state sector accounted for 47.5% of GDP in 2008 (compared with 35.1% for the state sector), it accounted for 53.3% of the net revenue from business of the whole business sector and 15.0% of earnings before tax of the whole business sector in 2008, as shown in Figure 1 below.<sup>4</sup> In addition, as seen from Figure 2 below, the number of micro-enterprises and SME accounted for 97% in 2008 out of the total number of active enterprises. Limited capital access and a shortage of managerial know-how and technology, etc. became bottlenecks to the growth of SME. Among others, a shortage of capital posed a serious problem. Reasons behind such capital shortages for SME were found to lie in the underdeveloped financing system (it was difficult for financial institutions to analyze creditworthiness based on overall assessment of corporations and their investment plans) and in large adverse impacts of the economic crisis, especially on export-oriented enterprises (worsened financial conditions of enterprises).



Source: General Statistics Office for GDP share of the non-state sector. Business performance of enterprises by Vietnamese standard industrial classification, VSIC 2007, Statistical Yearbook 2012, General Statistics Office (Quoted from White Paper Small and Medium Enterprises in Vietnam 2014, AED) for number of active enterprises by size.

Note: The GDP share of the non-state sector, which consist of collective, private and household sectors, is a share of the non-state sector in nominal prices,.

Figure 1: GDP share of the non-state sector      Figure 2: Number of active enterprises by size

<sup>4</sup> Business performance of enterprises by Vietnamese standard industrial classification, VSIC 2007, Statistical Yearbook 2012, the General Statistics Office (Quoted from White Paper Small and Medium Enterprises in Vietnam 2014, AED).

While SME continued to play an important role in Viet Nam at the time of the ex-post evaluation, SME had still not yet reached a sufficient level of development. The non-state sector accounted for 43.3% of GDP in 2014 (as opposed to 28.7% for the state sector), 43% of the net revenue from business of the whole business sector and 7% of earning before tax of the whole business sector in 2012. The number of micro-enterprises and SME accounted for 98% in 2012 out of the total number of active enterprises. In particular, it was considered that the major thrust for expanding the private sector in Viet Nam would be found in the promotion of SME and that the promotion of domestic enterprises would accelerate growth, leading to stabilization of the economy and society. In addition, SBV Circular 06/2016/TT-NHNN had been issued to revise and supplement part of SBV Circular 36/2014/TT-NHNH in order to tighten regulations over financing in the real estate sector and others at the time of the ex-post evaluation. According to the new circular, the maximum ratio of short-term funds to be used for medium- and long-term loans by commercial banks and branch offices of foreign banks, etc. would be gradually reduced: the ratio would remain unchanged at 60% until the end of 2016, would be reduced to 50% from January 1st, 2017 and then to 40% from January 1st, 2018. In this regulatory environment, the provision of medium- and long-term loans under this Project (Small and Medium-Sized Enterprises Finance Project (III), hereinafter referred to as “SMEFP 3”<sup>5</sup>) is expected to continuously contribute to enhancement of the availability of medium- and long-term funds on the PFI side. Furthermore, with Prime Minister Decision 601/2013/QĐ-TTg, Small and Medium Enterprise Development Fund<sup>6</sup> (hereinafter referred to as “SMEDF”) was established under MPI in order to extend support to SME. Although SMEDF is still on the road to developing its institutional arrangements, the fact remains that it was established to meet the development needs of SME in Viet Nam from the financial aspect.

Thus, the Project has met the development needs to improve SME access to medium and long-term loans.

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<sup>5</sup> Under the title of Small and Medium-Sized Enterprises Finance Project (SMEFP), the first phase (SMEFP 1) and the second phase (SMEFP 2) had been provided up to that time.

<sup>6</sup> The government allocated chartered capital in the amount of two trillion VND for the provision of loans with a maximum amount of 30 billion VND per loan, a maximum financing ratio of 70% of the total investment capital, the interest rate being set under 90% of the average lending rate of five state-owned banks (a fixed interest rate of 7% as of February 2017), and the repayment period being set within seven years. As of February 2017, loans were extended through three commercial banks from SMEDF and SMEDF paid authorized fees to these three banks. On the other hand, the commercial banks bear credit risks. SMEDF explained that SMEDF approved 10 projects in 2016. According to PFI interviewed, eligible enterprises are limited to companies such as start-up enterprises and enterprises that introduce high-technologies. Therefore, assistance is difficult to receive even though an application is submitted. Furthermore, it was commented that the level of the authorized fees of SMEDF would not be a level comparable to credit risks borne by a bank.

### 3.1.3 Consistency with Japan's ODA Policy

Japan's Country Assistance Program for Viet Nam (April 2004) had the "promotion of growth" as one of the three priority areas for development and placed particular importance on the promotion of SME and the private sector within this priority area. In the "Country Assistance Program for the Social Republic of Viet Nam", which was prepared in July 2009, the "promotion of economic growth and strengthening of international competitiveness" was regarded as one of the priority areas for assistance, under which cooperation in terms of improvements in the business environment and promotion of the private sector was taken up. The Project is found to be in line with the said plan. In addition, in the Country Assistance Implementation Report (April 2009) prepared by Japan International Cooperation Agency (hereinafter referred to as "JICA"), "improvements in the business environment and promotion of the private sector" is regarded as one priority area. In this area, "improvements in the business environment and promotion of the private sector" and "development of the financial sector" are considered as pillars of support.

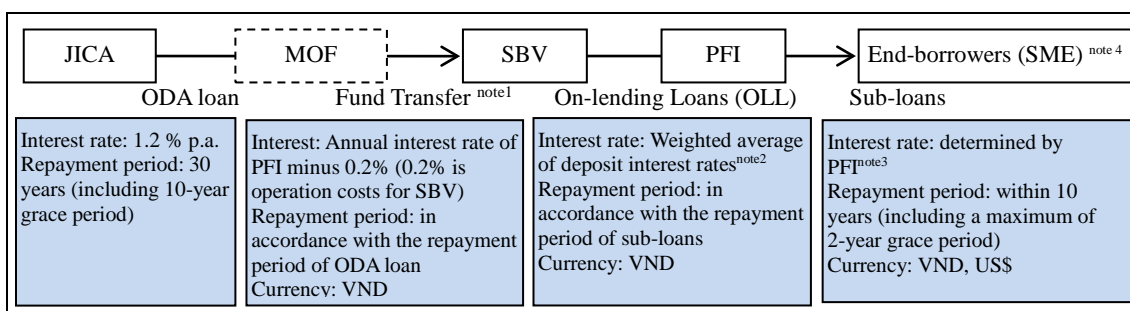
Based on the above analysis, the implementation of the Project can be seen to be highly relevant to the country's development policy towards SME support, to development needs in terms of improvement of access for SME to medium- and long-term loans, as well as to Japan's ODA policy, which puts emphasis on SME support and promotion of the private sector.

## 3.2 Efficiency (Rating: ②)

### 3.2.1 Project Outputs

#### (1) Provision of medium- and long-term investment funds to PFI

The scheme of the Project is that the borrower, Ministry of Finance (hereinafter referred to as "MOF"), transfers an ODA loan to SBV and SBV, in turn, re-lends the loan to PFI, which further on-lend sub-loans to SME, the end-borrowers. Terms and conditions are described in Figure 3 below. Compared with the conditions set at the time of the appraisal, interest rates of on-lending loans and re-lending sub-loans have been set so as to reflect the prevailing market rates.



Source: Information provided by JICA and SBV

Note 1: MOF bears exchange risks between Japanese yen and Viet Nam Dong (hereinafter referred to as “VND”).

Note 2: It was planned that the base interest rate minus 1.5 % would be used as the OLL rate, but this was changed to the weighted average of deposit interest rates announced on a quarterly basis in order to reflect market interest rates.

Note 3: It was originally planned that the interest rates of sub-loans in VND would be determined by PFI within a range of 150% of the base interest rate (SBV Decision 16/2008/QD-NHNN dated May 16, 2008). However, the decision ceased its effectiveness with the SBV Circular 12/2010/TT-NHNN dated April 14, 2010.

Note 4: The definition of SME based on the Government Decree 56/2009/ND-CP is shown below.

Sector	Micro	Small-sized enterprises		Medium-sized enterprises	
	No. of laborers	No. of laborers	Total Capital (Total Assets)	No. of laborers	Total Capital (Total Assets)
Agriculture, forestry and fishery	10 persons or fewer	Between over 10 persons and 200 persons	VND 20 billion or less	Between over 200 persons and 300 persons	Between over VND 20 billion and VND 100 billion
Industry and construction	10 persons or fewer	Between over 10 persons and 200 persons	VND 20 billion or less	Between over 200 persons and 300 persons	Between over VND 20 billion and VND 100 billion
Trade and service	10 persons or fewer	Between over 10 persons and 50 persons	VND 10 billion or less	Between over 50 persons and 100 persons	Between over VND 10 billion and VND 50 billion

Figure 3: Structure of Financing Scheme under the Project

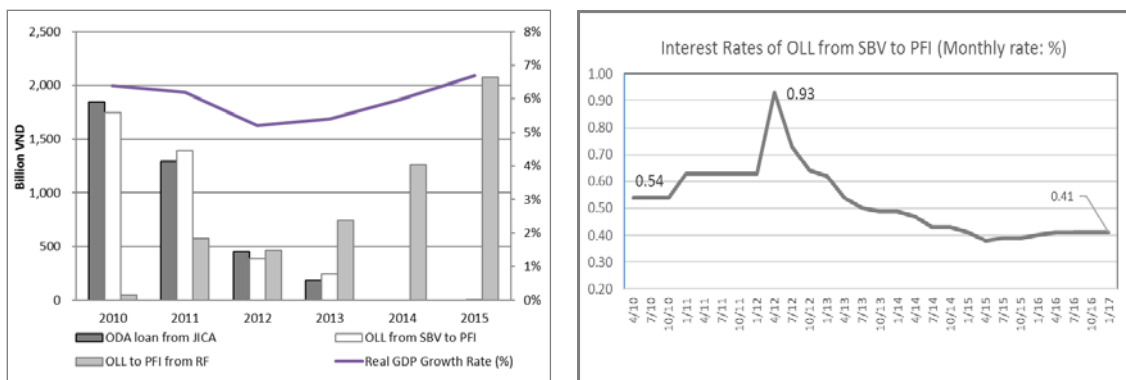
Figure 4 below shows the amount actually disbursed from JICA to SBV and the amount on-lent from SBV to PFI (On-lending Loan, hereinafter referred to as “OLL”). In order to show the trend of economic conditions, the real growth rate of GDP is also shown in the figure. In terms of OLL, initial loans out of the ODA loan are shown separately from loans from the revolving funds, which were set up with the repayment of OLL. It was found that over 80% of the ODA loan amount had been disbursed from SBV to PFI by the end of 2011 but also that the disbursement of the initial loans as well as OLL by making use of repayment quickly decelerated from 2012. It is noted that most of the initial loans had been disbursed by 2013.

Figure 5 below shows the trend of the interest rates of OLL from SBV to PFI. The interest rate rapidly increased up to 2012, exhibiting a decreasing trend thereafter. Changes in the interest rates seem to have affected the trend of disbursement.<sup>7</sup> However, disbursement has

<sup>7</sup> In 2011, deposit and lending interest rates rapidly increased due to tight monetary policies taken against an increase in the inflation rate. The re-lending interest rate of OLL from SBV to PFI was revised based on a weighted average of deposit interest rates on a quarterly basis. Due to a three-month time lag, there was a difference between the revised interest rate and the prevailing interest rate. According to interviews with personnel concerned, it was learnt that because of the difference between the two interest rates due to this time lag, OLL tended to be accelerated when the interest rate exhibited an increasing trend and tended to be decelerated when the interest rate showed a downward



been relatively smooth despite economic downturns. There are a number of reasons behind the relatively smooth disbursement.



Source: Information provided by SBV. IMF Staff Report for the 2014 and 2016 Article 4 Consultation was referred to for the real GDP growth rate.

Note 1: With regard to Figure 4 on the left, it is not possible to segregate sub-loans from PFI to SME into initial sub-loans and sub-loans from the revolving funds. The real GDP growth rates in 2014 and 2015 are estimates.

Note 2: With regard to Figure 5 on the right, information was provided by SBV. The interest rates and corresponding periods are slightly different depending on the documents referred to. However, the general trends during and after the Project period can be grasped. According to SBV, interest rates of OLL were changed from the base interest rates to weighted averages of deposit rates from July 2012.

Figure 4: The amount of ODA loan disbursement, the amount of OLL from SBV to PFI, the amount of sub-loan disbursement from PFI to SME and the real GDP growth rate

Figure 5: Interest Rate of OLL from SBV to PFI

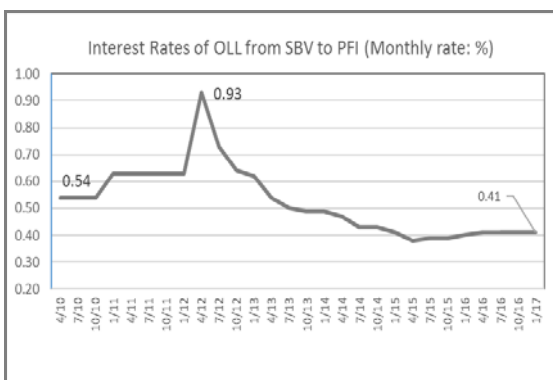


Table 1 below shows the number of PFI in the three different phases of SMEFP. SBV assesses newly participating PFI in the accreditation process and existing PFI every year in terms of financial conditions and the necessity of SMEFP participation by applying three selection criteria. These consist of A. Financial Soundness (maximum 60 points), B. Governance and Management (maximum 20 points), and C. Competence and Necessity to Participate in SMEFP (maximum 25 points). In order to participate in SMEFP 3, PFI need to score 53 points or more out of a total of 105 points. Commercial banks, which had not taken part in SMEFP 1 and SMEFP 2, were also involved in SMEFP 3. The number of accredited PFI exceeded 20 every year and they extended sub-loans to SME.

trend. Part of the stagnation of OLL in 2012 and 2013 can be explained by the fact that an increase or a decrease in the spread between the funding and lending rates would accelerate or decelerate provision of sub-loans by PFI.

Table 1: The number of accredited PFI under SMEFP <sup>note1</sup>

	SMEFP1	SMEFP2	SMEFP3							
			2009	2010	2011	2012	2013	2014	2015	2016
No of PFI	4	13 <sup>note 2</sup>	0	18	22	23	24	22	23	23

Source: Information provided by SBV

Note 1: The amounts of Japanese ODA loans was 4.000 billion JPY for SMEFP 1, 6.146 billion JPY for SMEFP 2, and 17.379 billion JPY for SMEFP 3, respectively. The size of the loan for SMEFP 3 was far larger than the amounts of loans for the preceding phases.

Note 2: The initial number of PFI was nine but another four were accredited as PFI under SMEFP 2 later. For example, there was a case where a bank was accredited in 2011 as PFI under SMEFP 3. Later in 2015, the same bank was newly accredited as PFI under SMEFP 2.

SBV set credit lines to each PFI and increased or decreased the amounts depending on the actual amount disbursed and the amount applied. For this purpose, the amount of PFI's disbursement relevant to this Project was reviewed on a monthly and quarterly basis. The items subject to review include the number of disbursements, the amount of outstanding sub-loans, the amount of sub-loans to be required thereafter, and compliance with the terms and conditions of sub-loans and eligibility requirements. For example, the upper half of Table 2 shows the outstanding amounts of OLL and the amount of the credit lines set for several PFI. The lower half of Table 2 shows the descriptive statistics, including the total amount of the credit lines and the average amount of credit lines. The table reveals that the total amount, ranging from 3,700 billion VND to 3,800 billion VND, was allocated to more than 20 PFI as credit lines. The average credit line per PFI ranges from 170 to 180 billion VND, with the standard deviation exhibiting an increasing trend to some extent. The maximum amount as of December 2015 was 560 billion VND while the minimum was found to be 20 billion VND. The maximum amount in April 2017 was 810 billion VND while the minimum was 32 billion VND.<sup>8</sup> It is considered that an agile review of credit lines contributed to the establishment of a competitive environment among PFI.<sup>9</sup>

<sup>8</sup> The amount of credit lines differs from PFI to PFI. It is considered that the reasons behind such differences include various factors such as the asset size of PFI, approaches towards SME business and the utilization status of credit lines.

<sup>9</sup> At the time of the ex-post evaluation, many PFI visited by the evaluation team requested increases in credit line allocations.

Table 2: The outstanding amounts of OLL at the end of the period and the amounts of the credit lines (examples for three PFI), the descriptive statistics of the credit lines to all the PFI

Unit: Billion VND

PFI	Item	2014	12/2015	12/2016	4/2017
PFI A	Credit Line	NA	495	365	327
	Outstanding amount of OLL at end of the period	512	451	332	326
PFI B	Credit Line	NA	260	251	251
	Outstanding amount of OLL at end of the period	122	253	242	237
PFI C	Credit Line	NA	62	42	32
	Outstanding amount of OLL at end of the period	84	53	28	28
Descriptive Statistics of Credit Lines extended to All the PFI					
Number of PFI			21	22	22
Total Amount of Credit Lines			3,715	3,787	3,790
Average per PFI			177	172	172
Standard Deviation			155	169	176
Median			120	123	118
Maximum			560	750	810
Minimum			20	23	32

Source: Information provided by EA.

Another reason behind the realization of relatively smooth disbursement despite the economic downturn can be found in the fact that the ceiling of lending rates applied for sub-loans under SMEFP 3 was abolished and PFI were allowed to set own interest rates reflecting the credit risks of end-borrowers. Thus, it was understood that PFI were able to be actively engaged in extending sub-loans to SME. The table below shows the level of lending interest rates found through the beneficiary survey<sup>10</sup> and interviews with PFI. Under SMEFP 3, PFI were able to set relatively larger interest spreads.

<sup>10</sup> For the beneficiary survey, 23 PFI accredited under SMEFP 3 were classified into the three categories (“very active”, “medium” and “less active”) depending on the conditions of SMEFP 3 utilization (the amount of disbursement). Based on the classification, 11 PFI were chosen for interviews. Later, upon visits to these 11 PFI, a request was made for the selection and introduction of about 10 SME per PFI for the beneficiary survey. However, the number of SME introduced by some PFI was limited only to a few due to smaller amounts of sub-loans extended by them when compared with other PFI. When SME were chosen by PFI, requests were made that SME were selected from as many different sectors as possible, especially from supporting industries, and also that SME to which sub-loans had been provided before 2015 were chosen to the extent possible. The survey areas were selected from areas centering on Hanoi, Hai Phong, Da Nang and Ho Chi Minh City and also provinces located within a one-day travel distance from these four areas. As a result, having received cooperation from 10 PFI, 101 SME were interviewed through a questionnaire-based face-to-face interview survey. The geographical distributions of the total 101 SME surveyed in 20 provinces are as follows: 51 SME (50.5%) in nine provinces in the northern region, 33 SME (32.7%) in seven provinces in the central region, and 17 SME (16.8%) in four provinces in the southern region. The selection of SME surveyed was carried out not through a random sampling method but a purposive selection method. Therefore, the survey results are not data that enables a statistical inference for specific characteristics and features of the population but data that can be used for reference only.

Table 3: Comparison of lending interest rates of sub-loans under SMEFP 3 and regular SME loans at PFI (for reference only)

Item	SMEFP 3	Regular SME sub-loan
Lending rate (p.a.)	7.5 - 10.38%	7.0% - 12%
Funding rate (p.a. in February 2017)	4.92%	6.5% <sup>note</sup>
Spread	2.58 - 5.46%	0.5 - 5.5%

Source: Interviews with PFI  
 Note: Refinancing rate of SBV (SBV Decision 496/2014/QD-NHNN)

Table 4: Sub-loan interest rates (% p.a.) from PFI to SME (for reference only)

Descriptive Statistics	Interest rates applied for ODA loan portion	Interest rates applied for PFI portion
No. of SME	99 SME	98 SME
Average	9.32	10.13
Median	9.00	10.00
Standard Deviation	1.13	1.36
Max	15.00	15.50
Min	7.50	7.50

Source: Beneficiary survey  
 Note: Some PFI apply different interest rates for ODA and PFI portions, while others apply the same.

At SBV, an International Credit Projects Management Unit (hereinafter referred to as “ICPMU”) has been responsible for implementation of the Project. ICPMU smoothly carried out Phase 1 (SMEFP 1) and Phase 2 (SMEFP 2) of the Project. In executing SMEFP 3, a Policy Manual was prepared to describe the structure, terms and conditions and procedures applied for SMEFP 3 and a Reporting Manual was compiled to guide the preparation of reports under the Project. Regular training was also organized for PFI. ICPMU has been engaged in the long-term management of SMEFP 3, revolving funds from the preceding phases and so on. In the process, ICPMU have adjusted the terms and conditions of SMEFP based on requests from PFI and meeting results with them. For instance, the ceiling amount of sub-loans under SMEFP 3 was increased from the one applied to SMEFP 2 and simplified procedures were also adopted for sub-loans of less than 5 billion VND. It was also learnt that the integration of the policy manuals in the different phases of 2015 was a result of discussions with PFI. The fact that, having been established as a specialized permanent unit, ICPMU managed SMEFP and continued to improve procedures from a medium- and long-term perspective has also been a contributing factor in accelerating the Project.

(2) Strengthening of financing capacity of SBV and PFI for investment loans through technical assistance

Under the Project, consultants were employed by SBV. They carried out: 1) assistance for implementation of the Project and 2) study of ways to develop supporting industries. A more concrete description of their consulting services is provided as follows:

1) Assistance for Implementation of the Project

a) Improvement of Manuals

Preparation of the Policy Manual, which explains the implementing structure and terms and conditions of SMEFP (May 2013), and the Reporting Manual, which

shows the reporting system, including the preparation of standard reports (November 2013).<sup>11</sup>

b) Development and Set-up of the Management Information System (hereinafter referred to as “MIS”)

c) Promotion of SMEFP 3

Implementation of promotion activities (seminars, preparation of leaflets, posting of articles in newspapers, issuance of handbooks, etc.), targeting PFI and SME, in order to attract more SME for the Project funds, especially SME operating in the supporting industry sector, also to boost financing for the supporting industries.

d) Develop training programs for the implementation of the Project.

2) Study of Ways to Develop Supporting Industries

Collection and analysis of information on the financing of SME in the supporting industries, proposal of relevant incentive mechanisms to promote the financing of SME in the supporting industries, training for SBV to promote financing of SME in the supporting industries, training for the staff of PFI to enhance understanding of the new mechanism, provision of a supplementary manual, and promotion of the Project to increase the number of SME benefitting from sub-loans of the Project, especially in the supporting industry sector.

At the time of the appraisal of the Project, assistance to the supporting industries was regarded as one of its main pillars. However, preferential measures targeting the supporting industries were not taken under the financing scheme. Having received assistance from consultants, SBV tried to take a number of measures. For instance, one of the measures was “to apply preferential on-lending interest rates for sub-loans from PFI to SME in the supporting industries”. However, although the application of preferential interest rates was supported by MOIT, it was not approved by MOF. As a result, this was not put into practice. It was pointed out that one of the reasons behind it not being approved was non-existence of a clear definition of the supporting industries.

### 3.2.2 Project Inputs

#### 3.2.2.1 Project Cost

The planned total Project cost (which includes portions borne by PFI and sub-borrowers (end-borrowers) in addition to the Japanese ODA loan) was 27,628 million Japanese yen (out of which, the Japanese ODA loan amounted to 17,379 million Japanese yen). Out of

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<sup>11</sup> In order to ensure efficient use of the funds and meet loan demands from PFI and SME, SBV coordinated with other organizations concerned and consolidated policy manuals used in the respective three phases of the Project from SMEFP 1 to SMEFP 3 in May 2015.

the total amount, the two-step loan portion was 23,529 million (out of which, the Japanese ODA loan amounted to 15,000 million Japanese yen). The total Project cost (actual) was not known,<sup>12</sup> but the Japanese ODA loan portion was 16,926 million Japanese yen (the actual amount disbursed). Out of this, the two-step loan portion of the Japanese ODA loan was 16,031 million Japanese yen. The Japanese ODA loan portion fell within the planned amount (the actual amount was 97% of the planned amount).

Table 5: Project Cost (Plan/Actual)

Item	Planned in 2009		Actual as of 2015	
	Total	Out of which: ODA loan	Total	Out of which: ODA loan
	(million JPY)	(million JPY)	(million JPY)	(million JPY)
Two Step Loan	23,529	15,000	NA <sup>note 2</sup>	16,031 <sup>note 3</sup>
Consulting Services	144	144	161	141
Price Escalation	2182	949	-	-
Physical Contingencies	1286	797	-	-
Interest in Construction	401	401	733	733
Commitment Charges	86	86	20	20
Total	27,628	17,379	NA	16,926 <sup>note 4</sup>

Source: Information provided by JICA

Note 1: The exchange rate at the appraisal was 0.0059 JPY/VND. The average exchange rate during the Project period from 2010 to 2015 was 0.0046 JPY/VND.

Note 2: The amounts of the respective portions of the Project costs borne by PFI and end-borrowers, which were associated with sub-loans from the initial ODA loan portion, were not available. Therefore, "NA" was placed in the table in order to stand for "Not Available".

Note 3: In response to an increasing demand for sub-loans, the two-step loan portion of the ODA loan was increased from 15 billion Japanese yen to 16.7 billion Japanese yen by reallocating the contingencies of the ODA loan (JICA concurred with a request for reallocation in July 2011). Subsequently, the disbursement of sub-loans amounted to 16.031 billion Japanese yen, an increase of 1.031 billion Japanese yen against the original plan.

Note 4: After completion of the disbursement, an unused balance of 72.3 million Japanese yen was refunded to JICA. Therefore, the net amount of the actual disbursement was 16,853 million Japanese yen.

### 3.2.2.2 Project Period

The signing of the Loan Agreement (hereinafter referred to as "L/A") was planned for October 2009 and Project completion<sup>13</sup> was scheduled for December 2012 (total Project period: 39 months). The L/A was actually signed in November 2009 and the final disbursement was made in December 2014 (total Project period: 62 months). As the Project was also designed as an urgent economic measure against the economic crisis (worldwide recession) in which adverse impacts centered on export-oriented enterprises, nine PFI accredited under the previous phase (SMEFP 2) were selected as PFI and disbursement of ODA loans were commenced prior to employment of consultants in order to jump-start the Project. However, as the demand for investment stagnated due to the economic slowdown,

<sup>12</sup> The actual total Project cost was not known because the portions borne by PFI and sub-borrowers, which would be relevant only to the initial Japanese ODA loan portion, were not obtained. In this section, a comparison was made between the planned and the actual disbursed amounts of the Japanese ODA loan (not the total project cost).

<sup>13</sup> As project completion is defined as "completion of the ODA loan", the final disbursement date of the ODA loan was considered as the project completion date. "

the Project was delayed as compared with the original plan.<sup>14</sup> As a result, the Project period significantly exceeded the plan (the actual period exceeded the plan by 159%.)

In conclusion, although the Project cost was within the plan, the Project period exceeded the plan. Therefore, efficiency of the Project is fair.

### 3.3 Effectiveness<sup>15</sup> (Rating: ③)

#### 3.3.1 Quantitative Effects (Operation and Effect Indicators)

Operation and effect indicators concerning the quantitative effects of the Project are shown in Table 6 below.

Table 6: Operation and effect indicators of the Project (quantitative effects)

Indicator	Base Line (2008)	Target number (2014) 2 years after Project completion	Actual (2016 <sup>note1</sup> ) (after adjustment to 2008 price <sup>note 2</sup> )
Total loan outstanding of PFI to enterprises established under the Law on Enterprises (billion VND) <sup>note 3</sup>	171,794 (a sum of the amounts of nine PFI under Phase 2)	Expansion from the base line	1,387,947 (780,857)
Ratio of lending to the SME in total loan outstanding of PFI to enterprises established under the Law on Enterprises (%) <sup>note 3</sup>	65 (An average of nine PFI under Phase 2)	Expansion from the base line	29.72

Source: Information provided by JICA

Note 1: A sum of the amounts of the six PFI that responded to the questionnaire.

Note 2: Adjusted by GDP deflators. International Financial Statistics (IMF) and IMF Article 4 Consultation Report (2016) were referred to for GDP deflators.

Note 3: Indicators in Japanese documents are described differently from those in English documents. In English documents, the corresponding indicators are described respectively as follows: “Total loan outstanding of the PFIs to the joint stock and limited companies (billion VND)” and “Ratio of lending to the SMEs in total loan outstanding of the PFIs to the joint stock and limited companies (%)”.

#### 1) Outstanding loans by PFI to enterprises established under the Law on Enterprises.

Nine PFI at the time of the Project appraisal were: the Bank for Investment and Development of Vietnam (hereinafter referred to as “BIDV”), the Vietnam Bank for Industry and Trade (hereinafter referred to as VietinBank”), the Asia Commercial Bank (hereinafter referred to as “ACB”), the Eastern Asia Commercial Bank (hereinafter referred to as “EAB”), Techcombank, Sacombank, the Housing Development Bank (hereinafter referred to as “HDB”), the Central Credit Fund of Vietnam (hereinafter referred to as “CCF”), and the

<sup>14</sup> As previously described, while the deposit as well as the lending interest rates drastically increased in 2011 because of the tight monetary policy taken against an increase in the inflation rate, one of the reasons behind the delay is found in the stagnation in loan provision due to changes in the interest rates. Furthermore, according to SBV, MOF, which was concerned with an increase in public debts, was said to be inactive in submitting new requests for disbursement despite the existence of fund demands because of a large fluctuation in the exchange rate between Japanese yen and VND during a period from 2011 to 2012. This also served as a factor in delaying the schedule compared to the original plan. For instance, VND was depreciated against Japanese yen by more than 20 percent if the period average of the exchange rates of 2011 and 2012 is compared with that of 2010.

<sup>15</sup> Sub-rating for Effectiveness is to be put with consideration of Impact.

Mekong Housing Bank (hereinafter referred to as “MHB”).<sup>16</sup> Data in 2016 was received from six banks out of the above (i.e., BIDV (after a merger with MHB), VietinBank, ACB, Sacombank and HDB). The total amount of data from these six banks is shown in Table 7 below. The outstanding amount of sub-loans to enterprises as of the end of 2016 was 1,387,947 billion VND, eight times as large as the total outstanding amounts of nine banks in 2008 (four and half times as large as the total amounts if adjusted to the value of 2008 with the GDP deflators). The target values of this indicator have been fulfilled.

Table 7: The outstanding amounts of loans to enterprises, loans to SME, and medium- and long-term loans to SME, which were established under the Law on Enterprises, from six PFI

Unit: Billion VND

Indicator	2008	2016 (After adjustment to 2008 price <sup>note 1</sup> )
The total amount of outstanding medium- and long-term loans to SME (A)	NA	138,060 (77,673)
The total amount of outstanding loans to SME (B)	111,647 <sup>note 2</sup>	412,377 (232,003)
The total amount of outstanding loans to enterprises <sup>Note 3</sup> (C)	171,794	1,387,947 (780,857)
The ratio of outstanding medium- and long-term loans against the total outstanding loans to SME (A)/(B)	NA	33.48%
The ratio of outstanding loans to SME against the outstanding loans to enterprises (B)/(C)	65%	29.72%
The ratio of outstanding medium- and long-term loans to SME against the outstanding loans to enterprises (A)/(C) <sup>note 4</sup>	NA	9.95%

Source: Information provided by PFI

Note 1: Adjusted by GDP deflators. International Financial Statistics (IMF) and IMF Article 4 Consultation Report (2016) were referred to for GDP deflators.

Note 2: The amount was calculated by multiplying 65% with the outstanding loans to enterprises.

Note 3: Documents prepared in English at JICA use a different expression for this indicator. It is described as “Total loan outstanding of the PFIs to the joint stock and limited companies”.

Note 4: In general, the remaining repayment period of loans is longer than one year.

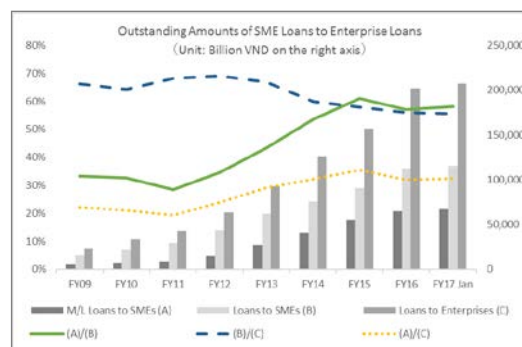
2) Ratio of the amount of outstanding sub-loans to SME against the amount of outstanding sub-loans to enterprises established under the Law on Enterprises extended by PFI (%)

As shown in Table 7 above, the ratio of the amount of outstanding loans to SME against the amount of outstanding loans to enterprises established under the Law on Enterprises (%) for the six PFI was about 30 % in 2016, which is much lower than 65% in 2008. However, if comparison is made in terms of the absolute values, it can be noted that the outstanding amount was three point seven times as large as the one in 2008 (two point zero times after the amounts have been adjusted to those in 2008 prices with the GDP deflators). While the amount of loans to enterprises sharply increased, the share of loans to SME got relatively smaller.

<sup>16</sup> MHB merged with BIDV in 2015.



Moreover, the government also revised the definition of SME<sup>17</sup> during this period, and furthermore, some PFI have applied their own definitions of SME for loans extended to SME under schemes other than SMEFP 3. For example, PFI that the ex-post evaluation team visited have applied amount of sales to classify SME. Accordingly, it is not necessarily appropriate to make a simple comparison across the banks in terms of the ratios of 2008 and 2016. Therefore, instead of making a comparison across different PFI, a comparison was undertaken for a same PFI chronologically over past trends. Figure



Source: Information provided by PFI (ABB, SHB and HDBank)

Note: At some PFI which responded to this question, the ratio of outstanding loans to SME is far lower than the ratio of the three PFI that provided the data to the question. Depending on the PFI, the status of SME finance is different.

Figure 6: Amount and the ratio of outstanding loans to SME and enterprises

6 compares the past trends in terms of the total outstanding amount of loans for the three PFI which gave the outstanding amount of sub-loans from 2009 through January 2017. The three PFI are An Binh Commercial Joint Stock Bank (hereinafter referred to as “ABB”), Saigon Hanoi Commercial Joint Stock Bank (hereinafter referred to as “SHB”) and Ho Chi Minh City Development Bank (hereinafter referred to as “HDBank”).<sup>18</sup> The ratio of the amount of outstanding sub-loans to SME against the amount of outstanding sub-loans to enterprises established under the Law on Enterprises [(B)/(C)] decreased from 66.3% in 2009 to 56.0% in 2016 (by around 10%). The outstanding amount of loans to enterprises increased eight point seven times from 23,066 billion VND in 2009 to 201,593 billion VND in 2016, while the outstanding amount of loans to SME increased seven point four times from 15,286 billion VND in 2009 to 112,793 billion VND.

It has been made clear that although provision of loans to SME increased, the provision of loans to enterprises exceeded the former, resulting in a decrease in the ratio of the outstanding loans to SME. Although the ratio of the amount of outstanding loans to SME against the amount of outstanding loans to enterprises decreased, the absolute values in terms of the amounts increased. Furthermore, the ratio of the amount of the outstanding medium- and long-term loans against the amount of outstanding loans to SME [(A)/(B)] increased

<sup>17</sup> Prior to the definition of SME given under Government Decree 56/2009/ND-CP, Government Decree 90/2001/ND-CP provided the following definition for SME: establishments that have an average number of annual employees of less than 300 or a registered capital of less than 10 billion VND.

<sup>18</sup> Under SMEFP 3, ABB received a credit line amounting to 80 billion VND for the first time in 2010. Their credit line had increased to 330 billion VND as of April 2017. SHB received a credit line amounting to 80 billion VND for the first time in 2011 and their credit line had increased to 331 billion VND as of April 2017. HDBank was accredited under SMEFP 3 for the first time in 2010 and their credit line was 141 billion VND as of April 2017. Both SHB and HDBank got accredited in 2015 and 2008 respectively, under SMEFP 2, and received their credit lines. HDBank is a commercial bank originating from HDB.

from 33.3% in 2009 to 57.1% in 2016. Data has been taken from a limited number of PFI so that this conclusion may not necessarily apply to all the PFI. However, it is considered that this partly implies improvement of access to funds for SME, access to medium- and long-term funds in particular.

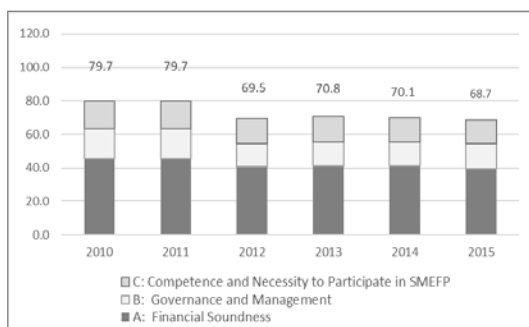
### 3.3.2 Qualitative Effects

Although improvement in the capacity of PFI to provide sub-loans to SME and improvement in fund access for SME have been set as quantitative effects, concrete criteria to judge the achievements were not indicated.

#### (1) Improvement in the capacity of PFI to extend sub-loans to SME

As described before, SBV applies the three selection criteria: Financial Soundness (Criteria A with a maximum of 60 points), Governance and Management (Criteria B with a maximum of 20 points), and Competence and Necessity to Participate in SMEFP (Criteria C with a maximum of 25 points), and reviews the performance of PFI every year. In order to be qualified as PFI, 53 points or more have to be attained. Averaged total scores of qualified PFI in the respective years are shown in Figure 7 below. Sub-criteria include such criteria as Return on Equity (ROE), which is likely to be affected by economic conditions. Therefore, PFI could possibly lower scores when profitability decreases due to macro-economic conditions. Having been subject to a regular screening by SBV that may possibly result in the disqualification of banks as PFI, about 20 or more PFI have been qualified every year in the light of the three sub-criteria for continuous participation in SMEFP 3. It is considered that this fact, to some extent, manifests an improvement in the capacity of PFI to extend sub-loans to SME.

Criterion C is further divided into sub-criteria: Focus on Private SME (share of loans to domestic private enterprises, growth of loans to domestic private enterprises, etc.), Necessity of SMEFP (ratio of medium- and long-term (MLT) funding and SME assistance), and Other Competence (experience of participating in the loan programs of other donors and outreach of branch networks). In particular, the process of PFI being reviewed in the light of Criteria C (Competence and Necessity to Participate in SMEFP) is considered to have led to the raising of awareness on the part of PFI of SME finance.



Source: Information provided by SBV

Note: One PFI attained a score of more than 52 in 2010 but got disqualified. Therefore, this bank was excluded from the calculation. The number of PFI that attained a score of 53 or more in the datasheet used for the score calculations is slightly different from the number of accredited PFI reported by SBV.

Figure 7: Trend of the average scores of accredited PFI

In addition to the renewal process of the above accreditation, it is considered that the monitoring by SBV of SMEFP (through visits to PFI and SME) and training (training on the policy manual, etc.) have served in tandem to improve the financing capacity of PFI for SME.

## (2) Improvement of SME Fund Access

As shown in Table 9 below, the disbursement of the ODA loan from SBV to PFI was nearly completed by 2013. On-lending by making use of repaid sub-loans had already started from 2010 and the amount accumulated up to 2015 (5,168 billion VND) was more than 130% of the accumulated amount of the ODA loan initially disbursed (3,772 billion VND). OLL from SBV to PFI accounts for about 75% of sub-loans to SME from PFI and for about 50% of the total sub-project costs. Using the Japanese ODA loan, medium- and long-term investment sub-loans were extended to SME. Furthermore, Table 9 below describes the average amount of sub-loans. The average of sub-loans in 2011 amounted to 7.3 billion VND per sub-loan, although this amount decreased to 2.0 billion VND per sub-loan in 2015. As a part of the simplification, SBV revised procedures for the sub-loan approval process from 2015 in case of sub-loans of less than 5.0 billion VND, whereby PFI would simply submit a list of sub-projects. It is considered that this revision is one of the reasons behind the decrease in the sub-loan size.

Table 8: Descriptive Statistics of Scores gained by Accredited PFI

Year	2010	2011	2012	2013	2014	2015
No. of PFI	19	19	22	21	22	21
Average	79.7	79.7	69.5	70.8	70.1	68.7
Median	81.0	81.0	72.0	73.0	70.0	68.0
Standard Deviation	7.0	7.0	6.4	8.1	6.1	6.3
Max	91.0	91.0	79.0	85.0	85.3	83.0
Min	67.0	67.0	55.0	54.0	59.0	56.0

Source: Information provided by SBV

Table 9: Amount of OLL from SBV to PFI and Amount of Sub-loans disbursed from PFI to SME

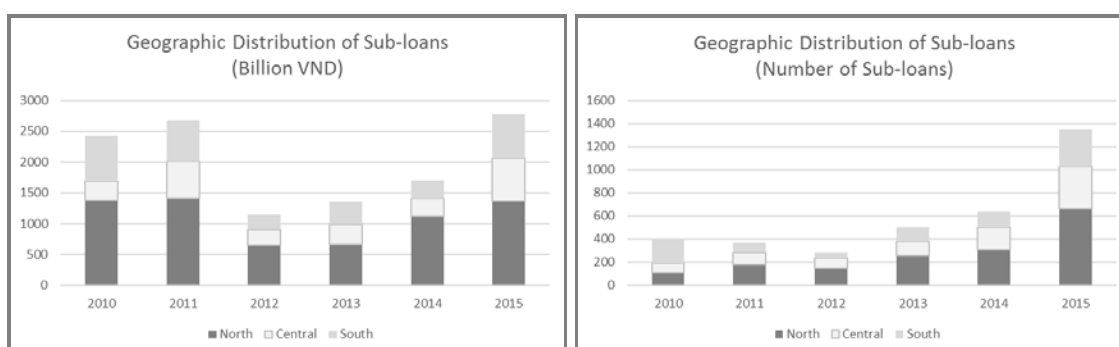
Unit: Billion VND

Year	2010	2011	2012	2013	2014	2015	Total
OLL from SBV to PFI (a)	1,791	1,967	851	991	1,263	2,078	8,941
Out of which: initial disbursement	1,744	1,391	391	251.7	0	0.3	3,778
Out of which: disbursement from repaid sub-loans (second disbursement from revolving funds)	47	576	460	739.3	1,263	2,077.7	5,163
Amount of sub-loans from PFI to SME note (b)	2,432	2,675	1,150	1,352	1,707	2,771	12,087
Number of sub-loans (c)	391	367	284	503	636	1,356	3,537
Sub-project Costs note (d)	3,892	4,112	1,962	2,134	2,388	3,879	18,367
Average amount per sub-loan [(b)/(c)]	6.2	7.3	4.0	2.7	2.7	2.0	3.4
OLL/Sub-loans [(a)/(b) x 100%]	73.6%	73.5%	74.0%	73.3%	74.0%	75.0%	74.0%
OLL/Sub-project costs [(a)/(d) x 100%]	46.0%	47.8%	43.4%	46.4%	52.9%	53.6%	48.7%

Source: Information provided by SBV

Note: It is not possible to classify sub-loans (from PFI to SME) as well as sub-project costs (of SME) into two separate categories such as the amount related to the initial OLL and the amount related to the repaid sub-loans (revolving funds).

Figure 8 below depicts the amount and the number of sub-loans by region. Sub-loans have been extended through more than 20 PFI. The geographical distribution of sub-loans from 2010 to 2015 shows that the northern, central and southern regions account for 54.4%, 20.6% and 25.0%, respectively. Likewise, the distributions in terms of the number of sub-loans are 47.0%, 27.1% and 25.9% for the northern, central and southern regions, respectively. It is found that the share of the northern region is more than half in terms of the amount and the number of sub-loans.<sup>19</sup>

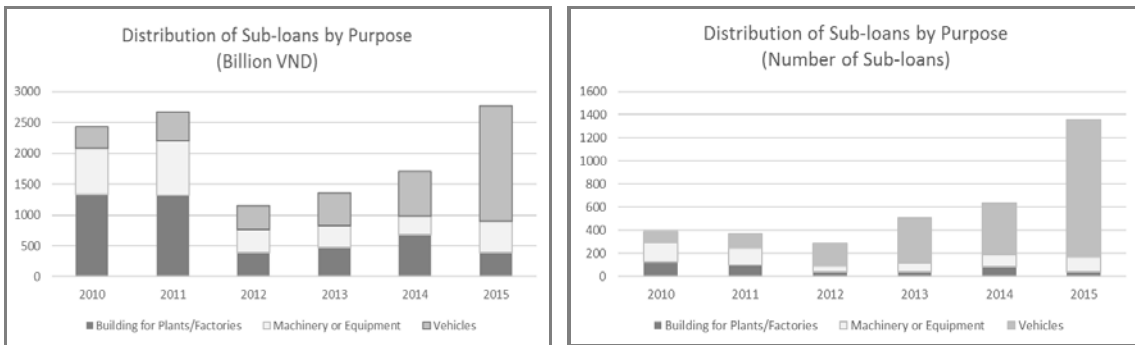


Source: Information provided by SBV

Figure 8: Amount and Number of Sub-loans by Region

<sup>19</sup> According to progress reports received from SBV, the number of provinces where sub-loans were extended over the last six-month-period was 55 from June 2012 to June 2016 and then 63 in December 2016. At the time of the ex-post evaluation, there were 58 provinces and five municipalities or centrally-controlled cities in Viet Nam. The data from SBV indicates a wider coverage of the Project and improvement in fund access.

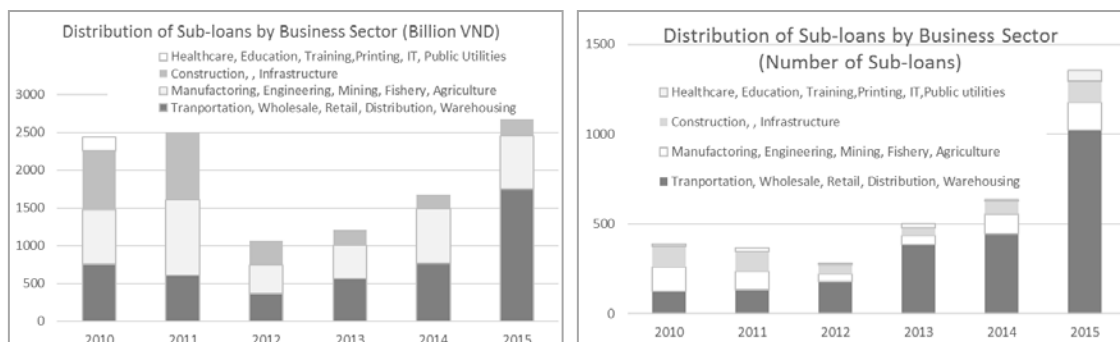
Figure 9 below shows the amount and the number of sub-loans by purpose. The distribution of the amount of sub-loans by purpose from 2010 to 2015 shows that vehicles, machinery or equipment, building for plants/factories account for 35.9%, 26.2% and 37.9%, respectively. The distribution in terms of the number of sub-loans is 68.6%, 19.2% and 12.2%, respectively. It is noted that the share of vehicles is high in terms of the amount and the number of sub-loans. In particular, the share of vehicles in 2015 is high in both amount and number.



Source: Information provided by SBV

Figure 9: Amount and Number of Sub-loans by purpose.

Figure 10 below shows the amount and the number of sub-loans by business sector. The distribution of the amount of sub-loans by business sector from 2010 to 2015 shows 40% for “Transportation, Wholesale, Retail, Distribution, and Warehousing”, 33% for “Manufacturing, Engineering, Mining, Fishery, and Agriculture”, 22% for “Construction and Infrastructure”, and 6% for “Healthcare, Education, Training, Printing, IT, and Public Utilities”. It is noted that the share of “Transportation, Wholesale, Retail, Distribution, and Warehousing” is high. In terms of the number of sub-loans by business sector, the distribution shows 65% for “Transportation, Wholesale, Retail, Distribution, and Warehousing”, 17% for “Manufacturing, Engineering, Mining, Fishery, and Agriculture”, 14% for “Construction and Infrastructure”, and 4% for “Healthcare, Education, Training, Printing, IT, and Public Utilities”. It is noted that the share of “Transportation, Wholesale, Retail, Distribution, and Warehousing” is high.



Source: Information provided by SBV

Figure 10: Amount and Number of Sub-loans by Business Sector

Table 10 below shows the distribution of the number of sub-loans by more detailed breakdowns of the business sector based on the results of the beneficiary survey. In terms of the number of sub-loans, the shares of the Transportation service (passengers and goods) (29.6%), Manufacturing (25.5%) and Construction (10.3%) are high. With the cooperation of one PFI, a study was made on the items procured in the major business sectors over the past three years. It was found that trucks were often the goods procured, even in such business sectors as “Agriculture, Forestry and Fishery”, “Construction” and other infrastructure development sectors. The total amount of sub-loans extended from SMEFP 3 by that PFI was 456.23 billion VND and the number of transactions was 317 over the past three years. Out of this amount, the amount of sub-loans used for the purchase of trucks and other vehicles was 409.91 billion VND (89.9%) and the number of transactions was 306 (96.5%). The reason behind the increase in sub-loans for trucks and other vehicles could be because of the relatively smaller amount of sub-loans allowed the use of simplified procedures. At the same time, sub-loans of this kind made it easier to ensure collection of repayment. It was intended that SMEFP3 would focus on assistance for supporting industries (in particular, capital investment such as that in machinery in factories). However, as one of the features of this Project, the results reveal the fact that a relatively large amount of medium- and long-term sub-loans were allocated for the purchase of trucks and other vehicles.

Table 10: Number of Enterprises by Business Sector to which Sub-loans were extended  
(for reference only)

Business sector	No. of Enterprises	Ratio
Agriculture, forestry and fishery	3	2.1%
Mining and quarrying	5	3.4%
Manufacturing	37	25.5%
Electricity, gas, steam, hot water and air conditioning supply	2	1.4%
Water supply, sewerage, waste management and remediation activities	1	0.7%
Construction	15	10.3%
Wholesale	6	4.1%
Warehousing and storage	2	1.4%
Distributor	5	3.4%
Retail	4	2.8%
Import-Export Trade	4	2.8%
Transportation services (passengers) such as taxis	18	12.4%
Transportation services (goods) such as trucks	25	17.2%
Printing and publications	1	0.7%
Hotel and accommodations	3	2.1%
Restaurant and food service activities	1	0.7%
Information and communications	1	0.7%
Engineering	4	2.8%
Human health and social work activities	1	0.7%
Others	7	4.8%
<b>Total</b>	<b>145</b>	<b>100.0%</b>

Source: Beneficiary survey

Note: The number of enterprises exceeds 101 because some responding enterprises are engaged in operations in more than one business sector.

It is also noted that among the PFIs visited, some classify the SME sector as a sector for finance and have set up a specialized unit for SME within the PFI. It is thought that fund access for SME will be further improved in the future when PFI perceive the SME sector as a sector that could secure profitability

### 3.4 Impacts

#### 3.4.1 Intended Impacts

Operation and effect indicators relating to Impact are shown in Table 11 below.

Table 11: Operation and Effect Indicators of the Project (Impact)

Indicators	Base Number (2008)	Target Number (2014) 2 years after Project completion
Sales of the benefited SME (Billion VND)	Data in the preceding year will be recorded when sub-loans are extended	Expansion from the current level
Profit of the benefited SME (Billion VND)	Data in the preceding year will be recorded when sub-loans are extended	Expansion from the current level

Source: Information provided by JICA

(1) Sales and Profits of Benefited SME

In the beneficiary survey, a comparison was made between sales before investment and sales in 2016. Out of 101 SME surveyed, the number of SME which responded to this question and whose answers can be compared, is 92. Out of these, 79 SME (86%) show an increase in sales (in nominal prices). In terms of profits before taxes, the number of SME which responded to this question and whose answers can be compared, is 84. Out of these, 68 SME (81%) show an increase in profits before taxes (in nominal prices). The trial calculation results of the profit-to-turnover ratio (profits before taxes)<sup>20</sup> are shown in the upper part of the table below. The lower part of the table below shows the ratio of the number of SME in the major three sectors where the SME's profit-to-turnover ratio exceeded five percent. Compared with the conditions before investment, profitability shows more or less an increasing trend.

Table 12: Profit-to-Turnover Ratio, etc. (for reference only)

Descriptive Statistics	Before Investment	2014	2015	2016
No. of SME	82	86	92	97
Average	7.0%	6.7%	5.1%	8.9%
Median	5.1%	5.7%	7.4%	6.6%
Standard Deviation	15.8%	14.5%	47.1%	12.9%
Max	44.2%	44.0%	59.6%	61.1%
Min	-89.1%	-89.1%	-430.5%	-58.8%
Ratio of the number of SME in major business sectors where the SME's profit-to turnover ratio exceeded five percent.				
Manufacturing	61.5%	60.0%	64.5%	70.6%
Transportation services (passengers/goods)	47.1%	51.4%	62.2%	56.4%
Construction	42.9%	46.2%	53.3%	42.9%
Total	51.2%	54.7%	60.9%	59.8%

Source: Beneficiary Survey

This data is compared with the data for all enterprises and the non-state sector described in the “Statistical Yearbook” issued by the General Statistical Office (hereinafter referred to as “GSO”) together with the data concerning SME in the “White Paper SME in Vietnam, 2014” issued by AED. The data varies depending on the year, but the ratio of the profit before tax against the turnover for SME under the beneficiary survey is more or less higher than that shown in the statistical data. For example, the average of the ratio of the profit before tax against the turnover in 2014 was 6.7% according to the beneficiary survey while the median was 5.7%, which exceeds the ratio (4.12%) of the profit before tax against the net turnover of all the enterprises in 2014.

<sup>20</sup> The ex-post evaluation team received information on sales and profits from some PFI, which correspond to the indicators originally set. However, this data is not considered to have been chronologically and consistently collected from a fixed group of enterprises. Therefore, the data was not used for the analysis.



Table 13: Profit before Tax against the Net Turnover from 2008 to 2012

	2008	2009	2010	2011	2012	2013	2014
Enterprises in All Sectors	4.17%	5.55%	4.76%	3.25%	3.21%	4.00%	4.12%
Enterprises in the Non-State Sector	1.25%	2.32%	2.84%	1.51%	1.18%	1.27%	1.74%
SME	1.23%	2.34%	2.21%	1.03%	0.45%	NA	NA

Source: The ratio in all sectors and the non-state sector is calculated from the data in Statistical Yearbook 2012-2015, GSO and the ratio for SME is quoted from the business performance of enterprises by Vietnamese standard industrial classification, VSIC 2007, Statistical Yearbook 2012, GSO quoted in White Paper Small and Medium Enterprises in Vietnam, 2014, AED.

Note 1: Explanation was not provided on the collection method of the statistical data.

Note 2: Profit is profit before tax.

## (2) Promotion of the Private Sector

Under SMEFP 3, private SME were basically set as the target and sub-loans were extended as investment capital for their production activities. Based on the results of the beneficiary survey, a trend could be seen whereby SME have expanded their business activities and increased their profitability with the introduction of equipment and facilities as shown in the above “(1) Sales and Profits of Benefited SME”, although this data should be considered only as reference. In addition, beneficiaries in the manufacturing and transportation sectors point out effects on the quality such as a decrease in product defects (processing industry), improvements in durability and appearance (manufacturer of bricks), clean and less noisy services (transportation services). The following two cases describe the business expansion of two SME in the south and central regions which were visited by the ex-post evaluation team. Both SME augmented their equipment and facilities using medium- and long-term loans through SMEFP 3. As a result, it is considered that contributions were made to promotion of the private sector in such fields as a decrease in unit costs, an increase in sales and the creation of employment opportunities.

### (a) Manufacture of plastic products (medical use, toys, etc.) (Ho Chi Minh City in Southern Region of Viet Nam)

With a sub-loan from PFI (10 billion VND, out of which the ODA loan accounted for 70%), the company introduced 14 units of injection molding machines (Photo) in 2014. Having observed the injection molding machine of a Japanese manufacturer, which had invested in mainland China, at an industrial exhibition held in Ho Chi Minh City, the company decided to purchase their own. Out of plastic products, 70% is supplied to the domestic market while the remaining 30% is exported to ten countries.

The company considers that the labor required for one unit of newly-introduced machine is less than that required for the machines previously used. Because of savings in electricity consumption and maintenance costs, contributions have been made in terms of a decrease in the unit production cost. The amount of sales and the number of employees in 2016

increased more than three times compared to those of 2014.



(b) Passenger transportation services (Da Nang city in Central Region of Viet Nam)

At the time of the ex-post evaluation, the company owned 18 units of buses with a seating capacity ranging from seven to 45. In response to requests from travel agents and others, the company provided nation-wide transportation services to passengers (Photo: a bus purchased under a sub-loan from SMEFP 3). The company runs a restaurant, creating a synergy effects with the transportation services. Since 2012, when the company was at the start-up stage, it has repeatedly received sub-loans from commercial banks including the PFI concerned. The total amount of sub-loans has reached 9.3 billion VND (the Japanese ODA accounts for 70% of the sub-loans). When sub-loans are necessary, the company places importance on simplified procedures and a quick disbursement of sub-loans.

The company owner explained that “With an increase in the number of vehicles, the rotation of transportation services has been eased. As business remains robust, we can hardly find a time to rest vehicles”. As customers commented that services were “good”, the company feels that the quality of their services has improved. The amount of sales and the number of employees in 2016 increased, six times and three times respectively, compared to 2014.



### 3.4.2 Other Positive and Negative Impacts

#### (1) Impacts on the Natural Environment

According to SBV, no sub-loans have been classified into Category A under the JICA “Guidelines for Environmental and Social Considerations”. In addition, no sub-projects had major negative environmental or social impacts, and no sub-projects were inconsistent with the guidelines. No negative impacts from the Project were seen.

## (2) Creation of Employment Opportunities

In the beneficiary survey, the responses below were obtained to questions concerning the number of employees before investment and during a period of the last three years. The median value of the number of employees per enterprise was 30 before investment, and this increased to 55 (median) in 2016. Although the results of the survey should be treated as a reference, it is considered that the Project had positive impacts on the creation of employment opportunities as business has expanded.

Table 14: Descriptive Statistics of Employment Creation (for reference only)

Unit: Persons				
Items	Before investment	2014	2015	2016
No. of Enterprises	88 Enterprises	93 Enterprises	96 Enterprises	101 Enterprises
Total number of employees (A)	4,542	6,353	8,800	10,734
Out of (A): permanent	2,910	4,153	5,224	6,624
Out of (A): women	1,439	2,067	2,649	3,351
Out of (A): men	3,033	4,135	5,902	7,191
Item	Before investment	2014	2015	2016
Average	52	69	91	106
Median	30	40	50	55
Standard Deviation	65	92	141	149
Max	300	500	925	832
Min	1	3	3	6

Source: Beneficiary survey

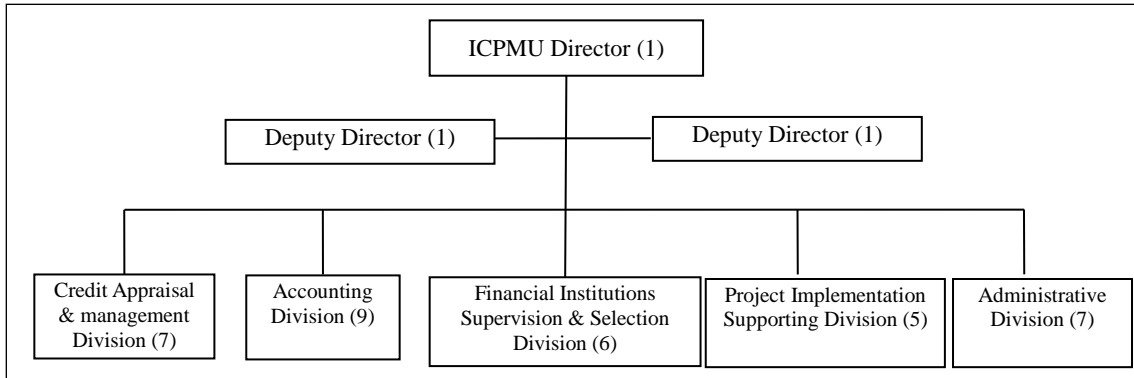
Based on the above, it can be by and large seen that there was a chain of effects in the way that the Project provided medium- and long-term funds to SME, promoting private sector development through investment in equipment and facilities with the loans, then contributing to economic growth. Therefore, the effectiveness and impact of the Project are high.

### 3.5 Sustainability (Rating: ③)

#### 3.5.1 Institutional Aspects of Operation and Maintenance

Revolving funds were operated and maintained by ICPMU of SBV after completion of the Project as was the case during the Project period. The organizational set-up of ICPMU basically remains unchanged<sup>21</sup> and the number of staff, as of February 2017 at the time of the survey in Viet Nam, was 37. This organizational set-up and number of staff members were determined in consideration of smooth operations from 2016 to 2021. It is considered operations will continue to be smooth and without difficulty.

<sup>21</sup> ICPMU was restructured during the Project period and remained basically unchanged thereafter. The restructure was undertaken in 2012 due to completion of a project on housing finance that ICPMU had been engaged in and also due to an increasing volume of works under SMEFP 3.



Source: Information provided by SBV

Note: The numbers in the brackets indicate the numbers of staff members as of March 2017.

Figure 11: Organizational Structure of ICPMU

As for sub-loans, PFI monitor the repayment in accordance with their respective guidelines. In addition, SBV sets up a basic monitoring framework in the Policy Manual and the Reporting Manual and prepares their own progress reports based on the reports from PFI. No problems have been reported for either PFI or SBV in terms of the monitoring system. No major problems have been observed in the institutional aspects of the operation and maintenance.

### 3.5.2 Technical Aspects of Operation and Maintenance

As described earlier, SBV adjusted the amount of credit lines depending on the actual amounts of disbursements by PFI. For this purpose, SBV reviews disbursement relating to this Project on a monthly and quarterly basis. According to SBV, the amount of disbursements, outstanding amounts of sub-loans, demands on OLL thereafter, compliance with terms and conditions, eligibility criteria, and so on are subject to review.

Based on MIS developed under SMEFP 1 and SMEFP 2, SBV has further upgraded MIS in order to adjust it to revisions in Policy Manual.<sup>22</sup> However, the current level of MIS has not reached the level required for the operation and management of SMEFP in providing consistent information on a timely basis. Development of MIS was under way at the time of the ex-post evaluation.

As for training, SBV regularly organizes training for staff members at SBV and PFI (guidance on the Policy Manual, etc.). Both internal and external resources are utilized in training. For example, external consultants are mobilized for the improvement of management skills while staff who previously worked at the accounting department of SBV are asked to lead training on accounting. The following training was organized in 2016.

<sup>22</sup> For example, in concrete terms, it was learned that the data relating to all three phases of SMEFP had been integrated into one database and managed by a single software.

Table 15: Training Courses held in 2016

Name of Training Courses <sup>note</sup>	Period	Number of Participants (persons)
English for project management	June 27 to July 1, 2016	28 in Hanoi
Skills to manage changes in banking operations	August 17 to 19, 2016	34 in Da Nang
Communication skills and contract implementation	September 14 to 16, 2016	20 in Vung Tau
Project Policy Manual	October 14, 2016 October 25, 2016	47 in Hanoi 35 in Ho Chi Minh City

Source: Information provided by SBV

Note: Staff members of ICPMU played the role of instructors in training courses on the Project Policy Manual while the Banking Training School, a training unit of SBV, organized other training courses.

According to interviews with PFI, about two personnel per PFI were sent for training on the Policy Manual. At SBV and PFI, training has been continued to maintain and improve technical levels. No major problems have been observed in the technical aspects of SBV and PFI in their maintenance of effects of the Project.

### 3.5.3 Financial Aspects of Operation and Maintenance

The status of the expenditures of ICPMU from 2010 to 2016 is shown below. While the number of staff more or less remained unchanged, personnel expenditures and others continued to increase on a nominal basis except in 2016. According to the interview at ICPMU, the budgets were said to be at a level that would not cause difficulties in the operation and maintenance of SMEFP. It is noted that the expenditures in 2016 decreased compared to the amount in 2015. This is due to the retirement of some staff members as well as a request from the government for the reduction of expenditure.

Table 16: Operation and Maintenance Expenditure of ICPMU

Fiscal Year	Unit: Million VND						
	2010	2011	2012	2013	2014	2015	2016
Total expenditure	5,508	5,953	7,918	10,159	10,913	13,155	13,050
Salaries	1,124	1,372	2,041	2,396	3,705	4,162	4,333
Other expenditure <sup>note</sup>	4,384	4,581	5,877	7,763	7,208	8,993	8,717

Source: Information provided by SBV

Note: Other expenditure includes items such as training costs, per diems, computer-related costs, social security-related costs, electricity charges and costs for stationery. The expenditure includes that required for not only SMEFP 3 but also SMEFP 1 and SMEFP 2, projects of other donors, other duties assigned by the government, and so on.

PFI is subject to an annual review of SBV in their qualifications for participating in SMEFP, out of which financial soundness accounts for a larger weight (60 points out of 105). SBV is in a position to select financially sound PFI in order to carry out sustainable operation and maintenance of SMEFP.

Based on the above, no major problems were observed in the financial aspects of operation and maintenance for maintaining the effects of the Project.

### 3.5.4 Current Status of Operation and Maintenance

The amounts repaid to SBV by PFI are managed as revolving funds in operating accounts set up at three state-owned commercial banks and then utilized again for sub-loans to be extended to end-borrowers through PFI. At the time of the ex-post evaluation, the status of the revolving funds was reported by SBV as in the table below. The initial disbursement of the ODA loan was nearly completed by 2013. According to SBV, the repayment from PFI was made without delay. By utilizing the repaid amount, sub-loans were extended by 2016, amounting to about one point seven times the size of the initial disbursed amount.

Table 17: Revolving Fund Accounts

Unit: Billion VND

Year	2010	2011	2012	2013	2014	2015	2016
Beginning balance	0	148	14	659	1,150	962	122
ODA Loan Disbursement	1,847	1,295	452	185	-	-	-
Collection of OLL	92	538	1,043	1,297	1,074	1,238	1,522
Disbursement of Sub-loans	1,791	1,967	851	991	1,263	2,078	1,350
Out of which: Sub-loans from the initial OLL	1,744	1,391	391	251.7	0	0.3	NA
Out of which: Sub-loans from the Revolving Funds	47	576	460	739.3	1,263	2,077.7	NA
Ending balance	148	14	659	1,150	962	122	294

Source: Information provided by SBV

Note: The number does not tally in some years.

SBV has submitted progress reports to JICA twice a year, which include information on the utilization of the revolving funds. External auditing of the revolving funds has been carried out in accordance with the stipulations of the loan agreement.

No major problems were observed in the institutional, technical or financial aspects nor in the current status of the operation and maintenance system. Therefore, the sustainability of the Project effects is high.

## 4. Conclusion, Lessons Learned and Recommendations

### 4.1 Conclusion

The Project aimed to provide SME with medium- and long-term loans through PFI from the executing agency, SBV, while improving loan access for SME by enhancing the capacity of PFI in extending loans to SME.

The Project was consistent with Viet Nam's SME policy and development needs, and with Japan's ODA policy. Therefore, the relevance of the Project is high. While the actual cost of the Project fell within the planned one, the Project period exceeded that planned. Therefore, the efficiency of the Project is fair. The access to medium- and long-term loans for end-borrowers,

SME, was improved and the loans were utilized for the investment purpose. In some cases, this led to effects such as the enhancement of production and sales of enterprises, and the maintenance and creation of employment. Therefore, the effectiveness as well as the impact are high. Concerning the sustainability, at the time of this ex-post evaluation, no major problems were observed in the institutional, technical, financial aspects and the current status of the operation and maintenance of the Project.

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

## 4.2 Recommendations

### 4.2.1 Recommendations to JICA

Revolving funds are supposed to be generated by utilizing surplus funds temporarily generated from differences between the repayment period of sub-loans and the repayment period of the ODA loan. Under the Project, revolving funds were to be set up in order to extend new sub-loans with the same terms and conditions. Accordingly, the executing agency have extended OLL to PFI using revolving funds basically with the same terms and conditions. However, the economic conditions of Viet Nam in 2009 at the time when the appraisal was conducted were different to those at the time of the ex-post evaluation. In order to meet the needs of PFI and SME in an appropriate manner, it is recommended that JICA continue to review the terms and conditions of OLL and sub-loans and, if necessary, revise them through discussions with the executing agency.

## 4.3 Lessons Learned

### (1) Review of the terms and conditions of revolving funds

ICPMU of SBV, an executing agency of the Project, has managed the revolving funds, adjusting the terms and conditions of OLL and sub-loans from revolving funds in the process, based on requests from PFI. If changes in the terms and conditions, including an increase in the maximum amount of sub-loans, are flexibly handled, it will be possible to extend policy-based funds that will meet the needs of the executing agency, PFI and end-borrowers such as SME in a more appropriate manner, in order to respond to needs for funds which will newly emerge and to changes in the economic environment. An executing agency and JICA will be able to provide end-borrowers with sub-loans, which meet their needs more appropriately, by organizing periodical meetings with PFI and SME in order to review, and depending on necessity, revise the terms and conditions at the time of the project formulation stage, during the project implementation phase and after completion of the project.

### (2) Setting of appropriate impacts

The impact of this Project was set as “contributing to acceleration of economic growth and

strengthening of international competitiveness through private sector development”. However, if taken the outcome (improvement of access to funds) of the Project and the level of intervention into consideration, the level of impact does not necessarily match the level of intervention as the contribution of the Project to the acceleration of economic growth and the strengthening of international competitiveness at the national level is limited. It is considered that a more appropriate impact would be, for example, “contributions to the enhancement of production and investment for SME”.

### (3) Setting of more appropriate indicators

At the time of the appraisal, indicators such as “total loans outstanding from PFI to enterprises established under the Law on Enterprises” were set as quantitative operation and effect indicators. However, the outstanding amounts of loans include loan amounts for items other than equipment and facilities for which sub-loans to SME were extended particularly under the Project. Therefore, the indicators are not necessarily considered appropriate when the effects of the Project are to be examined. In order to set up indicators for future similar types of projects, it is important that indicators that can be used to systematically evaluate the level of achievement of the project objective, etc. are set up. Furthermore, it is also important to examine whether or not the indicators are ones with which the executing agency can confirm the level of these achievements, without difficulty, by utilizing the data that the executing agency and others collect through their daily activities.

End



### Comparison of the Original and Actual Scope of the Project

Item	Plan	Actual
1. Project Outputs		
(1) Provision of medium- and long-term investment funds to PFI	- Provision of medium- and long-term investment funds to PFI: 15 billion Japanese yen - Terms and conditions: Interest rate (base interest rate announced by SBV minus 1.5%), Repayment period (in accordance with the repayment period of sub-loans)	- Provision of medium- and long-term investment funds to PFI: 16.031 billion Japanese yen - Terms and conditions: Interest rate (weighted average of deposit interest rates), Repayment period (in accordance with the repayment period of sub-loans)
(2) Strengthening of financing capacity of SBV and PFI for investment loans	- Implementation assistance including development of information system, assistance for coordination with support to supporting industries	- As planned
2. Project Period	October 2009 - December 2012 (39 months)	November 2009 - December 2014 (62 months)
3. Project Cost		
Amount Paid in Foreign Currency	17,379 million Japanese yen	16,926 million Japanese yen
Amount Paid in Local Currency	10,249 million Japanese yen	NA
Total	27,628 million Japanese yen	NA
ODA Loan Portion	17,379 million Japanese yen	16,926 million Japanese yen
Exchange Rate	1VND =0.0059 Japanese yen (as of April 2009)	1VND =0.0046 Japanese yen 1 USD = 95.3 Japanese yen (Average between 2010 and 2015)
4. Final Disbursement	February 2015	