

Ex-Ante Evaluation Report
Southeast Asia Division 3, Southeast Asia and Pacific Department
Japan International Cooperation Agency

1. Basic Information

Country: The Socialist Republic of Viet Nam (Vietnam)

Project: General Budget Support Program for Socio-economic Recovery and Development of Viet Nam Post-Covid-19 Pandemic

Loan Agreement: 4th, July, 2023

2. Background and Necessity of the Project

(1) Current Status and Issues of the Response to COVID-19 in the Country and the Positioning of the Project

In the Socialist Republic of Viet Nam (hereinafter referred to as “Vietnam”), after the first case of the novel coronavirus (hereinafter referred to as “COVID-19”) was confirmed in January 2020, the government immediately closed all educational institutions nationwide, restricted travel and commercial activities, and implemented a social quarantine on a nationwide scale in April of the same year, which resulted in successful control of COVID-19. Consequently, while other ASEAN countries recorded negative growth across the board, Vietnam recorded positive growth of 2.9% in 2020, the highest in the region. However, due to the spread of COVID-19 since April 2021 as well as the behavioral restrictions, the growth rate in the third quarter of 2021 (July-September) was -6.2% (YoY; source: Ministry of Finance, Vietnam). In November 2021, the country switched to a policy of coexistence with COVID-19 whereby quarantine restrictions were relaxed, and economic and social activities were resumed. Accordingly, COVID-19 infection spread rapidly throughout the country, reaching a peak of 200,000 daily outbreaks in March 2022 (total number of infected persons exceeded 10 million, with more than 43,000 deaths as of September 12, 2022), yet the country showed growth of 13.7% (YoY) in the third quarter (July-September) of 2022, with a growth rate for the full year of 2022 expected to be around 8%.

Unemployment rates, which had been in the low 2% range in recent years, rose to 2.96 % in 2021. In 2021, the Purchasing Managers' Index (PMI) also recorded 40.2 in August, the lowest in the past 16 months, adding to concerns about economic growth. To address this situation and to promote economic recovery and growth as well as social stabilization, the Vietnamese government

passed a COVID-19 Response Package (National Assembly Resolution No. 43/2022/QH15) worth VND 240 trillion (USD 10 billion), including infrastructure investment, tax relief, and debt restructuring, at an extraordinary National Assembly session in early 2022, which has since been increased to approximately VND 350 trillion (USD 15 billion). Due to a series of increases in the Vietnamese government's pandemic response expenditures, including the COVID-19 Response Package, the fiscal balance was at VND 214 trillion, equal to -2.52 % to GDP, in 2021 and to settle at a fiscal deficit for the full year of 2022 as well. The Ministry of Finance estimates that the deficit in 2023 will be approximately VND 430.5 trillion (-4.4% to GDP), of which VND 157.4 trillion is attributable to the package of measures against COVID-19. The 2023 COVID-19 Response Package will be financed by (1) expansion of government revenues and expenditure reduction, (2) issuance of government bonds (including those outside the COVID-19 Response Package, with an upper limit of VND 400 trillion for the full year), and (3) external borrowings up to USD 1.5 billion.

Japan maintains close economic ties with Vietnam through the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Agreement and the Japan-Vietnam Economic Partnership Agreement (JVEPA). To Vietnam, Japan is the third-largest exporter and importer (2020) and the second-largest source of foreign direct investment (1988-2020, based on cumulative authorized amount). Especially in recent years, Vietnam has also been attracting increasing attention as a business expansion destination for Japanese companies as an alternative production base to China, having participated in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP) in 2018, the Regional Comprehensive Economic Partnership (RCEP) Agreement of East Asia in 2020, and the Indo-Pacific Economic Framework for Prosperity (IPEF) in 2022. The number of companies registered with the Chamber of Commerce and Industry is the largest among ASEAN countries (803 firms in Hanoi City and 1,041 firms in Ho Chi Minh City, as of December 2022).

Given this economic and social background, it remains essential to provide economic assistance to the poor and vulnerable who have been affected by the spread of COVID-19. Policies to support industries whose growth has been limited by the deteriorating business environment, including Japanese companies operating in the country, is crucial. Vietnamese government therefore requested Japan to provide ODA Loans to support the external borrowings of up to USD 1.5 billion that would be used to finance the aforementioned COVID-19

Response Package.

The "General Budget Support Program for Socio-economic Recovery and Development of Viet Nam Post-Covid-19 Pandemic" (hereinafter referred to as "the Project") is intended to meet the financing needs for the implementation of the COVID-19 Response Package in Vietnam and to support the Vietnamese government's policy implementation to alleviate the burden on the affected households and to help the economy recover and grow through the provision of financial assistance.

(2) Japan's and JICA's Cooperation Policy for Response to COVID-19 and the Positioning of the Project

The JICA Country Assistance Policy for the Socialist Republic of Viet Nam (December 2017) sets out "Economic Growth and Strengthening International Competitiveness" and "Good Governance" as the key areas of cooperation, and aims to support industrial and human resource development as well as the improvement of market economy systems, including fiscal and financial reforms, It also initiates to strengthen the legal system maintenance and enforcement capacity, and to strengthen judicial and administrative functions, such as ensuring the fairness, impartiality, neutrality, and transparency of administration. In the JICA Country Analysis Paper for the Socialist Republic of Viet Nam (June 2020), analysis also confirmed that in addition to economic structural reforms such as enhancement of public financial management and improvement of the financial system, further improvement of the administrative system to support the reforms is crucial, making the Project consistent with these policies and this analysis.

At the Special ASEAN Plus Three Summit on Coronavirus Disease 2019 on April 14, 2020, recognizing the impact of COVID-19 on ASEAN countries, Japan expressed its assistance in the following three pillars: ① Enhancement of the capability to prevent and control infectious diseases, ② Establishment of the ASEAN Centre for Public Health Emergencies and Emerging Diseases, and ③ Strengthening of economic resilience. In addition, the Project would contribute to ensuring peace and stability in the "Free and Open Indo-Pacific" with a view to supporting the global response to the impact of COVID-19.

(3) Other Donors' Activities

The Ministry of Finance of Vietnam has already started discussions with the Export-Import Bank of Korea, the World Bank, and the Asian Development Bank (ADB) to secure financial resources for the COVID-19 Response Package, but

the Project is the only case that has been approved by the Prime Minister's Office.

3. Project Description

(1) Project Objective

The Project aims to meet the financial need for the implementation of the COVID-19 Response Package in Vietnam and to provide financial support for the implementation of policies by the Vietnamese government to mitigate the burden on affected livelihoods and to promote economic recovery and growth, thereby contributing to economic and social stability and promoting development efforts in Vietnam.

(2) Project Site / Target Area

Across Vietnam

(3) Beneficiaries of the Project (target groups)

Citizens of Vietnam (population approx. 98 million)

(4) Project Components

Centered on the policies in National Assembly Resolution No. 43/2022/QH15, an economic and social stabilization measure against the impact of COVID-19, a policy matrix (see attached) has been formulated with a focus on (1) Mitigating the impact of COVID-19 on livelihoods and (2) Promoting growth through enhanced corporate production and public investment, as agreed with the Government of Vietnam. By providing financial support, the Project aims to support the Vietnamese government's implementation of economic and social stabilization measures. Furthermore, to encourage the steady implementation of the policy actions set out in the policy matrix and to provide support in accordance with the demand for funds, the loan is to be disbursed in two tranches in a phased manner. The policy actions to be attained in each tranche and the conditions for confirming their achievement will be defined, and the progress and achievement of these actions will be monitored.

(5) Estimated Project Cost

Total Project Cost: JPY 50,000 million (of which JPY 50,000 million is to be financed via ODA loans)

(6) Schedule

The Project's financial support is scheduled to start in January 2022, the same month when the Vietnamese government passed the National

Assembly's resolution on the COVID-19 Response Package. The fulfillment of the prior actions has been confirmed, and the first tranche of the loan will be disbursed as soon as possible after the L/A comes into effect. The target date for the achievement of policy actions for the second tranche is September 2023, and the loan will be disbursed after the achievement of policy actions is confirmed. The Project is considered to be completed when the loan disbursement is completed (scheduled for September 2023).

(7) Program Implementation Structure

- 1) Borrower: The Government of Socialist Republic of Viet Nam represented by the Ministry of Finance of the Socialist Republic of Viet Nam
- 2) Guarantor: None
- 3) Executing Agency: Ministry of Finance of the Socialist Republic of Viet Nam
- 4) Operation and Maintenance System: The Ministry of Finance of Vietnam coordinates relevant ministries and agencies and convenes a monitoring meeting every six months and upon achievement of the policy actions in the second tranche to report on the progress of the program and other matters.

(8) Collaboration and Sharing of Roles with Other Donors

1) Japan's Assistance Activities:

Through ongoing technical cooperation under the Project for Improving Efficiency and Effectiveness in Tax Administration through International Experiences (2020-2025), JICA will assist in promoting efficient, effective, and fair tax administration to increase government revenue in the medium to long term after the achievement of the policy actions of the Project. In addition, regarding policy matrix item ② Promoting growth through corporate production and public investment, the Project is expected to promote the formation and implementation management of JICA projects in Vietnam by making public investment procedures more efficient and expeditious.

2) Other Donors' Assistance Activities:

None in particular

(9) Environmental and Social Consideration/Cross-Sectoral Issues/Gender Category

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: The Project is likely to have minimal adverse impact on the environment under JICA Guidelines for Environmental and

Social Considerations (January 2022)

2) Cross-Sectoral Issues: Poverty reduction and considerations: The measures implemented under Pillar ① of the policy matrix are intended to mitigate the impact on poor and vulnerable groups.

3) Gender Category: [N/A] ■ GI (Gender Informed)

Reason for Categorization: Although the Project envisages women as eligible beneficiaries in the assistance to COVID-19-affected borrowers and low-interest loans to ethnic minorities and hill tribes, the Project did not result in the planning of specific initiatives that would contribute to gender equality and women's empowerment.

(10) Other Important Issues

Stronger bilateral economic partnerships will be promoted through the measures implemented under Pillar ② of the policy matrix. In the meantime, improvements in procedures for private investment and in the planning, implementation, and payment of public investment projects are expected to benefit the activities of Japanese enterprises, local entities, and their business partners doing business in Vietnam.

4. Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (Actual value in 2021) [Before implementing COVID-19 Response Package]	Target (2023) [Upon completion of COVID-19 Response Package*]
Unemployment rate (full-year average)	2.96%	2.96% or less
GDP growth rate (full-year average)	2.58%	5% or higher
Amount of public investment executed	VND 417.7 trillion	VND 500 trillion or higher

*Since the policy matrix is formulated around the COVID-19 Response Package, and the period of application of the package (on the right) is from January 2022 to December 2023, the target value is set for 2023.

(2) Qualitative Effects

Stabilizing Vietnam's economy and society and maintaining and growing the economic activities of enterprises.

(3) Internal Rate of Return

Since this is a budget support program, the internal rate of return will not be calculated.

5. Preconditions and External Factors

- (1) Preconditions: None in particular.
- (2) External Factors: None in particular.

6. Lessons Learned from Past Projects and Application to this Project

The ex-post evaluation of the three ODA loans for emergency budget support to Southeast Asian countries (the Philippines' "COVID-19 Crisis Response Emergency Support Loan)," Indonesia's "Climate Change Program Loan (II) (including Economic Stimulus and Budget Support Loan)," and Vietnam's "Eighth Poverty Reduction Support Credit with Economic Stimulus Support") showed that if one of the objectives of emergency financial assistance is to promptly provide funds to facilitate rapid response to a crisis, the timing of the provision of assistance is extremely critical. Also, it is desirable to simplify the procedures as much as possible and to establish an agile and flexible mechanism for providing assistance. Specifically, in light of the purpose of emergency financial assistance, the lessons suggest that there may be room for further elaboration. In concrete, there is enabling provision by confirming two points: the fiscal plan (demand for funds) and the economic stimulus package that responds to crises.

In consideration of the above, from the standpoint of speed of action, this project aims to promote swift and effective COVID-19 Response by formulating a policy matrix based on National Assembly Resolution No. 43/2022/QH15, which has already been formulated and put into action by the Vietnamese government.

7. Evaluation Results

The Project is highly necessary to support. It is consistent with Vietnam's development issues and policies as well as the cooperation policy and analysis of Japan and JICA, and it will contribute to economic and social stabilization against the impacts of COVID-19 through financial support, which will in turn contribute to SDG Goal 1 (No poverty), Goal 2 (Zero hunger), Goal 3 (Good health and well-being), Goal 8 (Decent Work and Economic Growth), and Goal 10 (Reduced inequalities).

8. Plan for Future Evaluation

(1) Indicators to be Used:

As indicated in Section 4.

(2) Future Evaluation Schedule:

Ex-post evaluation: Two years after the project completion

END

General Budget Support Program for Socio-economic Recovery and Development of Viet Nam Post-Covid-19 Pandemic

Policy Matrix

Policy Issue	Policy Objective	Prior Actions/First Tranche *Achieved	Policy Actions 2/Second Tranche *Target period: September 2023
① Mitigating the impact of COVID-19 on livelihoods	Support for poor and vulnerable groups by the Vietnam Bank for Social Policies (VBSP)	Interest subsidy for credit borrowers with borrowing interest of 6% or more (Until the end of December 2023)	Budgetary measures for securing VBSP funds, including funds for VBSP to implement measures related to the COVID-19 Response Package through the issuance of government bonds (Single year 2023 and 2023-2025)
		Financing for private educational institutions whose schools were forced to close for more than one month due to COVID-19	
		Provision of low-interest financing to ethnic minorities and hilltribe populations (2021-2030)	
② Promotion of growth through corporate production and public investment	Promotion of production through incentives for businesses	Deferral of consumption tax, corporate tax, rents, etc. in specific sectors affected by COVID-19, including agriculture, construction, manufacturing, and SMEs (Until the end of December 2022)	Increased capitalization of the Agricultural Bank (Agribank) to meet the demands of the agricultural sector and rural areas
		Interest subsidy on borrowing in essential industries (Until the end of December 2023. Subsidy of 2% of interest)	
		Subsidy for housing allowance for employees in SEZs	

		(Until the end of June 2022)	
	Improvement of business environment		Application of preferential tariffs to Japanese products in Vietnam with the enforcement of AJCEP and VJEPA
			Promotion of online platforms for accounting and billing procedures
	Promotion of infrastructure development	Promotion of appropriate budget allocation and efficient implementation by identifying priority projects	Simplification of public and private investment procedures
			Strengthening the supervision and verification of public investment
		Allocation of investments to priority sectors (transportation infrastructure, information technology, climate change, disaster management, etc.)	Organizing meetings among MOF, MPI, relevant Vietnamese agencies, and JICA aimed at formulating ODA projects and improving implementation supervision
	Budget allocation for implementation of the COVID-19 Response Package	Ensuring an adequate budget for implementation of the COVID-19 Response Package	Appropriate investment financing for implementation of the COVID-19 Response Package
Efficient implementation of the COVID-19 Response Package		Review of the implementation status of the COVID-19 Response Package	