

ICR Review
Operations Evaluation Department

1. Project Data:	Date Posted : 09/22/2003		
PROJ ID : P004850	Appraisal	Actual	
Project Name : Vietnam - Poverty Reduc.support Credit	Project Costs 250 US\$M)	250	
Country : Vietnam	(US\$M)		
	Loan /Credit (US\$M)		
Sector (s): Board: EP - Central government administration	US\$M)		
	Cofinancing 47.53 US\$M)	47.53	
	(US\$M)		
(32%), Banking (32%), General industry and trade sector (26%), General information and communications sector (5%), General energy sector (5%)			
L/C Number : C3511			
	Board Approval	01	
	FY)		
	(FY)		
Partners involved : Denmark, Netherlands, Sweden, United Kingdom	Closing Date 12/31/2002	12/31/2002	

Prepared by : Lily L. Chu Reviewed by : Laurie Effron Group Manager : Kyle Peters Group : OEDCR

2. Project Objectives and Components

a. Objectives

The overall objective of faster growth and poverty reduction would be supported through :

- (a) Improving the climate for the private sector;
- (b) Reforming State Owned Enterprises (SOEs) to improve efficiency and free up fiscal resources .
- (c) Restructuring the banking sector to reduce the risk of financial crisis; in particular, promote enhanced transparency, better financial intermediation, and accountability .
- (d) Improving trade; and
- (e) Improving public expenditure management (PEM)

b. Components

(a) Private Sector: Remove or modify business licenses for at least 50 trades, industries or services (this follows a pre-Board action removing 145 other business licenses and requirements).

(b) State Owned Enterprises: (i) Streamline process for equitization, remove ceilings on ownership of SOEs, improve transparency of process; (ii) complete major equitization (65% of shares) of at least 200 SOEs and minority

equitization of at least 200 SOEs; (iii) modify and implement design of fund providing a safety net for SOE workers; and (iv) adopt detailed restructuring plans for three major SOEs .

(c) Banking Sector: (i) strengthen legal and regulatory framework; (ii) adopt restructuring plans and complete audits in accordance with international accounting and auditing standards for the four state -owned commercial banks (SCBs); (iii) close nine joint-stock banks (JSBs) under State Bank of Vietnam's intervention, ensure compliance of all remaining JSBs; and (iv) bring loan-classification by banks into accordance with international practice .

(d) Trade: (i) removal of most quantitative import restrictions for clinker and paper

(e) Public Expenditure Management: (i) improve transparency by designating State Treasury as responsible for a comprehensive management information system for government expenditures and publishing sectoral breakdowns

of at least 75% of government -spending

□ c. Comments on Project Cost, Financing and Dates

\$250 million is a substantial amount for an adjustment credit . Given the large size, it may have been more effectively used to promote deeper reforms in some areas rather than initial steps across a range of areas .

3. Achievement of Relevant Objectives:

All but one of the legal conditions were met . A waiver was granted for the final condition, the adoption of restructuring plans for three large SOEs . Work on restructuring plans was continued under donor financed TA, and it is expected that this condition will be met in the fall of 2003. However, the legal conditions captured only a small part of the overall objectives outlined in the original project documents, which reflected in part the longer - term goals that were envisioned to be supported by a series of PRSCs . The actions in the legal covenants, while necessary first steps, in many cases are not significant on their own, and may be easily subject to reversals . It will be important to monitor the success of follow -up PRSCs, to see if reforms are sustained .

(a) Private sector. Between May 2001 and July 2002, 51 license and licensing requirements were removed and 10 were modified (following a pre-Board removal of 145 licenses). The ICR mentions that a detailed review of remaining business licenses has been carried out, but does not provide details on how many licenses still exist, or an estimate of what percent of the economy would be affected by the remaining licenses . Actions outside the context of the PRSC included revising laws on land use and collateral . The private sector is improving, with approximately 50,000 new firms and private investment increasing from 8% in early 2001 to 9% by end-2002, but it is not yet clear whether these gains presage a significant and sustained growth in the private sector, nor is it clear to what extent that growth stemmed from the actions taken under the PRSC .

(b) State-owned enterprises: The overall objective was to improve efficiency and decrease the drain on the fiscal budget. The actions laid out under the PRSC, while useful first steps, have minimal effect on improving overall SOE efficiency and the fiscal deficit . The PRSC covenants included the "equitization" of a number of SOEs, and to date, the equitizations, sales, and liquidations have taken place for over 400 SOEs, but these represented only about 2.5% of SOE debt and 5% of SOE employment. In addition, 30 diagnostic audits of SOEs have been completed or are underway, and restructuring plans for 3 other SOEs are underway; it will be necessary to see if these audit results and restructuring plans lead to implemented actions . The preliminary steps under this component will not by themselves have a major impact on overall efficiency and fiscal discipline; it will be critical to see if additional progress and implementation occurs in future stages of the reform program .

(c) Banking sector reform: All the legal conditions in this area were met . However, as in SOE reform; most of these conditions (adoption of restructuring plans for four SCBs, issuing new regulations for loan classification, completing audits for four SCBs) represent important first steps in banking sector reform, but are not by themselves significant enough to have long-lasting effects on the banking sector . The revocation of licenses and closure of noncompliant banks is a more difficult step; although the ICR does not discuss what percent of bank assets was involved, and if the remaining 36 banks can be reasonably healthy, or whether those banks may face closures in the future as well . For each of these covenants, it will be necessary to see if the next steps are carried out, e .g., the actual implementation of restructuring plans of the SCBs and the strict enforcement and monitoring of loan classification .

(d) Trade: Pre-Board actions included (i) adopting the ASEAN Free Trade Agreement (AFTA) roadmap on tariff reduction, (ii) allow all registered domestic firms to import most goods directly without a license; (iii) expand the rights of foreign firms to import goods, (iv) enterprises remove quantitative import restrictions on 8 products groups. The sole second tranche release condition was the removal of quantitative restrictions for clinker and paper . The ICR does not specify what percentage of imports are included in the product groups where quantitative restrictions have been removed. Exports have increased, from 47% to 48% of GDP, but it is not clear how the improvement in trade is due to reforms required by ongoing trade negotiations under other trade agreements, versus those supported by the PRSC.

(e) Public Expenditure Management: The covenants were met. However, both actions, the designation of the State Treasury as the agency responsible for the comprehensive management information system for government expenditures and the publishing of sectoral breakdowns for at least 75% of government spending, are easily

reversed, and by themselves do not make major improvements in Public Expenditure Management . The ICR notes that there is a project underway to support the development of an automated MIS for the Treasury, which should improve implementation of PEM.

4. Significant Outcomes/Impacts:

Initial indicators have been positive (e.g., increased exports and foreign investment; 50,000 new firms; improved banking compliance, equitization /sale/liquidation of more than 400 SOEs, closure of noncompliant banks), although not enough time has elapsed to measure the full effects of these reforms, nor is it clear how strongly these steps will be supported through future actions .

□5. Significant Shortcomings (including non-compliance with safeguard policies):

As noted in Section 3 above, while loan covenants for this project were largely met, the preliminary nature of a number of the actions may make sustainability difficult .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome : Satisfactory were		Moderately Satisfactory	While almost all the legal covenants met, the depth of the reform actions taken was limited.
Institutional Dev .: Substantial		Modest	While there was some improvement in laws, regulations, and enabling environment, many of these changes are not yet deeply rooted enough to ascertain if they will have a significant and sustained impact on development .
Sustainability : Highly Likely		Non-evaluable	Although the Government currently indicates strong support, many of the reforms carried out under the PRSC are preliminary steps (e.g., development of restructuring plans, carrying out of audits), or are easily reversible (e.g., designation of the State Treasury as the agency responsible for the MIS system for government expenditures).
Bank Performance : Satisfactory		Satisfactory	
Borrower Perf .: Satisfactory		Satisfactory	
Quality of ICR :		Satisfactory	

NOTE ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.
NOTE:

7. Lessons of Broad Applicability:

Achieving major reforms across a broad range of areas is difficult, especially in a country where building strong and broad-based supports is difficult and time -consuming. It may be better to focus on in -depth reforms in one or two areas, rather than achieve initial (and easily reversible) reforms in multiple areas.

8. Assessment Recommended? Yes No

Why? This PRSC was envisioned as the first of a series of adjustment loans . In some areas, the first steps of reform have been taken under this project . It would be useful to see if the follow -up steps are implemented

over the course of the next set of adjustment credits .

9. Comments on Quality of ICR:

The ICR should have included more information, such as that found in the President's Report for the PRSC II, which

was relevant to the assessment of the achievements under PRSC I and which would have provided a less sanguine,

and in our view, a more balanced view of PRSC I . For example, it would have been useful to know the extent to

which new banking regulations were enforced, the rate of new credit growth to the SOEs, and the pace of ongoing

SOE equitizations.

□