



# Evaluation of European Community Support to Private Sector Development in Third Countries

Final Report

Annex 10

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at the request of the European Commission.

The views expressed are those of the  
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**Note:**

The main report and each of the ten annexes are presented in separate files.

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## List of Acronyms

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ADD	Agricultural Development Division
AFD	Agence Française de Développement
AFTA	ASEAN Free Trade Area
ALA	Asia Latin-America
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASMED	Agency of Small and Medium Enterprise Development
BDS	Business Development Services
CCI	Chambers of Commerce and Industry
CDF	Comprehensive Development Framework
CEC	Commission of the European Communities
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CPV	Communist Party of Vietnam
CRIS	Common Relex Information System
CSP	Country Strategy Paper
DANIDA	Danish International Development Agency
ETV	European Technical Assistance Programme for Vietnam
EC	European Community
EU	European Union
FA	Financing Agreement
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GNI	Gross National Income
GoV	Government of Vietnam
GTZ	German Technical Cooperation
HIPC	Highly Indebted Poor Country
HRDT	Human Resource Development in Tourism
IDA	International Development Association

IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
LMP	Labour Market Project
MARD	Ministry of Agriculture and Rural Development
MEDA	The Euro-Mediterranean Partnership
MUTRAP	Multilateral Trade Policy Assistance Programme
NIP	National Indicative Programme
ODA	Official Development Assistance
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSDP	Private Sector Development Programme
PSSP	Private Sector Support Programme
SME	Small and Medium Enterprise
SMEDF	Small and Medium Enterprise Development Fund
SOEs	State Owned Enterprises
SPF	Small Project Facility
ToRs	Terms of Reference
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
USD	United States Dollars
VND	Vietnamese Dong
VNAT	Vietnam National Administration of Tourism
WTO	World Trade Organisation

# 1. Introduction

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## 1.1 Mandate

The 2003 evaluation plan of the EuropeAid Cooperation Office provided for the Evaluation Unit to undertake an evaluation of European Community (EC) Support to Private Sector Development (PSD) in third countries. The aim of this sector-based evaluation is to contribute to improving the coherence of the Commission's sector-based approach through an assessment of the EC co-operation activities in PSD in the context of the objectives of the various national and regional co-operation and development programmes. It also aims at enhancing coherence between objectives in private sector development support and the EU's other policy objectives.

## 1.2 Background

The evaluation is being carried out in two separate phases. Between October 2003 and June 2004, a **Desk Evaluation** of the 'European Community Support to Private Sector Development in Third Countries' over the period 1994-2003 was carried out. This desk evaluation was based on an analysis of documents collected in Brussels and complemented by interviews with Commission officials and a questionnaire sent to a sample of Delegations. The evaluation's final report presented a set of Evaluation Questions, evidence in support of a response for each of these questions, a thorough analysis of this evidence and preliminary conclusions and recommendations.

The "desk" approach was confronted with certain limitations: strategic and policy aspects could be well covered through documentation analysis and interviews in Brussels, but more specific aspects regarding implementation and impact of projects and programmes were difficult to assess without field missions. For this reason, the Evaluation Unit of EuropeAid requested ADE to complement the Desk Evaluation by a Field and Synthesis Phase.

The **Field and Synthesis Phase** of the evaluation basically entails, first, adjusting the methodology to the new tasks; second, complementing the information base mainly through five country studies; third, integrating these new findings with those from the Desk Evaluation; and finally, analysing this information base to reach an overall assessment of EC support for private sector development in third countries.

## 1.3 The role of country studies

Country studies offer value added as they allow a better understanding of how Community support to PSD is implemented in the field. Country studies were carried out through a detailed analysis of country- and programme-related documents and complemented with a field mission. **The aim was to collect information that will contribute to answering the Evaluation Questions at the global (not-country specific) level** and not to carry out a sector-based evaluation at country level.

The countries analysed were selected through discussions with the Reference Group. It was agreed that five countries from four cooperation programmes would be included: two ACP countries (Zambia and Jamaica), one MEDA country (Morocco), one Asian country (Vietnam), and one Latin-American country (Mexico). **Vietnam** has been chosen as a case study for this global evaluation since PSD is a major sector of the Commission strategy in this country. Indeed PSD has been a cornerstone of the EC-Vietnam cooperation strategy whose overall objective is to ensure sustainable growth and development. Programming documents<sup>1</sup> identify transition to a market economy as a primary condition for achieving the overall objective with support to economic reforms, investment, technology cross-flow, business co-operation and trade constituting the main PSD oriented-elements of the strategy.

#### 1.4 Purpose and Contents of the Country Note

The purpose of this Country Note is to provide a summary of the main findings of the country study. It is important to note that the report is of descriptive nature: it is limited to presenting the information collected and it does not attempt to analyse it or to reach judgments based on these findings. While the report contains a section on conclusions, these are not assessments or recommendations, which will instead be proposed at a later stage of the evaluation and at a global level. In addition, the required limit on the length of the report implies a focus on key findings only. Country notes will be published as annexes to the final report of the global evaluation.

**Section 1** introduces this Country Note and gives the general background to the country study. **Section 2** presents data collection methods and its limits. **Section 3** presents the country context: it describes the main features of the country, its economic, social and political context, main government policies, and Community cooperation as well as a view of other donors' interventions in the sector. **Section 4** presents key findings for each of the nine Evaluation Questions. These findings are at criteria level and based on a more detailed matrix (presented in Annex 6) where information is presented at indicator level (see Section 2 on Data Collection Methods). **Section 5** presents the main conclusions derived from the country study. These conclusions will help with the structuring of the analysis stage of the evaluation.

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<sup>1</sup> European Commission (1996), The European Commission Co-operation Partnership, A Presentation of the Cooperation Strategy 1996-2000 and European Commission (2002), EC-Vietnam Country Strategy Paper 2002-2006.

## 2. Data collection methods

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### 2.1 Data collection tools

During the Desk Evaluation the team proposed a set of **Evaluation Questions** reflecting the main issues to be analysed. These questions relate to one or other of the DAC evaluation criteria, to the 3Cs or to cross-cutting issues. For each of these evaluation questions, at least one Judgement Criterion was proposed and for each criterion, several indicators were proposed. The questions were discussed with the Reference Group and were validated by the Evaluation Unit of EuropeAid. Evaluation Questions help focus the evaluation process and structure the analysis. They help to reach an overall assessment in a more objective and transparent way as judgement criteria (the way the Questions will be treated) are announced in advance. Further, the list of indicators constitutes a basic “check list” for collecting information on the field and at headquarters, making possible an effective and focused collection of information.

The tables comprising Evaluations Questions, Judgement Criteria and Indicators, already completed with information collected for Vietnam, are presented in **Annex 6**. A shorter version of these tables comprising only Evaluations Questions and Judgement Criteria is presented in **Section 4** of this Country Note. The answer to whether or not the criterion is met is based exclusively on the information at indicator level in Annex 6. Only Question, Criteria and Indicators that are relevant to Vietnam are presented in this Country Note.

To further organize the information, the team produced **Programme Sheets** presenting basic information for each of the programmes analyzed. These Programme Sheets are presented in Annex 5. They serve as a background to Evaluation Question Grids where the team has avoided including long descriptions of the programmes implemented.

### 2.2 Data collection before the mission

For the overall evaluation, information was already gathered in Brussels during the Desk Evaluation. The Commission’s strategy documents were reviewed; EC programmes relating to the private sector were identified, notably for Jamaica, using the Common RELEX Information System (CRIS). Finally, Commission officials involved in private sector support were interviewed to complete this information. For the country study, specific information was collected before the mission regarding both the country and Community interventions in support of PSD. Based on the complete set of information, the team started to complete Programme Sheets and Evaluation Question grids in advance of the missions.

### **2.3 Data collection during the mission**

The evaluation team conducted structured interviews with the Commission Delegation, local authorities, programme management units, intermediate organisations and beneficiaries. The evaluation team also analysed more precisely a set of PSD programmes which is supposed to constitute a representative sample of the EC's PSD interventions in Vietnam (see Annexes 4 to 6). On the basis of the information collected, the team finalized the Evaluation Question grids for Vietnam.

## **3. Brief description of the context**

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### **3.1 Economic, political and social context**

Vietnam is located in South East Asia, lying completely in the tropical zone. Its territory covers 331,690 square kilometres, of which about 23% is under cultivation and 29% is classified as forest or woodland. The Vietnamese eastern border consists of more than 3,000 km of coastline, facing the East Sea and the Pacific Ocean. To the North Vietnam shares a border with China, and to the west, borders with Cambodia and Laos. The population numbers around 81,3 million (2003 estimate)<sup>2</sup>. Vietnamese is the national language while English is commonly spoken. Vietnam is a Socialist Republic whose President, Tran Duc Luong, was first elected in November 1997 and re-elected in August 2002. The political system is one-party, the Communist Party of Vietnam (CPV), with Nong Duc Manh as General Secretary. The national currency is the Vietnamese dong (VND).

The Socialist Republic of Vietnam was founded on 25th April 1976. The country was devastated by many years of war, and during the period 1975 – 1986 Vietnam had to cope with numerous difficulties including the obvious aftermath of war, social evils, mass flow of refugees, isolation and embargo from the United States and other Western countries, plus continual natural calamities. These conditions, together with misguided economic policies, led to a severe socio-economic crisis during the early 1980s, the inflation rate rising to a record 774.7% in 1986.

In 1986, the government launched the "Doi Moi", an all-round renovation process, initiating a process of gradual globalisation and integration into the regional structures. Priority was given to deep economic reforms aiming at creating a multi-sector market economy regulated by the Government (GoV), and at the same time consolidating the legal environment as well as renovating the Party and State structure. Since then the Vietnamese economy has opened and gradually transformed from a centralized planned economy heavily based on imports to a market-oriented one with the objectives of achieving export led growth and budgetary policy compatible with economic stabilisation. From 1989, Vietnamese exports began to increase, the inflation rate gradually decreased, living standards improved, and external relations were normalised, freeing the country from blockage and isolation.

Macroeconomic policies have been characterised by a prudent fiscal stance, accommodating while providing for structural reform costs. As a result, the government deficit has traditionally been moderate which has contributed to maintaining real interest rates at reasonable levels. Monetary policy has been oriented towards moderate credit restraint with a view to controlling inflation and safeguarding the banking system while managing the exchange rate flexibly.

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<sup>2</sup> World Bank, Vietnam Data Profile, <http://devdata.worldbank.org/>.

During the 1991-1997 period the average economic growth rate reached around 9% per year. This rapid growth was nevertheless hampered as the economy was seriously affected by the East Asian crisis in 1997/1998. As a result, GDP growth was only 3.5% in 1998, a fall of more than 5 percentage points compared to 1997. However, economic performance rapidly recovered, although with GDP growth rates slightly below those recorded in the 1990s. In 2003 annual GDP growth was estimated at 7.2%<sup>3</sup>, in spite of the challenge posed by the avian flu which adversely affected the poultry sector<sup>4</sup>. Growth is being supported by the adoption of sound structural reforms, an increasing confidence in the economy as well as by strong expansion of domestic consumption and investment. However, these figures do not reflect certain major problems in economic performance.

In particular, Vietnam faces the following main challenges:

- i. Vietnamese income is still low and the incidence of poverty remains high. In 2003, per capita GNI was estimated at USD 480 which compares more to the low income countries (GNI of USD 450) than to the average per capita GNI of USD 1,080 of the East Asia and Pacific region<sup>5</sup>. The country still contains about 2.8 million poor households (17% of households, estimation 2001) with a relatively high poverty incidence in mountainous, remote, isolated, island, disaster-prone and ethnic minority areas (GoV, 2002).
- ii. The opening up of the economy implies fierce competition in international markets for which the country is still ill-equipped given its still low economic efficiency and competitiveness caused by poor labour productivity, the low quality of its products and underdeveloped domestic and international markets for agricultural, industrial and handicraft products (GoV, 2002; UNIDO, 2002).
- iii. The widening income and living standards gap (between urban and rural areas or among different population strata) is rising and the ability of poor areas to attract domestic and foreign investment is low (GoV, 2002). Average income is widely disparate (480 for the country as a whole but USD 1,640 in Ho Chi Minh City and much lower than average in the poorer provinces of the central and northern highlands (GoV, 2002).

### 3.2 The Vietnamese economy

The Vietnamese economy has undergone deep structural changes, away from agriculture into industry and in particular into manufacturing.

Although around 80% of the Vietnamese population is rural and around 70% of households earn their livelihood from agricultural production (2000 estimate), the contribution of the agricultural sector to Vietnamese GDP has decreased from 29.9% in

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<sup>3</sup> World Bank, Vietnam Data Profile, <http://devdata.worldbank.org/>.

<sup>4</sup> Around 38 million out of a total of about 258 million heads of poultry have had to be culled. The Ministry of Agricultural and Rural Development (MARD) estimates the associated loss at around 0.5 percent of GDP. So far, the overall economic impact of the avian influenza epidemic remains relatively negligible and disruptions to the general economy have been avoided (World Bank, Country Brief).

<sup>5</sup> World Bank, Vietnam at a glance, [http://www.worldbank.org/data/countrydata/aag/vnm\\_aag.pdf](http://www.worldbank.org/data/countrydata/aag/vnm_aag.pdf).

1993 to 21.8% in 2003. This trend however mainly reflects the fact that production in other sectors of the economy has risen. The main agricultural production is concentrated in products such as paddy rice, corn, potatoes, rubber, soybeans, coffee, tea, bananas, sugar, poultry, pigs and fish. During the same period, the contribution of industry to GDP increased from 28.9% to 40.0%, the manufacturing sector's contribution growing from 15.2% to 20.8%. The main industrial sub-sectors are food processing, clothing, shoes, machine building, mining, cement, chemical fertilizer, glass, tyres, oil, coal, steel and paper. Finally the service sector, although remaining a cornerstone of the Vietnamese economy, has seen its contribution to GDP decrease from 41.2% in 1993 to 38.2% in 2003<sup>6</sup>. The main sub-sector is tourism, which provides almost 700,000 jobs (2002 estimate) and is expected to offer attractive potential in the near future.

The industrial sector has been a leading engine of growth. Between 1993 and 2003 it accounted for almost 50% of the GDP increase and featured average growth per annum of 10.8%. The highest growth rate was recorded in the manufacturing sector with 11.4% average growth per annum between 1993 and 2003. Agriculture on the other hand only accounted for around 17% of GDP growth during this period. Between 1993 and 2003, per annum growth rates in agriculture averaged 4.2%. Finally, growth in the service sector has also been limited with an average of 6.2% per annum for the period 1993-2003<sup>7</sup>. Importantly, one should note that the non-state domestic sector is the main engine of growth, the average annual growth rates of the private domestic sector being around 19% during the last three years as against 12% for the state sector. This reflects the process of transition to a market economy.

The Vietnamese balance of payments has been steadily improving during the last decade. It started to feature a surplus in 1999 which has since grown to USD 1,197 millions (2003 projection, IMF). This evolution is explained by the surplus recorded for the current account until 2001, stemming from an impressive growth in exports which, from 1996 to 2001, increased by more than 100%. On the contrary, except for a jump in 2000, imports have stagnated, even contracting in the aftermath of the East Asian financial crisis. In recent years imports have been increasing rapidly, leading to a current account deficit. The latter was however more than offset by the increase in private transfers. The East Asian financial crisis affected the evolution of the capital account, with a sharp fall in Foreign Direct Investment (FDI) inflows in 1998 (from USD 2,074 millions in 1997 to USD 800 millions in 1998). Since then, FDI inflows have been regularly increasing but have not yet reached their pre-crisis level (in 2003, FDI inflows amounted to around USD 1,200 million).

Vietnam's external debt service capacity is estimated to be sustainable which probably makes Vietnam ineligible for debt relief under the Highly Indebted Poor Countries (HIPC) initiative. The stock of outstanding debt is estimated at 37.8% of GDP and 54.3% of exports of goods and non-factor services in 2003. The annual debt service amounts to 5.1% of exports and the external reserve coverage steadily increased to around 7 weeks in 2003 (IMF, 2003).

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<sup>6</sup> World Bank, Vietnam at a glance, [http://www.worldbank.org/data/countrydata/aag/vnm\\_aag.pdf](http://www.worldbank.org/data/countrydata/aag/vnm_aag.pdf).

<sup>7</sup> World Bank, Vietnam at a glance, [http://www.worldbank.org/data/countrydata/aag/vnm\\_aag.pdf](http://www.worldbank.org/data/countrydata/aag/vnm_aag.pdf).

Over the last decade, Vietnamese exports have been growing sharply, with an average annual growth rate of 18.8% between 1993 and 2003. In 2003 exports represented around 51% of GDP. Exports are concentrated in the manufacturing sector which in 2002 accounted for around 31% of Vietnamese exports. Among manufactured exports, clothing and footwear are the most important commodities with a share of total exports of 16.4% and 11.1% respectively. The share of manufacturing in total exports has increased from around 13% in 1995 to more than 30% today, reflecting again the transition of the Vietnamese economy towards industrial production. Accordingly, the importance of primary products in total exports has declined, from around 48% in 1995 to 38% in 2002. This trend is particularly clear for agricultural exports, the share of commodities such as rice and coffee in total exports decreasing respectively from 9.5% and 10.6% in 1995 to 4.4 and 1.9% in 2002 (IMF, 2003).

Vietnamese imports have featured the same type of evolution as exports. Between 1993 and 2003, their average annual growth rate was of 20.6%. In 2003 they represented more than 64% of GDP. Imports are concentrated in fuel, raw materials, machinery and equipment. This reflects the fact that, at its present stage of development, Vietnam's local production is not yet competitive with many capital goods and industrial raw materials produced elsewhere. The share of machinery, equipment, fuels and raw materials in the value of total imports increased respectively from 25.7% and 59.1% in 1995 to 30.9% and 63.8% in 2000. These commodities are indeed to a large extent used as inputs in the industrial sector which has been growing in importance for the Vietnamese economy. Finally, the low share of consumer goods in total imports is the result of the import-substitution policy pursued by the Vietnamese authorities for this type of product (IMF, 2002).

### 3.3 Assessment of the business environment

Since the Doi Moi reforms of the early 90s, the GoV have made industrialisation and modernisation the priorities of its development strategy. This has resulted in deep structural changes that have triggered a *de facto* privatisation process. In 1991, state-owned enterprises produced 56 % of total industrial output while by 2004 their contribution had receded to 38 %. The opening-up to international markets has revealed Vietnam's comparative advantage in light manufacturing. Today, heavy industrial products and minerals account for only 40% of industrial exports against 70% in 1991, while light manufacturing has risen to 60 % of industrial exports. Exports of consumer goods such as footwear or clothing have grown substantially, particularly after the implementation of the 2001 Vietnam-US bilateral trade agreement. The top three exports of manufactures (clothing, footwear and seafood, in that order) accounted for 40 % of total exports in 2003 and there has been a marked diversification in Vietnam's export markets as local products secured orders in an increasing range of foreign countries (UNIDO, 2005).

According to the General Statistical Office (2004), a total of 62,915 enterprises were in operation countrywide in 2002. This is much lower than the cumulative number of enterprises registered during the period 1991-1999 under the Company Law and the Law on Private Enterprise (44,500 during the decade) and, since January 2000 under the Enterprise Law (55,792 by the end of 2002) which suggests that a significant number of

enterprises register but never come into operation, or else that they do operate for a while but rapidly fall into bankruptcy. By the end of 2003 the number of firms registered under the Enterprise Law alone had risen to 83,454, and by June 2004 to 95,357. Apart from the steady acceleration of yearly registrations (from 14,457 in 2000 to 27,662 in 2003), there has also been a marked increase in average registered capital, which nearly doubled in real terms between 2000 and 2003 and is today of the order of VND 2 billion (UNIDO, 2005).

A quarter of Vietnamese enterprises engage in manufacturing activities, but these employ as much as 45% of total labour and generate 30% of the turnover in the enterprise sector. They mostly fall in the Small and Medium Enterprise (SME) category as defined in Decree 91/2001: whether by the measure of employment (less than 300 regular workers) or registered capital (less than VND 10 billion), 95% of them can be labelled SMEs. The majority of registered enterprises employ between 5 and 50 regular workers; altogether, 80% of enterprises include fewer than 50 workers.

The distribution of enterprises in terms of size varies significantly across industries: while nearly 90 percent of manufacturing enterprises belong in the SME category, this ratio is even higher in the food processing sector (93%) but sharply lower in the textile and clothing industries (73% altogether, with a low of 68% in the clothing sector alone), and 50 percent in the leather and footwear sector<sup>8</sup>. Although the datasets on trade and production do not connect “exports” to “size of enterprise”, anecdotal evidence suggests that the bulk of Vietnam’s exports originate from these larger companies.

According to the World Bank<sup>9</sup>, the cost of doing business varies from one aspect to another. For example, although the number of procedures (11 against a regional average of 8) and the average number of days (56 against a regional average of 51) required to establish a business is high, the cost equivalent remains relatively low (28.6% of Gross National Income against a regional average of 48.3%). It is in terms of access to credit that the performance of the Vietnamese economy is the lowest, which is to a large extent explained by the difficulties to obtain the information necessary to monitor credit. For instance, the number of firms listed in a public and/or private credit registry system with current information on repayment history, unpaid debts, or credit outstanding is low (the public credit registry covers 8 borrowers per 1,000 adults against a regional average of 33.9 while the private credit registry coverage is nil against a regional average of 67.3).

In recent years, Vietnam witnessed large inflows of foreign investment, to a large extent in the form of FDI. However, with the onset of the East Asian financial crisis, all kinds of capital inflows dropped. As a result, from 1995 to 2000, FDI flows decreased from 11.3% to 6.5% of GDP. FDI in Vietnam tend to concentrate in heavy industry, i.e. in capital-intensive activity, like for instance, oil, construction, transportation and communication, and real estate. As a result, if FDI accounts for a significant share of industrial output (46.5% in 2000), its contribution to employment is marginal, representing about 400,000

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<sup>8</sup> 84 companies operating in the clothing sector and as many as 103 in the leather and footwear sector count more than a thousand regular workers.

<sup>9</sup> World Bank (2004), Doing Business, <http://rru.worldbank.org/DoingBusiness/ExploreEconomies/BusinessClimateSnapshot.aspx?economyid=202>.

jobs out of a work force of about 40 millions workers. In recent years, FDI has been more and more export oriented. Between 1995 and 2000, the share of FDI in manufactured exports increased from 8.8 % to 33.8%. Finally, an increasing share of FDI in Vietnam originates from other Asian countries and in particular from the Asian Tigers (Hong Kong, Singapore, Taiwan, Korea) as well as from countries like Thailand and Malaysia.

The main challenges of the Vietnamese private sector are the following:

- (i) Access to resources remains limited for enterprises and resource mobilisation mechanisms are unable to channel savings to the domestic private sector. In particular, reinvestment capacity is limited and the banking and financial system is inefficient (GoV, 2002). Foreign investment is stagnating if not decreasing and the environment still features important shortcomings in terms of management and regulations (UNIDO, 2002). Also, land shortages constitute a major constraint on the country's development and in particular on the development of its private sector (World Bank, 2005).
- (ii) The proportion of trained workers in the labour force is low and Vietnam's ability to create new jobs and increase labour productivity remains limited, which intensifies pressure to solve the employment problem. Urban unemployment has been rising in recent years, and rural unemployment, estimated at between 25% and 35% during non-harvest periods, is already at critical levels. Layoffs in the state sector and in foreign-invested enterprises, combined with the lasting effects of an earlier military demobilisation, have further exacerbated the unemployment situation (GoV, 2002). From this point of view, private sector development is critical for job creation.
- (iii) The two pillars of Vietnam's manufactured exports are confined to labour-intensive sectors where the wage bill typically absorbs most of the value-added; furthermore, the two sectors operate primarily through contract processing on behalf of foreign intermediaries who supply raw materials, semi-transformed products, equipment, and intangibles such as design, technology and marketing know-how. Thus their ultimate impact on the trade balance is more modest than export figures alone would suggest, as it is basically reduced to the dollar equivalent of their consolidated wage bill (UNIDO, 2005).
- (iv) The low profitability of domestic enterprises highlights both Vietnam's comparative advantage in cheap labour, and the cut-throat competition that characterizes these industries globally. It leaves very few resources to spare for a process of accumulation that would drive Vietnam's exports from labour-intensity through capital intensity to, ultimately, technology- and knowledge-intensity (UNIDO, 2005).
- (v) The process of reforming the economy is in progress but is still slow in certain respects. In particular state-owned enterprises (SOEs) remain important economic actors (still accounting for about 38% of GDP in 2002 (European Commission, 2003). As pointed out by the IMF and the World Bank, the pace of reform of SOEs and the banking sector has proved slower than originally envisaged. Progress in improving and simplifying governance in the SOEs has to date been limited, while the *equitisation* programme fell behind schedule (IMF and IDA, 2004).
- (vi) The overall business environment still suffers from important weaknesses. In particular, the Vietnamese Business Forum held in 2002 identified the following areas for attention: improving efficiency and transparency in the civil service,

ensuring even-handed and strict law enforcement, removal of market entry limitations like unnecessary permits, acceleration of financial sector reform, utilities costs and infrastructure, and overhaul of the tax regime (European Commission, 2003).

### 3.4 Government policies

Economic policy has been characterised by a prudent fiscal stance, accommodating while providing for structural reform costs. Monetary policy has been oriented towards moderate credit restraint with a view to controlling inflation and safeguarding the banking system while managing the exchange rate with flexibility. The structural policies concern trade policy and private sector development, reform of the banking sector and of SOEs, all aspects supporting the objective of integrating Vietnam in the world trading system. The pace of economic (including trade) liberalisation is nevertheless rather slow as trade protectionism continues and SOEs still represent a large share of economic activities. Moreover, the poor financial conditions of SOEs induces a general vulnerability of the financial sector, which is likely to hamper the longer-term growth prospects of the country.

Since the Sixth National Congress of Vietnam's Communist Party, and the adoption of the overall economic renovation policy ("Doi Moi"), the GoV has reaffirmed its commitment to a socialist-oriented multi-sector economy operating under the market mechanism and state management, and called for deep structural reforms. In particular, one of the most important aspects of economic reform in Vietnam is the encouragement of domestic and foreign private investment. The Company Law, the Law on Private Businesses, the Law on Encouragement of Domestic Investment and especially, the Law on Businesses (which replaced the Company Law and the Law on Private Businesses and is considered most liberal) were adopted with the view to fostering the development of the private sector in Vietnam. The first Law on Foreign Investment in Vietnam was promulgated by Vietnam's National Assembly in December 1987. After being amended twice, the law was repealed and replaced by a new Law on Foreign Investment in November 1996. The new Law was amended again in May 2000 to create an even more favourable environment for FDI. The Law is now considered among the most liberal investment laws in the region (China-ASEAN Business Council, 2005).

In the area of external trade, import and export restrictions have been greatly reduced. Vietnam has been gradually moving from state monopoly on foreign trade to free trade. The country is now a member of the Asian Free Trade Area (AFTA) and Asian-Pacific Economic Cooperation (APEC) and is negotiating for accession to the World Trade Organisation (WTO). At present all Vietnamese businesses including private companies have the intrinsic right in law to handle export and import business within their registered scope of business. Foreign trading companies are allowed to set up branches or representative offices in the country to conduct or promote trade. As a result, the number of companies engaged in export and import business rose from only 50 in 1986, when the reform was initiated, to around 12,000 in the year 2000.

Vietnam's Poverty Reduction Strategy Paper (PRSP) - Comprehensive Poverty Reduction and Growth Strategy (CPRGS) - was adopted in 2002. Although private sector development is not explicitly mentioned, related aspects are disseminated through the strategy, particularly under *Part III: Create Environment for Rapid and Sustainable Growth, and for Poverty Reduction* and *Part IV: Major Policies and Measures for the Development of Sectors and Industries to Ensure Sustainable Growth and Poverty Reduction*. In short, it seeks to improve the legal environment so as to enforce a fair level and competitive playing field for all enterprises, state and private, domestic and foreign. It includes elimination of unnecessary business licenses and other administrative impediments and promotion of equal and non-discriminatory access for all types of enterprises to capital, credit, land, new technology, and information. The CPRGS also plans to reorganize, renovate and improve effectiveness of SOEs and to develop policies and mechanisms to ensure that SOE investment plans are in accordance with sector development strategies and the business environment in the context of international economic integration. More generally, it seeks to develop comparative advantages in labour-intensive industries and in industries that utilise domestically produced agricultural, fishery and forestry raw materials, and to formulate policies which, *inter alia*, create jobs, provide credit, develop essential infrastructures, improve urban environment and landscape, strengthen vocational training and resolve effectively the problem of urban migration (GoV, 2002).

### 3.5 EC interventions to support PSD

EC programming documents mention the following features of the country's private sector<sup>10</sup>:

- (i) Predominance and non-competitiveness of SOEs as well as their crowding out of private investment and the unfair competition they impose on private SMEs.
- (ii) Existence of a distorted trade regime leading to investment in sectors in which the country has no genuine comparative advantages.
- (iii) Lack of policies and legislation to support SMEs.

In response to these challenges, the EC's strategy highlights the following needs:

- (i) Make PSD and service liberalisation a top GoV priority and particularly promote investment in labour intensive industries so as to absorb excess supply in the labour markets and overcome shortages of specific qualified manpower.
- (ii) Reduce vulnerability of exports by enhancing quality, broadening markets and promoting product diversification.
- (iii) Create a supportive climate for enterprises by targeting SOEs, banking sector reform and trade policies.
- (iv) Promote business co-operation and technology transfers.

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<sup>10</sup> Commission programming documents do not include a description of the country's private sector as such. Pieces of information are disseminated through the documents. See European Commission (1996), The European Commission Co-operation Partnership, A Presentation of the Cooperation Strategy 1996-2000 and European Commission (2002), EC-Vietnam Country Strategy Paper 2002-2006.

EC PSD intervention in Vietnam occurs at different levels and in different fields of action. At the macro-level, the EC supports the reinforcement of the legal and regulatory framework as well as reinforcing institutional capacity, which have impact on the private sector. This field of action is tackled, *inter alia*, through **The European Technical Assistance Programme Vietnam 1 and 2** (ETV 1 and ETV 2). In addition, the **Private Sector Support Programme** (PSSP) aims at creating a supportive business environment for enterprise growth. Other actions aiming at reinforcing institutional capacity for labour market intelligence include the **Labour Market Project** (LMP)<sup>11</sup>.

At meso-level, the Commission contributes first to development of a reinforced financial market that provides more effective financial services to SMEs. This objective is achieved mainly with the **SME Development Fund** (SMEDF) phases I and II. The latter consists of the provision of medium and long-term financing to SMEs through commercial banks. Another field of action at meso-level involves reinforcing intermediary organisations. In particular, the **Small Project Facility** (SPF) programme supports the on-going reform process of Vietnam's economy and systems of governance through enhanced involvement of civil society partners, in areas such as regional integration and integration in the world economy.

At micro-level, several initiatives are taking place:

- (i) **Asia-Invest Phases I and II** support facilitation and promotion of business co-operation between the European Union and South Asian countries and China.
- (ii) One component of the **Private Sector Support Programme** aims at overcoming market deficiencies in the provision of business support services to SMEs.
- (iii) The **Information Technology and Communication Programme** supports the promotion of co-operation in the ITC field between non-profit organisations in Europe and Asia, benefiting in particular, although not exclusively, to SMEs.
- (iv) The **European Business Information Centre** (EBIC) aims at increasing the capacity of Asian businesses to engage in mutually beneficial linkages with EU businesses.
- (v) The **Human Resources Development in Tourism Programme** (HDRT) aims at upgrading the standard and quality of human resources in the tourism industry in Vietnam (this project can be considered as aiming to improve human capital in the country).

It is difficult to quantify the share of the EC's PSD interventions in Vietnam in relation to all EC interventions, given that PSD related projects/programmes are not explicitly categorised as PSD interventions. The National Indicative Programme (NIP) 2002-2004 details the resources allocation to the different elements of the country strategy. The elements that can be considered as PSD related account for around 45% of the total A-envelope of €101 millions, namely €10 millions for vocational training, €10 millions for support to the private sector and €6 millions for integration into global and regional economic arrangements. Moreover, some of the European Union's financed ongoing

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<sup>11</sup> One could also include initiatives like the Multilateral Trade Policy Assistance Programme (MUTRAP) which is not a private sector support programme but is designed to support the transition towards a market economy and did substantial research work in the area of trade and investment which is closely linked to PSD.

projects can be regrouped in categories of interventions that can be considered to impact on PSD. Figures are the following<sup>12</sup>:

- Economic management (9.69% of all EC interventions).
- Development Administration (6.86% of all EC interventions).
- Human Resource Development (11.21% of all EC interventions).
- Industry (0.34% of all EC interventions).
- International trade in goods and services (6.40% of all EC interventions).

Based on this list, intervention areas with an impact on PSD represent about 34% of total EC interventions in Vietnam<sup>13</sup>.

Vietnam also benefited from assistance channelled through Commission all-country programmes related to PSD. In particular:

- Vietnam has participated in the Asia-Invest programme, which targets the creation of EU-Asian business linkages, with 44 project proposals involving Vietnam as the lead applicant, partner organisation or target country, presented so far out of a total of more than 250 projects.
- Vietnam also received financing for 20 projects under the Asia ITC programme, which supports EC-Asian linkages in the information technology and communication field.

### 3.6 Other donors interventions in support of PSD<sup>14</sup>

**Japan:** Japanese support to PSD in Vietnam falls under “Growth acceleration”, one of Japan’s three focus areas in the country (the other 2 areas being “Improvement of social and living environments” and “Regime establishment”). Growth acceleration is composed of two components: private sector and FDI. Particular activities in this component include improving the investment environment, developing SMEs, training human resources for economic development, and reforming all economic sectors including state owned enterprises.

**World Bank:** PSD falls mainly into the first of three World Bank objectives in Vietnam, namely transition to a market economy, which is the central focus of the Bank’s activities in the country: Interventions of the World Bank focus on financial sector development; state enterprise reform; support for the emerging domestic private sector; corporate governance; and private participation in infrastructure. Actions also aim at improving the climate for foreign and domestic investment. The Bank Group programme will continue to operate at the sectoral level, and will continue to promote rural and urban development, and investment in human resources and physical infrastructure.

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<sup>12</sup> See European Union's financed ongoing and pipeline projects by country, <http://www.delvnm.cec.eu.int/en/whatsnew/bluebook/section1/section1.htm>.

<sup>13</sup> Other areas with potential impact on PSD include Natural resources (7.77%), Agriculture, Forestry and Fisheries (5.91%).

<sup>14</sup> For the sake of conciseness, only the top five donors in the area of PSD are considered.

**Asian Development Bank (ADB):** in 2003 ADB operations focused on the following: (i) sustainable growth through agriculture diversification and private sector development; (ii) inclusive social development with emphasis on health and education; (iii) good governance, especially public administration reform; and (iv) economic growth in the central region. Policy-based operations focused on improving agricultural technology and promoting commercialisation of agriculture sector outputs, raising the efficiency of the financial sector and public administration, and promoting the domestic private sector with a focus on small and medium enterprises.

**DANIDA:** The PSD Programme was approved by the Danish Government in 1996. The programme aims at creating economic growth and poverty alleviation through support to commercially viable businesses. Presently, 10 ongoing start-up facilities and 18 projects are supported under the PSD framework in Vietnam.

**GTZ:** Operating since 1994, GTZ's PSD projects aim at improving the competitiveness of small- and medium-scale Vietnamese enterprises. Focusing on strengthening the market for business development services, the project is working on both improving the quality of services provided as well as strengthening SMEs demand for them.



## 4. Findings

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This section presents key findings for each of the Evaluation Questions relevant at country level (questions 2 to 9). Findings have been synthesised at criteria level based on a more detailed matrix (presented in Annex 6) where information is presented at indicator level.

### EQ 2 – Overall design of the strategy

**Is the EU PSD strategy in terms of “expected results” well designed to ensure the realisation of the purpose of strengthening the business sector with a view to contribute to the overall objectives of the EU external policy?**

- A. To what extent is each area of intervention (“expected results”) relevant in terms of contribution to the purpose?**
- B. Is its success dependent on certain conditions (another expected result or some other ‘external’ factor)? If yes, which ones? Have they been identified in EU PSD strategy documents?**
- C. Is the set of fields of actions comprehensive (are some essential fields missing (for example, role of champions)?**
- D. Is it well structured:**
  - i. Are there potential complementarities and synergies between expected results and have they been identified?**
  - ii. Are there possible contradictions between fields and have they been identified?**
  - iii. Should there be a prioritisation?**

2B.1 Conditions to reach the expected results exist

In Vietnam, the EC PSD interventions are embodied in the second focal point of the country strategy (Integration into the international economy). The Country Strategy Paper (CSP) 2002 (European Commission, 2003) indicates that two areas are targeted. First, assistance to the essential internal reforms Vietnam needs to undertake and second, to assist in the opening of its market to the international flows of trade and investment in the framework of its planned accession to WTO and of its existing commitments with AFTA. The first focal point of the CSP contains a component related to vocational training which is meant to address the scarcity of specific skills and is supposed to contribute to the development of the professional and technological skills needed to assist the expansion of SMEs and promote FDI.

Both external and internal-to-PSD-strategy conditions likely to affect the results achieved in a particular component exist. Per se, the CSP does not refer to conditions. Instead, it mentions complementarity between the two areas of its second focal point. However, there does not seem to be systematic and comprehensive coverage of the main elements conditioning the success of interventions programmed and implemented in a given area. For instance, although good governance aspects and best administrative practices are mentioned as key issues, there is no reference either to the important institutional bottlenecks constraining the development of the private sector in Vietnam, or to the fundamentals explaining the weaknesses of the financial and banking sector, or to the particular mechanisms by which SOEs crowd out the private sector by limiting its access to financial resources and land. As a result, although intervention address issues that are relevant to PSD, there is no clear identification of what are the most important constraints and how to lift them.

2D.1 There are potential complementarities and synergies between expected results
<p>The CSP explicitly mentions that aspects targeted by the component relating to the <b>promotion of good governance and best administrative practice</b> (corresponding to the expected result-field of action “<b>Macroeconomic, legal and regulatory framework</b>”) are key issues for the success of the country’s reform process, particularly with regard to <b>reform of the SOEs</b> (also to be included in the expected result-field of action “<b>Macroeconomic, legal and regulatory framework</b>”). <b>Vocational training</b> (related to the expected result-field of action “<b>Developing services for SMEs</b>”) is considered as crucial for supporting the ongoing socio-economic transition as skill shortages are identified as a major constraint that could dampen development efforts. Moreover, the CSP explicitly links this intervention to the <b>human development</b> component of its second focal point (related to the expected result-field of action “<b>Developing services for SMEs</b>”). In conclusion, the CSP does not explicitly clearly identify complementarities between different PSD expected results-field of action. Nor does it identify measures for exploiting complementarities and possible synergies between the different PSD components of the country strategy.</p>
2D.2 Prioritisation of areas of intervention (expected results) leads to a better realisation of the purpose
<p>The CSP/NIP 2002 does not establish a prioritisation of the PSD components included in the strategy or of the various elements the strategy. For instance, there is no mention that achievement in the area of the legal and regulatory framework should be a priority given that they potentially influence the effectiveness of support for SMEs. Nor does it mention the possible priority to be given to trade aspects so as to maximise in the effectiveness of support for SME export capacities. Prioritising fields of action and related activities could improve matters. According to parties interviewed during the field mission, this possibility may however be limited (i) by the difficulty of establish such priorities in a fast growing economy and (ii) the constraint imposed by the ALA regulation on formulating programmes that promote mutual interest.</p>

### EQ 3 – Relevance of PSD strategy in a given country

<p><b>For a given country:</b></p> <p><b>A. Does the selection of the areas of intervention correspond to the EU PSD strategy?</b></p> <p><b>B. Does the selection of the areas of intervention correspond to clearly identified priority needs of this country to increase the competitiveness of the business sector with the view to contribute to the overall objectives of the EU external policy?</b></p>	
3A.1	<p>The areas of intervention (expect results) in Vietnam correspond to the areas proposed in the EC PSD strategy</p> <p>There is a close correspondence between the areas of intervention in Vietnam and those proposed in the Commission's PSD strategy such as described in the related policy documents (European Commission, 2003). The "<b>Policy making and implementation</b>" component of the PSD strategy included in the CSP clearly corresponds to the field of action "<b>Administrative and macroeconomic reforms</b>" of the <i>Guidelines for European Commission Support to Private Sector Development</i> and has been implemented through programmes such as <b>European Technical Assistance Programme Vietnam (ETV 1 and ETV 2)</b> which clearly target improvement of the legal and regulatory framework.</p> <p>The "<b>Promotion of the private sector</b>" component of the country strategy is rather broadly defined, for the CSP mentions that it could include activities such as SOE reform, promotion of financing for start-up and development costs, training for SMEs (for example, in quality control, marketing etc), establishment and development of trade and industrial associations, establishment of an institutional framework for the development of SMEs, and helping SMEs to internationalise their activities. This is related to the fields of action "<b>Developing services for Small and Medium-Sized Enterprises</b>" (e.g. establishment and development of trade and industrial associations), "<b>Investment and inter-enterprise co-operation promotion activities</b>" (e.g. maximising industrial co-operation opportunities) and "<b>Investment financing and development of financial markets</b>" (e.g. promotion of financing for start-up and development costs).</p> <p>The connection between the "<b>Human development</b>" and "<b>Vocational training</b>" components of the country strategy and the different fields of actions included in the Commission PSD strategy is less obvious although it could be related to "<b>Developing services for Small and Medium-Sized Enterprises</b>" (particularly given the objective of "<b>skill upgrading</b>" included in this field).</p>
3B.1	<p>The selected areas of intervention (expect results) correspond to clearly identified needs of Vietnam in terms of PSD</p> <p>Section 3 of this Country Note lists the main constraints affecting PSD in Vietnam as reflected in various documentary sources as well as by the GoV's priorities in the field of PSD. These constraints are broadly in line with those identified by various stakeholders interviewed during the field mission. As the analysis of the country strategy and of the PSD projects and programmes implemented in Vietnam reveals (see annex 6), there is a close correspondence between the areas of intervention selected for the country's PSD strategy and the major needs of Vietnam in terms of PSD as well as with the main orientation of the GoV's PSD strategy.</p>

## EQ 4.1 – Effectiveness - Business environment

<b>To what extent did EU interventions make the institutional, macro-economic and legal and regulatory framework more conducive to PSD?</b>	
4.1.1	EC support to the institutional setting has contributed to the development of the business sector
<p>EC PSD interventions aimed at improving Vietnam's institutional setting through the following programmes: <b>ETV 1 and 2, Labour Market Project, and Human Resources Development in Tourism</b>. Of these, only <b>ETV 1</b> has been completed and can therefore be assessed in terms of effectiveness<sup>15</sup>. While EC interventions under <b>ETV 1</b> have achieved tangible outputs in the field of institutional development (support to the drafting of new laws, establishment of independent auditing capability, reinforcement of standards and quality agency, etc.), it is difficult to conclude that these have had a strong impact on PSD. For instance, some positive impacts include the field of accounting and auditing which have resulted in the integration of Vietnamese audit firms into some of the big five Western audit companies. But the realisation of many of the expected objectives of <b>ETV 1</b> depends strongly on acceptance of legal reforms, which have not been enforced so far. For instance, accounting and auditing standards have not yet been accepted by the Vietnamese Parliament, which prevents the new legislation to be enforced. In the insurance component, facilitation of creation of insurance companies largely depends on the passing of the new law and on when the relevant bodies will be ready to supervise it. According to the evaluation report of <b>ETV 1</b>, the lack of impact in some other cases (e.g. Intellectual property project) was said to result from a too modest budget. Moreover, when designing programmes, effectiveness lessons from similar programmes in the past or in other countries do not seem to be taken sufficiently into consideration.</p>	
4.1.3	EC support has achieved the improvement of the legal and regulatory framework in view to encourage the development of the business sector
<p>As mentioned above, programmes like <b>ETV 1</b> and <b>ETV 2</b> have indirectly supported reforms of the legal and regulatory framework in view to encourage the development of the business sector. Also, the <b>Private Sector Support Programme</b> aims at simplifying and strengthening the SME environment at Provincial level. But some indications suggest that such a programme is potentially effective. According to the programme manager, programmes requiring coordination between different political and business actors have more chances of succeeding at provincial level, given that the political structure is more flexible at that level than at central level, for example.</p>	

<sup>15</sup> The other programmes have not been implemented yet.

## EQ 4.2 – Effectiveness - Reinforcing financial markets

To what extent did EU interventions reinforce financial markets?
4.2.1 The appropriate framework for supplying well-developed and efficient financial services for SME is reinforced
<p>This objective was meant to be achieved through the <b>Small- and Medium-Sized Enterprise Development Fund (SMEDF) I</b>, which was concluded in 2000 and will be relaunched this year under <b>SMEDF II</b>. According to the final SMEDF Evaluation Report, the objective of improving the lending-to-SME capabilities of participating banks was to be achieved through training of bank staff (particularly loan appraisal and monitoring capabilities). The project provided almost no training at all. There was little explanation either in the final evaluation report or during interviews as to why the training component was not carried out.</p> <p>In terms of improving financial services to SMEs, the evaluation report concludes that <b>SMEDF</b> did not improve financial services to SMEs in general, but only to a selected segment. This is mainly due to the design of the programme (stringent criteria for the selection of beneficiaries and limited geographic coverage). Based on interviews with the banking sector during the country mission, it seems that the increase in credits to SMEs was not significant (e.g. Vietnam Bank of Agriculture and Development's lending to SMEs improved mildly from 10% of the bank's portfolio prior to being a beneficiary of <b>SMEDF</b>, to 13.5% in 2004). It seems that this modest improvement can be explained by the fact that the supply of credit-line in itself was not sufficient to improve the lending capabilities of banks: other measures such as training to bank staff were also necessary but did not occur. This is symptomatic of the banking sector which seems to suffer from multiple weaknesses at different levels (lack of financial resources and human training at the banking level; rigid regulation for issuing land certificates at government level; and lack of proper financial reporting at company level). It seems that these problems are interdependent, thereby putting at risk the effectiveness of the whole programme if deficiencies occur in a particular component.</p>

## EQ 4.5 – Effectiveness - BDS

**To what extent did EU interventions aiming to provide non-financial services create a competitive business development services markets?**

4.5.1 EU interventions aiming to provide non-financial services create a competitive business development services markets

The **Private Sector Support Programme** aimed at establishing pilot business-technology incubators in selected sectors of industry, but this programme has just started and there is as yet no evidence indicating the potential effectiveness of this programme. Other programmes such as **Human Development Resources in Tourism** aimed at the delivery of training and not at improving the BDS market, suggesting that, even when completed, these programmes will at most be effective in the provision of training, but not in the creation of a competitive BDS market.

## EQ 5 – Sustainability

<b>To what extent are the effects (expected results) of the interventions likely to continue at the end of the EC support?</b>	
5.1	The effects of the Commission’s PSD strategy in Vietnam is likely be long-lasting
<p>Many of the EC interventions covered by the field mission have not been completed so it is difficult to assess their sustainability. Assumptions and risks related to sustainability are included in the programming documents of most projects/programmes under consideration. However, the question as to why market forces fail to deliver what is eventually provided through public assistance is never addressed. As a result, the fundamental nature of the problem PSD projects/programmes are tackling does not seem to be thoroughly identified (accelerating the production factor/human capital/capacity/technology accumulation process, coping with market failures, and if so, which ones). In such case, interventions are more likely to cope with the symptoms than with the causes and impact will generally lack sustainability.</p>	
5.2	Institutional, macroeconomic, legal and regulatory improvement is not disappearing / has not disappeared after EC intervention
<p>Programmes such as <b>ETV 1</b> and <b>ETV 2, Labour Market Project</b> – component 1, <b>Human Resource Development in Tourism</b> and <b>Private Sector Support Programme</b> – component 1, broadly aim at strengthening institutional capacity and improving human capital. As such, these programmes can be considered as contributing to the institutional and human capital accumulation of the country and their impact is therefore likely to be sustainable. However, although it appears that lessons retrieved from <b>ETV 1</b> have been taken into account in the assumptions and risks of <b>ETV 2</b>, no concrete measures been taken to tackle the issues that were considered as limiting the sustainability of <b>ETV 1</b>.</p>	
5.3	Reinforcement of financial markets is long-lasting
<p>The SMEDF evaluation report states that “<b>SMEDF</b> has little sustained impact in terms if improving financial services to SMEs in general and that it many of them could have obtained bank loans even in the absence of <b>SMEDF</b> but that all participating banks confirmed, that the availability of <b>SMEDF</b> funds gave a boost to their SME lending operations and in that sense, <b>SMEDF</b> was an important element in improving financial services to those SMEs.” Based on interviews during the mission, it seems that the growth of lending to SMEs has been modest, thus putting in doubt the question of whether the reinforcement of the financial market will be long-lasting.</p>	
5.4	Reinforcement of intermediary organisations position is not lost after EU intervention finishes
<p>Given that most selected projects have not entered implementation phase, it is not yet possible to judge the sustainability of <b>Small Projects Facility</b>-related projects and of their associated professional associations. That being said, the programme manager at the European Commission European Commission Delegation has a 60% confidence level of the sustainability of the programmes. Measures aimed at ensuring the sustainability of impacts include specific criteria in the application and selection process, such as the continuous finance viability of the firms (will they be able to sustain their investment after the end of the project) and the capacity to contribute to the policy dialogue.</p>	
5.6	A competitive BDS market continues to function after EU intervention has finished
<p>The <b>Private Sector Support Programme</b> aims at reinforcing business incubators at provincial level. This programme is entering implementation phase, so it is difficult to assess its sustainability. However, the point made in 5.1 above particularly applies to this programme in the sense that no clear identification of the market failures leading to insufficient supply of BDS has been conducted during project identification, thus raising doubts about the sustainability of PSSP impact.</p>	

## EQ 6 – Efficiency

<p><b>To what extent have the organisational set-up or management systems and processes contributed or hindered the efficiency of the EC interventions to support private sector development? Four aspects are of particular interest to our evaluation:</b></p> <p><b>A. The deconcentration process and the support given by HQ</b></p> <p><b>B. The preference given in some regions to all-country programmes</b></p> <p><b>C. The preference given in some regions to promote local expertise instead of using international support</b></p> <p><b>D. Other organisational set-up or management systems and processes</b></p>	
6A.1	<p>The deconcentration has contributed to the efficiency of the EC interventions</p> <p>According to several parties interviewed, deconcentration had positive impact on the speed of the decision-making process, at both programming and implementation levels. Deconcentration allows the stakeholders and beneficiaries to be much more in direct contact with the European Commission Delegation (meetings, e-mails, phone calls) than they used to be with Brussels HQ. Although it is difficult firmly to establish formal evidence that deconcentration has led to better identification of needs, a positive impact of such closer contacts on better understanding of the country context and realities is highly probable. The impact of deconcentration on the cost of interventions is however difficult to assess and quantify. Implementation costs have possibly decreased owing to the improved quality of project management resulting from deconcentration but no figures or tangible evidence could be provided to support such an assertion. Deconcentration certainly implied a significant increase in the workload for European Commission Delegation staff, but the issue is broader in that the Delegation must increasingly complement its managerial tasks with strategic and technical inputs in different domains which are more and more specialised. This is particularly the case when the assistance is channelled through budget support, which heavily draws on the European Commission Delegation’s resources as participation in the policy dialogue requires such inputs and hence developing of the analytical capacity of the Delegation.</p>
6B.1	<p>The use of “all-country” programmes has contributed to the efficiency of the EC interventions</p> <p>The extent to which the use of “all-country” programmes has contributed to the efficiency of the EC interventions is unclear. In some instances efficiency and, in particular, speed of decision-making has been adversely affected by the organisational design of the programme (e.g. <b>Asia-Invest</b>) and the related heavy administrative procedures. In other cases (e.g. <b>EBIC</b>), implementation apparently did not suffer any problems of identification or implementation due to slowness in the administrative procedures or decision-making processes, but it remains difficult to assess the exact impact of such programmes on the global efficiency of the Commission’s PSD strategy in Vietnam.</p>
6C.1	<p>The use of local expertise has contributed to the efficiency of the EC interventions</p> <p>No compelling evidence could be obtained regarding the impact of the use of local expertise on the efficiency of the EC interventions in the area of PSD.</p>
6D.1	<p>The organisational set-up and management system has contributed to efficient implementation of the programme</p> <p>The implementation of some projects or programmes has been hampered by major delays in the provision of inputs. Projects or programmes have generally started two or three years after the signing of the financial agreement. Some programmes also encountered difficulties in implementing the planned activities in a timely manner. Deficiencies are generally related to heavy administrative procedures, difficulties in setting up the PMU, managerial practices of the steering committees and lack of funds.</p>

## EQ 7 – Coherence (within EU action)

<p><b>A. To what extent does the <u>EU PSD policy in general</u> take into account other EU strategies and policies?</b></p> <p><b>B. To what extent does the <u>EU PSD support strategy within a country strategy</u> take into account:</b></p> <ul style="list-style-type: none"> <li><b>i. The support given to other sectors within the same country strategy?</b></li> <li><b>ii. Other EU strategies and policies</b></li> </ul> <p><b>C. To what extent do national or regional <u>EU PSD programmes within a country</u> take into account:</b></p> <ul style="list-style-type: none"> <li><b>i. Other PSD programmes within the same country</b></li> <li><b>ii. The support given to other sectors within the same country</b></li> <li><b>iii. Other EU strategies and policies</b></li> </ul>
<p>7B.1 The EU PSD support strategy in Vietnam takes into account other EU interventions</p>
<p>The CSP makes explicit or implicit references to potential complementarities and synergies between the PSD aspects of its strategy and other components of the country strategy. For instance, vocational training, which is included in the first focal point of the country strategy, is mentioned as a key area to cope with scarcity of specific skills and contribute to the development of the professional and technological skills needed to assist the expansion of the SME sector and to promote FDI. However, the extent to which interventions in other sectors are taken into account is rather limited in spite of the fact that some of them have immediate implications for the Vietnamese private sector. This is particularly the case with trade as programming documents remains relatively silent on the need to co-ordinate activities programmed and implemented in one area or another. For instance it gives no information on how trade policy and trade facilitation aspects affect the country's private sector, and provides no indication on how the articulation between PSD and trade activities should be designed so as to integrate PSD and trade in a comprehensive approach. The reason might be that the PSD strategy is in fact focused on SMEs and that the participation of SMEs in international trade is limited. But even if the export activities of SMEs are modest, they will certainly be affected by the opening-up to trade that Vietnam will experience in the near future. For these reasons, the apparent disconnection of PSD and trade in strategy documents certainly leaves room for improvement. The same observation can be made with regard to other EU policies. For instance, much evidence suggests that EU trade policy effectively affects Vietnam's trade performance but the extent to which this spills over into private sector development is not discussed in programming documents.</p>
<p>7C.1 EU PSD programmes implemented in Vietnam take into account other EU interventions</p>
<p>This issue has to be analysed with regard to the internal coherence of the PSD programmes portfolio, to its coherence with programmes implemented in other areas and to other EU policies. On the first point, PSD interventions constitute an area where complementarities and synergies are numerous. However, there is no real analysis of the nature of these links or on how to maximise their exploitation. Nevertheless, in practice the projects or programmes implemented in Vietnam form a coherent body with elements which most of the time are adequately inter-related, even though some room for improvement exists. As for the second point, none of the programmes reviewed in Vietnam include reference to support for other sectors or analyse possible complementarities, synergies, conflicts or overlap with programmes implemented in other sectoral areas of intervention. Potential for such practice exists however, as some projects/programmes (like the Multilateral Trade Policy Assistance Programme - MUTRAP - for instance) have clear and major connections with those implemented in the area of PSD. Finally, projects and programmes implemented in Vietnam do not include reference to the potential impact of other EU policies (in particular EU trade policy) on the private sector in general or on the degree of achievement of the projects and programmes.</p>

## EQ 8 – Coordination (with other donors)

**To what extent is there coordination between donors, both at central and at country level?**

8.2 The EC actively participates in multi-donor coordination processes at country level

In Vietnam, there are numerous multi-donor coordination platforms for PSD: the SME Partnership Group, the EU PSD working Group, the World Bank's PSDP and the Like-Minded Donor Group. The EC actively participates in all these groups, except in the latter.

Despite the existence of these several groups, little concrete output seem to have emerged so far. One of the few examples of output resulting from coordination is the EC's participation in the Poverty Reduction Support Credit (PRSC) set up by the World Bank. The contribution of the EC to this budget support programme represents 4-5% of the programme's allocation and actively participates to the policy dialogue with the GoV and the other donors involved.

Reasons for lack of output resulting from coordination include the fact that most of these groups are fairly new, and that coordination is hampered by national interests which are likely to exist in issues related to PSD (e.g. donor visibility in the country, or business-to-business cooperation between local and national companies). Despite the fact that the existence of national interest that make donor coordination in PSD particularly challenging, there is room for improvement through a thorough analysis of specific areas of coordination where conflict of interests are less present. During the country mission, the team identified higher potentials of coordination in specific expected results (legal and regulatory framework, institutional capacity, and PSD policy; an example is budget support) as well as in particular topics in which the potential for cross-area coordination (i.e. coordination on different types of expected results is possible) is high, including local economic development. Coordination is however more challenging in some expected results which often involve national interest, e.g. B-2-B cooperation.

These conclusions were confirmed by a survey in Vietnam of the Official Development Assistance (ODA) transaction costs within the donor community, undertaken under the auspices of the World Bank's Comprehensive Development Framework (CDF). The study took place in July 2002 and included the EC in its sample of donors. Efficiency was said to be rather low and coordination superficial. Most of the respondents stated that the **efficiency of donor coordination has improved** over the last five years but it was widely stated that there is still "room for improvement". The general perception of donor-driven coordination efforts led to a suggestion that there **needs to be more ownership and capacity on the GoV side**.

Aside from coordination between donors, coordination is also managed indirectly by the Agency of Small and Medium Enterprise Development (ASMED). As one of its objectives, that of being a channel between donor and government, ASMED also attempts to coordinate donor funds by discussing with donors the areas in which funds could be better used (ASMED also plays an active role in the SME Partnership group). ASMED tries to play a role in the distribution of tasks among donors in order to ensure that the donor community covers the most important areas in PSD and that overlaps are minimized. When donors wish to execute a certain intervention, they usually consult with ASMED on whether the proposed project is relevant for Vietnam's PSD needs and on whether or not it has been already addressed by another donor. ASMED also directs donors towards relevant PSD areas. According to ASMED's Deputy Director General, most important PSD areas are covered by donors. According to one person working closely with ASMED, the role of the government in terms of coordination has improved, but there is still a lot of work to do.

## EQ 9 – Cross-cutting issues

<p><b>Do the EC PSD interventions show concern for cross cutting issues such as promoting women led enterprises, ensuring acceptable working conditions notably for women, protecting the environment and promoting better governance practices?</b></p>	
<p>9.2</p>	<p>CCI are taken into account in the PSD strategy and by programmes in Vietnam.</p> <p>According to the CSP, crosscutting themes are an integral part of EC-Vietnam co-operation and include environmental protection and disaster preparedness, culture and education, gender equality, promotion of human rights, and good governance. The CSP does not give directions for systematic integration of cross-cutting issues into the various elements of the strategy. It simply mentions that, when appropriate, specific cooperative action can be developed to promote such themes on an <i>ad hoc</i> basis. The CSP also recalls that, in addition to NIP resources, horizontal budget lines such as “environment and tropical forest protection”, “human rights”, and Commission co-financing of NGOs, can be utilised. No specific reference is made with respect to the private sector.</p> <p>The extent to which cross-cutting issues are taken into account by PSD programmes varies with the issues considered. Generally, good governance seems to be the issue which receives most attention. The overall objective of <b>ETV 1</b> and <b>ETV 2</b> is to improve economic and social development in Vietnam during its period of transition to a market economy. This is to be achieved by facilitating better decision-making in the public and private sectors, and development of clear, rational, transparent policies, strategies, plans and legislation through a strengthening of policy-making, legislative and implementation capacity. The projects are therefore naturally targeted on good governance issues. The <b>Private Sector Support Programme</b> is designed to promote the creation of an environment conducive to SMEs, particularly at provincial level. From this point of view the programme also implicitly addresses the issue of good governance through support for decentralisation. The <b>Small Projects Facility</b> programme is explicitly targeted on good governance. Its overall objective is to support the ongoing reform processes in Vietnam’s economy and systems of governance, as well as to facilitate Vietnam’s integration into the international economy which is to be achieved <i>inter alia</i> through enhanced involvement of civil society partners and of the private sector as a contribution to grass-roots democracy, better governance, and respect for the rule of law.</p> <p>Gender and environment issues are less well represented in the programmes and projects reviewed in Vietnam. For the <b>Small Projects Facility</b> programme, the selection criteria for projects are gender-sensitive. As a result, one project in seven relates to women in business. The <b>Human Resources Development in Tourism</b> programme refers to environment as its objectives indeed reflect the integrated national approach of the GoV, including the training of key government officials in essential tourism management skills, including environmental planning. Specifically, the project includes a component dealing with practical aspects of tourism planning, including environmental awareness.</p> <p>Globally, there does not appear to be any overall strategy to ensure consistent coverage of cross-cutting issues in the EC PSD programmes implemented in Vietnam. Their inclusion in a particular project or programme rather reflects pragmatism and is most evident when the object of the project or programme naturally relates to one particular cross-cutting issue.</p>
<p>9.3</p>	<p>A CCI is treated through a specific project or programme in the frame of the PSD support in Vietnam rather than as an horizontal issue</p> <p>The <b>Small Projects Facility</b> is the only programme reviewed during the field mission which is explicitly targeted on a specific cross-cutting issue (good governance).</p>



## 5. Conclusions

<b>Design and relevance of the Commission PSD strategy in Vietnam:</b>	
<ul style="list-style-type: none"> <li>▪ There is a close correspondence between the PSD strategy programmed in Vietnam and the areas proposed in the EC PSD strategy. Most of the elements included in the PSD strategy programmed in Vietnam are for instance related to some of the fields of actions contained in the EC PSD Guidelines.</li> </ul>	3A.1
<ul style="list-style-type: none"> <li>▪ The strategy is also in line with the GoV's main priorities and policy orientations.</li> </ul>	3B.1
<ul style="list-style-type: none"> <li>▪ Finally, the PSD strategy implemented in Vietnam addresses some important constraints affecting the country's private sector.</li> </ul>	3B.1
<b>Design and relevance of the Commission PSD strategy in Vietnam:</b>	
<i>However, the PSD strategy programmed in Vietnam may lack comprehensiveness as:</i>	
<ul style="list-style-type: none"> <li>▪ In particular, it does not seem to be designed so as to ensure systematic and comprehensive coverage of the main elements conditioning the success of interventions programmed and implemented in a given area.</li> </ul>	2B.1
<ul style="list-style-type: none"> <li>▪ The strategy does not seem to be designed so as ensure systematic exploitation of complementarities between the different PSD components of the strategy, or between the PSD strategy and other issues, for instance trade.</li> </ul>	2D.1
<b>Effectiveness and impact:</b>	
<i>EU programmes usually achieve their expected outputs, but do not always achieve their expected results. Reasons include the following:</i>	
<ul style="list-style-type: none"> <li>▪ <i>The achievement of expected results requires a comprehensive coverage of the main elements conditioning success.</i></li> </ul> <p>The banking sector seems to suffer from multiple weaknesses at different levels (lack of financial resources and human training at the banking level; rigid regulation for issuing land certificates at government level; and lack of proper financial reporting at company level). It seems that these problems are interdependent, thereby putting at risk the effectiveness of an intervention in only one of these areas, such as the EC programmes aimed predominantly at the supply of a credit-line.</p>	42.1
<ul style="list-style-type: none"> <li>▪ <i>When designing EU programmes, lessons from similar programmes in the past or in other countries do not seem to be taken sufficiently into consideration.</i></li> </ul> <p>Lessons from the first programme aiming at reinforcing institutional capacity (ETV 1) did not seem to be sufficiently taken into account in the design of the second programme (ETV 2).</p>	41.1

<p><b>Sustainability:</b></p> <ul style="list-style-type: none"> <li>▪ <i>All programmes that aim at strengthening institutional capacity and improving human capital are likely to be sustainable, yet it does not seem that EU took all possible steps to ensure that sustainability will be maximized.</i></li> </ul> <p>The sustainability of institutional, legal and regulatory improvements largely depend on a proper dissemination of reforms to the private sector. These seemed absent in <b>ETV 1</b> and do not seem to be sufficiently taken into account in the design of <b>ETV 2</b>.</p>	5.2
<ul style="list-style-type: none"> <li>▪ <i>Some EU programmes have not properly identified the existence of a market failure justifying government intervention, thus putting at risk the sustainability of the impacts</i></li> </ul> <p>In designing its programme on to reinforce a local BDS market, a thorough analysis of the existence of a market failure that may explain the current vacuum (e.g. is it a demand or supply problem) has not been conducted.</p>	5.6
<p><b>Coherence:</b></p> <p><i>The various elements of the PSD strategy implemented in Vietnam form a coherent set. However, some room for improvement exist as:</i></p>	
<ul style="list-style-type: none"> <li>▪ The extent to which interventions in other sectors are taken into account is rather limited in spite of the fact that some of them have immediate implications for the Vietnamese private sector (e.g. trade).</li> </ul>	7B.1
<ul style="list-style-type: none"> <li>▪ Complementarities and synergies are numerous within the portfolio of PSD activities but are not sufficiently taken into account, analysed and exploited.</li> </ul>	7C.1
<p><b>Coordination:</b></p> <ul style="list-style-type: none"> <li>▪ <i>Despite the fact that the existence of national interest that make donor coordination in PSD particularly challenging, there is room for improvement through a thorough analysis of specific areas of coordination where conflict of interests are less present.</i></li> </ul> <p>Coordination is possible in several expected results or in themes in which high levels of cross-coordination is feasible. Coordination is more challenging for some expected results which involve a lot of national interest.</p>	8.2

# **ANNEXES**



## **Annex 1 - People interviewed**

### **European Commission Delegation / PMU / Technical assistance**

<b>Organisation</b>	<b>Name</b>	<b>Title</b>
Delegation of the European Commission to Vietnam	Mr Patrick Cooney	Programme Officer, Co-operation section, European Union
Delegation	Mrs Hans Nguyen	SMEDF I&II
Co-operation section, European Union, Delegation of the European Commission to Vietnam	Mrs Vu Thi Tuan Anh	Programme Officer ETV 2
European Union, Delegation of the European Commission to Vietnam	Mr Hans-Anand Beck	Economic Co-operation Adviser
European Union, Delegation of the European Commission to Vietnam	Mr Andrew Jacobs	First Secretary, Head of Co-operation
Delegation of the European Commission to Vietnam	Mr Francisco Fontan	Deputy Head of Co-operation
EU-Vietnam Private Sector Support Programme	Mrs Ricarda Meissner	European Union Chief Adviser

### **Donors**

<b>Organisation</b>	<b>Name</b>	<b>Title</b>
German Technical Cooperation (GTZ)	Mrs Corinna Küsel	Sector Coordinator SME Promotion and Private Sector Development
Embassy of Italy in Vietnam, Development programme Office	Mrs Alessandra Bravi	Programme Officer
United Nations Industrial Development Organisation (UNIDO)	Mr Philippe Scholtès	Representative
Embassy of Finland	Mr Pekka Seppälä	Counsellor
Asian Development Bank (ADB)	Mr Ramesh Adhikari	Head Country Programmes and Economics
Royal Danish Embassy (DANIDA)	Danida Henrik Vistisen	Counsellor
Japan International Cooperation Agency, Vietnam Office (JICA)	Mrs Ebihara Yuko Mr Oshikiri Koji	Deputy Resident Representative

### Local Authorities

Organisation	Name	Title
Vietnam Chamber of Commerce and Industry	Mr Pham Thi Thu Hang	General Director
Vietnam Chamber of Commerce and Industry	Mr Nguyen Minh Tuan	Manager
Hanoi Small and Medium Enterprises Association (HASMEA)	Mr Nguyen Hoang Luu	Vice Standing – Chairman - General Secretary
Ministry of Planning and Investment, Agency of Small and Medium Enterprise Development (ASMED)	Dr Nguyen Chi Dzung	Deputy Director General
Ministry of Planning and Investment, Agency of Small and Medium Enterprise Development (ASMED)	Mr Bui Thu Thuy	Officer Int'l Cooperation Division
Vietnam National Administration of Tourism (VNAT)	Mr Phung Duong	Deputy Director of Int'l Cooperation dept.

### Private Sector

Organisation	Name	Title
CBAM	Dr. Nguyen Hoang Anh	Director of International co-operation Department of CBAM
Ha Thanh Technology Development., JSC	Mr Dang Duc Dzung	Managing Director
Vietnam Bank of Agriculture & Development	Mr Hoang Quang Tuan	Expert of Int'l Relations Department
Vietnam Bank of Agriculture & Development	Mr Nguyen Viet Hung	Deputy Director of the Project Management Department
State Bank of Vietnam	Mr Le Thi Yen	National Programme Officer
State Bank of Vietnam	Mr Nguyen Vinh Hung	Deputy Director
State Bank of Vietnam	Mr Nguyen Hanh Phuc	SME Finance Project Manager

## **Annex 2 - Documents consulted**

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### **1. Private sector Development Documents**

European Commission (1998), EC Co-operation with Third Countries: The Commission's approach to future support for the development of the Business sector.

European Commission (2003), Guidelines for EC Support to PSD.

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### **2. Country Documents**

China-ASEAN Business Council (2005), China-ASEAN Business Net, Vietnam's Laws and Regulations.

European Commission (1996), The European Commission Co-operation Partnership, A Presentation of the Cooperation Strategy 1996-2000.

European Commission (2002), EC-Vietnam Country Strategy Paper 2002-2006.

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World Bank, Vietnam at a glance.

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World Bank (2005), Managing Investment Climate Reforms: Viet Nam Case Study.

### **3. Programme documents**

European Technical Assistance Programme Vietnam I:  
Final Evaluation Report

European Technical Assistance Programme Vietnam II:  
Financing Proposal  
Financing Agreement  
Technical and administrative provision for implementation

Labour Market Project  
Financing Agreement  
Technical and administrative provision for implementation

Private sector support programme  
Financing Proposal  
Financing Agreement  
Technical and administrative provision for implementation

Small Project Facility  
Financing Proposal  
Financing Agreement  
Technical and administrative provision for implementation

Small and Medium Enterprises Dev. Fund-Phase I  
Financing Proposal  
Financing Agreement  
Final Evaluation Report

Small and Medium Enterprises Dev. Fund-Phase II  
Financing Proposal  
Financing Agreement  
Technical and administrative provision for implementation

European Business Information Centre  
Fourth Six Months and Final Report 2001-2003, September 2003.

## Annex 3 - Map of the country

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Source: CIA World Fact Book.



## **Annex 4 - List of programmes**

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<b>Year (FA)</b>	<b>Project number</b>	<b>Project title</b>
1993	5896	European Technical Assistance Programme Vietnam I
2002	2474	European Technical Assistance Programme Vietnam II
2002	2970	Labour Market Project
2003	5885	Private sector support programme
2003	5814	Small project Facility
1997	2667	Human Resources Development in Tourism
2000	MIS n° 96/032	Small and Medium Enterprises Dev. Fund-Phase I
2002	2466	Small and Medium Enterprises Dev. Fund-Phase II
2001	2587	European Business Information Centre EBIC



## Annex 5 – Programme sheets

### Programme 1 European Technical Assistance Programme Vietnam I

#### 1. Project identification data

Title	European Technical Assistance Programme Vietnam I
Number	Ref. no. CC/AS/VI/B7-3010/SOFRES/97/011
Budget line	B73001
Financing decision	19/06/1993
Financing agreement	30-Sep-1994
Start date	n.a.
Planned end-date	n.a.
Total Budget	19.0m € (final value 23.8m ECU)
EC Budget (committed)	n.a.
EC Budget contracted	n.a.
Disbursements	n.a.
Beneficiary	The Main counterpart is the Ministry of Planning and Investment
Operator (if different from Beneficiary)	

#### 2. Budget

Budget Item	€	%
<b>Projects</b>		
1. Accounting and auditing	8.2	34%
2. Insurance	1.9	8%
3. Support to the MPI	1.6	7%
a. promotion of foreign investment		
b. the BOT sector		
4. Standards and Quality Assurance	3.7	16%
5. Intellectual Property	0.9	4%
6. Institutional Strengthening of the MPI – short-term assistance	0.8	3%
7. Support to the National Information System for Economic Planning	3.8	16%
8. Programme Co-ordination	2.9	12%
<b>Total</b>	<b>23.8</b>	<b>100%</b>

### **3. Global objectives**

To contribute to Vietnam's ongoing effort to:

- Achieve the transition to a market oriented economy.
- Prepare and implement sustainable and strategic reforms in areas vital for the development of the Vietnamese economy in a market oriented environment.
- Develop a legislative and regulatory framework suitable to market mechanisms and conducive to external trade and foreign investors.
- Modify and establish effective, efficient and sustainable institutional framework consistent with legislative and regulatory frameworks.
- Operationalise legislative, regulatory and institutional reforms by providing:
  - appropriate training both on-the-job and academic at all working levels in relevant and selected areas;
  - limited but essential equipment deemed necessary to enhance reform mechanisms.
- Improve Vietnam's economic operators' penetration in free-trade markets (in particular European markets) as well as to assist European investors to gain a foothold in Vietnam.

### **4. Specific objectives**

#### *Accounting and auditing:*

- Reform Vietnamese accounting and auditing system: develop, adapt and enforce standards and rule for financial reporting.
- Obtain compliance with the new accounting and auditing framework throughout the economic sector within a set time frame.
- Establish an independent auditing capability.

### **5. Activities**

#### *Accounting and auditing:*

- Component 1: Legislative and regulatory components:
  - reform of Law on accounting and auditing,
  - reform of accounting and auditing standards,
  - revision of accounting Manual and Code of Account,
  - develop the publicity and training programme on Accounting reform.
- Component 2: Institutional Development:
  - NAC/VAA Development;
  - development of syllabi and curricula for CPA and Auditor examinations;
  - creation and staffing of a Vietnamese centre for postgraduate training;
  - review and development of the University degrees in accounting to meet the needs of a market-oriented economy.
- Component 3: Operational component.

***Intellectual Property Project:***

- to enhance the functioning of the patent and trademark administrations through assistance and training;
- raise awareness of the benefits of an improved intellectual property system;
- improve the professional skills of legal practitioners, patents agents and enforcement agencies;
- encourage co-operation and exchange of information with the Association of South East Asian Nations (ASEAN) countries in view of harmonisation procedures.

***Insurance Project:***

- to draft a new legal, regulatory and institutional framework for the insurance sector;
- to increase technical expertise amongst the state-owned Vietnamese insurance companies and provide access to best European insurance practice;
- to facilitate the opening of the insurance market by creating the conditions for effective private sector companies.

***Standards and quality assurance project:***

- to improve Vietnam's ability to reach international production quality levels,
- to help Vietnam with a National Quality Policy,
- to strengthen the Directorate for STQM as a focal point for quality in Vietnam,
- to promote the use among companies for S&Q related techniques.

## **6. Expected Results**

***Accounting and auditing:***

- installation of uniform accounting and auditing system compatible with international and regional practice;
- a Trained MOF staff of instructors, supervisors and analysts;
- new curricula on accounting and auditing for business schools and Universities;
- framework for the institution of an independent licensed auditing profession.

***Intellectual Property Project:***

- enhance the functioning of the industrial property protection;
- raise awareness of the benefits of intellectual property protection;
- improve the professional skills of legal practitioners, patent agents and enforcement agencies;
- encourage co-operation and exchanges with ASEAN countries.

***Insurance Project:***

- The new Vietnamese insurance law (including decrees) will be drafted and submitted for approval by the relevant decision-making bodies. This law should lay the foundations for further liberalisation of the Vietnamese insurance market.
- The Insurance Supervisory Division of the MoF will be operational with a staff of ten senior civil servants trained in legal, regulatory and supervisory matters concerning the insurance sector.
- At least 180 staff from Vietnamese insurance enterprises will have received internationally-recognised training in the principles and practice of insurance.
- The principal Vietnamese insurance company, Bao Viet, will have been strengthened, ready to operate in a more competitive market.

***Standards and quality assurance project***

- n.a.

## **7. Impacts**

***Accounting and auditing:***

- reform Vietnamese accounting and auditing system: develop, adapt and enforce standards and rules for financial reporting. Outputs include drafting of several texts including a new accounting law, Vietnamese accounting standards, etc: although the final texts have not been officially voted, they have been accepted by the MoF and should be quickly put in force (examine whether they have been put in force);
- obtain compliance with the new accounting and auditing framework throughout the economic sector within a set time frame: This objective has begun to be reached with a time-schedule established for the final Vietnamese adaptation;
- successful establishment of an independent auditing capability through the training and assistance to the development and reinforcement of the audit firms (independence is not yet completed due to the strict control of the MOF over audit firms).

***Intellectual Property Project:***

Represents a small part of the total budget, but the project made a key contribution to a number of sectors that have to be developed if VN is to succeed in its aim of transiting towards a market economy. The modest budget for IP hides the importance of the value of the inputs which are being fed into key institutions such as NOIP and shortly COV.

***Insurance Project:***

To assist Vietnam in its transition to a market economy:

- It has to be said that the impact of the project towards this objective is still largely awaited. The impact will come largely from the development of the legal and institutional framework;

- the vocational training will assist the development of the new insurance companies and the study tours have exposed senior managers to the working of the insurance industry in developed market economies. They now understand far better to need for regulation, supervision, trade associations and how companies operate under true competition;
- unfortunately the latest move in the sector in the face of stiff competition and more competitive rates is to fix prices;
- no progress has been made on achieving market access for EU companies although this was not a stated objective of the project.

To improve the financial infrastructure and conditions for private sector investment:

- the project has contributed via the legal and institutional framework sub-components but this will be for the future.

### ***Standards and quality assurance project***

- STAMEQ has been definitely reinforced;
- the promotion of a Vietnamese Quality Policy will be very easy now;
- seed companies are using quality techniques and concepts;
- Vietnam's ability to reach international levels of quality has certainly improved, but there is a long way to go.

In its first two years, the Program has had a clear impact on the incipient Vietnamese infrastructure for quality. A brief review of this impact can be summarized as follows:

- There is an increasing awareness of the strategic value of quality in manufacturing goods that could not have reached the present stage if the Project had not been in place.
- At the highest political level, there is a clear understanding of European industrial legislation and other features relevant for manufacturing and trading purposes (CE-Mark, regulations "New Approach" certification arrangements, accreditation...) that wouldn't be there without the activities launched by the ETV Program.
- Since the beginning of the Program, many TV appearances, receptions, seminars, training courses, conferences (some of them organized by People's Committees), and all type of contracts with high level managers of Vietnamese companies have taken place.
- The European expertise has helped, in the past two years, to improve the Information Centre (IC) on standards and related matters, as well the perception from industry of the value and role of the standards in a modern economy.
- During the time this evaluation was taking place, the IC accomplished a Web-site Page, it had reached more than two hundred subscribers to its Newsletter (approximately \$70/year for Vietnamese companies, \$100/year for foreign companies), and the income for selling standards amounted to 138.000 Vietnamese dong, which represents an increase of 30% since the beginning of 1996.
- So far, there is a clear impact of the Project on the Vietnamese main metrological institutions (QUATEST 1,2,3 located in Hanoi, Danang and HCMC, and the Vietnamese Metrology Institute), since experts from the Program have been heavily involved in defining and improving metrological laboratories. The annual increase of activities (number of reports) goes from 13% in VMI to 33% in QUATEST 2.

## **8. Problems encountered**

### *Accounting and auditing*

- When the project began in 1996, the evolution towards a market economy has not gone very far;
- It took time to establish links with the main counterpart (the MoF);
- High concentration of outputs and activities at MoF;
- Capacity of absorption and adaptation to the Vietnamese situation.

### *Intellectual Property Project*

- n.a.

### *Insurance Project*

- a barely existing insurance sector,
- low political priority given to the sector,
- lack of market access for EU companies.

### *Standards and quality assurance project*

- n.a.

## Programme 2 European Technical Assistance Programme Vietnam II

### 1. Project identification data

Title	European Technical Assistance Programme Vietnam II
Number	VNM/AIDCO/2002/0589
Budget line	B-7301
Financing decision	18/12/2002
Financing agreement	n.a.
Start date	2003
Planned end-date	10/01/2005
Total Budget	12 024 800 €
EC Budget (committed)	11 034 800 €
EC Budget contracted	0 € (as of 29/04/2005)
Disbursements	0 € (as of 29/04/2005)
Beneficiary	Direct beneficiaries will include officials at the Ministry of Finance, Ministry of Planning and Investment, Directorate General for Customs and the Directorate for Standards and Quality
Operator (if different from Beneficiary)	Ministry of Finance (MOF), Ministry of Planning and Investment (MPI), Ministry of Science and Technology (MOST)

### 2. Budget

Budget Item	€	%
I Fiscal Policy and Legal Advisory Services	2 002 580	18.15
II Taxation	2 415 755	21.89
III Customs	2 059 280	18.66
IV Auditing/ Accounting and Insurance	785 315	7.12
V Statistical Analysis, Policy Tools	1 076 690	9.76
VI Quality Control	2 432 680	22.05
Monitoring and Evaluation (M&E)	250 000	2.26
Overall contingencies	12.500	0.11
<b>Total</b>	<b>12 024 800</b>	<b>100%</b>

Category Breakdown	EC (In Euro)	Beneficiary (In Euro)	Total (In Euro)
<b>1. Services</b>	<b>8 038 000</b>	<b>500 000</b>	<b>8 538 000</b>
1.1 European TA	7 568 000	0	7 568 000
Long-term advisor(s)	3 690 000	0	3 690 000
Short-term experts	3 878 000	0	3 878 000
1.2 Local TA	470 000	500 000	970 000
<b>2. Supplies</b>	<b>860 000</b>	<b>0</b>	<b>860 000</b>
2.1 Vehicles & equipment	860 000	0	860 000
2.2 Consumables	0	0	0
<b>3. Activities</b>	<b>240 000</b>	<b>0</b>	<b>240 000</b>
3.1 Seminar/workshops	240 000	0	240 000
<b>4. Information</b>	<b>260 000</b>	<b>0</b>	<b>260 000</b>
<b>5. Operating Costs</b>	<b>528 000</b>	<b>490 000</b>	<b>1 018 000</b>
5.1 Local personnel	360 000	195 000	555 000
5.2 Other costs (running costs, local transport, communications, office supplies)	168 000	295 000	463 000
<b>6. Training</b>	<b>350 000</b>	<b>0</b>	<b>350 000</b>
<b>7. Monitoring, Evaluation &amp; Auditing</b>	<b>250 000</b>	<b>0</b>	<b>250 000</b>
<b>8. Contingencies</b>	<b>508 800</b>	<b>0</b>	<b>508 800</b>
<b>Total</b>	<b>11 034 800</b>	<b>990 000</b>	<b>12 024 800</b>

### 3. Global objectives

The overall objective of the European Technical Assistance Programme for Vietnam (ETV2) is to improve economic and social development in Vietnam during its period of transition to a market economy. This is to be achieved by facilitating better decision making in the public and private sector, and the development of clear, rational, transparent policies, strategies, plans and legislation through a strengthening of policy/legislation making capacity and of the means of implementation.

### 4. Specific objectives

The specific objectives of are:

- to enhance capacity for raising domestic revenue at the Ministry of Finance for all major revenue sources and at all levels;
- to strengthen policy making and to develop and apply related tools for implementation;
- to improve auditing/accounting and insurance legislation and develop related standards in line with international ones;
- to improve information management, monitoring systems and statistical analysis at the Ministry of Planning;
- to create confidence in the process of Measuring, Standardisation, Testing and Quality.

## 5. Activities

### *Component 1: Fiscal Policy and Legal Advisory Services*

- undertaking legal and policy needs analysis and producing a strategic plan;
- identifying technical revenue collection and legal issues for discussion, problem-solving, and decision-making;
- design management, organisation and administration guidelines;
- mobilisation and effective utilisation of the services and advice provided by long-term advisers and short-term experts;
- performing technical and legal needs analysis regarding local and regional taxes/revenue sources and proposing improvements for inter-governmental fiscal relations;
- identifying legal tax potentials, proposing improvements for increased utilisation of potentials;
- initiating an overall review of efficiency and effectiveness of fiscal systems. Developing criteria for measuring performance for tax and custom apparatus;
- carrying out a study on equity and incidence of revenue system.

### *Component 2: Taxation*

- establishing stable and comprehensive legal frameworks,
- drafting laws in keeping with international standards,
- producing subsidiary legislation, regulations and procedures,
- carrying out priority projects,
- putting management and operational planning systems in place,
- developing and testing methods and systems for revenue projections/forecasting,
- putting operational systems in place.

### *Component 3: Customs + Component 4: Accounting, Auditing, Insurance*

- enhancing capacity to conduct sound policy research and application at the Department for Accounting Policies and the Department of Banking and Financial Institutions of the Ministry of Finance;
- preparing and applying effective and sound laws/regulations, policies, and standards in accounting, auditing and insurance at the Ministry of Finance;
- preparing decrees for the implementation of the law on accounting for business enterprises and on the implementation of the law on accounting for administrative units;
- Assisting in continually preparing and publishing accounting as well as auditing standards in line with international standards and suitable for Vietnamese management and the tendency to economic integration to obtain international recognition;
- preparing and issuing guidelines on accounting and auditing standards;
- supporting the activities of the National Council of Accounting (NCA);
- re-developing a training curriculum for accounting and auditing;

- assisting the institutional development of the Insurance Supervision Division, by developing an early warning system, together with processes and methods for recovering payments; developing regulation(s) on state management in supplying over-the-border services; developing reports on legal and financial aspects of capital requirements based on risks; building models of insurance management authority: framework of organisation.

#### ***Component 5: Statistical Analysis, Policy Tools***

- improving staff skills and practice in short term monitoring of statistics;
- Improving staff skills in the areas of medium and long term planning and policy analysis as well as forecasting procedures;
- assisting in the building up of information systems for managing enterprises and investment projects;
- providing both hardware and software equipment to enable the Ministry of Planning and Investment to complete their local area communications network at three HQ sites in Hanoi with connections to twenty provincial offices.

#### ***Component 6: Standards and Quality Control***

- establishment of a stable and agreed legal framework, shared among all the concerned parts (Code of Good Practice);
- full alignment of Vietnamese metrology with international practice;
- completion of the existing National Standards corpus, starting from the most urgent sectors, in line with the Government's priorities (e.g. fish and other food products) and following the international approach, creating the basis for a proper follow-up;
- improving testing capabilities of the Vietnamese quality testing operators involved in the quality process and engendering the creation of a testing culture in line with the international one, particularly in fish and other food products;
- updating and enlarging the certification and accreditation system;
- Creating a "Quality System Vietnam";
- involving the Vietnam Chamber of Commerce and Industry (VCCI) as reference point for documentation and basic formation, but also as representative of the developing Private Sector.

## **6. Results**

- increased revenue raising capacities as a consequence of an improved policy making process;
- effective taxation / custom laws and procedures and a fair and equitable tax collecting system;
- the completion of legal frameworks for accounting, auditing and insurance in accordance with international standards;
- accurate statistical analysis, forecasting and monitoring to support policy decision making process;

- a legal framework for standards and quality assurance in line with international standards; establishment of national normative corpus completed.

## **7. Impacts**

The Programme has not been implemented yet and there is no indication about the likely impact of the program. But the delay in implementation of the programme (2 years so far) may put at risk the effectiveness of the programme.

## **8. Problems encountered**

There are problems related to the delays of implementation.

## Programme 3 Labour Market Project

### 1. Project identification data

Title	Labour Market Project
Number	VNM/AIDCO/2002/0484
Budget line	B7-3000
Financing decision	21/11/2002
Financing agreement	17/12/2002
Start date	The project hopes to start on the first quarter of 2005.
Planned end-date	31/12/2009
Total Budget	11,200,000
EC Budget (committed)	10,000,000
EC Budget contracted	53,645.00 (as of 29/04/2005)
Disbursements	37,363.60 (as of 29/04/2005)
Beneficiary	Ministry of Labour, Invalids and Social Affairs (MoLISA)
Operator (if different from Beneficiary)	Ministry of Labour, Invalids and Social Affairs (MoLISA)

### 2. Budget

Category Breakdown	EC	GoV	Total
<b>1. Services</b>	<b>5,000,000</b>		<b>5,000,000</b>
1.1 European TA	3,400,000		3,400,000
EU Project Co-Director	700,000		700,000
EU Field Expert	600,000		600,000
EU Finance/Administration Expert	400,000		400,000
EU Short-term experts	1,700,000		1,700,000
1.2 Local TA	400,000		400,000
1.3 Training	300,000		300,000
1.4 Studies and surveys	600,000		600,000
1.5 Monitoring, evaluation and auditing	300,000		300,000
<b>2. Supplies</b>	<b>3,300,000</b>	<b>600,000</b>	<b>3,900,000</b>
2.1 Vehicles (cars, motorbikes etc.)	100,000		100,000
2.2 Equipment	3,150,000	600,000	3,750,000
2.2 Software & web-site development	50,000		50,000
<b>3. Information</b>	<b>200,000</b>		<b>200,000</b>
3.1. Newsletters, reports & CD-ROMs	200,000		200,000
<b>4. Operating Costs</b>	<b>1,000,000</b>	<b>600,000</b>	<b>1,600,000</b>
4.1 Local personnel (incl. salary allowance Vietnamese Project Co-Director)	300,000	200,000	500,000
4.2 Other costs (PMU running costs, local transport, communications, office supplies incl. electrical appliances)	700,000	100,000	800,000
4.3 Office facilities & maintenance (both project components)		300,000	300,000
<b>5. Contingencies</b>	<b>500,000</b>		<b>500,000</b>
<b>Total</b>	<b>10,000,000</b>	<b>1,200,000</b>	<b>11,200,000</b>

### 3. Global objectives

The **overall objective** of the project is to support the development of human resources in Vietnam in line with Government of Vietnam's market-oriented industrialisation policy. The project aims to upgrade the skills of the labour force in Vietnam and thus to continue to attract diverse investments than can provide jobs and income-earning opportunities.

### 4. Specific objectives

1. Upgrade human resource development planning through a facilitation of analysis and dissemination of data relating to labour market needs and evolution in key provinces and at a central level through the design, development, and application of a labour market observatory information system.
2. Strengthen the quality of technical teacher's training in order to satisfy public and private sector demand for skilled workers and technicians.

### 5. Activities

The project has two corresponding components:

1. A labour market information system (LMIS) that will support the establishment of labour market observatories at provincial and central level.
2. A technical teacher's training component that will improve the quality and availability of technical training in Vietnam.

The first six months of the project will be the inception phase. The following activities will be carried out:

- mobilisation of two project co-directors and selected TA staff;
- preparation of the Initial Plan of Activities (IPA) within one month after mobilisation of the two project co-directors;
- establishment of the PMU, including procurement of furniture and equipment and recruitment of support staff;
- establishment of financial and administrative systems;
- preparation of an Overall Work Plan and Budget, as well as of a first Annual Work Plan;
- updating of the project's Logical Framework and development of a monitoring and evaluation system for each component;
- following detailed assessment, establishment of the list of key provinces for the labour market observatory offices, and establishment of the list of vocational schools to take part in the programme;
- preparation of detailed lists of equipment for all participating offices and schools.

During the implementation phase the following activities will be carried out:

### ***Labour market information system component***

- creation of labour market observatory offices in selected key provinces;
- creation of a labour market information system network and database;
- dissemination of information gathered by the observatories to different target groups using i.a. reports, newsletters, CD-ROMs and an internet site;
- design and development of a training plan and training modules for the training of a core group of trainers (capacity building);
- conduct periodic (6-monthly or annual) labour market surveys.

### ***Technical teacher training component***

- design and development of harmonised modular-based curricula for skilled technicians and workers at the selected vocational training/education programmes, linking theory with practice and the needs of industry;
- training of selected technical teachers in the use of modern equipment, instructional materials, modern pedagogical theory and student activating teaching methods;
- training of the administration and managerial staff in strategic planning and management;
- harmonisation of the recognition of qualifications as well as of entry requirements for the centres;
- procurement of equipment for the selected schools. The equipment will be used to upgrade the technical standards of the schools and mainly their workshops.

## **6. Results**

### ***Labour market observatory***

By the end of the project each observatory supported will be in a position to collect, store and retrieve labour market data (related to both public and private sectors) from various primary and secondary data sources as well as independently carry out or contract out labour market surveys (enterprise-based, house-hold based, graduate tracer surveys). The data will be used to facilitate the planning and delivery of vocational training that is keeping with evolving market needs. It will also be valuable to those in the job market who need ensure that their skills correspond to what employers require.

### ***Technical teacher training***

By the end of the project a critical mass of skilled technical teachers in target vocational schools will have the capacity to train skilled workers and technicians by using modern equipment and modern pedagogical methods. The curriculum for the training of skilled workers and technicians will be organised on a modular basis providing the possibility of partial certification.

## **7. Impacts**

The Programme has not been implemented yet.

## **8. Problems encountered**

The Programme has not been implemented yet.

## Programme 4 Private sector support programme

### 1. Project identification data

Title	Private Sector Support Programme
Number	Asie/VIET/2003/005-885
Budget line	B7-301
Financing decision	08/12/2003
Financing agreement	Oct. 2004.
Start date	Due to Tet Holiday in Vietnam at the beginning of Feb. 2005, the programme is expected to be launched after TET.
Planned end-date	31/12/2008
Total Budget	€ 11,145,000
EC Budget (committed)	€ 9.050.000
EC Budget contracted	€ 4,410,325 (as of 29/04/2005)
Disbursements	€ 300,000 (as of 29/04/2005)
Beneficiary	Vietnam's provincial and district government officials concerned with administering SME-related regulations, representatives of business associations and persons engaged in the private sector from the supply of business support and advocacy services.
Operator (if different from Beneficiary)	Ministry of Planning and Investment

### 2. Budget

Costs Breakdown	EC	beneficiary	Total	Contracting authority
<b>1. Component 1</b>				
1.1. Services	2,622,000		2,622,000	EC, MPI
1.2. Supplies/Equipment	55,000		55,000	MPI
1.3. Works				
1.4. Operating Costs	358,000	100,000	458,000	MPI
1.5. Information	50,000		50,000	MPI
<b>2. Component 2</b>				
2.1. Services	2,000,000		2,000,000	EC, MPI
2.2. Supplies/Equipment	825,000		825,000	MPI
2.3. Works				
2.4. Operating Costs	690,000	1,900,000	2,590,000	MPI
2.5. Information	50,000		50,000	MPI
<b>3. Horizontal component</b>				
3.1. Services	1,560,000		1,560,000	EC, MPI
3.2. Supplies/Equipment	70,000		70,000	MPI
3.3. Works				

3.4. Operating Costs	240,000	95,000	335,000	MPI
3.5. Information	100,000		100,000	MPI
<b>4. Contingency</b>	<b>430,000</b>		<b>430,000</b>	
<b>Totals (per cost type)</b>				
1. Services	6,182,000		6,182,000	
2. Supplies/Equipment	950,000		950,000	
3. Works				
4. Operating Costs	1,288,000	2,095,000	3,433,000	
5. Information	200,000		200,000	
6. Contingency	430,000		430,000	
<b>Total</b>	<b>9,050,000</b>	<b>2,095,000</b>	<b>11,145,000</b>	

### 3. Global objectives

The global objective of the Vietnam Private Sector Support Programme (VPSSP) is poverty alleviation and job creation via promotion of the private sector, in particular of Vietnamese small and medium enterprises (SME), and its integration into the international economy.

### 4. Specific objectives

The Programme purpose is to strengthen the administrative capacity and operational effectiveness of SME-related local government structures and private sector associations, fostering SME's development, in line with the reform process leading towards a market-oriented economy in Vietnam.

### 5. Activities

- Component 1 - Simplification and strengthening of the SME enabling environment at Provincial level:
  - provision of Technical Assistance for a reduction of inconsistencies between SME development policy formulation at central level and their implementation at local level;
  - provision of Technical Assistance to identify and disseminate best practice conducive to SME growth to local stakeholders (9 provinces targeted);
  - provision of Technical Assistance for strengthening capacity amongst business associations and independent business development service (BDS)<sup>16</sup> providers to design and deliver service products appropriate for enterprises at each stage of development – start-up, consolidation, growth and internationalization;
  - support consultative activities from regulatory authorities and facilitate constructive government-private sector dialogue;
  - information dissemination for the private sector on all local regulations and how to comply with them;

<sup>16</sup> BDS is used here in accordance with the World Bank definition, which excludes financial services for business development.

- raising awareness and consensus on economic development directions and long-term strategies for SME development in provincial and district government constituencies.
- Component 2 – Establishing of pilot business-technology incubators in selected sectors of industry with the aim to replicate them thereafter in other locations:
  - provision of Technical Assistance offering the European experience on business-technology incubators;
  - support the start up costs of a business incubator in the sector of Food Processing and Packaging in Hanoi (capable to accommodate about 20 companies);
  - support the start up costs of a business incubator in the sector of Information and Communications Technologies in Ho Chi Minh City (capable to accommodate about 20 companies);
  - dissemination of results and best practice to local stakeholders in particular in other municipalities and provinces.

## **6. Results**

- Improved administrative and regulatory environment for SME development at Provincial level (nine provinces targeted).
- Improved public-private sector dialogue conducive to SME development.
- Enhanced capacity of business associations to represent private sector interests needs and increased availability of business support services for SME's at Provincial level.
- Creation of new enterprises facilitated through the establishment of replicable business-technology incubators in selected sectors (Food processing in Hanoi and Information technologies in Ho Chi Minh City).

## **7. Impacts**

The program is just starting implementation phase, so, no impacts nor indicators of effectiveness are available.

## **8. Problems encountered**

The program is just starting implementation phase.

## Programme 5 Small project Facility

### 1. Project identification data

Title	Small project Facility
Number	ASIE/VN/2003/5814
Budget line	43010 -
Financing decision	15/12/2003
Financing agreement	11/03/2004
Start date	15/06/2004
Planned end-date	31/12/2009
Total Budget	2,200,000
EC Budget (committed)	2,000,000
EC Budget contracted	294,476.90 (as of 29/04/2005)
Disbursements	209,020.94 (as of 29/04/2005)
Beneficiary	Professional associations, companies and others
Operator (if different from Beneficiary)	

### 2. Budget

Category Breakdown	EC	Grantees	Total
<b>1. Services</b>			
1.1 Ad-hoc seminars/workshops and short term, small, technical assistance	150,000		150,000
1.2 Monitoring, Audit and Evaluation (1)	150,000		150,000
1.3 TAs for assessing projects (2)	160,000		160,000
<b>2. Grants to Projects</b>			
2.1 Grants to Projects	1,400,000	200,000	1,600,000
<b>3. Information</b>			
3.1 Information (3)	70,000		70,000
<b>4. Contingencies (4)</b>			
	70,000		70,000
<b>Total</b>	<b>2,000,000</b>	<b>200,000</b>	<b>2,200,000</b>

### 3. Global objectives

The overall objective of this programme is to support the on-going reform process of Vietnam's economy and systems of governance, as well as to facilitate Vietnam's integration into the international economy. This is to be achieved inter alia through an enhanced involvement of civil society partners and of the private sector. The overall objective is in-keeping with the priorities set down in the European Commission's Country Strategy Paper and National Indicative Programme.

#### **4. Specific objectives**

The project purpose is to improve the mutual understanding and joint visibility of partners by promoting civil society dialogue and facilitating interactions in the following areas:

- governance, Administrative Reform, Decentralisation;
- integration into the regional and world economy;
- strengthening of civil society and public interest organisations as a contribution to grass-root democracy, better governance, and the respect of the rule of law.

#### **5. Activities**

The programme will provide financial support to a limited number of projects in accordance to the following criteria.

Areas of co-operation and eligible activities (other criteria like non-eligible projects are not covered here).

Projects will be supported to the extent that they are policy advice-oriented, strategic in nature, have an European dimension, inter alia by involving qualified European institutions, associations, expertise.

In particular proposals in the following areas would be considered:

- governance, Administrative Reform, Decentralisation;
- integration into the regional and world economy;
- strengthening of civil society and public interest organisations as a contribution to grass-root democracy, better governance, and the respect of the rule of law.

Projects funded may take the form of:

- training, educational and capacity building activities;
- studies;
- media events and media products;
- business-related research activities (provided they are non-profit making);
- conferences, seminars and workshops; (provided they are not individual sponsorships);
- other activities that promote the image of the EU as a model or example of best or unique practice.

#### **6. Results**

The envisaged results of the project are:

- Projects which are small in financial terms and of limited duration, innovative and of high visibility in the areas mentioned in 1.2, which are of strategic importance and mutual interest to Vietnam and the EU, successfully implemented.

- Ad-hoc seminars and workshops aimed at improving the mutual understanding and visibility of both partners in the areas mentioned in 1.2 successfully organized.
- Ad-hoc short-term, small, technical inputs aimed at improving the mutual understanding and visibility of both partners in the areas mentioned in 1.2 mobilised.

## **7. Impacts**

Most SPF-selected projects have not been launched yet so no result indicators are yet available.

## **8. Problems encountered**

n.a.

## Programme 6 Human Resources Development in Tourism

### 1. Project identification data

Title	Human Resources Development in Tourism
Number	VNM/B7-3010/IB/97/0234
Budget line	B7-3010
Financing decision	06/11/1997
Financing agreement	n.a.
Start date	04/02/2004
Planned end-date	31.06.2008.
Total Budget	12 000 000 EURO
EC Budget (committed)	10 800 000 EURO
EC Budget contracted	5,186,910.00 (as of 29/04/2005)
Disbursements	556,694.00 (as of 29/04/2005)
Beneficiary	Government of Vietnam through the Vietnam National Administration of Tourism (VNAT), the labour force, training institutes and European/international tourists through the introduction of standards and so enhancing the service quality of the Vietnamese Industry
Operator (if different from Beneficiary)	

### 2. Budget

Budget Item	€	%
EC contribution		
Institutional Strengthening	3 500 000	
Standards & Certification	1 000 000	
Trainer Development Programmes	1 800 000	
Regional Accreditation and Co-operation Programme	500 000	
Regional Co-operation Programme	500 000	
Tourism Management Training	500 000	
Tourism Secretariat (PMU) including the two co-directors	3 000 000	
Total EC contribution	10 800 000	
Vietnamese contribution		
Training facilities, offices, etc	1 200 000	
Total Vietnamese contribution	1 200 000	
<b>Total</b>	<b>12 000 000</b>	<b>100%</b>

### **3. Global objectives**

The overall objective of the project is to upgrade the standard and quality of human resources in the tourism industry in Vietnam and to enable the Government and industry to sustain the training quality and quantity at the project's completion.

### **4. Specific objectives**

The immediate objectives reflect the six major elements of the integrated national approach recommended by the workshop and adopted by the Government. They are:

- Institutional strengthening to establish a tourism committee and supporting framework for national training organisation and implementation.
- Adaptation and development of national craft skill standards and the development and implementation of a national certification scheme for craft skill workers from accredited institutions.
- The adaptation and development and implementation of accredited trainer development programmes in core craft skill areas to develop a pool of qualified industry trainers to sustain the national capability and capacity.
- The development of a regional accreditation programme to ensure regional skills in training are exchanged, recognised and to improve regional co-operation in Vietnam's role in training.
- The training of key government tourism officials in essential tourism management skills. This will include tourism management, environmental planning, socio-cultural management and marketing, as well as related services important for the travel industry.
- The establishment of a Tourism Secretariat (TS) to act as a Project Management Unit and secretariat to the Tourism Committee which for the purpose of the project implementation will function as the project's Steering Committee. The TS should at the end of this project maintain its existence for the development of the sector and serve as a catalyst for future actions. The detailed terms of reference and training outputs are attached as Appendix A.

### **5. Activities**

1. Institutional Strengthening to establish a tourism committee.
2. Adaptation and development of national craft skill standards.
3. Adaptation and development and implementation of accredited trainer development programme.
4. Development of a regional accreditation programme.
5. Training of key government tourism official.

### **6. Results**

Key assessments:

- Vietnam Tourism Committee is established and strengthened;
- tourism training standards in core craft skill areas are adapted and developed;

- a pool of 2,500 industry based trainers and additional 1,475 in complimentary skills are qualified;
- a regional accreditation/recognition programme is developed in conjunction with regional tourism organisations to facilitate; and to
- improve regional co-operation of Vietnam's role in training;
- a series of Workshops to elaborate European Tourism Marketing programme/practical marketing approaches for the European market is held;
- short training programmes for key government officials in essential tourism management skills are executed.

## **7. Impacts**

- The project started on 4th feb. 2004.
- IPA was approved in May 2004; The first draft OWP was submitted in August 2004 and it was discussed in the PSC Meeting in Sept. 2004. The second draft was re-submitted in Oct and there were still substantive comments from the members of the last Project Steering Committee in Oct. 2004 toward the second draft OWP.
- Until now the OWP has not been approved. The IPA has been extended to cover the activities until Feb. 2005.

## **8. Problems encountered**

- The PMU team (including TA and Vietnamese partner) prove to be unable to present the OWP to the satisfactory standard. It may be a need to change the management team including the two co-directors (Vietnamese and European) and possibly the training expert.
- The TA contractor has submitted several CVs for the European Co-director position. One possible candidate has been selected.
- An interview by telephone was taken place on 7th Jan. 2005. and the candidate appears to be ok.
- The TA contractor will have to make the official proposal for the replacement as soon as possible and in Jan. 2005.

**Programme 7**  
**Small and Medium-Sized Enterprise Development Fund –**  
**Institutional Support to Lending Institutions I**

**1. Project identification data**

Title	Small and Medium-Sized Enterprise Development Fund – Institutional Support to Lending Institutions
Number	VNM / AIDCO / 2000 / 2469
Budget line	B 7-3000
Financing decision	n.a.
Financing agreement	n.a.
Start date	n.a.
Planned end-date	n.a.
Total Budget	2, 395,000
EC Budget (committed)	995,000
EC Budget contracted	n.a.
Disbursements	n.a.
Beneficiary	The main beneficiaries of the project will be small and medium-sized enterprises (SMEs), both privately owned and state-owned, that correspond to the official definition criteria (i.e. a registered capital of below VND 5 billion - equivalent to € 360,000 - and an average number of employees below 200).
Operator (if different from Beneficiary)	Development Assistance Fund

**2. Budget**

Budget Item	€	%
<b>EC contribution</b>	995,000	100%
Services	890,000	89,45%
Contingencies	45,000	4,52%
Evaluation	60,000	6,03%
<b>Vietnam Government</b>	1,040,000	100%
Services	120,000	
Supplies	175,000	
Information / visibility	20,000	
Contingencies	25,000	
<u>Operating costs</u>	1060,000	
<b>Total</b>	2,395,000	100%

### 3. Global objectives

The overall objective of the project is to enhance economic and social development in Vietnam through the provision of improved financial services to SMEs.

### 4. Specific objectives

1. To create and operate a revolving financing facility - the small and medium-sized enterprise development fund (SMEDF) - that offers medium to long-term financing to selected commercial banks for on-lending to SMEs. The SMEDF will be capitalised with the financial resources retrieved from the reimbursement of loans granted under the project "Small and Medium-Sized Enterprise Development Fund SMEDF VNM/B7-3000/96/032".
2. To strengthen the institutional capacity of the Vietnamese Development Assistance Fund (DAF) and of intermediary banks in dealing with the financing needs of SMEs.

### 5. Activities

Major project activities related to the above outputs are:

- Establishment and operation of a Project Management Unit (PMU) at the DAF:
  - physical installation: procurement of office equipment, furniture, installation of computer systems;
  - recruitment of Vietnamese professional and support staff;
  - design and implementation of internal systems and work flows;
  - allocation of responsibilities and on-the-job training;
  - administrative and budgetary project control and reporting.
- Establishment and operation the SMEDF:
  - opening of accounts and transfer of funds,
  - determination of SMEDF lending policies,
  - selection of participating banks and allocation of quota,
  - screening of disbursement requests,
  - supervision of disbursement and reimbursement transactions,
  - monitoring of approved loans,
  - continued recovery and re-allocation of funds from the previous project.
- Provision of professional training to staff at DAF:
  - identification of training needs of staff and management;
  - analysis of similar training programmes of other donors/institutions;
  - design and development of training courses;
  - identification and recruitment of local resources and/or short-term experts for delivery of training;
  - execution of training courses and monitoring of results.

- Provision of professional training to staff at participating banks:
  - identification of training needs of staff and management of participating banks;
  - analysis of similar training programmes of other donors/institutions;
  - design and development of training courses as “classroom” style training for the banks in credit related issues;
  - identification and recruitment of local resources or short-term experts for delivery of training;
  - execution of training courses and monitoring of results;
  - on-site training for credit officers of participating banks in diagnostic reviews at SMEs
  
- Provision of professional training to SME managers:
  - identification of the training/information needs of managers of SMEs;
  - design and provision of training courses for SME managers to strengthen their capacity to prepare investment plans and bank loan requests. This is likely to be carried out with the involvement of chambers of commerce or other business associations.

## 6. Results

- i. Establishment and operation of a revolving refinancing facility for on-lending to SMEs (the SMEDF), using existing financial resources from the previous project.
- ii. Design and delivery of training to (a) the staff and management of the DAF, (b) staff of intermediary banks and (c) managers of SMEs.

## 7. Impacts & Problems encountered

From evaluation report<sup>17</sup>:

### *Improvement of SME Lending Capabilities of Participating Banks*

This objective was to be achieved through training of bank staff, particularly loan officers to improve their loan appraisal and monitoring capabilities. The mid-term evaluation interpreted it as also including institutional development support to the participating banks to improve their investment credit management systems. Since the project practically carried out no training at all, the question of whether and how effectively it achieved the objective becomes irrelevant, whether it is interpreted in a more limited operational, or in a wider management-oriented sense.

### *Improved Financial Services to SMEs*

SMEDF regulations obliged the participating banks to apply stringent criteria to the selection of beneficiary SMEs, since they had to assume the full default risk. This naturally limited the segment of SMEs, which could benefit from SMEDF loans, and it may be

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<sup>17</sup> SMEDF Evaluation Report Phase I.

argued, that many of them could have obtained bank loans even in the absence of SMEDF. However, all participating banks confirmed, that the availability of SMEDF funds gave a boost to their SME lending operations and in that sense, SMEDF was an important element in improving financial services to those SMEs, that satisfied the banks' selection criteria.

Rider No.1 to the Financing Agreement extended the geographical coverage of SMEDF from originally 21 provinces and cities to nation-wide. In practice, all but 21 (8.6%) of the 243 SMEDF loans were concentrated in the North and South (including Delta) areas. This reflects the distribution of economic (industrial) activities in Vietnam, on which SMEDF had no noticeable impact. It reinforces the argument, that SMEDF, the way it was designed, did not improve financial services to SMEs in general, but only to a select segment. However, even this is a considerable achievement.

### ***Improved Performance of SMEs and their Increased Contribution to Growth and Employment Generation***

This was the core objective of SMEDF, and while it is difficult to measure the improvement in performance of the beneficiary SMEs, and their increased contribution to growth, it is possible to quantify the employment generation effect of the SMEDF loans.

According to the SMEDF database the loans created about 9,400 new employments. The mission's visits to a sample of 31 enterprises gives reason to believe that the figure may be overestimated by as much as 30% and the effective creation of new employments was about 6,800. This figure has to be seen in relation to the means employed. The total amount of SMEDF loans was approx. 18,000,000 US\$, which gives about 2,650 US\$/employment created. Considering that the SMEDF target group overwhelmingly consists of labour-intensive, low-technology SMEs, the figure is quite high. However, significant differences exist between POEs and SOEs: 1,850 US\$/new employment for POEs versus 7,900 US\$ for SOEs. Even allowing for distortions through the size of the sample, it is safe to say that the employment generation effect of loans to privately owned enterprises was a multiple of that of loans to state-owned enterprises.

The project disregarded the SMEDF objective of employment generation in approving a considerable number of loans, which showed a low or even zero employment creation effect, even in the ex-ante estimates. Theoretically, the PPMU could have refused such loans. In practice, it would have been problematic, as it would have imposed an additional selection criterion on the banks that already found it difficult to identify 'good' projects.

In summary, SMEDF had a significant employment generation effect in absolute terms. It could have been larger with a different design of the project, which is a lesson for the future.

No other indicators mentioned in the evaluation grid are available.

**Programme 8**  
**Small and Medium-Sized Enterprise Development Funds –**  
**Institutional Support to Lending Institutions II**

**1. Project identification data**

Title	Small and Medium-Sized Enterprise Development Funds – Institutional Support to Lending Institutions II
Number	VNM/AIDCO/2000/2469
Budget line	32130
Financing decision	10/12/2002
Financing agreement	16/04/03
Start date	Sept. 2004.
Planned end-date	2006 (tbc)
Total Budget	2,395,000
EC Budget (committed)	995,000
EC Budget contracted	798,780.00 (as of 29/04/2005)
Disbursements	246,000.00 (as of 29/04/2005)
Beneficiary	The Development Assistance Fund (DAF)
Operator (if different from Beneficiary)	

**2. Budget<sup>18</sup>**

Category Breakdown	EC	Vietnam	Total:	Contracting Authority	Responsible for payment
<b>1. Services</b>	<b>950,000</b>	<b>120,000</b>	<b>1,070,000</b>		
European TA	890,000		890,000	EC	EC
Local TA		120,000	120,000	EA/IA	EA/IA
Monitoring and Evaluation	60,000		60,000	EC	EC
<b>2. Supplies</b>		<b>175,000</b>	<b>175,000</b>	EA/IA	EA/IA
2.1 Vehicle rent/purchase		60,000	60,000		
2.2 Office equipment		80,000	80,000		
2.3 Consumables		35,000	35,000		
<b>3. Information/visibility</b>		<b>20,000</b>	<b>20,000</b>	EA/IA	
3.1 Development of information material, CD ROMs, web pages etc.		20,000	20,000		EA/IA
				EA/IA	

<sup>18</sup> No other budget presentation available.

<b>4. Operating Costs</b>		<b>1,060,000</b>	<b>1,060,000</b>		EA/IA
4.1 Local Personal and office costs		400,000	400,000		
4.2 Local transport and communication		260,000	260,000		
4.3 Training – related expenses		250,000	250,000		
4.4 Audit		80,000	80,000		
4.5 Others		70,000	70,000		
<b>5. Contingencies</b>	<b>45,000</b>	<b>25,000</b>	<b>70,000</b>	EC/EA	EC/EA
<b>Total</b>	<b>995,000</b>	<b>1,400,000</b>	<b>2,395,000</b>		

### 3. Global objectives

- The overall objective of the project is to enhance economic and social development in Vietnam through the provision of improved financial services to small- and medium sized enterprises (SMEs)<sup>19</sup>.

### 4. Specific objectives

- To create and operate a revolving financing facility -the small and medium-sized enterprise development fund (SMEDF) -that offers medium to long-term financing to selected commercial banks for on-lending to SMEs. The SMEDF will be capitalised with the financial resources retrieved from the reimbursement of loans granted under the project "Small and Medium-Sized Enterprise Development Fund SMEDF VNM/B7-3010/96/032".
- To strengthen the institutional capacity of the Vietnamese Development Assistance Fund (DAF) and of intermediary banks in dealing with the financing needs of SMEs.

These measures will contribute to increase the productivity and competitiveness of SMEs in Vietnam, and help to create new employment opportunities.

### 5. Activities

Major project activities related to the above outputs are:

- Establishment and operation of a Project Task Force (PTF) at the DAF:
  - physical installation: procurement of office equipment, furniture, installation of computer systems;
  - recruitment of Vietnamese professional and support staff;
  - design and implementation of internal systems and work flows;

<sup>19</sup> The eligibility for loans under this scheme will be limited to Vietnamese and EU – owned SMEs.

- allocation of responsibilities and on-the-job training;
- administrative and budgetary project control and reporting.
  
- Establishment and operation of the SMEDF:
  - opening of accounts and transfer of funds;
  - determination of SMEDF lending policies;
  - selection of participating banks and allocation of quota;
  - screening of disbursement requests;
  - supervision of disbursement and reimbursement transactions;
  - monitoring of approved loans;
  - continued recovery and re-allocation of funds from the previous project.
  
- Provision of professional training to staff at DAF:
  - identification of training needs of staff and management;
  - analysis of similar training programmes of other donors/institutions;
  - design and development of training courses;
  - identification and recruitment of local resources and/or short-term experts for delivery of training;
  - execution of training courses and monitoring of results.
  
- Provision of professional training to staff at participating banks:
  - identification of training needs of staff and management of participating banks;
  - analysis of similar training programmes of other donors/institutions;
  - design and development of training courses as "classroom" style training for the banks in credit related issues;
  - identification and recruitment of local resources or short-term experts for delivery of training;
  - execution of training courses and monitoring of results;
  - on-site training for credit officers of participating banks in diagnostic reviews at SMEs.
  
- Provision of professional training to SME managers:
  - identification of the training/information needs of managers of SMEs;
  - design and provision of training courses for SME managers to strengthen their capacity to prepare investment plans and bank loan requests. This is likely to be carried out with the involvement of chambers of commerce or other business associations.

## 6. Results

The envisaged results of the project are:

- (i). Establishment and operation of a revolving refinancing facility for on-lending to SMEs (the SMEDF), using existing financial resources from the previous project.
- (ii). Design and delivery of training to (a) the staff and management of the DAF; (b) staff of intermediary banks and (c) managers of SMEs.

## **7. Impacts**

The Programme has not been implemented yet.

## **8. Problems encountered**

The Programme has not been implemented yet.

## Programme 9 European Business Information Centre (EBIC)

### 1. Project identification data

Title	European Business Information Centre (EBIC Vietnam)
Number	VNT/ALA/97/05/B73010 VNM/RELEX/H01/2000/2242
Budget line	B7-3010
Financing decision	
Financing agreement	
Start date	
Planned end-date	
Total Budget	0.993081 Mio €
EC Budget (committed)	0.993081 Mio €
Beneficiary	The Socialist Republic of Vietnam
Executing agency	Ministry of Trade

### 2. Budget

Budget Item	Euros	%
1. PMU's operational costs	700,000	71%
2. Technical assistance	293,081	29%
<b>Total</b>	<b>993,081</b>	<b>100,00%</b>

### 3. Overall and objectives

- To raise the profile of the European Union among the business community in Vietnam.
- To contribute to the development of Vietnam.

### 4. specific objectives

- To increase, while acting in a manner complementary to the public and private sector agencies of the EU member states, the capacity of Asian businesses to engage in mutually beneficial linkages with EU businesses.

### 5. Activities planned

- The European Business Information Centre (EBIC) Vietnam was part of a network set up and financed by the European Commission all over Asia. EBIC programmes were integrated into European Chambers of Commerce or European Business Councils. Distinct offices were located, inter alia, in India, Malaysia, Sri Lanka, and Vietnam. The

vehicles used to pursue the above objectives were: (1) provision of information; (2) provision of training; (3) matchmaking opportunities; and (4) providing access to respective instruments.

- The EBIC Vietnam was designed to act in a manner complementary to the public and private sector agencies of the EU member states, and as a so-called Focal Contact Point (CFP) and “antenna” for various EU-Asia economical co-operation and development programmes. In addition, EBIC was designated as a national sale and distribution agent of OPOCE, the official agency for all EU publications in print and electronic format.
- The Centre was closed in 2003 at the request of the EU member states on the basis that trade promotion should be the preserve of the member states and not a Community competence.

## **6. Problems encountered**

- By all accounts, the EBIC performed a useful function in Vietnam, was appreciated by its beneficiaries. As a ‘one stop shop’ it provided the Vietnamese business community, professional associations and trade promotion offices with an efficient means of obtaining information, inter alia, on the Single Market and as a ‘clearing house’ passed on requests for business linkages to the embassies of the EU member states.
- The main problem encountered relates to sustainability, since future funding has been withdrawn.

## Annex 6 – Evaluation Questions Grid

### EQ 2 - Overall design of the strategy

Is the EU PSD strategy in terms of “expected results” well designed to ensure the realisation of the purpose of strengthening the business sector with a view to contribute to the overall objectives of the EU external policy?

- A. To what extent is each area of intervention (“expected results”) relevant in terms of contribution to the purpose?
- B. Is its success dependent on certain conditions (another expected result or some other ‘external’ factor)? If yes, which ones? Have they been identified in EU PSD strategy documents?
- C. Is the set of fields of actions comprehensive (are some essential fields missing (for example, role of champions)?
- D. Is it well structured:
  - i. Are there potential complementarities and synergies between expected results and have they been identified?
  - ii. Are there possible contradictions between fields and have they been identified?
  - iii. Should there be a prioritisation?

2.B.1 Conditions to reach expected results exit

#### **Preliminary comment**

For each field of actions include in the Commission PSD strategy (see annex 8), conditions likely to influence the success of interventions are mentioned. Reviewing the five fields of actions, one can for instance identify:

- (i) **Administrative and macroeconomic reforms:** The need to develop some reliable results indicators related to private sector development, the need to conduct a prior analysis of the country’s economic situation using a sound methodology so as to identify the problems and constraints affecting the creation of a climate conducive to PSD, the general conditions for adopting a budget support and/or sector support approach.
- (ii) **Investment and inter-enterprise co-operation promotion activities:** the need to tailor standard components of the programme to the regional context, the use of simple and fast procedures, a clear identification of the different tasks associated with management of the programme and their distribution to the different participants so as to avoid duplication of efforts, the obligation to implement these measures as part of an overall investment promotion and business-to- business cooperation programme.
- (iii) **Investment financing and development of financial markets:** the need to focus on financing operations enabling firms to contribute to improving the general economic and social situation of the country to which strictly eligibility criteria should be applied, the need to meet local demand that cannot be satisfied by local financial systems due to lack of funds or suitable financial instruments, the need to seek leverage effects in order to attract other private capital into financing of these investments, the need to channel these operations through local financial institutions in order to encourage their development, the need to operate according to conditions applicable to similar operations on the local market so as to avoid market distortions.

- (iv) **Developing services for Small and Medium-Sized Enterprises (non-financial services):** ensure that these measures go hand-in-hand with the macroeconomic level, the need to implement such measures in countries where private enterprises have reached a minimum level of development and where the business environment is sufficiently favourable, ensure sustainability by giving priority to intermediaries, basing the strategy on what exists locally and using market forces.
- (v) **Support for micro-enterprises:** the need to manage micro-finance activities in a commercial way so as to avoid creating market distortions and promote beneficiaries' responsibility, the need to assess the viability of micro-finance institutions (MFIs), the quality of their projects and the quality of MFIs management.

Such conditions are rather general and are not explicitly structured around a conceptual basis that would help to identifying the central and generic conditions they in fact refer to (Cfr. annex 9 summarising the main justifications of public interventions in the private sector).

#### *2B.1.3 Country missions provide examples from such conditions*

In Vietnam, the Commission's PSD interventions are embodied in the second focal point of the country's strategy (Integration into the International Economy). The CSP 2002<sup>20</sup> indicates that this focal point targets two complementary areas. First, assistance to the essential internal reforms Vietnam needs to undertake and second, to assist in the opening of its market to the international flows of trade and investment in the framework of its planned accession to WTO and existing commitments with AFTA. PSD activities are included in the first area through three different aspects:

- i. Human development: Develop new types of education, know-how, training and skills are needed to implement the transition.
- ii. Policy making and implementation: Develop appropriate policies, laws and regulations to direct the process and provide assistance in their application by government in both the public and private sector which implies the existence of a properly functioning judiciary system is also essential for effective implementation of the regulatory framework.
- iii. Promotion of the private sector: Foster employment creation by increasing numbers of SMEs to drive the modernisation of Vietnam's economy and to maximise export and industrial co-operation opportunities.

These genuine PSD components are completed with two additional aspects:

- a. alleviation of the social consequences of reform and in particular, migration problems linked to important segments of rural population migrating to urban enters;
- b. promotion of good governance and best administrative practices with a particular attention to reforms of SOEs.

Finally, first focal point of the CSP contains a component related to vocational training meant to address the scarcity of specific skills and supposed to contribute to the development of the professional and technological skills needed to assist the expansion of SMEs and to promote FDI.

In terms of activities, the NIP 2002 focuses on the creation and development of SMEs aiming to increase their productivity and competitiveness, through the provision of<sup>21</sup>:

- (i) an extension of the financing facility (SMEDF) aiming to strengthen the capacity of the relevant lending institutions by enhancing their ability to assess risks related to projects presented by SMEs and reducing the practice of asking for excessive collateral and / or a risk premium. This specific intervention would facilitate access to existing SMEDF lending facility by SMEs;
- (ii) other financial support to SMEs to be further examined, such as guarantees;

<sup>20</sup> European Commission (2003), *EC-Vietnam Country Strategy Paper 2002-2006*.

<sup>21</sup> European Commission (2003), *EC-Vietnam Country Strategy Paper 2002-2006*.

- (iii) technical assistance to improve performance in for example marketing and quality assurance, access to business co-operation opportunities with economic operators outside Vietnam;
- (iv) accompanying services for innovative start-ups to ensure their feasibility;
- (v) assistance in the development of chambers of commerce and trade/industrial associations, promoting access to EU regulatory industrial requirements;
- (vi) assistance to reform of a selected group of State Owned Enterprises.

Both external and internal-to-PSD-strategy conditions likely to affect the results to be achieved in a particular component exist. As far as external conditions are concerned, PSD is closely related to (i) to the stability of the social-political context which reduces investment risks and (ii) the soundness of the general macroeconomic framework, particularly for avoiding the crowding out of the private by the public sector and the coherence with the trade policy. The objective to contribute to Vietnam's export and hence to an export led growth process can indeed only be achieved if tangible progress is recorded in the area of trade policy and trade facilitation. In Vietnam, such conditions are likely to be fulfilled, except for the predominance of numerous SOEs in some segments of activities and the fact that the capacity of SMEs - which represent around 95% of Vietnamese firms - to access export markets remains limited. The various elements of the PSD strategy can also constitute major conditions with respect to each other. In particular, promotion of the private sector and the success of direct support to private operators are strongly dependent on the progress in the area of policies, laws and regulations as well as on structural reforms in the area of SOEs.

The CSP refers to some conditions likely to affect the results achieved in a particular area. In particular, it mentions that aspects targeted by the component related to the promotion of good governance and best administrative practices are key issues for the success of the country's reform process in particular with regard to reforms of the SOEs. Vocational training is considered as crucial for supporting the ongoing socio-economic transition as lack of skills is identified as a major constraint that could dampen development efforts. Moreover, the CSP explicitly link this intervention to focal point 2, "human development".

However, there does not seem to be a systematic and comprehensive coverage of the main elements conditioning the success of interventions programmed and implemented in a given area. For instance, although good governance aspects and best administrative practices are mentioned as key issues, there is no reference to the important institutional bottlenecks constraining the development of the private sector, in particular with regard to the financial and banking sector and the particular mechanisms through which SOEs crowd-out the private sector by limiting its access to financial resources and land.

2D.1 There are potential complementarities and synergies between expected results

**Preliminary comment:**

The expected results corresponding to the fields of actions of the Commission PSD strategy are highly complementary and progresses in one area is often conditional on those achieved in other ones, in particular the reforms of the legal and regulatory framework. The Commission's Guidelines considers some links between the various fields of actions included in its PSD strategy. Namely, the field **Administrative and macroeconomic reforms** is mentioned as an important complement to **Developing services for Small and Medium-Sized Enterprises**. However, complementarities and synergies between the different expected results are not systematically established. Guidelines hardly refer to the sequence with which the different components should be addressed, nor do they establish a prioritised road map to PSD in which one realisation in an upstream field of action would clearly appear as a precondition for implementing activities in a downstream one.

*2D.1.3 Country missions provide examples of such complementarities*

The CSP mentions two complementary areas of interventions included in the second focal point of the strategy, namely internal reforms and opening to trade. As indicated above, the CSP also links between

some elements of the PSD strategy like the fact that the promotion of good governance and best administrative practices and reforms of the SOEs, or vocational training, human development and support to SMEs. However, it does not explicitly identify potential complementarities between the different PSD components of the strategy. Logically, it does not provide indications as how to articulate the different aspects of the strategy so as to maximise the exploitation of those complementarities.

2D.2 Prioritisation of areas of intervention (expected results) leads to a better realisation of the purpose

2D.2.3 *Country missions provide examples of such issue*

The CSP/NIP 2002 does not establish a prioritisation of the PSD components included in the strategy or of the various elements the strategy. For instance, there is no mention that achievement in the area of the legal and regulatory framework should be a priority as they possibly condition achievements in the support to SMEs. Prioritisation of fields of actions and related activities could constitute an improvement. However, parties interviewed during the field mission reported that this possibility remains limited due to (i) the difficulty to establish such a priority in a fast growing economy and (ii) the constraint imposed by the ALA regulation to formulate programmes that promote mutual interest.

### EQ 3 – Relevance of PSD strategy in a given country

<p><b>For a given country,</b></p> <p><b>A. Does the selection of the areas of intervention correspond to the EU PSD strategy?</b></p> <p><b>B. Does the selection of the areas of intervention correspond to clearly identified priority needs of this country to increase the competitiveness of the business sector with the view to contribute to the overall objectives of the EU external policy?</b></p>
<p>3A.1 The areas of intervention (expect results) in Vietnam correspond to the areas proposed in the Commission's PSD strategy</p>
<p><i>3A.1.1 Correspondence between the areas of intervention (expect results) in Vietnam and the Commission's PSD strategy</i></p>
<p>The Commission's main PSD interventions are embodied in the second focal point of the country's strategy and cover three different aspects:</p> <ol style="list-style-type: none"> <li>i. Human development: Develop new types of education, know-how, training and skills are needed to implement the transition.</li> <li>ii. Policy making and implementation: Develop appropriate policies, laws and regulations to direct the process and provide assistance in their application by government in both the public and private sector which implies the existence of a properly functioning judiciary system is also essential for effective implementation of the regulatory framework.</li> <li>iii. Promotion of the private sector: Foster employment creation by increasing numbers of SMEs to drive the modernisation of Vietnam's economy and to maximise export and industrial co-operation opportunities.</li> </ol> <p>Programmed activities indicated in the NIP 2002 target the following aspects:</p> <ol style="list-style-type: none"> <li>i. an extension of the financing facility (SMEDF) aiming to strengthen the capacity of the relevant lending institutions by enhancing their ability to assess risks related to projects presented by SMEs and reducing the practice of asking for excessive collateral and / or a risk premium. This specific intervention would facilitate access to existing SMEDF lending facility by SMEs;</li> <li>ii. other financial support to SMEs to be further examined, such as guarantees;</li> <li>iii. technical assistance to improve performance in for example marketing and quality assurance, access to business co-operation opportunities with economic operators outside Vietnam;</li> <li>iv. accompanying services for innovative start-ups to ensure their feasibility ;</li> <li>v. assistance in the development of chambers of commerce and trade/industrial associations, promoting access to EU regulatory industrial requirements;</li> <li>vi. assistance to reform of a selected group of State Owned Enterprises.</li> </ol> <p>The "Policy making and implementation" component clearly corresponds to the field of action "<b>Administrative and macroeconomic reforms</b>" and has been implemented through programmes like <b>ETV 1</b> and <b>ETV 2</b> that clearly target the improvement of the legal and regulatory framework.</p> <p>The "Promotion of the private sector" component is rather broadly defined as the CSP 2002 mention that it could include activities such as SOE reform, promotion of financing for start-up and development costs, training for SMEs - for example, in quality control, marketing -, establishment and development of trade and industrial associations, establishment of an institutional framework for the development of SMEs, helping SMEs to internationalise their activities. This is related to the fields of actions "<b>Developing services for Small and Medium-Sized Enterprises</b>" (e.g. establishment and development of trade and industrial associations), "<b>Investment and inter-enterprise co-operation promotion activities</b>" (e.g. maximise industrial co-operation opportunities) and "<b>Investment financing and development of financial markets</b>" (e.g. promotion of financing for start-up and development costs). Note that this</p>

component of the Vietnam's CSP in fact covers several fields of actions of the Commission PSD strategy.

Finally, the connection between the "Human development" component and the different fields of actions included in the Commission PSD strategy is less obvious although it could be related to "**Developing services for Small and Medium-Sized Enterprises**" (particularly given the objective of "skill upgrading" included in this field).

Other elements of the CSP are related to PSD aspects although they are not directly related to the fields of actions of the Commission PSD strategy. In particular, the first focal point of the country strategy includes vocational training which is explicitly mentioned as a key issue for SMEs. Also, the CSP component titled "Alleviation of the social consequences of reform" is supposed to address the social costs of the country's transition to a market economy and complement PSD interventions to address such issues.

3B.1 The selected areas of intervention (expect results) correspond to clearly identified needs of Vietnam in terms of PSD

3B.1.1 *Correspondence between selected areas of intervention (expect results) and clearly identified priority needs of Vietnam in terms of PSD*

The analysis reported in section 3 of this Country Note lists the following aspects as the main constraints affecting PSD in Vietnam:

- (i) Resources remain limited and resource mobilisation has been limited and inefficient. In particular, reinvestment capacity is inconsiderable, and banking and financial system is inefficient<sup>22</sup>. Foreign investment is stagnating if not decreasing and the environment still features important shortcomings in terms of management and regulations<sup>23</sup>. Also, land shortages constitute a major constraint on the country's development and in particular on the development of its private sector<sup>24</sup>. Land resources are limited in the Vietnam, and SOEs control most of available land for business purposes. In addition, the process for SMEs of getting land is cumbersome: companies need to apply in their local authority, which involves a lot of transaction and hidden costs as well as numerous uncertainties. **Covered by CSP point (iii) and NIP points (i) and (ii). This also covered by projects implemented by the Commission such as SMEDF I and II.** Note that access to land is repeatedly cited as a major constraint for PSD (see section 3 of the country report), but the Commission's strategy remains silent on this particular aspect.
- (ii) The proportion of trained workers in the labour force is low and Vietnam's ability to create new jobs and increase labour productivity remains limited which intensifies pressure to solve the employment problem. Urban unemployment has been rising in recent years, and rural unemployment, estimated to be between 25% and 35% during non-harvest periods, is already at critical levels. Layoffs in the state sector and foreign-invested enterprises combined with the lasting effects of an earlier military demobilization further exacerbate the unemployment situation<sup>25</sup>. From this point of view, private sector development is critical for job creation. **Covered by CSP points (i), (iii) and CSP's first focal point, component "Vocational training". Covered by labour market project.**
- (iii) The two pillars of Vietnam's manufactured exports are locked in labour-intensive sectors where the wage bill typically absorbs most of the value-added; furthermore, the two sectors operate primarily through contract processing on behalf of foreign intermediaries who supply raw materials, semi-transformed products, equipment, and intangibles such as design, technology and marketing know-

<sup>22</sup> GoV (2002), The Comprehensive Poverty Reduction And Growth Strategy.

<sup>23</sup> UNIDO (2002), Integrated Programme of Cooperation between the Socialist Republic of Vietnam and UNIDO, 2003-2005.

<sup>24</sup> World Bank (2005), Managing Investment Climate Reforms: Viet Nam Case Study.

<sup>25</sup> GoV (2002), The Comprehensive Poverty Reduction And Growth Strategy and IMF and IDA (2004), Joint Staff Assessment of the Poverty Reduction Strategy Paper, Annual Progress Report.

how. Thus their ultimate impact of the trade balance is more modest than export figures alone would suggest, as it is basically reduced to the dollar-equivalent of their consolidated wage bill<sup>26</sup>. **Covered by CSP points (i) and (iii) and NIP points (iii), (iv) and (v).**

- (iv) The low profitability of domestic enterprises highlights both Vietnam's comparative advantage in cheap labour, and the cut-throat competition that characterizes these industries globally. It leaves little resources indeed to spare for a process of accumulation that would drive Vietnam's exports from labour-intensive through capital intensive to, ultimately, technology and knowledge-intensive. It also shows that Vietnam's enterprises have precious little margin for manoeuvre on a proactive Corporate Social Responsibility agenda, unless the firms can internalise tangible benefits through the enhanced productivity of their employees<sup>27</sup>. **Covered by CSP point (i) and (iii) and NIP points (iii) and (iv).**
- (v) The process of reforming the economy is in progress but is still slow on certain aspects. In particular state-owned enterprises (SOEs) remain important economic actors (still accounting for about 38% of GDP in 2002<sup>28</sup>). As pointed by the IMF and the World Bank, the pace of reform of SOEs and the banking sector has proven to be slower than originally envisaged. Progress in improving and simplifying governance in the SOEs has to date been limited, while the equitisation program fell behind schedule<sup>29</sup>. **Covered by CSP points (i) and NIP point (v).**
- (vi) The overall business environment still suffers from important weaknesses. In particular, the Vietnamese Business Forum held in 2002 identified the following needs for improvement: Efficiency and transparency of the civil services, even and strict law enforcement, market entry limitation like unnecessary permits, acceleration of the financial sector reform, utilities costs and infrastructure and overhaul the tax regime<sup>30</sup>. **Covered by CSP point (i) and NIP points (i) and (ii). Institutional reforms are covered by programmes like ETV 1, ETV 2 or Small Projects Facility.** However, no Commission programme directly addresses the issue of reforms of SOEs. **This is however covered by other donors like the World Bank or DFID.**

Note that this list broadly corresponds to the main PSD constraints as identified by various stakeholders interviewed during the field mission and which relate to:

- lack of financial resources,
- lack of land resources,
- lack of skills workers,
- low value-added goods,
- low margins,
- predominance of SOEs,
- business environment,
- lack of administrative capacity,
- lack of entrepreneurial culture,
- business management capacity,
- professional associations,
- technology.

In conclusion, there is a relatively close correspondence between the selected areas of intervention for the country PSD strategy and the major needs of Vietnam in terms of PSD. Exception to that is the fact that

<sup>26</sup> UNIDO (2005), Socio-economic facts, Vietnam, <http://www.un.org.vn/unido/>.

<sup>27</sup> UNIDO (2005), Socio-economic facts, Vietnam, <http://www.un.org.vn/unido/>.

<sup>28</sup> European Commission (2003), EU Economic and Commercial Counsellors' 2003 Report.

<sup>29</sup> IMF and IDA (2004), Joint Staff Assessment of the Poverty Reduction Strategy Paper, Annual Progress Report.

<sup>30</sup> European Commission (2003), EU Economic and Commercial Counsellors' 2003 Report.

no project/programme seems to address (i) the general issue of the collateral requirements imposed to entrepreneurs and the particular one of access to land (which remains the main form of collateral admitted by financial institutions) and the administrative difficulties in obtaining land certificates, (ii) the lack of capacity in the banking sector for providing long term funding due to weaknesses of accounting practices and the related absence of credit rating associations, and (iii) important institutional bottlenecks like for instance the absence of accreditation system which prevents the establishment of local private providers of BDS (e.g. accountants) or the legal provisions hampering the emergence of an efficient financial and banking sector (e.g. credit officer responsible for bad debt can be punished by imprisonment). Finally, the relevance of the Commission's PSD strategy which focuses on SMEs (which is in line with the Commission's guidelines) can be questioned as the vast majority of Vietnamese SMEs remain extremely small. Although they represent 95% of private firms, they only account for less than 35% of industrial employment, attract less than 20% of investment, are not sufficiently developed to compete on international markets and contribute modestly to growth. For these reasons, there is doubt that SMEs constitute a strong engine of development and growth for the country.

*3B.1.2 Correspondence between PSD strategy in the country and national priorities or policies*

The analysis reported in section 3 of this Country Note identifies the following priorities in the GoV's strategy in the field of PSD:

- i. Reform of the trade policy. **Covered by CSP and NIP (Integration into the international and regional economic structure).**
- ii. Reform of the financial and banking sector. **Covered by CSP point (iii) and NIP points (i) and (ii).**
- iii. Reform of SOEs. **Covered by CSP point (ii) and NIP points (vi).**
- iv. Improve the legal and regulatory environment. **Covered by CSP point (ii).**
- v. Develop comparative advantages in labour intensive industries and industries that utilise domestically produced agricultural, fishery and forestry raw materials. **Not specifically covered.**
- vi. Formulate policies to, *inter alia*, create jobs, provide credit, develop essential infrastructures, improve urban environment and landscape, strengthen vocational training and resolve effectively problem of urban migration. **Covered by CSP points (i), (ii) and (iii) and NIP points (i), (ii), (iv) and (v).**

## EQ 4.1 – Effectiveness - Business environment

<p><b>To what extent did EU interventions make the institutional, macro-economic and legal and regulatory framework more conducive to PSD?</b></p> <p>EC PSD intervention aimed at improving Vietnam’s institutional setting through the following programmes: European Technical Assistance Programme Vietnam (ETV) 1 and 2, Labour Market Project, and Human Resources Development in Tourism. Of these, only ETV 1 is in completion and can be assessed in terms of effectiveness.<sup>31</sup> The other programmes have not yet been implemented<sup>32</sup>.</p>	
41.1	EC support to the institutional setting has contributed to the development of the business sector
41.1.1	<i>The objective of the programme corresponds to the expected result proposed by the EU PSD strategy</i>
<p>The Commission’s programmes in the business environment correspond to the expected results of the Commission’s PSD strategy. ETV 1, the only programme in that sub-field that has been completed, aimed among other objectives, at</p> <ul style="list-style-type: none"> <li>▪ developing a legislative and regulatory framework suitable to market mechanisms and conducive to external trade and foreign investors;</li> <li>▪ modify and establish effective, efficient and sustainable institutional framework consistent with legislative and regulatory frameworks;</li> <li>▪ operationalise legislative, regulatory and institutional reforms by providing appropriate training both on-the-job and academic at all working levels in relevant and selected areas limited but essential equipment deemed necessary to enhance reform mechanisms;</li> </ul> <p>These objectives are in line with EC PSD strategy to improve the institutional framework.</p>	
41.1.2	<i>Evidence that the improved institutional capacity due to EU support has produced a framework that is more conducive to PSD</i>
<p>The Commission’s intervention aimed at improving Vietnam’s institutional setting through several programmes.<sup>33</sup> Of these, only ETV 1 is in completion and can be fully assessed in terms of effectiveness. For other programmes, the evaluation team has analysed the likely effectiveness of the programme by assessing the extend to which the programmes incorporated lessons from past programmes<sup>34</sup>.</p> <p><b>ETV 1:</b> According to the evaluation report<sup>35</sup>:</p> <ul style="list-style-type: none"> <li>▪ <u>Accounting and auditing:</u> The project has been in line with the objectives of assisting Vietnam in its transition to a market economy and of improving Vietnam’s financial infrastructure and the conditions for foreign investment as well as domestic investment. But these objectives will be completely reached when the proposed reforms have been fully accepted.             <ul style="list-style-type: none"> <li>- More specifically:                 <ul style="list-style-type: none"> <li>- <u>institutional and legal component:</u> Accounting and auditing standards have not yet been accepted by Vietnamese parliament. Reasons include that the as they stand, the new laws could damage the economy because it will force some firms into bankruptcy given that these companies do not meet new standards;</li> <li>- <u>professional action:</u> Dissemination to six audit firms. Positive impacts include the integration of Vietnamese audit firms into the big five Western audits firms, as well as the general appreciation by the big five Western firms of the new auditing environment.;</li> </ul> </li> </ul> </li> </ul>	

<sup>31</sup> The other programmes have not yet been implemented.

<sup>32</sup> SPF, Labour Market Project and PSSP have not started implementation phase.

<sup>33</sup> European Technical Assistance Programme Vietnam (ETV) 1 and 2, Labour Market Project, and Human Resources Development in Tourism.

<sup>34</sup> The other programmes have not yet been implemented.

<sup>35</sup> Euro-TAP Viet Programme Evaluation.

- academic assistance: utilisation of new training methodology was limited to the MOF, global system of training not yet been adopted given that this requires complete re-organisation of curricula at university level and re-definition of role of the FTC (Financial Training Centre at MOF), requiring the stop of monopoly of FTC and redelegation of its works to other universities.
- Intellectual property project: The report in May 1997 for the EC 'Vietnam – Trade and Investment Analysis 1997 update' says the majority of companies reported no change in the level of IP protection over the previous 12 to 18 months. While the IP projects represent a small part of the total budget, but the project made a key contribution to a number of sectors that have to be developed if Vietnam is to succeed in its aim of transiting towards a market economy. The modest budget for IP hides the importance of the value of the inputs which are being fed into key institutions.
- Insurance Project:
  - Impact on Vietnam's transition to a market economy:
    - it has to be said that the impact of the project towards this objective is still largely awaited. The impact will come largely from the development of the legal and institutional framework;
    - the vocational training will assist the development of the new insurance companies and the study tours have exposed senior managers to the working of the insurance industry in developed market economies. They now understand far better to need for regulation, supervision, trade associations and how companies operate under true competition;
    - unfortunately the latest move in the sector in the face of stiff competition and more competitive rates is to fix prices;
    - no progress has been made on achieving market access for EU companies although this was not a stated objective of the project.
  - To improve the financial infrastructure and conditions for private sector investment:
    - the project has contributed via the legal and institutional framework sub-components but this will be for the future.
- Standards and quality assurance project

In the period from 1996 to 2000, with the support of S&QA project and EU expert in reviewing the current legislative framework, the MSTQ activities have been changed basically: The National Quality Policy has been developed and quality consciousness at national level is improved; new technical regulations were designed based on new European approaches; the above two main ordinances were revised and re-promulgated in the year 1999 resulting in improvement of legislative framework of MSTQ sector; which could be lately further developed and harmonized with regional and international one; the mandatory products and goods registration has been changed into company's conformity declarations, which gives broader initiative to the companies; the certification and accreditation activities have been started and operated according to international standards and criteria; the calibration services first time is included in the revised Ordinance on Metrology, that contributes to development of not only legal but also industrial and scientific metrology.

Currently, in the process of preparation for joining the WTO, with ETV 2 (Standards and Quality Control component- S&QC) support, the following results would be achieved (in developing legislative framework):

- knowledge and skill on GRP development could be improved;
- active participation in regional and international MRAs could be promoted;
- technical barriers to trade should be reduced;
- review of organizational structure could be reached in term of having QUACERT and BoA independent as much as possible and regional and internationally recognised.

ETV 2 has not yet been launched, but the evaluation team did analyse the extent to which the design of ETV 2 took into consideration the effectiveness lessons learned in ETV 1. In particular, according to the final evaluation of ETV 1, it seems that achieving the embracement of the private sector from legal & institutional reform, two conditions needs to be fulfilled:

1. **The successful introduction of the law (Accounting and auditing; insurance sector).**
2. **An adequate targeting of the private sector (dissemination, etc.) to make sure they are aware of the changes (e.g. IP project in ETV 1).**
3. **Proper delegation of work at lower levels and thus reform monopoly of MFI.**

During interviews, we have assessed the extend to which measures have been taken to ensure that these obstacles have been considered in the design and implementation of ETV 2. According a Commission's delegate responsible for ETV 2, it seems that ETV 2 will not suffer effectiveness-related problems such as those experienced during ETV 1. Reasons include that:

- a. There is an improved knowledge in the country: back in the mid-1990s, the Vietnamese authorities and private sector were not knowledgeable about auditing (there were very few auditing firm/individuals, etc.), so they essentially had to start from scratch.
- b. Local authorities are more experienced with owning and delegating projects: while the MOF will still be involved in most projects during ETV 2, it is now better experienced to delegate its responsibilities.
- c. Components of ETV2 are more easily absorbable by the private sector:
  - i. compared to auditing, tax law is requires less the adoption of the private market.
  - ii. ETVII components e.g. customs require less dissemination and training.
- d. There have been measures to test the new law on some companies through the introduction of pilot implementation of the law in some companies.

According to the ETV programme manager, it seems important to integrate companies as much as possible in the projects in order to make sure that the reforms actually get implemented in the economy.

### ***Labour Market Project***

Component 1: labour market information system

The project has not been implemented yet and there is so far little indication related to the effectiveness of the project.

### ***Human Resources Development in Tourism***

Institutional strengthening

The project has not been implemented yet and there is so far little indication related to the effectiveness of the project.

#### ***41.1.3 Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme***

Based on the ETV 1 final evaluation report:

- The realisation of many expected objectives in ETVI strongly depends on the acceptance of legal reforms, which have not been enforced so far:
  - accounting and auditing standards have not yet been accepted by the Vietnamese Parliament, which blocks the compliance of companies;
  - in the insurance component, the facilitation of creation of insurance companies largely depends on the passing of the new law and when the ISD will be ready to supervise it.
- Certain institutional and legal reforms take long to be complied by the market place because they involve such a radical change: in accounting and auditing, compliance of the private sector of new accounting standard may imply that a large number of firms would become technically bankrupt.

<p>▪ In other cases, modest impact (e.g. intellectual property project) is said to results from a too limited budget.</p>
<p>41.2 EC support to macroeconomic stabilization has contributed to the development of the business sector</p>
<p>41.2.1 <i>The objective of the programme corresponds to the expected result proposed by the EU PSD strategy</i></p>
<p>No Commission programme under the scope of the evaluation aimed at the macroeconomic stabilization.</p>
<p>41.2.2 <i>Evidence that the improved macroeconomic situation due to EU support has produced a framework that is more conducive to PSD</i></p>
<p>No EC programme under the scope of the evaluation aimed at improving the macro-economic stabilization.</p>
<p>41.2.3 <i>Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme</i></p>
<p>No Commission programme under the scope of the evaluation aimed at improving the macro-economic stabilization.</p>
<p>41.3 EC support has achieved the improvement of the legal and regulatory framework in view to encourage the development of the business sector</p>
<p>41.3.1 <i>The objective of the programme corresponds to the expected result proposed by the EU PSD strategy</i></p>
<p>PSSP - component 1 (Simplification and strengthening of the SME enabling environment at Provincial level) aims at simplifying and strengthening the SME environment at the Provincial level, which corresponds to the objective of EU PSD strategy to remove legal and regulatory barriers.</p>
<p>41.3.2 <i>Evidence that the improvement of the legal and regulatory framework due to EU support has produced an environment that is more conducive to PSD</i></p>
<p>PSSP is currently starting to be implemented and there is so far little indication related to the likely effectiveness of the project. One notable observation raised by the PSSP programme manager is that given the more flexible structure of government at the provincial level as opposed to the central level, programmes such as PSSP which involve coordination between different bodies have more chance to succeed at the provincial rather than at the central level.</p>
<p>41.3.3 <i>Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme</i></p>
<p>PSSP is currently starting to be implemented and no factors have been identified that have enhanced or hampered the production of expected results or achievement of objectives of the programme.</p>

## EQ 4.2 – Effectiveness - Reinforcing financial markets

<b>To what extent did EU interventions reinforce financial markets?</b>	
42.1	The appropriate framework for supplying well-developed and efficient financial services for SME is reinforced
42.1.1	<i>The objective of the programme corresponds to the expected result proposed by the EU PSD strategy</i>
SMEDF Is overall objective was to enhance economic and social development in Vietnam through the provision of improved financial services to SMEs. This objective is in line with EU PSD strategy to reinforce financial markets.	
42.1.2	<i>The sustainability of the programme (i.e. its effects) are explicitly ensured from the first stage of the programme</i>
Three components of sustainability are mentioned in the Financing proposal of SMEDF I:	
1. <u>Financial and economic viability</u>	
The Vietnamese Government will take appropriate budgetary measures to ensure the sustainability and maintenance of the project's undertakings during and after the implementation period. At the end of the project, the Commission and the Government will agree on the further use of the funds injected into the project's lending operations.	
2. <u>Technological appropriateness and environmental considerations</u>	
The project will indirectly support the introduction of more modern and environment-friendly technologies into the operation of Vietnamese SMEs through training of bank staff responsible for the appraisal of loan applications and monitoring of the investments carried out by the beneficiary SMEs.	
3. <u>Policy environment</u>	
The Vietnamese Government has confirmed its commitment to the development of the SME sector through improvement of the regulatory environment, the removal of discriminations against privately owned enterprises, the privatisation of state-owned enterprises and the promotion of SME support structures. The reform of the banking sector constitutes a priority on the Government's agenda (though according to the SMEDF evaluation report; progress has been slow so far).	
42.1.3	<i>Result indicators originally foreseen in project documents and evidence that these indicators were followed up</i>
The SMEDF I evaluation report states that “The Financing Agreement did not a Logical Framework, that would have synthesised the above in a hierarchy of project objectives, outputs and inputs, and defined indicators for their monitoring, as well as critical assumptions. This was done only later by the mid-term evaluation mission, when it was really too late, because the operational routines had already been established.”	
In terms of reaching the projects overall objectives, the mid-term evaluation tried to make this formulation more specific by distinguishing between:	
<u>Improvement of SME Lending Capabilities of Participating Banks</u>	
This objective was to be achieved through training of bank staff, particularly loan officers to improve their loan appraisal and monitoring capabilities. The mid-term evaluation interpreted it as also including institutional development support to the participating banks to improve their investment credit management systems. Since the project practically carried out no training at all, the question of whether and how effectively it achieved the objective becomes irrelevant, whether it is interpreted in a more limited operational, or in a wider management-oriented sense.	

Improved Financial Services to SMEs

SMEDF regulations obliged the participating banks to apply stringent criteria to the selection of beneficiary SMEs, since they had to assume the full default risk. This naturally limited the segment of SMEs, which could benefit from SMEDF loans, and it may be argued, that many of them could have obtained bank loans even in the absence of SMEDF. However, all participating banks confirmed, that the availability of SMEDF funds gave a boost to their SME lending operations and in that sense, SMEDF was an important element in improving financial services to those SMEs, that satisfied the banks' selection criteria.

Rider No.1 to the Financing Agreement extended the geographical coverage of SMEDF from originally 21 provinces and cities to nation-wide. In practice, all but 21 (8.6%) of the 243 SMEDF loans were concentrated in the North and South (including Delta) areas. This reflects the distribution of economic (industrial) activities in Vietnam, on which SMEDF had no noticeable impact. It reinforces the argument, that SMEDF, the way it was designed, did not improve financial services to SMEs in general, but only to a select segment. However, even this is a considerable achievement.

42.1.4 *Other result indicators, such as:*

- *Ratio of credits demands to credits approvals (lower).*
- *Number of credits financed mobilizing private savings (higher).*
- *Cost to create a collateral (lower).*
- *Time for the credit approval procedure (shorter).*
- *Evidence of local financial institutions suffering distortions from EC programmes (in particular direct support to companies).*

None of these indicators were monitored systematically.

42.1.5 *Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme*

- Internal hampering factors:
  - geographic coverage of the programme was too limited;
  - in practice, the programme was only focused on the supply of a credit-line, thereby overlooking training of bank officers.
- External hampering factors
  - companies that apply for funds do not provide sufficient financial information;
  - government laws (e.g. punishing bankers responsible for bad debts) discourage bankers to lend to SMEs.

Case study: Vietnam Bank of Agriculture & Development (2<sup>nd</sup> largest Vietnamese bank in terms of assets).

Before being part of SMEDF, the bank's lending to SMEs constituted slightly less than 10% of their portfolio. In 2004, SME lending constitute 13,5% of the banks portfolio. This evolution does not represent a high increase. Bank representative did not provide a clear explanation for this flat evolution of lending to SMEs, aside from saying that the bank still lacks trained staff to assess SME lending. Given that this bank received only EC support in the form of credit and very little (if none) in the form of technical assistance, it is likely that the flat performance in improved lending to SME can explained by the lack of attention on the human capital side the banking sector. This is symptomatic of the banking sector which seems to suffer from multiple weaknesses at different levels (lack of financial resources and human training at the banking level; rigid regulation for issuing land certificates at the government level; and lack of proper financial reporting at the company level). Given that these problems seem interdependent, intervention in only one of these areas seem to put the effectiveness of the expected result at risk.

These hampering factors can be put to light when comparing the Commission's SMEDF I programme with other programs in Vietnam aimed at improving the banking sector. For example, the State Bank of Vietnam's is currently implementing a new programme with JBIC that aims at overcoming the problem of collateral. The programme is inspired by Japanese banking practices, in which lending to SMEs depend both on the analysis of financial and non-financial information (quality of management etc.). The latter is achieved through the creation of a long-term relationship between banks and SMEs, thanks to which banks can truly assess the viability of the borrowers. As a result, the need for collateral is supposedly greatly reduced. This is an example of a programme that targets multiple problems at once in order to reinforce Vietnam's financial market.

### EQ 4.3 – Effectiveness - Intermediate organisations (IO)

<p><b>A. To what extent did EC interventions help IO to increase their capacity to conduct a policy dialogue with the government;</b></p> <p><b>B. To what extent did EC interventions help IO to improve the quality or quantity of the services provided to and used by its members?</b></p>
<p>43A.1 Intermediate organizations have successfully promoted the interests of the private sector as a result of EC support</p>
<p><i>43A.1.1 The objective of the programme corresponds to the expected result proposed by the EU PSDD strategy</i></p>
<p>Two EC programmes aimed at reaching the expected results proposed by the EU PSD strategy.</p> <p><u>The Private Sector Support Programme</u>, whose objective included: “Enhanced capacity of business associations to represent private sector interests needs and increased availability of business support services for SME’s at Provincial level”.</p> <p><u>The Small Project Facility</u>: Based on programming documents, the purpose of the Small Project Facility is to improve the mutual understanding and joint visibility of partners by promoting civil society dialogue and facilitating interactions in the following areas:</p> <ul style="list-style-type: none"> <li>▪ Governance, Administrative Reform, Decentralisation.</li> <li>▪ Integration into the regional and world economy.</li> <li>▪ Strengthening of civil society and public interest organisations as a contribution to grass-root democracy, better governance, and the respect of the rule of law.</li> <li>▪ Projects will be supported to the extent that they are policy advice-oriented, strategic in nature, have an European dimension, inter alia by involving qualified European institutions, associations, expertise.</li> </ul> <p>In that sense, it could be said that programme objectives were in line with the expected results of promoting the interest of the private sector. But in practice, none of the selected projects involved strengthening intermediate organizations’ capabilities to promote the interest of the private sector. Most projects were aimed at improving human and institutional capacity:</p> <p><u>Project 1</u>: Developing human resource capacity in SMEs to improve their understanding of how to export their produce.</p> <p><u>Project 2</u>: Improve the quality of shrimp production in the Mekong Delta region through capacity building, training, seminars and workshops.</p> <p><u>Project 3</u>: Assist 20 SMEs from Vietnam to improve and strengthen their export capabilities, particularly to Europe, through training.</p> <p><u>Project 4</u>: Promote good governance and public administration reform in the field of urban planning by organising a targeted simulation game for government bodies involved in the urban planning process.</p> <p><u>Project 5</u>: Identify needs, gaps, and best practices in the provision of services for people with disabilities in Vietnam.</p> <p><u>Project 6</u>: Train a selected group of Vietnamese business women in the establishment of a network in order to promote the transfer of knowledge between women working in public and private sector companies.</p> <p><u>Project 7</u>: Develop the capacity of the applicant’s partner DOLISA (HCMC) in the field of vocational training and project management.</p>
<p><i>43A.1.2 Result indicators originally foreseen in project documents and evidence that these indicators were followed up</i></p>

<p>For the PSSP, the logical framework in the TAPs identified the following indicators (which cannot be assessed so far given that the programme is starting its implementation phase):</p> <ul style="list-style-type: none"> <li>▪ number of private sector business associations providing effective advocacy services and gateways to support SME-development has increased in targeted provinces;</li> <li>▪ fee paying membership of business associations has increased;</li> <li>▪ number and variety of BDS providers informed of market niches at provincial level;</li> <li>▪ SMEs demand for and take-up of professional business support services has increased (e.g. 5 to 10%);</li> <li>▪ the range and quality of appropriate business support services available to SMEs has improved (e.g. 5 to 10%);</li> <li>▪ the programme has not yet been implemented so the results cannot yet be assessed.</li> </ul> <p>For SPF, no selected programmes under SPF aimed at the promotion of the private sector's interest through professional associations.</p>
<p><i>43A.1.3 Other result indicators, such as</i></p> <p><i>Evidence of involvement of IO (particularly if supported by the EC) in policy orientation meetings.</i></p> <p><i>Example of policies that directly respond to the demands of the IO (particularly if those were supported by the EC).</i></p> <p><i>IO supported covers a significant part of local enterprises.</i></p>
<p>No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.</p>
<p><i>43A.1.4 Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme</i></p>
<p>No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.</p>
<p><b>43B.1 Intermediate organizations provide more and better services to their members as a result of EC support</b></p>
<p><i>43B.1.1 The objective of the programme corresponds to the expected results proposed by the EU PSD strategy</i></p>
<p>As explained in 43A.1.1, the SPF projects aimed mainly at strengthening human capital via professional associations, thereby indirectly reinforcing institutional capacity of the latter. As such, the programme is indirectly in line with EU PSD expected result of improved IO services to their members.</p>
<p><i>43B.1.2 Result indicators originally foreseen in project documents and evidence that these indicators were followed up</i></p>
<p>The Logical Framework of SPF mentions the following indicators<sup>36</sup>:</p> <ul style="list-style-type: none"> <li>▪ number of direct beneficiaries,</li> <li>▪ number of indirect beneficiaries,</li> <li>▪ number of networks established.</li> </ul> <p>Most projects selected under the SPF programme have not been launched yet and no evidence is available so far about the likely effectiveness of the programme.</p>
<p><i>43B.1.3 Other result indicators, such as:</i></p> <ul style="list-style-type: none"> <li>▪ <i>Evolution of the number of services provided by IO (particularly if those were supported by the EC) (increased).</i></li> <li>▪ <i>Evolution of the number of companies benefiting from these services.</i></li> <li>▪ <i>Evolution of membership in these IO.</i></li> <li>▪ <i>Level of satisfaction of firms using services provided by IO.</i></li> <li>▪ <i>IO supported cover a significant part of local enterprises.</i></li> </ul>
<p>Most projects selected under the SPF programme have not been launched yet and no evidence is available so far about the likely effectiveness of the programme.</p>

<sup>36</sup> EU – Vietnam Small Project Facility in Economic cooperation – Global Work Plan.

*43B.1.4 Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme*

Most projects selected under the SPF programme have not been launched yet and no evidence is available so far about internal or external factors that have enhanced or hampered the production of expected results.

## EQ 4.4 – Effectiveness - Investment promotion and b-to-b cooperation

<b>To what extent did EU interventions increase trade, investment and general b-to-b cooperation?</b>	
44.1	EU interventions increased trade, investment or general b-to-b cooperation
44.1.1	<i>The objective of the programme corresponds to the expected result proposed by the EU PSD strategy</i>
No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.	
44.1.2	<i>Result indicators originally foreseen in project documents and evidence that these indicators were followed up</i>
No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.	
44.1.3	<i>Other result indicators, such as</i>
	<ul style="list-style-type: none"> <li>▪ <i>Number of signed agreements (following an EC funded action) (increase).</i></li> <li>▪ <i>Evidence of investment from European firms in local business following agreements signed.</i></li> <li>▪ <i>Evidence of increased exports from firms having participated to an EC-supported activity.</i></li> <li>▪ <i>Enterprises having participated to the activities cover a significant part of the target population of beneficiaries.</i></li> <li>▪ <i>Evidence of other forms of benefits following agreements signed.</i></li> </ul>
No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.	
44.1.4	<i>Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme</i>
No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.	

## EQ 4.5 – Effectiveness – BDS

<p><b>To what extent did EU interventions aiming to provide non-financial services create a competitive business development services markets?</b></p>
<p>45.1 EU interventions aiming to provide non-financial services create a competitive business development services markets</p>
<p><i>45.1.1 The objective of the programme corresponds to the expected result proposed by the EU PSD strategy</i></p>
<p>One programme component whose objective corresponds to the expected result proposed by the EU PSD strategy (the creation a competitive BDS market) is PSSP Component 2 – Establishing of pilot business-technology incubators in selected sectors of industry with the aim to replicate them thereafter in other locations.</p> <p>Other programmes such as Human Development Resources in Tourism, aimed at the direct delivery of training and not at improving the BDS market. The financial agreement states that the overall objective of the project is “to upgrade the standard and quality of human resources in the tourism industry in Vietnam and to enable the Government and industry to sustain the training quality and quantity at the project’s completion”. As such, it does not fully correspond to the expected result of creating a competitive BDS market.</p>
<p><i>45.1.2 The objective and overall design of the programme corresponds to the Blue Book on BDS programmes (“BDS for Small Enterprises: Guiding principles for donor intervention”)</i></p>
<p>The overall design of the programme seems to correspond with key features of the Blue Book on BDS programmes. For example, PSSP focuses strongly on building a local BDS capacity “establishment of replicable business-technology incubators in selected sectors.” Moreover, the programme aims at ensuring that incubators are economically viable, with a cost recovery of 100% at the end of the programme.</p>
<p><i>45.1.3 Result indicators originally foreseen in project documents and evidence that these indicators were followed up</i></p>
<p>The TAPS of PSSP identifies the following indicators:</p> <ul style="list-style-type: none"> <li>▪ clarification of the legal status and activities that can be undertaken by business associations;</li> <li>▪ incubators are economically viable, with a cost recovery of 100% at programme end;</li> <li>▪ authorities elaborated plans for replication based on experience;</li> <li>▪ number of companies and of employment created and amount of revenues generated (e.g. 20 companie/3 years per Incubator);</li> <li>▪ viability and growth of incubated companies above average (sector/provinces);</li> <li>▪ number of international business-to-business linkages and in particular between EU and Vietnam firms.</li> </ul> <p>The PSSP programmes has not started implementation phase and there is so far little evidence to assess its likely effectiveness.</p>
<p><i>45.1.4 The internal monitoring system corresponds to the one proposed by the Blue Book on BDS programmes (« BDS Performance Measurement Framework »)</i></p>
<p>The indicators of the programme (found in the logical framework) are overall in line with the Performance measurement framework, but do not cover the full list of performance measurements indicators in the bluebook. Those indicators that are in line are:</p> <ul style="list-style-type: none"> <li>▪ incubators are economically viable, with a cost recovery of 100% at programme end,</li> <li>▪ viability and growth of incubated companies above average (sector/provinces).</li> </ul>

<p>45.1.5 <i>Other result indicators, such as:</i></p> <ul style="list-style-type: none"> <li>▪ <i>Number of SME acquiring BDS in general (to measure BDS market expansion).</i></li> <li>▪ <i>Number of SME acquiring BDS from the programme (to measure BDS market expansion).</i></li> <li>▪ <i>Evolution of the number of local consulting firms in the market (to measure BDS supply).</i></li> <li>▪ <i>% of potential SME acquiring BDS (to measure market penetration).</i></li> <li>▪ <i>Number and % of SE customers purchasing BDS who represent targeted populations (to measure outreach).</i></li> <li>▪ <i>Percent of customers reporting high satisfaction with a business development service (to measure impact).</i></li> <li>▪ <i>Repeat customers: % of all customers who purchase at least twice (to measure impact).</i></li> <li>▪ <i>Percentage of customers who applied the business service to their business, as defined by the program. (E.g.: percent who accessed new markets, developed new products, improved management practices, started keeping formal accounts, reduced costs, etc.) (to measure impact).</i></li> <li>▪ <i>Change in estimated gross profit, profit level, employment, exports from before and after receiving the service (to measure impact).</i></li> <li>▪ <i>Of the businesses that improved their estimated gross profits, what percent attribute the change to the BDS? (to measure impact).</i></li> <li>▪ <i>BDS supplier profitability and profitability of particular BDS Service (to measure sustainability).</i></li> <li>▪ <i>Simplified cost-benefit assessment comparing total, cumulative programme costs to aggregate programme benefits (to measure sustainability).</i></li> <li>▪ <i>Total programme cost per customer served and total programme cost per supplier assisted (to measure sustainability).</i></li> </ul>
<p>The PSSP programmes has not started implementation phase and there is so far little evidence to assess its likely effectiveness.</p>
<p>45.1.6 <i>Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme</i></p>
<p>The PSSP programmes has not started implementation phase and there is so far little evidence to assess its likely effectiveness.</p>
<p>45.1.7 <i>Unsubsidized local BDS is not crowd-out by a subsidized supply of services: There are no complaints about “unfair competition” from unsubsidized suppliers of services, there are no clients that use to use unsubsidized consulting that are now using subsidized consulting</i></p>
<p>The PSSP programmes has not started implementation phase and there is so far little evidence to assess its likely effectiveness.</p>

## EQ 4.6 – Effectiveness - Development of micro-enterprises

<b>To what extent did EU interventions help develop micro-enterprises?</b>
46.1 EU interventions have contributed to the development of micro-enterprises
46.1.1 <i>The objective of the programme corresponds to the expected result proposed by the EU PSD strategy</i>
No Commission programmes aimed at this expected result.
46.1.2 <i>Result indicators originally foreseen in project documents and evidence that these indicators were followed up</i>
No Commission programmes aimed at this expected result.
46.1.3 <i>Other result indicators, such as:</i> <ul style="list-style-type: none"> <li>▪ <i>Evolution of the number of micro-enterprises.</i></li> <li>▪ <i>Evolution of turnover.</i></li> <li>▪ <i>Evolution of profit level.</i></li> <li>▪ <i>Evolution of employment level.</i></li> </ul>
No Commission programmes aimed at this expected result.
46.1.4 <i>Internal or external (to the programme) factors that have enhanced or hampered the production of expected results or achievement of objectives of the programme</i>
No Commission programmes aimed at this expected result.

## EQ 5 – Sustainability

<b>To what extent are the effects (expected results) of the interventions likely to continue at the end of the EC support?</b>	
5.1	The effects of EU PSD strategy in Vietnam is likely be long-lasting
5.1.1	<i>Risks and assumptions that can affect the achievement of the PSD strategy have been identified</i>
<p>Before introducing the identification of risks in programming documents, is it worth introducing two general criteria of sustainability that are relevant to consider in the design of any programme:</p> <p><b>Criteria 1:</b> that government intervention is justified (Cfr JC 2.B.1; if nothing justifies government intervention in a particular intervention, then is it highly probable that the effects (expected results) will not continue after the end of the EC support).</p> <p><b>Criteria 2:</b> that the effects (expected result) of the interventions are likely to continue at the end of the EC support.</p> <p>Given that the most programmes have not been completed, it is particularly important to test these criteria in order to determine to what extend the programme designer took them into account.</p> <p>Additional identification of risk and assumptions can be found in programming documents;</p> <p><b>ETV 1</b></p> <p>No logical programming documents available.</p> <p><b>ETV 2</b></p> <p>Several assumptions and risks in terms of sustainability mentioned in the programme’s Logical Framework include:</p> <ul style="list-style-type: none"> <li>▪ “Reform path continues”.</li> <li>▪ “Valid advice and improvement proposals under I-VI accepted and applied”.</li> <li>▪ “Political will for enforcement at all level”.</li> <li>▪ “Ministry of Finance (MOF)/Government of Vietnam (GOV) continues reform program”.</li> <li>▪ “Continues interest and willingness to change by MOF”.</li> <li>▪ “Promulgation of accounting laws and standards”.</li> </ul> <p><b>Labour Market Project</b></p> <p>Several assumptions and risks in terms of sustainability mentioned in the programme’s Logical Framework include:</p> <ul style="list-style-type: none"> <li>▪ “GoV continues its market-oriented industrialization policy”;</li> <li>▪ “teachers are able to develop improved VTE programmes based on labour market information”;</li> <li>▪ continued commitment of management and teachers to work towards the improvement of the Colleges/Centres selected;</li> <li>▪ sufficient commitment of the technical teachers to undertake in-service training;</li> <li>▪ those who have been trained under the Project stay on the job for some time.</li> </ul> <p><b>Human Resource Development in Tourism</b></p> <p>No assumption and risk are mentioned in the programming documents.</p> <p><b>Small Project Facility</b></p> <p>The only risks associated with the sustainability of results mentioned in the programming document is “Government commitment to reform maintained<sup>37</sup>.”</p>	

<sup>37</sup> Small Project Facility - TAPs.

<b>SMEDF I and II</b>	
In SMEDF II, key risks that have been identified at the <u>operational level</u> , which have an impact on sustainability include <sup>38</sup> :	
<ul style="list-style-type: none"> <li>▪ the lending policy of the participating banks limits the development impact of the project.</li> <li>▪ the banks do not respond to the training of their staff offered by the project.</li> </ul>	
5.1.2	<i>Actions have been taken if risks have materialized or assumptions have not been verified</i>
No evidence available.	
5.2	Institutional, macroeconomic, legal and regulatory improvement is not disappearing / has not disappeared after EC intervention
5.2.1	<i>Evidence that improvement has continued after EU intervention</i>
<p><b>Legal and regulatory framework</b> – Since the Sixth National Congress of Vietnam's Communist Party, and the adoption of the overall economic renovation policy (“Doi Moi”), the GoV has been reaffirmed its commitment to a socialist oriented multi-sector economy operating under the market mechanism and state management, and called for deep structural reforms. In particular, one of the most important aspects of economic reforms in Vietnam is the encouragement of domestic and foreign private investment. From that point of view, numbers of reforms of the legal and regulatory environment have been implemented and led to adoption of several laws defining the private and business legal framework. In Particular, the Company Law, the Law on Private Businesses, the Law on Encouragement of Domestic Investment and especially, the Law on Businesses (which replaced the Company Law and the Law on Private Businesses and is considered most liberal) were adopted with the view to foster the development of the private sector in Vietnam. The new Law on Foreign Investment was amended in May 2000 to create an even more favourable environment for foreign direct investment. The Law is now considered among the most liberal investment laws in the region.</p> <p>In the area of external trade, import and export restrictions have been greatly reduced. Vietnam has been gradually moving from state monopoly on foreign trade to free trade. The country is now a member of AFTA and APEC and is negotiating for the accession into WTO. At present, by law, all Vietnamese businesses including private companies have the intrinsic right to handle export and import business within their registered scope of business. Foreign trading companies are allowed to set up branches and/or representative offices in the country to conduct and/or promote trade.</p> <p>This shows that the legal and regulatory framework has been in constant evolution during the period covered by the evaluation and the process is still ongoing. At the same time, Commission interventions supporting the process have not stopped which makes it difficult to assess the sustainability of the Commission interventions in the area.</p> <p>Finally, the Commission did not programme and implement activities that were directly targeted to an improvement of the macroeconomic framework. Fiscal and monetary policies have been characterised by a prudent fiscal stance and moderate credit restraint with the view to controlling inflation and safeguarding the banking system while managing the exchange rate with flexibility. As a result, the government deficit has been traditionally moderate which contributed to maintain real interest rates at rather low levels.</p> <p>However, at the level of programmes/projects, the following is noted:</p>	
<b>ETV 1</b>	
ETV 1 broadly aim at strengthening institutional capacity and improving human capital. As such, this programme can be considered to contribute to the institutional and human capital accumulation of the	

<sup>38</sup> SMEDF I Financing proposal “Small and Medium-Sized Enterprise Development Fund - Institutional Support to Lending Institutions”.

country and thus meets the first condition of sustainability described above. In terms of meeting the second criterion, the evaluation report <sup>39</sup> notes that generally speaking there is a risk that key people in the project leave for other post and that in terms of individual components:

- Policy: the Vietnamese accreditation scheme is not yet defined and will probably need a few years of support from the EC.
- Legislation:
  - accounting and auditing law code: there is a risk that project reform is kept under wraps and that the adoption of official standards is not made for a long time, as well that Vietnamese companies adopts non-EU accounting standards (e.g. US GAAP), which put the project at risk and discourage EU companies to do business in Vietnam;
  - insurance legal framework: the EU should put firmer deadlines and create more ownership from local authorities.
- Dissemination:
  - Accounting: there is a risk that insufficient distribution of equipment and assistance to the different universities of Vietnam do not produce the anticipated dissemination effect.
- Training: there is a risk that without any incentive, the auditors will not continue to improve their professional practice and that in some sub-components (accounting); Cash inputs after the projects are necessary to keep pace (IP); Lack of training of trainers and exclusion of universities in the process (insurance). Recommended ways to overcome sustainability include: Establishment of examination centre, and Publication and wide Dissemination of the bi-lingual training manual (insurance).

During the country mission, it was too early to assess whether these risks have materialized nor whether the effects of the programs have been long-lasting. That being said, the above mentioned risks for ETV 1 were used as a basis to determine whether the design of ETV 2 has taken into account the sustainability experience of ETV 1 into account.

## ETV 2

Like ETV 1, ETV 2 aims at improving institutional capacity and human capital and can therefore also be considered to contribute to Vietnam's institutional and human capital accumulation, thereby meeting the first condition of sustainability described above.

In terms of meeting the second criterion, the components within ETV 2 are separated into several groups. Given that these projects are within implementation phase, there exists no evidence regarding their sustainability, a part from what is mentioned in the FA:

“Policy advisory services at a high level provide the opportunity for long-term and consistent planning as the basis for successful reform at technical levels. It is foreseen that the proposed Project Steering Committees will become permanent Vietnamese institutions which should effectively continue even after ETV 2 ends after 4 years. The reform programmes established during the lifetime of ETV 2, together with 5 year modernisation plans and other outputs will be Vietnamese products, for the preparation of which ETV 2 will provide assistance, information on international best practice and training.

It is expected that the major legal and policy documents, guidelines, manuals, training programmes etc. established will have long term beneficial effects, not only for improved administration but for the tax paying public and business community at large.”

That being said, the experience of ETV 1 raised several sustainability issues that are applicable to the projects under ETV 2. Interviews during the country missions were directed towards determining to what extent sustainability issues raised under ETV 1 have been taken into consideration during the design of ETV 2. The following is a tentative list of issues based on the experience of ETV 1. Once again, the components of ETV 2 are re-grouped under several categories.

<sup>39</sup> Euro-TAP Viet Programme Evaluation.

<sup>40</sup> Financing agreement: Vietnam Human Resources Development in Tourism

Sustainability experience from ETV 1	Actions Taken in ETV 2
<ul style="list-style-type: none"> <li>▪ Policy: What measures have been put in place to ensure continuation of design? (e.g. ensuring ownership or further possible provision from the EU after the project?).</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Logical Framework of ETV 2 mentions in the assumptions &amp; risks that “Ministry of Finance (MOF)/Government of Vietnam (GOV) continues reform programme improvement proposals/programs”.</li> <li>▪ Relevant ministries such as MOF that have already been involved with ETV 1 are now more experienced.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Legislation: What measures have been put in place to more ownership of local authorities outside the centre of the implementation of new laws?</li> </ul>	<ul style="list-style-type: none"> <li>▪ n.a. (note that other EC programmes such as PSSP aimed at reinforcing local authorities at the provincial level with a view to be able to implement decisions from the centre).</li> </ul>
<ul style="list-style-type: none"> <li>▪ Institutional development and capacity enhancement: what measures have been put in place to avoid to ensure sufficient funds from local authorities to support these activities in the future?</li> </ul>	<ul style="list-style-type: none"> <li>▪ No explicit mentioning of concrete measures in place.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Dissemination: What measures have been put in place to avoid insufficient dissemination coverage.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Logical Framework of ETV 2 mentions in the assumptions &amp; risks the importance of dissemination e.g. Promulgation of accounting laws and standards. But there is no explicit mentioning of concrete actions.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Training: What measures have been put in place to avoid that rate of development (learning curve) after the project will stop.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Logical Framework of ETV 2 mentions in the assumptions &amp; risks the importance of training (e.g. in the customs component: “No resistance to using new training techniques.”), but no explicit reference explains concrete actions to be take.</li> </ul>

### Labour Market Project

Component 1 of the labour market project broadly aims at strengthening institutional capacity. As such, this programme can be considered to contribute to the institutional capital accumulation of the country and thus meets the first condition of sustainability described above. In terms of meeting the second criterion, it is too early in the phase of the project to assess its sustainability.

That being said, it is possible to determine through interviews whether the design of the LMP has taken into consideration aspects that might endanger the sustainability of the project. This includes:

- Given the continuous nature of a labour market information system, who will fund it at the end of the project?
  - programming document make an assumption that: The sustainability of the school after donor funding will be withdrawn has to be observed since it will be at high cost to operate the school under the Vietnamese budget.
- Is there a clearly identified ownership structure at the end of the project (responsible body etc)?
  - programming document make an assumption that “Those who have been trained under the Project stay on the job for some time”.

### Human Resources Development in Tourism

The HRDT project broadly aims at strengthening institutional capacity and training. As such, this programme can be considered to contributing to the institutional capital accumulation of the country and thus to meet the first condition of sustainability described above. In terms of meeting the second criterion, it is too early in the phase of the project to assess its sustainability. That being said, it is possible to determine through interviews whether the design of the HRDT programme has taken into consideration aspects that might endanger the sustainability of the project. This includes:

- Institutional capacity components:
  - Is there a clearly identified ownership structure at the end of the project (responsible body etc)?
- Training components:
  - What measures have been put in place to avoid that rate of development (learning curve) after the project will stop?
  - Programming document note that: “The approach will assist Government tourism institutes (existing and planned) but will not establish new ones. It is seen as a cost efficient and the most technically effective because it prevents duplication of training costs, maximised existing resources and takes clear account of the needs. It also provides clearly for sustainability by the establishment of structured training systems (certification) the training of government official in key skills, a major trainer development programme and improved international linkages and co-operation. The training of a large number (over 2.500) of trainers will ensure that Vietnam retains the capacity to sustain the training when the project ends”<sup>40</sup>.

### Private sector support programme

Component 1 of the programme aims at strengthening the administrative capacity and operational effectiveness of SME-related local government structures and private sector associations. As such, this programme can be considered as contributing to the institutional and human capital accumulation of the country and thus meets the first condition of sustainability described above. In terms of meeting the second criterion, it is too early in the phase of the project to assess its sustainability. That being said, it is possible to determine through interviews whether the design of the PSSP has taken into consideration aspects that might endanger the sustainability of the project. This includes:

- Institutional development:
  - Is there a clearly identified ownership structure at the end of the project (responsible body etc)?
  - How will coordination between central level and local level be ensured after the end of the project?
- Training components:
  - What measures have been put in place to avoid that rate of development (learning curve) after the project will stop?
- Dissemination component:
  - Will dissemination be large enough to ensure sufficient coverage (of local regulation to the private sector; best practice conducive to SME growth to local stakeholders)?
  - Programming document note that “In the interest of the programme’s sustainability, equipment and vehicles will be handed over to the appropriate authorities at the end of the Programme on the basis of a detailed proposal prepared by the Programme Director and approved by the Executing Authority and the Commission.

### 5.3 Reinforcement of financial markets is long-lasting

5.3.1 *The number of credits from local banks to the private sector (especially SME and micro-enterprises) continues to increase or at least does not decrease after EC intervention*

The programme evaluation<sup>41</sup> suggested that “SMEDF has little sustained impact in terms of improving financial services to SMEs in general and that many of them could have obtained bank loans even in the absence of SMEDF but that all participating banks confirmed, that the availability of SMEDF funds gave a boost to their SME lending operations and in that sense, SMEDF was an important element in improving financial services to those SMEs (see full answer above from the evaluation report).” During the country mission, the evaluation team country assessed the extent to which this “boost” has been sustained. The evaluation team could conduct one interview with the Vietnam Bank of Agriculture & Development (2<sup>nd</sup> largest bank in terms of assets). As mentioned in 4.2.1.5: before being part of SMEDF,

<sup>41</sup> SMEDF Evaluation Report Phase I.

the bank's lending to SMEs constituted slightly less than 10% of their portfolio. In 2004, SME lending constitute 13,5% of the banks portfolio. This is not a high increase and thus raised doubts regarding the sustainability of the programme.

#### **Additional information**

##### About the training component of SMEDF I

The programme's objective that involves training to DAF staff and management, to intermediary banks and managers of SMEs (in loans appraisal, monitoring capabilities and improvement in credit management systems) could be said to improve the institutional and human capital, thereby meeting the first criterion of sustainability. But given that no training was provided in practice, nothing else need to be said on sustainability in that regards, aside perhaps the impact that no training may have on the Commission's effort to reinforce Vietnam's financial sector. Many interviewees concluded that in order to bring about sustained improved lending to SMEs, boosting initial contact between lenders and borrowers through mechanisms like the revolving fund must be accompanied by training facilities.

##### On the sustainability of the fund itself (from the evaluation study)

According to the SMEDF I evaluation report, "one must remember that the 1994 project identification study, which proposed the establishment of the SMEDF project, recommended that the Fund should 'work towards self-sustainability', but also estimated that the process may take as long as 8-10 years. This reserve has disappeared in the Financing Agreement, which stipulates that *"funds will be onlent to commercial banks by the SMEDF at (interest) rates ..... ensuring the sustainability of the Fund"*. To this end, the interest rate should be sufficiently high to cover the Fund's costs, the management, inflation and bad debts.

Even though SBV introduced ceilings on interest rates only at a later time, it must have been clear, with inflation alone estimated at 7%, that this would put an interest rate on SMEDF funds that would make them unattractive to the banks as a refinancing source. In fixing its rate at 6.28%, the project found a reasonable compromise, though, by doing so, it largely abandoned the concept of sustainability. It became a total impossibility once SBV imposed, and subsequently reduced ceilings on the banks' interest rates, and the project was obliged to reduce its own rate to 4.5%.

However, the project maintained the ultimate objective of sustainability by shifting at least the default risk entirely to the banks. If the banks accepted this, thereby assuring that all funds would eventually flow back into the SMEDF, it was only fair to leave the selection of enterprises, which could benefit from SMEDF loans, to their sole discretion. If we believe the banks, there has been, so far, not a single case of default and only a limited number of cases, where rescheduling of loans has become necessary. With a total of 243 loans, such a result would have been highly unlikely, if the banks had given as much consideration to aspects like job creation and promotion of start-up enterprises as to collateral and financial soundness of beneficiary SMEs. This was tacitly accepted by the project, as shown by the fact that it approved a considerable number of loan applications, which did not propose to create a single new employment. If we follow this logic and accept that employment creation was the single most important objective of SMEDF, we must conclude that the project limited its potential development impact by trying to at least approach sustainability".

##### *5.3.2 Repayment rate of loans in EU supported programmes (high enough)*

According to SMEDF I final evaluation report, the programme has granted loans to 243 projects for a total of VND 250.5 millions. The flow of reimbursements started as early as 1998, and in 2000 accumulated reimbursements of principals and interest reaching VND 100 billion. By the end of the project, the originally available funds had only been disbursed by 94.5%. Finally, SMEDF procedures also strictly prohibited anticipated reimbursements by the banks. As a result, a number of loans have been prematurely reimbursed by SMEs to the banks, but could not be reimbursed by the banks to SMEDF, because of the clause contained in the Memoranda of Refinancing that prohibits anticipated repayments. This makes it difficult to assess the exact loan repayment rate but also provide indication that this rate is rather high and in any case constrained by the procedures of the project.

5.4	Reinforcement of IO position is not lost after EU intervention finishes
5.4.1	<i>Intermediate organizations continue to successfully promote the interests of the private sector after the end of EC intervention. For example: Evidence of continuous involvement of business sector organizations (particularly if supported by the EC) in policy orientation meetings</i>
	<p><b>Small project facility</b></p> <p>Broadly speaking, the SPF project aims at improving interactions between different national and international players, particularly in the areas of governance, Administrative Reform, Decentralisation; Integration into the regional and world economy; Strengthening of civil society and public interest organizations.</p> <p>But the types of eligible programmes are varied (training, capacity building, studies, media events, research activities, conferences) which makes difficult a priori to determine whether the SPF projects meet the criterions of sustainability. Nevertheless, it is possible to make a few observations on their likely sustainability. In terms of meeting criterion 1 of sustainability, programmes related to training and capacity building can be said to contribute to institutional and human capital of Vietnam. Other types of programmes must be justified on the basis of existing market failures. During interviews, it was not clear that the existence of market failure determined the selection of programmes. Projects allocated to SMEs were mainly judged based on their impact in the country. In terms of meeting the second criterion of sustainability, some projects are of one-off nature (media events, conferences). For other programmes, interviews must determine what measures have been taken to ensure the sustainability of impacts.</p> <p>Although it is not possible to judge the sustainability of SPF-related projects and of their associated professional associations, the programme manager at the delegation has a 60% confidence level of the sustainability of the programmes. Measures aimed at ensuring sustainability include criterions in the application and selection process:</p> <ul style="list-style-type: none"> <li>▪ Continuous finance viability of the firms: will they be able to sustain their investment after the end of the project.</li> <li>▪ Policy aspect: how will their programs help at influencing policy dialogue.</li> </ul>
5.4.2	<i>Services provided by intermediate organizations continue to increase or at least do not decrease after EC intervention. For example:</i> <ul style="list-style-type: none"> <li>▪ <i>Evolution of the supply and use of services provided by intermediate organizations after the end of the intervention.</i></li> <li>▪ <i>Evolution of the number of companies benefiting from these services.</i></li> <li>▪ <i>Evolution of membership in these intermediate organization.</i></li> </ul>
	See 5.4.1
5.5	Business-to-business cooperation, trade and investment continues to expand after EC intervention
5.5.1	<i>Evolution of the number of mutual agreements</i>
	No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.
5.5.2	<i>Evolution of the number of investments following mutual agreements</i>
	No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.
5.5.3	<i>Evolution of exports</i>
	No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.
5.6	A competitive BDS market continues to function after EU intervention has finished
5.6.1	<i>Demand for non-subsidised BDS continues to increase or at least do not decrease after EC intervention</i>

<i>5.6.2 Local supply of non-subsidised BDS continues to increase or at least do not decrease after EC intervention</i>
<b>Private sector support programme</b>
Component 2: pilot business-technology incubators
Given that this programme has not yet been implemented, the sustainability of this programme can only be tested according to the sustainability criteria mentioned in 5.1.1.
To meet the suitability criteria 1, the need for intervention in the establishment of business incubators must be justified by the existence of a market failure. Possible market failures in this case may include:
<ul style="list-style-type: none"><li>▪ Asymmetry of information: like banks, local business incubators are not sufficiently well developed to understand the risks associated with local business and are therefore reluctant to get involved in incubating a business. This asymmetry of information also applied to foreign incubators: little info about Vietnamese companies make the area unattractive to get involved in.</li><li>▪ That being said, it is also possible that the non-existence of a market for business incubators results from a demand problem: there are no sufficient companies in Vietnam that wish to get established, which may be the real cause for the undeveloped business incubator market. If that were true, then promoting the incubator market will only help during the lifetime of the project and then perhaps decline following the natural demand of the market.</li></ul>
Based on country mission interview, it is not clear that a thorough analysis of the existence of a market failure has been conducted.
<b>5.7 Micro-enterprises continue to develop</b>
<i>5.7.1 The number of micro-enterprises continue to grow after EC intervention</i>
No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.
<i>5.7.2 Micro-enterprises continue to expand after EC intervention</i>
No Commission programs aimed at this objective in Vietnam under the scope of this evaluation.

## EQ 6 - Efficiency

**To what extent have the organisational set-up or management systems and processes contributed or hindered the efficiency of the EC interventions to support private sector development? Four aspects are of particular interest to our evaluation:**

- A. The deconcentration process and the support given by HQ**
- B. The preference given in some regions to all-country programmes**
- C. The preference given in some regions to promote local expertise instead of using international support**
- D. Other organisational set-up or management systems and processes**

6A.1 The deconcentration has contributed to improve the efficiency of the Commission's interventions

Preliminary comment:

The deconcentration process transfers management responsibility for external assistance projects to the local level of the European Commission's Delegation offices. This follows the reforms of the Commission's external assistance launched in May 2000. However, while partners welcome the process of deconcentration, which will bring procurement and financial control closer to the field where implementation takes place, there are some risks. For the reform to be more efficient, the deconcentrated staff should be given delegated authority which has largely been achieved. For deconcentration to be more effective, there should be a second stage which involves increasing analytical capacity and providing negotiating authorities, in order to deepen discussion with partners in the field. The OECD Peer Review of DAC Members<sup>42</sup> notes that further refinements to the organisation to clarify responsibilities, improve speed of aid delivery, and enhance organisational and analytical capacity are necessary to make deconcentration work. Also, it stresses the need to ensuring appropriate and sufficient staffing to strengthen implementation. In this perspective, it recommends to undertake specific evaluation studies of the effectiveness of the Commission's deconcentration process and to delegate further authority to the field under clear guidance. It also underlines the need to provide more development personnel to the country offices. The Peer Review underlines that more staff, skills and other resources are needed to ensure the effectiveness of deconcentration.

*6A.1.1 Speed of decision making during the identification and implementation stages (project preparation, implementation payments)*

According to several parties interviewed, deconcentration had positive impact on the speed of the decision making process, both at the programming and at the implementation levels. For example, the identification, approval, tendering procedures before the deconcentration were much longer than after the deconcentration took place. The impact of deconcentration on the cost of interventions is difficult to assess and quantify. It has possibly decreased due to the improved quality of projects' management resulting from the deconcentration but no figures or tangible evidence could be provided to support such assertion.

*6A.1.2 Workload related to implementation procedures of project managers at the Delegation*

Deconcentration implied a significant increase in the workload for the Delegation staff. However, the issue is broader in that the Delegation must increasingly complement its managerial tasks with strategic and technical input in different domains which are more and more specialised. This is particularly the case when the assistance is channelled through budget support which heavily draws on the Delegation's

<sup>42</sup> OECD-DAC (2002), Development Co-Operation Review, European Community.

<p>resources as the participation to the policy dialogue requires to provide such input and hence to develop the analytical capacity of the Delegation.</p>
<p><i>6A.1.3 The deconcentration has led to a better identification of needs</i> <i>Note: This item is related to the relevance of interventions (not to efficiency) and it is asked only to complement information</i></p>
<p>The deconcentration allows the stakeholders and beneficiaries to be in much more direct contact with Delegation (meetings, e-mails, phonecalls) than they used to be with Brussels' Head Quarters. Although it is difficult to firmly establish some formal evidence that the deconcentration has led to a better identification of needs, the positive impact of such closer contacts on a better understanding of the country's context and realities is highly probable.</p>
<p><i>6A.1.4 Evidence of sharing experience / lessons learning from other Delegations</i> <i>Note: This item is related to one of the risks of the deconcentration and not to efficiency. It is asked here because it does not somewhere else</i></p>
<p>No compelling evidence of sharing experience / lessons learning between the Commission, Delegation in Vietnam and Delegations in other countries could be established.</p>
<p><b>6B.1 The use of "all-country" programmes has contributed to the efficiency of the EC interventions</b> <b>Preliminary comment::</b> Two major all-country programmes have been implemented in Vietnam: The European Business Information Centre (EBIC) and Asia-Invest. They are briefly described in annex 10.</p>
<p><i>6B.1.1 Speed of decision making during the identification and implementation stages (project preparation, implementation payments)</i></p>
<p>Asia-Invest: Efficiency and in particular speed of decision has been to some extent adversely affected by the organisational design of the programme. As noted by the <i>Evaluation of Economic Cooperation between the European Community and Partner States in Asia and Latin America</i><sup>43</sup>, and which covers Asia-Invest I, the operations of the Secretariat are considered efficient insofar as day-to-day operations are concerned, but their decision-making responsibilities are limited and only the Commission can disburse monies. Delays within the Commission over approving contracts, which require approval by an Evaluating Committee and disbursing funds cause delays. A consistent complaint, from applicant business organisations whose members are the target group, is the onerous paperwork required, particularly since the guidelines were revised in 1999 and new applications must meet one of two annual deadlines. The Secretariat's website and bulletin board are helpful tools for networking and the search for partners. As noted by the report, significant number of efforts to put together a proposal for funding fail through a lack of interest by firms or the complexity of the regulations. The programme took time to get established, and started to deliver after two-and-a-half years. Judged by the number of applications, the percentage of approvals then began to rise. At the June 2000 deadline, 35 applications had been received and 10 grants awarded – 28.5 per cent. However, out of 14 applications for technical assistance (TA) under the Business Priming Fund (BPF) only one application was approved.</p> <p>EBIC: According to <i>Evaluation of Economic Cooperation between the European Community and Partner States in Asia and Latin America</i><sup>44</sup>, it is not possible to generalise about the efficiency of EBICs, as EBICs has been set up differently in each country. Much has depended on relations with the Management Board and Advisory Committee, as well as the abilities of the Director. By all accounts, the EBIC performed a useful function</p>

<sup>43</sup> Eva-EU Associations (2001), *Evaluation of Economic Cooperation between the European Community and Partner States in Asia and Latin America*.

<sup>44</sup> Eva-EU Associations (2001), *Evaluation of Economic Cooperation between the European Community and Partner States in Asia and Latin America*.

in Vietnam and was appreciated by its beneficiaries. As a ‘one stop shop’ it provided the Vietnamese business community, professional associations and trade promotion offices with an efficient means of obtaining information, *inter alia*, on the Single Market and as a ‘clearing house’ passed on requests for business linkages to the embassies of the EU member states. The project did apparently not suffer any problems of identification and/or implementation due to slowness in the administrative procedures and/or decision process. The main problem encountered in fact relates to sustainability, since future funding has been withdrawn. In Vietnam, the timely starting of the project and delivery of output suggest that EBIC did indeed feature smooth and fast speed of the decision making process.

*6B.1.2 Cost of interventions before and after “all-country” programmes*

No compelling evidence could be obtained with regard the impact of “all-country” programmes on the cost of interventions.

*6B.1.3 Workload related to implementation procedures of project managers at the Delegation*

Workload related to “all-country” programmes seems very high given the high procedural requirements it involves. Several parties interviewed during the field mission experienced severe and costly management difficulties related to the heavy administrative procedures linked to such programmes.

*6B.1.4 The use of “all-country” programmes has led to a better identification of needs*

*Note: This item is related to the relevance of interventions (not to efficiency) and it is asked only to complement information*

Asia-Invest: According to the *Evaluation of the Economic Cooperation between The European Community and Partner States in Asia and Latin America*<sup>45</sup> achievements with respect to expected results have been mixed. As noted by It was unfortunate that the Asia-Invest programme was started during the Asian economic crisis, a time when Asian enterprises were not looking to expand and European firms not looking to invest. Halfway through the first term, the technical assistance however offered under the Business Priming Fund seems to be having a positive impact, although it is too early to the long-term results. The report gives two illustrative examples from the leather industry in Vietnam and Thailand where the provision of technical assistance to enhance the quality of shoemaking and design and the introduction of new equipment and machinery has been of mutual benefit to recipient country and EU member country. Another example of successful TA is the grant of more than EUR 80,000 to train a group of future Vietnamese IT quality managers in the concept and practice of meeting ISA 9000 standards. The extent to which Asia-Invest contributed to a better identification of needs is difficult to assess, in particular as this aspect was not a genuine and explicit objective of the programme.

EBIC – According to the *Evaluation of Economic Cooperation between the European Community and Partner States in Asia and Latin America*<sup>46</sup>, EBICs generally appear to disseminate information effectively to the business community. As noted above, EBIC in Vietnam has generally delivered satisfactory results and has benefited from a dynamic local PMU. It has also significantly contributed to disseminate and promote the image of the EU in Vietnam as well as awareness concerning usual practices on EU markets. This said, EBICs are not known for a particular impact related to identification of needs in the country’s they were implemented. Referring to the programme description given above, this is indeed not an expected result of the programme.

<sup>45</sup> Eva-EU Associations (2001), *Evaluation of Economic Cooperation between the European Community and Partner States in Asia and Latin America*.

<sup>46</sup> Eva-EU Associations (2001), *Evaluation of Economic Cooperation between the European Community and Partner States in Asia and Latin America*.

6C.1	The use of local expertise has contributed to the efficiency of the Commission's interventions
6C.1.1	<i>Speed of decision making during the identification and implementation stages (project preparation, implementation payments)</i>
	No compelling evidence could be obtained with regard the impact of the use of local expertise on the speed of decision making.
6C.1.2	<i>Cost of interventions when using local expertise</i>
	No compelling evidence could be obtained with regard the impact of the use of local expertise on the cost of interventions.
6C.1.3	<i>Workload related to implementation procedures of project managers at the Delegation</i>
	No compelling evidence could be obtained with regard the impact of the use of local expertise on the workload at the Delegation.
JC 6D.1	The organisational set-up and management system has contributed to an efficiency implementation of the programme
6D.1.1	<i>Programme inputs are on time, at planned cost and well managed on a day-to-day basis</i>
	The implementation of some projects/programmes has been hampered by important delays in the provision of input. Most of projects/programmes have at best started two or three years after the signing of the financial agreement. For instance, SMEDF II was supposed to continue the activities of SMEDF I that was terminated in 2000. However, the programme could not start before 2002. The Labour Market Project was agreed upon between the European Commission and the GoV in June 2003. The Delegation hopes to start the implementation of the Labour Market Information System component in the second half of 2005. Yet, there is fear among Vietnamese officials that such change will again imply delays in the implementation of the programme.  Complaints were raised with regard to the complexity and rigidity of administrative procedures that impair high transaction costs, and this not only for the Commission but also for other donors. One party interviewed also suggested that the time lap foreseen for completing the paper work in applying to Commission funding was way too short and suggested that the procedures should allow for differentiating primary compliances (necessitating responses within a short notice) from secondary compliances (for which longer response time could be envisaged).
6D.1.2	<i>Programme activities are on time, at planned cost and well managed on a day-to-day basis</i>
	Some programmes encountered difficulties to implement the planned activities timely. For instance, in the case of SMEDF I, the implementation was affected by a series of contractual and financial problems, in particular, the termination of the Service Contract in 1998 and the resulting absence of a European Co-Director during 14 months. Uncertainty about the duration of the project, resulting in repeated short-term extensions in 2000 and another 3-months absence of the European Co-Director plus the lack of operational funds due to an accounting mistake, implied the cancellation of short-term man/months allocated for training activities <sup>47</sup> .
6D.1.3	<i>Results are being achieved as planned (quality and quantity)</i>
	Some projects/programmes have succeeded to deliver their results as planned (e.g ETV 1). For others, achievement of results has only been partial. For instance, SMEDF I contained two major components,

<sup>47</sup> Ecodes (2002), *Small and Medium Enterprise Development Fund*, Evaluation of the first Project Phase.

one related to the lending operations and the other to training. The programme scored well in terms of efficiency for the first component. However, training activities were actually limited to the implementation of a series of 10 workshops in November/December 1997, with a target group including both, bank staff and SME managers. This was in contradiction to the provisions of the Financing Agreement that targeted bank staff only for training activities. According to the SMEDF I evaluation report<sup>48</sup>, opinions on the usefulness of such mixed workshops were divided, but mostly negative. This first training activity was at the same time the last and the evaluation report only points to implementation difficulties partly due to the extended absence of a European Co-Director, the repeated changes of opinion of the Steering Committee, and finally the lack of funds that are considered as equally responsible for the poor result. Finally, the project also contained a component related to assistance to the banks in the development of new products or marketing strategies to enhance the banks' capacity to generate additional lending resources through increased savings mobilization. The evaluation concludes that activities in this area were simply non-existent as, quoting the European Co-Director's Draft Final Report "*SMEDF could not set up methodologies and marketing tools to increase the capabilities of the participating banks to mobilise more long term savings. This was due to external factors like the regulatory framework preventing attractive deposit rates and the lack of confidence from the depositors.*".

*6D.1.4 Existence and use of an internal monitoring system*

The TAPs of the projects/programmes specify that day-to-day technical and financial monitoring is a continuous process as part of the responsibility of the PMU and that independent consultants recruited directly by the Commission should be carried out the external monitoring and evaluation of the project. However, it does not define a list of indicators on which such monitoring and evaluation would be based. Accordingly, the internal monitoring process is to be defined within the project's/programme's implementation.

*6D.1.5 The programme has been able to adapt to changing needs or context*

*Note: For instance, if the assumptions did not hold true, how well did the programme management adapt? How well did it adapt to external factors affecting the programme)*

The only example representative of a case for which a project/programme had to adapt to changing needs or context is the Labour Market Project. The initial project design was drafted in the context of the Project Preparatory Mission of August 2000. After the project preparatory mission in 2000, further rapid economic growth has led to an increased demand of skilled labour. Originally, the programme contained two components: support to the Labour Market Information System (LMIS) and vocational training. In the meantime, the reform oriented GoV was also able to secure further donor support in the field of vocational training and for the development of the labour market information tools. Therefore in late 2003 the Commission fielded another Preparation Mission to update the original project design in order to facilitate a smooth launch of the project implementation while the GoV asked to redirect the resources allocated to Labour Market Project on its first component. In September 2004 the Delegation had additional meetings with the Ministry of Labour, Invalids and Social Affairs (MOLISA) to discuss this project further. The final outcome of these meetings was that both parties agreed that the vocational training component of the project is no longer relevant and should therefore not be implemented.

<sup>48</sup> Ecodes (2002), *Small and Medium Enterprise Development Fund*, Evaluation of the first Project Phase.

## EQ 7 – Coherence (within EU action)

- A. To what extent does the EU PSD policy in general take into account other EU strategies and policies?**
- B. To what extent does the EU PSD support strategy within a country strategy take into account:**
- i. The support given to other sectors within the same country strategy?**
  - ii. Other EU strategies and policies**
- C. To what extent do national or regional EU PSD programmes within a country take into account:**
- i. Other PSD programmes within the same country**
  - ii. The support given to other sectors within the same country**
  - iii. Other EU strategies and policies**

7B.1 The PSD support strategy within a country takes into account the support given to other sectors within the same country

7B.1.1 *Explicit reference to EU support to other sectors in Vietnam and analysis of possible complementarities, synergies, conflicts or overlaps between PSD and other sector support in Vietnam*

The EC-Vietnam cooperation strategy is built around two focal points. The first focal point **“Improvement of human development”** is focused on assistance targeted on either a geographical or thematic basis to contribute towards Vietnam's efforts to improve human development. Particular attention is paid to providing support to the most vulnerable sectors of society and ensuring the sustainable use of natural resources. Priorities under this focal point are:

1. *Integrated rural development.* Activities aiming at reducing poverty in some of the poorest provinces in Vietnam. The Commission's support may have three components: rural development, basic health and basic education.
  - a. *Rural development.* This activity aims to increase self-sufficiency and income. In particular, it will support the sustainability and replicability of co-operation actions already being undertaken by the Commission in these areas in rural development. Particular attention is paid to assisting alternative off-farm activities, supporting the establishment and development of household enterprises, and promoting the sustainable management of natural resources.
  - b. *Enhanced access to health services.* This intervention aims to give increased access to basic health services.
  - c. *Primary education.* Activity aims at enhancing the quality of delivery and children's participation could be examined.
2. *Education.* Components of this approach are:
  - a. Assistance in improving the quality and efficiency of the educational delivery process.
  - b. *Vocational training* is a key area for intervention in the education sector as scarcity of *specific skills* at this crucial stage in socio-economic transition could dampen development efforts. This intervention should contribute to the development of the professional and technological skills needed to assist the expansion of the SME sector and to promote FDI. This intervention is linked to focal point 2, "human development".
  - c. On a focused geographical basis (see point above, for integrated rural development), targeted interventions in *primary education* for the poorest segments of population, such as some ethnic minorities in remote areas, could be examined.

3. *Health*. The principal intervention foreseen in the short term is in relation to the integrated rural development, as mentioned above.

The Commission PSD interventions are embodied in the second focal point **“Integration into the international economy”** which targets two complementary areas: (i) “Reform towards a market oriented economy” which provides assistance to the essential internal reforms Vietnam and (ii) “Support to Integration into the international and regional economic” which provides assistance to the opening of its market to the international flows of trade and investment in the framework of its planned accession to WTO and existing commitments with AFTA:

1. Support to “Reform towards a market oriented economy” includes actions in the fields of:
  - a. Human development (HD), both in the public and private sectors, as new types of education, know-how, training and skills are needed to implement the transition.
  - b. Policy-making and implementation as the transition to a market oriented economy needs not only appropriate policies, laws and regulations to direct the process, but also assistance in their application by government and in both the public and private sector.
  - c. Promotion of the private sector targeting the reform of State-Owned Enterprises and the anticipated migration of people away from the land that will result in a more pressing need for employment creation. Increased numbers of small and medium-sized enterprises will be required to drive the modernisation of Vietnam’s economy and to maximise export and industrial co-operation opportunities.
  - d. Alleviation of the social consequences of reform, in particular, migration problems linked to important segments of rural population migrating to urban centres will be addressed.
  - e. Good governance and best administrative practices which is needed for the success of the reform process with the particular area of corporate governance that is central in the framework of SOE reform.
2. Support to Integration into the international and regional economic structures aims at accelerating the country’s integration into international trade and investment flows. Therefore co-operation involves the following:
  - a. Trade policy formulation and accession to the World Trade Organisation and possible assistance to adapt the economic policy to meet the AFTA deadline. Possible areas where trade-related technical assistance may be appropriate include customs reform, market access for industrial goods – to identify export interests, negotiation techniques, tariffication, trade facilitation - through simplification of import and export procedures- as well as assistance with the SPS, TBT, and TRIPS agreements, and help to develop understanding of investment and competition issues.
  - b. Facilitating access of Vietnam products into the world markets and attracting foreign investment. Among them, are enhanced quality of Vietnam’s products and the international recognition of its quality assurance system. In addition to industrial products, particular attention will be paid to the quality (phytosanitary specifications) of its agricultural products. Strengthening implementation of the intellectual property rights protection system can assist to encourage technology transfer to Vietnam.

The CSP makes explicit and/or implicit references to potential complementarities and synergies between the PSD aspects of its strategy and other components of the country strategy. In particular:

- i. The Rural development component of focal point 1 mentions alternative off-farm activities, supporting the establishment and development of household enterprises;
- ii. Vocational training is mentioned as a key area to cope with scarcity of *specific skills* and contribute to the development of the professional and technological skills needed to assist the expansion of the SME sector and to promote FDI. This intervention is explicitly said to be linked to focal point 2, "human development".

- iii. Points (a), (b) and (c) of the first area of focal point 2 form the backbone of the PSD strategy which are complemented by activities aimed at alleviating the social consequences of reforms and the promotion of good governance.

However, no explicit reference to PSD is found in the second area of focal point 2 in spite of the fact that it has immediate implications on the Vietnamese private sector, both because it includes measures that aim at facilitating exports and measures that should contribute to increase imports competition on the local market, among which:

- i. Assistance to trade policy formulation promotes understanding of investment and competition issues which have a direct impact on the export capacity of the private sector but also will contribute to the accession to WTO which is likely to substantially change the nature of competition on local markets.
- ii. Point (b) of focal point 2 focuses on trade facilitation and FDI issues which should obviously have direct impact on the Vietnamese private sector and hence links with the Commission PSD strategy.

In spite of the importance of relationship between the PSD strategy and trade issues, programming documents remains relatively silent on the major need to closely articulate activities programmed and implemented in one or another area. For instance, it gives no information on how trade policy and trade facilitation aspects affect the country's private sector, and does not provide any indication on how the articulation between PSD and trade activities should be designed so as to integrate PSD and trade in comprehensive approach. The reason might be that the PSD strategy is in fact focused on SMEs and that the participation of SMEs to international trade is limited. However, even if exports activities of SMEs are modest, they will certainly be affected by the opening to trade that Vietnam will experience in a near future. For these reasons, the apparent disconnection of PSD and trade in strategy documents leaves certainly room for improvement.

*7B.1.2 Evidence that EU support to other sectors has positively or negatively affected the achievement of the objectives of the PSD support strategy within the country*

No compelling evidence on possible effects of EU support to other sectors on the achievement of the objectives of the PSD support strategy in Vietnam.

*7B.1.3 Explicit reference to the possible effects of other EU strategies and policies (development or non-development) on the PSD support strategy in a given country*

The CSP 2002 notes that, as indicated in the Council and the Commission Development Policy Declaration, six core areas for EC Development Co-operation have been identified: trade and development, regional integration and co-operation, macro economic reform and social programmes, transport, food security and rural development, and institutional capacity strengthening. The Trade Policy of the EU is founded in the development of a fair and open, rule-based international trading system. The priorities for EC-Vietnam co-operation include in the country strategy are consistent with the European Community's Development and Trade Policies. They are also consistent with the Community's specific policies for relations with Vietnam and with ASEAN. However, it does not provide an analysis of possible effects of other development or non-development EU policies on the PSD support strategy in Vietnam. It also gives no directions or elements of strategy for achieving coherence and/or complementarity with other EU policies.

The EU policy that is most likely affecting the private sector in Vietnam is the EU trade policy. The EU is one of the main trade partners of Vietnam in particular as an export market, the EU being the largest importer of Vietnamese products with more than 20% of Vietnam's exports having the EU as destination (estimation 2002)<sup>49</sup>. Vietnam's principal exports to the EU are textile and footwear

<sup>49</sup> European Commission (2003), EU Economic and Commercial Counsellors' 2003 Report.

products, coffee and tea. Some of these products are submitted to high tariff and non-tariff barriers, particularly for footwear and textiles when imported in the EU. However, Vietnam and the EU formalised bilateral trade relations with a textile agreement signed in 1992. This agreement opened the EU market to Vietnamese textile exports establishing quantitative limits. Since then, the agreement has been amended on four occasions to increase export quantities allowed into the EU. In 1999, an agreement on surveillance of footwear exports to the EU was aimed at restricting transshipment through Vietnam of Chinese footwear subject to antidumping duties. On 15 February 2003, the Commission and Vietnam established a trade agreement on textiles and market access, technically a further amendment of the 1992 textile agreement, but which also included market access elements other than textile. The agreement gave Vietnam increases in textile and garment quotas worth € 200 millions a year in exchange for tariff reductions by Vietnam for EU textiles and clothing, and other liberalisation commitments in a number of sectors. Programming documents however give no information on the extent to which Vietnamese exports to EU markets, and hence development of its private sector, are (positively or negatively) affected by such provisions of the EU trade policy.

*7B.1.4 Evidence that other EU strategies or policies have positively or negatively affected the achievement of the objectives of the PSD support strategy within the country*

Vietnamese exports might however be bounded by trade restrictions on EU markets. For instance, the Ministry of Trade reports that although Vietnam's garment industry exported 18 % more during the first three quarters of 2004 than during the preceding year, performance was expected to drop in the remaining months as export quotas to the two main markets of the EU and the US have nearly run out<sup>50</sup>. In 2001, the Ministry of trade already indicated that removal of EU's quotas on made-in-Vietnam textiles and clothing following the dismantlement of the Agreement on Textile and Clothing (ATC) would be a good opportunity for Vietnam to increase exports to these markets<sup>51</sup>. According to the Ministry of trade, another factor that significantly affects Vietnamese exports are legal issues, which arise in trade relations with foreign countries. They are mostly lawsuits about Vietnam's "dumping" of products. Most of cases originate from complaints in the US but also in the EU. For instance, in 2004 the EU investigated an allegation that Vietnam dumped bicycles in the EU market<sup>52</sup>. This suggests that EU trade policy effectively affects Vietnam's trade. The extent to which this spills-over to private sector development is however not documented.

*7C.1 National or regional EU PSD programmes within a country take into account other EU interventions*

*7C.1.1 Programme documents explicitly refer to the other PSD programmes supported by the EU in the same country and analyse possible complementarities, synergies conflicts or overlaps*

In general, programme/project documents do not explicitly refer the other Commission PSD interventions in Vietnam. In particular, the TAPs do not refer to other PSD projects/programmes nor analyses possible complementarities, synergies conflicts or overlaps between PSD projects/programmes. Moreover, the risks and assumptions listed in the programme logical framework do not mention achievements and/or results in other PSD projects/programmes. EBIC is however said to serve as a Focal Contact Point and antenna for various EU-Asia economical co-operation and development programmes such as Asia Invest, Asi@IT&C, Asia Urbs, Asia ProEco, Asia Link, etc.

<sup>50</sup> News on Line – Vietnam Economic Time (2005), <http://www.vneconomy.com.vn/eng/index.php?param=article&catid=0605&id=041005140200>.

<sup>51</sup> ASEM Connect (2001), VietnamTrade News, <http://www.asemconnectvietnam.gov.vn/asemvn/asps/news.asp?idnews=6469&tuan=13>

<sup>52</sup> Vietnam Style (2005), <http://www.vn-style.com/viewDetails.asp?catId=4&PostId=21599>.

*7C.1.2 Evidence that other EC PSD programmes in the same country have positively or negatively affected the achievement of the objectives of the programme*

PSD interventions constitute a set of areas where complementarities and synergies are numerous. However, there are no real analysis of the nature of these links and how to maximise their exploitation. For instance, the strategy does not mention the main legal and regulatory constraints affecting the development of the private sector which makes it difficult to assess the extent to which PSD interventions in the micro and meso areas are effectively articulated to interventions in the macro area. In practice, however, the projects/programmes implemented in Vietnam form a coherent body with elements that are most of the time adequately inter-related. Some room for improvement nevertheless exist as revealed by the following table.

Support to/ articulated with	Institutional reforms	Financial sector	B2B-I	BDS	SMEs/mirco enterprises
Institutional reforms					
Financial sector	High risk bearing for credit officers				
B2B-I					
BDS	Accreditation limits development of BDS				
SMEs/mirco enterprises	Weaknesses in law enforcement; Skewness of legal framework towards SOEs; Access to land/collateral;	Lack of risk assessment capacity in baking sector; Firms lack accounting capacity.			

Degree of coherence:

High: satisfactory and no particular caveat detected

Medium: satisfactory and some activities are hampered by elements related to another area of intervention

Low: Absence of coherence prevents the achievement of objectives

: Not relevant

*7C.1.3 Programme documents explicitly refer to support to other sectors and analyses possible complementarities, synergies conflicts or overlaps between the programme and other sector support within the same country*

In general, programme/project documents do not explicitly refer to or take into account support to other sectors. In particular, the TAPs do not refer to support to other sectors nor analyses possible complementarities, synergies conflicts or overlaps between the programme and other sector support. Moreover, the risks and assumptions listed in the programme logical framework do not mention achievements and/or results in other sectors.

*7C.1.4 Evidence that support to other sectors has positively or negatively affected the achievement of the objectives of the programme*

No compelling evidence that support to other sectors has affected the achievement of the objectives of PSD projects/programmes.

*7C.1.5 Programme documents explicitly refer to the possible effects of other development or non-development EU strategies and policies on the programme and analyses possible complementarities, synergies conflicts or overlaps*

None of the programme documents for the projects/programmes reviewed during the field mission incorporate references to possible effects of other EU policies and /or strategies. This is true for the general description of the projects and their context as well as for the risks and assumptions considered in the projects logical framework.

*7C.1.6 Evidence that other EU strategies or policies have positively or negatively affected the achievement of the objectives of the programme*

No compelling evidence that other EU strategies or policies have affected the achievement of the objectives of PSD projects/programmes.

## EQ 8 – Coordination (with other donors)

To what extent is there coordination between donors, both at central and at country level?			
8.2 The EU actively participates to multi-donor coordination process at country level			
<p>Vietnam was one of six countries selected for a survey amongst the donor community of ODA transactions costs by the World Bank's Comprehensive Development Framework (CDF). The study took place in July 2002 and included the Commission in its sample of donors. Almost all of the donors surveyed agreed that there has been an <b>increase in the frequency of donor coordination activities</b> during the last five years. All of the respondent donors participate in the Consultative Group (CG) process (annual and mid-term meetings) which is coordinated by the MPI and the World Bank. There are no "Mini-CG" meetings in Vietnam. Other coordination activities mentioned include: Liked Minded Donor Group (LMDG); ODA Harmonisation; Poverty Reduction; CPRGS; EU Development Counsellors; UNDP monthly forum. <b>The largest focus of specific coordination activities lies with sector issues.</b> The CG is complemented by the establishment of sector Partnership Groups, which are more focused on coordination between donors involved in a particular area and the concerned Ministries and local agencies. One of these groups involves all donors active in the area of PSD. The efficiency has however said to be rather low and coordination superficial. Recently, the PSD Partnership Group initiated the process of setting up more specific groups in an attempt to increase efficiency of coordination in this area; Other activities mentioned include: Urban forum; Forestry partnership group; donor group (sub-group) meetings on Governance, Banking, PER, Gender; SME Partnership; PAR; Civil Society; Poverty; Environment; Education; Transport; HIV/AIDS, Trade; Agriculture; Fishery sector; Health Working Group; ISG Health; ISG-MARD; Legal Reform/LNA; Public Financial Management, SOE Reform. The donors surveyed indicated that GoV is invited to almost all partnership group meetings. Most of the respondents stated that the <b>efficiency of donor coordination has improved</b> over the last five years but it was widely stated that there is still "room for improvement". The general perception of donor-driven coordination efforts lead to the suggestion that there <b>needs to be more ownership and capacity on the GoV side.</b></p> <p>From the Commission perspective, coordination is necessary to increase effectiveness of assistance, in line with the related provisions of the ALA regulation. It also allows to reduce transaction costs which are likely to be important in the are of PSD due to the large number of donors covering this field in Vietnam.</p> <p>Coordination within large groups proves difficult because of the involvement of different type of activities, donor idiosyncrasies (in particular difference in the type of instruments, administrative procedures, project cycle) and the participation of people involved on the one hand at the strategic-counselling level and on the other hand at the operational level.</p>			
8.2.1 <i>Evidence of participation of the EC to multi-donor coordination meetings at country level</i>			
In Vietnam, there are numerous multi-donor coordination's platforms for the private sector.			
Group name	members	Head	Meetings
<ul style="list-style-type: none"> <li>▪ Partnership Group</li> </ul>	<ul style="list-style-type: none"> <li>▪ 25 donors</li> <li>▪ GoV</li> <li>▪ Non-governmental bodies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Donor: Unido</li> <li>▪ Vietnam: Asmed</li> </ul>	<ul style="list-style-type: none"> <li>▪ Started in 2002</li> <li>▪ Bi-annual meetings (70 people)</li> <li>▪ Formal meetings</li> <li>▪ Division into sub-groups of experts: Policy, business environment, legal, BDS</li> </ul>
<ul style="list-style-type: none"> <li>▪ EU working Group</li> </ul>	<ul style="list-style-type: none"> <li>▪ EC</li> <li>▪ 14 EU MS</li> </ul>	<ul style="list-style-type: none"> <li>▪ EC</li> </ul>	<ul style="list-style-type: none"> <li>▪ No formal PSD meetings</li> </ul>
<ul style="list-style-type: none"> <li>▪ Like-Minded donor group</li> </ul>	<ul style="list-style-type: none"> <li>▪ Group of +-8 members</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tbc</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ad Hoc meetings (unlikely that a specific PSD meeting and/or output has been planned/ achieved so far)</li> </ul>

<ul style="list-style-type: none"> <li>▪ PSDP</li> </ul>	<ul style="list-style-type: none"> <li>▪ several donors</li> <li>▪ GoV</li> </ul>	<ul style="list-style-type: none"> <li>▪ MPI and the World Bank</li> </ul>	<ul style="list-style-type: none"> <li>▪ Set up of joint programme:                             <ul style="list-style-type: none"> <li>- Basket funding</li> <li>- Common monitoring indicators</li> </ul> </li> <li>▪ Joint participation to policy dialogue</li> </ul>
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While several PSD donor coordination group exist and while Vietnam is quite advanced in that field compared to other countries, little concrete output has emerged from this coordination groups as of yet. Apart from direct coordination between donor, there also exists indirect coordination managed by ASMED (see 8.2.2).

#### 8.2.2 *Evidence of distribution of tasks among the different donors at country level*

Despite the existence of multi-donor coordination meetings, very little has been done in terms of task distribution. Reasons for lack of effectiveness include that.

- Most of these groups are fairly new.
- Donors have still lots of national interest (e.g. branding), especially in private sector (business with national companies).

Despite the fact that the existence of national interest that make donor coordination in PSD particularly challenging, there is room for improvement through a thorough analysis of specific areas of coordination where conflict of interests are less present. During the country mission, the team identified higher potentials of coordination in specific expected results (legal and regulatory framework, institutional capacity, and PSD policy; an example is budget support) as well as in particular topics in which the potential for cross-area coordination (i.e. coordination on different types of expected results is possible) is high, including local economic development. Coordination is however more challenging in some expected results which often involve national interest, e.g. B-2-B cooperation.

That being said, the Ministry of Planning and Investment created in ASMED in 2001. One of ASMED's objective is to be a channel between donor and government. In doing so, ASMED also attempts to coordinate donor funds by discussing with donors in which area the funds could be better used (ASMED also plays an active role in the SME Partnership group). ASMED tries to distribute tasks among donors in a way that most important areas in PSD are covered by donors and to avoid overlaps. When donors which to execute a certain intervention, they usually consult with ASMED whether the proposed project is relevant for Vietnam's PSD needs and whether it has been already addressed by another donor or not. ASMED also directs donors towards relevant PSD areas. According to ASMED's Deputy Director General, most important PSD areas are covered by donors: According to one person working closely with ASMED, the role of the government in terms of coordination has improved, but there is still a lot of work to do.

#### 8.2.3 *Evidence of joint activities or projects between the different donors at country level*

The Commission participates to the Poverty Reduction Support Credit (PRSC) set up by the World Bank. The contribution of the Commission to this budget support programme represents 4 to 5% of the programme's allocation. Some EU Member States also participates, like Denmark (providing 3% of the funding) and the U-K.

Several joint activities occur bilaterally. For example,

- Italy & Finland: "Assistance to establish the national and provincial SME Infrastructure".

#### 8.2.4 *Explicit reference to other donor policies or activities in country documents*

At the level of the country strategy, the CSP stresses that it is important that the actions supported by the Community are planned and implemented in a manner which is coherent and complementary with the policies of the Government of Vietnam and the actions of the European Union Member States and other donors. It also notes that considerable progress has been made in Vietnam in developing Government-donor co-ordination. The annual Government-donor Consultative Group Meeting has become

increasingly inter-active in recent years, and it is supplemented each year by a Private Sector Forum and by a mid-term Consultative Group Meeting. According to the CSP, particular attention is paid in Vietnam to ensuring a maximum level of co-ordination of co-operation work among the EU Member States and the Commission, and the Development Counsellors of the EU Member States embassies and the Commission Delegation meeting on a monthly basis to exchange information on ongoing projects, planned initiatives, and future priorities. Such co-ordination contributes significantly to coherence of strategies and complementarity of actions. Each year a comprehensive directory of EU co-operation projects is produced and widely circulated, resulting both in better co-ordination of Member State/Commission initiatives, in reduced risk of duplication, and in enhanced visibility for the combined EU effort<sup>53</sup>. Annex 4 of the CSP displays a table indicating the EU Development Co-Operation with Vietnam by Member States. One learns that Members States involved in the area of Industry are Austria, Belgium, France, Germany, Spain and Sweden. The main elements of the co-operation strategy of some Member States are also indicated. These descriptions are rather general, do not explicitly refer to the other PSD programmes supported by the Member States and do not provide directions so as to exploit possible complementarities and synergies.

#### 8.2.5 *Explicit reference to other donor policies or activities in programme level documents*

At the level of programmes, we restrict the analysis to the sample of projects selected for Vietnam.

i. European Technical Assistance Programme Vietnam I  
TAPs not available.

ii. European Technical Assistance Programme Vietnam II

Section 2.8 of the TAPs notes that “In order to preserve the necessary coherence between the activities of the present project and those activities undertaken by other donors in the target sectors, regular meetings will take place with all interested parties to ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the project”.

iii. Labour Market Project

Section 2.8 of the TAPs notes that “In order to preserve the necessary coherence between the activities of the present project and those activities undertaken by other donors in the target sectors, regular meetings will take place with all interested parties to ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the project”.

iv. Private sector support programme

Section 3.9 of the TAPs notes that “In order to preserve the necessary coherence between the activities of the present project and those activities undertaken by other donors in the target sectors, regular meetings will take place with all interested parties to ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the project”.

v. Small Projects Facility

Section 3.10 of the TAPs notes that “In order to preserve the necessary coherence between the activities of the present project and those activities undertaken by other donors in the target sectors, regular meetings will take place with all interested parties to ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the project”.

<sup>53</sup> European Commission (2003), *EC-Vietnam Country Strategy Paper 2002-2006*.

<p>iv. Human Resources Development in Tourism</p> <p>No mention of coordination in the TAPs (the word is not included in the text).</p> <p>i. Small and Medium Enterprises Dev. Fund-Phase I</p> <p>TAPs not available.</p> <p>ii. Small and Medium Enterprises Dev. Fund-Phase II</p> <p>Section 3.9 of the TAPs notes that “In order to preserve the necessary coherence between the activities of the present project and those activities undertaken by other donors in the target sectors, regular meetings will take place with all interested parties to ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the project”.</p> <p>iii. European Business Information Centre EBIC</p> <p>The projects description notes that “EBIC closely co-operates in tangible ways with for instance the EC Delegation in Hanoi, EUROCHAM, and with all EU member state missions and business associations nation-wide”.</p> <p>Obviously, coordination with other donors and their PSD programmes is in fact not addressed in programmes/projects documents.</p>
<p><i>8.2.6 Examples of complementarities and synergies between programmes funded by the EU and programmes funded by other donors</i></p>
<p>EC: SMEDF: aims at reinforcing the banking sector through the provision of credit lines and technical training. But the banking sector also requires a reinforcement of its auditing capabilities, which is financed by other institutions. But while there is complementarities between those projects, there was no corresponding attempts at coordination.</p> <p>EC PSSP and GTZ programmes: after the implementation of the projects by each donor, CTA’s of each programmes try to determine what synergies could be achieved at the very operational level. For example, it has been arranged that the EC will use some of their tools and consultant’s for the benefit of their programmes. In return, GTZ will hope to use EC’s resources in the future.</p>
<p><i>8.2.7 Evidence of overlap between PSD programmes of the EU and of other donors at country level</i></p>
<p>Institutional Technical Assistance:</p> <ul style="list-style-type: none"> <li>▪ EC: Private Sector Support Programme.</li> <li>▪ Italy-Finland: “Assistance to establish the national and provincial SME Infrastructure”.</li> </ul> <p>According to ASMED’s Deputy Director General, there may be some areas of overlap, but not significant ones.</p> <p>The design of the HRDT programme was in 1997, and the project started in 2004. Given the large time lag between those two dates, some concerns has been raised regarding its effectiveness. For since 1997, Since then there has been significant support provided by Luxembourg government to the development of tourism industry, especially in term of training and technical assistance to key training schools. This may raise issues regarding of overlap between the two donors. (See efficiency).</p>
<p><i>8.2.8 Evidence of similar programmes with common beneficiaries funded by the EU and another donor</i></p>
<p>Some donors are doing similar types of interventions and working with the same type of local authorities, but they do so in difference provinces of the country. So there is strictly speaking no same ultimate beneficiary that benefits from two similar programmes.</p>

## EQ 9 - Cross-cutting issues

**Do the EU PSD interventions show concern for cross cutting issues such as promoting women led enterprises, ensuring acceptable working conditions notably for women, protecting the environment and promoting better governance practices?**

9.2 CCI are taken into account in the PSD strategy for the country

9.2.1 *The CSP explicitly refers to the CCI*

According to the CSP, crosscutting themes is an integral part of EC-Vietnam co-operation and include environmental protection and disaster preparedness, culture and education, gender equality, the promotion of human rights, and good governance. The CSP does not give directions for a systematic integration cross-cutting issues into the various elements of the strategy. It just mentions that, when appropriate, specific cooperation actions can be developed to promote such themes on an ad-hoc basis. As an example, it mentions environment protection and disaster preparedness and prevention that could address the persistent flooding in the central provinces, linked to deforestation, that has led to repeated humanitarian crises and that could be the subject of a specific intervention with a social forestry approach. The CSP also recall that, in addition to the NIP resources, horizontal ones such as the “environment and tropical forest protection”, “human rights” budget lines and the EC co-financing of NGOs can be utilised. No specific reference is made with respect to the private sector<sup>54</sup>.

9.2.2 *Project/programme documents explicitly refer to cross cutting issues*

- (i) European Technical Assistance Programme Vietnam I  
ETV 1 is targeted to institutional reforms aimed at accelerating the transition towards a market economy and therefore is tackling good governance issues. There is no evidence that the programme addressed other cross-cutting issues.
- (ii) European Technical Assistance Programme Vietnam II  
The overall objective of ETV 2 is to improve economic and social development in Vietnam during its period of transition to a market economy. This is to be achieved by facilitating better decision making in the public and private sector, and the development of clear, rational, transparent policies, strategies, plans and legislation through a strengthening of policy/legislation making capacity and of means of implementation. The project is therefore naturally targeted to good governance issues. However, good governance or any other cross-cutting issues are not explicitly referred to in the programming documents<sup>55</sup>.
- (iii) Labour Market Project  
The project’s programming documents do not refer to any of the cross-cutting issues<sup>56</sup>.
- (iv) Private sector support programme  
The global objective of the Vietnam Private Sector Support Programme (VPSSP) is poverty alleviation and job creation via promotion of the private sector, in particular of Vietnamese small and medium enterprises (SME), and its integration into the international economy. The programme is design so as to promote the creation of an environment conducive to SME’s particularly at the level of the country’s Provinces. From this point of view, the programme implicitly addresses the issue of

<sup>54</sup> European Commission (2003), *EC-Vietnam Country Strategy Paper 2002-2006*.

<sup>55</sup> European Commission (2002), *European Technical Assistance Programme for Vietnam*, Financing Agreement and Technical and Administrative Provisions.

<sup>56</sup> European Commission (2002), *Labour Market Project*, Financing Agreement and Technical and Administrative Provisions.

good governance through support to decentralisation. However, good governance or any other cross-cutting issues are not explicitly referred to in the programming documents<sup>57</sup>.

(v) Small Projects Facility

This programme is explicitly targeted to good governance. Its overall objective is to support the ongoing reform process of Vietnam's economy and systems of governance, as well as to facilitate Vietnam's integration into the international economy. This is to be achieved inter alia through an enhanced involvement of civil society partners and of the private sector. More specifically, the programme intends to improve the mutual understanding and joint visibility of partners by promoting civil society dialogue and facilitating interactions in the areas of governance, administrative reform and decentralization as well as strengthening of civil society and public interest organisations as a contribution to grass-root democracy, better governance, and the respect of the rule of law. No other cross-cutting issues are not explicitly or implicitly referred to in the programming documents<sup>58</sup>. But the selection criteria for projects are gender-sensitive. As a result, one out of 7 projects relates to women in business. Its project title is "Promoting Business Women networking in Vietnam".

(vi) Human Resources Development in Tourism

The only reference to cross-cutting issues in the project's programming documents relates to environment. The objectives of the project indeed reflect the major elements of the integrated national approach adopted by the GoV among which the training of key government tourism officials in essential tourism management skills, including environmental planning. Specifically, the project includes a component dealing with practical aspects of tourism planning including environmental awareness. No other cross-cutting issues are not explicitly or implicitly referred to in the programming documents<sup>59</sup>.

(vii) Small and Medium Enterprises Development Fund - Phase I

TAPs not available. There is no evidence that the programme took any cross-cutting issues into account.

(viii) Small and Medium Enterprises Dev.Fund-Phase II

The project's programming documents do not refer to any of the cross-cutting issues<sup>60</sup>.

(ix) European Business Information Centre EBIC

The project's programming documents do not refer to any of the cross-cutting issues.

9.2.3 *Internal monitoring system takes into account CCI*

When a project/programme takes a particular cross-cutting issue into account, either explicitly or implicitly, some related (objectively verifiable or achievements) indicators are sometimes included in its logical framework. For instance, ETV 2 indicators include "Legislation drafted according to international standards, international recognition received", while for SPF one has "New legislation/regulations on governance reforms and trade issues approved". For other projects/programmes, cross-cutting issues monitoring indicators are not specified even if the project/programme takes into account some cross-cutting issues. For instance, the Human Resources Development in Tourism programme refers to environment but not related monitoring indicators are suggested in its programming documents. Overall, it

<sup>57</sup> European Commission (2003), *Vietnam Private Sector Support Programme*, Financing Agreement and Technical and Administrative Provisions.

<sup>58</sup> European Commission (2002), *Small Projects Facility*, Financing Agreement and Technical and Administrative Provisions.

<sup>59</sup> European Commission (1997), *Human Resources Development in Tourism*, Financing Agreement and Technical and Administrative Provisions.

<sup>60</sup> European Commission (2002), *Small and Medium Enterprises Development Fund - Phase II*, Financing Agreement and Technical and Administrative Provisions.

seems that the inclusion of an internal monitoring system related to cross-cutting issues is not the result of a systemic approach which in fact reflects the fact that the inclusion of cross-cutting issues into projects/programmes is itself not a systematic process.

#### *9.2.4 Evidence of the effective implementation of cross-cutting issues*

In Vietnam, cross-cutting issues were either addressed by programmes/projects specifically targeted to particular cross-cutting issues (e.g.SPF) or through the implicit inclusion of some of these issues in the programmes/projects' content. Good governance seems to be the issue which received most attention. It is explicitly referred to in the CSP and addressed through programmes like ETV 1, ETV 2 and SPF which target institutional reforms that are likely to improve both the transparency and quality of governance (Cfr. supra). ETV 2 and SPF have just started and it is therefore too early to assess their respective contribution to improve governance. As far as ETV 1 is concerned, the programme effectively supported reforms that contributed to improve governance (such as the draft and passing of the Law on enterprises) but again this appears more like a specific objective of ETV 1 than a deliberate attempt to target a specific cross-cutting issue.

### 9.3 A CCI is treated through a specific project or programme in the frame of the PSD support in Vietnam rather than as an horizontal issue

#### *9.3.1 Examples of projects or programmes that focus on one of the CCI*

The SPF programme is explicitly targeted to good governance. Its overall objective is to support the ongoing reform process of Vietnam's economy and systems of governance, as well as to facilitate Vietnam's integration into the international economy. This is to be achieved inter alia through an enhanced involvement of civil society partners and of the private sector. More specifically, the programme intends to improve the mutual understanding and joint visibility of partners by promoting civil society dialogue and facilitating interactions in the areas of governance, administrative reform and decentralization as well as strengthening of civil society and public interest organisations as a contribution to grass-root democracy, better governance, and the respect of the rule of law. No other cross-cutting issues are not explicitly or implicitly referred to in the programming documents. But the selection criteria for projects are gender-sensitive. As a result, one out of seven projects relates to women in business. Its project title is "Promoting Business Women networking in Vietnam".

## **Annex 7 - Selected PSD Strategies**

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This annex briefly describes the Commission's strategy in the area of PSD. Those of the ADB and the WB are also described so as to provide some benchmarks.

### **1. Asian Development Bank (ADB)<sup>61</sup>**

Given its focus on a region with a predominance of countries in transition from a centrally planned to a market economy, the ADB's PSD strategy is developed around the precept that while governments should shift away from commercial business, they must develop a capacity to create and sustain the legal and market institutions needed to facilitate and regulate private sector activities. Creating the enabling environment for domestic and foreign private investors and shifting the role of government from owner-producer to facilitator-regulator, and the large adjustment costs associated with such a shift, are big challenges for which the Developing Member Countries (DMCs) need ADB's continued and intensified support.

ADB has long been involved with PSD. The institutions draw two lessons from its capitalised experience with private enterprises. First, the right policy environment is vital for the long-term viability of these businesses. While ADB has assisted DMCs in developing an enabling environment for the private sector, the Asian financial crisis has called for more comprehensive DMC efforts with ADB support. Second, ADB assistance, if combined through both the public and private sector windows to address development challenges, can provide synergistic solutions resulting in greater benefits for the host DMC. Such a combination requires public sector assistance to take more systematic account of private sector interests and concerns, and private sector assistance in its turn to promote development impact in its activities.

In the year 2000 ADB issued renewed strategic orientation for its PSD interventions. Traditionally its strategy focused mainly on its direct non-government-guaranteed assistance through Private Sector Organisations (PSO). The "new" strategy goes beyond that and addresses the more complex challenge of how both ADB's public and private sector operations can better promote private sector-led growth. The strategy is built around three main thrusts (Creating Enabling Conditions, Generating Business Opportunities, Catalysing Private Investment) so as to impact on the private sector's contribution to pro-poor growth.

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<sup>61</sup> Asian development Bank (2000), Private Sector Development Strategy.

## 2. World Bank<sup>62</sup>

The current World Bank Group Private Sector Development (PSD) strategy was released in April 2002. The PSD strategy places particular emphasis on improving the investment climate and enhancing the delivery of basic services, especially to poor people. To this end it argues for policy reforms and commercial disciplines on World Bank Group (WBG) support to the private sector. It also stresses the need to systematically engage stakeholders, in particular the private sector, in the diagnosis of development issues, identification of reform priorities and implementation of programmes and projects.

PSD requires a good balance between the complementary functions of the state and the private sector. It is about judicious refocusing of the role of the state, not about indiscriminate privatisation. Sound government policies that provide room for private initiative, and that set a regulatory framework which channels private initiative in ways that benefit society as a whole, are critical. This in turn requires institution-building and capacity- building. Within this framework, direct public support to private firms may be desirable to enable entrepreneurs to enter markets or open up new ones. Public policy for the private sector and direct support to the private sector need to form part of a comprehensive approach to development and reflect country and sector conditions.

The first pillar of such an approach is enhancing the investment climate which in fact covers the legal and regulatory environment, the quality of the financial sector and a sound macroeconomic environment. Indeed the critical features of a sound investment climate include a rational governance system that allows firms to pursue productive activity without harassment, contracts and property rights to be respected and corruption to be reduced. Equally important is an infrastructure that allows private entrepreneurs and their employees to operate effectively. Competition and, where necessary, regulation are essential to channel private initiative in socially useful directions. A sound financial sector is required to allow firms to enter the market and operate effectively as well as to help restructure failing firms. A stable macro-economic environment and an economy which is open to trade are also elements of a good investment climate. Overall, enhancing the investment climate is about better public policy for the private sector, including the required supporting institutions.

The second pillar complements investment climate improvements and aims at unleashing supply response by providing direct support to formal small and medium firms as well as to entrepreneurs in informal settings. Such support may comprise both finance and advice. Several decades of attempts to provide such support have shed light on the key success factors. First and foremost, successful direct support to firms requires a sound investment climate that provides incentives to use public support well. Second, both financial and advisory support needs to be aligned with market forces. Financial terms of loans and investments should not be subsidized. Any subsidy should be transparently targeted on institution-building and capacity-building objectives which justify subsidy on grounds of externalities, for example some forms of vocational training.

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<sup>62</sup> World Bank (2002), Private Sector Development Strategy – Directions for the World Bank Group, <http://rru.worldbank.org/Documents/PapersLinks/699.pdf>.

### 3. EU<sup>63</sup>

The Commission has identified five areas of intervention or instruments on which it will base private and business sector support:

- (i) **Administrative and macroeconomic reforms:** Overall policy dialogue and support, in particular as regards macroeconomic policy, trade policy and good governance, providing the necessary regulatory framework, institution building and advice. The Community's actions in this area will aim at creating a policy framework which supports and fosters competitiveness, a market economy and good governance. This encompasses technical assistance in support of reforms, particularly in the fields of legislation, banking and finance, taxation, public expenditure, customs procedures, trade facilitation measures, institutional building, and general administrative efficiency.
- (ii) **Investment and inter-enterprise co-operation promotion activities:** The purpose of the Community support for the promotion of investment and technology transfer from industrialised to developing countries will be to enhance sustainable and environmentally friendly investment and inter-enterprise cooperation agreements. This is with a view to increasing the efficiency and competitiveness of the economies concerned, and in particular to enhancing export prospects.
- (iii) **Investment financing and development of financial markets:** The overall objective of these instruments and services is to mobilise private savings flows (both domestic and foreign) to finance investments essential for a thriving business sector. When providing financial resources for investment financing, the Community should be sensitive to local market conditions. Nonetheless, where appropriate the Community may also decide, in agreement with partner countries, to provide concessional financing based upon the specific nature of certain operations (as in the case of certain public projects, or of projects with significant impact at social or environmental level, even if private).
- (iv) **Developing services for Small and Medium-Sized Enterprises (non-financial services):** A number of supportive measures will aim to improve the macro- and micro-economic foundations of competitiveness of SMEs and micro-enterprises, whilst other measures will focus more directly on developing an effective market for business development services. This includes initial and on-going guidance for companies and professional associations (usually on a demand-driven basis) or more pro-active strategies paid for, in part, by the beneficiaries (cost-sharing principle); different forms of skills up-grading, to help modernise enterprises and encourage the creation of enterprise networks or cooperatives; assistance with preparing and implementing business plans.
- (v) **Support for micro-enterprises:** These actions should take the form of institutional and capacity building in intermediary institutions which act as the voice of micro-enterprises and providers of public goods; encouraging micro-finance institutions to

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<sup>63</sup> European Commission (2003), Communication from the Commission to the Council and the European Parliament, *European Community Co-operation with Third Countries: The Commission's approach to future support for the development of the Business sector*, COM(2003) 267 and European Commission (2003), *Guidelines for European Commission Support to Private Sector Development*.

develop new services and financial products which are well adapted to the medium- and long-term needs of small and micro-enterprises; helping integrate micro-finance within local financial systems by disseminating best practices and performance standards, setting up a framework for regulation and appropriate supervision, and supporting institutional development; and improving and monitoring the performance of micro-finance institutions, their governance mechanisms, and their ability to serve micro-enterprises.

It therefore appears that the field of actions considered by the Commission is broader than that of the main other donors involved in PSD. While ADB and WB mainly intervene in the legal and regulatory framework and in support to SMEs, the Commission also supports the strengthening of business networks with a view to assisting the internationalisation of firms by fostering local-EU business cooperation (investment and inter-enterprise co-operation promotion activities) and specific actions geared towards micro-enterprises (support for micro-enterprises).

## Annex 8 - Justification for Public Interventions

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This annex summarises the main economic arguments justifying public interventions in the private sector.

There are two main factors sustaining the economic rationality of public interventions, and in particular of foreign assistance, in the private sector sphere<sup>64</sup>:

### 1. Fostering growth through the accumulation of factors of production (physical and human capital), of technology and institutional capacity

PSD is based on the accumulation of factors of production (physical and human capital), of technology and of institutional capacity. Such accumulation takes place along a growth process and is driven by investment that allows the stock of factors of production to increase, and the technology and institutions determining the working of the private sector to improve. Most of the time, investment is resource-consuming and the economy moves in time along a growth path at a pace determined by the availability of resources. In this perspective, foreign assistance is a way of accelerating the process by transferring resources to the beneficiary country. The sustainability of such interventions can be assessed in different ways: (i) the depreciation rate of the transferred resources, which should not be too high in the hope that their impact on the economy's production capacity may be long enough (for instance, training programmes should be designed so that those that are trained today will be able to transmit their newly acquired skills to future generations); (ii) the impact of interventions either on levels or on growth rates in production and consumption, or on both; those positively affecting growth rates are likely to produce higher and more long lasting impacts.

### 2. Address market failures

A market failure is a mechanism that prevents a market from achieve the optimal allocation of resources in a given economy. Economics has identified the following categories of market failures:

1. Asymmetry of information: markets are not conveying the information necessary for economic agents to take efficient decisions.
2. Externalities: prices do not completely reflect the value or cost of a given good.
3. Public goods: a public good is defined as an economic good which possesses the properties of *non-rivalrousness*, (i.e. its benefits do not exhibit scarcity from an individual

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<sup>64</sup> We do not target the redistributive role of the State which is mainly justified by ethic and equity reasons.

point of view as once it has been produced, each person can benefit from it without diminishing anyone else's enjoyment) and *non-excludability* (i.e. once it has been created, it is impossible to prevent agents from gaining access to the good). In general, a free market is unlikely to produce the optimum amount of any public good owing to the free-rider problem.

4. Uncompetitive market structure: imperfect competition related to individual market power, leading to market distortions.

In such cases, market outcome is likely to be inefficient which justifies the intervention of the public sector in a form appropriate to the type of market failure it intends to address.

PSD sector projects and programmes should be designed after careful identification of the nature of the problem they are tackling (accelerating the accumulation process or coping with market failures, and if such which ones). If this is not the case, a particular intervention is likely to cope with the symptoms without addressing the causes and will generally fail, to the least with respect to its sustainability.

## **Annex 9 - Some All-Country Programmes implemented in Vietnam**

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**Asia-Invest** is an initiative by the European Commission to promote and support business co-operation between the EU and Asia. The Programme provides assistance to intermediary business organisations to facilitate mutually beneficial partnerships between companies, in particular small- and medium-sized enterprises (SMEs), in the EU and South and South-East Asia and China, as well as to strengthen the business environment so that it can increase trade and investment flows between the two regions. The Asia-Invest Programme commenced in 1997 for a five-year term with a possible 5-year extension, and has since entered a second phase of implementation from 2003 to 2007, the Asia-Invest II Programme, with a Commission contribution of €35 million.

The general objectives were defined as to:

- (i) encourage growth in two-way trade and investment flows between the EU and Asia, including assisting companies from the less developed Asian countries to enter into mutually beneficial cooperation with European companies;
- (ii) promote and underpin the development of mutually beneficial trading relationships and investment between European and Asian companies, including small- and medium-size enterprises (SMEs);
- (iii) help raise the profile of the EU in Asia;
- (iv) increase awareness of opportunities in Asia, and facilitate the actions of operators in taking up these opportunities.

Asia-Invest comprises various instruments and activities as summarised below:

- (i) the Business Priming Fund administered by the Secretariat: this supports three types of project: market place monitoring (market opportunities research); language and business culture familiarisation (training of European and Asian groups of companies); and technical assistance (skills upgrading for groups of companies in Asian developing countries);
- (ii) Asia-Interprise: intended to facilitate sectoral direct contact business matching events;
- (iii) Asia-Partenariat: facilitating large multi-sectoral matchmaking events;
- (iv) Asia-Invest Business Meeting: medium-scale business to business events for 3-4 sectors;
- (v) Asia Investment Facility: funds studies to identify and promote focused market opportunities in Asian and member countries.

Asia-Invest offers a range of networking opportunities, including a Membership scheme which gives access to an electronic Bulletin Board. Information about such opportunities, and calls for activity proposals under the programme, were also disseminated through 'antennae' in Member States (Annex) and EBICs in several Asian countries.

In order to implement the programme the Asia-Invest Secretariat – a *Bureau d'Assistance Technique* (BAT) – was set up to promote and administer the programme on behalf of the Commission. All financial control remains within the Commission, which also retains control over approval of applications. Asia-Invest awards grants under the different heads to the extent of between 50 and 80 per cent of eligible costs – from €60,000 to €200,000.

The **European Business Information Centre** (EBIC): Vietnam was part of a network set up and financed by the Commission all over Asia. EBIC programmes were integrated into European Chambers of Commerce or European Business Councils. Separate offices were located, *inter alia*, in India, Malaysia, Sri Lanka, and Vietnam.

EBIC in Vietnam is an economic co-operation programme, initiated and funded by the Commission, and executed by the European Chamber of Commerce in Vietnam. It is a capacity-building initiative by the European Union to provide Vietnamese SMEs with information and training on the EU single market. Its main objectives are to raise the profile of the European Union single market among the business communities, to increase the capacity of Vietnamese business operators to establish mutually beneficial linkages with European counterparts, to act in a manner complementary to the public and private sector agencies of the EU Member States, and to contribute to the development of Vietnam.

The EBIC in Vietnam operated under the aegis of the European Chamber of Commerce in Vietnam (EUROCHAM Vietnam), and aimed at providing information and training on the EU single market in order (1) to raise the profile of the EU single market among the business communities; (2) to increase the capacity of Vietnamese business operators to establish mutually beneficial linkages with European counterparts; (3) to act in a manner complementary to the public and private sector agencies of the EU Member States; and (4) to contribute to the development of Vietnam.

The vehicles used to pursue the above objectives were: (1) provision of information; (2) provision of training; (3) matchmaking opportunities; and (4) providing access to respective instruments. The EBIC Vietnam was designed to act in a manner complementary to the public and private sector agencies of the EU Member States, and as a so-called Focal Contact Point (CFP) and “antenna” for various EU-Asia economic co-operation and development programmes. In addition, EBIC was designated as a national sale and distribution agent of OPOCE, the official agency for all EU publications in print and electronic format. The Centre was closed in 2003 at the request of the EU Member States on the basis that trade promotion should be the preserve of the Member States themselves and not a Community competence.