



## Viet Nam: Improving Competitiveness Program

Project Name	Improving Competitiveness Program								
Project Number	47293-001								
Country	Viet Nam								
Project Status	Closed								
Project Type / Modality of Assistance	Loan								
Source of Funding / Amount	<table border="1"><tr><td colspan="2"><b>Loan 3227-VIE: Improving Competitiveness Program</b></td></tr><tr><td>Ordinary capital resources</td><td>US\$ 140.00 million</td></tr><tr><td colspan="2"><b>Loan 3228-VIE: Improving Competitiveness Program</b></td></tr><tr><td>concessional ordinary capital resources lending / Asian Development Fund</td><td>US\$ 90.00 million</td></tr></table>	<b>Loan 3227-VIE: Improving Competitiveness Program</b>		Ordinary capital resources	US\$ 140.00 million	<b>Loan 3228-VIE: Improving Competitiveness Program</b>		concessional ordinary capital resources lending / Asian Development Fund	US\$ 90.00 million
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concessional ordinary capital resources lending / Asian Development Fund	US\$ 90.00 million								
Strategic Agendas	Inclusive economic growth								
Drivers of Change	Governance and capacity development Partnerships								
Sector / Subsector	<b>Public sector management</b> - Economic affairs management								
Gender Equity and Mainstreaming	No gender elements								
Description	The program will support the Economic Management Competitive Credit (EMCC), a joint development partner budget support program aligned to the national reform priorities of the government. The overall objective of the program is enhanced competitiveness for growth and job creation. The program will support the Government reforms efforts through six policy areas: (i) financial sector, (ii) fiscal policy, (iii) public sector administration and accountability, (iv) state enterprise management, (v) public investment management, and (vi) business environment. The EMCC consists of a programmatic series of three policy-based operations (EMCC 1-3) to be implemented during 2013-2015. EMCC-1 has been approved. This program supports policy actions under EMCC-2.								

Project Rationale and Linkage to Country/Regional Strategy

Losing competitiveness. Cross-country assessments show Viet Nam is losing competitiveness relative to others. Viet Nam's ranking of 70th out of 148th countries in the 2013-2014 World Economic Forum Global Competitiveness Index is one notch down from 2006-2007. During this period Indonesia and Cambodia have gained 19 and 23 places, respectively. Viet Nam's institutions sub-index is ranked second-lowest among the Association of Southeast Asian Nations (ASEAN) countries, only above newly covered Myanmar. It's ranking in the Doing Business survey has fallen from 90th position in 2011 to 99th in 2014. Diagnostic studies suggest key constraints to increased competitiveness include unclear regulatory environments, weak enforcement of regulations, and an unequal playing field where state-owned enterprises (SOE) have preferential access to land, credit and public sector contracts. More vigorous competition needed to sustain growth. Viet Nam is an extremely open economy in terms of trade and investment, but has been unable to impose market discipline on large SOE, resulting in bouts of rapid credit growth, asset bubbles, and inflation. The shift from central planning to market allocation, while retaining government control over productive assets within the state sector, has led to progressive commercialization of the state itself. Weak administrative capacity and unclear regulatory environment pose obstacles to more vigorous market competition needed to sustain rapid growth. GDP growth has fallen from an average rate of 7.3% during 2000-07 to 5.8% during 2008-2012, and down to around 5.4% in 2013.

Weakening competitiveness is slowing job creation. During 2001-2010, employment growth averaged 2.3%. The domestic private sector, consisting mainly of small-medium sized enterprises (SMEs), played a major role and now contributes about 50% to GDP, 86% of the total workforce, and about 90% of new job creation. However, as GDP growth slowed, business closures and layoffs have taken their toll on the labor market. Monetary policy was eased but credit growth is being constrained by uncertainty in the level of bad loans in the banking system. Rapid growth in lending occurred in an environment of shortcomings in risk management at banks and weaknesses in the regulatory and supervisory framework. The banking sector has significant exposure to unprofitable and overstretched SOEs, raising questions about capital adequacy. The private sector's ability to generate output and employment opportunity is being impeded by an inefficient state sector that absorbs significant resources, capital and land.

Government has prioritized reforms to boost competitiveness. The Government's development priorities are set out in its Socio-Economic Development Strategy (2011-2020), and the accompanying Socio-Economic Development Plan (2011-2015). The SEDS sets out the country's goals over ten year period, and the SEDP lays out more specific policy actions and programs to achieve those goals. The SEDS includes a long-term growth strategy that gives attention to structural reforms. Improved market institutions and administrative reforms for a more competitive and equitable business environment are identified as strategic priorities in the SEDS.

Focus of reforms. The Government further announced it would focus structural reforms in three areas: SOEs, the banking sector, and public investment management. On SOEs, the government has prioritized the restructuring of large SOEs, strengthening corporate governance including information disclosure, and improving the regulatory environment for SOEs. On the banking sector, the government has committed to restructuring weak banks, prioritized policies for dealing with systemic risks including non-performing loans, and improving banking supervision. On public investment management, it has committed to improving public investment planning, cutting capital spending, and enhancing the efficiency of projects. See appendix \* for diagrammatic presentation of structural reforms in these areas.

To help steer competitiveness-reform efforts, the Prime Minister established in May 2012 a National Council on Sustainable Development and Competitiveness Capacity Enhancement. It is chaired by a Deputy Prime Minister, and has government wide membership to advise the Prime Minister on priority actions to enhance national competitiveness.

Lessons from earlier policy-based loans. ADB has participated in joint development partner programmatic budget support in Viet Nam since 2003. A joint development partner evaluation suggested future program budget support should be more focused on a few important cross-cutting issues, strengthen analytical underpinning of selected policy actions, and improve monitoring and communication of program impact. ADB's own evaluation is in line with this assessment. These assessments also take into consideration the falling number of donors as Viet Nam graduates from concessional ODA financing. Consequently, the design of the EMCC is more narrowly focused than previous joint development partner programmatic budget support programs, and has dedicated TA funds for analytical and advisory support, as well as increased outreach to communicate results of the program.

Benefits of joint donor programmatic approach and ADB value-added. EMCC is aligned to the 'economic efficiency' pillar of the ADB's Country Partnership Strategy (CPS) 2011-2015. The EMCC framework provides a common platform for development partners to engage in policy dialogue with the government. It enables better alignment of donor programs to government priorities and, as a result, leverages more resources for the country. Coordination is improved and transaction costs are reduced. ADB can also leverage support for its own policy-based loans in the financial and corporate sectors, while extending a broader reach to other related policy reforms. ADB is in a unique position to feed lessons from experience of piloting SOE restructuring into the program design.

Impact Increased investment

**Project Outcome**

Description of Outcome Competitiveness of Viet Nam's economy improved

Progress Toward Outcome

## Implementation Progress

Description of Project Outputs	Enhanced Banking Sector Stability Maintained Fiscal Discipline Improved Public Administration and Accountability Strengthened State Enterprise Management Enhanced Public Investment Management Improved Business Environment
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Status of Implementation Progress (Outputs, Activities, and Issues)

Geographical Location

## Safeguard Categories

Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

## Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

## Stakeholder Communication, Participation, and Consultation

During Project Design	The SBV is the executing agency responsible for overall coordination of the program. The EMCC has a tiered governance structure. A Steering Committee is chaired by a Deputy Prime Minister and includes heads of agencies of key implementing agencies. The Steering Committee reviews and endorses the proposed areas of operational focus. Technical teams, represented by senior technocrats from key implementing agencies and EMCC development partners, help oversee the preparation of the operation, discuss the technical elements of policy actions, decide on analytical work, and brief the Steering Committee. Annually, three technical missions are carried out to appraise and monitor progress towards policy actions.
During Project Implementation	Monitoring and evaluation of the program will also take place through three main channels. The first channel is monitoring progress against the results indicators agreed in the policy matrix. These include indicators that have been drawn directly from the Government's own strategies, and independent sources and surveys. The second channel is monitoring specific follow-up activities to prior actions, and milestones for future triggers. These will be identified on a regular basis and updated. This responds to earlier concerns that whilst policies may have been adopted, implementation does not follow suit. The third channel will be in depth analytical work on specific policy actions. This will help to identify more precisely ex ante specific issues to monitor during implementation of prior actions.

## Responsible Staff

Responsible ADB Officer	Mellor, Dominic P.
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Viet Nam Resident Mission
Executing Agencies	<i>State Bank of Vietnam ADB@GOSBV.ORG 47-49 Ly Thai To Street Hanoi Vietnam</i>

## Timetable

Concept Clearance	30 Jul 2014
Fact Finding	28 Apr 2014 to 29 Apr 2014
MRM	06 Aug 2014
Approval	28 Nov 2014
Last Review Mission	-
Last PDS Update	31 Mar 2015

## Loan 3227-VIE

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
28 Nov 2014	09 Feb 2015	06 Aug 2015	30 Jun 2015	30 Sep 2015	08 Sep 2015

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	140.00	Cumulative Contract Awards			
ADB	140.00	28 Nov 2014	140.00	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	28 Nov 2014	140.00	0.00	100%

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Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
28 Nov 2014	09 Feb 2015	06 Aug 2015	30 Jun 2015	30 Sep 2015	08 Sep 2015

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	90.00	Cumulative Contract Awards			
ADB	90.00	28 Nov 2014	85.53	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	28 Nov 2014	85.53	0.00	100%

Project Page <https://www.adb.org/projects/47293-001/main>

Request for Information <http://www.adb.org/forms/request-information-form?subject=47293-001>

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