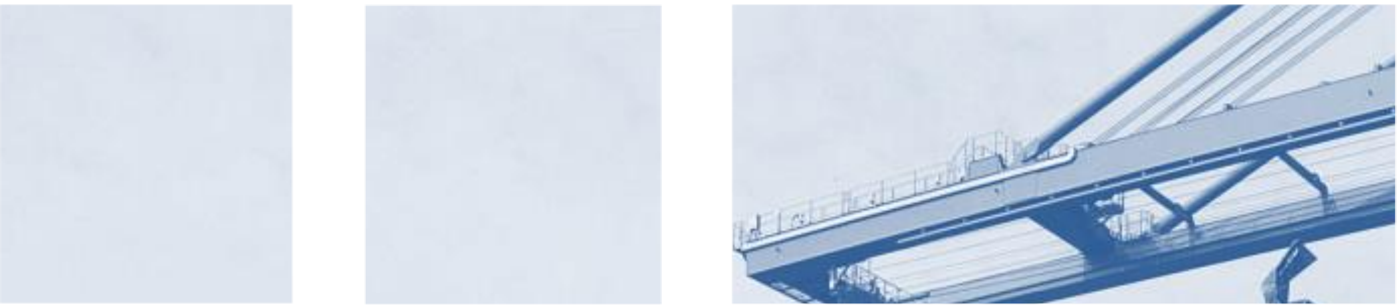

Triodos Facet

Country Report Vietnam

POLICY REVIEW, PRIVATE SECTOR DEVELOPMENT

Country studies

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Abbreviations

A2F	Access to finance
ADB	Asian Development Bank
AEF	Access to Energy Fund
ASMED	Agency for SME Development
ATI	Access to infrastructure
BSOD	Business Support Organization Development
CBI	Centre for the Promotion of Imports from developing countries
CD-Fund	Capacity Development Fund
DDE	Sustainable Economic Development Department
DECP	Dutch Employers' Cooperation Program
ECP	Export Coaching Programs
EVD	Economische Voorlichtingsdienst
FMO	Dutch development bank
FTO	Fair Trade Original
G2G	Government to government
GDP	Gross Domestic Product
GIZ	German International Cooperation
IC	Investment Climate
IDF	Infrastructure Development Fund
IDH	Dutch Sustainability Trade Initiative
IFC	International Finance Corporation
IFRS	International Finance Reporting Standards
ILO	International Labour Organization
ITPC	Investment Trade and Promotion Centre
LPI	Logistics Performance Index
MASP	Multi annual strategic plan
MFIs	Microfinance institution
MI	Market Information
NMTP	Netherlands Managers Training Program
NPL	Non performing loan
ODA	Official Development Assistance
ORET	Ontwikkelingsrelevante exporttransacties
ORIO	Facility for Infrastructure Development
PPP	Purchasing Power Parity
PPP	Public Private Partnership
PSD	Private Sector Development
PSI	Private Sector Investeringsprogramma
PSOM	Programma Samenwerking Opkomende Markten
PUM	Programma Uitzending Managers
SBA	Sustainable Business Advisory
SEDP	Socio-Economic Development Plan
SME	Small and Medium sized Enterprise
SOCB	State owned commercial bank
SOE	State owned enterprise
SPSP	Sustainable Pangasius Supply Program
United States Dollar	US$
VCBS	Vietcombank Securities Limited Company
VECO	VredesEilanden Country Office
VIETRADE	Vietnam Trade Promotion Agency
VRF	Vietnam Relay Facility
WEF	World Economic Forum
WTO	World Trade Organization
WWF	World Wildlife Fund

1 Introduction

This report is the draft for the first country report, covering the PSD program in Vietnam. This report is part of a series of four country studies covering Bangladesh, Vietnam, Burundi and Ethiopia, for the purpose of the IOB Policy Review on Private Sector Development. The findings of the four country studies are analysed in the *Synthesis Report* that in turn is part of the aforementioned IOB Policy Review. A more detailed methodology is presented in the synthesis report, including the approach chosen for the four country studies.

1.1 Evaluation objectives and research questions

The overall aim of the country study is to analyse how the Dutch PSD policy was conceived and applied in Vietnam between 2005 and 2011: what was the underlying rationale that has led to the PSD program, how did actors engage with each other, in what way was demand-drivenness assured, and what can be said about the effects of the PSD interventions. The table below presents the overall research questions and the items in green and italic highlight the issues that are investigated in this country study.

#	Main questions	Sub-questions
1	What is the Dutch PSD policy, what are its objectives, instruments and expenditures?	1.1 What is the Dutch PSD policy, what was its rationale? 1.2 What instruments are used, and which problems do these instruments seek to solve?
2	Is the PSD policy *applied* in the way the PSD Policy intended?	2.1 Are the instruments in line with the Policy? *2.2 How is Dutch PSD Policy applied in country X?*
3	Is there a link between the PSD instruments used, is there synergy?	*3.1 What kind of relationships exist between the PSD instruments in country X?* *3.2 Is there synergy between the PSD instruments in country X?*
4	Are the instruments and PSD programs driven by demand of the actors in the countries?	4.2 What are the methods used to determine demand drivenness and how is compliance assured by Dutch PSD instruments? 4.3 To what extent has the PSD approach, resulting program and have the projects undertaken been driven by demand of actors in country X? How is demand-drivenness assured in specific country circumstances?
5	What is known about the *effects* (outcomes and impacts) of the PSD Policy in the four researched countries?	*5.1 Which evaluations are available that describe effects (outcome, and/or impacts) at enterprise level?* *5.2 What other sources are available that describe effects on enterprise level?* *5.3 What is known about effects beyond enterprise level (sector and systemic level) in evaluations, and other sources?*

1.2 Structure of the report

The structure of this Vietnam country report is as follows. In chapter 2 background is provided to contextualize the Dutch efforts for PSD in the country. To this end, the country's relevant macroeconomic indicators as well as the PSD policies of the Vietnamese government are described. In addition, the chapter provides a list of the binding constraints affecting private sector development.

Chapter 3 highlights the coming into being of the Dutch approach for PSD development. This approach is described taking into considerations the views and role of a series of stakeholders in the development of this approach. Relevant stakeholders in this regard include the Royal Netherlands Embassy, Dutch government agencies responsible for the Central instruments, DDE and last but not least the Vietnamese private sector itself.

Chapter 4, details the objectives and results of the PSD projects which have been undertaken in Vietnam over the 2005 – 2011 period. As much as possible, the reported results in the chapter are based on previous project evaluations. Throughout the chapter, the reported effects are evaluated against developments in the private sector at large as witnessed by movements in the so-called binding constraints earlier identified in chapter 2.

In Chapter 5, the team comes to an assessment of the role of the EKN in the private sector development program, the effects of the PSD program and the existing links and synergy of the Dutch PSD instruments in Vietnam.

Chapter 6 summarizes the country study, and highlights the main conclusions drawn.

2 Private sector development in Vietnam

In this chapter, an overview is provided of the state of private sector development in Vietnam. The overview includes a brief outline of economic development in the country (section 2.1), the most important government policies to foster private sector development (section 2.2), as well as a listing of the challenges or constraints affecting private sector development (section 2.3). In all, the background provided in this chapter serves to contextualize the efforts and results of the Dutch PSD policy in Vietnam.

2.1 Economic development in Vietnam

Vietnam is one of the most dynamic developing countries in the PSD review country list. To illustrate just how dynamic development has been, we provide an overview of the development of the main macroeconomic indicators over the year 2005-2011 period in the table below.

As shown in the table, Vietnam's economy is growing at a tremendous scale. The annual economic growth during the 2005 – 2011 period amounted 5% to 8%; lifting GDP per capita from US$642 in 2005 to US$1,411 in 2011. In PPP terms, GDP per capita grew throughout reaching US$3,435 in 2011, up from US$2,161 in 2005. The reported growth in wealth has been combined with a relatively fair income distribution as demonstrated by a Gini coefficient of 36%.

The data presented in the table below further indicate that, measured as a percentage of GDP, the country's import and export pattern is fairly constant. In 2007, however, the year following WTO accession, a spike in imports was reported from 78% of GDP in 2006 to 93% in 2007. On the downside, the Vietnamese economy is facing strong inflationary pressure with inflation rates reaching 23% and 19% in 2008 and 2011 respectively.

To deal with inflationary pressure the government of Vietnam adopted a stabilization package in February 2011. The package involved the raising of policy interest rates, the imposing of a credit growth ceiling, and the containment of investments by the government and state-owned enterprises (IMF, 2012b).

The data presented in the table below further show that Vietnam's labour force is growing at a rapid pace; annually 1 million persons newly enter the labour force. Despite the growth of the labour force, Vietnam has a rather low unemployment rate with, according to the CIA World Factbook, fairly constant unemployment rates of less than 3% in both 2010 and 2011.

Table 1: Developments in the macroeconomic indicators of Vietnam (2005 – 2011)

Indicator	2005	2006	2007	2008	2009	2010	2011
GDP per capita (current US$)	642	731	843	1,070	1,130	1,224	1,411
GDP per capita PPP (current US$)	2,161	2,389	2,638	2,835	2,985	3,191	3,435
GDP growth (annual %)	8.4	8.2	8.5	6.3	5.3	6.8	5.9
Gini coefficient	n.a.	0.36	n.a.	0.36	n.a.	n.a.	n.a.
Inflation, consumer prices (annual %)	8.3	7.4	8.3	23.1	7.1	8.9	18.7
Total labour force (millions of people)	46.3	47.4	48.3	49.3	50.2	51.1	n.a
Unemployment rate (%)				2.4		2.9*	2.3*
Foreign direct investment, net inflows (% of GDP)	3.7	3.9	9.4	10.5	7.8	7.5	n.a.
Import of goods and services (% of GDP)	73.5	78.2	92.7	93.1	78.7	87.8	87.1
Export of goods and services (% of GDP)	69.4	73.6	76.9	77.9	68.3	77.5	80.7
Net ODA received per capita (current US$)	23.2	22.1	29.8	30	43.4	33.9	n.a.

Source: World Bank (http://data.worldbank.org/country/vietnam).
** Unemployment rates for 2010 and 2011 (estimated) are from the CIA World Factbook https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html*

2.2 PSD policies in Vietnam

It is generally accepted that the introduction of the Doi Moi reform program in 1986 is a major turning point for private sector development in Vietnam. In fact, the Doi Moi reform shifted Vietnam's economy towards a market economy making the private sector a main policy concern for the government and the ruling Communist Party[1].

As part of the Doi Moi program a set of PSD policies have been developed and institutionalised in law. In 1990, for instance, the Private Company and Enterprises Law facilitated the legal establishment of private enterprises. As a result, 40,000 private enterprises were set up over the 1990s.

Notwithstanding these growth figures, registering a business remained a rather cumbersome process. Fortunately, these business registration processes were significantly simplified with the coming into effect of the new Enterprise Law in the year 2000. As a result of the new Enterprise Law, which eliminated over 100 business license requirements; considerably reducing the time and cost of business registration, the number of private firms spurred from 40,000 in 2000 to 240,000 in 2009[2]. This growth in private firms is highly necessary given the need to create jobs for the estimated 1.5 million new job seekers every year[3].

The high economic growth rates, as listed above, demonstrate that the stated reforms have been successful. For instance, the high growth in job creation and the resulting effect on poverty reduction over the early 2000s has been attributed to the private sector by some[4]. Others, however, state that the private sector only started becoming an important contributor to poverty reduction around 2005 and attribute economic growth to the public sector and foreign direct investment instead[5].

Nevertheless, the private sector is considered to play an important role in the reduction of poverty. The Government of Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS), for instance, calls for a high growth through a transition to a market economy. Furthermore, the government's 2006–2010 Socio-Economic Development Plan (SEDP), which is part of the CPRGS, called for a reduction of the poverty incidence by 10% to 11%. Both documents contain elements of broad PSD policies and the government's commitment to step up the reform process and develop a multi-sector economy that provides equal opportunities for the private sector, but at the same time reaffirms that the state will continue to play a leading role in strategic activities.

The SEDP further emphasizes the role of business development, the need of a level playing field for all businesses, increased competitiveness, and increased private sector investment in generating economic opportunities and employment[6]. However, state-owned enterprises are expected to take the lead in industries where the government feels the time is not ripe for private sector activities or where such activities merely do not yet exist[7].

In addition to the general policies listed above, the Vietnamese government also has a specific policy for SMEs as described in the *Small and Medium Enterprises (SME) Development Plan 2006-2010*. This policy calls for the building of a multi-sectorial economy in which sustainable SME development is fostered and in which the state creates a sound policy, legal and institutional environment[8].

Furthermore, there exists a central government agency called Agency for SME Development (ASMED) which is responsible for the implementation and formulation of SME policies in Vietnam. This agency acts as the Permanent Secretariat of the SME Development Promotion Council, chaired by the Minister of

[1] Among others: Schaumburg-Müller (2005), Pham Chi Lan (2005), and Hakkala and Kokko (2007).
[2] Doan and Stevens (2012). Note: these numbers do not include micro-firms and household economic units. It should also be noted that these numbers do not necessarily refer to new businesses only. Hakkala and Kokko (2007), for instance, document that 45% of the private enterprises registered during the years 2000-2004 already operated as household enterprises previously.
[3] ADB (2005)
[4] Pham Chi Lan (2005).
[5] Schaumburg-Müller (2005).
[6] AFD/ADB (2012).
[7] ADB (2005).
[8] The SME Policy Guiding Principles are available online from: http://www.business.gov.vn/asmed.aspx?id=2272

Planning and Investment. The ASMED website also functions as a business portal offering information on issues such as business registration procedures and the existing SME support institutions.

2.3 Binding constraints in the private sector

In this section an overview is given of the binding constraints in the private sector over the 2005 – 2011 period. The constraints are clustered using the five clusters which can be identified in the overall Dutch PSD policy: (i) Infrastructure, (ii) financial sector, (iii) judicial system, (iv) market access and development, and (v) knowledge and skills. The constraints listed below are gathered by means of a review of various reports from World Bank, IFC, ADB and papers from other sources.

The discussion of constraints in this section should be read within the context of PSD in Vietnam as a whole. As mentioned above, over the past decades Vietnam developed a multi-sector economy with a rapidly growing private sector. By early 2005, the beginning of the evaluation period this document reports upon, Vietnam's private sector had outpaced the public sector in terms of output and employment[9].

Prior to the discussion of binding constraints within each of the five clusters, it is informative to give a more general overview of such constraints. To this end the results from the 2011 World Bank Investment Climate Survey for Vietnam and IFC's Doing Business report are particularly insightful.

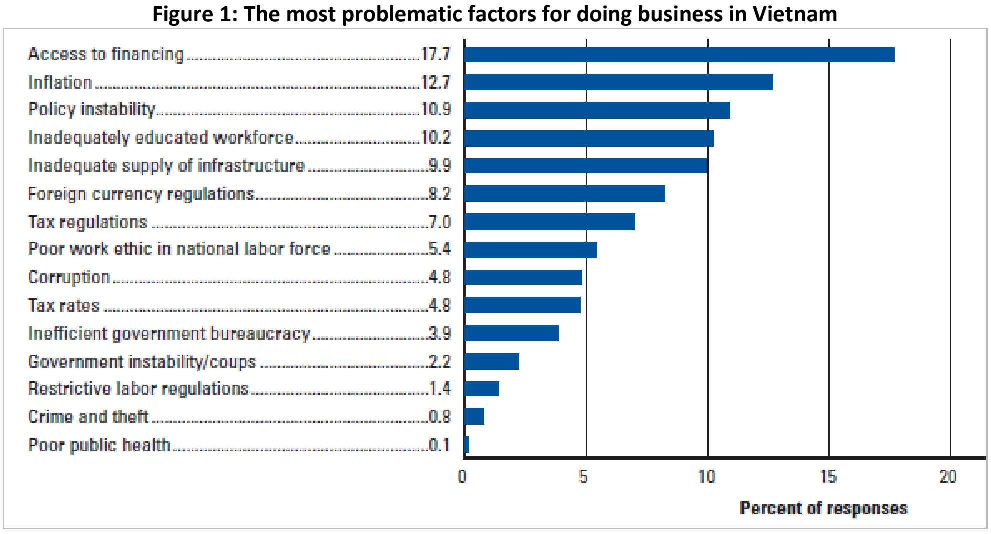
The **World Bank Investment Climate Survey**, based on a survey undertaken in 2009, identified obstacles by asking Vietnamese firms to list the most important obstacles for doing business from a list of 15. In this respect the three most mentioned obstacles facing businesses were:

- Access to finance (mentioned by nearly a quarter of respondents).
- The practices of the informal sector (mentioned by 19% of respondents)
- Transportation infrastructure (mentioned by 13% of respondents)

The World Bank Investment Climate Survey further points out that labour regulations (.9 percent), political instability (.4 percent) and the procedures of the courts and judicial system (.2 percent) are the least constraining obstacles.

The **World Economic Forum's** Global Competitiveness Report 2010-2011, using a similar survey technique also shows that access to finance is the key concern for doing business in Vietnam. According to this survey, problems with workforce education and infrastructure supply are amongst the top five constraints.

Figure 1: The most problematic factors for doing business in Vietnam



Source: WEF (2011)

[9] ADB (2005).

2.3.1 *Binding constraints in the financial sector*

Private entrepreneurs' limited access to credit is a binding constraint for doing business in Vietnam. According to all consulted sources on private sector development access to finance has been a constraint throughout the 2005 – 2011 period.

For instance, in 2005 the ADB, in a report called *Viet Nam Private Sector Assessment*, for instance writes that "*Private enterprises continue to find it difficult to borrow from the commercial banking sector, and the relative underdevelopment of the financial sector makes few other sources of finance available. Bank credit is restricted by weak credit evaluation systems and creditor rights regimes, onerous collateral requirements and a general crowding out by SOEs who benefit from implicit government guarantees, making them better credit risks*."

The earlier referred to World Bank Investment Climate Survey (2011) suggests that in this respect not much has changed since entrepreneurs continue to list access to access to finance as the main constraint for doing business. In this regard, it is important to point out that the World Bank Investment Climate Survey yields a mixed picture on the access to credit constraint. That is, compared to other lower-middle income countries Vietnam ranks very well on the percentage of private firms relaying on bank financing for working capital. Still, and this may be explained by hefty collateral requirements of 218 percent of the loan amount, Vietnamese firms have more difficulties in obtaining bank financing for investment purposes. In this regard, collateral requirements are significantly more stringent for private firms (225 % of the loan amount) than for government owned firms (130 % of the loan amount).

Interestingly, the IFC Doing Business Indicators of 2011 show that Vietnam, with a 21st place among 183 economies, is comparatively doing very well on the "Getting Credit" indicator. However, it should be noted that the getting credit indicator is based on concepts such as the strength of legal rights (e.g. the presence of a collateral registry) and the existence of credit information rather than on entrepreneurs' perception of the ease of getting credit. Nevertheless, as shown in the table below over the period 2005-2011, important improvements have been made with regard to the depth of credit information. However, as also indicated in the table below, Vietnam currently only has public registry coverage; no private bureau coverage. Again, this may suggest that it is easier for state owned enterprises to get access to credit than it is for private enterprises.

Table 2: Vietnam, components of the IFC's Getting Credit indicator (2005 - 2011)

Indicator	2005	2006	2007	2008	2009	2010	2011
Strength of legal rights index (0-10)	6	6	6	8	8	8	8
Depth of credit information index (0-6)	2	3	3	3	4	4	5
Public registry coverage (% of adults)	0.8	1.1	2.7	9.2	13.4	19.0	26.4
Private bureau coverage (% of adults)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall ranking on Getting Credit indicator							21

Source: IFC Doing Business Reports (http://www.doingbusiness.org/data/exploreeconomies/vietnam)

The observation that by 2011, according to IFC Getting Credit indicator, the legal financial landscape is conducive to lending but that at the same time, as suggested by the World Bank's enterprise survey, entrepreneurs have difficulties getting access to finance suggests that there may be a constraint in Vietnam's banking sector instead.

Several reports on Vietnam's financial landscape, such as IFC's (2008) *Financial Sector Diagnostic* and VCBS' (2011) *Vietnam Banking Sector Report* indeed suggest that there are a number of concerns in the banking sector. For instance, despite the "dramatic" growth in the number of banks from 78 banks in 2006 to 101 banks in 2010, the banking sector penetration ratio is considered low since most of the banks are rather small. As a result, the country's finance sector has a rather low penetration rate: out of a total population of 84 million, less than 10% are estimated to be using bank services regularly (IFC, 2008). The Vietnamese banking is further characterised by a strong, but decreasing dominance of a small number of large state owned commercial banks (SOCBs). In 2005, SOCBs held almost three quarter of the country's credit market share. By 2010, SOCBs still held roughly half of the credit market share. In the table below, a number of key characteristics of the banking sector are depicted.

Table 3: Vietnam, banking sector characteristics (2005 - 2011)

Indicator	2005	2006	2007	2008	2009	2010	2011
Deposit interest rate (%)	7.1	7.6	7.5	12.7	7.9	11.2	
Lending interest rate (%)	11.0	11.2	11.2	15.8	10.1	13.1	17.0
Credit market share by state-owned banks	74.2	67.0	57.1	55.7	54.1	49.3	
Number of banks		78	85	94	94	101	
Credit growth (%)		25.4	53.9	25.4	39.6	32.4	10.9

Sources: World Bank (http://data.worldbank.org/country/vietnam) and VCBS (2012)

Somewhat paradoxically, even though the provision of credit by the financial sector is too low to cover the country's investment needs[10], one of the main concerns within the banking sector is that credit growth over the years 2000 – 2010 (i.e. 32% per year on average), has actually been too high if compared to average annual GDP growth (7%) and deposit growth (29%) (VCBS, 2011).

Furthermore, as a result of the high credit growth and inefficient credit management, the banking sector's Non Performing Loan (NPL) ratio is quite high and reached 3.1% by June 2011. This NPL ratio of 3.1 is based on Vietnamese Accounting Standards which only considers the proportion of the loan which is in arrears "non-performing". If one would apply IFRS, which considers the entire loan of which an amount is overdue to be "non-performing", the NPL would by above 10% (IMF, 2012).

In summary, it can be said that Vietnamese commercial banks are "hampered by insufficient capital, limited operational scale, and high credit risk. [Furthermore] lending prioritizes SOEs and overwhelmingly relies on fixed assets (land and property) for collateral." (IFC, 2008). Also, despite a growing number of banks and impressive growth, credit provision remains well below the country's investment needs. Finally, as mentioned above, small private firms' access to especially investment capital is further reduced by the 225% collateral requirement for private firms as opposed to 130% for SOEs.

2.3.2 Infrastructure

Throughout the 2005 – 2011 period infrastructure has been a constraint for private sector development. For instance, as early as 2005, the ADB Viet Nam Private Sector Assessment makes mention of the country's needs for investments in infrastructure development caused by the rapid pace of economic and population growth. In 2011, according to the World Bank Investment Climate Survey, the state of Vietnam's (transportation) infrastructure remains amongst the top 3 constraints for doing business in the country.

In 2005, ADB estimated that investments totalling 6-15% of GDP would be required over the 2006-2010 period; or a 60% increase of average infrastructure investment levels since the early 2000s. The ADB assessment further argues that given the size of investment needs combined government and ODA (loan) funding would leave an infrastructure investment gap of US$2.5 billion per year.

Nevertheless, as reported in CIEM's (2010) Vietnam Competitiveness Report, over the years significant investments have been made to upgrade the physical and utility infrastructure. For example, much has been done on improvements of the North-South highway system and inner cities' roads. In 2006, an amount of US$6.5 billion or nearly 11% of national GDP was invested in infrastructure.

However, according to CIEM (2010), these investments have not always been allocated in the most efficient manner due to certain government priorities. As an example, the CIEM report states that "*public infrastructure investments are currently used to compensate regions with lower growth rather than to achieve the highest possible overall returns for the country*."

[10] As an example: In 2007, new credits in 2007 accounted for 22% of GDP, while new investments stood at 40.4% of GDP. These figures show that banks are meeting approximately half of the financing needs for investment (IFC, 2008).

The CIEM report (2010), relying on various other sources such as the World Economic Forum (WEF) Executive Opinion Survey and the World Bank's Logistics Performance Index (LPI) classifies Vietnam's infrastructure performance with other countries in the region. The World Bank's LPI is a composite index, combining seven sub-indices including "quality of trade and transport-related infrastructure", on a scale of 1 to 5, with a higher score representing better performance. In 2007, Vietnam scored a 2.89 on this scale; leaving only Cambodia behind amongst a set of 8 Asian economies. In 2009, Vietnam scored only slightly higher with a 2.96[11].

Based on data from the WEF's Executive Opinion Survey, which contains rankings of countries' roads, railway, port infrastructure and air transport infrastructure similar conclusions are drawn: "despite the huge investments Vietnam's infrastructure remains inadequate and quality remains low" (CIEM, 2010). In all, the state of Vietnam's infrastructure is hindering the country's socio-economic development and, according to WEF Executive Opinion Survey has been a major barrier to production and business activities in Vietnam (ranked 1st in 2009 and 2nd in 2010 in terms of negative impact).

The CIEM report (2010) further states that the country's railways structure is outdated and that seaports and airports have not kept pace with the country's economic growth and are "hitting capacity barriers". To illustrate the poor quality of the road network, the CIEM report states that, based on a survey, it was found that 71% of manufacturing firms find their products being damaged due to poor road conditions. In addition, Vietnam's domestic electricity capacity is stated to be inadequate to meet the estimated annual electricity demand increase of 16-17%. Furthermore, with a coverage of 70-80% in the biggest cities water supply coverage remains low. On the upside, however, despite a slow start Vietnam has picked up in terms of rapidly increasing penetration rates for internet and phone services.

As a result of all these constraints foreign investors are increasingly reporting skill shortages and infrastructure bottlenecks. These problems are locally concentrated in high-growth regions, especially the Ho Chi Minh City region (CIEM, 2010).

Table 4: Vietnam, indicators for quality of infrastructure (2005 - 2011)

Indicator	2005	2006	2007	2008	2009	2010	2011
Quality of port infrastructure (1 = low to 7 = high)			2.77	2.83	3.28	3.60	3.4
Overall (1=low to 5=high)			2.89		2.96		
Trade & transport-related infrastructure (1=low, 5=high)			2.50		2.56		

Sources: World Bank (http://data.worldbank.org/country/vietnam) and VCBS (2012)

According to CIEM (2010), the country's investment plan calls for investments of US$120 to 150 billion over a ten-year period. However, the combined sum of the government budget, government bonds and ODA is insufficient to meet these amounts. Furthermore, in 2010 private investments in infrastructure accounted for less than 5% of demand. Therefore, the Vietnamese government recently called for additional private investment in infrastructure through public private partnerships (PPP). Such PPPs are expected to be an important factor for infrastructure development in the coming years, and according to the ADB (2012) are highly necessary given concerns over Vietnam's reduced access to ODA in the near future as it moves to middle-income country status.

In summary, despite significant investments in infrastructure over the past years, the state of Vietnam's infrastructure is considered insufficient. This in turn, has a negative impact on doing business as perceived by both domestic and foreign entrepreneurs. At present, the state budget and ODA combined fall short from covering the estimated annual infrastructure investment need of US$12 to 15 billion.

2.3.3 Access to skills and knowledge

According to CIEM (2010) improvements in labour productivity have been the key driver of Vietnam's prosperity growth. However, despite the recent gains, Vietnam still remains behind many other countries on productivity due to variations in the quality of education in the country. As a result, skill levels remain

[11] The LPI Index is included in World Bank's databank: http://data.worldbank.org/country/vietnam

modest and a mismatch between graduates' skills and labour market demand persists. The findings from the earlier referred to WEF Global Competitiveness Report confirm this view. According to this report, the inadequately educated workforce is one of the main factors constraining doing business in the country.

The CIEM (2010) Vietnam competitiveness report cites a number of surveys to illustrate the severity of the situation. For instance, according to a discussion paper presented at the Vietnam Business Forum in June 2010, "about 65 percent of the Vietnamese labour force is unskilled and about 78 percent of the population aged 20-24 is untrained or lacks the necessary skills." A survey by the Vietnam Student Association confirms this finding showing that 50% of graduates cannot find jobs in their field and those who do still require a significant amount of retraining.

Furthermore, an international survey conducted by JICA shows that the shortage of skilled labour is more severe for Vietnam than for its ASEAN peers and that such shortage have tended to *increase* over time in Vietnam[12]. Given the growth of the Vietnamese economy this finding is not surprising. In all, "*the education system is not keeping pace with the rising demands of the Vietnamese economy*" (CIEM, 2010).

As a result of these shortcomings it is a challenge for domestic and foreign firms alike to recruit well qualified staff. The CIEM (2010) report lists a number of possible explanations for the observed mismatch between labour market demand and graduates' skills. One reason is that there is a lack of cooperation among educational institutions and the labour market. Secondly, it is argued that the highly centralized government education policy, with the Ministry of Education and Training also controlling institutions' administrative and operational decisions, impedes educational institutions incentives to compete or innovate. Finally, Vietnam's vocational training system far from receives the funding and recognition it needs to be able to ensure a consistent supply of qualified labourers. Field interviews with representatives from UNIDO and the private sector confirm these difficulties.

2.3.4 Legal and regulatory framework

Various sources yield a quite diverse picture on the constraints that the state of Vietnam's legal and regulatory framework pose for doing business. Part of the reason is that, according to the ADB (2005), the level of bureaucracy businesses complain of varies significantly from province to province. The ADB report also states that the legal and regulatory framework for doing business is complex. This is partly due to the fact that the government's reform efforts have created a new set of rules and regulations which conflict with existing ones. This in turn, poses challenges for the implementation of the new rules and regulations. To illustrate: According to CIEM (2010) over the period 2005-2008, Vietnam issued more legal normative documents that affected businesses than during the previous 18 years together.

Other, more recent sources confirm that Vietnam's legal framework is relatively good given the country's stage of development (CIEM, 2010). In fact, as also shown by IFC's Doing Business indicators, over time many laws have been issued. On paper these reforms have contributed to the improvement of the business enabling environment.

For instance, with regard to starting a business, 44 days were required in 2011 against 56 days in 2005. Part of this improvement can be attributed to the creation of a one-stop shop that combines the processes for obtaining a business license and tax license and by eliminating the need for a seal for company licensing in 2011.

Somewhat contradictory, according to ADB's assessment, in 2005 the absence of formal and reliable dispute resolution mechanisms is considered one of the main obstacles. According to the IFC Business Indicators, however, in 2011 Vietnam's ranks 31st out of 183 economies when it comes to the ease of enforcing contracts.

According to the IFC Doing Business indicators of 2011, as reported in the table below, the main challenges were: protecting investors, paying taxes, resolving insolvency and getting electricity.

---

[12] The JICA survey compares data over the 2003 – 2007 period.

Table 5: Vietnam's ranking on IFC Doing Business indicators (2011)

Indicator	Time to ... in 2005	Time to ... in 2011	International ranking in 2011 (out of 183 economies)
Overall Ease of Doing Business indicator	-	-	90
Starting a business	56 days	44 days	100
Dealing with construction permits	-	200 days	70
Getting electricity	-	142 days	135
Registering property	67 days	57 days	43
Getting credit	-	-	21
Protecting investors	-	-	172
Paying taxes	-	-	129
Trading across borders	-	-	65
Enforcing contracts	365 days	295 days	31
Resolving insolvency	5 years	5 years	130

Source: IFC Doing Business Reports (http://www.doingbusiness.org/data/exploreeconomies/vietnam)

The main concern, however, remains in the implementation of newly established policies on the ground, making it difficult for entrepreneurs to benefit from regulatory improvements. Despite these implementation concerns, the World Bank Investment Climate Survey (2011) somewhat comfortingly points out that labour regulations (.9 percent), and the procedures of the courts and judicial system (.2 percent) are amongst the least constraining obstacles in Vietnam.

A second concern remains that the large number of new regulations may entail unnecessary costs for citizens and businesses when trying to find the right regulation to comply with. It also creates an opportunity for rent seeking by officials.

In addition to the legal and regulatory framework listed above, the Vietnamese private sector has to deal with a number of other constraints which can less easily be classified within one of the clusters of the Dutch PSD policy. Most importantly, the literature quite consistently reports on the lack of a level playing field since SOEs continue to dominate the economy (ADB, 2005). In this respect, by 2010 not much has changed since SOEs continue to receive special treatments from the government (CIEM, 2010). If one would have to cluster the "lack of a level playing field" within one of the five clusters of the Dutch PSD policy it would probably best fit the legal and regulatory framework cluster.

Examples of special, anti-competitive treatments that the state-owned sector is enjoying include (CIEM, 2010):

- **SOEs have easier access to subsidized credit**, either directly through financing from government's budget or government's guarantee or indirectly through state-owned commercial banks with whom they have traditionally strong ties.
- **SOEs have easier access to land**: SOEs usually possess property of high commercial value in lucrative locations, but pay land rental fees much lower than the market rates. In all, the shortage of suitable industrial land and absence of a formal land market present considerable challenges to private enterprises.
- **SOEs are less exposed to market mechanisms**: Exclusively obtaining government contracts through non-competitive bidding or access to insider information through connection, especially in public invested projects occurs.
- **SOEs enjoy exemptions from prudential governance and financial management regulations** which are currently applied to all public companies such as information disclosure and independent audits.

Due to these and other considerations a number of market distortions continue to prevail. Obviously, such distortions are at the disadvantage of private enterprises.

2.3.5 Market access and development

The ADB's country assessment of 2005, lists the limited access to information on markets as one of the constraints for private sector development. For instance, the report states that: "information regarding market structures, suppliers, customers, public procurement contracts, planned public investment programs and regulatory changes is not readily available in Vietnam, leaving companies to either expend valuable time researching it or simply operate without. In the absence of this information, businesses find it very difficult to identify new market opportunities or make significant investment decisions".

In a more general sense, one could also discuss entrepreneurs' access to markets distinguishing access to local markets (e.g. smallholder farmers' access to city markets within Vietnam) and access to international markets (e.g. Vietnamese manufacturers' access to markets in Europe and beyond). Below, further insights on both types of access to markets are provided.

Access to local markets

Various sources indicate that farmers face difficulties accessing markets in Vietnam. As an example a study by ASEAN Foundation (2008) on the tea value chain shows that farmers' cultivation levels are low due to poor techniques and lack of economies of scale and unreliability of inputs. Furthermore, smallholder farmers have little influence on the selling price of their crop. In general, the study also observes a lack on the coordination of marketing efforts. These constraints quite generally apply to smallholder farmers in developing markets worldwide. Vietnam is no exception to that rule.

Access to international markets

On the other hand, as interviews with private sector representatives during the field work pointed out, Vietnamese entrepreneurs' access to markets does not seem a major reason for concern. International trade data, which demonstrate Vietnam's rapid integration into the world economy, confirm this view. According to CIEM (2010), this integration into the world economy especially materialized after the conclusion of the Bilateral Trade Agreement with the US in 2001. Exports of goods and services quadrupled over the period 2000 – 2008, from US$ 14.4 billion to US$ 62.7 billion in 2008, before contracting to US$ 57.1 billion in 2009 as a result of the global financial crisis. In 2010, exports grew again to US$ 72.2 billion[13].

Table 6: Vietnam, export trends (2000 – 2011)

Indicator	2000	...	2005	2006	2007	2008	2009	2010	2011
Export of goods and services (% of GDP)**	55.0		69.4	73.6	76.9	77.9	68.3	77.5	80.7
Exports of goods and services (current US$ billions)**	17.2		36.7	44.8	54.6	71.0	66.4	82.5	100.0
Exports of goods and services (US$ billions)*	14.4		32.4	39.8	48.6	62.7	57.1	72.2	96.9

*Source: *General Statistics Office of Vietnam , **World Bank (http://data.worldbank.org/country/vietnam).*

Vietnam's ratio of exports to GDP is another indicator of the country's integration. In 2009, this indicator stood at 68%, only behind Singapore and Malaysia, and at par with Thailand and higher than most of the other countries in the region[14].

Trade data are also available on the type of exports of Vietnam. Till date, besides crude oil which accounts for a share of roughly one fifth of all exports, key export products remain largely labour intensive or agricultural activities, such as footwear, apparel (both woven and knit), and electrical machinery. Nevertheless, trade data do indicate that Vietnam's export structure is evolving towards more sophisticated products[15]. By 2010, exports were composed of 34.5 percent of miscellaneous manufactured articles, 19.0 percent of food, live animals, beverages and tobacco, and 15.9 percent of machinery and transport equipment. In 2010, the major markets for Vietnamese exports were USA, China and Japan[16].

[13] General Statistics Office Of Vietnam: http://www.gso.gov.vn/default_en.aspx?tabid=472&idmid=3
[14] CIEM (2010)
[15] Ibid
[16] UN Comtrade http://comtrade.un.org/pb/CountryPagesNew.aspx?y=2011

In summary, Vietnam is one of the most open economies in the ASEAN region in terms of trade. The impressive export growth figures demonstrate that the Vietnamese private sector has rapidly growing access to international markets. However, the real challenge for Vietnamese exports entails improvement in the technological sophistication of its industry. Till date, key export products remain largely labour intensive ones.

3 Dutch PSD Policy in Vietnam 2005-2011

In this chapter, an overview is given of the Dutch PSD Policy in Vietnam over the 2005-2011 period. The Dutch PSD policy is derived, as much as possible, from the annual plans of the Dutch Royal Embassy in Hanoi. The objective of this chapter is to show what the rationale for the Dutch PSD policy was, how it evolved over time, and which stakeholders had a say in the design of this PSD policy. In this regard, in addition to the views of the Royal Netherlands Embassy, the views of DDE, and the Vietnamese private sector are discussed as well.

3.1 The view of the Royal Netherlands Embassy

During the field interviews, staff of the Embassy in Hanoi emphasized that the Embassy does not have the intention to have a PSD program for Vietnam. The Embassy also stressed that, over the 2005-2011 period a shift has taken place from a "development aid" oriented Embassy to an "economic cooperation"-oriented Embassy.

These remarks are in line with the trend observed in the Embassy's annual plans and MASP. Over the 2005 – 2011 period, as far as can be ascertained from available annual plans and the 2008 – 2011 MASP, the Royal Netherlands Embassy refocused its view on the need and deployment of ODA in general and thereby on the need and deployment of PSD instruments. In this regard, in a general sense, the Dutch ODA relationship with Vietnam in the period 2005-2011 experiences can be split in two periods. Below, the main views of the Embassy during these two periods are summarized.

Period 1: 2005 – 2007; donor harmonization

In the first period, roughly ranging from 2005 – 2008, the Netherlands – Vietnam ODA relationship can be described as a "classic" one. During this period the Embassy, with annual expenditures of €40 million in 2006, and €30 million in 2007 being a small donor, focuses on the priority areas sustainable forestry, water management, water and sanitation, and healthcare and HIV. The annual plans of these years show due attention to donor harmonisation and sectorial budget support in line with the Paris Declaration.

The annual plans do not specifically make mention of the need for a "Dutch PSD policy". However, the annual plans do contain brief overviews of the uptake of existing, mostly central instruments. The annual report 2005, for instance, makes mention of a "successful" PSOM program, and promising achievements by PUM and PESP. It is also mentioned that the uptake of the ORET program is low since ORET-projects requires 65% co-financing whilst other donors do not require co-financing.

The annual plans and reports also show that during this period, the economic section of the Embassy dedicated time and attention to private sector development for the so-called "Holland promotion". This mainly concerns a series of events with the aim to support Dutch companies doing business in Vietnam. Although not specifically mentioned in the plans, PSD instruments such as the PSOM program seem to be considered part of the Embassy's Holland Promotion effort.

The available annual reports and plans do not provide an overview for the choices made by the Embassy with regard to Dutch PSD policy. However, the annual report 2006/annual plan 2007, makes mention of increased interest for the building of trade relations and private sector development following Vietnam's accession to the World Trade Organization (WTO).

Years 2008 – 2011; A changing ODA landscape, moving towards economic cooperation

Following Vietnam's continued success in economic performance and poverty reduction, making it a "profile 3" country, the ODA-landscape changed with less ODA support and an increased role of local authorities. To illustrate, according to the MJSP 2008-2012, "*not the Netherlands, but the Government of Vietnam sets the development agenda*". Following this view, the Royal Netherlands Embassy re-focused its relationship with Vietnam as it decides to "*allocate less ODA budget over a larger number of projects*".

Following this paradigm change, the Embassy envisaged that it would play more of a networking role in Vietnam. That is, the Embassy would broker cooperation between parties in the Netherlands and Vietnam. To this end the so-called Vietnam Relay Facility is set up. This Facility covers a range of topics including PSD activities. In order to manage the Facility, which would have to cater for a large number of small projects, the Embassy regularly requested for additional human resources.

The MASP Vietnam 2008 – 2011, which includes a 3-page chapter on expected developments in Vietnam, specify the Embassy's plans for this period. The MASP states that "growth and distribution" and "water and climate change" will be the major priorities. Private sector development is specifically mentioned as a topic matching with the growth and distribution theme.

In this regard, the MASP2008 – 2011 makes mention of the existence of business surveys which identify access to finance and land, bureaucratic procedures, infrastructure, and the lack of skilled labour as the main constraints to private sector development. In the table below, an extract of the text on PSD as contained in the 2008 – 2011 MASP is given.

Table 7: Vietnam, Extract on PSD from the Royal Netherlands Embassy MASP 2008-2011

Level	Description
Objective	• Strengthening and promoting an enabling environment for the private sector.
Means	• Contribution to next phase of IFC Mekong Private Sector Development Facility with focus on cleaner production and better work agenda (CSR of Vietnamese businesses) through DVF-budget. • Schokland agreement on meso-financing. Other options to implement Schokland initiatives will be explored. The activity is coordinated in The Hague and the Embassy is mainly a broker. • Support to joint VCCI-IUCN initiative to establish Vietnam Business Council for Sustainable Development. • Capacity building (PSI/PSOM) through EVD: support follow up of the visit of the Vietnam Competition and Administration Department (VCAD) to The Netherlands. • Support follow up Export Credit mission.
Results	• Sustainable and 'CSR proof' private sector development, business climate improvement and capacity building delivered. Support to national sustainability and CSR-agenda delivered through IUCN/VCCI, with visible Dutch non-governmental involvement. • Schokland agreement implemented. Initiative on meso-financing put into practice in Vietnam, based on niche assessment for complementary financial sector development support • Other Schokland options explored. • Demand driven capacity building (e.g. VCAD) successfully implemented. • Effective support to national CSR agenda.

Source: Royal Netherlands Embassy (2008), MASP 2008 - 2011

In 2010, according to the annual plan, the Embassy intends to focus its attention increasingly towards economic cooperation. There is a keen interest from other Dutch ministries to strengthen their ties with Vietnam, reflected in the increasing number of official visits and trade missions. Furthermore, the Embassy is considers that the central instruments are useful for what is called "Holland Promotion", or the objective to support Dutch businesses in Vietnam: "*Financial instruments such as PSI, VRF and also FMO, CBI, DECP and PUM continue to be needed as they provide good inroads for Holland promotion, while at the same time contributing to the local business environment and to CSR*."

The annual plan of 2010 explicitly mentions that the embassy *"will try to create more synergies between existing instruments (NICHE, NFP, FMO, ORIO, PSI, VF, G2G, WSSD PPPs, NMTP, CBI, PUM, VRF/volet B, Water Mondiaal (PvW-III)) by clustering them in a small number of key strategic areas, such as delta technology (Mekong), vegetable production and marketing, improved wood sector market access and carbon trade mechanisms".*

3.2 View and role of the private sector

During the mission several interviews were held with representatives of the private sector in Vietnam; Dutch and Vietnamese business owners, including founding members of the Vietnamese Business Forum, set up with support of the IFC. In each of these discussions the respondents were asked what their view on the private sector development in Vietnam (2005-2011) has been, what their perception is regarding the changes and developments, the relative importance of the observed constraints, awareness and role of the Dutch PSD instruments in this process, and what the role of the private sector has been in defining the PSD program.

For most businesses the breadth of the Dutch set of PSD instruments comes as a surprise, businesses are generally aware of the instrument they have been working with (such as CBI, or PSOM); and are unsurprisingly not typically aware that e.g. IFC is co-funded by the Dutch. Dutch businesses in Vietnam, however, tend to be well acquainted with the Embassy, and are aware of the support that relevant instruments (including the Embassy itself) could offer to them. In all, this snapshot of perceptions would suggest that the Dutch PSD instruments are not well known by the Vietnamese private sector in general, except where they are beneficiaries.

Based on the interviews with representatives of the Dutch PSD instruments in Vietnam, it has not become apparent that the private sector – neither the Vietnamese nor the Dutch one – has had an influence on the Dutch PSD program in Vietnam. It is a common phenomenon that involving the private sector in the design of PSD-policies is regarded challenging. Other interviewed stakeholders in Vietnam, such as UNIDO and the EU-delegation, also acknowledged this.

Instead of consulting the private sector itself – and understandingly so from a cost efficiency perspective – policymakers rely on surveys and sector studies on PSD made available by organizations such as World Bank and IFC. In this regard, the World Bank's Investment Climate Survey and IFC's Doing Business Indicators are regularly referred to. The outcomes of these and other surveys are described in more detail in chapter 2 of this country report.

Nevertheless, with the support of Dutch PSD budgets, IFC's Vietnamese Business Forum has as a key objective to develop a consultative process between government and private sector, before any changes of regulation, or other relevant policies are made. On the other hand, the various Dutch instruments do not seem to follow this concept when designing their own programs for the Vietnamese private sector.

3.3 Role of the Ministry/DDE

The Sustainable Economic Development Department (DDE) is a policy theme department of the Ministry of Foreign Affairs. DDE comprises 3 different divisions:

1. International Markets Division
2. National Policy Environment Division
3. Entrepreneurship and Business Development Division

One of the goals of DDE is to stimulate growth and development of the private sector and through that to improve income and employment opportunities in developing countries. DDE tries to achieve the development of the private sector by identifying and tackling the problems in the business climate in developing countries. Other activities include the developing of the financial sector, improving trade opportunities and using trade and investment instruments to stimulate business. The latter is outsourced to organizations such as for example the Agency for International Business and Cooperation (AgentschapNL).

DDE did not have a significant role in general with respect to PSD in Vietnam, contacts between EKN and DDE are limited, and more intensive with AgentschapNL. Nevertheless, DDE was involved in the discussion surrounding the development of the VRF, which was sparked by the policy changes in 2008. In that year policy was changed to include the notion that Dutch business should also benefit from the PSD approach where that is a feasible option, and where a phasing out of development cooperation is likely to occur soon.

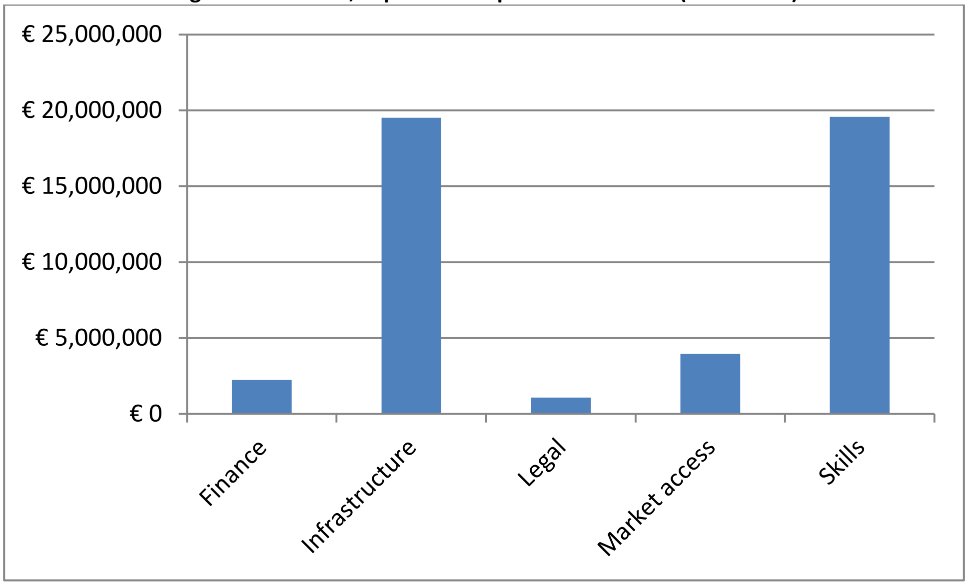
4 The Dutch PSD program in Vietnam

This chapter details the objectives and results of the PSD projects which have been undertaken in Vietnam over the 2005 – 2011 period. As much as possible, the reported results in the chapter are based on previous project evaluations. Throughout the chapter, the reported effects are evaluated against developments in the private sector at large as witnessed by movements in the so-called binding constraints earlier identified in chapter 2. The instruments and their respective effects are described per cluster.

<u>Summary of expenditure</u>

The information depicted in the graph below presents an overview of the distribution of expenditure over the various clusters *excluding* the FMO funds. Total expenditure over the period 2005 – 2011 was €46 million. The figure clearly shows that the infrastructure and skills clusters are the dominant ones. If we would include the FMO-funds the finance cluster would be the most important one.

Figure 2: Vietnam, Expenditures per cluster in EUR (2005-2011)



Source: Authors' illustration based on information delivered by the instruments

4.1 Financial sector

4.1.1 Overview

<u>Summary of expenditures</u>

Within the cluster "financial sector" (partially) Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported.

Table 8: Vietnam, Dutch PSD instruments for the financial sector; overview of expenditures (2005 – 2011)

Intervention	Total	2005	2006	2007	2008	2009	2010	2011
FMO	108,365,783	3,000,000	13,320,558	14,462,799	14,116,351	8,089,234	6,721,328	47,421,245
Mesofinance	44,957			44,957				
FIRST	82,511	38,715	19,952		23,844			
IFC A2F*	750,000							
OxfamNovib*	124,000							
Total	**109,367,251**	**3,038,715**	**13,340,510**	**14,507,756**	**14,140,195**	**8,089,234**	**6,721,328**	**47,421,245**

Source: information from FMO, FIRST, DGIS, IFC and Oxfam Novib.
Note: for IFC and Oxfam Novib the distribution of expenditures over the years is not available

Summary of effects

In the table below, an overview is given of the effects of the various instruments within the financial sector cluster. It should be note that the column "summary of effects" should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.

Table 9: Vietnam, Dutch PSD instruments (financial sector); overview of effects (2005 – 2011)

Intervention	Level	Evaluated?	Summary of effects
FMO-A	Systemic	Not evaluated	• Loans & equity for financial institutions SME portfolio of commercial banks enhanced
FMO-MASSIF	Systemic	Not evaluated	• Loans & equity for financial institutions SME portfolio of commercial banks enhanced
FMO-CD fund	Sector	Not evaluated	• Skills in risk management and asset & liability management at banks and leasing companies enhanced • Curriculum for Bank Training Centre developed • Business plan for a waste management company developed
Mesofinance	Sector	Not evaluated	• No result
FIRST	Systemic	Not evaluated	• No information available
IFC Mekong A2F	Systemic	Evaluated	• Improved procedures for secured transactions • Launch of the Vietnam Bond Market Association • SME portfolio enhanced
Oxfam Novib	Sector	Not evaluated	• Set up of two MFI branches • Number of borrowers (year end 2011): 1,086 • Outstanding loan portfolio (year end 2011): €200,000

4.1.2 Objectives and effects

Although more general evaluations, which satisfy IOB quality criteria[17], of the instruments listed above exist unfortunately, with the exception of the IFC program, the research team did not come across evaluation studies containing specific evidence on the effects of these instruments in Vietnam. Therefore, in this report no evaluated effects for PSD instruments for the financial sector in Vietnam can be reported upon.

DDE – Mesofinance roadmap

Objectives

Late 2007, DDE commissioned a study about the development of mesofinance in Vietnam. This study contains a detailed description of the SME sector in Vietnam and the constraints on access to finance combined with a roadmap and advice to the Royal Netherlands Embassy about the development of interventions for SMEs regarding mesofinance.

In addition to the roadmap, DDE also opened a so-called mesofinance fund for Vietnam. This fund resulted in two applications, of which one was submitted after the deadline. The application which was approved had, according to interviewed Embassy staff, a slow start due to which effects are not yet measurable.

Effects

As described above, the mesofinance roadmap served as an exercise to identify further opportunities for interventions to improve access to mesofinance. Given that, according to interviewed Embassy staff, to date no further interventions have taken place one could conclude that the roadmap has not (yet) had an effect.

[17] As an example: In 2009 IOB evaluation of the LDC infrastructure fund was published. However, this report does not contain specific references to Vietnam. The evaluation report is available from: http://www.minbuza.nl/binaries/content/assets/minbuza/nl/import/nl/producten_en_diensten/evaluatie/afgeronde_onderzoeken/2009/07/iob_investing_in_infrastructure_evaluation_of_the_ldc_infrastructure_fund/iob---investing-in-infrastructure-evaluation-of-the-ldc-infrastructure-fund

FMO

Objectives

FMO, the Dutch development bank, finances companies, projects and financial institutions from developing and emerging markets. The institution is specialized in the sectors: financial institutions, energy & housing and agribusiness, food & water.[18] The products and services of FMO can broadly be divided in two categories i.e. financial products and services, and capacity development.[19]

FMO manages several funds for the Dutch government in order to support higher risk projects with possible high development impact. Several of FMO's funds, such as the Infrastructure Development Fund (IDF), Access to Energy Fund (AEF) and MASSIF, are regarded part and parcel of Dutch PSD policy[20]. According to information available from FMO's website, the IDF fund provides long-term financing for private sector infrastructure projects in developing countries[21]. MASSIF, on the other hand, is a fund that provides financial institutions with equity and debt funding for the development of Micro, Small and Medium-sized Enterprises in developing countries. In addition to government funds, FMO also has its own funds including the FMO-A fund. Although FMO controls this fund, the Dutch government is a majority shareholder.

In Vietnam, during the 2005-2011 period, FMO's funds for IDF and MASSIF were €9 million and €10 million respectively. During the same period, through the FMO-A fund, another €97 million was invested in various banks, equity investment funds and other organizations in Vietnam. In addition FMO's Capacity Development Fund (CD-Fund) provided technical assistance worth €1.2 million to a total of ten banks and enterprises.

During the fieldwork, in order to illustrate the work of FMO, the evaluation team conducted an interview with representatives of one of FMO's clients: Techcombank[22]. Techcombank, which is one of the larger private banks in Vietnam, is a commercial bank providing access to the SME and retail market segments. In 2008, the bank obtained an US$11 million loan from the FMO-A fund to foster lending to SMEs. In 2007 and 2008, staff of Techcombank also participated in one-week training sessions on risk management and assets and liabilities management financed through the CD-Fund.

Techcom's SME loan portfolio has been growing at a rapid paste over the 2005 – 2011 period with annual credit growth figures reaching 50%. At present the bank's estimated SME loan portfolio amounts to US$ 2 billion. In addition to FMO-funding, the bank also borrows from other development finance organizations such as IFC, KfW, ADB, and Norfund. From IFC, for instance, in addition to technical assistance the bank obtained a US$ 100 million loan. According to the interviewees, the offering of the various development finance institutions is quite similar in terms of financial conditions and technical assistance.

Effects

There are no evaluated effects of FMO's activity in Vietnam. Therefore, this study covers the reported effects for FMO's activities in Vietnam as far as this information can be obtained from FMO's *internal* sources. These internal sources indicate that the FMO-A and MASSIF funds enable banks to expand access to finance. The capacity development fund in turn led to improved risk management structures at a range of financial institutions.

Given that validated external documents on FMO's activities in Vietnam are not available, data could only be triangulated by means of interviews with one of FMO's beneficiaries: Techcom bank. During the field interviews, representatives from Techcombank indicated that the bank's SME portfolio has been growing rapidly over the 2005-2011 period. However, given the modest size of the US$ 11 million FMO-funding in comparison with the US$ 100 million offering of IFC and the bank's US$ 3 billion loan portfolio the contribution of FMO's funding to the observed credit growth is likely to be limited.

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[18] Website FMO, 'about us' http://www.fmo.nl/about-us/profile 8-5-2012
[19] Website FMO, 'products and services' http://annualreport2011.fmo.nl/home/about-fmo/products-and-services 8-5-2012
[20] Knapen, 'Toelichting op het OS-bedrijfsleveninstrumentarium', TK 32605-56, 1-5-2012.
[21] The expenditure for FMO's IDF is included in the section on the infrastructure cluster
[22] Note: Techcombank is one of FMO's clients and not necessarily representative for the entire FMO-portfolio in Vietnam.

FIRST

Objectives

FIRST is a multi-donor fund with a wide portfolio of activities across the developing world; the Netherlands is a small contributor[23] to this fund that is managed by a separate body within the World Bank. FIRST's specific objectives are to fund technical assistance in the areas of financial sector regulation, supervision and development, assist recipients in preparing prioritized action plans addressing financial sector development and the sequencing of reforms and advise clients, especially in low income countries, on the implementation of financial sector development programs[24].

In Vietnam, a few projects have been implemented with a total value of about € 1.35 million (of which an estimated 6% or €82,500 is financed by the Netherlands). The projects started in 2005, 2006, and 2008 since then no further activity has been recorded. The titles of FIRST projects in Vietnam are as follows[25]:

- Establishing a National Association for People's Credit Funds
- Regulation and Guidance for Management of Investment Funds
- Feasibility Study for the Establishment of a Central Securities Depository
- Assistance with International Standards for Supervising the Insurance Sector
- Enhancing Deposit Insurance
- Strengthening Central Bank Credit Information Centre

Effects

On FIRST neither reported nor evaluated effects can be mentioned since project reports and evaluations are not available.

IFC Mekong

Objectives

Since 1998, IFC has been running the Mekong Advisory Services Facility. By means of this facility IFC delivers advisory services in Lao PDR, Vietnam, and Cambodia. IFC delivers these services according to its international business lines, being:

- **Investment Climate (IC)** – improving the business enabling environment via a variety of policy and government institution-level interventions including Public Private Dialogue forums, investment and business law implementation support, regulatory and tax simplification, and projects on Access to Land and Alternative Dispute Resolution.
- **Access to Finance (A2F)** – increasing private sector, particularly SME, access to financial services through firm-level advisory interventions (e.g., SME banking development, MFI sector promotion, mobile payments), financial infrastructure projects focused on secured transactions, private credit bureaus, mobile payments, capital markets, and energy efficiency financing.
- **Sustainable Business Advisory (SBA)** – promoting sustainable private sector development through TA targeted to increasing environmentally and socially sustainable business practices, promoting corporate governance at policy and firm levels, and developing and supporting agricultural supply chain linkages.
- **Access to Infrastructure (ATI) / Public Private Partnerships (PPP)** – increasing private sector access to infrastructure through private-public partnerships involving and/or benefiting SMEs, including but not limited to projects in off-grid rural electrification, water, and sanitation.

In Vietnam, by year end 2010, IFC ran five A2F projects related to Securitized Transactions, Capital Market support, Cleaner Production & Energy Efficiency finance, and Bank advisory (including promotion of MFI sector). Within the bank advisory project, for instance, IFC provides technical assistance to six banks in

[23] Ca. €6.6 million contribution during 2005-2011, of a total of 103 million EUR.
[24] Website FIRST: http://www.firstinitiative.org/content/index.cfm?ctID=34&usidfrfpgs
[25] Source: http://www.firstinitiative.org/Projects/pSearchResults.cfm

Vietnam. Cumulatively, these projects have a budget of US$ 7.3 million for the 2009-2013 period[26]. The estimated Dutch contribution to the A2F business line over the 2005-2011 period amounts €750,000.

Effects

IFC's Advisory Services programs are regularly evaluated by IFC-contracted external consultancy companies. For the period 2005-2011 two of such evaluations are available[27]. These evaluations show that IFC's A2F programs in Vietnam have been effective. The Dalberg (2011) review, which contains case studies on two of IFC's A2F projects reports that procedures for secured transactions have been improved, and that a Vietnam Bond Market Association has been launched. The Dalberg review further reports that halfway the 2008 – 2013 program cycle IFC's target for the value of loans disbursed as part of Advisory Services interventions stood at US$80 million versus a full cycle target of US$98 million.

Oxfam Novib

Objectives

Oxfam Novib runs a number of smaller projects in the field of microfinance in Vietnam. Examples include the Binh Minh and the Enda project. In addition, Oxfam Novib also funds MFIs through its contributions to the Triple Jump fund. In Vietnam, this resulted in funding for an MFI called the Vietnam's Women Association.

The Bin Minh project, which has an expenditure of €74,000, refers to technical assistance for the set up of two branches for a microfinance institution in Vietnam's coastal areas. Oxfam Novib supports this MFI in light of its broader coastal development program. At other branches, the MFI also receives support from Cordaid. During the field interviews, Oxfam Novib staff commented that their support and the support of Cordaid is well coordinated.

The ENDA project refers to the provision of technical assistance (e.g. Capacity building in the area of credit management and fundraising) for a community development fund. This project has an expenditure of €50,000.

Effects

For the Oxfam Novib Binh Minh and ENDA projects external evaluation reports are not available. At the outcome level not much information is available. As a proxy for effects one could use MFIs' loan portfolio data. Internal reports show that the two newly established branches of the MFI Binh Minh had 1,086 loan customers with a total outstanding portfolio of roughly €200,000 by year end 2011.

4.1.3 The contribution of PSD instruments to resolving binding constraints

As described in chapter 2 above, in the financial sector the following binding constraints can be identified:

- Vietnamese commercial banks have insufficient capital, limited operational scale, and high credit risk.
- Lending prioritizes SOEs and overwhelmingly relies on fixed assets (land and property) for collateral.
- Credit provision remains well below the country's investment needs.
- Private firms' access to investment capital is hampered by the 225% collateral requirement

In chapter 2 it has also been described that access to finance remains a key concern throughout the 2005 – 2011 period. Although credit provision and the number of banks are growing rapidly demand for credit surpasses supply.

Field interviews, evaluation reports, and project documents confirm the relevance of the Dutch PSD instruments for the financial sector. That is, the objectives of the various instruments are well linked to the binding constraints. However, given both the size of the financial sector and the activities of other donors it cannot be ascertained to what extent the Dutch instruments contributed to resolving these binding

[26] Dalberg (2011). Mid-term Evaluation of IFC Advisory Services in the Mekong Region (MPDF III)

[27] These are: Maxwell Stamp. (2007). Final Evaluation of the Mekong Private Sector Development Facility (Phase II), and Dalberg (2011). Mid-term Evaluation of IFC Advisory Services in the Mekong Region (MPDF III)

constraints. For instance, based on the field interviews, it cannot be ascertained what part of the rapid expansion of Techcombank's SME loan portfolio is attributable to FMO-funding.

4.2 Infrastructure

4.2.1 Overview

Summary of expenditure

Within the cluster "infrastructure" various Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported.

Table 10: Vietnam, Dutch PSD instruments for infrastructure; overview of expenditures (2005 – 2011)

Intervention	Total	2005	2006	2007	2008	2009	2010	2011
ORET	19,219,548	132,745	2,266,722	4,011,129	8,262,415	252,972	3,342,396	951,169
ORIO	297,790						98,590	199,200
FMO IDF	8,914,993					3,821,305	5,093,688	
Total	**28,432,331**	**132,745**	**2,266,722**	**4,011,129**	**8,262,415**	**4,074,277**	**8,534,674**	**1,150,369**

Source: ORET/PwC, ORIO/AgNL, FMO

Summary of effects

In the table below, an overview is given of the effects of the various instruments within the infrastructure cluster. It should be note that the column "summary of effects" should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.

Table 11: Vietnam, Dutch PSD instruments (infrastructure); overview of effects (2005 – 2011)

Intervention	Level	Evaluated?	Summary of effects
ORET	Systemic	Not evaluated	• Increased capacity of 2 water plants • Delivery of cables for a telecommunication network • Introduction of modern waste treatment techniques • Increased employment at site • Increased water coverage ratios • Access to telecommunication services
ORIO	Systemic	Not evaluated	• Two projects reached end of development phase
FMO-IDF	Systemic	Not evaluated	• Start-up waste management company Vietstar

4.2.2 Objectives and effects

ORET/ORIO

Objectives

The aim of ORET program, which is a subsidy program of the Ministry of Foreign Affairs, is to enforce sustainable economic growth and the business climate in developing countries. This happens by facilitating investments in economic and social infrastructure; to which ORET contributes 35% of project costs. Over the period 2002 – 2007 ORET was managed by the NIO. From 2007 to 2009 the program was managed by PricewaterhouseCoopers Advisory N.V. and Ecorys Nederland B.V.

In 2009, the program's name was changed to ORIO (Development Relevant Infrastructure Development), reflecting the ambition to increase the (development) relevance, sustainability and accessibility for SMEs both in the Netherlands and developing countries. The ORIO program, which contributes 50% of project development costs and 35% of project implementation costs, is commissioned to NL Agency.

The ORET expenditures in Vietnam in the period 2005-2011 varied between €0.1 million and €8.2 million. These expenditures concern the implementation of four projects, of which two are related to water supply. In the table below, an overview is provided of the expenditures towards these four projects over the period 2005-2011. In addition to investments in hardware the beneficiaries also received technical assistance (training).

For ORIO, in the period 2009-2011, six ORIO projects were selected, all in the water sector.[28] By the end of 2011, two of these projects (both implemented by DHV) were reaching the end of the development stage. Realized expenditure by year end 2011 amounts €0.3 million.

Table 12: Vietnam, ORET; overview of expenditures (2005 – 2011)

Intervention	Total
Go Cat Landfill Project	149,048
PowerManagement Infrastructure	5,735,829
Tan Hiep Water Supply	6,498,631
Hai Duong Water Supply	6,836,040
Total	**19,219,548**

Source: ORET

Effects

There are a number of validated evaluations available on the ORET program. However, the most recent evaluation covers the period of up to 2004 only. More recent evaluations were not obtained. Therefore, in this report no evaluated effects for PSD instruments for the infrastructure sector in Vietnam can be reported upon. As a result only reported effects are discussed.

The research team obtained the planned and reported effects from project documentation and cross-checked these during interviews with PSD instrument representatives. In brief, the ORET subsidies contributed to the expansion of capacity of two water treatment plants, the enlargement of the network of a telecommunication company, and the introduction of modern waste treatment techniques.

Given that validated external documents on ORET projects in Vietnam are not available, data could only be triangulated by means of interviews with two of ORET beneficiaries: Tan Hiep Water Supply and Hai Duong Water Supply. During the field interviews, these beneficiaries indicated that the ORET subsidies contributed to increased employment and higher water coverage ratios. In the case of Tan Hiep Water Supply plant, it is estimated that 128 companies are benefitting from improved water supplies.

During the field interviews at both visited water plants, it became clear that in addition to ORET support the water supply companies also have good access to soft loans from international development finance organizations such as World Bank and ADB. For example, at the visited water plant nearby Ho Chi Minh City, water supply company BIWASE added another 30,000 m^3 capacity to the 30,000 m^3 site financed through ORET. This additional capacity was financed by means of a World Bank loan.

Thanks to the 60,000 m^3 capacity expansion, BIWASE has been able to arrange water supply to a nearly constructed city and surrounding rural areas. At present, BIWASE has a total daily water production of 200,000 m^3. Future expansion plans call for another 1,000,000 m^3 to be added.

BIWASE representatives further indicated having received short-term training from DHV on network management. Reportedly, DHV adapted its training package to BIWASE's capacity building needs. With respect to the overall success of the project, BIWASE listed local government support and the quality of the local subcontractor as the main contributing factors.

[28] ORIO, 'world map'
http://www.google.com/maps/ms?ie=UTF8&hl=nl&msa=0&msid=205729987944284378261.000496fbb031978f9adca 25-05-2012

FMO-IDF

Objectives

As mentioned earlier, FMO's IDF fund provides long-term financing for private sector infrastructure projects in developing countries. In Vietnam, FMO had one IDF-client during the period 2005-2011: Vietstar Waste Management Company. FMO provided Vietstar a €9 million loan. Loan tranches were disbursed in 2009 and 2010.

Effects

For FMO, as mentioned earlier, there are no evaluated effects of activities in Vietnam available. What is known is that the €9 million IDF fund was specifically used for the start-up of one waste management company. The same company also received technical assistance through FMO's CD-fund.

4.2.3 The contribution of PSD instruments to resolving binding constraints

As described in chapter 2 above, regarding infrastructure the following binding constraints can be identified:

- Quality: Vietnam's infrastructure remains inadequate as it has not kept pace with economic growth
- Priority setting: Public infrastructure projects are used to compensate regions with lower growth.
- Funding: Government and ODA fall short from annual required investment need of US$12 - $15 billion.

In chapter 2 it has also been described that the huge investments in infrastructure over the 2005 – 2011 period have not resulted in significant improvements. That is, infrastructure bottlenecks were a key issue in 2005 and still are today.

Given these binding constraints, it can be argued that the Dutch infrastructure instruments are relevant. That is, they contribute to potentially resolving an issue which is hampering private sector development. However, with an average annual expenditure of €4 million, the Dutch instruments' contribution to the country's overall annual infrastructure investment need of US$12 - $15 billion is quite limited. More specifically to the water sector, according to the interviewed DHV representative in Vietnam, the annual market size is US$ 500 to 600 million.

4.3 Cluster skills and knowledge

4.3.1 Overview

Summary of expenditures

Within the cluster "skills and knowledge" various (partially) Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported.

Table 13: Vietnam, Dutch PSD instruments for skills and knowledge; overview of expenditures (2005 – 2011)

Intervention	Total	2005	2006	2007	2008	2009	2010	2011
PSOM/PSI[29]	16,500,000	1,497,879	3,570,680	4,123,292	1,196,531	2,195,454	983,339	2,932,825
PUM	1,165,000	115,000	140,000	105,000	135,000	180,000	260,000	230,000
Agriterra	800,204			87,600	218,955	269,270	151,689	72,690
Vietnam Relay Facility	664,889						106,087	558,802
IFC SBA	450,000			450,000				
Total	19,580,093	1,612,879	3,710,680	4,765,892	1,550,486	2,644,724	1,501,115	3,794,317

Summary of effects

[29] Note that in the case of PSOM/PSI not the actual expenditures, but the committed amounts in the review period have been reported.

In the table below, an overview is given of the effects of the various instruments within the infrastructure cluster. It should be note that the column "summary of effects" should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.

Table 14: Vietnam, Dutch PSD instruments (skills and knowledge); overview of effects (2005 – 2011)

Intervention	Level	Evaluated?	Summary of effects
PSOM/PSI	Enterprise	Evaluated	• 29 joint ventures funded • Jobs = 75 per project • Sales = €1.35 M per project • Follow up investment = €0.5 million per project
PUM	Enterprise	Not evaluated	• No information on outcome level available
Agriterra	Sector	Not evaluated	• 25,313 training participants • Capacity building of sector organizations • Improved farmers' production and income • Promotion of sustainable agriculture
Vietnam Relay Facility	Systemic	Not evaluated	• No known effects at outcome level
IFC SBA	Systemic	Evaluated	• Sustainable practices (battery recycling) • Promoting corporate governance • Agricultural supply chain linkages(coffee)

4.3.2 Objectives and effects

There are a number of evaluations available on PSD instruments within the skills and knowledge cluster. On PUM, for instance, an evaluation has been carried out covering the 2006-2009 period. However, this report does not meet IOB criteria. For PSOM/PSI, on the other hand, an IOB validated evaluation report is available which covers Vietnam.

PSOM/PSI

Objectives

The PSOM/PSI programs aim to contribute to poverty reduction by stimulating sustainable investments in innovative business in developing countries. Worldwide, the program provides subsidies to finance up to 60% of the investment costs of joint venture companies with local entrepreneurs. The subsidies usually cover part of the project's hardware costs as well as training activities. The program is centrally managed from The Hague by the EVD.

In Vietnam, where the subsidy covers 50% of project costs up to a maximum of €750,000, according to EVD project documentation, 30 PSOM/PSI projects in Vietnam with a total contribution of €16.5 million were approved during the period 2005-2011. During the same period another 29 project proposals were declined.

Effects

The evaluation of the PSOM/PSI portfolio covered the period 1999 – 2009. The evaluation report contains a sample of six PSOM/PSI projects in Vietnam. Five out of these six sampled projects were initiated and completed within the 2005 – 2011 period[30].

The evaluation report (2010) states that the effectiveness of projects in Vietnam is high. Projects have significant employment effects in labour intensive sectors like garment manufacturing. The wages were found to be slightly above minimum wages. The innovativeness and risks (hence additionality) of some projects are limited. Most projects have more attention for CSR issues than typical 'local' businesses. Projects invest in training and knowledge transfer, whereby the majority of the trainees were informally trained on the job.

[30] The sixth project ran from May 2004 to December 2005.

The evaluation further shows that the average completed PSOM/PSI project in Vietnam generates 75 jobs, and creates company income of €1.35 million per year. In the table below, the average results for completed PSOM/PSI projects as described in the evaluation are listed.

Table 15: Vietnam, PSOM/PSI, average evaluated results per completed project

Indicator	Average per completed project
Follow up investment	€ 485,625
Sales per year	€ 1,354,785
Direct jobs	75
Outgrowers	216
Trainees	74

Source: Evaluation of PSOM/PSI 2001-2009 (2010)

PUM

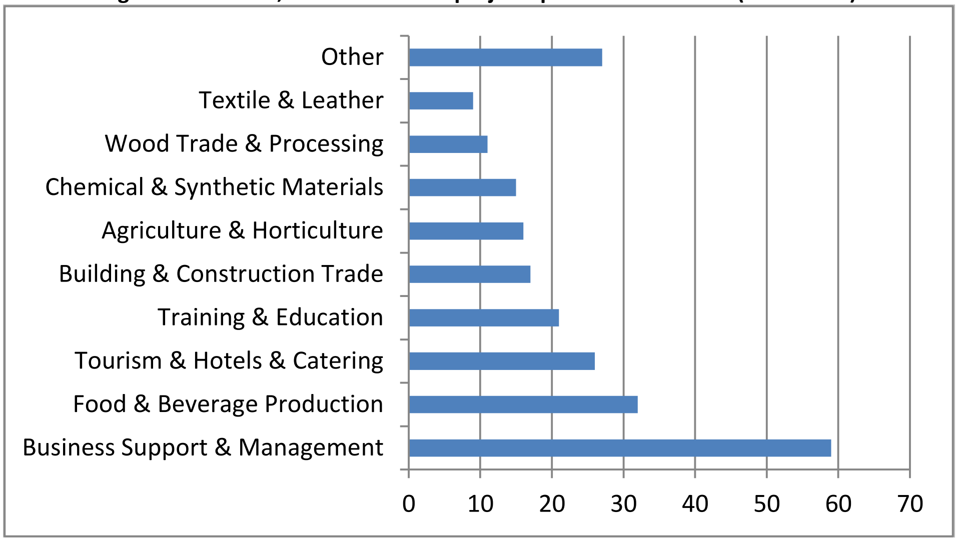
Objectives

PUM Netherlands senior experts is a non-profit organization that advises companies from developing countries and emerging markets that cannot afford commercial consultancy services. PUM counts with four Ethiopia based representatives, who promote the PUM programme amongst local SME businesses. Only SMEs that cannot afford commercial consultancy services are allowed to participate in the PUM programme. Once an SME files a request for support through the field representative, PUM in the Netherlands links the enterprise to senior Dutch professionals who deliver expert services on a voluntary basis during an average 7 to 10 days stay. The travel costs of the expert are generally met by the PUM programme, while the hotel bill is usually footed by the local SME.

During the period 2005-2011 PUM carried out 233 projects in Vietnam. In the figure below an overview is provided of the distribution of these 233 projects over business sectors during the period 2005 – 2011. This distribution shows that the biggest share of PUM projects is executed within the Business Support management field. Over the years, the number of PUM projects has been growing from 23 in 2005 to 46 in 2011. Similarly, in the beginning of the period had two local representatives (one in Hanoi, and one in Ho Chi Minh City and Danang City). In 2009, a third representative was appointed in Dalat.

Since 2009, PUM's Country Action Plans also contain a section on "country policy", which allows specifying how planned actions fit local developments and/or the activities of other PSD instruments. In this regard, the 2009 and 2011 country action plan mention that contacts are being built up with CBI. In 2011 contacts were also established with EVD. The PUM action plans also state that these contacts have not yet resulted in joint activities. The PUM Action plan 2008 recognizes the need to "strengthen managerial levels in Vietnam in the difficult changeover from a central economy to an open economy". The same Action Plan also calls to tune in to sectors covered by Dutch development aid (i.e. water, wood, and environment).

Figure 3: Vietnam, number of PUM projects per business sector (2005-2011)



Source: PUM

Effects

On PUM neither reported nor evaluated effects can be mentioned since project reports and evaluations are not readily available. During the field work, however, the research team interviewed a PUM beneficiary in Hanoi. This beneficiary, a bakery / lunchroom, employs staff with a range of handicaps. The bakery's management relies on PUM support for training its staff members in baking techniques[31].

Agriterra

Objectives

Agriterra supports farmers' organizations in fighting poverty, with advice from experts from the Dutch agricultural sector and with finance from the Dutch government. In the course of the "Farmer Fighting Poverty" program, Agriterra has been providing missions in a range of projects including a series of value chain development projects and business trainings for farmers.

Table 16: Vietnam, Agriterra projects

Project	Title
AGFU	Setting up a provincial farmers' tourism centre
Evergrowth	Developing finance scheme for growth in dairy production
NBCA	Sedge value chain development
	Mushroom value chain development in Ninh Binh
NDFU	Capacity building for aquaculture farmers to ensure safe, profitable products and environmental protection
	Capacity building for aquaculture farmers to ensure safe, profitable products and environmental protection
QTCA	Technical and business training program in Vietnam
	Preparing for enhanced competitiveness of cooperatives in the market
TNFU	Improve farmers capacity to produce safety and organic tea
	Improving farmer's capacity of producing safe and organic tea in communes of Thai Nguyen province.
	Sustainable model of safe tea and organic tea
VNFU	Building the capacity of VNFU for the development of Agro-tourism

Source: Agriterra

Effects

The table below provides an overview of participants in Agriterra projects in Vietnam over the period 2005-2011. The information indicates that in total 24 projects have been carried out with over 25,000 training participants.

[31] Website of Donkey Bakery Hanoi: http://donkeybakery.com/

Once a year Agricord publishes an evaluation report on the impact of the international Farmers Fighting Poverty program Agriterra's projects contribute to. These evaluation reports contain anecdotal evidence on a range of projects, including Agriterra projects in Vietnam. One example is the partially Agriterra funded project on improved fish and shellfish farming for the Nam Dinh Province Farmers' Union. Through this project training was organized to raise the awareness of farmers and union members on food safety, environmental protection and more efficient production methods. According to the evaluation report, within a year of project inception, more than 30% of farmers had started applying new techniques, and incomes had risen by 8-10%. Furthermore, the report – which does not feature on the IOB list of approved evaluations - claims that union staff is now able to transfer the skills they had learnt, in both production techniques and business planning, to farmers.

Table 17: Vietnam, Agriterra projects (2005 – 2011)

Indicator	Total	2005	2006	2007	2008	2009	2010	2011
Projects			1	5	1	5	2	10
Participants in sessions	25,313			339	2127	11319	9072	2456
Expenditure	800,204			87,600	218,955	269,270	151,689	72,690

Source: ***http://www.agro-info.net/?menu=countries&view=country&country_id=4180&tab=overview***

Vietnam Relay Facility

Objectives

The Vietnam Relay Facility (VRF) intends to support activities which contribute to sustainable development in Vietnam and at the same time broaden the bilateral relations. The €13 million facility includes a number of instruments to do so. According to the VRF annual reports of 2010 and 2011, the following instruments can be identified:

- **Government to government projects (G2G)**: G2G projects aim to foster bilateral relations and government-to-government co-operation between the Netherlands and Vietnam. Among other objectives, such cooperation is envisaged to support the strengthening of an enabling environment for entrepreneurship in Vietnam. As such, G2G projects actually contribute to the PSD cluster "*legal and regulatory framework*". By year end 2011, expenditures of €188,356 were realized for three G2G projects within PSD. These projects include: (i) Cooperation in the field Consumer Protection Field, (ii) an exchange visit to the Dutch Bureau for Statistics, and (iii) Technical assistance to the Vietnamese Export Credit Agency on credit insurance. In addition, an amount of €140,411 was spent for a G2G project in the field of agriculture with certain PSD elements.
- **Vietnam Facility**: The Vietnam Facility is a subsidy tender to stimulate cooperation between Dutch and Vietnamese knowledge institutions. By late 2011, six Vietnam Facility projects were under implementation of which two in PSD (a project to improve land administration by means of capacity building for central and local authorities, and a project aiming to improve crop production), one in health, and two in agriculture. Of the two agriculture projects, one has a strong link to PSD since it focuses on vegetables value chain development. By year end 2011, expenditure for the two PSD projects and the vegetables value chain project amounted €319,522.
- **Public Private Partnerships (PPP; previously also referred to as WSSD)**: Under the Vietnam Relay Facility, PPPs are encouraged to further develop agricultural production in Vietnam. By December 2010, the first PPP project was contracted. This project would focus on waste management for Pangasius culture. According to the VRF Annual Report of 2011, the first results of this project are expected by 2012. In 2011, a second PPP was contracted. This PPP, which would focus on cacao, will be implemented in 2012. By year end 2011, according to Agency NL, project expenditure for these two PPP projects amounted to €16,600.
- **Netherlands Managers Training Program (NMTP)**: The NMTP entails three weeks of training and four weeks of internship for Vietnamese managers within a Dutch company. Four sectors of focus have been identified: private sector development, healthcare, water and agriculture. Although by 2010, 25 participants had been selected (of whom seven for private sector development projects), in practice, it proved difficult to find suitable Dutch companies which could offer attaching internship projects.

The annual reports on the VRF contain a detailed overview on expenditures and commitments. In the table below these expenditures are depicted. The data indicate that the Vietnam Facility is the most significant instruments in terms of commitments. For instance, of the €3.6 million worth of realised commitments, €1.9 million is due to the Vietnam Facility. For G2G projects €1.1 million has been committed. In this regard, NMTP (€0.2 million realised commitments) and PPP/WSSD (€0.4 million) are much smaller. It should be noted that the data reported here are for the VRF as a whole and do not relate to PSD only. As far as the projects with a strong link to PSD are concerned, according to Agency NL, project expenditure over the 2009 – 2011 period amounted €664,889.

Table 18: Vietnam Relay Facility, expenditure and commitment by year-end 2010 (all amounts in €)

Intervention	Budget (2009 – 2013)	Total realised	2009	2010	2011
Management cost	893,666	603,344	91,419	268,708	243,217
Implementation	277,743	938,638	847,000	91,638	0
Committed	5,828,592	3,571,557	150,000	2,795,413	626,144
Expenditures	5,828,592	1,634,403	0	505,310	1,129,093
Total	**12,828,593**	**6,747,942**	**1,088,419**	**3,661,069**	**1,998,454**

Source: EVD. (2011). Vietnam Relay Facility. Annual Report 2011

Effects

Although a formal evaluation is not available, EVD's Annual Reports on the Vietnam Relay Facility contain structured one-page project sheets. The results described are primarily at the output level and occasionally also include outcome level results such as strengthened institutional capacity. However, the project sheets do not contain any information on impact level results. The planned results do not specify impact level results either.

Across the board, by year end 2011, project results were quite limited. This is also due to the fact that many projects were still in their initial stages. Out of the four G2G-projects which are labelled "PSD", for instance, results are available for only one project. For this project, the project sheet mentions "strengthened awareness and capacity on consumer protection amongst local officials" as a result. For the two PPP-projects on Pangasus and Cacao the VRF annual reports clearly state that the projects are still in the early stages of implementation. For the Vietnam Facility, output level results are described in terms of curriculum development, staff training and hardware investments at the Hanoi University of Science, the Hanoi University of Agriculture, and Can Tho University.

IFC Mekong SBA

Objectives

As mentioned above, IFC by means of its Sustainable Business Advisory (SBA) business line aims to promote sustainable private sector development through TA targeted to increasing environmentally and socially sustainable business practices, promoting corporate governance at policy and firm levels, and developing and supporting agricultural supply chain linkages.

In Vietnam, by year end 2010, IFC ran three SBA projects related to corporate governance improvement for private sector, sustainable coffee cultivation, and battery recycling. Cumulatively, these projects have a budget of US$ 4.7 million for the 2009-2013 period[32]. The estimated Dutch contribution to the SBA business line over the 2005-2011 period amounts €450,000.

Effects

The Dalberg mid-term review of 2010 is somewhat critical regarding the outcomes of IFC's SBA business line. According to the evaluation, despite a number of promising initiatives, SBA so far has had a relatively mixed performance on the effectiveness dimension, with the lowest effectiveness score relative to other IFC business lines. In particular the scale-up of social sustainability programs relative to initial targets has

[32] Dalberg (2011). Mid-term Evaluation of IFC Advisory Services in the Mekong Region (MPDF III)

been very slow. On the other hand, the mid-term review is much more positive about the output performance of environmental sustainability interventions.

4.3.3 The contribution of PSD instruments to resolving binding constraints

As described in chapter 2 above, regarding skills and knowledge the following binding constraints can be identified:

- A significant share (i.e. almost two thirds) of the Vietnamese labour force is unskilled
- The education system is not keeping pace with the rising demands of the Vietnamese economy
- Vietnam's vocational training system far from receives the funding and recognition it needs
- There is a lack of cooperation among educational institutions and the labour market

In chapter 2 it has also been described, that – given the increasing demands of the labour market – the shortage of skilled labour in Vietnam has been increasing rather than decreasing over the 2000s.

Overall, the Dutch instruments within the skills cluster such as the VRF and PSOM/PSI contain capacity building elements which contribute to the quality of the labour force of the country. However, the effects of these interventions are mostly visible at the enterprise level and less so at the sector and/or systemic level. Still, on the long run, through the VRF's educational projects more systemic effects may be attained as well.

4.4 Legal and regulatory framework

4.4.1 Overview

Summary of expenditures

Within the cluster "Legal and regulatory framework" four (partially) Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported.

Table 19: Vietnam, Dutch PSD instruments for skills and knowledge; overview of expenditures (2005 – 2011)

Intervention	Total	2005	2006	2007	2008	2009	2010	2011
IFC Mekong IC	300,000							
FNV Mondiaal	n/a							
Better works	500,000							
DECP	275,000							
Total	1,075,000							

Summary of effects

In the table below, an overview is given of the effects of the various instruments within the Legal and regulatory framework cluster. It should be noted that the column "summary of effects" should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.

Table 20: Vietnam, Dutch PSD instruments (skills and knowledge); overview of effects (2005 – 2011)

Intervention	Level	Evaluated?	Summary of effects
IFC Mekong IC	Systemic	Evaluated	• Vietnam Business Forum set up • Tax code for SMEs simplified • Construction permits simplified
FNV Mondiaal	Systemic	Not evaluated	• No Vietnam specific information available
Better works	Sector	Not evaluated	• 141 garment factories adopt Better Works standards
DECP	Systemic	Not evaluated	• Unknown

4.4.2 *Objectives and effects*

IFC Mekong IC

Objectives

As mentioned above, IFC by means of its Investment Climate (IC) business line aims to improve the business enabling environment via a variety of policy and government institution-level interventions including Public Private Dialogue forums, investment and business law implementation support, regulatory and tax simplification, and projects on Access to Land and Alternative Dispute Resolution.

By year end 2010, in Vietnam, IFC ran four IC projects related to support for Vietnam Business Forum, tax simplification, licensing/regulatory reform, and access to land reform. Cumulatively, these projects have a budget of US$ 3.1 million for the 2009-2013 period[33]. The estimated Dutch contribution to the IC business line over the 2005-2011 period amounts €300,000.

Effects

According to the Dalberg mid-term review, the IFC Mekong IC projects have made major progress against targeted outputs and outcomes with many strong projects. In this regard, the mid-term review particularly praises the Vietnam Licensing project, for its strong link to "Project 30", Vietnam's high profile national regulatory reform initiative. The review report indicates that IFC made a critical contribution to this initiative, including a review of 14 licenses in key business sectors, leading to the elimination of 5 licenses by June 2010, the streamlining of many procedures, and substantial estimated private sector cost savings (US$ 9 million).

The review further makes mention that IFC's tax simplification project is still at a relatively early stage. The project has made progress in enacting changes in simplifying VAT invoicing thereby allowing businesses to print their own invoices rather than purchasing from a central tax authority.

Finally, as also indicated by IFC staff during the field interviews, IFC has played a significant role in the establishment of the Vietnam Business Forum. However, despite the high level of historical accomplishment, feedback on the value of the Vietnam Business Forum has, as phrased in the Dalberg report, begun to decline in recent years. In earlier years, however, the Vietnam Business Forum served as the critical platform for promoting and refining Vietnam's new investment and enterprise laws.

FNV Mondiaal

Objectives

Globally, according to its website, FNV Mondiaal supports projects in over 100 countries located in Africa, Asia, Latin America and Eastern Europe through resources from the Ministry of Development Cooperation of FNV and its affiliates. By means of its work FNV Mondiaal aims to build stronger unions in those countries. In the view of FNV Mondiaal, "a strong union can stand up for the improvement of working conditions and a fairer distribution of income". FNV Mondiaal is further involved in the fight against child labour and HIV / AIDS, and defends women workers, informal workers and trade union rights.

On FNV Mondiaal's website, four active projects in Vietnam are mentioned:

- ICEM Asia Social Dialogue Project.
- Organizing and Networking Migrant and Cross Border Workers in Asia.
- BWI Integrated Approach on organizing and influencing policy in Southeast Asia
- Evaluation BWI Migration project Asia

Given the fact that these projects cross international borders, specific project expenditure figures for Vietnam could not be obtained.

[33] Dalberg (2011). Mid-term Evaluation of IFC Advisory Services in the Mekong Region (MPDF III)

Effects

On FNV Mondiaal neither reported nor evaluated effects can be mentioned since project reports and evaluations are not readily available.

Better Work Vietnam

Objectives

Building on the experience of Better Factories Cambodia, the International Labour Organization (ILO) and IFC launched the Better Work program in January 2007. The objective of the program is to increase the rate of compliance of enterprises in developing countries with international labour standards and national labour laws. In addition to improving working conditions, it is believed that greater compliance will lead to increased productivity and improved competitiveness[34]. By year end 2011, the program was active in Cambodia, Haiti, Jordan, Vietnam, Lesotho, Indonesia, and Nicaragua.

In Vietnam, the Better Works program became operational in June 2009, and focuses on the implementation of improved labour standards in garment factories with at least 250 employees; initially in Ho Chi Minh City and surrounding regions. According to information available from the Better Work site, Better Work Vietnam aims to improve conditions for roughly 150,000 workers in the first two years and up to 700,000 over a five-year period[35]. In all, the program aims to improve competitiveness in the apparel industry by enhancing economic performance at the enterprise level and by improving compliance with Vietnamese labour law and the principles of the ILO Declaration on Fundamental Principles and Rights at Work and its follow up[36].

According to information obtained from the ILO, the Dutch government supports the Better Works program at both the global level, through funding the ILO, and at local level through funding the IFC. At global level, the Dutch government provided an amount of €9 million to cover the 2006-2012 period. Furthermore, specifically for Vietnam, the Dutch government granted finance to IFC. In total, IFC contributed about US$1.3 USD for the first 18 months of the Vietnam program.

Effects

In 2012, an evaluation covering the Better Work Global program was published[37]. Although the evaluation focuses on the role of the Better Work Global program rather than on country-level results, a number of Vietnam specific project results are available. According to the evaluation, by December 2011, 141 Vietnamese garment factories were registered in the program. Out of these, 123 factories received advisory services during the last six months of 2011. Currently, according to information accumulated during the field interviews 180 Vietnamese garment factories are adopting the Better Works standard[38].

The global evaluation report further states that research conducted in Cambodia suggests that Better Work has contributed to improved working conditions and that compliance with labour standards did not reduce the prospect of firm survival during the recent global recession. However, the results of rigorous impact studies are still pending. To this end, the Better Work website mentions that a multidisciplinary team from Tufts University in the United States is leading the impact measurement effort. This team will measure a range of impact indicators related to enterprise performance, economic development and human development[39].

DECP

Objectives

[34] ILO (2012). Summary of Better Work Global – Stage II Evaluation. http://www.ilo.org/wcmsp5/groups/public/---ed_mas/---eval/documents/publication/wcms_181591.pdf

[35] From: http://www.betterwork.org/EN/countries/Pages/Vietnam.aspx

[36] Better Work Vietnam (2012). Baseline report: Worker Perspectives from the Factory and Beyond. http://www.betterwork.org/sites/VietNam/English/resources/Documents/VN%20baseline%20report.pdf

[37] Nexus Associates. (2012). Better Work Stage II Evaluation

[38] The Better Works Vietnam site contains a list of participating enterprises: http://www.betterwork.org/sites/VietNam/English/ourpartners/Pages/Enterprises.aspx

[39] See: http://www.betterwork.org/EN/aboutbetterwork/Pages/ImpactAssessment.aspx

The foundation Dutch Employers' Cooperation Program (DECP) is a public-private partnership established by Dutch employers and the Ministry of Foreign Affairs in 2005 with the aim of strengthening the position of employer organizations in developing countries. Via DECP, Dutch employer organizations offer professional expertise to employer organizations in developing countries. On the DECP website an overview is provided of activities which have taken place in Vietnam. Workshops were given on themes such as communication and lobby, Occupational Safety and Health, collective bargaining and other subjects.

Effects

No evaluation reports are available that cover the effects of the DECP program in Vietnam.

4.4.3 The contribution of PSD instruments to resolving binding constraints

As described in chapter 2 above, regarding the legal and regulatory framework the following binding constraints can be identified:

- There is a lack of a level playing field with SOEs receiving preferential treatment over private enterprises.
- On-going reforms have created a set of new rules and regulations which are not yet commonly understood.
- Although regulations are improving on paper, implementation of the policies on the ground lacks behind.

Overall, the main concern seems to be the implementation rather than the formulation of better laws and regulations. At the same time, as also described in chapter 2, the World Bank Investment Climate Survey (2011) points out that issues such as labour regulations and the procedures of the courts and judicial system are amongst the least constraining obstacles in Vietnam.

In all, the Dutch funded instruments aim to improving the legal and regulatory framework and thereby contribute to the easing of this binding constraint for doing business. In particular the Better Works program is worth mentioning for its efforts to improve labour standards within the garment industry. At a systemic level, it remains difficult to estimate the contribution of the Dutch funded PSD instruments to an improved regulatory environment. However, through its support to IFC's Investment Climate program the Dutch PSD program contributes to improving the legal and regulatory environment.

4.5 Cluster market access

4.5.1 Overview

Summary of expenditure

Within the cluster "market access" (partially) Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported.

Table 21: Vietnam, Dutch PSD instruments for skills and knowledge; overview of expenditures (2005 – 2011)

Intervention	Total	2005	2006	2007	2008	2009	2010	2011
CBI	3,324,197			551,876	1,143,379	492,143	380,932	755,867
IDH	335,000							335,000
Cordaid/VECO	150,000					50,000	50,000	50,000
FTO	160,000				40,000	40,000	40,000	40,000
Total	3,969,197	0	0	551,876	1,183,379	582,143	470,932	1,180,867

Summary of effects

In the table below, an overview is given of the effects of the various instruments within the market access cluster. It should be note that the column "summary of effects" should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.

Table 22: Vietnam, Dutch PSD instruments (skills and knowledge); overview of effects (2005 – 2011)

Intervention	Level	Evaluated?	Summary of effects
CBI	Enterprise	Not evaluated	• Provision of EU market access info, training and export auditing to entrepreneurs • Capacity development for 6 BSODs
IDH	Enterprise	Not evaluated	• Two producers Global Gap and ASC certified (pilot phase) • Certification model developed for upscaling (next phase: 55 farms)
Cordaid/VECO	Sector	Not evaluated	• 1150 farmers trained in sustainable production methods and marketing • Farmers' income up • Food safety enhanced
FTO	Enterprise	Not evaluated	• Capacity and EU market access of 1 Vietnamese trading partner improved

4.5.2 Objectives and effects

CBI

Objectives

The Centre for the Promotion of Imports from developing countries (CBI) is an agency of the Ministry of Foreign Affairs and part of the development cooperation effort of the Netherlands. The mission of the CBI is to contribute to equitable economic development of selected developing countries and countries with economies in transition by providing services aimed at strengthening the competitiveness of exporters on the EU and EFTA market. CBI aims to achieve its mission through four different types of products. These products are: Human Resource Development (Training), Business Support Organization Development (BSOD), Market information (MI), and Export Coaching Programs (ECP). Internationally, the biggest part of CBIs' budget is allocated to ECP.

In Vietnam, over the period 2005-2011 realized a total project expenditure of €3.3 million. Of this amount, €0.8 million is due to the Export Coaching Program and €0.8 million is due to the Training Program. The largest share of the budget, an amount of €1.8 million, has been spent on the BSOD program. Within the BSOD program CBI provides support to six BSOs including VASEP, Hanoi Trade Promotion Centre, and ITPC. CBI supports these organizations with the preparation of market access information by means of improved websites and printed publications. In addition, CBI provides capacity building to both BSO-staff as well as directly to entrepreneurs.

Effects

There exists a substantial body of evaluations on CBI's activities. For example, over the period 2003 – 2009 a total of 26 evaluations are available. Unfortunately, however, and this applies to ECP activities in particular, the evaluation studies are not country specific. Instead, the evaluations report consolidated results. Also, IOB has not included CBI evaluations in the list of eligible evaluations, this is due to the fact that CBI will be evaluated separately. Therefore, no evaluated effects can be reported.

Instead, relying on the field interviews undertaken with CBI-beneficiaries such as VASEP, Hanoi Trade Promotion Centre, and ITPC, it can be stated that especially CBI's provision of EU market access information in the form of improved websites and printed publications is much appreciated. In the case of the Hanoi Trade Promotion Centre, CBI's support also helped to make Hanoi Trade Promotion Centre's training offering to its members "look more professional". In addition to training from CBI, the Hanoi Trade Promotion Centre also receives support from other international partners.

CBI also has a working relationship the Vietnam Trade Promotion Agency (VIETRADE). VIETRADE, which is a governmental organization responsible for state regulation of trade and investment promotion, oversees the various provincial trade promotion organizations. During the field interviews, VIETRADE representatives confirmed the need for CBI to give training to BSOs as to strengthen their capacity. According to the interviewees, CBI coordinates the choice of sectors to operate in with VIETRADE.

IDH

Objectives

The Dutch Sustainable Trade Initiative (IDH), according to its website, "convenes coalitions of front running companies, civil society organizations and governments to transform markets towards sustainable production and consumption worldwide". In this respect, IDH aims to deliver impact on the Millennium Development Goals 1 (poverty reduction), 7 (safeguarding the environment) and 8 (fair and transparent trade). Within the realm of private sector development IDH's focus is on product certification in order to help producers to improve their access to premium international markets[40].

In Vietnam, IDH – in collaboration with the German International Cooperation (GIZ), World Wildlife Fund (WWF) and Global G.A.P - formed a partnership to support farmers, processors and feed producers to comply with international standards on sustainable Pangasius production and marketing, and sell certified products to European customers. By means of the so-called Sustainable Pangasius Supply Program (SPSP), the partnership would provide a total financial support of €1.5 million for fish farmers and three processing companies to move toward sustainable certification[41]. According to the IDH-representative in Vietnam, IDH's financial contribution to the project amounts €335,000.

IDH, during the pilot period of SPSP, focused on the selection of farms-participants; evaluating and analysing the deficiencies of farms to meet the standards; helping them make necessary improvements to be eligible for Global G.A.P and/or ASC certification; and finally assist certified fish farmers to ship their products to EU.

Effects

By late 2011, the end of the project's pilot phase, as confirmed during a field interview with the IDH representative in Vietnam, two producers were Global Gap and ASC certified. According to IDH, the lessons learned from the pilot phase are instrumental for the upscaling of certification to another 55 companies. In this regard, the interviewed IDH representative claimed that the developed certification model would allow for significant efficiency gains in the near future. That is, whereas during the pilot phase a total budget of €1.5 million was involved for the certification of two producers, during the upscaling phase the same budget would be sufficient for the certification of another 55. During the upscaling phase, which started in 2012, IDH cooperates with SNV.

Cordaid: VECO

Objectives

In Vietnam Cordaid supports the NGO VECO Vietnam. VECO Vietnam is a country program of Vredeseilanden[42] that is currently implementing sustainable agricultural chain development in the North of Vietnam in Lang Son and Phu Tho Provinces. In line with the global VECO vision and mission, VECO Vietnam's mission is to contribute to viable livelihoods and empowerment of organized family farmers, male and female in Vietnam through sustainable agriculture chain development at local and regional levels.

In 2011 VECO Vietnam entered the second phase of the program "Improved Family Farmers Access to Sustainable Agricultural Chains" (2008-2013). The program focuses on chain development of rice, tea and safe vegetables in Phu Tho Province (Yen Lap and Viet Tri city) and safe vegetables in Lang Son Province (Lang Son city[43]). The aim of the program is to strengthen the position and influence of farmers by improving their production and marketing skills and linking them with other value chain actors.[44]

[40] IDH webste: http://www.idhsustainabletrade.com/what-we-do
[41] http://vietfish.org/20111013082540722p49c64t90/sustainable-pangasius-supply-program-in-tra-vinh.htm
[42] Vredeseilanden is an NGO from Belgium: http://www.vredeseilanden.be/
[43] From VECO Vietnam website: http://www.veco-ngo.org/veco-vietnam/veco-vietnam
[44] http://www.veco-ngo.org/sites/www.veco-ngo.org/files/page/bijlage/flyer_veco_eng_mail03_0.pdf

Over the period 2008 – 2011, total expenditure for the program was €838,000. Of this amount, €150,000 was contributed by Cordaid. Other donors are MISEREOR (Germany) with €226,000 and DGOS (Belgium) with €462,000.

Effects

During the last quarter or 2010, VECO commissioned a consulting firm to conduct an assessment of VECO's initiatives in the safe vegetables chain in Lang Son City and the fresh tea chain in Yen Lap District. The outcomes of the impact assessment were discussed during a field interview with the VECO representative in Hanoi.

In summary, VECO's work – with a total expenditure of €840,000 - has contributed to the training and certification of 1150 farmers in safe vegetables, tea, and rice in Vietnam. Across the board, thanks to the program, farmers have been able to increase production levels and obtain a better price for their produce.

According to the interviewed VECO representative, for instance, the selling price for safe vegetables increased by 15% to 20%. Combined with increased production levels, according to the evaluation report quoted in VECO's internal annual report of 2010, this led to a 36% income increase from safe vegetables for participating farmers in and around Lang Son City. VECO's internal report also claims increased food safety as a result of the program. For instance, the percentage of households having sufficient food reportedly increased from 78% to 95%. Finally, the quality of produce has improved and sales levels are better secured by means of contracts with off takers.

During the interview, the VECO representative confirmed that, in comparison with the €840,000 project expenditure, the reported income increase of the 1150 farmers is relatively limited. In the upcoming scaling up phase, VECO aims to reduce costs by means of economies of scale and a bigger involvement of farmer organizations in project execution.

FTO

Objectives

Fair Trade Original (FTO), incorporated in 1959, is the founder of development trade - an initiative which has since been adopted all over the world. Development trade ensures that products made by farmers, craftsmen and companies that conduct an appropriate social policy gain access to the export markets. This in turn creates employment that increases the prosperity of the people involved, their villages and, on occasion, of the entire region.

Through the Co-financing Scheme (Medefinancieringsstelsel, MFS) of the Dutch Ministry of Foreign Affairs, FTO received in total almost €6.5 million for four years, for the implementation of the Change the World Branding Program. The Change the World Branding program contains the challenge to considerably expand Fair Trade Original products, food and gifts & living, in the Netherlands and Europe into the mainstream market. According to FTO, expansion of the market for fair trade products is necessary in order to let the turnover and the volume of the trading partners and producers from developing countries increase, and thus provide them with access to durable employment and a liveable income. These programs are focused on increasing the capacity of the trading partners to enable them to improve the service they provide to the export market on the one hand, as well as on boosting the FTO brand and supporting the sale of FTO products in Dutch supermarkets and shopping malls on the other hand[45].

In Vietnam, the program works with one trading partner only: MAI Vietnamese Handicrafts. FTO helped this partner with a range of business development services including advice on product design, warehousing, automation of administrative processes, EU market access, and safety of various workshops.

It is unknown what the Vietnam-specific expenditure of the MFS program where. However, given that the MFS-subsidy amounted €6.5 million and that the program reached out to 40 trading partners one can assume that Vietnam specific expenditure amounts €160,000; or €40,000 annually over the period 2007-2010.

[45] FTO. (2009). Annual report. http://fairtrade.nl/_sana_/handlers/getfile.ashx/04988219-caef-4e80-a7c4-fc8e6b2e451e/Jaarverslag_ENG2_2009_interactief-def.pdf

Effects
On FTO neither evaluated effects cannot be mentioned since evaluations are not available. However, across the board FTO claims positive results for trading partners' access to markets.

4.5.3 The contribution of PSD instruments to resolving binding constraints

As described in chapter 2 above, regarding market access the following binding constraints can be identified:

- Private enterprises forego business opportunities due to a lack of information on market structures, suppliers, customers, and public procurement contracts.
- Smallholder farmers lack access to markets; especially due to improper coordination of marketing efforts.

As with the other clusters, it can be stated that the Dutch PSD instruments link well to these binding constraints. However, during the field interviews it was also noted that one could argue that market access is not much of a problem for Vietnamese enterprises.

5 Assessments

5.1 The role of the Embassy with regard to PSD

As described in chapter 3 above, the Dutch Embassy does not have the intention to have a PSD program for Vietnam. Furthermore, it has been shown that, over the period 2005-2011, the Embassy made a shift from “development aid” to “economic cooperation”. In all, it has become clear that PSD is not a key priority for the Embassy. However, the EKN did try to respond to the changing (policy) circumstances to manage that shift. EKN developed a new approach that was meant to “merge” the development and economic interest, which resulted in the set-up of the Vietnam Relay Facility (VRF) in 2008.

The concept behind the VRF was in essence to use ODA instruments and –funds as a start for a future economic relationship, or, more practical to generate spin-offs from ODA funded initiatives that can be further developed with instruments and funds from Economic Affairs, to the benefit of Dutch businesses. The view of EKN was that the Vietnamese partners are primarily interested in “knowledge”, and are not interested immediately in what Dutch businesses have to sell. Therefore, using ODA instruments (such as the VRF) to deliver the knowledge form Dutch knowledge networks should then lead to commercial opportunities for Dutch firms offing solutions in a sector (like in water management, or harbours). Thus, the VRF is a tool that can sensitise the Vietnamese side to new technologies, solutions and concepts, which may “open the door” for Dutch firms to engage, once the demand has become effective. In this way, EKN can contribute meaningful advice to resolve development challenges to Vietnamese counterpart, while at the same is able to further the interests of Dutch businesses in Vietnam.

The Embassy responded adequately to these developments by assuming a brokering role rather than an implementing role. In this respect, the Vietnam Relay Facility was a promising initiative. However, by late 2011, three years after the start, the Vietnam Relay Facility had not yet generated significant expenditures and PSD effects. In so far, the concept can be seen as innovative, yet the implementation did not come off the ground. IN the mean time the VRF has been transformed into the “Transition Facility” (which also includes two other mid-income countries), and it remains to be seen whether or not this can deliver either development effects, or additional commercial opportunities, or – ideally – both.

5.2 Effects of PSD in Vietnam

5.2.1 Dutch PSD instruments and the DCED indicators

In the table below, an overview is provided of the DCED indicators of the various Dutch PSD instruments in Vietnam as far as these could be established from evaluation reports and/or project documents. It should be noted that effects can only be considered validated for those instruments for which satisfactory evaluation reports on Vietnam country level are available. Unfortunately, that is only the case for PSOM/PSI and IFC.

Nevertheless, based on interview outcomes and the instruments’ project documents in a modest number of cases, DCED indicators can be retrieved. This type of information is primarily available regarding the indicators “number of enterprises” and “investments”.

Table 23: Vietnam, PSD expenditure and DCED indicators

Instrument	Expenditure 2005-2011 (€)	Level	Evaluated in country	No. Enterprises	Net add. Income (€)	Net add. Employment	Investments (€)	Changes	Attitudinal
Finance									
FMO-A	97,106,974	Enterprise	N	9	unknown	unknown	97,106,974	unknown	unknown
FMO-Massif	10,024,541	Systemic	N	4	unknown	unknown	10,024,541	unknown	unknown
FMO-CD fund	1,234,268	Sector	N	10	unknown	unknown	unknown	unknown	unknown
Schokland/PPP	44,957	Systemic	N	0	n/a	n/a	0	n/a	unknown
First	82,511	Systemic	N	unknown	unknown	unknown	unknown	unknown	unknown
IFC A2F	750,000	Systemic	Y	unknown	unknown	unknown	unknown	unknown	unknown
Oxfam Novib	124,000	Sector	N	unknown	unknown	unknown	unknown	unknown	unknown
Subtotal	*109,367,251*								

Instrument	Expenditure 2005-2011 (€)	Level	Evaluated in country	No. Enterprises	Net add. Income (€)	Net add. Employment	Investments (€)	Changes	Attitudinal
Infrastructure									
ORET	19,219,548	Sector	N	unknown	unknown	unknown	35,693,446	unknown	unknown
ORIO	297,790	Sector	N	n/a	n/a	n/a	n/a	n/a	n/a
FMO-IDF	8,914,993	Sector	N	1	unknown	unknown	8,914,993	unknown	unknown
Subtotal	*28,432,331*								
Skills									
PSOM/PSI	16,500,000	Enterprise	Y	29	unknown	2,175	16,500,000	unknown	unknown
PUM	1,165,000	Enterprise	N	233	unknown	unknown	unknown	unknown	unknown
Agriterra	800,204	Sector	N	(25,000)*	unknown	unknown	unknown	unknown	unknown
Vietnam Relay	664,889	Sector	N	n/a	n/a	n/a	n/a	n/a	n/a
IFC SBA	450,000	Sector	Y		unknown	unknown	unknown	unknown	unknown
Subtotal	19,580,093								
Legal									
IFC IC	300,000	Systemic	Y	n/a	n/a	n/a	n/a	n/a	n/a
FNV Mondiaal	n/a**	Systemic	N	n/a	n/a	n/a	n/a	n/a	n/a
Better Work	500,000	Systemic	N	141	n/a	n/a	n/a	n/a	n/a
DECP	275,000	Systemic	N	n/a	n/a	n/a	n/a	n/a	n/a
Subtotal	1,075,000								
Market access									
CBI	3,324,197	Enterprise	N	92***	unknown	unknown	unknown	unknown	unknown
IDH	335,000	Enterprise	N	2	unknown	unknown	unknown	unknown	unknown
Cordaid/VECO	150,000	Sector	N	(1,100)*	unknown	unknown	unknown	unknown	unknown
FTO	160,000	Systemic	N	1	unknown	unknown	unknown	unknown	unknown
Subtotal	3,969,197								
Grand total	**162,423,872**	(including FMO funds loans and investments; without FMO funds **EUR 46,377,364**)							

**) refers to trained farmers.*
***) programs are regional, and not possible to specify for Vietnam*
****) refers to supported exporters (ECP) only, number of trained companies is unknown*

Given the limited availability of information on DECD-indicators it is hard to qualify the effect of the Dutch PSD instruments in the country in terms of those indicators. Furthermore, for those indicators for which information is available it is hard to compare the figures. For example, whereas PUM provided a small amount of support to 233 enterprises the FMO-IDF fund only reached out to 1 enterprise; however, it did so in a significantly different manner.

Spending per PSD Cluster

The information depicted in the table above shows, that the majority of funding flows to the financial cluster. However, the distribution of funding over the various clusters is skewed due to the magnitude of the FMO-funds. Therefore, in the table below an overview is presented of the distribution of expenditure over the various clusters *excluding* the FMO funds. This table shows that total expenditure over the period 2005 – 2011 was €46 million.

Table 24: Vietnam, Spending per PSD Cluster

PSD Cluster	No. of instruments	Expenditures in EUR, (2005-2011)
Finance	5	2,235,736
Infrastructure	2	19,517,338
Legal & Regulatory	4	1,075,000
Market Access	4	3,969,197
Skills	5	19,580,093
Grand Total	**20**	**46,377,364**

Spending size per instrument

The table above also shows that the largest proportion of expenditure is due to infrastructure (€ 19.5 million) and the skills (€19.5 million) cluster. The large proportion of expenditure to these two clusters reflects the relative magnitude of the PSOM/PSI and the ORET/ORIO programs in comparison to the other

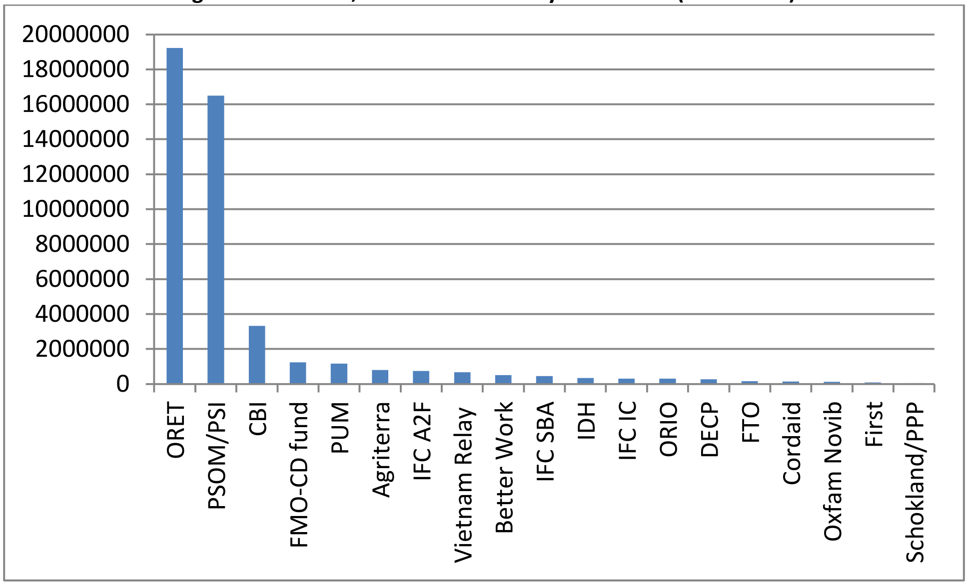
PSD instruments. In fact, with the exception of PSOM/PSI, PUM, CBI, PUM and FMO (combined, without loans) none of the other Dutch PSD instruments report expenditures above €1 million.

Table 25: Vietnam, Spending size per instrument

Size	Total expenditures 2005-2011	No. of instruments	% of total expenditure 2005-2011
> 1 million EUR	41,443,033	5	89%
< 1 million EUR	4,934,351	15	11%

In the figure below, the instruments are sorted by size. As can be seen, there are only a few very active PSD instruments in Vietnam, namely ORET (by sheer volume, not number of projects) and PSOM/PSI, which a significant portfolio of projects.

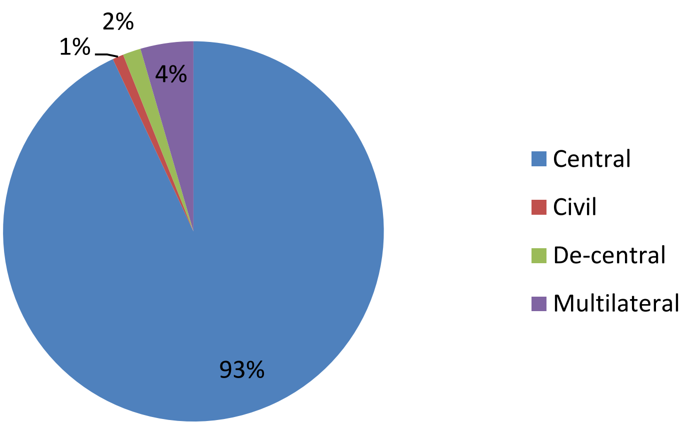
Figure 4: Vietnam, PSD instruments by size in EUR (2005-2011)



Channels

The expenditure comes through essentially four different channels: De-central (the Embassy), central (instruments based in the Hague and funded by DDE directly, Multi-lateral (pooled funds funded through the Embassy, or DDE), and civil society (NGOs funded through DDE). The distribution in Vietnam has been as shown in the figure below.

Figure 5: Vietnam, Expenditures by type of PSD channel (2005-2011)



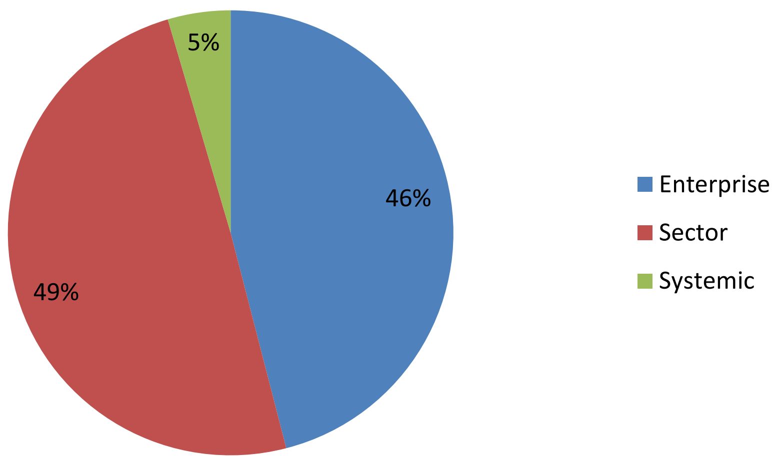
It is quite clear that centrally organized and funded instruments dominate the PSD program in 2005-2011; 93% of all expenditures are from central instruments. Multi-laterally funded instruments are 4% of the total, which in the case of Vietnam are all funded by DDE, not the Embassy. The Embassy's role is minimal, 2% of the expenditure comes from the Embassy, followed by 1% from the civil society programs. Note that in this chart the loans and investments of FMO not included (which would increase the central percentage even further to 98%).

Level of Effects

In the figure below, an overview is provided of the Dutch PSD expenditure in Vietnam distributed over the level of results these instruments (potentially) have (i.e. results at the enterprise, sector, or systemic level). The distinction is made by looking at the specific interventions made by each instrument and judging whether these are directly supporting enterprises, or predominantly affect a sector, or affect – in principle – all enterprises. The distribution hinges though strongly on the question whether infrastructure is a systemic investment (which is not always the case, see above examples of ORET investments), or more affecting sectors, or enterprises. In some cases the effect is generally more an effect on the beneficiary enterprise, in other cases the benefit is predominantly on a sector, or even several sectors. In the analysis here, a case-by-case judgment has been made to distinguish the levels. "Purely" systemic interventions, such as in the legal & regulatory cluster, make up about 5% of the total expenditures.

The figure shows that the largest proportion of funding is devoted to instruments which may have effect on the sector and enterprise level. In contrast only a small proportion (5%) of expenditures flows to instruments with systemic level effects.

Figure 6: Vietnam, Expenditure by level of effect (2005-2011)



Source: own calculations

The small proportion of systemic interventions is also due to the consideration that these types of interventions – being often politically sensitive in nature, and affecting legal frameworks – is better served through multi-lateral channels, and by institutions like the World Bank or the EU. The NIPP programme is one example, where Dutch PSD money is used to support investment climate initiatives, initiated by IFC. Otherwise, there are only (possible) effects of institutions that are supported through a *general contribution*, like e.g. the EU. These contributions, however, are not funded from PSD budgets, nor is it possible to direct the resources to where the Dutch PSD policy wants these resources to go.

Evaluation coverage

The limitations on effect reporting are obvious; only two evaluations that meet the IOB quality criteria are available for the period 2005-2011 (PSOM/PSI and IFC), covering just above a quarter of the expenditures.

Table 26: Vietnam, Evaluation coverage

Evaluated instrument	Expenditures 2005-2011	% of total expenditures
PSOM/PSI	16,500,000	
IFC Mekong Facility	1,500,000	
Total evaluated expenditures	**18,000,000**	**39%**
Total non-evaluated expenditures	**28,377,364**	**61%**

Therefore, whether the PSD program as a whole has been effective and relevant cannot be judged on the basis of these documents. Although 39% of the expenditures have been evaluated according to IOB quality criteria, this concerns only 2 of the 20 instruments (and in the case of PSOM/PSI this does not cover the last two years of this review period).

5.2.2 Contribution to resolving binding constraints

In the table below, an overview is provided of the contribution of Dutch PSD instruments to changes in binding constraints for Vietnam's private sector. The information reported below shows that, although Vietnam is growing rapidly, the binding constraints for doing business remain relatively stable over time. In the field of finance, for instance, despite rapid credit growth access to finance remains a major concern.

Secondly, given the size of Vietnam's economy and the activity of other donors in the country, the contribution of the Dutch PSD instruments to changes in binding constraints or the development of the private sector in Vietnam as a whole seems relatively modest. Again, using the financial sector as an example, the Dutch contribution to Techcombank and Sacombank, although appreciated by the banks, contrasts sharply if compared to funding provided by other donor agencies, the size of the financial sector as a whole, let alone the continuing demand for credit.

Table 27: Vietnam, contribution of Dutch PSD instruments to changes in binding constraints (2005 – 2011)

Cluster	Change in binding constraint (2005 – 2011)	Dutch contribution to observed change
Financial	Although credit provision and the number of banks are growing rapidly demand for credit continues to surpasses supply	Small, two banks supported in a landscape with 46 commercial banks and in the presence of other development finance institutions providing funding.
Infrastructure	In all, huge investments in infrastructure over the 2005 – 2011 period have not resulted in significant improvements.	Small, Dutch contribution of €4 million per year contrasts with overall infrastructure investment requirement of US$12 to 15 billion per year.
Skills	The shortage of skilled labour in Vietnam has been increasing rather than decreasing over the 2000s.	Small, the Dutch PSD program mostly contributes to skills development at enterprise level. However, through the VRF's educational projects more systemic effects are (potentially) attained as well.
Legal	The main concern remains implementation and simplification rather than the formulation of better laws and regulations	Small, through multilateral channels such as IFC and Better Works the Netherlands contributes to the implementation and simplification of a number of laws and regulations.
Market access	Smallholder farmers lack access to markets SMEs lack knowledge to penetrate export markets	Small, instruments support selected farmers with access to markets. Small, the number of supported enterprises, and export volumes are tiny compared to Vietnam's export industry and -volume; and the EU is not the key export market for Vietnamese products.

Therefore, the Dutch PSD policy cannot be seen has having had a major contribution to the development of the private sector in Vietnam, which is coherent with the relatively small budget (compared to the challenges) and the fact that there has not been an ambition to focus on the development of the private sector by either DDE or the Embassy.

5.3 Links and synergy between instruments

During and after the field visits, the research team has conducted interviews with PSD instruments, and the EKN assessing whether and to what extent links and synergy exist between the PSD instruments and their interventions.

The criteria used to define and report the results are as below (see Inception report):

Criteria	Definition	Indicators
Overlap	Two (or more) PSD instruments try to achieve the same objective	No. of Interventions/% of total PSD expenditures in country X that overlap with other projects
No interaction	Instruments that could cooperate do not exchange information	No. of Interventions/% of total PSD expenditures in country X that do not interact with other projects
Information exchange or cooperation	Instruments exchange information, or collaborate	No. of Interventions /% of total PSD expenditures in country X that are exchanging information or cooperate
Joint interventions (synergy)	Two (or more) instruments develop joint interventions	No. of Interventions /% of total PSD expenditures in country X that are have joint interventions

5.3.1 Findings

The respondents were asked to what extent their instruments are cooperating with other Dutch PSD instruments. The following was established during interviews:

<u>Overlap</u>

We found several cases of overlap, in the above described sense (PSD instruments that have the same objective).

- FMO-Massif, IFC A2F and First are three initiatives with the same objective, namely improving the provision of (SME) finance[46].
- FMO-IDF, ORET/ORIO[47] address the same objective of funding infrastructure projects (with either grants or soft loans).
- IDH and CBI both work on promoting exports (both inter alia in fish).
- IFC IC and DECP both work with business organizations (VCCI/VBF) with the aim to strengthen their role vis-a-vis the government

Overlap can have two effects; one is that instruments have the same objective and are obstructing each other by trying to do the (exact) same in the same place; here *effectiveness* would be reduced by overlap. The other effect of overlap is that resources are channelled through several instruments to achieve the same, which implies a reduced *efficiency*; maintaining several different institutions, instead of one, results in higher overheads (institutional cost, search cost, transaction cost in general) than in case one institution addresses the issue.

We have not found any evidence of instruments obstructing each other; rather, the instruments are trying to achieve (generally) the same, but through different means, approaches and channels. See below for further discussion.

<u>Exchange/collaboration (Links)</u>

Instruments are generally in touch with the Embassy, and through the Embassy have some degree of overview who else is generally operating in the country. However, the contact is in most cases limited to information and contact, and is depending on the instruments' willingness to share information.

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[46] In principle, as FMO-A, IFC provides finance to (large) businesses and infrastructure, while being generally funded as well by the Netherlands.

[47] ORIO is the successor of ORET, and hence not considered as separate instruments for the assessment of links and synergy.

Not all instruments are actively pursuing opportunities to cooperate, a significant number of instruments (see below for details) are either unaware, or have not taken action to exchange collaborate. Generally, NGOs that are represented on the ground in Vietnam tend to be more engaged in the search for collaboration and synergy than central instruments, even though the PSD instruments are located all in The Hague.

SNV[48] has pursued cooperation actively in a number of cases, and has actively collaborated with two other PSD instruments (see below). Oxfam, IDH and CBI have explored actively to possibility to collaborate on a fish program[49], but largely concluded not to cooperate. PUM and PSOM/PSI share informal links in the development or management of PSOM/PSI projects.

Joint interventions (Synergy)

In two cases, PSD instruments have chosen to collaborate intensely, with interventions that enhance each other's outcomes. In two more cases, synergy can be observed, even though the cases fall (partially) outside the scope of this review.

- Cordaid and Oxfam have joined forces on the Binh Minh project, where a branch of a Cordaid-funded MFI is funded through Oxfam, as a part of its coastal development project there.
- Better Work is promoting better work standards in the garment industry, and has agreed with CBI that each new entrant for a CBI training or coaching program in the garment industry must sign up to the Better Works program as an intake criteria for CBI. This helps to set incentives and secure more participants in the Better Works program, while at the same time addressing constraints for aspiring garment exporters who need to comply with internationally accepted standards (GAP) before being able to gain new export clients. Also, Better Work is helping its garment firms with implementing the new standards, and using PUM experts for some of the trainings and support is envisaged. Although these joint initiatives are creating synergy as in the definition of this review, no actual results of this synergy can be seen as yet (the collaboration has only started at the end of the review period, and is expected to have effects in 2012/13).

Furthermore, SNV has worked with Agriterra[50] in a number of value chain development programs during 2007-2010 (discontinued in Vietnam, however still on-going elsewhere, according to Agriterra). The synergy is in the ability of Agriterra to offer funds for investment (or grants), which SNV lacks, while SNV can offer expertise and local infrastructure for Agriterra to be effective (Agriterra has no field offices).

Next to this, SNV has started to work with IDH, though only as of recent, and hence outside the review period. Here, SNV is deploying its staff to implement a part of IDH's initiative to certify smallholders. The relationship could also be considered as a sub-contracting arrangement, since SNV delivers services paid from IDH budgets[51]. The results are presented in the table below.

Table 28: Vietnam, PSD expenditure and overlap, exchange & synergy

Instrument	Expenditure 2005-2011 (EUR)	Overlap	Exchange/ collaboration	Synergy
Finance				
FMO-A	97,106,974	IFC	EKN	
FMO-Massif	10,024,541	IFC A2F, First	EKN	
FMO-CD fund	1,234,268	IFC A2F, First	EKN	
Schokland/PPP	44,957		EKN	
First	82,511	IFC, FMO		
IFC A2F	750,000	FMO, First	EKN	

48 SNV is not formally part of this policy review, as it is concurrently evaluated by IOB; however, considering SNV's nature as a PSD-oriented instrument (that would have otherwise been included in this research as a PSD instrument) and the fact that SNV is strongly present in Vietnam, we have taken SNV into account for the assessment of links and synergy.

49 A PPP programme that does not fall under this review.

50 Agriterra supports agricultural producer organizations, and has worked on several value chain development programmes in the frames of the Farmer Fighting Poverty programme – if SNV were part of the review (and no collaboration would have take place) Agriterra and SNV could be considered overlapping as well.

51 In the last five years, the "core funding" from SNV to its office in Vietnam has dropped gradually from 100% to less than 10% now; the gap is filled by implementing donor-funded assignments in a similar way as in the case of IDH.

Instrument	Expenditure 2005-2011 (EUR)	Overlap	Exchange/ collaboration	Synergy
Oxfam Novib	124,000		CBI, IDH	Cordaid
Subtotal	*109,367,251*			
Infrastructure				
ORET	19,219,548	FMO-IDF	EKN	
ORIO	297,790	FMO-IDF	EKN	
FMO-IDF	8,914,993	ORET, ORIO	EKN	
Subtotal	*28,432,331*			
Skills				
PSOM/PSI	16,500,000		PUM, EKN	
PUM	1,165,000		PSOM/PSI	Better Work
Agriterra	800,204			
Vietnam Relay	664,889			
IFC SBA	450,000		EKN	
Subtotal	18,415,093			
Legal				
IFC IC	300,000	DECP	EKN	
FNV Mondiaal	n/a**			
Better Work	500,000		EKN,PUM, CBI	CBI, PUM
DECP	275,000	IFC IC	EKN, PUM, CBI	
Subtotal	1,075,000			
Market access				
CBI	3,324,197	IDH	EKN, Oxfam	Better Work
IDH	335,000	CBI	EKN, Oxfam	
Cordaid	150,000			Oxfam
FTO	160,000			
Subtotal	3,969,197			
Grand total	**162,423,872**			
w/o FMO funds	**46,377,364**			

If we summarize the above findings, we can see the following, as in the table below: there is overlap in 7 of the 17 PSD instruments deployed in Vietnam, which account for a significant part of the expenditures, largely because the overlapping interventions are loans. Nearly all instruments exchange information or somehow collaborate with at least one instrument; however, as we see further below, this does not imply all opportunities are used. Synergy is a rare occurrence, only five instruments (in two cases) actively work together and enhance their respective outcomes this way, and barely 3% of the expenditures are affected by synergy.

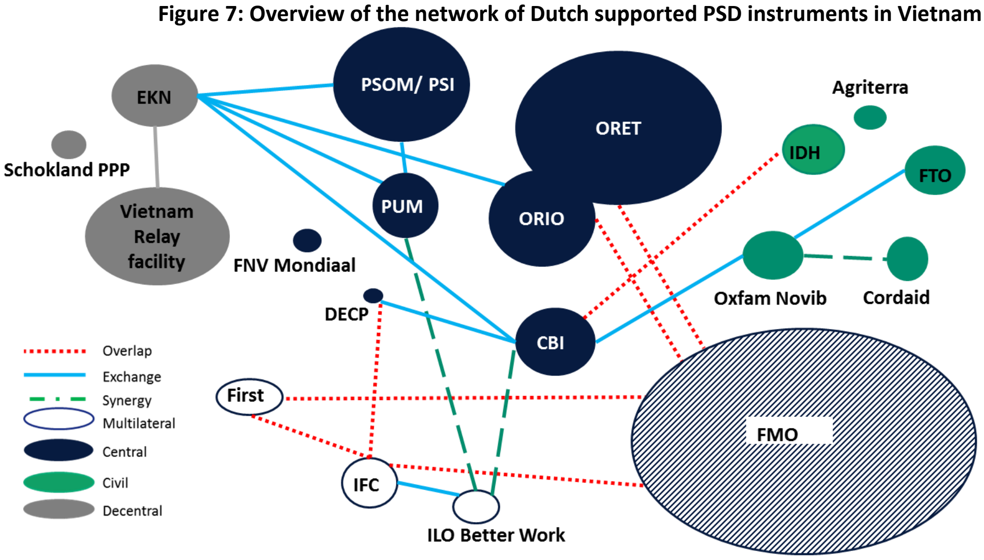
Table 29: Vietnam: Overlap, exchange & synergy

Links and synergy	No. of instruments	Total No. of instruments
Overlap	7	17
Exchange/Collaboration	12	
Synergy	5	

No exchange of information also frequently occurs; in many cases instruments that work in similar fields, or could in some ways make use of each other are not communicating, or aware of each other. There is a large number of (combinations of) instruments that could possibly collaborate, but do not explore this possibility systematically. Note that these findings refer to the instruments reviewed in Vietnam; in some cases information exchange may take place on management level, or informally; however, with the interviewed instruments working in Vietnam, no evidence of exchange could be detected.

The figure below offers a graphic view of the findings; as can be seen there are overlaps (red lines) across the field. Synergy (green) only takes place occasionally; overlap is concentrated in finance and infrastructure. Exchange (blue) is somewhat more limited than above figures might suggest; in fact, in the majority of cases communication and exchange about possible collaboration takes place through the Embassy; without the Embassy, only in four PSD instruments we found some form of exchange or collaboration. The Embassy, on the other hand, does primarily collect information on the different instruments (all except three were known to the Embassy), but this does not frequently lead to further integration of interventions: one of the two synergy cases (the cooperation between Better works, CBI and PUM) is a result of the Embassy's coordinating role.

Figure 7: Overview of the network of Dutch supported PSD instruments in Vietnam



5.3.2 *Observations*

Based on the above findings a few observations can be made:

Overlap

The observed overlap is not obstructing the effectiveness of the instruments, as mentioned; at the same time, several instruments are addressing the same objective with different methods. Whether or not this represents inefficiency is depending on the nature of the instruments that are overlapping: if the instrument is addressing the same problem in a different way which can help to achieve results that the other instrument would not be able to (efficiently) achieve, the overlap can be seen as beneficial. On the other hand, if overlap means there is a different approach, but one that does not resolve the same problem better it would be logic to choose either of the two, rather than having two.

Looking at the overlapping instruments it is not immediately clear that there are indeed many cases where overlap is beneficial. For example, the activities of FMO-Massif and IFC (A2F) are having a somewhat differing focus[52], but are essentially doing similar activities, with similar methods. Likewise, First is implementing activities that IFC can also do, and does (now). ORET/ORIO and FMO-IDF are applying different methods (one provides a grant portion, the other a subsidised loan to infrastructure projects), but as interviews in the field showed, recipients are very likely to compare the mathematical benefit between the two, and generally seem to choose what suits their needs best. The difference though may not be that big for most recipients. In other cases, IDH (focussing on large buyers, sustainability and certification) has a clearly different method to achieve sustainable exports than CBI (training and coaching exporters, and local trade promotion agencies); here, the complimentary approaches may be beneficial, though also a good reason to collaborate, which has not happened so far in Vietnam.

In all, there might be reason to reconsider why two (or more) instruments need to be supported that – in practice – have the same objectives and very similar methods. As said, not because the instruments are obstructing each other, but for efficiency reasons.

Links

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52 FMO-MASSIF supports MSME lending, next to other financial service to businesses and households; IFC focuses on SME finance including financial products for small entrepreneurs (consumer finance).

There are more opportunities to at least exchange information and explore possibilities than are used; many instruments are unaware of each other's activities. Most respondents agree that this is the case, but also mention the limitations for exchange and collaboration: where organizations are based in the country, networking becomes easier, and more intensive; also, where instruments are trying out new ways and approaches it helps to work with partners.

Overall, though, there is a relatively high cost in terms of time and effort, while for most central instruments the benefit is "pro deo" - central instruments – making up 95% of the total expenditures – are designed to be "stand-alone operations" and not built to generate links or synergy. Hence there is no institutional incentive to seek cooperation, or synergy, and in the observed cases a result of personal commitment rather than a strategy of the instrument.

Synergy

First of all, synergy is not necessarily a requirement – few opportunities exist where the extra cost for search, design and coordination are justified by the benefits of synergy. In the view of the interviewed instruments, such a "tangible opportunity" is a precondition. At the same time, many optimistic objectives can only be reached with the resources of several partners, so it would typically be beneficial to invest time in researching the possibilities. Here, the "driver" is crucial to be present: an institutional incentive or reward that makes it a clear up-side to invest in and compromise with (if needed) partners.

We noticed that in the three cases of synergy (SNV/IDH/Agriterra, Oxfam/Cordaid and Better Work/CBI/PUM) the initiators are not the central instruments, but the locally operating organizations, who themselves depend on funding for their local program that is not assured like it is in the case of the central instruments. More "market-drivenness" of these organizations has been an incentive to seek out possibilities, be it that the effect is cost-saving (Cordaid/Oxfam, Better Works/PUM), additional income (SNV), or better results that are appreciated by donors (Better Works/CBI).

Generally, the PSD program in Vietnam during 2005-2011 has little links and synergy; in other words, with a few exceptions, the PSD instruments pursue their own objectives, irrespective of what others plan or do. This is in part the consequence of the fact that there has not been a dedicated PSD program or –policy effort by either the Embassy or DDE. In addition, the (central) instruments have no plans, or incentive to cooperate on a country level.

6 Summary

6.1 The approach

This report shows that, according to the Dutch Embassy, there is no such thing as a Dutch PSD policy for Vietnam neither does the Embassy have the intention to have a PSD program for Vietnam. Instead the deployment of the Dutch PSD instruments is part of a wider trend during a period in which a shift has taken place from “development aid” to “economic cooperation”.

During the 2005-2007 period the Embassy focused on the priority areas sustainable forestry, water management, water and sanitation, and healthcare and HIV. The annual plans during those years do not provide an overview for the choices made by the Embassy with regard to Dutch PSD policy.

In more recent years, following Vietnam’s continued success in economic performance and poverty reduction, the Embassy envisaged that it would play more of a networking or role in Vietnam. Major priorities for these years were “growth and distribution” and “water and climate change”. The Embassy’s annual plans mention private sector development specifically as a topic matching with the growth and distribution theme.

The shift from “development aid” to “economic cooperation” is also inspired by on-going economic development in Vietnam. The Embassy responded adequately to these developments by assuming a brokering role, and developed the Vietnam Relay Facility. This facility tried to merge development and commercial interests, and in so far was a promising initiative. However, by late 2011, after three years, the Vietnam Relay Facility had not yet generated significant expenditures or PSD effects.

6.2 The effects

The report shows that, for Vietnam, only two evaluations that meet IOB quality criteria are available for the period 2005-2011 (PSOM/PSI and IFC). Therefore, although both available evaluations are generally positive, whether the PSD program as a whole, which consists of 20 instruments, has been effective and relevant cannot be judged on the basis of these documents. Therefore, the report also relies on interview outcomes and the instruments’ project documents to arrive at a summary of effects.

Overall, it can be stated that the contribution of the Dutch PSD instruments to changes in binding constraints or the development of the private sector in Vietnam as a whole is modest. Therefore, the Dutch PSD policy cannot be seen has having had a major impact on the development of the private sector in Vietnam, which is coherent with the relatively small budget (compared to the challenges) and the fact that there has not been an ambition to focus on the development of the private sector by either DDE or the Embassy.

6.3 Relationship between instruments

In summary, the Dutch PSD instruments in Vietnam show cases of synergy, collaboration and overlap. As far as could be ascertained during the review, there is overlap in 7 of the 17 PSD instruments deployed in Vietnam.

Furthermore, nearly all instruments exchange information or somehow collaborate with at least one instrument; however, this does not imply all opportunities are used. Synergy, although not necessarily a requirement, is a rare occurrence, only five instruments (in two cases) actively work together and enhance their respective outcomes this way, and barely 3% of the expenditures are affected by synergy.

Generally, the PSD program in Vietnam during 2005-2011 has little links and synergy; in other words, with a few exceptions, the PSD instruments pursue their own objectives, irrespective of others.

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Annex 2: Interviewees Vietnam study

Organization	Interviewee	Function
Hanoi TPC	Ms. Nguyen Thi Thanh Tu	Manager
	Mr. Hoang Quynh Anh	
	Ms. Nguyen Khanh Chi	
	Mr. Dam Binh Nam	
Viettrade	Mr. Do Kim Lang	Deputy Director General
	Ms. Vu Hong Ha	External communication
UNIDO	Mr. Patrick J. Gilabert	Representative
Dutch Embassy	Mr. Cas van der Horst	Deputy Head of Mission
	Mr. Job Runhaar	First secretary
	Ms. Do Thi Hong An	Economic and commercial officer
	Mr. Bernhard Kelkes	First secretary Economic & Commercial Affairs
	Mr. Martien Beek	First secretary Water & Climate sector
DDE	Mr. Bengt van Loosdrecht	Deputy Director
EU	Mrs. Natividad Lorenzo	Program Officer
DFID	Ms. Tu Thu Hien	Trade sectors manager
DHV	Mr. Doan Manh Thang	Director Business Development
IFC	Ms. Nguyen Thien Huong	Operations Officer
	Mr. Nguyen Van Lan	Project Manager
IDH	Mr. Flavio Corsin	Country manager
Hai Duong Water Company	Mr. Nguyen Van Doan	General director
Oxfam	Mr. Andy Baker	Country director
	Ms. Ingrid van der Velpen	Associate Country director
SNV	Mr. Tom Derksen	Country director
	Mr. Javier A. Ayala Arnez	Inclusive Business Program Leader
VECO	Mr. Eduardo Sabio	Regional representative
VASEP	Mr. Nguyen Huu Dung	Secretary General
Donkey Bakery	Marc Stenfert Kroese	Owner/manager
Fresh Studio	Mr Mark Boot	Director
Friesland Campina	Mr. Sybren Attema	Regional Dairy Development Manager
BIWASE	Mr. Duong Hoang Son	Deputy General Director
	Mr. Pham Van Chien	Manager
	Mr. Vo Van Long	Vice Director
ITPC	Ms. Ngyuen Thi Ngan Giang	Head of Investment Promotion Division
Better Works Vietnam	Ms. Tara Rangarajan	Country manager
Vilaf company	Mrs. Tina Ledinh	Senior Associate

Organization	Interviewee	Function
Techcombank	Ms. Do Diem Hong	Executive vice president
	Ms. Nguyen Thanh Thy	Teamleader Foreign Financial Institutions
	Ms. Dinh Kieu Linh	SM Foreign Financial Institutions