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Assistance To Small and Medium

Industrial Enterprises (SMEs) in Vietnam

Report of the Mid-term Evaluation Mission*

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Acronyms

BINViet	- Business Information Network in Vietnam
BSSCs	- Business Service Sub-Committees
CESTI	- Center for Scientific and Technological Information
CFA	- Cooperation and Financing Agreements
CIEM	- Central Institute of Economic Management
CMS	- Client Monitoring System
CTA	- Chief Technical Advisor
DSI	- Development Strategy Institute
FTDC	- Foreign Trade and Investment Development Center
HCU	- Hanoi Cooperative Union
ITE	- International Training Expert
MOET	- Ministry of Education and Training
MOLISA	- Ministry of Labour, War Invalids and Social Affairs
MOSTE	- Ministry of Science, Technology and Environment
MPI	- Ministry of Planning and Investment
NACESTID	- National Center for Science, Technology Information & Documentation
NEDCEN	- Non-state Economic Development Centre of Vietnam
NPC	- National Project Coordinator
SMEDEC	- Small and Medium Enterprise Development Centers
SMEDF	- SME Development Fund
SOE	- State owned enterprise
STAMEQ	- Directorate of Standards, Metrology and Quality
UAIC	- Union of Associations of Industry and Commerce, Ho Chi Minh City
UNV	- UN Volunteer
VCCI	- Vietnam Chamber of Commerce and Industry
VICOOPSME	- Vietnam Central Council for Cooperative Unions & Small & Medium-sized Enterprises, <i>now changed to Vietnam Cooperatives Alliance</i>

Summary

1. The project with its policy component and institution strengthening component (to provide services to SMEs) continues to meet the actual needs of SMEs and is fully in line with the government policy to promote the development of SMEs. The basic assumption that the Government will continue Adoimoi@lines of policy has been reality up to now and it is likely that this assumption will hold for the next period as well. The evaluation confirms on-going relevance of the project.
2. The project was managed and implemented in a professional and efficient manner. Most of the counterpart and UNIDO inputs were of good quality. Out of \$ 2,069,185 of the project budget, the project spent as of 31 October 1998 \$ 1,076,653 (52%) which is adequate to the expected duration of the project (4 years, starting effectively in September 1998).
3. Very good results with recognized impact were achieved in the policy component; project outputs significantly influenced discussion and formulation of SME policy.
4. Capacity building in the four service fields (technology information and consultancy; training; subcontracting; business planning) took place altogether in 6 partner organizations linked to the project by formal Cooperation and Financing Agreements (CFA), which included a total allocation of \$ 266,200 to subsidize their initial activities. In the course of institution strengthening, training of staff was conducted and good methodological tools were developed by the project (particularly in the field of training and business planning). The best results were achieved in the field of training, as reflected both in the number of training courses and participants and commendable recovery of direct cost by fees collected from trainees.
5. In spite of the progress achieved, none of the supported partner organizations has so far acquired capabilities to provide services in the scope and quality envisaged by the project document. With some exceptions the staff of the SME support units is junior and will require longer term on-the-job training to acquire enough experience and self-confidence. Providing comprehensive services requires cooperation (networking) among the partners. Networking has become operational but its potential has not yet been fully utilized. All that confirms experience from other projects that institution building requires enough time to produce sustainable results.
6. As far as sustainability is concerned there are encouraging developments to be observed within the project but running out of the budgetary subsidies to partner organizations in the near future will pose a risk to their operations. However, it makes definitely sense from today's point of view to continue the cooperation with all implementation partners as long as they are willing to carry out their activities as agreed in the CFAs.
7. The evaluation team recommends that both components (direct support to the SME policy and capacity building) should be continued for the remaining period of the project. The outputs in the field of capacity building should be consolidated and concentrated and an extension of this component into other regions within the given resources cannot be recommended. Capacity building in Business Development Services should concentrate on two core areas: training and information (which should be complemented as far as possible by consultancy services). Output 4 on subcontracting should be reformulated as Business cooperation@to allow for supporting less ambitious forms of industrial cooperation.

More specific recommendations are formulated in Chapter 6.

1. INTRODUCTION

8. In compliance with UNIDO guidelines for programme and project evaluation the joint mid-term independent (in-depth) evaluation of the project was envisaged in the project document and initiated by the project management. Terms of reference are attached as Annex 1.

9. The evaluation was conducted by the team consisting of:

- Mr. V. Bethke, team leader, nominated by the Government of Germany;
- Mr. N.V. Vien, consultant, nominated by the Government of Vietnam;
- Mr. J. Navratil, Senior Evaluation Officer, UNIDO.

None of the team members had been involved in the design or implementation of the project.

10. The team reviewed and studied project-related documents and reports and interviewed stakeholders and target beneficiaries both at UNIDO Headquarters and in the field. During the field mission (20 November- 11 December 1998) the team was briefed by the project management, interviewed project staff and visited all partner organizations and some of their clients (service users). Consultations were held also with MPI, People's Committees in Hanoi and HCMC, the UNIDO field office, resident representative of the donor and selected multilateral and bilateral projects related to SME development (see Annex 2 for a complete list of persons met).

11. Preliminary assessments of project results, particularly as regards capacity building in partner organizations, were presented at the meetings of project stakeholders both in Hanoi (28 November 1998) and in HCMC (4 December 1998). Before the completion of the field mission the team prepared draft conclusions and recommendations and presented them to approximately 30 stakeholders (9 December 1998). On 14 January 1999 the main conclusions and recommendations were presented at UNIDO Headquarters. All presentations were followed by a discussion. The most important parts of the draft report were made available to the UNIDO Project Manager for comments, some of which are reflected in the final version of the report.

12. The evaluation team wishes to acknowledge full cooperation of the UNIDO Project Manager in the evaluation process as well as excellent preparation of a very comprehensive programme for the field mission and intense support extended to the team during the mission by the project management, project staff and all partner organizations.

2. PROJECT CONTEXT, CONCEPT AND DESIGN

2.1 Socio-economic context

13. The *Đổi Mới* (Renovation) policy adopted by the State of Vietnam in mid-1980s aimed, first of all, at renovating the economic management system, i.e. at shifting from centrally planned directive management to socialist-oriented market management. The economic decision making power, according to the policy, should be delegated to the micro level of economic management and the subsidizing mechanism shall be gradually abolished. Another very important aspect of the market economy, such as the ownership of assets (tangible or intangible, fixed or current), was not put in the focus of the policy.

14. The dominant conception of the centrally planned directive economy was a *big socialist production* for the sake of high productivity and modern technology. Under this conception the role of large-scale State corporations was emphasized. The role of SMEs was almost ignored in the context of centrally planned directive economy. Even after adoption of *Đổi Mới* policy in the end of 1980s, SMEs were not immediately identified as an important factor of economic activities in the socialist-oriented market economy, despite the fact that the overwhelming majority of SOEs or cooperatives at that time were SMEs (according to present definition of SME).

15. Economist researchers in the beginning of 1990s, when the role of SMEs was well recognized abroad and when the socialist-oriented market economy was gradually established in Vietnam, discussed SMEs as important economic factor in the socialist-oriented market economy. Due to their flexibility and dynamism, SMEs became viewed as a cushion to absorb the may-be shocks of the economic transition, as happened in some former socialist countries when deciding to change quickly to the market economy.

16. At present, SMEs in Vietnam exist in different forms and operate under different legal acts (the Law on Foreign Investment in Vietnam; the Law on State Owned Businesses; the Law on Private Businesses; the Law on Liability Limited Companies and Decree 66/CP) depending on the establishment of SMEs. Principally SMEs, regardless of economic sectors and ownership, are *permitted* to be legally created and operate in the socialist-oriented market economy. However, the legal environment with *asking-giving* mechanism could not effectively support businesses in general and SMEs in particular to survive and develop in the socialist-oriented market economy, especially SMEs in Vietnam which have rather weak capacities in terms of production technology and equipment, management skills and market information.

17. The *asking-giving* mechanism is rather common in the Vietnamese law system. It means that even in case you satisfy completely all legal criteria to do some business, you have still to *ask* permission (in form of a license) from the competent State authority, and this authority may *give* (or may not give) the permission (license). If the permission (license) is not granted you cannot do the business. Decree No. 57/ND-CP dated July 31, 1998 of the Government replaced the *asking-giving* mechanism by *registration* mechanism. However, the intermediate authorities sometimes put forward additional requirements on paperwork. It hinders the development and is criticized by the public as well as by the Central Government. At the meeting with 8 provinces in the East of Southern Vietnam on 11 January 1999, PM Phan Van Khai declared on behalf of the Government that *We should come to business registration only. People are permitted to do what ever business which is not prohibited by the State*.

18. During the last few years there have been other political manifestations of support for SMEs. The VIII Party Congress recognized the role of SME in economic and social development in 1996. The Congress adopted the policy *to develop mainly the small and medium sized enterprises that are based on appropriate technology which require less investment, create more jobs, and require less time to recover the capital costs*. The Prime Minister made special emphasis to support and development of SMEs in his speech delivered at the meeting of the National Assembly in October 1998. Since July 1998, all enterprises have the right to export the items listed in their

certificate of business registration and there is no longer need to ask for an export license. In spite of delays, the asking-giving mechanism is gradually replaced by registration mechanism.

19. Natural calamities and financial crisis in the region negatively affected economic performance of the whole country including SMEs. The regional financial crisis, together with the collapse of several big family businesses in the country caused the Government to increase its control over banking and financing transactions, to apply appropriate measures against speculations. For these reasons, the Government delays the creation of capital market in Vietnam to deal with the issue in the best manner. However, the policy of SME financial support remains on the agenda of the Government. Credit Guaranteeing Fund and SME Support Fund are in the stage of feasibility study for creation.

20. Additionally, the rural development issue has become a high priority in the policy of the Government. Rural development is considered as a base for the stabilization and the socio-economic development in all situations (the lesson learned from the regional financial crisis). SMEs in rural areas may play important role for rural development. Policy of developing SMEs complies with the policy of rural development.

21. The above-mentioned changes in the policy framework do not mean that the policy component of the project may be closed. The problems and challenges remain because not all the relevant policies have been promulgated and those that have been promulgated have not yet been implemented fully. Furthermore, SMEs still face legal problems in financing, land allocation and taxation. A big change occurs in taxation policy: since 1 January 1999 VAT applies in Vietnam. In these circumstances, the UNIDO project with its policy component and capacity development component continues to meet the actual needs of SMEs and is fully in line with the government priority to promote the development of SMEs.

22. Finally, it is clear from discussions with MPI officers that MPI gives great importance to the future results of the project. Based on the experience of the project MPI intends to expand efforts to support and develop SMEs in other regions in Vietnam.

2.2 Institutional framework

23. A large number of the Party organs, Government agencies and business associations are directly or indirectly involved in the promotion of SME development. The most important ones are listed in Annex 3. Compared to the situation at the beginning of the project the most significant change relates to vocational training: responsibility for vocational training was transferred from MOET to MOLISA. The Foreign Trade and Investment Development Center (FTDC) in HCMC, which was affiliated with the People's Committee of HCMC, became a non-governmental organisation in 1996.

2.3 Other SME related development cooperation projects

24. UNIDO itself has been implementing a number of projects in Vietnam, some of which also have as ultimate beneficiaries some segments of the broad category of SMEs (see Annex 4). Intensity of linkages with these projects varied depending on various factors (category of clientele, geographical regions of operation, etc.). Sharing information and experience with policy-oriented projects and statistics has been practiced (with some constraints explained in the section on Output 1). The SME project considers use of some sections of the Manual prepared for the Women Entrepreneurs project. Good potential for closer cooperation in the future exists in particular in the case of the National Cleaner Production Centre (possibility to organize jointly training courses; to encourage the same clientele to make use of different services, such as cleaner production and business planning consultancy for the

Agrowth companies, etc.). Good possibilities for cooperation will exist also if some pipeline projects will materialize, such as the Business Information Network in Vietnam (BINViet).

25. There are a number of other development cooperation projects in Vietnam, which directly or indirectly support SME development (see Annex 4). A great number of them are funded by Germany. The project management has kept contact with a number of them and was involved in preparation of or commented on TOR for some of them (JICA, ILO). GTZ, SMEDF and Koblenz-STAMEQ projects are even members of the project Advisory Board.

26. Due to their related objectives very close relationship has been established particularly between the UNIDO/MPI project and the GTZ/VICOOPSME project. Both projects complement each other to some extent. While the direct support of the GTZ/VICOOPSME project is enterprise oriented, the direct support of the UNIDO/MPI project is oriented towards policy formulation. Also in developing services for SMEs the projects differ and complement each other. Institutional capacity building in the UNIDO/MPI project has a broader approach, working with 6 institutions while in the GTZ/VICOOPSME project the aspect of capacity building is focused on one existing institution and within this a Business Promotion and Service Center with a broad range of services should be established. Early 1999 the GTZ/VICOOPSME project will complete 5 years. There is a discussion process under way about effective further implementation for the remaining phase II (until April 1999) and the planned extension of phase III.

27. Close coordination and cooperation between the two projects worked in the past. This will have to continue particularly with a view of tasks to be agreed upon for Phase III of the GTZ/VICOOPSME project. It will be essential to continue the complementary approach in such a way that the main activities of the UNIDO/MPI project are aiming at the macro (policy) and meso level (institution building), while the activities of the GTZ/VICOOPSME project are directed towards the micro level (enterprises), including the strengthening of the delivery mechanism for the services. In strengthening the service institutions different priorities for project interventions could be agreed upon as regards types of services, target groups and geographical coverage.

2.4 Project document

28. The project was prepared on the basis of a detailed and highly professional assessment of the problems of SME in Vietnam in early 1994. The planning process included a participatory OOPP workshop in Hanoi in April 1994. The preparatory work and the analysis were well documented and reflected in the project document, which is very comprehensive and applies fully the logical framework approach (LFA), including specification of indicators and elaboration of assumptions.

2.4.1 Extensive Problem Coverage

29. The justification (relevance) of the project was based on the consideration of a wide variety of problems faced by SMEs (marketing, infrastructure, access to capital and finance, technology, training, taxation, land, building and related legal issues, institutional services, etc.). The problems to be addressed were described in their full complexity. The project document (under **A**Reasons for assistance from UNIDO) raises the question explicitly whether one project can address all the above mentioned aspects in a sustainable manner: **A**It will be apparent that the solutions to the long litany of diverse but often inter-linked problems discussed under the above headings, can not be provided by any single project (not excepting the present one)... Rather, they (the problems) can only be tackled within the context of a wide-ranging Government-led, private-sector-participative national SME initiative or programme, and **A**the present project is conceived as addressing only a sub-set of the list of problems which face the sector and which need to be tackled (project document page 19). The project document implied clearly that this project can not substitute a National SME Programme in Vietnam.

30. However, the project document also describes under the heading **A**Expected end-of-the-project situation expectations towards the project in such a way that contributions will have been made to the strengthening of the SME sector under all aspects except **A**infrastructure. Marketing and technology is covered, human and financial resources are mentioned, policy and legal issues should be addressed and institutional services improved. The selected sub-set of problems that the project would address must have raised the question: how realistic was it to assume that within 4 years a project with a given limited volume of resources can substantially support directly not only the counterpart (MPI) but also give direct support to **A**the relevant authorities such as the Ministry of Justice, and private associations of SMEs. Ambitious formulations like this one can be found not only under **A** (laws and legal procedures) but also under **B** to **F** of the project document in the paragraph **A**expected end-of-the-project situation.

31. The danger of a very broad and too ambitious approach is that it opens the door for an uncoordinated selection of aspects by different participants during the implementation process to be tackled. The project management cannot refer to the project document and as a result a type of **A**patch work approach might diminish the authority of the project document itself as a reference document. How difficult it is to fill the given room can be seen from the discussions about technical information and training. The project document argues explicitly against the illusion about the role modern equipment can play in the development of SMEs in Vietnam: **A**..the required overall technical upgrading will not come from giant enterprise-modernization leaps. **A** And **A**.. the current predilection emphasizing such leaps in Vietnam, stems partly from inadequate information about the range of technologies available and in use in SMEs elsewhere. Information and other services are geared to diversify the process of transition in such a way that it can serve not only a few enterprises but **A**the upgrading process over the sector as a whole.

32. In the project reality there seems to be a tendency by the national counterpart representatives to refer to the project document just the other way around, pointing at Outputs 2 and 3 (services **A**in the field of technological information, technology upgrading and technology development and **A**technical training services) and emphasizing the role of technological enterprise modernization as the key development approach.

33. At the time of project preparation, there might have been good reasons for the **A**broad and open approach. Certain concentration of project activities was attempted already at that time by limiting geographical outreach of SME services (to Hanoi and Ho Chi Minh City) and listing 8 target sub-sectors, which, however, are still very general and comprehensive. During the process of implementation there was and will definitely be a need for focusing activities and resources in a pragmatic way on those aspects where realistic contributions can be made to strengthen the SME sector.

2.4.2 *Different perceptions of market economy*

34 The project document to a certain extent neglects the fact that Vietnam has been for many years a socialist country and wants to remain a socialist country. The document argues from a different point of view, describing the situation as a transition period from socialism to market economy. This concept can imply misunderstandings and misconceptions among the stakeholders. Vietnam considers itself a socialist country using elements of the market economy to allocate resources. The project document stresses the aspect of ownership in many respect while for the Vietnamese side market mechanisms are considered as ownership-neutral instruments to stabilize and develop Vietnam's economy and society. Private and public institutions are expected to provide services at competitive terms and the purpose of the project is to generate and strengthen private and public institutional capabilities for providing relevant services. As direct target beneficiaries the public planning and regulatory authorities, private and public/quasi-public SME service and representative institutions are mentioned. However, private service providers and institutions did not exist in the past and do not exist at present, except for a few consulting companies.

35 The above-mentioned differences required intense discussions. For example the term private was dropped from the project title. In some cases the objectives turned out unrealistic (strengthening private organizations). The development in Vietnam indicates clearly that Vietnam is a society in transition, which cannot be compared with any East European or Central Asian country. This country has its own dynamics presented through official formulas like Socialist-oriented market economy or Socialist society with market-led resource allocation and this framework needs to be recognized.

2.4.3 *Project Design*

36 The strategy in the project document was described as a three pronged approach, which is also reflected in the mix of Outputs:

- S Improving selected aspects of the policy framework for SMEs (Output 1);
- S Strengthening public institutional capabilities at the planning and regulatory levels in support of SMEs (Output 6);
- S Capacity building to provide market-led services to SME (Outputs 2-5).

37 Outputs 2-5 define what institutional capabilities should be developed or strengthened by the project. They define how many private or public institutions should be strengthened to provide the following services to SMEs:

- S technology information, technology upgrading and technology development (Output 2)
- S market-oriented technical training (Output 3)
- S promoting subcontracting (Output 4)
- S preparation of satisfactorily documented bankable projects (Output 5).

38 In fact the project can be broken down into two components: policy component (Outputs 1 and 6) and institutional capacity building to provide Business Development Services for SMEs (Outputs 2-5). These two components are to a certain degree autonomous so that it is difficult to specify one single immediate objective for both components. The current immediate objective of the project is described as The performance of Vietnamese SMEs with respect to price, quality and design of their products is significantly improved; and with it the SMEs competitiveness in domestic and foreign markets. This objective is too remote from the outputs, depends on many

other external factors and should, therefore, rather be considered as development objective. Given the autonomy of the two components it is advisable to formulate a specific immediate objective for each component in such a way that its achievement is closely linked to (dependent on) the use of the related outputs. The following formulations are suggested:

- Immediate Objective 1 (policy component):

Improved policy, legal and institutional frameworks for SMEs are established

- Immediate Objective 2 (capacity development component):

Services of the institutions strengthened by the project are used by the SMEs in the scope and at the cost-recovery level specified by service-specific indicators

39 As regards the indicators it needs to be emphasized that the project document included a comprehensive set of very refined and accurate indicators. They played a significant role in clarifying what exactly was expected to be produced. However, the original ambitions, which they reflected, had to be scaled down in the course of implementation. The indicators as modified by the project management in September 1998 are much more realistic and to a great extent are taken over by the evaluation team when assessing project results (see Chapter 4).

40 The development objective is formulated in the project document as follows:

The sustainable and progressive increase of output, employment and income within the privately-owned SMEs of the country, in line with the Government's general mixed-economy strategy and the high priority the Government attaches to the development of SMEs.

41 Output, employment and income are the three keywords of the development objective to describe the impact and they are linked to *the privately owned SMEs* of the country. However, within the project not a single output is formulated in a way that *privately owned SMEs* will exclusively benefit from it. Such formulations were dropped during the implementation phase even though this is not documented in such a way that the evaluation team could refer to it.

42 While the development objective was agreed upon as to strengthen the role of privately owned SMEs in line with the Government's mixed economy strategy, during the in-depth evaluation it was clearly expressed by the Vietnamese counterpart that no *discrimination* of SMEs due to their legal and ownership status is accepted.

43 In order to make the monitoring of the project contribution easier the development objective could have avoided to focus on three macro economic categories but concentrate on one: output. Employment and income will be most properly in line with output since they are directly linked. However, given the proposal that the current Immediate Objective be used as Development Objective, comments on the Development Objective go beyond the amended project planning structure.

2.4.4 Assumptions

44 The assumptions and external factors which affect project implementation are described in the project document in *Part F* as risks. It was assumed that the risks would not become reality and endanger the project.

45 The basic assumption that the Government will continue *doi moi* lines of policy and not cease the open economy has been reality up to now. And it is likely that this assumption will hold for the next phase as well.

Macro-economic stability - another assumption - within an open economy is comparatively high and the SME sector has gained a more prominent role both in economic and political terms in Vietnam in the last 5 years. Further listed external risks for a successful SME development strategy like smuggling, lack of infrastructure, imperfect land market, unclear taxation bases, etc. continue to exist as described in the project document.

46 As far as internal risks of the project are concerned, the main danger for the project continues to exist: only bigger SME units are considered as beneficiaries while small enterprises seem often to be regarded as a burden or as mere relic of the past, rather than as, collectively, a major productive resource with great development potential on its own terms (project document page 40).

47 Another risk was formulated as follows: The rigidities and limitations of the existing technical training system will prevail and the public training institutions (as one type of service providers) will not become strongly market and SME-linked. Behind this formulation one can see the assumption, that the existing training and information system will have to change drastically sooner or later. It was assumed that the SME sector will develop in such a dynamic process of change that the existing institutions will have no other chance than to respond to this development. Otherwise new providers, such as private training institutions, will fill the gap. Reality shows that even 5 years after the project document was prepared, private service providers do not exist.

48 The attitude of teaching the SMEs what is good for them is still very strong in the official administration and hierarchy. This tendency towards official dominance was described as a risk, which was considered as limited. However, this attitude still persists. Generally the assumptions in the project document overestimated the elements of change in the Vietnamese economic and social structure. Five years (since 1993/94) is apparently too short for such fundamental social changes.

3. IMPLEMENTATION

3.1 Budget, expenditures and inputs

3.1.1 Budget and its revisions

49 An overview of original budget allocations, their revisions and expenditures is given in Table 1. While the total budget of \$ 2,069,185 has remained the same, its revision became an issue for the national project management shortly after the arrival of the CTA, primarily with the purpose to increase allocations from UNIDO budget for national inputs. Later on, there have been a few more budget revisions (5 in total) of minor scope. The revisions reflected changes in the provision of inputs as well as changes in the project strategy. In particular, a part of the budget (\$ 266,200) was allocated directly to the partner organizations to directly subsidize salaries of the SME support units and their initial activities. (Overview of allocations, expenditures and revenues of partner organizations is given in Table 2.) This change in project strategy increased considerably the budget allocation for subcontracts (BL 29). The experience proved that it was also necessary to increase allocation for in-service training (seminars and workshops) and project travel (travel between Hanoi and HCMC). Increase of the above budget allocations was made possible by reducing the allocation for equipment and thanks to considerable savings of the CTA costs (due to exceptionally favorable personal circumstances of the CTA).

50 As mentioned above, some budget revisions also reflected changes in the delivery of inputs. The counterpart provided national inputs as follows:

- S Project personnel: National Project Director (part-time), Deputy National Project Director (part-time), National Project Coordinator (full time), Senior Project Advisor (full time since May 1998), Information Service Expert (March-December 1998, after that transferred to project budget) and 3 other project support staff (one of them March-October 1998 only).
- S Premises for project office (6 rooms in Hanoi and one room in HCMC), with cleaning cost in Hanoi and electricity and cleaning costs in HCMC paid by UNIDO.
- S Insurance, fuel, parking, repair and maintenance of the project car in Hanoi (fuel and maintenance costs of the project car in HCMC are paid by UNIDO).
- S Office premises for SME Support Units in each of the 6 partner organizations.
- S 2 part-time staff in each of HUT, VCCI, HCMCUT, CESTI, and one full-time and one part-time staff in each of HCU and UAIC.

51 (Advisory Board [14 members] and Business Service Sub-Committees-BSSCs [10 members] also devote some time to the project but their participation at meetings is rewarded by a financial contribution from the project budget.)

52 A number of national inputs had to be substituted by UNIDO inputs (secretary, drivers, and national professionals in the partner organizations). UNIDO is also charged some petty bills by some of the partner organizations (electricity by UAIC, cleaning costs by HUT). This reflects general attitude towards technical cooperation projects in Vietnam: the project budgets are partly used to subsidize, directly or indirectly, activities of the partners, including income of the staff working in the organizations supported by the projects. Sometimes, this is done indirectly through recruitment of national consultants, study tours, payments for participation at seminars and workshops, etc. (For the nationally executed projects, UNDP publishes annually a formal rate schedule for fees

to be paid to participants at in-service events, including staff training. The UNIDO project does not pay anything for staff training.)

53 In accordance with the revised budget, UNIDO has so far provided the CTA, a long-term international training expert, three short-term experts, study tours, equipment and some other inputs. Given the complexity of the project, the long-term assignment of the CTA has been justified and desirable.

54 Compared to the original project document, there have been some changes in the delivery of UNIDO inputs. Additionally, some new inputs were provided (interpreters, an administrative secretary, subcontract for a national subcontractor to carry out a policy study, etc.). On the other hand, the direct budgetary support to the partner organizations made it possible not to recruit some national experts (technologist, banking advisor) and the input of equipment was also reduced. These changes were well justified and they were not detrimental to the project as they reflected better the actual conditions for project implementation. However, in view of so many partner organizations in capacity building, the layout of inputs has been extremely thin. It was primarily thanks to the use of UNVs, national experts and subcontractors as well as the above-mentioned allocation of the budget to the partner organizations that it was possible to carry out a broad range of activities with a rather limited budget. On the other hand, the process of capacity building may have been influenced by very little use of short-term consultants, the use of which is not favored by the national project management.

55 The project has also been assisted by an associate expert funded by a separate bilateral contribution (Japan). Her assignment will be coming to an end in February 1999 but a new associate expert may replace her.

3.1.2 *Quality of inputs and their use*

56 The inputs delivered both by the counterpart and UNIDO were of good quality. The evaluation team recognizes in particular professionalism of the CTAs inputs not only in terms of project management but also in terms of her contributions to policy, methodological and technical issues addressed by the project.

57 Some delays in project implementation were recorded at the initial stage as a result of lengthy discussions about budget revision and signature of the Cooperation and Financing Agreements with partner organizations. With a few exceptions (resignation of a well-trained and qualified national consultant; two idle PCs in the district focal points), the use of inputs has been fully satisfactory. Experts and consultants interacted well with local staff.

58 There is good gender balance both among the local project staff and in the SME units in the partner organizations. To a limited extent the project also made use of technical cooperation among developing countries (study tours to the Philippines, Republic of Korea and Singapore). Experience of other countries in transition to market economy does not seem to have been tapped.

3.1.3 *Expenditures*

59 As of 31 October 1998, the project spent \$ 1,076,653 which represents 52% of the total budget. This is adequate to the expected duration of the project (4 years, starting effectively in September 1998). However, due to long-term obligations, the uncommitted amount till the end of the project is relatively small (approximately \$ 260,000) and does not provide much room for significant programmatic changes in the project in the remaining period.

60 As of 31 October 1998, the partner organizations spent \$ 79,398 which represents 30% of the total budget allocated to the partner organizations (see Table 2). The lower percentage - compared to the project as a whole - is explained by the fact that the partner organizations started their activities several months after the commencement

of the project. Some of the partner organizations (in particular HUT) have used up a larger portion of their allocations while HCMCUT spent much less because the CFA with HCMCUT was signed much later.

61 Table 2 also indicates revenue generation and its relation to expenditures. On average the recovery of expenditures financed from the budget allocations reached 12.9% for all partner organizations. From this point of view the most successful has been the training institutions (HUT 25.7%, HCMCUT 25.3%) and the least successful CESTI (1.9%). Partly this reflects the fact that it is easier to sell training services than information services.

3.1.4 Allocation of budget to partner organizations: pros and cons

62 Allocation of a part of the budget to the partner organizations is not a standard arrangement in UNIDO projects. The delegation of responsibility for the use of the funds according to agreed upon terms (laid out in detailed Cooperation and Financing Agreements - CFAs) introduced an element of stability in the operations of the supported units during project implementation and simplified its administration. The modality (direct subsidy) adopted in this project has one more advantage: it makes it possible to subsidize salaries at rates close to local salary levels, disregarding standard rates of the UN system which are higher. This saves costs and diminishes distortion of the local salary scales. At the same time, however, it represents a considerable risk that the activities will cease once the budget is used up and no subsidy to salaries and other activities is available. The project management was fully aware of the problem and tried to address it by reducing gradually the subsidy.

63 In spite of that, the problem persists and may jeopardize activities of some partner organizations even during the project lifetime because subsidies to their salaries will be running out long before the end of the project. They may have to be extended but only within the funds allocated to the respective budget line (100) in the CFAs (by reducing monthly rates).

64 A special case is the HUT where the subsidies to salaries are running out already in February 1999 due to higher rates (per staff) applied by them (compared to other partner organizations). In this case lending a hand would give a wrong signal to other partner organizations that being smart pays. In the long term this could jeopardize the whole system.

3.2 Cooperation among partner organizations

65 There are 6 implementation partners in Hanoi and HCMC with whom a Cooperation and Financing Agreement (CFA) for Facilities to Support Business Services has been signed. These partner organizations are entrusted to develop capabilities to provide services to SMEs as specified in the project document. Three of the partner organizations can be considered as business organizations (VCCI, HCU, UAIC), two of the partners are academic institutions (HUT, HCMCUT) and one is a technology information Centre (CESTI). CESTI itself established cooperation arrangements with Economic Divisions of two District People's Committees and there are cooperation arrangements of the project with some other organizations and institutions (the vocational training school in Binh Thanh, the Welding Centre, etc.).

66 For the selection of partner organizations the following criteria were formulated:

- S at least some capacity do provide the service already exists in the organization;
- S the organization already has linkages to SMEs.

67 Selection of the partners was a lengthy and politically sensitive process. Some other organizations could have been considered for selection as well (STAMEQ, FTDC, NACESTID) but - given the available resources - formal agreements could only be concluded with a limited number of organizations. Informal networking with other

organizations is, however, desirable and to a great extent practiced.

68 Cooperation among implementation partners is a significant modality of project implementation. To facilitate it in technical terms, the project arranged for linking all partner organizations via SMELINK.

69 There are three types of cooperation among partners:

S cooperation based on division of labor/responsibilities in providing a certain service (in particular training); inputs are provided by two or more partner organizations, each of them making use of its comparative advantage (business organizations making use of contacts with SMEs for mobilization of participants at training and follow up, universities making use of their body of expertise);

S networking with the purpose to complement one service (for example information) with another service (consultancy on technology, etc.);

S providing the service developed in one region also in the other region (in cooperation with partners from the other geographical region).

70 The first type of cooperation requires a relatively stable cooperation agreement with specification of terms for sharing costs and revenues. After some experience has been gained and lengthy negotiations concluded, the principles of cooperation between the business organizations and the universities have been established and become operational. However, sustainability of such arrangements will depend on the continuing interest of all parties in the arrangement. In case of discontinuation of subsidies for one partner the arrangement may be threatened.

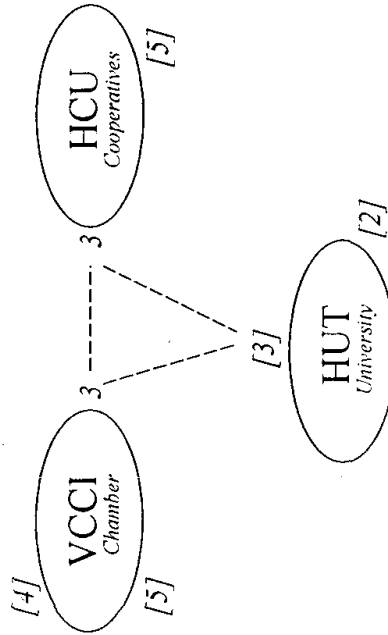
71 The other two types of cooperation have been practiced only marginally. The second type (true networking) might have been influenced by lack of motivation to refer a client to another partner in the network. It is, however, also a matter of business culture (an attitude to be cultivated). The third type might have been

Partner Organizations

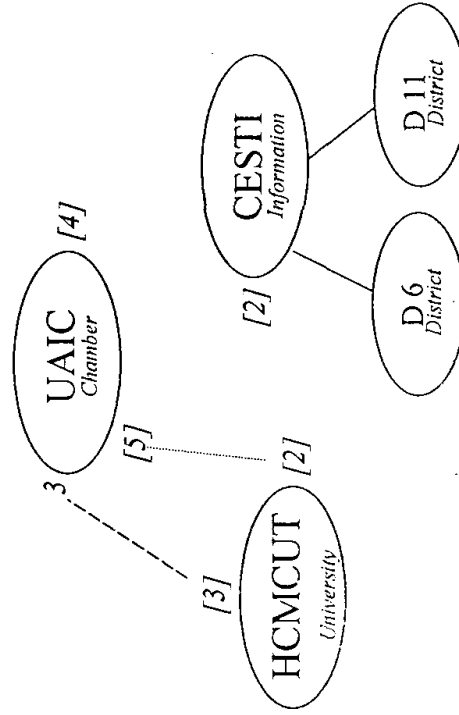
Project Management:
Ministry of Planning & Investment

Services: [2] Technology/Information/ Consultancy
"Outputs" [3] (Technical) Training
[4] Subcontracting
[5] Bankable Projects/ Business Planning

HANOI



HCMC



influenced by the geographical distance and the cost associated with it. However, some cooperation between partners located in two regions (for example in sharing information) does not require additional costs. There is, therefore, some potential to further extend cooperation and networking among the partners.

72 Similarly, as explained in more detail in Chapter 4, contacts and cooperation with other organizations outside the formal network can be further extended as well (vocational training schools, NACESTID).

3.3 Project management

73 Operational project management tasks are executed in Hanoi by the National Project Coordinator (NPC) representing the counterpart/owner of the project (MPI) in cooperation with the Chief Technical Advisor (UNIDO). Strategic project management decisions are taken by the Project Management Team, consisting of the Deputy National Project Director (the Director of the Industry Department, MPI), NPC, CTA and the Senior Advisor under the leadership of the National Project Director (one of the Vice Ministers of MPI) at regular meetings. Thus the counterpart has made it clear through the management structure that this project is of importance for the Ministry.

74 In addition to the National Project Coordinator and the CTA, the project office in Hanoi comprises some staff recruited by the Government (a Senior Advisor and 3-4 support staff) and a varying number of staff on project payroll (4 - 6 general service staff, one UNV). The project management has been supported also by an associate expert. The project has a liaison office in HCMC in order to support project activities there.

75 Project activities have been conducted on the basis of a detailed work plan which has been updated. There have been intense and fair working contacts between the NPC and the CTA even though their views on some issues differed. A certain lack of coordination was noted in the case of three MPI-financed project support staff who were managed exclusively by the NPC without any knowledge about their activities by the CTA.

76 Project Progress Reports prepared by the project management on annual basis were of excellent quality in terms of clear structure, comprehensiveness of information and objectivity.

77 Review meetings of the key stakeholders (Tripartite Review [TPR] meetings) were convened regularly as required by the project document. They provide a platform for reviewing strategic issues which, however, was not always fully utilized due to insertion of some operational details on the agenda (such as salary of interpreters).

78 In order to provide strategic guidance to the project, an Advisory Board was established and had three meetings so far. (A representative of the donor is also a member.) Its role and functioning are still in the learning phase but there is a good potential that this project-related Board could evolve into a platform for reviewing SME issues in general. This, however, would require membership of a broader spectrum of SME-related organizations and institutions.

79 Management of the partner organizations is based on the Cooperation and Financing Agreements signed with them. The agreements cover planning and implementation of activities, budget allocations, monthly activity reporting, progress reporting, expenditures, personal matters and evaluation criteria. The procedures of cooperation are formalized in an Operational Manual. The system is designed in great detail and is operating satisfactorily. In fact, it is an innovative contribution to project management in general which can serve as a model for similar arrangements in other projects. Improvement is possible in reporting by implementation partners on their activities - frequently the distinction between the **A**completed@ and **A**on-going@ activities is not correctly understood, reporting on some activities is not specific enough (example: **A**visiting SMEs@- without indication of how many SMEs were visited, which ones and why). Perhaps budget allocations should have been fixed for one year only and not for the

whole duration of the project.

80 The three business organizations have established Business Service Sub-Committees (BSSC) in order to get the clients (SMEs) involved in the management process. This is a commendable arrangement in spite of the fact that - perhaps with the exception of UAIC - the involvement of BSSCs in the decision making of the partner organizations is still rather limited.

81 The project management has very good contacts to other related projects and institutions both on the government as well as on the non-government level. The representatives of the project management are well known within the governmental bodies as well as within the donor community. This is reflected in the participation in events, workshops, seminars etc. Both the National Project Coordinator as well as the Chief Technical Advisor are considered as authorities in their respective fields.

82 However, cooperation with other technical cooperation projects was, in some cases, influenced by the lack of willingness or motivation to cooperate on the part of the local organizations. As an example the inadequate cooperation of two institutes working on policy issues (CIEM subcontracted by this SME project and the Development Strategy Institute (DSI) hosting the Mid-Term Industrial Strategy project) can be referred to. While the CTAs kept themselves informed about the status of work and shared the elaborated draft documents, the local teams themselves were hardly in any working contact.

83 The project management has not only to represent the project on the professional stage. The project office had to find its own identity to be accepted by the counterpart MPI as their instrument to support the task of SME development. At the same time it has to be considered by the implementation partners as a facilitator, who has more to offer than only funds in the field of SME promotion. All that with the understanding that the project office is a temporary and not a permanent institutional unit.

84 The project management was able to establish not only a working unit but also to bring parties, who were not used to contact each other directly and to exchange experience and points of views, together. However, MPI still dominates the scene with its perception of top to bottom management. It can be observed that an involvement of the implementation partners in the project management, based on a participatory approach, is very limited. Within MPI itself the ownership of the project seems to be too compartmentalized/ personalized. This may constrain the use of advisory services which can be provided by some project staff, including CTA, by other MPI units dealing with SME issues (particularly SME policy).

3.4 Backstopping by UNIDO

85 The UNIDO Project Manager has discharged her backstopping functions in a committed and professional manner so that she represents a great moral and professional support for the project and in particular for the CTA. The advantages of the current communication technology (e-mail) have been fully utilized so that the contacts between the UNIDO Project Manager and the CTA have been very intense, dealing both with professional and administrative issues. The UNIDO Project Manager participated actively in all project review meetings and in a number of ad hoc technical meetings in the field so that she developed a very good understanding of the project also through field visits.

86 The Project Manager also established contacts and organized briefings for the CTA with many UNIDO professionals whose know-how may be relevant for the project or who have been backstopping other UNIDO projects in Vietnam. However, in-house cooperation with these professionals has been less ardent. This is a general phenomenon which seems to have little to do with willingness and more with workload.

87 In the field, the CTA has become the focal point and source of advice for most of the UNIDO professionals on missions to Vietnam. UNIDO professional staff who were interviewed in the course of this evaluation knew about the CTA and, whenever applicable, appreciated her advice or other interventions.

88 Contacts with the UNIDO Field office are well established, the UFO is well informed about the status of the project and its problems.

89 Finally, a remark on UNIDO methodological tools. A number of them have been made available to the project but the use of some of them (for example COMFAR) is constrained by language so that the project had to develop its own tool. This is a fact of life and not much can be done about it. Use of some tools is constrained by their complexity which is not adequate to the limited endowment of Vietnamese SMEs with data (for example COMPSTRAT). Value of some tools is limited because of very limited reference database which they include (COMPARE). In a few cases, however, the tools have not been transferred and there is a potential that they could be used.

4. RESULTS

4.1 Production of outputs

90 The project has two distinct components:

S policy support, both direct advice (Output 1) and institution strengthening (Output 6)
S capacity building in Business Development Services (Outputs 2-5).

4.1.1 Policy support

Output 1 (direct support):

Recommendations for government policy and regulatory framework contributing to enhancing the competitiveness of SMEs, including - but necessarily limited to - those relating to registration procedures; import/export procedures; other disincentives or regulatory barriers affecting SMEs.

These recommendations will have been prepared in collaboration with MPI, the Ministry of Justice and other relevant public authorities and in consultation with private representative associations of SMEs.

91 As tentative indicators for Output 1 the project document required:

Legal documents/regulations drafted/amended providing for:

- (a) *uncomplicated, cheap, and easy registration of various forms of privately-owned SME, and of their important business assets such as buildings and land-use rights,*
- (b) *streamlined import/export procedures for SMEs, as well as,*
- (c) *other policy matters, incentives, regulations designed/amended with a view to facilitate SME sector development.*

92 Formulated as direct support these indicators encourage the project to prepare draft regulations and other documents in collaboration with various ministries and other relevant public authorities directly. The preparation of legal drafts and documents is a very special technical subject in any country, also in Vietnam. Based on the fact that the project has limited resources to prepare documents and regulations, the project management has presented modified tentative indicators for Output 1 (as well as for all other outputs) to the third Advisory Board Meeting in September 1998:

Policy recommendations are drafted/supplemented through a process that is as participatory as possible and reflected in the agenda of the appropriate decision-making levels, providing for (a), (b) and (c).

93 To stress the role of the project in the process of decision making this modification was useful and necessary. Under (a) the aspect of business assets, particularly land issues, has been skipped which makes sense, because the land law is such a special and difficult matter in Vietnam, that the project cannot give any direct support in this respect.

94 Contribution of the project under this Output was significant. The project was able to mobilize highly

qualified experts within Vietnam, both national and foreign, to elaborate on the issues of legal and regulatory framework. A paper *Research Report on Improving Macroeconomic Policy and Reforming Administrative Procedures to Promote Development of Small and Medium Enterprises in Vietnam* was prepared by the project in December 1997 and a summary document was prepared and discussed at workshops in HCMC and Hanoi. The report was prepared under a subcontract by a CIEM research team.

95 The main recommendations included:

- S the Government should identify/form a policy coordinating agency/unit;
- S a policy proposal for promotion of SMEs should be prepared;
- S a list of items for immediate measures (such as registration procedures) and medium-term measures (such as land lease, taxation, etc.);
- S resources should be made available as loans, loan guarantees and subsidies for service providers.

96 Though the report was not officially published (it was too extensive and overloaded with data), it served as a basis for extensive discussions of policy issues at the above mentioned workshops (attended by 125 participants) and at a seminar *Coordinated Support to SME Development in Vietnam* organized by MPI and UNIDO in May 1998.

97 As of April 1998 a new group of CIEM researchers complemented by an international legal expert started to refine the report to prepare proposals for immediate policy action. The report was finalized in November 1998 so that it could be made available to the evaluation mission. The report (110 pages, out of which 25 pages of recommendations) provides a comprehensive, well structured and detailed guidance for policy measures which are deemed realistic at this stage of development. It covers in detail the issues stipulated in the project document. The report was translated into Vietnamese for submission to MPI.

98 Additionally, a number of advisory notes and papers were prepared by the CTA for MPI or as inputs for various SME-related workshops and events. A proposal for complementing the educational system with a programme for master craftsmen was also prepared by the ITE of the project and submitted to MPI. It can be concluded that this Output has been successfully produced with the qualification *More than planned*.

99 The reports should have been prepared not only in collaboration with MPI but also with the Ministry of Justice and other relevant public authorities. Representatives of these authorities participated in working groups preparing the first report. However, the report was prepared without any contact with the team from the Development Strategy Institute working on the Mid-term Industrial Development Strategy, which was another policy project of the same Ministry supported in Vietnam by UNIDO. As explained elsewhere, while the CTAs of the two projects kept themselves informed about the course of work, the working teams from CIEM and DSI were reluctant to exchange views and comment on each other's results.

100 It should be noted in this context that the mechanism of consultation and coordination of the process with other ministries and agencies is looked after and actually implemented by MPI.

101 According to the experience of the project the policy output for the second half of the project should be reformulated in such a way that unrealistic expectations are avoided (the project can produce inputs for legal documents and regulations to be drafted by government bodies, not legal documents themselves).

Output 6 (Institution building)

Relevant agencies (MPI's Industry Department, CIEM and other agencies) with strengthened capacity to

plan, coordinate and support SME development programmes on a national basis. @

102 This Output focuses on strengthening the capacity of relevant agencies. MPI was strengthened through exposure of some of its high-ranking staff to experiences of some other countries (study tours) and some equipment. CIEM was strengthened through intense interaction with the international legal advisor.

4.1.2 Capacity building in Business Development Services

103 Outputs 2-5 define what institutional capabilities should be developed or strengthened by the project. They define how many private or public institutions should be strengthened to provide the following services to SMEs:

- S technology information, technology upgrading and technology development;
- S market-oriented technical training;
- S promoting subcontracting;
- S preparation of satisfactorily documented bankable projects.

104 Capacity building in the four service fields took place altogether in 6 partner organizations linked to the project by formal Cooperation and Financing Agreements (CFA) and two organizations associated with one of the partners (information focal points of CESTI). One training organization was identified additionally and supported on an ad hoc basis only (a vocational training school). At the end of the capacity building process each partner organization should be able to provide the above services in certain quantity and quality. To be able to do this it needs:

- S qualified and experienced staff;
- S management able to take initiative and responsibility;
- S well established principles of work, methods, procedures and methodological tools (guidelines, manuals, standard forms, etc.);
- S adequate management information system;
- S suitable office space with office equipment.

105 The project builds the above capacities by training of the staff in the organizations, preparing methodological tools and assisting in their application, designing management information system and assisting in its installation, procuring and installing some office equipment, etc. The evaluation assesses how far the process of capacity building progressed: Are the staff trained enough? Are working methods and procedures defined and followed? Is the information system functioning? etc.

106 Actual provision of services to SMEs by the institutions during the project lifetime is also important for capacity building because it makes it possible to carry out on-the-job training of the staff. It may also demonstrate that the institution has already acquired some capabilities to provide the service. However, as long as the provision of the service is still supported by the project (for example, organization of training courses by the international training expert, business plans by external consultants), the actual provision of services does not reflect truly the achievement (level) of local capacity building. It is also for this reason that assessment of the capacity building process is not based exclusively or primarily on performance indicators.

107 It is within this context that capabilities developed under Outputs 2-5 are evaluated. Some findings and conclusions apply to most of them:

- S None of the supported partner organizations has so far acquired capabilities to provide services in the scope and quality envisaged by the project document. This is partly due to the fact that the process of

implementation of the CFAs started effectively only 8 - 16 months ago.

- S With some exceptions the staff of the SME support units are junior. This is a great constraint for the development of those services which require professional experience (particularly consultancy services). It is, however, understood that it is difficult to recruit senior qualified staff for jobs the future of which is uncertain.
- S Providing services of good quality to the SMEs requires networking (cooperation) among the partners. The cooperation has become operational but its potential has not yet been fully utilized.
- S A well conceived Client Monitoring System (CMS) was designed and installed in October 1998 at all partner organizations to monitor and support their activities but with the exception of UAIC its understanding by the staff is limited.

108 The achieved level of strengthening the institutions and developing their capabilities differ among the services (Outputs). Progress in the production of each Output is assessed as follows:

Output 2:

At two or more private and/or public institutions with a strengthened capacity to provide effective market-led services to SMEs in selected industrial branches in the fields of technological Information, technology upgrading and technology development. These services (and/ or their technical products and outcomes) will be in active use by SMEs in the relevant branches in the vicinities of the institutions. @

109 Scope of capabilities to be developed or strengthened under this Output is very broad and allows for different interpretation. It includes capabilities to provide complete answer to an inquiry, to make reference to another source(s) of information and to provide information complemented by expert advice (consultancy service). The project attempted to strengthen such capabilities or their combinations in CESTI, HUT and HCMCUT.

110 CESTI has been the key partner organization to be strengthened under this Output. CESTI was familiar with providing information services to industry even before the project started. They have extensive databases of patents, standards, equipment suppliers and annotations of research papers (all worldwide) and databases of local experts. However, they provided information services to large companies but not to SMEs. The SME unit which was established with the support of the project consists of two professionals with adequate educational background and fair knowledge of English. The unit was supported by some equipment, literature and training of the staff. In-house they established useful working linkages with the service departments for processing inquiries. Externally they established linkages with Economic Divisions of two Districts which serve as information focal points with direct contact to SMEs of the district. The linkages are functioning and their efficiency will be increased once the two PCs provided to the focal points are linked to CESTI. As the system of focal points is functional, it deserves to be extended to other districts. With the support of the project (ITT), CESTI issued 28 publications on standards (21 in food processing and 7 in engineering, which were taken over from Viet Duc).

111 CESTI has developed good capability to conduct awareness raising courses for SMEs about various categories of information available at CESTI, thus creating market for its information services. The presentations are methodologically conducted in a professional way. They are supported by handouts and sample forms for requests.

112 There are some weaknesses, too. Understanding of information services is influenced by relying on in-house information. Links to other sources of information and, thus, capabilities to provide referral services are

limited. Networking with partner organization having professional expertise which can complement and package the information into a consultancy service is marginal. No networks/links have been developed with free-lance consultants. At the time of evaluation the internal Client Monitoring System was not operational. No effort has been made to charge some fees for CESTI services except for translation and printing.

113 As regards capabilities of HUT and HCMCUT to provide technology-related consultancy services, the potential is given by the large body of lecturers and researchers but very little practical experience has been developed so far. HUT has only one case of technology consultancy for selecting technology and purchasing appropriate equipment and machinery for setting up new production. Some consultancy services have been provided the framework of the project. HCMCUT has no case of technology consultancy in the framework of the project. HCMCUT experts also have some consultancy experience outside the scope of the project. On the basis of this experience HCMCUT put forward a concept of comprehensive consultancy services to be offered to SME not only in technology development but also in managerial and commercial fields.

114. Institutionalization of this capability has not progressed very much either. The database of experts is still in its infant stage and there exist doubts (at least at HUT) to what degree is it in the interest of HUT to share this information (thus running a risk that the consultancy services will turn into a private affair). In view of general reluctance to pay for consultancy services the policy on their pricing is not firmly fixed. It was shortly before the evaluation mission that steps had been taken to increase the visibility of the SME support units at the universities (a large poster advertising the HUT unit on its building, relocation of the HCMCUT unit to a very well located office).

115. No linkages have been established by the project so far with NACESTID which can be qualified as a shortcoming.

Output 3:

Atwo or more private and/or public training institutions with a strengthened capacity to provide effective market-oriented technical training services relevant and systematically responsive to the needs of SMEs in selected industrial branches, such as SMEs forming at least an important and fully-recognized sub-group of the employers of these institutions=graduate-trainees.@

116. Capabilities to provide training services to SMEs have been strengthened in two partner institutions (HUT, HCMCUT) and in the vocational training school in Binh Thanh District, HCMC. The two partner organizations (HUT, HCMCUT) network with other partner organizations (HCU, VCCI, UAIC) which are responsible particularly for identifying training needs, mobilizing participants for training courses and securing feedback.

117. Adequate methodological tools (Training Manual, evaluation forms, etc.) have been developed and long-term external expertise provided by the project to support the capacity building process through advice. Through training, on-the-job training, methodological tools and procurement of equipment the capabilities of the SME support units in the training institutions have been strengthened to a satisfactory level. This applies in particular to the HCMCUT which has staff and management (3 in total) of good quality, applies satisfactorily the methodological tools provided by the project and maintains good cooperation with UAIC. The juniority of the staff of the SME unit does not pose a problem in this particular case because the staff perform primarily an organizational function whereas the training is conducted by other lecturers. The key staff have very good educational background and speak very good English. Internal management is dedicated and very professional. The office of the SME support unit was moved and located next to the street, with easy physical access by potential clients. The Client Monitoring System was installed and made operational just before the visit of the mission but no data could be entered by that time. After initial problems the networking arrangements with UAIC were consolidated, UAIC playing its role in identification of needs for training, mobilization of participants and organizing feedback from the participants. Needs assessment by UAIC is conducted through contacts with sectoral associations and reviewed by the BSSC. UAIC is

entering data on trainees into its CMS (in fact UAIC could demonstrate the most advanced utilization of the CMS among all partner organizations). Both parties (HCMCUT and UAIC) need to intensify informal contacts with the trainees during the course because the formal evaluation questionnaire sometimes does not reveal the most important answer: why does a participant give the training a certain rating, particularly if the training is rated by him as *Apoor@?*

118. The lecturers at some previous courses who were interviewed displayed good understanding of the specific requirements for training SMEs. To sum up, there is a potential that the capabilities of both partners in organizing and conducting training will be further upgraded with limited additional intervention of the project.

119. In Hanoi the SME support unit at the HUT is operated by a senior experienced staff (supported by a secretary) with high-level professional background and good contacts to the lecturers, with good knowledge of German but very limited knowledge of English. The training course on Garment Design, developed by HUT, was successfully repeated also in the HCMC. Some information on the lecturers for the database on experts was compiled but not entered in the database yet. CMS was installed but not operated properly. Networking is more difficult because there are two business organizations (HCU, VCCI) cooperating with HUT in conducting training courses which makes the system more complex. Coordination among the two business organizations in mobilizing participants for training is influenced by the fact that the lists of members are not consolidated. Except for the manager of the SME unit in HCU the staff in charge of training are not sufficiently pro-active so that their role in the identification of needs, preparation of the courses and follow up is less visible.

120. The number of training courses organized in Hanoi and HCMC is the same (5), with better evaluations made by trainees in HCMC. However, also in Hanoi all training courses were assessed by the trainees as satisfactory or better. This could lead to satisfaction. However, there are two problems which need to be addressed:

- S** Lack of exposure of the lecturers to the state-of-art training for SMEs in some fields. Indications supporting this fact could be observed also at the training course on ISO 9000 in Food Processing which was briefly visited by the evaluators. The universities themselves are interested in this exposure which could be achieved through a short-term expert conducting a "model" training course and transferring the know-how to the universities. The restrained attitude of the national project management to short-term expertise needs to be reconsidered.
- S** Thematical focus of the training courses and the associated profile of the trainees. According to the original project document the training to be provided should be technical training. Indicators formulated in the original project document imply that the training should be long-term training for large number of trainees (at least 20 classes with 25 trainees in each class lasting 10 months in each city every year) who should then find employment primarily in SMEs. This objective turned out illusionary for several reasons (lack of resources to upgrade facilities for such massive training; activity outside of UNIDO domain and competitive advantage). At a number of meetings, including a tripartite review meeting, the Output was reviewed and amended. Given the resources of the project and the CFAs concluded with the universities, it is recognized by the project management that the core activities in the field of training are in strengthening capabilities of the partner organizations to conduct short-term courses, preferably not longer than one week.

121. Complementarily the project supports vocational training schools whenever the support is cost-effective. The project contributed to the upgrading of 13 instructors/trainers of the vocational training school in the Binh Thanh district through arrangements with the Viet Duc technical training Centre and project subsidy to this training. This activity was very cost-effective thanks to the on-going significant financial support of another donor in procurement of equipment for the vocational school. The project also subsidized advanced training of two welders at the Welding Centre, an activity which, however, is not aimed at capacity building and which has not been

continued because of low demand for the training by SMEs (the training is considered expensive in spite of the subsidy; some companies claim to be too busy to be able to send their workers on the training course).

122. However, one issue remains a subject of controversy among different stakeholders: should the short-term training courses focus primarily on technical issues or should management courses be organized as well? The related question is what to understand by technical training and who should be the target group: managers/owners, technicians, or workers?

123. Great emphasis of the national project management (including the vice-minister of MPI) on technical training was noted. The evaluation team has adopted the following position that could serve as guidance:

- S The project document is a contract, which can be changed if the conditions warrant it and if all parties involved agree. A tripartite review meeting is a platform to agree on such an agreement and to make it formal.
- S Activities to support capacity building (training of trainers) in vocational training schools should continue whenever favorable conditions similar to those in Binh Thanh are available (dedicated management, trainers ready to upgrade their skills and knowledge, equipment available) and project expenses are modest.
- S Demand by SMEs for short-term technical training courses to upgrade skills of their technicians and workers should be investigated by the cooperating vocational training school(s), preferably in cooperation with the business organization in the project network (UAIC, HCU, VCCI). Eventual development of training programmes to satisfy such demand should be supported by the project through expert advice and/or linkages to other development cooperation programmes.
- S The core training activities of the partner organizations should be short-term (preferably not longer than one week) training courses conducted by the staff of the technology universities. In order to achieve maximum impact in terms of SME competitiveness, they should be targeted primarily at company owners, managers and technicians. The supreme criterion for the selection of the training topics should be the effective demand by SMEs (demand which is manifested by the willingness to pay) which needs to be ascertained by the business organizations (HCU, VCCI, UAIC). The survey of demand by the business organizations could be supported by the training organizations through their offers of topics for potential courses but it should be the responsibility of the business organizations to survey and critically review the needs of SMEs and conclude on their demand for training. The selection of training topics should not be based on the perception of the project management alone. The project management should support the business organizations in learning how to conduct the demand survey but it should not adopt the responsibility to impose any topic on them. A networking mechanism among the partners in selecting topics and preparing and conducting training courses should be able to operate without intervention of the project management.

124. As long as the courses are demand-oriented and make use of the capabilities of the universities, it is not essential as to what degree the topics are technology-related. However, given the existence of management-related courses conducted by other organizations, it seems appropriate to make maximum use of the technical expertise of the university experts and give preference to meeting the technology-related needs of SMEs. Even such courses, however, should include a management component, particularly they should advise the SMEs on how to manage technological change. As the first efforts of the project in this direction indicate, this may necessitate sector-specific training courses. Only the experience will prove how many trainees such courses will attract and to what degree they can be cost-recovering.

Output 4:

Two or more private institutions with a strengthened capacity to promote significant subcontract work, awarded on a regular basis to SMEs in a selected industrial branch or branches, by larger State-owned and privately-owned enterprises, including foreign-owned enterprises and foreign/Vietnamese joint ventures. By the end of the project, several dozen SMEs will be doing such sub-contract work.®

125. Two private institutions were selected for implementation of this Output 4, namely VCCI and UAIC. The capacity building process was launched by recruitment of a short-term consultant who was well acquainted with the UNIDO Subcontracting Programme. VCCI cooperated with the short-term consultant in conducting a survey on 51 enterprises. Weaknesses and constraints for subcontracting work were analyzed and recommendations for follow up were formulated, with different emphasis in Hanoi and in HCMC. As a follow up, VCCI and UAIC assisted a dozen of selected SMEs to participate in exhibitions and trade fairs. VCCI organized Business Cooperation Day® for SMEs to learn about requirements of big corporations (Honda) towards subcontractors. The activity combined visits to enterprises with assistance in matchmaking. A few articles on the concept of subcontracting were published in trade magazines. The Domestic Companies Database (DCDB) was designed also with the view to support matchmaking. Thus the staff of VICE and UAIC acquired some experience in selected matchmaking techniques but the scope of knowledge of subcontracting processes remains very limited. However, given the constraints to subcontracting which are beyond control of the project and of the partner organizations (see Chapter 4.2), it is not feasible to develop capabilities as originally planned in the project document. Rather the capabilities need to be re-focused on supporting any business linkages through collection and dissemination of information on companies, advice on participation at trade fairs, organization of collective participation at trade fairs, etc. Cooperation with other agencies and projects supporting matchmaking is desirable (VICOOPSME, FTDC, etc.). Needless to say, any services provided under the other Outputs which improve performance of SMEs and quality of their products will contribute indirectly also to favorable conditions for subcontracting.

Output 5:

Two or more private institutions with a strengthened capacity to assist local SMEs to prepare satisfactorily documented bankable project-proposals for application for Vietnamese (and possibly also foreign) bank credit; and also (possibly) project proposals for attracting foreign JV partners. The SMEs may be in any industrial branches, where demand for such services exists and has a strong possibility of resulting in successful applications for credit?®

126. The Output had to be modified. Because ownership of land by SMEs remained an unresolved problem, many SMEs do not have a collateral which is a prerequisite for access to bank credits. Having a bankable project alone does not help. Therefore the bankable project proposals® was replaced by business plans® to be used primarily as management tools to help SMEs to understand and formulate better their strategies and plans. Additionally, they may also be used for application for credit, if collateral is available. This modification is fully endorsed by the evaluation mission.

127. Three business NGOs (VCCI, HCU, UAIC) were strengthened by the project to provide business planning services but their capabilities are still rather limited. Comprehensive guidelines with checklists and software for financial forecasting were prepared by the project as basic methodological tools. Staff in the partner organizations was trained both directly and on-the-job, through working jointly with national consultants. However, on the job-training has been rather modest so far because the number of business plans prepared (6) or under preparation (3) is very limited and is support by external consultants and may still be needed to check and ensure quality. Two of those who were trained are no more with the partner organizations. (According to the managers of the SME units, the one in HCU resigned, the one in UAIC was retrenched due to unsatisfactory performance.) This is regrettable because consultancy in business planning requires experience. Given the fact that the staff in charge of business

planning in all partner organizations is junior, the only way to build up experience is through long-term activities in this field. This requires stability of the staff. Any resignation of trained staff is, therefore, detrimental. The same applies to the resignation of the Consulting Services Administrator from the project staff who was highly qualified and who could have contributed to further upgrading of the staff in the partner organizations. The evaluation mission is aware of this politically sensitive case and hopes that decisions leading to the loss of qualified staff will be avoided in the future.

128. One local private consulting company (CONCETTI) was subcontracted to participate in the elaboration of the guidelines for business plans and to support HCU through on-the-job training in conducting the business plans. Through this activities and interaction with external consultant the consulting company itself was considerably upgraded in this field. This can be considered as a positive by-product of the project. A national consultant from the National Economic University, who was recruited to support the business planning experts from the partner organizations, also benefitted from exposure to this experience. The developed capabilities, therefore, are not limited to the two partner organizations and this can be considered as an important result in this field.

129. Business planning represents a value added for the company only if the process is participatory and if the consultant can help the entrepreneurs understand better his/her business and formulate its prospects. The process entails discussions with the company management and staff, compilation of data, clarifications and selections of business strategies. While the largest number of business plans have been completed by HCU (with considerable support of national consultants), the evaluation mission noted that - in spite of limited practical experience - the staff in VCCI and UAIC have demonstrated good understanding of the role of the business plan as a management tool. They understand well that the process of business plan preparation is at least as important as the final product (business plan) itself.

130. Good understanding of the process by UAIC is also demonstrated by the cooperation agreement made with the Technology University: It was agreed that sector-specific technical expert(s) as well as other senior staff from the University will backstop/support the business planning expert during the first diagnostic visit(s) to the company and in the phase of elaboration of business strategies. This arrangement, if implemented, will considerably increase usefulness of the exercise for the company and may open the door for more specialized consultancy services. In fact the future of the business planning service may depend on whether this arrangement will be implemented.

4.2 Achievement of the purpose/immediate objectives (effectiveness)

131. As explained in the Chapter on Project Design, the evaluation mission suggests that the original immediate objective should be reformulated and two immediate objectives should be used instead. This does not change the purpose of the project but it makes evaluation of its achievement easier.

132. Indicators as reviewed and amended by the project management in September 1998 can be applied for such evaluation (some of them, however, in a modified version, as explained below). Most of them reflect well the fact that achievement of immediate objectives depends on adequate and timely utilization of outputs produced by the project.

4.2.1 Immediate Objective 1 (policy component):

All improved policy, legal and institutional frameworks for SMEs are established@

Indicators:

S *Policy statements, policy measures and regulations and institutional changes influenced by project support;*

S *Advisory Board functioning as a dialog and advocacy platform for SMEs, with regular meetings twice a year and minutes of the meetings (including recommendations) considered by the SME coordinating unit to be established by MPI.*

133. Based on the reports prepared by the project, the discussion about SME policy was stimulated substantially. MPI organized workshops and seminars on the subject and made a presentation which included a draft policy proposal for the recommended orientation of the SME development. The workshops were attended by various ministries, NGOs and a great number of bilateral and multilateral development agencies.

134. As part of the discussion process the Prime Minister issued a circular (681/CP-KTN, 20.06.1998) defining "temporary criteria" for SMEs in Vietnam. According to this document legal enterprises with up to 200 employees and less than 5 billion VND (\$ 0.4 million) are considered as SMEs. These criteria are based on and in line with the definition of SMEs proposed in the project reports.

135. Other advisory notes and papers were also used by the policy makers. All representatives of MPI stressed that they found it very helpful to make use of contributions prepared by the project under Output 1.

136. With the use of project inputs MPI published in October 1998 a draft report "Strategy Orientation and Policy for the Development of SME in Vietnam to the Year 2010" and presented it on the 24th of October 1998 to the Deputy Prime Minister Ngo Xuan Loc. The purpose of the document was to emphasize and support the development of a more favorable environment for SMEs in Vietnam: "State management agencies at different levels and localities are in need of a clear and united strategic orientation on developing SMEs to coordinate joint action in the interest of SMEs in particular and of the whole economy in general."

137. At the presentation at the Governmental Office representatives of other Ministries and public authorities such as the ministries of Finance, Transport, Construction and Industry, representatives from the Peoples Committee of Hanoi, Haiphong and from institutions such as Central Economic Department, Central Institute of Economic Management (CIEM), VCCI and VICOOPSME, were present. The following major policy issues were addressed:

- S** tax reduction for SMEs;
- S** credit guarantee fund;
- S** access for SMEs to government projects (splitting of project into smaller tenders);
- S** elimination of licensing for exports;
- S** tax relief for implementing new technologies;
- S** training of work force.

The central recommendation of MPI was that the Government should authorize "one Central Organization to establish a General Department for SMEs Development...".

138. From the comments of the Deputy Prime Minister it is obvious that this process will go on. In an "Announcement of the Governmental Office" on November 4th 1998, the office instructed MPI to continue the work on a strategy with the objective of "clarifying the actual situation and the direction of SMEs in our country by the year 2000 and further. At the same time, the draft needs to be submitted to the Prime Minister, so that the Government will promulgate the decisions on Orientations of SME development prior to December 31st (1998)". This means that MPI will be involved in the process of the development and formulation of a national SME programme in future. It is obvious that MPI is able to address the subjects and this is partly due to direct and indirect contributions of the project. The new report completed by the project in November 1998, once translated

and circulated, will provide further support to policy making. Additional work of the project in the policy field should, therefore, be envisaged, particularly in supporting MPI in implementation of the SME policy.

139. The Government realizes that much more attention has to be paid to rural development. In terms of SME development policy, there is no need to distinguish between *Arurban@* and *Arural@* policy. Nevertheless, the barriers in the rural areas to establish new SMEs or to restructure existing ones may have different weight or specific features. In view of the increasing importance of social and economic development in rural regions MPI will have to provide inputs to support increased focus on rural industrial development. Project support, if required, would imply provision of short-term expertise and close cooperation with the other project carried out by the Ministry of Agriculture and supported by UNIDO.

140. As regards the second indicator (related to Output 6), it was the project management that made a proposal to develop a consultative council on the basis of the existing Project Advisory Board. Up to now 3 Advisory Board Meetings took place and it is understood that this forum is still in a very infant stage. From the subjects discussed at these meetings and from the list of members and guests one can see that the meetings addressed mainly issues of project implementation.

141. As the experience shows, there is a need for a discussion platform among the implementation partners including guests from related projects and institutions. With the support of the project MPI has organized 2 forums which were well attended and accepted by the participants. Such an outgoing approach can become a regular routine. Additionally, ad hoc or informal working groups could be established to exchange experiences and points of views related to specific issues of SME policy.

142. However, it is not clear at this stage whether the Advisory Board has the potential to develop such structures and inputs for SME development programmes on a national basis. There still exists a tendency to formalize the process before actors and participants have had a chance to develop their complementary views and positions. On the other hand, it is understood that coordination of SME development has to be formalized and extended to cover the whole country.

4.2.2. *Immediate Objective 2 (capacity development component)*

Services of the institutions strengthened by the project are used by the SMEs in the scope and at the cost-recovery level specified by service-specific indicators. @

Information and consultancy services (use of Output 2):

a) Information services

S 300 SME clients per year benefitting from information services (inquiries, publications, etc.), with 20% of clients being repeat users;

S Recovery of direct cost of information services at 30%.

b) Consultancy services

S 20 SME clients per year benefitting from consultancy services;

S Recovery of direct cost at least 50%.

143. The use of CESTI information services was stimulated mainly by the awareness raising workshops (usually half-day duration). Up to November 1998 CESTI received 80 and answered 74 inquiries placed by 57 SME clients. Most of the inquiries (58) were channeled through the district focal points. The district focal points confirmed to the evaluation team receipt of the answers and satisfaction of the SMEs. Because of the shortage of

time this, however, could not be verified with the SMEs concerned.

144. The inquiries placed to CESTI are reported to have been mainly in the field of standards (apparently influenced by the contents of the workshops); only 6 inquiries dealt with technology or equipment. Additionally, CESTI sold 184 copies of the publications on standards. While the targeted performance indicator for the quantity of information services (300 SME clients per year) seems to be within reach, the indicator for cost recovery is too optimistic. Given the fact that inquiries are answered free of charge and publications on standards are sold for less than \$ 1 a copy, the cost recovery remains at the level of a few percent. Increasing cost recovery of information services will be a long-term process. This is not surprising. Even in the developed countries information services on science and technology are subsidized.

145. Use of CESTI services is related to the structure of demand for information. The situation in Vietnam confirms what is known from the developed as well as developing countries (as exemplified by the experience of UNIDO-implemented ITMIN in Sri Lanka): demand for business information (competitors, suppliers, products etc.) is much larger than demand for information on technology and equipment. In the network of partner organizations an agreement on division of information services was reached with the understanding that business related inquiries are processed by the business organizations (in particular VCCI and UAIC). Unfortunately, no records were kept about these inquiries so that no statistics is available. This will hopefully change with improved operations of the CMS.

146. Use of technology related consultancy services has so far been negligible. This seems to be the weakest field of the network. Apparently networking among partners has not been functioning well so far. In addition to reviewing this situation, it is worth considering the possibility of including a vocational training school as one of the antennas for contacts with SMEs. They could try to establish/encourage demand for technical advisory services among their SMEs/former trainees. Depending on the type of demand the consultancy could be provided either by an instructor from the school or it could be referred to the University of Technology. They could also network with CESTI and function as a focal point for them.

Training services (use of Output 3)

a) Professional short-term training courses:

S *At least 500 participants attending the training courses per year*

S *Recovery of direct costs at least 50%*

b) Technical refreshment/upgrading training courses:

S *At least 60 instructors taking part in the refreshment training courses per year*

S *Recovery of direct costs at least 50%*

c) Technical training for SME workers at district vocational training schools

S *A number of SME workers (or apprentices) trained at the vocational training school by the instructors upgraded by the project*

4) Technical training for craftsmen at other organizations

S *A number of SME clients supported to participate at training courses organized by other institutions or projects*

147. Indicators b) and d) are indicators of project activities/outputs and not of the use of services provided by the outputs produced/ institutions strengthened by the project. At the purpose level, therefore, only

indicators a) and c) apply. [Indicator b) is, however, a good indicator for production of Output 3].

148. As regards short-term training, there is a good chance that indicator a) can be achieved at the end of the project. Since the beginning of the training services in April 1998 up to November 1998 (8 months) 10 training courses were conducted, attended by 322 participants (45% female) from 211 enterprises, in most cases SMEs. A large share of the participants were managers/owners and technicians. Evaluation of the courses by participants was in principle positive, with the best rating given to training courses on job costing and garment design. Both courses received also high ranking in terms of usefulness and practicality. High ranking of the job costing course suggests that topics related to production management are relevant for the SMEs.

149. Cost recovery of the short-term courses ranged between 20% and 50%, with 37% average recovery of direct costs in Hanoi and 43% in HCMC. This suggests that achievement of the target indicator by the end of the project is feasible. The level of recovery also indicates that the training services are demand oriented.

150. As regards the use of the upgraded knowledge of 11 instructors at the vocational training schools (indicator c), it is estimated that approximately 1,800 apprentices (=approximately 7,000 man-months of training) per year may benefit from upgraded capabilities of the instructors. Approximately 70% of the trainees can find jobs with the SMEs. These numbers seem impressive but it should be understood that the upgraded capabilities of the instructors do not cover the whole training course, but only a part of it. Nevertheless, the extensiveness of the use of the upgraded knowledge (instructors) confirms that such project interventions not only meet the purpose but they are also cost-effective.

151. Training services were not linked to Output 3 only; awareness raising activities were also conducted as part of other services (see assessment of other services).

Subcontracting services (use of Output 4)

S *100 SME clients participating in not less than 2 business cooperation events and 3 trade fairs and exhibitions per year in each locality*

S *At least 50% of cost of participation at trade fairs and exhibitions shared by the SME clients*

152. The demand for services to support subcontracting is low at present stage for a number of reasons (policy framework, including the tax system; existence of a satellite system within the State owned corporations; low level of technology, quality control and quality management in SMEs to meet requirements of foreign companies, etc.). This reflected itself also in a rather low number of participants at an awareness raising workshop organized by the project. It was, therefore, appropriate to revise the original ambitious indicators of the project document (At least 30 SME clients doing sub-contract work Y. to more modest level of participation of SMEs at business cooperation events.

153. Ten SMEs participated in the Business Cooperation Day with Honda company (in Hanoi). By December 1998, 18 companies in Hanoi and 10 companies in HCMC participated at trade fairs and exhibitions. Costs of their participation were significantly (by more than 50%) supported by the partner organizations. In addition to the exposure to this experience, some of the SMEs managed to sign trade (selling-buying) contracts.

154. It seems that it will be difficult to achieve quantitative levels of the revised indicators both due to the limited number of SMEs who could qualify for such events as well as due to limited financial resources to subsidize such participation. The second obstacle could be alleviated by reducing the percentage of subsidy.

155. Business Planning Consultancy Services

S At least 20 SME clients per year assisted in preparation of business plans

S Recovery of direct costs at least 50%

156. This service faces a serious problem of low effective demand. Up to November 1998, altogether 6 business plans were completed, mainly by HCU and UAIC, three are on-going and only a few are in the pipeline. After the training course on business planning, only one company decided to prepare a business plan. The other companies were encouraged to prepare the business plans by managers of the SME support units who made use of their previous working or business contacts. This potential of personal contacts from the past will, however, gradually diminish. The way the companies were mobilized to participate in the programme may have contributed to the fact that some business plans were prepared for companies that either are not growth companies or the entrepreneurs actually are not clear about the purpose of the business plan. For the future the only chance for the service to get established is to build up a certain mass of experience reflected in a number of high quality business plans which can serve as reference. Satisfied companies (such as SAPUWA) may be invited to training courses to explain their experience and benefits derived from the process of business planning. The agreement between UAIC and the University of Technology in HCMC may contribute to the attractiveness of the exercise for the SMEs.

157. Recovery of the direct costs is very low. With the price of approximately \$ 100 per business plan, it does not reach 20%. However, it was found out that companies like SEPUBA might be ready to pay more (probably after the service proves to be beneficial for them). It seems that both reasons - building up a mass of reference and cost recovery - suggest that at least in the near future the business planning consultancy should be provided only to well established dynamic SMEs (Agrowth companies@).

4.3 Contribution to the development objective

158. As explained in Chapter 2, the evaluation team suggests to consider the original immediate objective@or project purpose as the development objective@.

"The performance of Vietnamese SMEs with respect to the price, quality and design of their products is significantly improved; and with it, the SMEs' competitiveness in domestic and foreign markets."

159. The policy component as well as the capacity building component, as they are under implementation up to now, support the foundation on which the Vietnamese SMEs will become more competitive - provided other framework conditions also keep changing. This will support the capacity of SMEs in Vietnam to increase their output, improve quality of products and services, and improve their competitiveness on domestic and foreign markets. This is still to be achieved on larger scale - so far only a few cases of improvement in SME performance, thanks to project intervention, could be recorded (the most prominent apparently being SAPUWA).

160. It can be expected that the largest countrywide impact will be achieved through project interventions at policy level. Already now it is obvious that SMEs have left the corner in which they were kept in Vietnam five years ago: inefficient, unreliable, and suspicious in many respect. While this is a synergistic outcome of many factors, it can be presumed that the project contributed to this change not only through the production of formalized outputs but also through numerous other formal and informal interventions, exchange of views and dissemination of ideas.

4.4 Sustainability

161. Sustainability in our context is the capability of MPI and the implementation partners to maintain and further develop the capacity building outputs produced with the support of the project. In addition, there will be a need beyond the project life to adjust permanently the capabilities to provide business services according to changing needs of SMEs.

162. Within MPI the implementation of proposals under discussion during the next 18 months will show how far the commitment of the government and MPI in particular will go to change the real barriers for entrepreneurs of all provinces and to support services for SMEs. Up to now the contribution of the project was well accepted by the counterpart. Only in the next two years one will see how far MPI and its Industrial Department will have gained in terms of capability to understand and support the requirements of the partners and clients.

163. On the other hand one will also see how far the implementation partners will be willing to sustain and keep upgrading the professional capabilities of their SME support units. One important aspect to do this will be the capability of the partners to generate income from their services.

164. Based on today's attitudes and commitment to the SME units it is not certain that all partner institutions will be able to maintain a sustainable nucleus, which will form the foundation for further activities. At this stage, these SME support units will not mainly depend on the cost recovery rate in Vietnam. Much more important will be the range of services of the agency or the partner institution. How will the new "product" or service fit into the service portfolio within the institution? How flexible will the institution be to absorb new ideas and approaches in order to develop its capacity as a business service provider?

165. Another aspect, related to the need to recover as much of the cost as possible, is the awareness about the quality of the service. Only those service providers will have a chance to sustain without the direct support of the project inputs which have products of high quality.

166. Since there is still more time for the partner organizations to go with the project than already passed, any assessment of the sustainability will be a speculation at this stage. One can see the differences between the SME units already now, but this is mainly due to the fact by whom they are hosted rather than how fast they are moving. The business institutions are more geared to orient themselves towards the requirements of the SMEs. Particularly for the bigger institutions there is a danger that they neglect the needs of the SMEs. The academic institutions are confronted with a completely new group of clients and one can see that they get prepared for this change in a different way. The "traditional" information provider still considers its supply-determined awareness raising as suitable for the new clients as well. Time will only prove how soon they will realize the need for changes.

167. As far as sustainability is concerned there are encouraging developments to be observed within the project. This does not mean that all institutions have the same potential to become a service provider, to develop the capability to adjust their client orientation and keep upgrading their professional capabilities. But it makes definitely sense from today's point of view to continue the cooperation with all implementation partners as long as they are willing to make their contributions as agreed in the CFAs.

5. CONCLUSIONS

5.1 Relevance

168. Since the time when the project document was signed, the actual situation of SMEs has improved, nevertheless their problems and needs remain. The project, with its policy component and capacity development component, continues to meet the actual needs of SMEs and is fully in line with the government priority to promote the development of SMEs.

169. The project was prepared on the basis of a detailed and highly professional assessment of the problems of SMEs in Vietnam in 1994. The planning process included a participatory OOPP workshop in Hanoi in April 1994. The preparatory work and the analysis were well documented and reflected in the project document which is very comprehensive and applies fully the logical framework approach (LFA), including specification of indicators and elaboration of assumptions.

170. The project document had to cope with differences in perception of the market mechanism and extensive problem coverage. The project document stressed the aspect of ownership in many respect while for the Vietnamese side market mechanism is considered as an ownership-neutral instrument. Given the available resources and the scope of the problems to be addressed the performance indicators set for the project were rather ambitious.

171. The basic assumption, that the Government will continue A doi moi@lines of policy and not cease the open economy has been reality up to now. And it is likely that this assumption will hold for the next period as well. Macro-economic stability - another assumption - is comparatively high and the SME sector has gained a more prominent role both in economic and in political terms in Vietnam in the last 5 years.

5.2 Implementation

172. Out of \$ 2,069,185 of the project budget, the project spent as of 31 October 1998 \$ 1,076,653 (52%) which is adequate for the expected duration of the project (4 years, starting effectively in September 1998). However, due to the long-term obligations, the uncommitted amount till the end of the project is relatively small (\$ 260,000) and does not provide much room for significant programmatic changes in the project in the remaining period.

173. The counterpart provided national inputs in terms of the project management staff and project facilities but a number of national inputs had to be substituted by UNIDO inputs (secretary, drivers, national professionals in the partner organizations).

174. There have been some revisions of the project budget to reflect the above changes as well as changes in the project strategy. In particular, a part of the budget (\$ 266,200) was allocated directly to the partner organizations to subsidize salaries of the SME support units and their initial activities. Allocation of a part of the budget to the partner organizations is not a standard arrangement in UNIDO projects. The delegation of responsibility for the use of the funds according to agreed upon terms introduced an element of stability in the operations of the supported units during project implementation and simplified its administration. At the same time, it represents a considerable risk that the activities will cease once the budget is used up and no subsidy to salaries and other activities is available.

175. As of 31 October 1998, the partner organizations spent \$ 79,398 which represents 30% of the total budget allocated to them. On average the recovery of expenditures financed from the budget allocations through revenues

reached 12.9 % for all partner organizations. From this point of view the most successful have been the training institutions (HUT 25.7%, HCMCUT 25.3%) and the least successful CESTI (1.9%). Partly this reflects the fact that it is easier to sell training services than information services.

176. Given the complexity of the project a long-term assignment of the CTA has been justified and desirable. However, in view of so many partner organizations in capacity building the layout of inputs has been extremely thin. It was primarily thanks to the use of UNVs, national experts and national subcontractors as well as the above mentioned allocation of the budget to the partner organizations that it was possible to carry out a broad range of activities with a rather limited budget. On the other hand the process of capacity building may have been influenced by limited use of short-term consultants.

177. The inputs delivered both by the counterpart and UNIDO were of good quality. The evaluation team recognizes in particular professionalism of the CTAs inputs not only in terms of project management but also in terms of her contributions to policy, methodological and technical issues addressed by the project.

178. Project activities have been conducted on the basis of a detailed work plan which has been updated. There have been intense and fair working contacts between the NPC and the CTA even though their views on some issues differed.

179. Management of the partner organizations is based on the Cooperation and Financing Agreements signed with them. The agreements are formulated in great detail and the system they introduce is operating satisfactorily. However, MPI dominates the scene and involvement of the implementation partners in the project management is rather limited.

180. The project management has very good contacts to other related projects and institutions both on the government as well as on the non-government level. The representatives of the project management are well known within the governmental bodies as well as within the donor community.

181. The UNIDO Project Manager has discharged her backstopping functions in a committed and professional manner. The Project Manager also established contacts and organized briefings for the CTA with many UNIDO professionals whose know-how may be relevant for the project or who have been backstopping other UNIDO projects in Vietnam. Contacts with the UNIDO Field office are well established.

5.3 Results

5.3.1 Policy

182. Contribution of the project under this Output was significant. The project was able to mobilize highly qualified experts within Vietnam, both national and foreign, to elaborate on the issues of legal and regulatory framework. Two comprehensive reports and a number of advisory notes were prepared by the project and served as a basis for extensive discussions of policy issues at a number of workshops and seminars.

183. As part of the discussion process the Prime Minister issued a circular (681/CP-KTN, 20.06.1998) defining "temporary criteria" for SMEs in Vietnam. These criteria are based on and in line with the definition of SMEs proposed in the project reports. Other advisory notes and papers were also used by the policy makers. All representatives of MPI stressed that they found it very helpful to make use of contributions prepared by the project under Output 1. It can be concluded that this Output has been successfully produced with the qualification "more than planned".

184. MPI will continue to be involved in the process of the development and formulation of a national SME programme in future. In view of the increasing importance of social and economic development in rural regions, MPI will also have to provide inputs to the strategy for rural industrial development. Additional work of the project in the policy field should, therefore, be envisaged, particularly in supporting MPI in implementation of the SME policy.

185. It is not yet clear at this stage whether the Advisory Board has the potential to evolve into a platform for discussing nationwide SME policy issues and to contribute to the functions of the SME coordinating unit as proposed by the project management.

5.3.2 *Capacity building in business development services*

186. Capacity building in the four service fields (technology information and consultancy; training; subcontracting; business planning) took place altogether in 6 partner organizations linked to the project by formal Cooperation and Financing Agreements (CFA), two organizations associated with one of the partners (information focal points of CESTI) and one training organization identified additionally and supported on an ad hoc basis only (a vocational training school).

187. Selection of the partners was a lengthy and politically sensitive process. Some other organizations could have been considered for selection as well but - given the available resources - formal agreements could only be concluded with a limited number of organizations. Informal networking is, however, to a great extent practiced with some other organizations.

188. None of the supported partner organizations has so far acquired capabilities to provide services in the scope and quality envisaged by the project document. This is partly due to the fact that the process of implementation of the CFAs started effectively only 8 - 16 months ago and that some external factors (institutional and policy framework) turned out to be more detrimental than expected and minimized the demand for some services (subcontracting, business planning).

189. With some exceptions the staff of the SME support units are junior. This is a great constraint for the development of those services which require professional experience (particularly consultancy services). It is, however, understood that it is difficult to recruit senior qualified staff for jobs the future of which is uncertain.

190. Good methodological tools were developed by the project particularly in the field of training and business planning.

191. A well conceived Client Monitoring System (CMS) was designed and installed in October 1998 at all partner organizations to monitor and support their activities but, with the exception of UAIC, its understanding by the staff at the time of the evaluation mission was still limited.

192. Providing services of good quality and as comprehensive as feasible requires cooperation (networking) among the partners. The cooperation has become operational but its potential has not yet been fully utilized.

193. The partner organizations managed to charge fees for some of their services.

194. The achieved level of strengthening the institutions and developing their capabilities differ among the services (Outputs), with the best results achieved in the field of training services. (More than 300 participants from more than 200 enterprises attended 10 training courses organized in the last 8 months. Recovery of direct costs

ranged between 20 and 50%, evaluation of the courses by participants was in principle positive.) Detailed assessment of results in each service field is in Chapter 4.

5.3.3 *Sustainability*

195. As far as sustainability is concerned, there are encouraging developments to be observed within the project. This does not mean that all institutions have the same potential to become a service provider, to develop the capability to adjust their client orientation and keep upgrading their professional capabilities. But it makes definitely sense from today's point of view to continue the cooperation with all implementation partners as long as they are willing to make their contributions as agreed in the CFAs.

6. RECOMMENDATIONS

6.1 Project orientation and management

196. Both aspects of the project (direct support to the SME policy and capacity building) should be continued for the remaining period of the project; up to 40% of the uncommitted budget amount should be used to continue the support of formulating and implementing SME policy.

197. The outputs in the field of capacity building should be consolidated and concentrated. An extension of the project outreach into other regions within the given resources cannot be recommended.

198. A full-time Chief Technical Advisor (CTA) will be necessary for the remaining period.

199. Encourage BSSCs and create conditions for them to work more autonomously from the project management.

200. The project purpose should be formulated separately for each component in such a way that the outputs support the purpose directly (as suggested in Chapter 2).

6.2 Policy

201. Continue to support the preparation, formulation and implementation of selected SME policy issues through the CTA and/or short-term experts. As far as resources allow support the adoption or reformulating of SME policy issues concerning rural areas.

202. Direct support (Output 1) and capacity building in respect of political and administrative units (Output 6) should be channeled through/restricted to MPI. However MPI should continue to include other institutions into the process of formulation and implementation of SME policy.

203. Provide financial and human resources to continue organizing platforms like workshops and seminars in order to support the momentum of discussion about policy and legal framework for SME development.

204. MPI and the project management should encourage the Advisory Board to play a more active role in addressing SME development matters which go beyond the immediate project fields of intervention. For this purpose the range of subjects for discussion and review have to be broadened as well as the range and level of participants.

205. MPI should recognize the fact that a certain range of business development services, delivered through the partner institutions to SMEs, need to be subsidized beyond the project life. To continue these activities with partner institutions funds have to be mobilized, based on their performance, service quality and confidence building. This fund raising process should be done by the partner organizations with the support of the project management.

6.3 Capacity building

6.3.1 General

206. Capacity building in Business Development Services should concentrate on two core areas: training and information (which should be complemented as far as possible by consultancy services). The perception of information should be extended to include business information (in addition to technology information). Output 4 on subcontracting should be reformulated as *Business cooperation* to allow for supporting less ambitious forms of industrial cooperation.

207. Networking among partner organizations in providing services should be strengthened in two dimensions:

S networking among providers of related services which can be packaged (particularly information and consultancy on technology);

S networking among partners from Hanoi and HCMC (particularly in training, sharing information products, etc.).

208. Service providers should establish clearly which category of the SMEs is the target group for which service and adjust promotion of the service and charging fees accordingly. Some services which are provided to the more advanced companies (consultancy services with impact on performance) should aim at full cost recovery, other services such as training (awareness raising) and information dissemination among a broad range of SMEs will have to be subsidized for longer period and some of them will always need subsidy. Differentiated fees may be also applied by business organizations for their members and non-members. While facilitating this process, project management should allow the service providers to take responsibility for formulating the pricing policy.

209. National project management and management of partner organizations should consider staff, their training and experience acquired through the project as the key factor of institutional capability. In compliance with this principle they should try to attract highly experienced and qualified staff and avoid any steps, which would result in resignation of qualified and dedicated staff.

210. Partner organizations should encourage their staff to upgrade knowledge of the English language.

211. Project Management should organize additional training of the staff in partner organizations in operating the Client Monitoring System.

212. Database on experts (EDB) should be gradually compiled. Well-organized and well-operating EDB is expected to facilitate the networking of information and Consultancy services.

213. Management of partner organizations should improve their reports on activities. Project management should explain again what improvements should be pursued (indication of quantitative dimensions, better understanding of the categories *Completed* and *Non-going* activities, etc.).

214. Good acquaintance of the CTA with methodological tools and professional capabilities of UNIDO should be further updated through personal contacts with relevant UNIDO professionals. The UNIDO Project Manager should ensure that new tools developed recently, which can be considered relevant, are made available to the project. The CTA should assess relevance of methodological tools available at other multilateral and bilateral agencies working in Vietnam, in particular ILO and GTZ, for project activities and make arrangements for their application, whenever feasible, or refer clients to use their services.

215. Financial resources allocated from the project budget to subsidize salaries of staff in partner organizations should not be exceeded beyond current level as stipulated in the CFAs.

6.3.2 *Information*

216. Widen the range of information services to include not only information on technology but also business information. For this purpose:

- S compile a list of key information sources in the country;
- S strengthen the capabilities of the partner organizations in searching and retrieving information from different information sources available in the country and abroad. This capability building should include additional on-the-job training in efficient searching on Internet;
- S establish contact of the partner organizations with the UNIDO Industrial Inquiry Service (UNIDO homepage) and train them in its use.

217. Strengthen networking among partner organizations in packaging information and consultancy services provided by experts, particularly experts from the partner universities.

218. Project management should establish contact with NACESTID in Hanoi in order to assess its capabilities and consider either strengthening its services or making use of its existing services for SMEs.

219. Continue organizing sector specific awareness raising courses for SMEs in HCMC and start organizing such awareness raising courses also in Hanoi. Extend the contents of the courses in order to promote use of the whole spectrum of information (not only that one available at CESTI), including the consultancy services.

220. Develop capabilities of the partner organizations in providing advice/consultancy on negotiations on transfer of technology. Use readily available tools developed by UNIDO and adapt them, if required.

221. Coordinate any data collection activities with the on-going programs carried out by other institutions (Statistical Office, Economic Divisions of the District Administrations, etc.). Gradually expand the Database of Domestic Companies through collection of data from service clients.

222. Offer the Binh Thanh vocational training school the possibility of referring inquiries which they are not able to answer, to the project partner organizations and assess after some time (say 6 months) usefulness of such networking.

6.3.3 *Training*

223. Extend organization of sector-specific technical training courses for SMEs. When selecting the subjects and preparing the courses consult intensively members of sectoral associations of UAIC as well as VCCI and HCU.

224. Ensure client orientation of the training courses and their quality through steadfast application of the Training Manual. In particular, ensure ownership of the business partner organizations in the needs assessment, programme preparation, quality control during the training courses, and feedback from the participants. In principle, do not extend short-term courses beyond one week (6 days). Consider preparation of training courses in the form of autonomous modules with the possibility to participate in some of them only. Encourage the participants to convey their views and to elaborate on them in the evaluation forms. Both the trainers and training organization need to be in informal contact with the participants to complement feedback from formal evaluations.

225. Improve presentation skills and methodological know-how of the trainers (apply more extensively modern techniques and practical demonstrations; make use of short term experts to transfer modern methods for training SMEs developed in other countries).

226. Respect the need of partner organizations for stability in implementation of the training programme. Once a programme of training courses is prepared for a planning period and adopted by all stakeholders, the project management should not intervene to introduce changes.

227. Make efforts to replicate support provided to the Binh Thanh vocational training school and to other vocational training school(s) in HCMC and Hanoi.

6.3.4 Subcontracting

228. Original ambitions of the project in subcontracting should not be pursued. Activities supporting various forms of business cooperation can be conducted by the partner organizations, such as dissemination of information on requests for industrial cooperation and partnerships by domestic and foreign companies through newsletters and other channels of the business organizations, organizing Cooperation Days, etc. Financial support to participation at exhibitions should be minimized.

229. Try to make networking arrangements with other development cooperation programmes supporting industrial cooperation and/or export promotion, with the possibility to refer to them clients for use of the other projects=services.

6.3.5 Business planning

230. Use business planning as a platform for consultancy services by networking organizations (universities). In particular, the partners should implement the agreement between UAIC and HCMCUT on using HCMCUT experts to offer diagnostic and other consultancy services in the context of business planning. Similar arrangements between the partners in Hanoi should be encouraged by the project management and implemented by the partners.

231. The above arrangement may strengthen recognition of the business plan as a management tool and contribute to raising demand for it. In most cases the business plan and the accompanying consultancy services will be relevant for more advanced SMEs (Agrowth companies®). Exceptionally, for the purpose of cost recovery and reference building, large companies could be encouraged to use the service, provided a quality control could be ensured.

232. Mobilization of companies for participation in training courses on business planning should be selective, having in mind the more advanced group of SMEs mentioned above.

233. If the demand by more advanced SMEs is actually raised, increase gradually the fee for the service to recover the cost and train additional consultants to work as free lance consultants in this field.

234. Review the results before the end of the project (at the end of 1999). If the demand can not be raised, discontinue subsidizing the service in the partner organizations.

7. LESSONS LEARNED

Ownership of the Project

235. According to standard understanding of development cooperation, the owner of the development process - and the project as a part of it - is the counterpart (UNIDO client) who wants to change an existing unsatisfactory situation. But there are deficiencies, obstacles or gaps to realize the change. Technical cooperation offers the chance by means of advice, training and to a very limited extent by means of basic equipment to fill this gap. For this purpose projects for technical assistance are formulated as a temporary intervention in order to support and assist the counterpart to fill the gap and to achieve the change.

236. Project documents should reflect mutual understanding of the executing agency and the national counterpart about the vision at the end of the project. It is, however, a common experience that during the implementation phase different opinions occur how to use the given resources. The concept of ownership includes the perception that the national counterpart has the last word. However, at the same time the external executing agency is responsible and accountable for how efficiently and effectively the external funds are used. Sometimes there is a risk that the project is considered by national partners primarily as a temporary additional source of income. In such situations the UNIDO staff may get into a conflict with the partners which is not easy to resolve. While UNIDO staff are considered to work as advisors this includes also being critical about what is going on.

237. In addition to the national counterpart there are other partners to implement the business promotion services. At this level there should be a mutual understanding not only of what gaps to fill, but also on how to fill such gaps. Assuming the basic mutual understanding of the objective exists, the how to element gains prominence at this level, because it relates closely to the needs and other characteristics of the final beneficiaries; the SMEs. Presumably, the implementation partners are in a better position to understand the final beneficiaries due to their closeness to this group. If this is the case, the implementation partners must be allowed to exercise initiative in determining how the gaps should be filled. In this context, one must underline the important relationship between responsibility and initiative. Without the ability to exercise initiative, responsibility/accountability can not be required and without being accountable, exercising initiative is not acceptable.

Networking

238. Networking among partners may become a very delicate and difficult arrangement, particularly in an environment where institutions prefer not to share results of their work. Why to share information, for example, if one party will win and the other will not gain anything (or possibly lose due to incurred costs)?

239. Networking among individual professionals (consultants) seems to be easier. For the individual person the win-win approach is more evident and transparent. It is easier to prove that sharing a certain bit of information is advantageous for both persons. Only two partners are involved in the decision making process and the risk is easier to calculate and manage. Networking between institutions involves more participants and unknown factors to be considered. This increases not only the risk but the win-situation is perceived differently. It is, therefore, important to establish principles of networking through negotiations among them so that the partners can influence reflection of their interests in the arrangement. The negotiating process may take time and amendments of the agreed upon system may be required as experience is accumulated but there does not seem to be an alternative to such a self-learning process.

Combination of policy and institutional building components

240. Combination of project interventions at policy and institutional levels under one umbrella brings positive effects: policy advisory activities benefit from the feedback (lessons learned) from institution strengthening, capacity building activities may benefit from better acquaintance with current policy discussions. Another advantage of the arrangement is the possibility of flexible changes in allocation of resources between the components. (These advantages have been noted in the case of this project.)

241. In some cases there may occur a certain risk that project management may favor one component against the other one, if the project management is closely linked to one component only. In such situations it may be better to apply a programme approach (having one programme with one strategic management but with two autonomous components, each of them operationally managed by its own manager).

Institutional capacity building

242. Institutional capacity building is a process which requires time long enough to develop all components (trained and experienced staff, methodological tools, procedures, management information system, etc.) Time frame of 3-4 years, frequently applied in UNIDO projects, is usually too short for such an objective.

243. Newly established units to provide business advisory services for SMEs in a country with transition economy (where such services had not existed) are usually staffed with junior professionals. This may be detrimental for the credibility of some services as perceived by the clients. In order to overcome (at least partly) this constraint it is important that the staff be carefully recruited (good educational background, good communication skills) and that measures be adopted to keep the staff on board and to gradually acquire diversified professional experience. This is yet another factor supporting the conclusion about longer time frames.

244. In this context one can not have an illusion that SME support services can become a source of generating income for the implementation partners after the project is over. Even in developed countries subsidies for some services are applied.

IN-DEPTH EVALUATION
Assistance to Industrial SMEs in Vietnam
US/VIE/95/004
TERMS OF REFERENCE

1. *THE PROJECT*

1.1. Background

The constraints faced by Vietnamese small and medium enterprises to establish themselves and be competitive were identified during a preparatory phase. In the course of a workshop attended by officials from the Government, public and private SME support institutions as well as representatives from SMEs of different provinces in Vietnam, the UNIDO support programme was developed using the Objectives Oriented Project Planning (OOPP) process. In particular the need for assistance was identified in two main areas:

\$ direct support: advice to relevant government authorities focussed on streamlining of the legal and regulatory framework concerning SMEs.

\$ institution-building: strengthening the capacity of selected public and private training, technological and representative institutions, including SME associations.

The above was reflected in a full-fledged project document submitted to and funded by Germany under US/VIE/95/004 (now being evaluated after two years of implementation).

1.2. Purpose, outputs and beneficiaries¹

The main phase of this project assists in developing, at the policy and institutional levels, an environment conducive to promote the development and growth of SMEs covering, inter alia,

Advice to Government

\$ Recommending improvements to the government's policy and regulatory framework designed to advance the competitiveness of SMEs including, but not limited to, those relating to registration procedures, import/export procedures and other disincentives or regulatory barriers affecting SMEs;

Capacity Building

\$ Strengthening the ability of selected private and public institutions to provide effective market-led services to SMEs, in selected industrial branches, in the fields of technological information, upgrading and development;

\$ Strengthening the capacity of selected private and public training institutions to provide effective market-oriented technical training services pertinent and responsive to the needs of SMEs in selected industrial branches;

\$ Promoting sub-contracting work awarded on a regular basis to SMEs in selected industrial branches;

¹ As stated in the project document.

\$ Empowering selected private institutions to assist local SMEs in preparing satisfactorily documented project proposals for application for Vietnamese and foreign bank credit and also proposals for attracting foreign joint-venture partners of SMEs;

\$ Working with relevant agencies (MPIs Industry Department, other agencies) to strengthen their capacity to plan, monitor and co-ordinate efforts in support of SMEs;

1.3. Budget

Amount: US\$ 55,480 preparatory assistance, UC/VIE/93/115
 US\$ 2,338,179 main phase (initial budget, US/VIE/95/004)
 US\$ 2,338,179 (budget as of September 1998; for expenditure to date, see print-out of latest budget status, attached)

Source of

finance: German contribution to Industrial Development Fund

In addition, the Government of Japan has contributed US\$ 192,180 in the form of an associate expert (TF/VIE/96/002; Oct 96-Oct 98); in October 1998,

Germany confirmed acceptance of funding of associate expert (Feb 99 - end of project).

1.4. Implementation of project US/VIE/95/004

Main phase/starting: August 1996

Estimated end of project: Autumn 2000

1.5. National counterparts

Ministry of Planning and Investment (MPI)

Selected public and private institutions in Hanoi and Ho Chi Minh City

The project is monitored by an Advisory Board, representing the MPI and the other governmental authorities concerned, relevant public and private sector institutions, associations representing SMEs and donors involved in related support. The activities of the project are reported on a regular basis to the Advisory Board.

2. THE IN-DEPTH EVALUATION

2.1 Purpose, scope and method

2.1.1 Purpose

The purpose of this in-depth evaluation (mid-term) is to enable MPI, UNIDO and the donor to review the achievements made in the first 2 years of project implementation and to take decisions on the future orientation of the project; where appropriate, to suggest corrective measures to improve the implementation of the project.

The evaluation is conducted in compliance with UNIDO policy of mid-term evaluation of large technical cooperation projects and is foreseen in the project document.

2.1.2 *Scope*

In-depth evaluation is an activity in the project cycle which attempts to determine as systematically and objectively as possible the relevance, efficiency, effectiveness, impact and sustainability of the project. The evaluation will assess the achievements of the project against its objectives, including a re-examination of the relevance of the objectives and of the project design. It will also assess to what degree the assumptions/risks as identified in the project document held true/occurred and identify other factors that have facilitated or impeded the achievement of the objectives.

The evaluation will be facilitated by availability of performance indicators and parameters elaborated by the project regarding outreach, efficiency, effectiveness and sustainability of the activities of the project at the macro, meso and micro-level.

The mid-term evaluation will review the following issues:

a) Relevance

- how does the project fit in the national priorities; any changes in the socio-economic framework?
- appropriateness of the institutional set-up of the project
- validity of project objectives for the clients and beneficiaries; participation of clients and beneficiaries in project formulation and reviews; continuing interest of target beneficiaries (SMEs) in services developed and offered by the clients/partners
- formal aspects of project design (internal logic, use of indicators and their realism, assumptions)
- coordination, complementarity or overlapping with other programmes/projects

b) Efficiency

- delivery of the various project inputs by UNIDO, the government, the other counterparts involved in terms of quantity, quality and timeliness
- implementation of activities and production of Outputs and their quality
- relation between Outputs produced and Inputs used
- management of the project
- in-house (UNIDO) cooperation with other technical units for the purpose of technical support to the project

c) Effectiveness (use of the Outputs)

- use of policy advice
- use of the developed/strengthened capacities of the clients by target beneficiaries

d) Impact

- actual and potential changes at the micro (SME) level (target beneficiaries)
- changes in awareness, attitudes and behaviour/operations at the policy level

e) Sustainability

- capability of the clients/partners to generate income from sales of their services
- commitment of the government to subsidize services for SMEs
- capability of the clients/partners to sustain and keep upgrading professional capabilities

While a thorough review of the past is in itself very important, the in-depth evaluation is expected to lead to detailed recommendations and lessons learned for the remaining life span of the project and its eventual follow-up. Based on the assessment of the results achieved and constraints faced, the evaluation will assess the possibility of attaining all objectives by the end of the project - fall 2000 according to the current project document - and formulate recommendations on ways expected to contribute to enhance the success of the project. This will include suggestions on areas in which further support will be needed from the project and/or other aid programmes, new areas requiring support activities and areas in which no further assistance is needed.

2.1.3 Method

The mission team will:

- study documentation at UNIDO Hqs and at project site (project document, progress reports, minutes of TPR review meetings, project files etc., including tools developed)
- interview the chief counterpart organization (MPI) and counterpart staff
- interview the project staff
- interview partner organizations and selected donors, including Germany
- interview selected number of target beneficiaries
- hold consultations with UNIDO office and, if relevant, UNDP Office

Interviews can be conducted either individually or as group exercises. At the end of the mission, a meeting will be organized to present the results of the mission.

Although the mission should feel free to discuss with the authorities and local partners concerned all matters relevant to its assignment, it is not authorized to make any commitment on behalf of UNIDO or the donor.

2.2 Composition of the evaluation team²

The evaluation team will be composed of the following:

One nominee of the donor (SME expert with vast experience in design and management of SME support programmes/projects, preferably in the context of transition economies).

One nominee of the government of Vietnam (with experience in and good understanding of the Vietnamese policy and institutional support framework regarding private sector development, in particular local SMEs).

One nominee of UNIDO with extensive experience in the evaluation of technical assistance projects, preferably including the evaluation of private sector development projects in economies in transition.

These members of the evaluation team should not have been involved in the designing or implementation of the project.

2.3 Proposed timetable and report

The evaluation report should follow a standard structure. In order to ensure that the report considers the views of the parties concerned and is properly understood and followed up by them it is required that the main conclusions and recommendations are presented to and discussed with the development partners and the UNIDO office in the field at the end of the field mission.

As the report is the product of an independent team acting in their personal capacities, it is up to that team to make use of the comments made by the parties involved and to reflect them in the final report. However, the evaluation team is responsible for reflecting any factual corrections brought to their attention prior to the finalization of the report.

The final report is to be submitted to field, donor and UNIDO headquarters and the full text on a diskette (in Word) by mid January 1999 latest.

\$ Beginning of the evaluation: 20 November 1998 (start of field work)³

\$ Duration of the field mission - 3 weeks (ending 11 December 1998)

\$ Proposed itinerary in Vietnam⁴

1. Hanoi

2. Ho-Chi-Minh City (with group discussion with partners in HCMC at end of HCMC mission)

3. Hanoi, including at the end of the mission: presentation of draft conclusions and recommendations (as and when required, key HCMC partners can be invited to be present at the team's presentation of conclusion and recommendations in Hanoi).

² It is recommended that the SME expert will be the team leader.

³ As the team leader will be in Asia in November and travel directly to Hanoi, he will receive relevant background via mail and be briefed by the UNIDO team member upon arrival in Hanoi.

⁴ Proposal with exact timing of itinerary in Vietnam will be prepared by UNIDO office in co-operation with project team.

ORGANIZATIONS VISITED AND PERSONS MET

Project Management

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 Mr. Nguyen Quang Dung, Director of MPI Department of Industry, Deputy National Project Director
 Mr. Vu Ngoc Xuan, Senior Project Advisor
 Mr. Dang Nghiem Dien, National Project Coordinator
 Ms. Nilgun Tas, Chief Technical Advisor

Project Staff, Hanoi Office

Ms. Kazue Yanagi, Associate Expert
 Mr. Thanarak Ang, UNV Database Specialist
 Ms. Doan Thi Dung, Project Secretary
 Ms. Ngo Thu Huong, Interpreter
 Ms. Tran Thi Chin, Administrative Assistant-Control
 Mr. Ha Nguyen, Business Planning Expert (resigned)
 Mr. Nghiem Viet Anh, Information Services
 Mr. Nguyen Quang Ha, Project Support Staff
 Ms. Pham Thi Dung, Project Support Staff
 Ms. Dang Thuy Van, Project Support Staff

Project Staff, Ho Chi Minh City Office

Mr. John Powell, Technical Training Expert
 Mr. Le Hoai Van, Interpreter

UNIDO Field Office

Mr. Nguyen Khac Tiep, UNIDO Programme Officer, Vietnam, Lao PDR, Cambodia and Myanmar
 Mr. Michael Brenning, former UNIDO Country Director on Mission in Vietnam

Ministry of Planning and Investment

Mr. Vu Huy Hoang, Vice Minister of Planning and Investment Responsible for Industry
 Mr. Do Van Hai, Deputy Director, Department of Industry, also Team Leader of SME Policy Drafting Working Group

Ministry of Industry

Mr. Pham Thanh Tam, Expert for Economic Sector, Planning and Investment Department.

Embassy of the Federal Republic of Germany

Mr. Jost Peter Kadel, Second Secretary, Development Cooperation

People's Committee of Hanoi City

Mr. Phan Van Vuong, Vice President, also President of Hanoi Cooperative Union
 Mr. Nguyen Dinh Duong, Chief, Trade, Tourism Division, Planning & Investment Department
 Mr. Tran Hung, Head of Consulate Division, Foreign Affairs Department
 Mr. Truong Duc Thang, Expert, Foreign Affairs Department

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Mr. Dinh Cong Bao, Member of Business Service Sub-Committee, also Director of Ladoza Co. Limited

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Ms. Nguyen Hien Phuong, Administrative Assistant, SME Promotion Centre

Ms. Tran Thuy Binh, Consultancy Centre for Investment and Technology Development in Textile-Garment Industries, Director of Training Courses on Garment Designing

Mr. Nguyen Dai Thang, Deputy Head of Economic s and Management Faculty, also Director of Training Course on Job Costing

Vietnam Chamber of Commerce and Industry

Mr. Vu Tien Loc, Secretary General, also Chairman of Committee for SME

Mr. Pham Tat Dinh, General Director, SME Promotion Centre

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 Mr. Nguyen Van Trong, Vice General Director, NEDCEN

Promotion of Small and Medium-sized Non-state Enterprises Project (GTZ)

Mr. J. Peter Bock, Coordinator
Mr. Pham Nam, Vice Director & Coordinator

Mekong Project Development Facility

Mr. John McKenzie, Senior Advisor

SME Development Fund, European Community

Mr. On Tuan Bao, Co-Director
Ms. Pham Ngoc Tram, Head of Monitoring Group

Industrial and Commercial Bank of Vietnam (ICBV)

Mr. Hoang Viet Trung, Deputy Director of Division on Long-term, Mid-term Credit and Project Management

Energy Development Investment Company Limited (EDICO)

Mr. Vu Manh Ha, General Director

May Rubber Factory

Mr. Nguyen Ngoc Thu, Cooperative Chairman
Mr. Nguyen Ngoc Toan, Vice Cooperative Chairman

Hoang Tu Company Limited

Mr. Nguyen Van Hung, Deputy Director

Dong Da Motorcycle-Bicycle Company

Mr. Nguyen Huy Cuong, Deputy Director

Nam Thanh Company Limited

Ms. Vu Thi Lan Thanh, Director

Saigon Pure Water Company (SAPUWA)

Mr. Le Nhu Ai, Director

Bach Viet Company Limited

Mr. Nguyen Phung Minh, Director

Nguyen Dinh Rubber Company, Ho Chi Minh City

Mr. Nguyen Ngoc Duong, Director, also participant in Job Costing and Production Management and Business Planning courses

Other (in the field)

Mr. Erich Klinger, GTZ, (on mission for BMZ)
Mr. John Bentley, Resident Legal Advisor
Mr. Han Manh Tien, Director, Consulting and Research Company for Technology Transfer and Investment (CONCETTI)
Mr. Lars Holmström, former CTA of project US/VIE/95/058

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Selected Organizations and Institutions Related to SME Development

- The Economic Commission of the Party Central Committee is in charge of principal directions in the economic development course. Policy for SMEs development must comply with the general development strategy. Participation of the Economic Commission in the activities of the project can facilitate adoption of policies in favour of SMEs;
- Ministry of Planning and Investment (MPI) is the most important governmental agency primarily in charge of State owned business development. With management departments (such as Industry Department, Business Management Department, National Economy Department, etc.) and research institutions (such as Central Institute of Economic Management, Development Strategy Institute etc.) under its control, MPI initiates and issues regulatory instruments for development of businesses in all sectors. According to the Announcement of Vice Prime Minister Ngo Xuan Loc (after reviewing the MPI's report on Strategy and policy direction for the development of SMEs in Vietnam by the year 2010), MPI is appointed as a coordinator of activities of other ministries in promotion of SME development;
- Ministry of Trade (MOT) is concerned first of all with import-export activities (including licensing).
- Ministry of Finance (MOF) is in charge of taxation policy.
- Ministry of Industry (MOI) controls a number of big State owned industrial corporations (such as Vietnam Brewery, Vinacoal, Vietnam Electricity Corporation etc.) and state-owned industrial SMEs. The MOI has programmes stimulating consumption of industrial products in rural areas, encouraging investment in certain branches and areas, and reasonably protecting industrial products which the domestic enterprises can manufacture to fully meet the market demands. The programmes may promote the development of SMEs;
- Ministry of Construction (MOC), Ministry of Transport and Communication (MOTC) also controls a number of big State owned corporations in their fields which may generate potential subcontracts for SMEs. In cooperation with MPI, the MOC and MOTC put forward conception to split construction and transport projects into a number of small packages for bidding thus to create opportunities for SMEs to have subcontracts;
- Ministry of Justice is responsible for improvement of legislation. The new amendments passed recently by the National Assembly clarify the position of domestic SMEs in the land issue. The business legislation shall be simplified in favour of establishment and operation of SMEs;
- Ministry of Education and Training (MOET) controls a number of universities and other educational institutions including Ha Noi University of Technology (HUT), Ho Chi Minh City University of Technology (HCMCUT) and the Viet-Duc Training Center under Technical Teacher Training College in HCMC.
- Ministry of Labour, War Invalids and Social Affairs (MOLISA) assumed responsibility for vocational training not so long ago (this function has been transferred from MOET), therefore MOLISA plays very important role in promotion of SMEs. In 1999 MOLISA has programs for upgrading vocational training centers to train 200,000 - 300,000 labourers and to find jobs for 200,000 people. Vietnam needs employment for 3 to 4 million people every year;
- The Directorate of Standards and Quality (STAMEQ) under the Ministry of Science, Technology and Environment (MOSTE) established the Small and Medium Enterprise Development Centers (SMEDEC) with decentralised management. STAMEQ also has a training center providing technology and quality related training. The center in Ha Noi houses the welding and auto repair training workshops supported by Germany (Koblenz Chamber of Artisans and Craftsmen). The center is capable to service testing and analyses requirements of SMEs. ;

- People's Committees of provinces and selected cities directly under the central governance control and manage activities of SMEs and some institutions and organizations promoting SMEs in their localities. The Center for Scientific and Technological Information (CESTI) is one of such local institutions controlled by the HCMC People's Committee. Another example is the Hanoi Cooperative Union (HCU) as a local business representative association for SMEs in Ha Noi.
- Vietnam Chamber of Commerce and Industry (VCCI) is very active in promotion of SMEs. Mr. Vu Tien Loc, VCCI's Secretary General is also Chairman of the Committee for SME (a national board consisting of representatives of administrative as well as business organisations). SME Promotion Centre in VCCI is one of the earliest establishments in this category. Selection of VCCI as a project partner-institution permits to bring services closer to SMEs and to make use of activities of other projects to which VCCI is also a partner;
- Union of Associations of Industry and Commerce, Ho Chi Minh City (UAI) is an influential business representative association in Ho Chi Minh City. UAIC has sectoral business associations with 1,700 members of which a majority are SMEs.
- Foreign Trade and Investment Development Center (FTDC) in HCMC was affiliated with the People's Committee of HCMC. Since 1996 it became a non-governmental organisation which provides information, consultancy on markets, legal and administrative matters, training opportunities and training courses for businesses including SMEs;
- Vietnam Central Council for Cooperative Unions & Small & Medium-sized Enterprises (VICOOPSME) has branches in all provinces down to the community level. (One of them is the partner organization HCU in Hanoi.) Originated as a ministry in 1991 it was declared a non-governmental organisation in 1993. VICOOPSME is not only an active lobbyist organisation to the benefit of cooperatives and SMEs but also entrusted with responsibility to distribute state funds in the form of subsidised loans to SMEs. VICOOPSME is the counterpart of the Promotion of Small and Medium-sized Non-state Enterprises Project funded by GTZ of Germany since 1995. Under VICOOPSME there is the Non-state Economic Development Centre of Vietnam (NEDCEN) which participates in another SME development project also funded by Germany through FES in the Ha Bac province;
- The Vietnam Woman Union and the League of Ho Chi Minh Communist Youth are also active in mobilisation of their members in promotion of SMEs.

Selected Development Cooperation Projects related to SME Development

UNIDO projects

- S US/VIE/95/058: Medium-Term Industrial Strategy (completed; direct policy advice to MPI combined with capacity building of the Development Strategy Institute - DSI);
- S US/VIE/109: Training Programme for Women Entrepreneurs in the Food Processing Industry (completed; capacity building of trainers and direct training of women operating or planning to establish household businesses, primarily in the Haiphong area);
- S TF/VIE/96/E10: Handicraft Villages Employment Programme (starting). Project is located in a province 100 km south-east of Hanoi. Dealing primarily with the household sector in villages (traditional craft development). One technology centre is to be established, with extension services on 11 product categories (silk, bamboo, stone carving...) to be provided to villages in the province as well as outside. A workshop will be organized at the end of the project to share and disseminate the experience;
- S VIE/98/022/08: Strategy for Employment Generating Regionally Balanced Rural Industrial Development (starting; direct policy support to Ministry of Agriculture and Rural Development, with possible follow up by development cooperation projects);
- S DG/VIE/97/051: National Industrial Statistics Programme (on-going; support to General Statistical Office);
- S US/VIE/96/063: Vietnam National Cleaner Production Centre (starting; capacity building and direct support to selected SMEs; hosted by the Hanoi University of Technology which is one of the implementation partners for the SME project).

Other bilateral or multilateral projects:

- S Promotion of Small and Medium Sized Non-State Enterprises, implemented through VICOOPSME in collaboration with the German Agency for Technical Cooperation GTZ and financed by the German Ministry of Economic Cooperation BMZ;
- S Partnership Project Handwerkskammer Koblenz-STAMEQ, implemented in field of quality improvement and management in collaboration between a German regional business association and the Vietnamese standard and quality authority in Hanoi;
- S Friedrich-Ebert-Foundation (FES) implemented in one province in the North in collaboration with the local People's Committee; the project supports adaptation of the economic and political structure on provincial level with special reference to the traditional craftsmanship villages; the program includes a pilot credit guarantee fund on a regional basis;
- S German -Vietnamese Returnees Programme, implemented by the Ministry of Labour, Invalids and Social Affairs (MOLISA) in cooperation with Deutsche Ausgleichsbank, which has a component of entrepreneurship development;
- S Support of Economic Reforms, implemented in collaboration between GTZ and Central Institute for Economic Management CIEM;
- S Partnership Programme to develop mainly the training capacity as part of business development services in cooperation with existing business organisations such as VCCI, supported by Zentrale des Deutschen Handwerks ZDH;

- S Export Promotion Programme for SME, a regional programme implemented by ESCAP in collaboration with National Focal Points. In Hanoi VCCI is the National Focal Point while in HCMC it is the FTDC. The donor for this program is the German BMZ;
- S AIT SAV (Management Development Programme) initiated by the "Swiss AIT Vietnam" in cooperation with MOET;
- S BMEP AU (Business Management Education Programme - Australia): implemented by the Swinburne University of Technology (Australia) in cooperation with VCCI;
- S DANIDA project for development of the private sector;
- S Mekong Project Development Facility (MPDF) funded by IFC, EU, UK and Japan; provides funds for Vietnamese SMEs on commercial terms, operates without any local implementation agency;
- S SME Development Fund (SMEDF) of EU in cooperation with MOLISA and several banks of Vietnam; the fund is supposed to provide up to \$ 25 million as medium and long-term credits to SMEs through the existing Vietnamese commercial banking system;
- S WED CAN (Womens' Economic Development Project): funded by the Government of Canada in cooperation with Vietnam Women Union (the Center of Woman and Family Studies);
- S OECF Private Sector Investment Finance Facility;
- S ILO project (starting) AStart and Improve Your Business - Vietnam@ to be implemented in cooperation with VICE (36 months, budget US\$ 1.7 Million). The CTA of the project arrived in January 1999. Within VCCI the project is placed in the Amembership department@and they have to establish ties with the SMEPC (SME Promotion Center), which is supported by the UNIDO/MPI project. The project will start its activities in Hanoi, HCMC and Can To, in the second year 5 more provinces should be covered and by the end of the third year trainers in up to 20 provinces should be able to conduct courses in the field of entrepreneurship development. The trainers are expected to conduct up to 225 one week seminars with 20 participants so that up to 4500 entrepreneurs can benefit from the program;
- S JICA project (starting); AA Study on the Promotion of the Small and Medium Scale Industrial Enterprises in Vietnam@ in cooperation with MPI . The study area shall cover all of Vietnam and "the output will be a comprehensive report on 'Public Policy Proposal for SME Development and Institutional Arrangements for Implementation' and two feasibility studies: one on a credit guarantee scheme and the other on a subsidy fund for business development services to SMEs" . The study is expected to be completed within 12 months, starting with the field work during the first half of 1999.

There are other activities in the field of technical and vocational training funded by Germany such as in the Viet Duc Training Centre (part of the College of Technical Teachers Training CTTT in HCMC) implemented in cooperation with GTZ or the Vocational Education Programme Vietnam in cooperation between GTZ and MOET.