

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION
REPORT FOR THE LOANS TO THE NGHI SON CEMENT CORPORATION
IN VIET NAM (Equity Investment 7133 and Loan 1502-VIE)**

On 15 November 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

A. Overall Assessment and Key Issues

1. Management finds OED's Project Performance Evaluation Report (PPER) well written and provides a good picture of the progress of the Project, including the "satisfactory" rating for ADB's effectiveness and project's development impact.

2. **Private Sector Development.** The Project is regarded to have stimulated private sector investment and increased competition in the cement industry, as evidenced by the fact that foreign private sector cement operations accounted for about 26.4% of the total cement production in the country at the end of 2005 from a level of 0% at the time of loan processing. Moreover, the PPER pointed out that the existing private sector joint venture cement plants intend to expand their production capacities within the medium term and five new joint-venture plants are expected to be built under the Government's master plan for the cement industry. It would be difficult to imagine that these investments are being contemplated by the private sector if the incentives to do so were not that compelling.

3. It is also noteworthy to stress that private sector investment does not only imply equity, but also includes debt from the private sector. The PPER recognized that financing from private sector banks were mobilized for the Project that would have otherwise not been available had it not been for the involvement of ADB and the International Finance Corporation. It would have been meaningful, therefore, if the evaluation had examined whether financing from private sector banks became more readily available and the terms and conditions to finance the funding requirements of the cement industry were improved in Viet Nam. This is particularly important given the huge financing requirement of the industry estimated at roughly \$3.7 billion over a 15-year period. Such investments would be needed to increase local cement capacity from roughly 24.0 metric tons per annum (mta) in 2005 to about 54.3 mta by 2015 to supply the large infrastructure requirements of the country.

B. Lessons Learned and Follow-Up Actions

4. **Coordination between ADB's Private and Public Sector Operations.** Management notes the PPER's suggestion that ADB could have maximized the development impact of a project through close coordination between the Private Sector Operations Department (PSOD) and the regional departments, as the private sector issues could be considered when designing interventions to assist the public sector in adopting market reforms. It is also noted that despite the Government's strong influence in the industry, this Project was generally

successful with clear development impacts. The PPER concludes that “the public and private sides of ADB should have interacted more for the purpose of discussion policy issues with the Government, including cement pricing and market liberalization (para 46).” In 1996, the Government had its own approach to market liberalization and the role of SOEs in that process, allowing little role for ADB to change this. While it would be ideal to let market forces dictate pricing, we would caution against concluding that such government intervention was a deterrent to private sector participation. It would have been more meaningful if the PPER analyzed the reasons behind the government policy of fixing cement prices—particularly with respect to the relationship of cement prices to infrastructure development, inflation, growth targets, and the need to compel local cement operations to improve their inefficient operations.

5. There is no follow-up action required on environment issues, but we will monitor any resettlement concerns. We will take into account the lessons learned for design of future projects.