

## TECHNICAL ASSISTANCE COMPLETION REPORT

Division: MKAE

TA No., Country and Name TA 3227-VIE: Strengthening Corporate Governance at Viet Nam Bank for Agriculture and Rural Development			Amount Approved \$900,000	
			Revised Amount: Nil	
Executing Agency Vietnam Bank for Agriculture and Rural Development	Source of Funding TASF	Amount Undisbursed \$370,614 <sup>a</sup>	Amount Utilized \$529,386	
Date			Closing Date	
Approval 19 Jul 1999	Signing 30 Nov 1999	Fielding of Consultants 17 Jan 2000	Original 31 Oct 2001	Actual 14 Oct 2002 <sup>b</sup>

### **Description**

The Vietnam Bank for Agriculture and Rural Development (VBARD) was established in March 1998 under Decree 53/HDBT dated 20 March 1998. It is wholly owned by the Government and is supervised directly by the State Bank of Viet Nam (SBV). Under its charter, VBARD is allowed to carry out commercial and development banking activities in all sectors of the economy, focusing on agriculture and rural development. VBARD provides about three fourths of the rural credit in the country in absolute terms. Its outreach extends to one third of the country's estimated 12 million rural households or 70% of the rural households served by the formal financial institutions. VBARD has transformed its operations in line with the changes in the economy and the business environment and has become a competitive financial intermediary predominantly meeting the financial needs of farm households and emerging private sector enterprises. VBARD has improved the access of poor and rural households to affordable financial services.

Since 1986, the Government has undertaken significant financial sector reforms in the direction of international best practices. In line with this, VBARD has since 1994 subjected itself to international audits. While external regulations brought about by financial sector reforms have introduced mechanisms for financial management with clearer accountability and transparency in VBARD, it was nevertheless recognized that much remained to be done to improve overall governance to ensure its effectiveness and competitiveness in a economy, which was racing towards liberalization. To facilitate these changes, the Government requested for Asian Development Bank (ADB) advisory technical assistance (TA) to raise the level of understanding of VBARD management of what constituted good governance and to strengthen VBARD in this respect. The TA is consistent with the ADB's operational strategy for Viet Nam in the financial and rural sectors.

### **Objectives and Scope**

The objective of the TA was to strengthen the corporate governance of VBARD to ensure its effectiveness as a development financial institution. The TA would review and advise VBARD about its systems, policies and procedures with a view to ensuring that they contribute to its sustained growth as a sound financial institution, and economic growth and poverty reduction of the country.

### **Evaluation of Inputs**

The TA as designed has a wide scope, is comprehensive, and calls for the review of the organization, operations, and systems of the institution and to make recommendations thereof. It is an ambitious effort to address corporate governance of an institution that is just emerging from a central planning framework. Insofar as the management of VBARD is new to the concept and workings of a market economy but need to ensure transparency and predictability in its day-to-day operations, it was inevitable that even the basic framework, such as the corporate planning process that defines the objectives and goals of the institution and basic management principles had to be addressed under the TA. In doing so, both staff and line functions (from auditing to financial risk management) had to be reviewed to ensure that policies were committed to the principles of predictability, accountability, participation and transparency. In this context, the objectives and terms of references of the TA were appropriately formulated.

The TA addressed a wide range of issues including audit, integral to good governance. Among others, the TA aimed to: (i) establish a corporate planning process in VBARD, (ii) establish an organizational strategy, (iii) establish an asset-liability committee (ALCO) and train various staff in risk management, (iv) train staff in preparing training plan to support corporate plan implementation, (v) train staff in the design and preparation of a MIS development plan, (vi) strengthen credit appraisal and supervision, and (vii) prepare a systems development plan. The implementation schedule of 24 months was enough to ensure consultants' inputs and training of staff, but was insufficient to see the full implementation of the recommendations of the TA. There was an inception and two review missions carried out in conjunction with the review of the Rural Credit and Rural Enterprise Finance projects. There

<sup>a</sup> Final claims not yet settled.

<sup>b</sup> Completion date of consulting services.

was close coordination between the missions, consultants, and VBARD in monitoring the progress of the TA. The consultants employed a participatory approach in engaging VBARD management in a situational analysis of the institution and the environment. They complied with their contract, and were flexible in their work plan, giving VBARD enough time to review and test several recommendations. Inputs of participants have been wanting, mainly because of language and knowledge barriers. As well, the time needed to adopt the consultants' recommendations and to internalize them in VBARD meant that many recommendations have not been adopted. The consultants have also complained, several times, about the difficulties they faced in successfully engaging management on several issues.

#### **Evaluation of Outputs**

The consultants submitted an inception report, midterm report, draft final report and final report. These reports present the consultants' outputs and recommendations, which substantially complied with the terms of reference. The draft final report was submitted in March 2001. Appended to the final report is VBARD's Corporate Plan for 2001-2003 together with ten detailed working papers that derive the recommendations included in the Corporate Plan. VBARD adopted the Plan and committed to a detailed and time bound action plan embodied in the Corporate Plan and as agreed with the Bank. The final report included a detailed review of VBARD's progress with implementation of the recommendations, which was carried out by the consultants between 20 and 27 May 2002.

The consultants worked closely with VBARD counterpart staff, which to a certain extent effected skill and knowledge transfer. The consultants also conducted 11 formal workshops in various aspects of corporate governance. A total of 231 officers and staff from the branches and head office attended these workshops. In addition, following the review of implementation in May 2002, the consultants provided VBARD with further guidance on the development of job descriptions and performance appraisal, and the use of off-the-shelf risk management software.

#### **Overall Assessment and Rating**

Overall, the TA is rated as successful. The TA contributed to raising the awareness of VBARD management and senior staff to the corporate planning process and various monitoring and evaluation processes necessary in ensuring good governance. It contributed to the development of a corporate plan and the adoption by VBARD of a detailed action plan covering organizational structure and governance, human resource development, product and service development, marketing and support systems, risk management, accounting and management information systems, and IT development. The consultants have assisted VBARD in strengthening the internal audit department and establishing an audit committee. Internal auditors at VBARD branches should be paid from the budget of the audit department and not the branches they are auditing to ensure their impartiality. VBARD realizes that institutional development is an arduous process that requires unwavering commitment. However, it has not been able to fully implement the recommendations of the TA because of time, knowledge and skill constraints. Further assistance may be needed to assist VBARD implement more complex aspects of the action plan.

#### **Major Lessons Learned**

Awareness raising is the first action needed to bring about change. This is often a long process and involves continuous interaction between policy makers, implementers, and national and international experts.

#### **Recommendations and Follow-Up Actions**

Knowledge barriers, time constraint, and failure to fully implement a performance based reward system, as well as IT constraints, have restrained the achievements of an otherwise sound TA. Because of ADB's deep involvement in the rural financial sector and VBARD's role in several new projects, it is necessary to continue monitoring developments in corporate governance of VBARD even after the closing of the TA to ensure that the output of the advisory TA is not stacked away or wasted.

Prepared by A. Maurice de Alwis Designation Senior Financial Analyst