

TECHNICAL ASSISTANCE PERFORMANCE AUDIT REPORT

ON

ADVISORY TECHNICAL ASSISTANCE

FOR

POWER SECTOR INSTITUTIONAL STRENGTHENING

IN

VIET NAM

October 2004

CURRENCY EQUIVALENTS

Currency Unit – dong (D)

		At TA Approval	At TA Completion	At TA Evaluation
TA 2345-VIE		(June 1995)	(December 1997)	(June 2004)
D1.00	=	\$0.00009	\$0.00009	\$0.00006
\$1.00	=	D11,008	D11,138	D15,730
TA 2346-VIE		(June 1995)	(April 1998)	(June 2004)
D1.00	=	\$0.00009	\$0.00008	\$0.00006
\$1.00	=	D11,008	D12,986	D15,730
TA 2888-VIE		(October 1997)	(March 2001)	(June 2004)
D1.00	=	\$0.00009	\$0.00007	\$0.00006
\$1.00	=	D11,176	D14,268	D15,730
TA 2897-VIE		(October 1997)	(December 1999)	(June 2004)
D1.00	=	\$0.00009	\$0.00007	\$0.00006
\$1.00	=	D11,176	D14,021	D15,730
TA 3763-VIE		(November 2001)	(August 2004)	(June 2004)
D1.00	=	\$0.00007	\$0.00006	\$0.00006
\$1.00	=	D15,040	D15,758	D15,730

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
ERA	–	Electricity Regulatory Authority
EVN	–	Electricity of Viet Nam
GWh	–	gigawatt-hour
kV	–	kilovolt
LRMC	–	long-run marginal cost
MOI	–	Ministry of Industry
OEM	–	operations evaluation mission
PC	–	Power company
TA	–	technical assistance
TCR	–	technical assistance completion report
TOR	–	terms of reference
TPAR	–	technical assistance performance audit report

NOTE

In this report, "\$" refers to US dollars.

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Hong Wang, evaluation specialist (team leader), was responsible for the preparation of this report, and conducted document reviews, key informant interviews, and guided the fieldwork undertaken by the staff consultant. Geoff Brown, staff consultant, managed a local team of facilitators and enumerators and oversaw focus group discussions and surveys, and prepared sector reports on fieldwork findings. Vivien Buhat-Ramos, evaluation officer, supported the team with research assistance. Anna Silverio, operations evaluation assistant, provided secretarial assistance from Manila.

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BASIC DATA

TA 2345-VIE: Improvement of Financial Management of Power Companies^a Part A: National Tariff Study Part B: Improvement of Financial and Accounting Systems

Cost Financed by ADB (\$'000) ^b	Estimated	Actual
Foreign Exchange Cost		
Part A	426	508
Part B	747	411
Local Cost		
Part A	2	—
Part B	25	—
Subtotal Part A	428	508
Subtotal Part B	772	411
Total	1,200	919
Number of Person-Months		
Part A (consultants)	15	17
Part B (consultants)	24	23
Executing Agency:	Electricity of Viet Nam	
Milestones		Date
President's/Board Approval		8 Jun 1995
Signing of TA Agreement		16 Jun 1995
Fielding of Consultants		
Part A		19 Jan 1996
Part B		24 Jan 1996
TA Completion:	Expected	Aug 1996
	Actual: Part A	Aug 1997
	Part B	Dec 1997
TCR Circulation		Not required
Mission Data	Number	Date
Programming	1	6–16 Dec 1994
Reappraisal	1	16–27 Jan 1995
Inception	1	24–26 Jan 1996
Tripartite	1	14–15 Apr 1997
Operations Evaluation	1	7–18 Jun 2004

— = not available, ADB = Asian Development Bank, TA = technical assistance, TCR = technical assistance completion report.

^a Attached to ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Power Distribution Rehabilitation Project*. Manila (Loan 1358-VIE[SF]).

^b Financed by Japan Special Fund.

TA 2346-VIE: Training in Distribution Planning^a

Cost Financed by ADB (\$'000)^b		Estimated	Actual
Foreign Exchange Cost		243	218
Local Cost		4	—
Total		247	218
Number of Person-Months (consultants)		6.0	7.24
Executing Agency: Electricity of Viet Nam			
Milestones			Date
President's/Board Approval			8 Jun 1995
Signing of TA Agreement			16 Jun 1995
Fielding of Consultants			17 Feb 1997
TA Completion:		Expected	Mar 1996
		Actual	Apr 1998
TCR Circulation			Not required
Mission Data		Number	Date
Programming		1	6–16 Dec 1994
Reappraisal		1	16–27 Jan 1995
Fact-Finding		1	8–12 Apr 1996
Tripartite		1	9 Sep 1996
Operations Evaluation		1	7–18 Jun 2004

— = not available, ADB = Asian Development Bank, TA = technical assistance, TCR = technical assistance completion report.

^a Attached to ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Power Distribution Rehabilitation Project*. Manila (Loan 1358-VIE[SF]).

^b Financed by Japan Special Fund.

TA 2888-VIE: Improvement of the Power Sector Regulatory Framework

Cost Financed by ADB (\$'000)^a		Estimated	Actual
Foreign Exchange Cost		700	707
Local Cost		100	—
Total		800	707
Number of Person-Months (consultants)		28	16.2
Executing Agency: Ministry of Industry			
Milestones			Date
President's/Board Approval			7 Oct 1997
Signing of TA Agreement			25 Aug 1998
Fielding of Consultants			19 Oct 1998
TA Completion:		Expected	Dec 1998
		Actual	Mar 2001
TCR Circulation			Not yet circulated
Mission Data		Number	Date
Fact-Finding		1	Aug 1997
Review		1	23–30 Nov 1998
Review		1	27–28 Apr 1999
Review		1	30 Nov–10 Dec 1999
Operations Evaluation		1	7–18 Jun 2004

— = not available, ADB = Asian Development Bank, TA = technical assistance, TCR = technical assistance completion report.

^a Financed by Japan Special Fund.

TA 2897-VIE: Commercialization of Power Companies

Cost Financed by ADB (\$'000)^a	Estimated	Actual
Foreign Exchange Cost	800	880
Local Cost	100	—
Total	900	880
Number of Person-Months (consultants)	30	29
Executing Agency:	Electricity of Viet Nam	
Milestones		Date
President's/Board Approval		20 Oct 1997
Signing of TA Agreement		14 Mar 1998
Fielding of Consultants		2 Jun 1998
TA Completion:	Expected	31 Dec 1998
	Actual	31 Dec 1999
TCR Circulation		5 Jan 2000
Mission Data	Number	Date
Fact-Finding	1	Aug 1997
Review	1	23–30 Nov 1998
Tripartite	1	30 Nov–10 Dec 1999
Operations Evaluation	1	7–18 Jun 2004

— = not available, ADB = Asian Development Bank, TA = technical assistance, TCR = technical assistance completion report.

^a Financed by Japan Special Fund.

TA 3763-VIE: Road Map for Power Sector Reform

Cost (\$'000)^a	Estimated	Actual
Foreign Exchange Cost	376	323
Local Cost	24	—
Total	400	323
Number of Person-Months (consultants)	12	—
Executing Agency:	Ministry of Industry	
Milestones		Date
President's/Board Approval		6 Nov 2001
Signing of TA Agreement		2 May 2002
Fielding of Consultants		30 Oct 2002
TA Completion:	Expected	Nov 2002
	Revised	15 Aug 2004
TCR Circulation		Not yet circulated
Mission Data	Number	Date
Fact-Finding	1	21–29 May 2001
Review	1	21–24 Jan 2003
Review	1	10–12 Jun 2003
Tripartite	1	23–25 Feb 2004
Operations Evaluation	1	7–18 Jun 2004

— = not available, ADB = Asian Development Bank, TA = technical assistance, TCR = technical assistance completion report.

^a Financed by the Government of France.

EXECUTIVE SUMMARY

In December 1995, the Government of Viet Nam adopted the comprehensive Power Sector Policy. The policy, which was updated in August 1997, outlined a reform strategy for (i) commercializing power sector institutions; (ii) developing a regulatory framework, including an electricity law; (iii) adopting cost-based tariffs; (iv) promoting private sector participation; (v) increasing rural access to electricity; and (vi) undertaking demand-side management. After resuming operations in Viet Nam in 1993, the Asian Development Bank (ADB)—in close cooperation with other major external aid agencies—held intensive policy talks with the Government on issues in several sectors. The power sector dialogue covered institutional aspects, including the need to improve financial accounting, management information systems, budgeting, billing and collection, pricing, operational efficiency, and human resource development. During these discussions, the participants agreed that ADB would focus on pricing reforms, institutional strengthening, and technical and financial capacity building. The World Bank would concentrate on sector reforms and restructuring. Consequently, ADB approved a technical assistance (TA) program that aimed to strengthen power sector institutions, particularly by developing financial accounting and management information systems, improving the management and technical skills of concerned staff, and formulating tariff policies and structures.

This technical assistance performance audit report (TPAR) evaluates five advisory TAs supporting these institutional development objectives in Viet Nam's power sector. These TAs were approved between 1995 and 2001, and completed between 1997 and 2004. The amount approved for these TAs totaled \$3.55 million, or roughly 4% of ADB's TA program in Viet Nam up to 2004.

TAs 2345-VIE, 2346-VIE, and 2897-VIE concentrated on tariff reform, the commercialization of financial and management processes, and the introduction of computerization in planning distribution network extensions and augmentations. TAs 2888-VIE and 3763-VIE covered the development of regulations supporting the proposed electricity law, and preparation of a road map for future sector reform. Thus, the cluster of TAs supported ADB's policy dialogue with the Government, which focused on strengthening and reforming the sector to minimize the risk that the absence of an adequate and cost-efficient electricity supply would impede economic development.

TA 2345-VIE: Improvement of Financial Management of Power Companies. The TA was consistent with the power sector policy direction that the Government and ADB agreed upon at approval. However, it soon became apparent that Electricity of Viet Nam (EVN) was less committed than expected to making the policy changes. Nevertheless, the national tariff study under the TA was the most authoritative and comprehensive undertaken on the marginal costs of the electricity industry in Viet Nam. Moreover, tariffs have increased progressively, keeping EVN financially sound. While internal management systems have been strengthened somewhat, many of the TA recommendations have not been implemented.

TA 2346-VIE: Training in Distribution Planning. The TA was planned well and implemented successfully. A participant survey indicated that trainees considered the course well designed and delivered. The use of real planning projects to underpin the training was effective, and increased the useful output from the TA. However, the provision of a single software license for Power Company (PC) No.1 and PC Hanoi probably was inadequate to effectively follow up on the concepts and techniques taught during the course. While the Operations Evaluation Mission (OEM) was told that the software provided under the TA still was

in use, the effectiveness of its usage was unclear. The long-term sustainability of the TA was reduced due to the small number of trainees from each member organization, and the limited access to the tools needed to effectively use the training.

TA 2888-VIE: Improvement of the Power Sector Regulatory Framework. At TA approval in October 1997, the draft electricity law was expected to be submitted to the National Assembly in 1998, with formal adoption in late 1998 or early 1999. Thus, the TA was considered timely, because supporting regulations needed to be available in draft form when the National Assembly considered the law. However, the anticipated time frame was overly optimistic. This, combined with other factors, required a reduction in the TA's scope of work. Furthermore, the consultant was unable to form a consensus among stakeholders regarding establishing an electricity regulator. The TAs' only achievement was the preparation of a regulation on tariff reform that formed the basis for a similar draft regulation that was submitted to the National Assembly in support of the draft electricity law.

TA 2897-VIE: Commercialization of Power Companies. The TA was formulated to assist EVN in implementing the recommendations developed under TA 2345-VIE. While the terms of reference (TOR) appear to have been designed carefully to take account of regulatory constraints on the operation of EVN, the consultant did not appreciate this fully. Although recommendations in some areas were useful and were implemented, other sections of the report did not address directly the TOR. As a result, some of the consultant's recommendations could not be implemented.

TA 3763-VIE: Road Map for Power Sector Reform. The consultant submitted the final report for this TA in April 2004. The report identified the issues and reviewed the options for moving the industry forward. However, in the context of Viet Nam's tightly regulated economy, some of the proposed changes appear radical. Whether they can be implemented within the proposed time frame remains to be seen. The requirement in the draft electricity law that the Prime Minister continue to approve end-user tariffs, and the lack of an agreement on the creation of an independent regulatory authority, indicate that the path ahead might not be straightforward.

Of the five TAs covered by the report, four were rated partly successful. Since the National Assembly has not approved the electricity law, and the associated reform program has not commenced in any meaningful way, formally rating the other TA (TA 3763-VIE) was considered premature.

The performance of ADB and the executing agencies (EAs) was assessed as partly satisfactory. For ADB, this assessment reflected its inadequate stakeholder analysis during TA preparation, ineffective supervision during TA implementation, and failure to identify lessons learned that would be relevant to future ADB operations. For the EAs, this assessment was based mainly on their lack of proactive involvement, especially during TA preparation and implementation, and their inability to implement most of the TA recommendations.

Several lessons were learned from the evaluation. First, once key recommendations are dismissed as irrelevant on the grounds that they cannot be implemented readily, more useful recommendations tend to get overlooked also. The TA report, consequently, loses its credibility. To avoid such problems, a three-way dialogue among the Government, ADB, and the TA consultant is desirable throughout a TA. This allows misunderstandings to be resolved early, so the TA consultant can be redirected as necessary. Second, the EAs lacked ownership and

proactive involvement in all these TAs. The EAs regarded the TA outputs more as a source of reference for the future than an agreed course of action. During TA implementation, inputs from the EAs often were not substantial and substantive. After completion, the TA reports were not translated into the Vietnamese language and disseminated throughout the organization. Other stakeholders and government agencies concerned generally were unaware of these TAs. For TA 2345-VIE, when the EA did not provide the required data after repeated attempts, more efficacious use of TA funds might have been considered, including discontinuing the TA-financed study, if necessary. Last, ADB might consider asking EAs to undertake their own formal, documented evaluation of all TAs within 1 or 2 years of completion. The evaluation should assess the relevance of TAs, their impact on the organization, and the extent to which recommendations made were accepted and implemented. The aim of the evaluation would be to increase the involvement of the recipient organization, and to help ensure that the design of subsequent ADB TA programs improves their chance of achieving the desired outcomes and impacts.

The evaluation identified two follow-up actions: (i) EVN needs to translate the final report for TA 3763-VIE into Vietnamese for dissemination to relevant government agencies, and ADB might consider funding part of the translation and printing costs; and (ii) after the electricity law has been passed, ADB and the Government should discuss technical assistance to support implementation of the associated reform program. If ADB is not in complete agreement with the electricity law, as passed, and the associated reform program deviates substantially from the road map developed under TA 3763-VIE, ADB should revisit its sector operational strategy to decide whether any new institutional strengthening TAs to the power sector in Viet Nam is warranted.

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I. BACKGROUND

A. Introduction

1. Until 1994, the power system in Viet Nam was divided into three regional power companies (PC): Power Company No. 1 (PC1), operating in the north; Power Company No. 2 (PC2), operating in the south; and Power Company No. 3 (PC3), serving the center of the country. These vertically integrated companies functioned independently in their respective territories, with each developing technical capabilities in power system planning, design, construction, and operation. However, since the companies operated in a centrally planned economic system driven by production targets, not profits, the need to develop skills in areas such as financial management, financial planning, and demand-side management was less pronounced. Furthermore, in-house technical capabilities were based largely on Eastern European practice, and did not capture improvements in electronic, computing, and communications technologies.

2. In May 1994, a 500-kilovolt (kV) transmission line was commissioned to bring power from the Hoa Binh hydropower station, southwest of Hanoi, to Ho Chi Minh City. This new line established, for the first time, an interconnected transmission grid, stretching the length of the country. It was also the impetus for a major industry reorganization in 1995 that included merging the three vertically integrated PCs to form Electricity of Viet Nam (EVN), a national umbrella organization for the power industry. Under EVN, generation and transmission operations were restructured into functionally separate, dependent accounting (cost) centers, while distribution was reorganized into five regionally based independent accounting (profit) centers.¹ From 1995 to 2002, EVN's electricity sales increased at an average annual rate of more than 15%—from 11,200 gigawatt-hours (GWh) to 30,250 GWh.

3. The Government adopted the comprehensive Power Sector Policy in December 1995. The policy, which was updated in August 1997, outlined a reform strategy for commercializing power sector institutions; developing a regulatory framework, including an electricity law; adopting cost-based tariffs; promoting private sector participation; increasing rural access to electricity; and undertaking demand-side management. In the early 1990s, Asian Development Bank (ADB) operations in Viet Nam were guided by an interim operational strategy published in September 1993. This strategy addressed four priority areas: (i) financial support for an intensive program of rehabilitation, upgrading, and development of the country's physical infrastructure; (ii) promotion of economic and sector policy reforms to improve public sector efficiency, and promotion of private sector development; (iii) support for measures to boost domestic resource mobilization, including reform of the financial sector, institutional restructuring, and promotion of cost recovery in public services; and (iv) rehabilitation of social infrastructure, and promotion of human development and environmental preservation. ADB's technical assistance (TA) program was consistent with the 1993 interim operational strategy, and took into consideration the power sector restructuring activities supported by other external agencies, particularly the World Bank.² ADB focused on institutional strengthening in the power sector, particularly developing financial accounting and management information systems, improving the management and technical skills of concerned staff, and formulating tariff policies and structures.

¹ Under the reorganization, the distribution operations of the three PCs were left intact, except for the creation of two new distribution companies serving Hanoi and Ho Chi Minh cities. Subsequently, two additional, functionally separate distribution companies were established under EVN to serve the cities of Dong Nai and Hai Phong.

² The World Bank has had a strong presence in the power sector in Viet Nam since the early 1990s. It provided TA projects in power sector policy and strategy, institutional strengthening, and demand-side management.

4. This technical assistance performance audit report (TPAR) evaluates five advisory TAs³ supporting these institutional development objectives in Viet Nam's power sector. These TAs were approved between 1995 and 2001, and completed between 1997 and 2004. The amount approved for these TAs totaled \$3.55 million, or roughly 4% of ADB's TA program in Viet Nam up to 2004. EVN was the executing agency (EA) for TAs 2345-VIE, 2346-VIE, and 2897-VIE. The Ministry of Industry (MOI) was the EA for TAs 2888-VIE and 3763-VIE.

B. Rationale, Objectives, and Scope of the Technical Assistance Projects

5. ADB's power sector strategy in Viet Nam throughout the 1990s consisted of (i) rehabilitation and reinforcement of transmission and distribution; (ii) balanced development of new generation, transmission, and distribution facilities; (iii) gradual movement toward tariff levels and structures that reflect the economic cost of supply; and (iv) sector reorganization and institutional reforms. Conforming to this strategy and parallel to its lending operations, ADB provided TAs for improving the power sector operations and transforming EVN into a business entity operating on commercial principles.

6. ADB talked with the Government about a number of energy sector policy issues during appraisal of its first power sector loan⁴ to Viet Nam since resuming operations in the country in 1993. Those discussions were undertaken in close cooperation with other major external financing agencies, particularly the World Bank. The dialogue covered institutional aspects, including the need to improve financial accounting; management information systems; budgeting, billing and collection; pricing; operational efficiency; and human resource development. During these discussions, the participants agreed that ADB would focus on pricing reforms, institutional strengthening, and building financial and technical capacity. The World Bank would concentrate on sector reforms and restructuring. As planned, ADB's investments in the power sector would focus on the rehabilitation and upgrading of power transmission and distribution systems in the south and central parts of the country, while the World Bank would provide assistance in the northern part. In reality, ADB and the World Bank financed power projects all over Viet Nam. A formalized coordination mechanism between ADB and the World Bank seemed to be lacking (para. 17).

7. TA 2345-VIE (Improvement of Financial Management of Power Companies) had two parts. Part A (National Tariff Study) aimed to develop a tariff policy based on appropriate financial and social objectives, and formulate tariff structures for bulk and retail supply consistent with that policy. The scope of Part A included (i) calculation of the long-run marginal cost (LRMC) of the components of the power generation and delivery chain, and development of a computer model for updating the LRMC regularly; (ii) development of a tariff policy based on appropriate financial and cost-recovery objectives of the power sector, as well as consumers'

³ ADB. 1995. *Technical Assistance to the Socialist Republic of Viet Nam for the Improvement of Financial Management of Power Companies*. Manila (TA 2345-VIE, for \$1.2 million) and ADB. 1995. *Technical Assistance to the Socialist Republic of Viet Nam for Training in Distribution Planning*. Manila (TA 2346-VIE, \$0.25 million), attached to ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Power Distribution Rehabilitation Project*. Manila (Loan 1358-VIE[SF] approved on 8 June 1995); ADB. 1997. *Technical Assistance to the Socialist Republic of Viet Nam for Improvement of the Power Sector Regulatory Framework*. Manila (TA 2888-VIE, for \$0.8 million, approved on 7 October 1997); ADB. 1997. *Technical Assistance to the Socialist Republic of Viet Nam for Commercialization of Power Companies*. Manila (TA 2897-VIE, for \$0.9 million, approved on 20 October 1997); and ADB. 2001. *Technical Assistance to the Socialist Republic of Viet Nam for Road Map for Power Sector Reform*. Manila (TA 3763-VIE, for \$0.4 million funded by the Government of France, approved on 6 November 2001).

⁴ ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Power Distribution Rehabilitation Project*. Manila (Loan 1358-VIE[SF], for \$80 million, approved on 8 June 1995).

ability to pay; and (iii) formulation of a tariff structure, consistent with the proposed tariff policy as well as the billing and collection capabilities of the power companies, that would enable the power sector to meet its operational budgets and finance a reasonable proportion of its capital investment programs. Part B (Improvement of Financial and Accounting Systems of the Power Companies) was to improve and strengthen the financial management aspects of the power companies. The scope of Part B consisted of (i) reviewing the accounting, financial, and management information systems, using PC1 and EVN as models; (ii) recommending changes necessary to bring these systems up to international standards; and (iii) providing on-the-job training for company staff.

8. TA 2346-VIE (Training in Distribution Planning) was formulated to provide training in modern planning techniques through the development of a pilot distribution plan for one or two cities covered by PC1. The scope of the TA included (i) providing hardware and software to support distribution planning, and (ii) training the planning staff to use these tools by developing one or more pilot distribution plans.

9. The objective of TA 2888-VIE (Improvement of the Power Sector Regulatory Framework) was to assist the Government in (i) formulating supporting legislation and regulations for implementing the proposed electricity law;⁵ and (ii) setting up an independent electricity regulator, the Electricity Regulatory Authority (ERA). The scope of the TA included (i) drafting secondary legislation, and implementation rules and regulations, to facilitate provisions in the proposed electricity law; (ii) recommending the role, responsibilities, organization structure, and staff pattern for the ERA; and (iii) familiarizing officials with good regulatory practices in the region through study tours.

10. TA 2897-VIE (Commercialization of Power Companies) was formulated to assist EVN and the five PCs in implementing the commercialization recommendations⁶ developed under TA 2345-VIE, and to establish a time-bound action plan for corporatization. The scope of the TA included (i) designing training programs to improve financial and managerial accounting capacity; (ii) recommending a suitable organization structure and operating procedures for EVN and the PCs to be commercially oriented; (iii) developing computer systems requirements and specifications for an integrated financial and accounting system; (iv) developing a time-bound action plan for corporatization of EVN and the PCs; and (v) familiarizing selected staff of EVN and the PCs with good financial and accounting practices in the region through out-of-country and on-the-job training.

11. TA 3763-VIE (Road Map for Power Sector Reform) was designed to help the Government define a clear and detailed vision of the desired power sector and market structure of the future. The scope of the TA included (i) reviewing the progress on power sector reform, (ii) recommending further actions to be taken for restructuring of the power sector, and (iii) preparing a time-bound action plan or a road map.

⁵ When TA 2888-VIE was formulated, the Ministry of Industry, with the support of the World Bank, was preparing a draft electricity law, which was supposed to be submitted to the National Assembly in late 1998. However, the draft law was not submitted until 2004, and was still under consideration by the National Assembly during the Operations Evaluation Mission (OEM).

⁶ These recommendations consisted of improvements in financial and accounting management, organizational structure, operational procedures, management information systems, and computerization.

C. Completion and Self-Evaluation

12. Of the five TAs,⁷ only TA 2897-VIE had been self-evaluated at the time of the Operations Evaluation Mission (OEM), and the technical assistance completion report (TCR) rated it generally successful.⁸ This TPAR found that the TCR provided little information on the effectiveness of the TA, and no lessons learned for the future. The generally successful rating for TA 2897-VIE was not substantiated well.

D. Operations Evaluation

13. The OEM, which visited Viet Nam in June 2004, talked with representatives of MOI and EVN. However, the limited institutional memory regarding the TAs, and a lack of TA records on issues other than administrative matters in ADB and the EAs, constrained the evaluation. This TPAR reviewed (i) the adequacy of TA design and input; (ii) the quality of consulting services; (iii) TA outputs and outcomes; and (iv) the appropriateness of recommendations, and actions taken to implement them. It also identified lessons and follow-up actions for future ADB power sector operations in Viet Nam. Copies of the draft TPAR were sent to MOI, EVN, and ADB staff for review. Comments received were considered in finalizing the TPAR.

II. ASSESSMENT OF IMPLEMENTATION PERFORMANCE

A. Design of the Technical Assistance Projects

14. When EVN was established in 1995, Viet Nam was emerging from a long period of international isolation. The role of the private sector in the economy was limited, and utility management strategies were focused on meeting centrally planned production targets and complying with a plethora of rules and regulations imposed by Government agencies. The exposure of EVN staff to modern engineering technology was minimal, as was its familiarity with economic, financial, and management philosophies emerging in the power sector of the developed world. ADB's TA program in the electricity sector was designed to assist EVN in strengthening its institutional capability to make the sector technically and financially more efficient and self-reliant. ADB and the Government agreed that this strengthening was necessary to ensure that an adequate and reliable electricity supply was available to support a rapidly growing and increasingly competitive economy.

15. TAs 2345-VIE, 2346-VIE, and 2897-VIE concentrated on tariff reform, the commercialization⁹ of financial and management processes, and the introduction of computerization for planning distribution network extensions and augmentations. Over time, the focus of the TA program changed from strengthening EVN institutions to supporting MOI's efforts to introduce structural reforms to the sector. TAs 2888-VIE and 3763-VIE covered the development of regulations supporting the proposed electricity law (footnote 5), and preparation of a road map for future sector reforms. Thus, the cluster of TAs supported ADB's policy dialogue with the Government, which focused on strengthening and reforming the sector to

⁷ TAs 2345-VIE and 2346-VIE were not self-evaluated, because self-evaluation for advisory TAs attached to a loan was not required before 2002. Self-evaluation of TA 3763-VIE was not expected until after completion in August 2004, and it has not been undertaken for TA 2888-VIE.

⁸ Based on the old three-category project rating system (generally successful, partly successful, and unsuccessful).

⁹ Commercialization was defined under TA 2987-VIE as "improvements in financial and accounting management; organizational structure and operational procedure; management information systems; and computerization" and in the consultant's report as "the process of establishing an organization and business that responds to market forces and does planning on a market driven system".

minimize the risk that the absence of an adequate and cost-efficient electricity supply would impede economic development.

16. The change in the focus of the TAs midway through the program appears to have been caused by delays in the passage of the proposed electricity law, and the recognition that the potential for further reform of EVN was limited until the new law was passed. Hence, a clear distinction was made between commercialization and corporatization. Commercialization related to the improvements to financial and accounting management, organizational structure and operational procedure, management information, and organizational procedure. Corporatization, on the other hand, referred to the conversion of EVN and the PCs into full-fledged corporations. In this context, TA 2897-VIE was designed to assist EVN with the implementation of a commercialization plan, though only to develop a time-bound action plan for corporatization.

17. In the TAs evaluated, the terms of reference (TOR) seemed to be clear and comprehensive. However, for TAs 2345-VIE and 2897-VIE, the consultants did not appear to appreciate fully the concept of commercialization, as defined in the TOR. Apart from TA 2888-VIE, no major revision of the TOR was needed. Due to the delay in the passage of the electricity law, work on establishing ERA under TA 2888-VIE was not implemented fully. Tasks related to the creation of ERA were integrated into drafting a government decree on the Establishment of the Electricity Regulatory Directorate and the general regulatory procedures. Furthermore, work on the draft Decree on Demand-Side Management and Energy Conservation was not pursued at the request of the EA, because the Government was going to initiate another large-scale TA on the subject through the World Bank. This indicates a lack of effective coordination between ADB and the World Bank. Savings in the TA budget were reallocated for additional staff training and seminars. Generally, the designs of these TAs were relevant and consistent with the Government sector goals and ADB's operations strategy. However, available documents provide little evidence of the Government's contribution to TA formulation and design.

18. None of the TAs considered in detail the operation of the retail sector. Some consultants might have assumed that distribution and retail would become the responsibility of the PCs. The National Tariff Study under TA 2345-VIE noted the existence of wholesalers in some rural areas, and that consumers buying from wholesalers were paying substantially more than the end-use customer tariffs regulated by the Government. An implicit, albeit unstated, assumption was that wholesale operations would be subsumed by the PCs in time, and customers would move to regulated tariffs. However, in 1999, the Government regulated the price PCs could charge wholesalers for electricity, and decreed that no end-use customer could be charged more than the regulated price. It also made local peoples' committees responsible for retailing electricity in rural areas, and empowered them to determine the appropriate organization structure within each region to achieve this. The TA designs appeared to be weak on the future wholesale and retail operations of the sector.

B. Engagement of Consultants

19. Consultants for the five TAs were selected in accordance with ADB's *Guidelines on the Use of Consultants*. The interval between TA approval and start of consultant fieldwork ranged between 7 (TA 2345-VIE) and 12 months (TA 2888-VIE). Records show that the processes and procedures for consultant selection were appropriate. In all cases, the consultants selected had the necessary expertise.

C. Organization and Management

20. At approval for TAs 2345-VIE and 2346-VIE, a steering committee with representatives from the Ministry of Finance, MOI, EVN, and the PCs was envisaged to coordinate the work of consultants. EVN would provide the necessary information, office space, local communication, and secretarial support. However, the available project files contained no records showing that such a steering committee was formed and performed its tasks during TA implementation. In a letter to ADB 3 months after TA commencement, the consultant highlighted the difficulties in obtaining the data required, and EVN's inability to provide an effective counterpart team to assist in data collection and receive on-the-job training. Despite ADB's follow-up with EVN management, the issues never were resolved fully. As a result, the consultant carried out the tariff study largely based on assumptions rather than actual data.

21. For TA 2897-VIE, EVN appointed senior staff to handle supervision, monitoring, and counterpart staffing. The designated staff formed a project coordinating committee to oversee TA implementation. No major issues were reported regarding the implementation arrangement.

22. For TAs 2888-VIE and 3763-VIE, MOI set up working groups for TA implementation. The working groups comprised representatives from MOI, EVN, and the Electricity Law Working Group. The MOI vice-minister provided guidance to the working groups. The OEM considered these arrangements appropriate.

D. Implementation Schedule and Financing Arrangements

23. The TAs were delayed between 12 (TA 2897-VIE) and 27 months (TA 2888-VIE),¹⁰ mainly due to the severe data constraint during TA implementation. However, the delays had limited effects on the substance of TA outcomes and impacts, because most TA recommendations could not be implemented without the National Assembly's adoption of the electricity law.

24. Except for TA 3763-VIE, which was funded by the Government of France, ADB financed the TAs from the Japan Special Fund. The funding generally was adequate for the respective tasks. Savings from the reduction of consultant inputs under TA 2888-VIE¹¹ were reallocated to finance additional training and regional workshops. For the other TAs, the funds were disbursed largely as budgeted. The counterpart funding seemed to be timely and adequate during implementation. However, once the TAs were completed, the EAs devoted few resources to disseminate the TA results.

E. Adequacy and Quality of Reports and Services Provided

1. TA 2345-VIE: Improvement of Financial Management of Power Companies – Part A: National Tariff Study

25. The TA consultant calculated the LRMC of generation, transmission, and distribution; and recommended the transition of retail tariffs over time to LRMC levels. The TA also recommended that a transfer pricing structure be established between EVN's operating entities, using internal transfer prices based on LRMC pricing principles. It also recommended that cross-subsidies

¹⁰ While most training under TA 2346-VIE was completed roughly 1 year behind schedule, submission of the final report by the consultant was delayed more than 2 years. The reason for this delay was not recorded in the project files.

¹¹ The reduction of consultant's input from 28 to 16 person-months was due mainly to the elimination of the 7.5 person-months of services of the local legal expert.

between customer groups be reduced over time.¹² Furthermore, the Government's policy of having a uniform national tariff for each customer class created additional hidden cross-subsidies between urban and rural end users. However, the consultant was unable to quantify the extent of these subsidies, because the specific distribution cost data for PCs was not collected with a sufficient level of disaggregation. Because EVN had not provided all requested data,¹³ the TA report cautioned that it had to make assumptions in many key areas. While these assumptions were based on its experience undertaking similar tariff studies in developing economies, they may have affected the accuracy of its LRMC analysis.

26. EVN has not implemented the recommended internal transfer pricing structure, with transfer prices based on LRMC. Generation and transmission still are managed as functionally separate cost centers, so transfer prices for generation and transmission are not required. The EVN distribution companies—the PCs—are managed as profit centers. However, the cost of electricity to these companies is based on EVN's perception of what each PC can afford, rather than the actual or marginal cost of supply. As a result, the PCs do not really operate as profit centers, since the Government sets the revenues and EVN largely determines the costs. However, cost-based internal pricing for generation and transmission probably will be introduced with the planned restructuring of EVN following the enactment of the proposed electricity law. Still, retail prices will be subject to approval by the Prime Minister, although some price variations between regions might be permitted.

2. TA 2345-VIE: Improvement of Financial Management of Power Companies – Part B: Improvement of Financial and Accounting Systems of the Power Companies

27. A different consultant undertook Part B of the TA independently of Part A. The consultant reviewed the governance and management structure, as well as the accounting, financial, and management information systems within the sector. The TA report made long-term recommendations, which could be categorized broadly as changes in institutional framework, organization, and management structure. Designed to make the sector more commercial and financially efficient, the recommendations covered EVN's internal management, and its financial and accounting systems and processes. They also covered EVN's governance and relationship with external stakeholders. The consultant believed strongly that Government control over EVN's operations was a major impediment to improving its performance. However, the consultant's extensive focus on this issue in its report arguably went beyond the scope of the TOR, which generally was limited to internal management issues. As a result, the consultant made many recommendations that EVN was not able to implement without the agreement and support of external Government agencies. These issues might have overshadowed many constructive recommendations in the TA report to improve the financial and accounting processes. The implementation of some TA recommendations, particularly those that involved changes to internal procedures and did not require external approval, did show progress. However, more significant changes to the financial and management structure, which would require Government approval, have not been implemented.

¹² The analysis found that domestic consumers were heavily subsidized by commercial and, to a lesser extent, industrial consumers.

¹³ The consultant believed that the data required for marginal cost evaluation was available, but was not released primarily because nobody would take responsibility for approving the release to the consultant. Data required for quantifying the extent of hidden cross-subsidies simply was not collected in the required form.

3. TA 2346-VIE: Training in Distribution Planning

28. This relatively small TA provided formal training in modern planning techniques, supported by modern distribution planning hardware and software. Achievements of the TA included (i) a review of distribution planning practices within the sector; (ii) the provision of distribution planning software and associated hardware to PC1 and PC Hanoi;¹⁴ (iii) a comprehensive, formal six-week course in distribution planning for 20 staff from four of the five PCs that existed at the time;¹⁵ and (iv) comprehensive distribution system rehabilitation plans for Ha Dong and Hai Duong cities in the PC1 area.¹⁶ These rehabilitation plans were prepared during the training course as practical exercises for the trainees.

4. TA 2888-VIE: Improvement of the Power Sector Regulatory Framework

29. The TA developed draft regulations covering (i) the establishment of an electricity regulator and regulatory approval processes, (ii) the development and approval of electricity tariffs, and (iii) demand-side management and energy conservation. However, work on demand-side management was stopped after the first draft to avoid duplication of work being undertaken by other external aid agencies.¹⁷ Three drafts of the regulatory and tariff development codes were prepared. The consultant held regional consultations on the documents, which established a general consensus on tariff development. However, significant disagreement on the appropriate role and functions of the electricity regulator remained. The consultant also ran training workshops, and arranged a regional study tour for MOI staff to the People's Republic of China and the Philippines to look at regulatory operations.

30. The TA developed draft regulations for establishing an electricity regulator. However, at the request of MOI, the TA did not address organization structure and staffing issues to the detail envisaged by the TOR. MOI believed that consideration of such issues would be inappropriate before the National Assembly considered the proposed electricity law.

31. Delays in the enactment of the proposed electricity law hampered implementation of this TA. When the TA was approved in October 1997, the proposed electricity law had been drafted. The Government was expected to submit the draft law to the National Assembly in 1998, with formal adoption seen in late 1998 or early 1999. However, MOI was unable to meet this deadline, because of the extensive consultation required before laws can be sent to the Prime Minister and then the National Assembly.¹⁸ By mid-1999, it became increasingly clear that the National Assembly would not consider the proposed electricity law until 2003 or later due to the backlog of laws awaiting approval. The National Assembly considered the proposed electricity law for the first time in May 2004.

¹⁴ Under the TA, two licences for CYMDIST (a distribution planning software package) and two licences for Mapinfo 4.1 system mapping software were provided. One licence for each product was provided to PC1 and PC Hanoi.

¹⁵ PC Ho Chi Minh did not participate.

¹⁶ Rehabilitation of the Hai Duong distribution network is in progress, and rehabilitation of the Ha Dong distribution network is programmed for 2005.

¹⁷ The World Bank commenced discussions with the Government on assistance for demand-side management during the TA implementation. It approved a TA, Demand Side Management and Energy Efficiency, in June 2003.

¹⁸ In Viet Nam, draft laws are subjected to extensive consultation and revision, and are submitted to the Prime Minister and National Assembly only after stakeholder consensus is reached. In May 1998, as the consultant was mobilized, Vietnamese draft No. 6 had been completed. The draft regulations developed under the TA were based on draft No. 10, dated August 1999. Vietnamese draft No. 23 is being considered by the National Assembly.

5. TA 2897-VIE: Commercialization of Power Companies

32. The TA extended and developed the recommendations of TA 2345-VIE, Part B. The work sensitized the staff of EVN and PC1 to the need to implement good management practices, leading to internal changes in the way these companies are managed. These changes included (i) the establishment of an internal audit department, reporting directly to the EVN president; (ii) the reduction of the president's control by putting the vice presidents (formerly called deputy directors) in a line role; and (iii) the preparation of two sets of consolidated accounts, one based on Vietnamese accounting standards and one based on international accounting standards. However, the consultant did not appreciate fully the need to make recommendations that were achievable within the constraints of the EVN governance structure and the EVN charter. For example, the section on the delegation of authority from EVN to the PCs looked at issues such as the governance of EVN, the possible structure of a single-buyer market for electricity, and internal trading arrangements for generators—none of which were particularly relevant, given EVN's operating constraints. The TA report would have been more useful if it linked issues more directly to the specific problems that EVN faced. For example, the report contained a lot of information on the functions and role of a treasury department, and how it should be structured. However, the discussion was very general. An implicit assumption seemed to be that the treasury department in EVN would mirror that in the PCs, though important differences are likely in practice due to the different functions of the two organizations. Cash management would seem to be very important to the PCs, while loan management would be much more important to an umbrella organization such as EVN. Other parts of the report, such as the section on key performance indicators, were much more focused, and the report contained much useful information.

6. TA 3763-VIE: Road Map for Power Sector Reform

33. This TA was completed with the submission of the consultant's final report in April 2004. The report provided an appraisal of electricity sector reform, and evaluated options for development. The recommended road map calls for the disaggregation of EVN into limited liability companies by December 2007. The road map also includes the establishment of (i) a regulatory framework and an independent electricity regulator by mid-2006, (ii) tariff regulations for power markets by mid-2007, (iii) a single-buyer market starting in 2008, (iv) a competitive wholesale market starting in 2013, and (v) the retail competition market starting in 2018. The TA consultant reviewed the draft electricity law, and most of the proposed changes reportedly were incorporated into the draft before its submission to the National Assembly. While it is too early to evaluate the success of this TA, the TA report is comprehensive and should provide a useful framework for implementing reforms.

F. Performance of Consultants

34. The performance of the consultants under the TAs evaluated in this report generally was satisfactory, and the reports produced were of good quality. The consultants under TAs 2345-VIE and 2897-VIE, which were supposed to focus on improvements to EVN's financial and accounting systems, were hampered by misinterpretations of their TOR. TA consultants spent significant time addressing high-level governance and structural issues, which arguably were not included in the TOR. By addressing issues largely outside the control of EVN, they diverted the focus of the TAs from the need to improve the in-house systems and processes that EVN controlled. Additional problems arose that were largely outside the consultant's control. For example, the consultant for Part A of TA 2345-VIE (National Tariff Study) had difficulty obtaining the data required to complete its analysis—and, at one point, asked ADB to intervene. The consultant's final report noted that some of the analysis used assumed data, and the results should be treated with caution. The consultant for TA 2888-VIE was unable to complete its

original TOR due to delays in the passage of the proposed electricity law. The lack of consensus on the functions of the electricity regulatory authority also constrained the consultant.

G. Supervision of the Technical Assistance Projects

35. ADB supervision varied for the TAs. For TAs 2345-VIE and 2897-VIE, two review missions were fielded during TA implementation—one at inception and the other at the tripartite meeting. For TA 2346-VIE, one mission was fielded at the tripartite meeting. For TAs 2888-VIE and 3763-VIE, three review missions were fielded. Most of the review missions were timed close to the submission of the inception or draft final reports. Routine supervision of TA implementation was left to the EA's counterpart team. Between the review missions, available project files provide few records of communication among the EAs, consultants, and ADB on substantive matters during TA implementation. The consultants' misinterpretation of the word "commercialization" in the TORs under TAs 2345-VIE and 2897-VIE indicated inadequate and ineffective ADB supervision in these TAs.¹⁹

III. EVALUATION OF OUTCOMES AND IMPACT

A. Institution Building

36. The cluster of TAs evaluated in this TPAR was designed to (i) improve the operational efficiency of EVN from a technical and financial perspective; and (ii) facilitate the restructuring of the electricity sector, so that it can attract the capital investment needed to meet the electricity demand of a rapidly expanding economy. When the TA program began in 1995, EVN was a highly centralized organization, driven by plans and budgets imposed from the top. It was subject to a fragmented regulatory regime involving interaction with myriad government departments and agencies. Responsibilities were not defined well, and innovation was stifled by the focus on meeting external budgets and regulatory requirements, rather than on improving operational performance.

37. The TAs recommended that (i) EVN's generation and transmission operations be transformed from cost centers to profit centers, and that greater accountability for these activities be devolved to the new profit center managers; (ii) trading between generation, transmission, and distribution be undertaken at arms length; and (iii) transfer prices between profit centers be based on marginal costs. Little progress has been made in implementing any of these recommendations. EVN continues to operate its generation and transmission activities as cost centers, monitoring performance by measuring costs against centrally approved budgets. In theory, EVN's distribution companies—the PCs—are operated as profit centers. In practice, however, the cost of electricity to these companies is based on EVN's perception of what each PC can afford, rather than the actual or marginal cost of supply. Indeed, the OEM learned that the selling price can be adjusted during the year, or even after the transaction, before the accounts are finalized. EVN remains subject to significant and fragmented regulatory constraints that limit innovation in its operation. These constraints include (i) the Prime Minister's approval of consumer tariffs, (ii) Government regulations prescribing the way EVN deals with end users, and (iii) MOI's prescriptive design and construction standards. Nevertheless, the TA reports provided EVN with much useful information and a valuable reference for the design of institutional improvements to its management systems. In addition, the restructuring recommendations are embodied largely in the draft electricity law. As such,

¹⁹ After the middle of TA 2345-VIE over "commercialization," the word was used again in the title of TA 2897-VIE, causing a recurrence of the misunderstanding.

many of the recommendations should be implemented after the National Assembly passes the electricity law.

38. Responsibility for network planning and development is still fragmented. The Institute of Energy had primary responsibility for the planning, design, and construction of the 110 kV subtransmission network. The role of the PCs was limited to operation and maintenance after commissioning. The PCs are responsible for the planning, design, and construction of the lower-voltage distribution networks. The OEM was told that the distribution planning software provided to PC1 and PC Hanoi under TA 2346-VIE was still in use, though how effectively it is utilized is unclear. PC1's capital expenditure budget for upgrading its distribution network is substantial, and work is undertaken across a wide geographical area. Much of the distribution network planning involves a change in distribution voltage,²⁰ which increases the potential for using computerized planning software to optimize the network design. However, if only one license is available, the number of staff proficient in the use of the software will be limited. Thus, its potential for optimizing distribution planning is not likely to be fully utilized as envisaged. PC Ho Chi Minh is in a similar situation. Its distribution planning software program—which ADB did not supply—is used by operating, rather than planning, staff.

39. More extensive restructuring of the power industry depends on passage of the proposed electricity law. Initially restructuring is likely to take the form of disaggregation and corporatization of EVN's transmission and distribution operations in a manner similar to the recommendations of the TAs. In line with the road map prepared under TA 3763-VIE and MOI's plan, this would be followed by the establishment of a progressively more competitive electricity market. It would begin with a single-buyer market by 2008, followed by a competitive wholesale market by 2013, and full retail competition by 2018. However, the proposed restructuring might not be optimal. As MOI explained to the OEM, the draft electricity law²¹ provides that the final electricity tariff will be subject to the approval of the Prime Minister. However, generation and transmission prices will not be controlled. Under this structure, if end-user prices do not rise as quickly as generation and transmission prices, the distribution companies will be unable to earn a commercial rate of return. As a result, capital and maintenance expenditures on the distribution network could fall, and the quality and reliability of supply would suffer. Furthermore, a consensus has not been reached on the functions of the proposed electricity regulator and the appropriate level of independence from the Government.

B. Tariff Adjustment

40. Retail electricity tariffs were increased in 1995, 1996, 1997, 1999, and 2002. The average retail tariff has risen from D592/kWh in 1995 to D936/kWh in 2002,²² an increase of almost 60%. In \$ terms, the tariff increase was about 11%, from \$0.055/kWh in 1995 to \$0.061/kWh in 2002. While the retail tariff remains well below the LRMC of \$0.089/kWh calculated by the consultant in the TA 2345-VIE report, it is sufficient to meet ADB's standard debt service self-financing financial covenants. A new tariff study, funded by the World Bank, is in progress and will update the LRMC calculation. In the meantime, the report of TA 2345-VIE is the most authoritative and comprehensive study on the marginal costs of the electricity industry in Viet Nam.

²⁰ In 1995, EVN decided to standardize distribution voltage at 22 kV throughout the country. Feeders in most areas are being upgraded to this voltage as they are rehabilitated.

²¹ ADB has not received the latest version of the draft electricity law submitted to the National Assembly. The provisions of the approved electricity law might change.

²² The average retail tariff for 2003 is not available, but it should be higher than D936/kWh as the 2002 tariff increase did not take effect until 1 October 2002.

C. Impacts of the Technical Assistance Projects

41. While three of the evaluated TAs focused on improving the performance of EVN, the corporate culture of the organization has not changed much from the start of the TA program. It remains highly centralized, driven by budgets and targets, with a management structure that provides little incentive for innovation and risk taking. During the TAs, the internal systems and processes underwent changes, which drew on the work of the TAs. However, these changes were incremental with limited impact. The different organization structures of EVN before and after the implementation of the TAs reflected these changes. The financial structure of EVN was substantially unchanged, except for the creation of the Internal Audit Unit. TAs 2345-VIE and 2897-VIE recommended that the Finance and Trading Department be divided into three departments—General Accounting Department, Management Accounting Department, and Treasury Department—to avoid overlapping oversight. However, this has not been implemented. The organization structures of EVN in 1995 and 2002, together with that recommended by TAs 2345-VIE and 2897-VIE, are given in Appendix 1. The TA reports included detailed analyses of weaknesses in the EVN's operation, and provided sound recommendations for more improvements to structures, systems, and processes. However, significant organizational change will not occur until the new electricity law is passed and takes effect. Still, the TA recommendations generally were consistent with the provisions of the draft electricity law, and much of the material in the reports will be relevant after the law is passed.

42. The two TAs that focused on electricity sector reform also had limited impact. Notwithstanding the significant economic growth in Viet Nam over the past decade, the economy remains highly regulated and the Government's influence in the electricity sector is pervasive. As a result, significant structural reforms to the electricity industry are dependent on the passage of the electricity law, which the National Assembly was considering during the OEM. Extensive consultations involving Government and nongovernment stakeholders have delayed significantly passage of the law. The consultations are standard practice before any new law is submitted, through the Prime Minister's office, to the National Assembly for approval. Under this process, structural changes are made slowly and by consensus, particularly if a change is perceived as radical. The new electricity law challenges the established order by proposing an industry regulator independent of Government. Corporatization of EVN also will reduce the level of direct Government control.

43. The need for a new electricity law arose from the Power Sector Policy Statement that MOI issued on 1 December 1995. The changes required have generated much stakeholder opposition. Consequently, the consultations required before the draft law could be submitted to the Prime Minister and the National Assembly have been protracted. Due to the delays in passing the law, almost 10 years will have passed before the policy articulated in that statement is implemented fully. Some have suggested that these delays were the result of the high-profile failures and design flaws of restructured electricity markets worldwide. However, by mid-1999—before the California power crisis of 2000–2001—it was clear that the National Assembly would not consider the draft electricity law until 2003 at the earliest. By and large, the impacts of the TAs have been limited.

IV. OVERALL ASSESSMENT

A. Overall Technical Assistance Ratings

44. The OEM rated all the TAs, except for TA 3763-VIE, as partly successful. Since TA 3763-VIE was completed only recently, the OEM considered it premature to offer a formal rating. Nonetheless, the OEM considered TA 3763-VIE satisfactorily implemented. The

assessment of the other four TAs in terms of relevance, efficacy, efficiency, sustainability, and other impacts is provided in Appendix 2 and summarized in paras. 45–49.

1. TA 2345-VIE: Improvement of Financial Management of Power Companies

45. The TA objective was consistent with the power sector policy direction that the Government and ADB agreed upon at approval in June 1995, and as MOI articulated in its policy statement of December 1995. However, it soon became apparent that EVN was less committed than expected to making the policy changes, as demonstrated by the consultants' difficulty in obtaining the data required for the tariff study. Nevertheless, the National Tariff Study remains the most authoritative and comprehensive undertaken on the marginal costs of the electricity industry in Viet Nam. Moreover, tariffs have increased progressively, keeping EVN financially sound. While internal management systems have been strengthened somewhat, many of the TA recommendations have not been implemented. The TA was assessed as relevant, less efficacious, less efficient, with its outcome likely to be sustainable, and bearing moderate other impacts. Overall, the TA was rated as partly successful.

2. TA 2346-VIE: Training in Distribution Planning

46. The TA was planned well and implemented successfully. The participant survey at the end of the training indicated that trainees considered the course well designed and delivered. The use of real planning projects to underpin the training was effective, and increased the useful outputs from the TA. However, the provision of a single software license for PC1 and PC Hanoi probably was inadequate to follow up effectively on the concepts and techniques taught during the course. While the OEM was told that the software provided under the TA was still in use, the effectiveness of its usage was unclear. The long-term sustainability of the TA was reduced due to the small number of trainees from each member organization, and the limited access to the tools needed to effectively use the training. The TA was assessed as relevant, efficacious, less efficient, with its outcome less likely to be sustainable, and bearing moderate other impacts. Overall, the TA was rated as partly successful.

3. TA 2888-VIE: Improvement of the Power Sector Regulatory Framework

47. At TA approval in October 1997, the draft electricity law was expected to be submitted to the National Assembly in 1998, with formal adoption in late 1998 or early 1999. Thus, the TA was considered timely, because supporting regulations needed to be available in draft form when the National Assembly considered the law. However, the anticipated time frame was overly optimistic. This, combined with other factors, required a reduction in the TA's scope of work from the TOR. Further, the consultant was unable to form a consensus among stakeholders on its work regarding the establishment of an electricity regulator. The TA's only achievement was the preparation of a regulation on tariff reform that formed the basis for a similar draft regulation that was submitted to the National Assembly in support of the draft electricity law. The TA was assessed as relevant, less efficacious, less efficient, with its outcome less likely to be sustainable, and bearing moderate other impacts. Overall, the TA was rated as partly successful.

4. TA 2897-VIE: Commercialization of Power Companies

48. Although the TA appears to have been carefully designed to take account of regulatory constraints on the operation of EVN, the consultant did not appreciate this fully when interpreting the TOR. While recommendations in some areas were useful and were implemented, other sections of the report did not address directly the TOR. As a result, some

recommendations could not be implemented. The TA was assessed as relevant, less efficacious, less efficient, with its outcome likely to be sustainable, and bearing moderate other impacts. Overall, the TA was rated as partly successful.

5. TA 3763-VIE: Roadmap for Power Sector Reform

49. The consultant submitted the final report for this TA in April 2004.²³ The report comprehensively covered the TOR, identified the issues, and reviewed the options for moving the industry forward. However, in the context of Viet Nam's tightly regulated economy, some of the proposed changes appear radical. Whether they can be implemented within the proposed time frame remains to be seen. The requirement in the draft electricity law that the Prime Minister continue to approve end-user tariffs, and the lack of an agreement on the creation of an independent regulatory authority, indicate that the path ahead might not be straightforward. Given that the National Assembly still must approve the proposed electricity law, and that the associated reform program has not started in any meaningful way, the OEM considered formally rating this TA premature. Nonetheless, the OEM considered the TA satisfactorily implemented.

B. Assessment of the ADB and EA Performance

50. The performance of ADB and the EAs was assessed as partly satisfactory. For ADB, this assessment reflected its inadequate stakeholder analysis during TA preparation, ineffective supervision during TA implementation, and failure to identify lessons learned that would be relevant to future ADB operations (particularly regarding the recurrence of misunderstandings over the word "commercialization" in TAs 2345-VIE and 2897-VIE). For the EAs, this assessment was based mainly on their lack of proactive involvement, especially during TA preparation and implementation, and their inability to implement most of the TA recommendations.

V. CONCLUSIONS

A. Key Issues

51. In Viet Nam, change occurs slowly and requires a high level of consensus. Some of the changes detailed in the cluster of TAs reviewed were foreshadowed in MOI's Power Sector Policy Statement of 1 December 1995. This document included a policy implementation plan that showed the new electricity law being in place by mid-1997. However, the electricity law was controversial from the start, and MOI found it difficult to obtain the stakeholder consensus required for the law could go forward. This raises the key question: Was stakeholder analysis adequate when preparing a set of TAs aiming to make significant institutional changes in a sector that requires new legislation? While ADB and other external assistance agencies must continue to support sector reform, they also should realize that change might not occur quickly. This should be accounted for in their planning and policy dialogue.

52. How the proposed electricity regulator will operate remains a big question. The Prime Minister probably will continue to approve end-use tariffs after the electricity law is passed. Beyond this, few details have emerged about what the regulator's responsibilities will be, and how the regulator will function. The regulatory functions likely will be undertaken within MOI initially, with provision for it to develop into an independent operating entity in the medium term. Given the importance of the regulatory operation to the success of the planned reforms, this uncertainty is a concern.

²³ The OEM was told that MOI was awaiting comments on the final report from ADB.

53. Some of the work being undertaken within the industry seems to be inconsistent with the general thrust of the sector reform. In particular, EVN is planning to install a \$12 million management information accounting system, funded by the World Bank. This project will link EVN's member organizations over a wide network and will standardize the software used. While the rationale for this project is understandable—making world-class software available throughout the industry—the result will be increased centralization when decentralization of EVN's member organizations is being promoted.

54. The World Bank is funding rural electrification projects throughout the country. However, the assets constructed under the projects are expected to be owned by organizations operating under the control of the local peoples' committees, rather than the PCs. Thus, the distribution and retail subsectors seem to be becoming increasingly fragmented, particularly in rural areas. Such fragmentation could prove problematic when Viet Nam tries to establish a competitive wholesale market, programmed for 2013, since international experience has shown that markets are successful when purchasers have strong management capability and are financially secure. External financing agencies need to coordinate their power sector operations in Viet Nam better (para. 17).

B. Lessons Identified

55. The four TAs rated in this TPAR were partly successful. Reasons for this assessment include (i) a lack of clarity in the TOR; (ii) an erosion of the TOR's relevance by the time the TA started, and (iii) an undue focus on addressing constraints on EVN performance to the detriment of optimizing performance within the organizational structure. TA 2345-VIE and TA 2897-VIE might have been better received had they focused on what was achievable, even if this was not necessarily optimal. When key recommendations are dismissed as irrelevant because they cannot be implemented readily, more useful recommendations tend to get overlooked as well. Consequently, the TA report loses its credibility. To avoid such problems, a three-way dialogue among the Government, ADB, and the TA consultant is desirable throughout a TA. This allows misunderstandings to be resolved early, so the TA consultant can be redirected as necessary.

56. The EAs considered the TAs useful in providing information and different perspectives on broad sector issues. Generally speaking, however, the EAs lacked ownership and proactive involvement in the TAs. The TA outputs were regarded more as a source of reference for the future than an agreed course of action. During TA implementation, inputs from the EAs were often not substantial and substantive. After completion, the TA reports were not translated into the Vietnamese language²⁴ and disseminated throughout the organization. Other stakeholders and Government agencies concerned were generally unaware of these TAs. For TA 2345-VIE, when the EA did not provide the required data after repeated attempts, more efficacious use of TA funds might have been considered, including discontinuing the TA-financed study, if necessary.

57. The TAs focused on organizational development issues, and made recommendations that challenged the corporate culture of the sector. Thus, many stakeholders might have considered that threatening. Even in sophisticated organizations in developed countries, such organizational changes are very difficult to implement. Successful implementation generally requires strong senior management support, and a carefully planned and proactive change in management skills. Given the apparent lack of management interest throughout the TAs and the shortage of change-management skills in most organizations, the probability of the TAs

²⁴ The OEM was informed that the resources for translation of the final report of TA 3763-VIE into Vietnamese were not available, even though English capability among senior government officials is very limited.

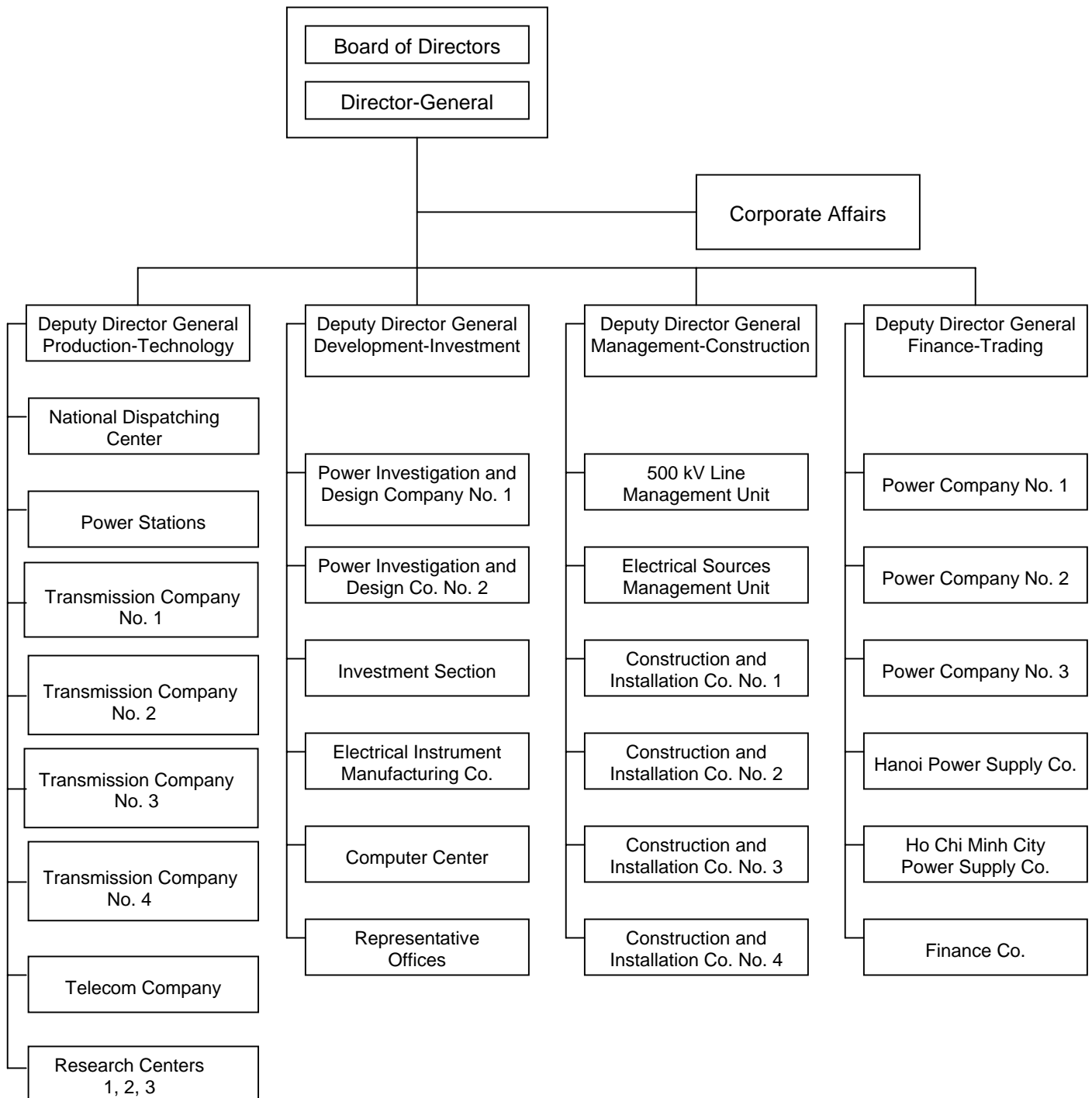
being an impetus for significant organizational change was low. ADB needs to find ways to support the management of counterpart organizations throughout TA implementation. As a first step, ADB might consider asking EAs to undertake their own formal, documented evaluation of all TAs within 1 or 2 years of completion. The evaluation would assess the relevance of the TAs, their impact on the organization, and the extent to which recommendations were accepted and implemented. The aim of this exercise would be to increase the involvement of the recipient organization, and to help ensure that the design of subsequent ADB TA programs improves their chance of achieving the desired outcomes and impacts.

C. Follow-Up Actions and Recommendations

58. As a first step toward utilizing the road map developed under TA 3763-VIE, EVN needs to translate the TA report into Vietnamese for dissemination to relevant Government agencies. ADB might consider providing funds to cover part of the translation and printing costs.

59. The final report of TA 3763-VIE includes draft TORs for TAs designed to assist MOI in implementing structural changes after the enactment of the electricity law. After the law has been passed, ADB should talk with the Government about providing TA to support implementation of the associated reform program. If ADB does not agree fully with the electricity law, as passed, and the associated reform program deviates substantially from the road map developed under TA 3763-VIE, ADB should revisit its sector operational strategy and decide whether any new TAs to the power sector in Viet Nam are warranted.

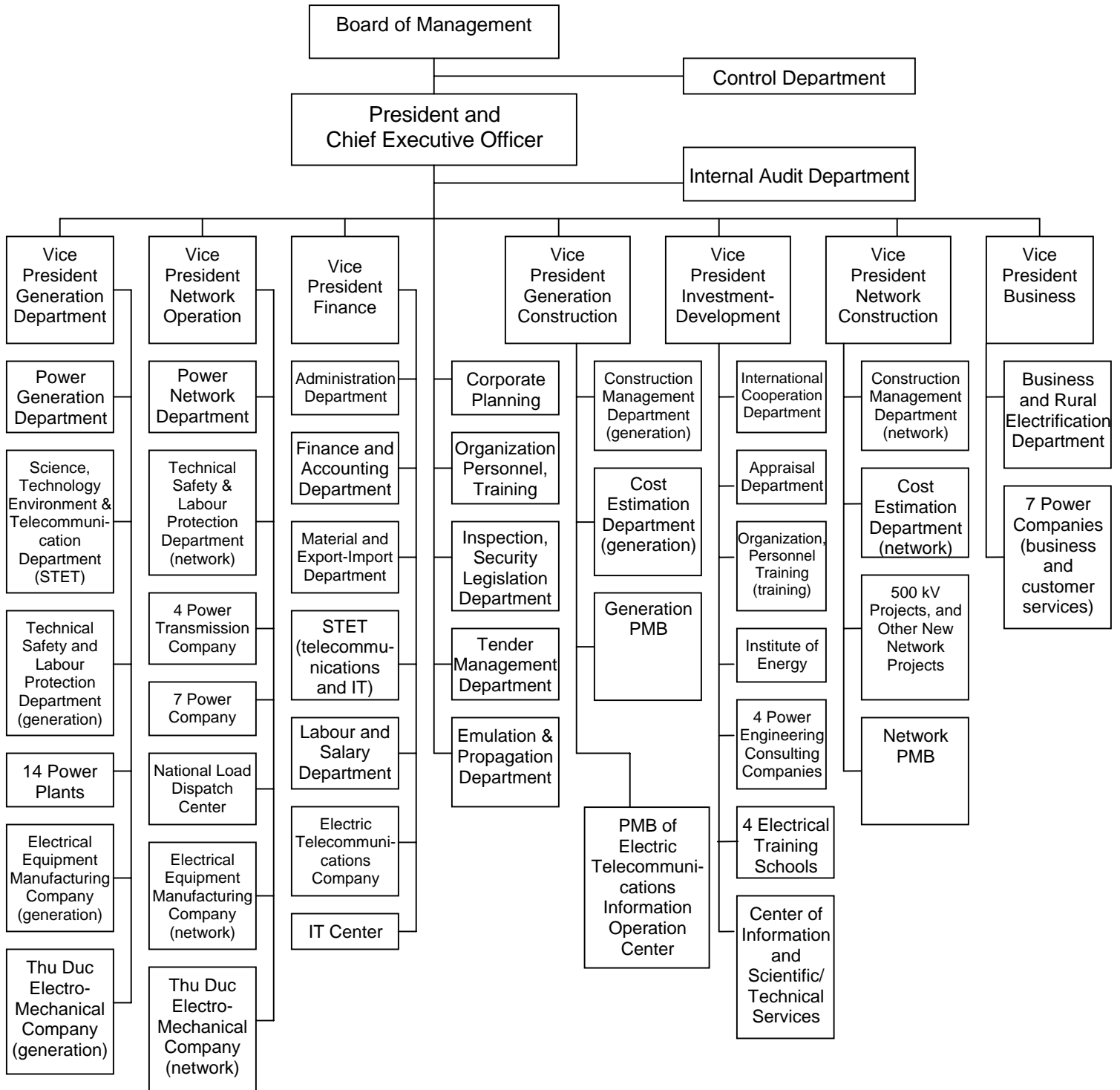
ORGANIZATION CHART OF ELECTRICITY OF VIET NAM (1995)



Co. = company, kV = kilovolt, No. = number.

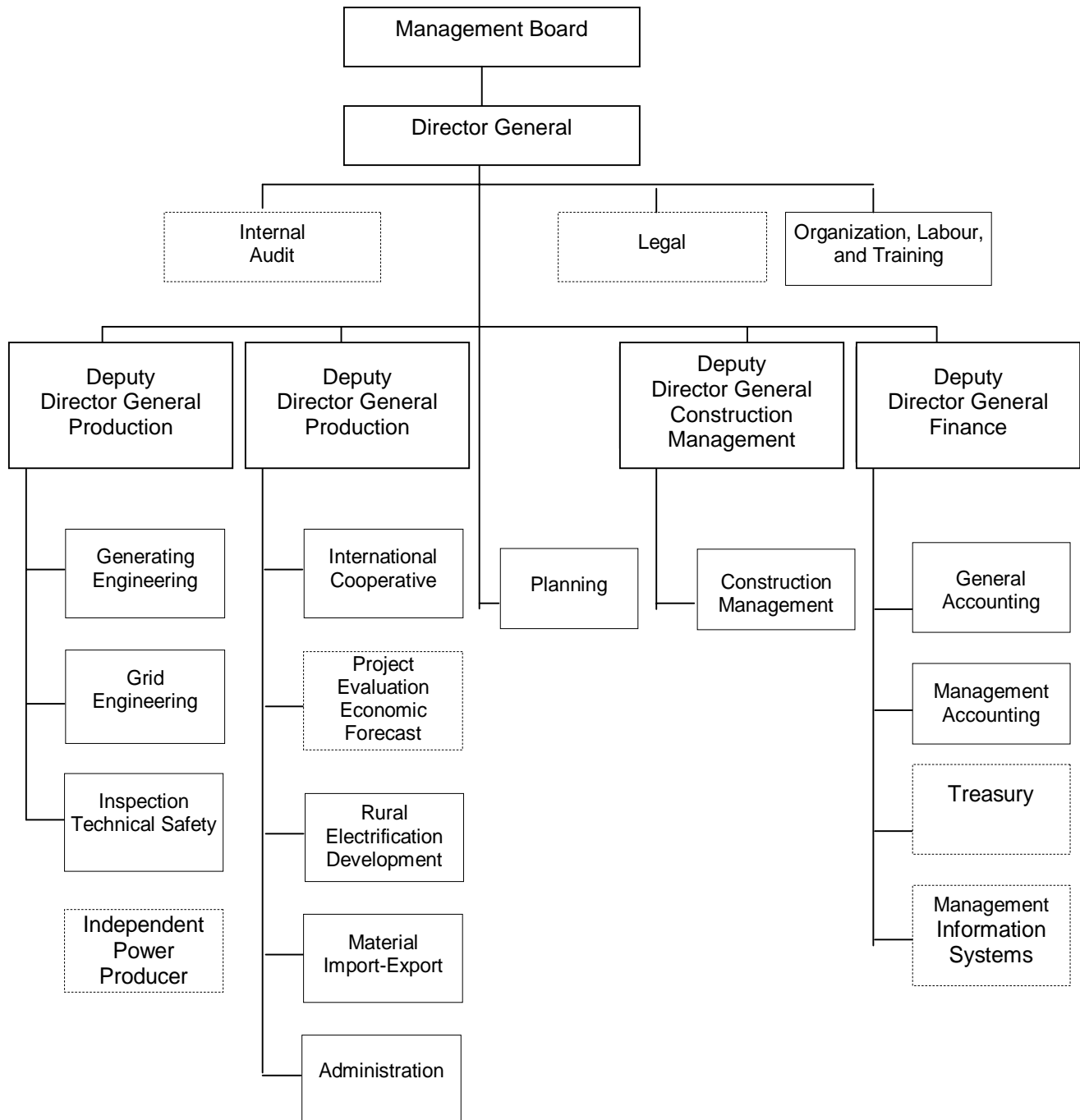
Source: Asian Development Bank. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grants to the Socialist Republic of Viet Nam for the Power Distribution Rehabilitation Project*. Manila (Loan 1358-VIE [SF]).

ORGANIZATION CHART OF ELECTRICITY OF VIET NAM (2002)



IT = Information Technology, PMB = Project Management Board.
 Source: Annual Report of Electricity of Viet Nam, 2002.

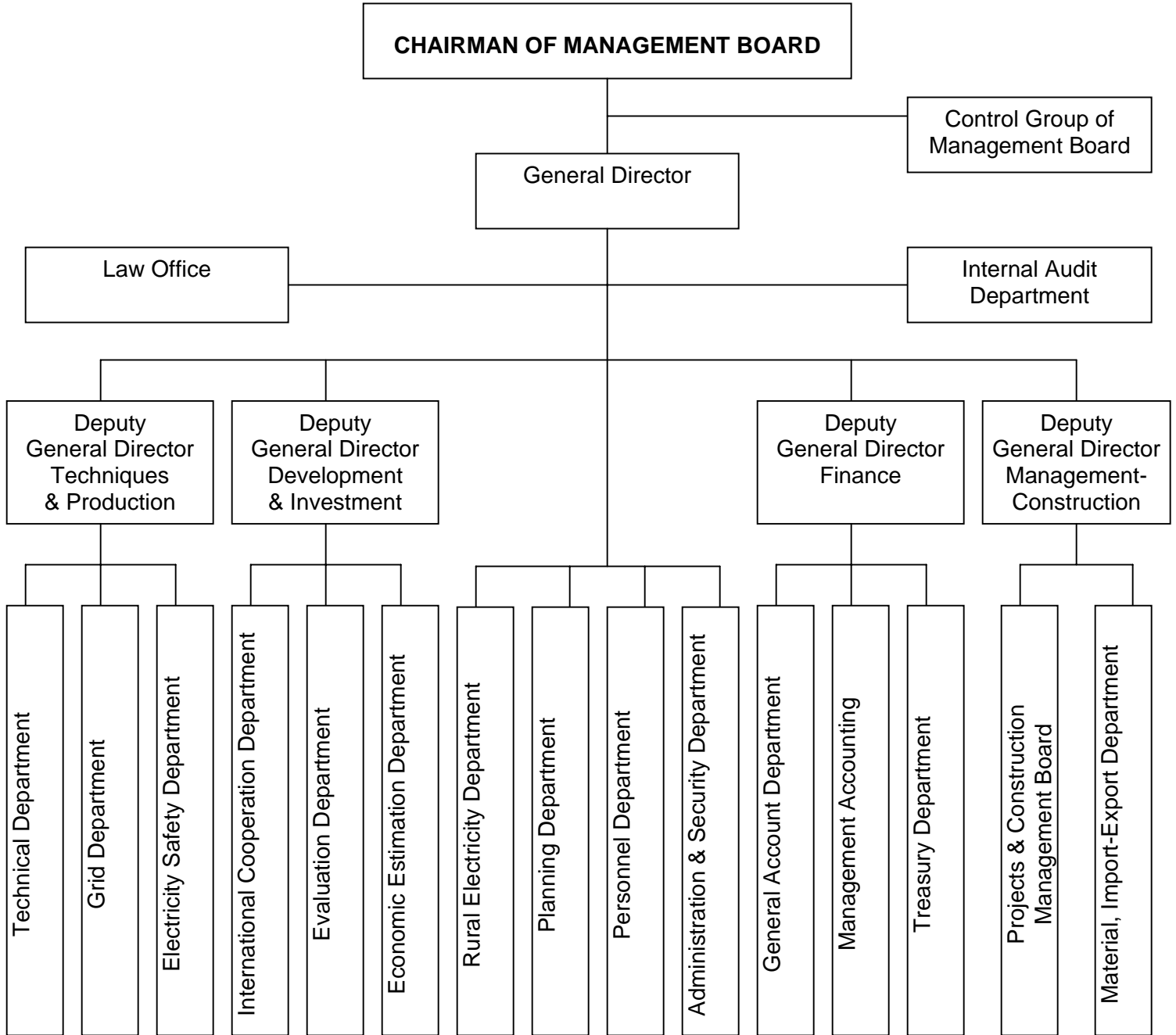
PROPOSED ORGANIZATION CHART OF ELECTRICITY OF VIET NAM
(as recommended by TA 2345-VIE)



..... Proposed.

Source: Asian Development Bank. 1995. *Technical Assistance to the Socialist Republic of Viet Nam for Improvement of Financial Management of Power Companies*. Manila (TA 2345).

PROPOSED ORGANIZATION CHART OF ELECTRICITY OF VIET NAM
(as recommended by TA 2897-VIE)



Source: ADB, 1995. *Technical Assistance to the Socialist Republic of Viet Nam for Commercialization of Power Companies*, October 1997. Manila (TA 2897).

TECHNICAL ASSISTANCE RATING ASSESSMENT

A. TA 2345-VIE: Improvement of Financial Management of Power Companies

1. Background

1. TA 2345-VIE, which was attached to Loan 1358-VIE (SF): Power Distribution Rehabilitation Project, aimed to improve financial management of the power companies. The technical assistance (TA) had two parts. Part A consisted of a national study to develop an appropriate tariff structure and adequate tariff levels based on the long-run marginal cost (LRMC) of power supply. Part B provided advisory services to improve accounting, financial, and management information systems of the power companies.

2. The scope of Part A included (i) calculation of the LRMC of the components of the power generation and delivery chain, and development of a computer model for regularly updating the LRMC; (ii) development of a tariff policy based on appropriate financial and cost-recovery objectives of the power sector as well as consumers' ability to pay; and (iii) formulation of a tariff structure, consistent with the proposed tariff policy as well as the billing and collection capabilities of the power companies, that would enable the power sector to meet its operational budgets and finance a reasonable proportion of its capital investment programs. The scope of Part B consisted of (i) reviewing the accounting, financial, and management information systems, using Power Company 1 (PC1) and Electricity of Viet Nam (EVN) as models; (ii) recommending changes to bring these systems up to international standards; and (iii) providing on-the-job training for company staff.

2. Rating Assessment

3. **Relevance.** The design of the TA was consistent with agreements between the Government and Asian Development Bank (ADB) that resulted from the policy dialogue during appraisal of Loan 1358-VIE (SF). The Government's commitment was articulated in a policy paper issued by Ministry of Industry (MOI) in December 1995. Although the TA focused on the development of strategies to implement the policy, the contribution from the executing agency (EA) during TA formulation and implementation was limited. The TA was assessed as relevant.

4. **Efficacy.** The consultant's reports for both parts of the TA were comprehensive. Pending the completion of a new tariff study funded by the World Bank, the TA's national tariff study remains the most authoritative and comprehensive undertaken on the marginal costs of the electricity industry in Viet Nam. However, most of the TA recommendations have not been implemented. Overall, the TA was rated as less efficacious.

5. **Efficiency.** Despite repeated attempts to obtain all required data, the consultant did not receive some necessary data for the tariff study. As a result, the consultant had to make many assumptions to complete the study. In addition, the financial and accounting systems consultant appears to have gone beyond the scope of the terms of reference (TOR), making recommendations on governance and EVN's relationship with the Government that could not be implemented. The consultant made 26 key recommendations that were to be implemented over 3 years. However, only 15 related directly to financial and accounting systems, which were the main focus of the TA. Overall, the TA was rated as less efficient.

6. **Sustainability.** Tariff increases have not been implemented to the extent, or in accordance with, the structure recommended in the tariff study. Still, tariffs have been raised five times since 1995, keeping EVN financially viable. In 2002, EVN made a profit after tax of D1,650 billion on sales of D23,500 billion. Its self-financing ratio was 46% and its debt service coverage ratio was 1.59. Many recommended improvements to the financial and accounting systems are being made, albeit over an extended time frame. Sustainability was rated as likely.

7. **Other Impacts.** While the finance and accounting systems have improved since the TA, the financial structure of EVN is substantially unchanged—except for the creation of the Internal Audit Unit. More significant change will depend on the passage of the electricity law. Other impacts were rated as moderate.

8. **Overall Technical Assistance Rating.** The TA was rated partly successful.

B. TA 2346-VIE: Training in Distribution Planning

1. Background

9. TA 2346-VIE, which was attached to Loan 1358-VIE (SF): Power Distribution Rehabilitation Project, aimed to improve power distribution planning skills within EVN. The TA was designed to provide training in modern planning techniques through the development of a pilot distribution plan for one or two provinces covered by PC1.

10. The scope of the TA included (i) reviewing the planning capability of power sector agencies, (ii) assisting one of the power companies in acquiring suitable distribution planning tools (hardware and software), and (iii) training relevant staff in the use of these tools by developing pilot distribution plans for PC1.

2. Rating Assessment

11. **Relevance.** This TA was planned concurrently with TA 2345-VIE. At the time, EVN needed institutional strengthening in technical matters as well as in financial and accounting systems. Training in distribution planning was seen as a priority, particularly since the TA was attached to a loan for distribution system rehabilitation. The TA was rated as relevant.

12. **Efficacy.** The training course was well designed and delivered. However, the limited availability of software restricted the opportunity for trainees to put what they learned into practice following the course, which constrained the long-term effectiveness of the training. Overall, the TA was rated as efficacious.

13. **Efficiency.** The TA was well planned and delivered. Preparing distribution rehabilitation plans for two towns in the PC1 area during the training course was an innovative approach that made the training relevant, while producing a useful output. However, the number of trainees attending the course was rather small relative to the size of EVN. Overall, the TA was rated as less efficient.

14. **Sustainability.** While the OEM was advised that the software provided under the TA still was being utilized, little evidence was available that computerized techniques routinely were being used to optimize the planning of distribution system augmentations. In the larger, more dispersed PCs such as PC1, more licenses would be needed for this to occur. Sustainability, therefore, was rated as less likely.

15. **Other Impacts.** The comprehensive training course was given to 20 planning staff nominated by individual PCs. To put the training into practice, specialist computer software that is still not widely available, or effectively used, within EVN is required. Thus, the impact of the training on the wider planning processes within the PCs must be limited. Other impacts were rated as moderate.

16. **Overall Technical Assistance Rating.** The TA was rated as partly successful.

C. TA 2888-VIE: Improvement of the Power Sector Regulatory Framework

1. Background

17. TA 2888-VIE aimed to assist the Government in (i) formulating secondary legislation and regulations for implementing the proposed electricity law, (ii) setting up an electricity regulatory authority (ERA), and (iii) sensitizing prospective ERA officials to the regulatory needs of the power sector.

18. The scope of the TA consisted of (i) conducting a presentation and workshop on regulatory systems and/or laws applied in power sectors in other countries, followed by the selection and adoption of practices best suited to Viet Nam; (ii) drafting secondary legislation, and implementing rules and regulations, to facilitate the implementation of provisions in the draft electricity law on tariff regulation, and the review and approval of investment programs; (iii) recommending the role, responsibilities, location, organization structure, and staffing pattern for ERA, and the criteria, procedures, and forum for appealing and reviewing ERA's decisions; and (iv) sensitizing prospective ERA officials to good regulatory practices in the region through study tours.

2. Rating Assessment

19. **Relevance.** The TA was relevant at approval. However, delays in finalizing the draft electricity law reduced the relevance of the project, which required a substantial reduction in the scope of work. The TA was assessed as relevant, because the subsequent problems could not have been foreseen at TA approval.

20. **Efficacy.** The TA failed to resolve problems with the formation of an electricity regulator, and the only output being used in support of the electricity law was a draft regulation on tariff setting. The TA was rated as less efficacious.

21. **Efficiency.** The TA was rated as less efficient since only one useful regulation was produced.

22. **Sustainability.** While the National Assembly is considering the proposed electricity law, the role and function of the proposed electricity regulator—a particularly important component of the TOR—remains unclear. The TA developed a framework for tariff setting, and provided selected staff with useful exposure to the role of the electricity regulator in other jurisdictions. Overall, sustainability was rated as less likely.

23. **Other Impacts.** While the TA encountered implementation problems, it raised awareness and stimulated discussion within MOI and EVN about the role of the regulator in the power industry. Resolving issues related to the electricity law appear to have been due to

concerns raised by other stakeholders, rather than MOI's lack of understanding of the issues. Other impacts of the TA were rated as moderate.

24. **Overall Technical Assistance Rating.** The TA was rated as partly successful.

D. TA 2897-VIE: Commercialization of Power Companies

1. Background

25. TA 2897-VIE aimed to assist EVN and the PCs in implementing the recommendations developed under TA 2345-VIE, and to establish a time-bound action plan for corporatizing them. These recommendations consisted of improvements in financial and accounting management, organizational structure and operational procedure, management information systems, and computerization. The corporatization plan included specific tasks and a schedule for EVN and PCs to be converted into full-fledged corporations.

2. Rating Assessment

26. **Relevance.** The TOR was designed to address in detail issues that could be resolved within EVN's structural framework and required only an action plan for corporatization. While this was regarded as the next stage of the reform process, it could not be implemented without the passage of the electricity law. The TA was rated as relevant.

27. **Efficacy.** While the TA addressed all the issues in the TOR, it also considered in some detail high-level governance and structural issues that EVN had no power to address. These issues were arguably outside the TOR. In addition, the consultant appeared too general in some areas and did not relate issues directly to the problems faced by EVN and the PCs in their day-to-day operation. Overall, the TA was rated as less efficacious.

28. **Efficiency.** Greater focus on the issues included in the TOR, in the context of EVN's organizational arrangements, might have produced a more useful TA result. The TA was rated as less efficient.

29. **Sustainability.** The TA recommendations were implemented selectively and over a longer time frame than envisaged at approval. However, EVN and the PCs remain committed to improving their financial and management systems. They addressed a number of issues discussed in the TA report, and some recommendations were implemented. On balance, sustainability was rated as likely.

30. **Other Impacts.** The TA report assessed where improvements could be made to the financial and accounting systems of EVN and the PCs, and the formal training provided under the TA was well received. The TA outputs served as useful sources of reference for the future. Other impacts were rated as moderate.

31. **Overall Technical Assistance Rating.** The TA was rated as partly successful.

E. TA 3763-VIE: Road Map for Power Sector Reform

1. Background

32. TA 3763-VIE aimed to help the Government define a clear and more detailed vision of the desired power sector and market structures 5 and 10 years in the future. It also sought to establish the steps to achieve the reform objectives and implement restructuring with specific timetables and responsibilities assigned.

33. The scope of the TA included (i) reviewing the power sector reform objectives and progress made in planning and implementation of the sector reforms; (ii) determining the main reform tasks and transition issues that needed to be addressed and solved in the near future, and in the longer term; (iii) preparing a detailed program to address and resolve these tasks in an integrated manner (the road map); and (iv) conducting workshops for building a consensus on the best options for Viet Nam.

34. The consultant submitted the final report for this TA in April 2004. The report comprehensively covered the TOR, identified the issues, and reviewed the options for taking the industry forward. However, in the context of Viet Nam's tightly regulated economy, some of the proposed changes appear radical. Whether they can be implemented within the proposed time frame remains to be seen. The requirement in the draft electricity law that the Prime Minister continue to approve end-user tariffs, and the lack of agreement on the creation of an independent regulatory authority, indicate that the path ahead might not be straightforward. Since the National Assembly has not approved the electricity law, and the associated reform program has not commenced in any meaningful way, formally rating the TA was considered premature.

Management Response on the Technical Assistance Performance Audit Report (TPAR) on Advisory Technical Assistance for Power Sector Institutional Strengthening in Viet Nam

On 23 November 2004, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management and staff reviewed the report with interest and found it very well written. The report highlights some important lessons learned from the past Advisory TA for power sector in Viet Nam. The findings would be very valuable for future endeavors.
2. The report emphasizes the importance of the passage of the Electricity Law as a key milestone in implementing the reform process to improve the efficiency of the sector entities. The ADTAs (TA 2888-VIE: Improvement of the Power Sector Regulatory Framework and TA 3763-VIE: Road Map for Power Sector Reform) have made valuable contribution to the finalization of the Electricity Law and to the protracted consensus building among different stakeholders that preceded the finalization of the law (effective 1 July 2005).
3. The TA 3763 has also formed the basis for the proposed strategy for power sector reform, currently being evaluated by the Ministry of Industry (MOI). This involves the conversion of generation plants of the Electricity of Viet Nam (EVN) into either independent accounting units or partially privatization of some of the units. The distribution companies would also be further commercialized under this proposed reform strategy and some of the provincial distribution units would be partially privatized. This process would incorporate some of the key recommendations of TA 2345-VIE: Improvement of Financial Management of Power Companies and TA 2897-VIE: Commercialization of Power Companies, though with considerable delay. The working group formed at MOI under TA 3763 is responsible for implementing this reform strategy.
4. Management agrees with the recommendation given in the OED report that ADB should discuss with the Government and reach an agreement on the reform strategy. If the reform program deviates substantially from the road map developed under TA 3763-VIE, ADB should revisit its sector operational strategy in the light of lessons learnt from past TAs provided to the power sector. This would ensure that the expected results are achieved, and adequate consensus on the reform strategy will be reached between ADB, Government, and other stakeholders.