ASIAN DEVELOPMENT BANK **PPA: VIE 29138**

PROGRAM PERFORMANCE AUDIT REPORT

ON THE

FINANCIAL SECTOR PROGRAM
(Loan 1485-VIE[SF])

IN

VIET NAM

December 2003

CURRENCY EQUIVALENTS

Currency Unit – dong (D)

		At Appraisal (23 July 1996)	At Program Completion (31 December 1999)	At Operations Evaluation (14 August 2003)
D1.00	=	$0.000091	$0.000071	$0.000064
$1.00	=	D11,025	D14,028	D15,515

ABBREVIATIONS

ADB	–	Asian Development Bank
BIDV	–	Bank for Investment and Development of Viet Nam
CAPE	–	country assistance program evaluation
CIC	–	Credit Information Center
COS	–	country operational strategy
CP	–	commercial paper
DIV	–	Deposit Insurance of Viet Nam
EA	–	Executing Agency
ESAF	–	Enhanced Structural Adjustment Facility
FSP	–	Financial Sector Program
GDP	–	gross domestic product
HCMC	–	Ho Chi Minh City
IAS	–	international accounting standard
IMF	–	International Monetary Fund
JSCB	–	joint-stock commercial bank
JVB	–	joint venture bank
MOJ	–	Ministry of Justice
NAV	–	National Assembly of Viet Nam
NRAST	–	National Registration Agency of Secured Transaction
OEM	–	Operations Evaluation Mission
OTC	–	over-the-counter
PCR	–	program completion report
PPAR	–	program performance audit report
RRP	–	report and recommendation of the President
SAC	–	Structural Adjustment Credit
SAGO	–	State Auditor-General's Office
SAV	–	State Audit of Viet Nam
SBV	–	State Bank of Viet Nam
SME	–	small and medium enterprise
SOCB	–	state-owned commercial bank
SOE	–	state-owned enterprise
SSC	–	State Security Commission
STC	-	Security Trading Center
TA	–	technical assistance
TOR	–	terms of reference
VAS	–	Vietnamese Accounting Standard

NOTES

(i) The fiscal year (FY) of the Government ends on 31 December.
(ii) In this report, "$" refers to US dollars.

Operations Evaluation Department, PE-637

CONTENTS

APPENDIXES

BASIC DATA
Loan 1485-VIE(SF): Financial Sector Program

Program Preparation/Institution Building

TA No.	TA Project Name	Type	Person-Months	Amount[1] ($)	Approval Date
2240	Financial Sector Review	PPTA	16.0	325,000	14 Dec 1994
2687	Pilot Project to Modernize the Operations of a State-Owned Commercial Bank	ADTA	51.5	850,000	19 Nov 1996

Key Program Data ($ million)	**As per ADB Loan Documents**	**Actual**
Total Program Cost	265.0	n.a.
ADB Loan Amount/Utilization	90.0	86.48
ADB Loan Amount/Cancellation		3.52

Key Dates	**Expected**	**Actual**
Familiarization		19–24 Feb 1995
Fact-Finding		5–17 Jun 1995 4–16 Mar 1996 13–18 May 1996
Appraisal		8–23 Jul 1996
Loan Negotiations		15–18 Oct 1996
Board Approval		19 Nov 1996
Loan Agreement		17 Dec 1996
Loan Effectiveness	17 Mar 1997	3 Feb 1997
First Tranche Release		7 Feb 1997
Second Tranche Release	17 Sep 1998	13 Dec 1999
Loan Closing	31 Dec 1999	13 Dec 1999
Program Completion	31 Dec 1999	31 Dec 1999
Months (effectiveness to completion)	33.45	34.74

Borrower Viet Nam

Executing Agency State Bank of Viet Nam

Mission Data

Type of Mission	**No. of Missions**	**Person-Days**
Familiarization	1	6
Fact Finding	3	163
Contact	1	12
Appraisal	1	68
Project Administration		
- Mid-Term Review	1	1
- Review	3	31
- Special Loan Administration	1	9
- Project Completion	1	3
Operations Evaluation[2]	1	46

ADB = Asian Development Bank, ADTA = advisory technical assistance, n.a. = not available, PPTA = program preparatory technical assistance, TA = technical assistance.

[1] Represents approved amount of technical assistance.

[2] The Mission comprised Tetsu Ito (Evaluation Specialist/Mission Leader), Vivien B. Ramos (Evaluation Officer) and Tran Anh Duc (Legal Consultant).

EXECUTIVE SUMMARY

On 19 November 1996, the Asian Development Bank (ADB) approved a $90 million equivalent loan for the Financial Sector Program (FSP) from its Special Funds resources. The objective of the FSP was to raise the financial system's capacity to mobilize savings and to utilize such savings more efficiently. To meet this objective, FSP was to (i) establish the essential market infrastructure to facilitate private sector participation, (ii) commercialize and modernize domestic banking operations, (iii) promote competition, and (iv) initiate the development of a capital market. State Bank of Viet Nam (SBV) was the executing agency (EA).

Associated with the FSP, Technical Assistance (TA) 2687-VIE: Pilot Project to Modernize the Operation of a State-Owned Commercial Bank for $850,000 was also approved. This TA aimed to (i) modernize the operations of Bank for Investment and Development of Vietnam (BIDV), and (ii) assist the implementation of the FSP. Subsequently, three stand-alone TAs were approved also to support program implementation. These included (i) TA 2823-VIE: Registration System for Secured Transactions, (ii) TA 2909-VIE: Policy Support for the SBV, and (iii) TA 3060-VIE: Capacity Building at the State Auditor-General's Office (Phase II).

The program objective was consistent with priorities set in Viet Nam's Sixth and Seventh Five-Year Plans for 1996–2005 as well as ADB's country operational strategy. FSP's scope was diffuse but complemented assistance from the International Monetary Fund (IMF) and the World Bank as an integral part of the country's economic reform. The targets set under the four components were relevant in achieving the objective. During program implementation, the Asian financial crisis affected Viet Nam, leading to slower economic growth, slowed pace of reforms, and delay in reaching agreements with the IMF and the World Bank for policy support. In this difficult period, the FSP continued to indicate mutual commitment by the Government and ADB in developing the market-based financial system. The FSP is assessed as relevant.

The loan was disbursed in two tranches of $45 million each on 7 February 1997 and on 13 December 1999. The progress report at second tranche release noted that the Government fully complied with 14 and significantly complied with the remaining two second tranche conditions. The Program Completion Report (PCR), circulated in January 2002, updated the status of program measures as follows: of 40 program measures, the Government complied with all except three end-of-program conditions (publication of banks' annual reports, external audit of SBV, and submission of the report on state-owned commercial bank's [SOCB] deposit mobilization programs). The Operations Evaluation Mission (OEM) confirmed program compliance except for final report of the SOCBs' deposit mobilization plans, publication of banks' annual reports, regulation on filing of credit documents, internal audit of credit institutions, deposit taking by joint venture banks (JVBs), and over-the-counter security market.

The OEM assessed program objective achievement as follows: capacity of the financial system in savings mobilization was significantly raised, while its improved allocative efficiency was less evident. The FSP contributed to promoting banks' deposit taking and set the stage for possible more efficient financial resource allocation in the future.

The FSP is assessed as efficacious. The key program outputs were the Law on SBV and Law on Credit Institutions, upgraded accounting and auditing standards, Deposit Insurance of Viet Nam (DIV), legal framework for secured transactions and its registry system, regulations for a capital market and nonbanks, and State Security Commission (SSC) and Security Trading Center (STC). The two banking laws and upgraded accounting and audit standards contributed to enhanced public confidence in the banking system, while the DIV directly supported banks'

deposit taking from individuals. Decrees on Secured Transactions and the Registry System resulted in the establishment of National Registration Agency of Secured Transaction and actual registration of 25,000 secured transactions relating to movables assets as of OEM. Regulations for a capital market and nonbanks, together with SSC and STC, laid the foundation for alternative channels of financial intermediation.

However, delays in the SOCBs' restructuring under support from IMF and World Bank assistance prevented the Commercialization and Modernization of Banking System component from providing its expected complementarity. This delay also eroded Government's priority to the Promote Competition component. Evidently, the slow progress in state-owned enterprise (SOE) reform was closely linked to restructuring of SOCBs as they were SOEs' main banks. The Asian financial crisis exacerbated the situation. It negatively affected the foreign partners (from Indonesia, Korea, Malaysia, and Thailand) of JVBs, which were targeted under the Promote Competition component. The resultant depressed economic growth further slowed the pace of SOE reform, while the SOCBs needed to be recapitalized without waiting for full restructuring to take place. The delays in the SOE reform and the Asian financial crisis constrained capital market development. All these adversely affected prospect of improved allocative efficiency of the financial system.

The FSP is assessed as less efficient. Firstly, program preparatory TA was not cost-effective. Secondly, the Program Implementation component of TA 2687-VIE was not efficiently implemented. Thirdly, the use of counterpart funds (earmarked to program outputs) was less efficient due to the mixed results of the SOCBs' recapitalization in 1998, the non-financial viability of DIV, and the delayed renovation of STC.

Sustainability of the Program is assessed as most likely. The Government has so far maintained or refined what has been implemented under the FSP, while keeping prudent macroeconomic management. Additional actions have been taken or are expected to reinforce the program achievements. The strong commitment of Government to sustain program impact is evident.

The organizational impact of the Program is assessed as moderate. Its impact, complemented by TA 2823-VIE and TA 3060-VIE, on the Ministry of Justice and the State Audit of Viet Nam was significant. The impact on SOCBs, in conjunction with the BIDV component of TA 2687-VIE, was mixed. While it contributed to the commercialization and modernization of BIDV, its demonstration effect on other SOCBs was limited. The disappointing feedback from the beneficiaries on the inputs and outputs under the Program Implementation component of TA 2687-VIE and TA 2903-VIE indicate less-than-expected organizational impact on SBV (Credit Information Center [CIC] and Legal Department) and DIV.

Overall, the FSP is rated successful.

Among key issues identified, review of the program outputs highlighted several reasons for high transaction costs in Viet Nam's financial sector. Firstly, the continued weakness of the legal framework for negotiable instruments and secured transactions hinders the development of financial instruments and causes uncertainty in loan security procedures. Secondly, two legal requirements, i.e., disclosure of banks' annual reports and dissemination of financial regulations, are not fully enforced, causing lack of transparency. Thirdly, excessive and ad hoc reporting requirements from SBV and CIC overburden the credit institutions.

Restructuring of the SOCBs has been under way since September 2001. Progress in non-performing loans (NPL) resolution is noteworthy except for those owed by SOEs. The SOCBs are required to upgrade their credit manuals, while a risk management committee and an internal audit committee were set up in each SOCB. As of OEM, credit manuals were still not finalized, and the two committees not fully functional due to their weak legal base. As other requirements were broadly fulfilled, SBV injected nearly D17 trillion into the SOCBs. In order to maintain the integrity of the restructuring, SBV and SOCBs should prioritize resolution of NPLs owed by SOEs, finalization of credit manuals, and incorporation of the provision on the two committees in the Law on Credit Institutions (to be amended in 2004).

In creating a competitive financial system, the Government should hold coherent views on whether SBV should support the ongoing convergence of the SOCBs' business strategies, rather than the divergence based on existing competitive advantages; what the process will be in level playing field for SOCBs vis-à-vis other credit institutions; how the Government will cope with conglomeration of SOCBs through creation of specialized banks and nonbanks; and more generally, how the Government expects financial institutions to be owned, licensed, and managed in the future.

The FSP, complemented by TA 2823-VIE, guided the legislation on secured transactions and operationalization of the registry system. This experience demonstrates that a program loan can be effective in supporting legal reforms in Viet Nam, if appropriately designed. In this regard, clear understanding of the vertical and lateral legal structures as well as of the legislative process would be critical in stipulating a program measure.

The varied performance of the TAs supporting program implementation leads to the following observations. Firstly, TOR and implementation schedule of an associated TA should be adequately discussed with the EA at program formulation. Secondly, a TA could be more effective if the assistance is provided not only for study but also for operationalization of program outputs. Thirdly, close inter-departmental coordination within ADB would be necessary in cases where a program and a TA are administered by different departments/offices.

ADB has resorted to program loans to support restructuring and recapitalization of state-owned banks. However, such policy matrix commonly did not offer detailed prescriptions on restructuring. In case of the FSP, bank restructuring was not a program condition, whereas counterpart funds were partially earmarked for SOCB recapitalization. The results of bank restructuring supported under this and other programs were so far not encouraging, suggesting that ADB at times will need to be more proactive in supporting bank restructuring. In pursuing this option, ADB should further study methods and results of bank restructuring in developing member countries and consolidate the findings.

I. BACKGROUND

A. Rationale

1. Viet Nam charted its policy of all-round renewal, or *Doi Moi*, at the Sixth National Congress in 1986. Gaining momentum from 1989, *Doi Moi* guided reorientation toward a market-based economy. This led to significant achievements during the Fifth Socioeconomic Five-Year Plan (1991–1995). Gross domestic product (GDP) grew by 8.2% per annum, and annual inflation fell from 67% in 1990 to 13% in 1995. Increased inflows of foreign direct investment (FDI), exceeding 10% of GDP in 1995 from 1-2% in 1990, and prudent macroeconomic management supported these achievements. Building on this success, the Government set ambitious targets under the Sixth Five-Year Plan (1996–2000) aiming for GDP growth of 9–10% per annum with total investment (at 1995 constant price) of $41–42 billion (as compared with $18 billion during the Fifth Five-Year Plan). Recognizing the need for mobilizing substantial domestic resources to meet this target, the Sixth Five-Year Plan highlighted financial sector development.

2. Viet Nam's financial sector reforms started in 1988 with the dismantling of the monobank system, separating commercial and central banking activities. Commercial bank interest rates and reserve requirement were rationalized by the mid-1990s; entry restrictions on credit institutions were also greatly liberalized. Interbank markets emerged, while auction of treasury bills started in 1995. Despite these achievements, the financial sector, dominated by the state-owned commercial banks (SOCBs), did not keep up with the real sector's requirements. The level of savings held in the financial system remained low and banks' credits were inefficiently allocated.

3. Asian Development Bank's (ADB's) country operational strategy (COS)[1] articulated a comprehensive agenda of development concerns, including "increased savings and investment." In response to these concerns, the COS focused on five development areas, including "policy reform and institutional development." The COS was compatible with the Sixth Five-Year Plan, as affirmed by ADB's Operations Evaluation Office in its country assistance program evaluation (CAPE).[2] It provided a basis for formulating the Financial Sector Program (FSP).[3] The Report and Recommendation of the President (RRP) described the rationale of the FSP as follows: "important gaps remain [in the Vietnamese financial system] in the market infrastructure, in the quality and efficiency of domestic banking, in the diversity and range of available financial products and instruments, and in the lack of long-term debt and equity capital…[The FSP] address[es] these identified gaps."

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[1] ADB. 1995. *Country Operational Strategy Study Viet Nam*. Manila.

[2] ADB. 1999. *Country Assistance Program Evaluation in the Socialist Republic of Viet Nam*. Manila. The CAPE assessed the 1995 COS as follows: "The list of concerns, objectives, and special emphasis was relevant, drawing ADB's medium-term strategic framework in line with Viet Nam's own statements of goals. But it provided a less than clear focus for interventions by ADB—indeed almost any likely intervention by ADB could be justified by the comprehensive list of concerns."

[3] Loan 1485-VIE(SF): *Financial Sector Program*, for $90 million, approved on 19 November 1996; and associated TA 2687-VIE: *Pilot Project to Modernize the Operations of a State-Owned Commercial Bank*, for $850,000, also approved on 19 November 1996.

B. Formulation

4. After the resumption of operations in Viet Nam in 1993, ADB's initial activities included two technical assistance (TA)[4] grants for financial sector capacity building and studies and an Agricultural Sector Program,[5] which contained a component on rural financial intermediation targeting one of the SOCBs. Following these, ADB approved a program preparatory TA,[6] designed to set the stage for the FSP. However, the output of this program preparatory TA was of little use in the formulation of the FSP (para. 45). Instead, the prevalent World Bank financial sector study[7] was used as the basis for policy dialogue between the Government and ADB during 1995 and 1996.

5. Initially, it was proposed that the Program cover broad issues in central and commercial banking as well as in state-owned enterprises (SOEs), being SOCB's main borrowers. This holistic approach to banking issues was subsequently adjusted to avoid overlap with the ongoing and planned activities of the International Monetary Fund (IMF) and the World Bank. The Enhanced Structural Adjustment Facility (ESAF)[8] of the IMF aimed to improve the efficiency of financial intermediation though its financial sector component.[9] The Structural Adjustment Credit (SAC)[10] of the World Bank also included a financial sector component aimed at strengthening incentives for private savings and investment.[11] Coordination among the IMF, World Bank, and ADB was appropriate during formulation of the FSP.

C. Objective and Scope

6. The objective of the FSP was to raise the financial system's capacity to mobilize savings and to allocate such savings more efficiently. To meet this broadly defined objective, the FSP was to (i) establish essential market infrastructure to facilitate private sector participation, (ii) commercialize and modernize domestic banking operations, (iii) promote competition, and (iv) initiate capital market development. The Program was diffuse in scope, but was to complement assistance from the IMF and the World Bank as an integral part of the country's broad economic reform. FSP's policy matrix included 4 first tranche conditions; 16 second tranche conditions; and 20 conditions, which were to be fulfilled before end of Program. Appendix 1 sets out the policy matrix and targets for actions.

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4 TA 2039-VIE: *Commercial Banks Review and Training*, for $600,000, approved on 27 December 1993; and TA 2063-VIE: *Financial Markets Development*, for $600,000, approved on 17 February 1994.
5 Loan 1340-VIE(SF): *Agriculture Sector Program* , for $80 million, approved on 8 December 1994.
6 TA 2240-VIE: *Financial Sector Review*, for $325,000, approved on 14 December 1994.
7 The World Bank. 1995. *Viet Nam –An Agenda for Financial Sector Development*.
8 *Enhanced Structural Adjustment Facility*, for $533 million equivalent, approved on 11 November 1994.
9 The financial sector components included four structural benchmarks in the first-year arrangement (1994/1995) and 12 structural measures for 1996–1998. The former concerned (i) an auction for government securities, (ii) reserve requirement for banks, (iii) interest rates on foreign currency denominated loans, and (iv) centralization of official foreign currency holdings. The latter concerned (i) central bank and commercial banking laws, (ii) bank supervision, (iii) new prudential regulations, (iv) liberalization of interest rates, (v) deregulation of local currency business of foreign banks, (vi) international audits of SOCBs, (vii) international audits of major non-state banks, (viii) restructuring of SOCBs, (ix) reform of Viet Nam Bank for Agriculture and Rural Development, (x) reforms of other SOCBs, (xi) laws on checks and bills of exchange, and (xii) modernization of a payment system.
10 *Structural Adjustment Credit*, for $150 million equivalent, approved on 25 October 1994.
11 This component included seven program measures, concerning (i) portfolio audits of SOCBs, (ii) exemption of turnover tax for commercial banks, (iii) a check-clearing system, (iv) bank supervision, (v) accounting and auditing standards for all enterprises, (vi) SOCBs' restructuring, and (vii) money market development and open market operations.

7. TA 2687-VIE aimed to (i) modernize the operations of one of the four SOCBs, and (ii) assist the implementation of the FSP. The first component targeted Bank for Investment and Development of Viet Nam (BIDV) focusing on (i) strategic planning, (ii) management information system, (iii) risk management, and (iv) treasury and funds management. The second component was to provide support in (i) drafting a unified ordinance on commercial papers (CPs), (ii) setting up a centralized system for the dissemination and publication of financial and banking laws and regulations, (iii) developing a credit information system, (iv) promoting SOCBs' deposit mobilization, and (v) establishing deposit insurance. Subsequently, three stand-alone TAs[12] were approved also to support program implementation.

D. Cost, Financing, and Implementing Arrangements

8. The program loan had a maturity of 40 years, including a 10 years grace period. Total program adjustment cost was estimated to be around $265 million, consisting of (i) recapitalization of the SOCBs ($225 million); (ii) deposit insurance fund ($10 million); (iii) security agency, stock exchange, and a central depository system ($20 million); and (iv) other program outputs ($10 million). Counterpart funds generated from FSP were earmarked to finance the above program outputs.

9. State Bank of Viet Nam (SBV) was the Executing Agency (EA) for FSP, coordinating with other government ministries and agencies and the SOCBs. Other key organizations involved in program implementation included the Ministry of Finance (MOF), Ministry of Justice (MOJ), State Security Commission (SSC), State Auditor-General's Office (SAGO),[13] and BIDV. To ensure smooth interagency coordination, SBV formed the Program Implementation and Coordination Committee (PICC), chaired by the SBV Deputy Governor and composed of senior officers of the concerned organizations.

10. The loan was disbursed in two tranches of $45 million each, firstly on 7 February 1997 and secondly on 13 December 1999. The latter was more than one year later than envisaged at approval. The progress report at second tranche release[14] noted that the Government fully complied with 14 and significantly complied with the remaining two second tranche conditions (removal of restrictions on deposit taking by joint venture banks [JVBs]; and issuance of Decree on Secured Transactions). It additionally noted that the Government fully complied with all but four end-of-Program conditions; partly complied with three of these four (external audit of SBV, publication of banks' annual reports, and development of a credit information system); and did not comply with one (submission of the report on the SOCB's deposit mobilization programs). The progress report stated "by the end of the Program, ADB anticipates that the Government will have met these four conditions".

E. Completion and Self-Evaluation

11. The Program was completed on 31 December 1999 as originally scheduled, and TA 2687-VIE was closed in April 2000. The program completion report (PCR) was circulated in January 2002. It was comprehensive but included some questionable assessments on compliance with some program conditions (para. 21). The PCR rated the FSP as successful

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[12] TA 2823-VIE: *Registration System for Secured Transactions*, for $500,000, approved on 14 July 1997. TA 2909-VIE: *Policy Support for the State Bank of Viet Nam*, for $700,000, approved on 4 November 1997. TA 3060-VIE: *Capacity Building at the State Auditor-General's Office*, *(Phase II)*, for $787,000, approved on 20 August 1998.

[13] Subsequently, SAGO was renamed as State Audit of Viet Nam (SAV).

[14] Appendium 1 to Document IN. 292-99. Loan No. 1485-VIE (SF): *Financial Sector Program Loan*. Progress Report: Release of Second Tranche. December 1999.

mainly for three reasons. Firstly, the program design continued to be relevant in building a more market-oriented financial system. Secondly, the Government fulfilled nearly all program actions,[15] and continued to make progress in many areas addressed under the Program. Thirdly, the Program helped maintain the momentum of the financial sector reform even during the Asian financial crisis.

12. The PCR illustrated difficulties that the Government confronted in meeting within the scheduled period the program conditions on Ordinance on Commercial Papers and Decrees on Secured Transactions and the Registry System. Based on this experience, the PCR recommended that (i) the inclusion of an established domestic or international lawyer in providing guidance in the formulation of a realistic legal component in program loans; and (ii) greater flexibility in program design so that the Program could accommodate the evolving environment, the impact of initial policy actions, and the results of capacity-building efforts in proceeding with further reforms. It also underscored the crucial role of TA in support of program lending.

F. Operations Evaluation

13. The CAPE (para. 3), published prior to the PCR circulation, observed regarding legislative actions supported under the FSP: "little evidence that tardiness on the Vietnamese side indicates resistance to change; rather it reflects the difficulties of implementing complex new arrangement in an unfamiliar field." Based on this observation, the CAPE doubted "whether the drafting of decrees and legislation was an appropriate condition for a program, or policy-based, loan in the context of Viet Nam."

14. In considering CAPE and PCR observations, the Operations Evaluation Mission (OEM)[16] focused on two issues: (i) appropriateness of program lending to support legal reforms (para. 72), and (ii) contribution of TAs in support of program lending (para. 73). This program performance audit report (PPAR) incorporates the OEM findings, observations of concerned ADB staff, and reviews of reports and documents related to the FSP. The draft PPAR was circulated to the Government and within ADB. Comments received were considered in finalizing the PPAR.

II. PLANNING AND IMPLEMENTATION PERFORMANCE

A. Effectiveness of Design

15. The program objective was consistent with priorities in the Sixth and Seventh Five-Year Plans for 1996–2005 as well as ADB's COS. The targets set were relevant to the program objective and complementary to the ESAF and SAC; the strength of program measures differed across components. The Financial Market Infrastructure component included a number of relevant measures aimed at enhancing public confidence in the financial system and domestic savings mobilization. The Promoting Competition and Capital Market components included fewer program measures, and were initial steps toward a long-term effort in the respective

[15] The PCR confirmed the progress report's findings on program conditions and updated their status as follows: of the total 40 program conditions, the Government complied with all except three end-of-Program conditions (SOCBs' annual report, audit of SBV, and the report on the SOCBs' deposit mobilization programs).

[16] The OEM, fielded in Viet Nam from 11 to 27 August 2003, met representatives of all relevant government agencies, aid agencies and financial institutions, as well as concerned ADB staff in resident mission. With reference to the PCR recommendation, the OEM included a local consultant and received significant inputs from legal counsel at ADB.

areas. During program implementation, Viet Nam was affected by the Asian financial crisis, leading to slower economic growth, slowed pace of reforms, and delay in reaching agreements with the IMF and the World Bank for subsequent policy support.[17] In this difficult period, the FSP continued to signal Government and ADB's mutual commitment to developing a market-based financial system. Yet, the slower-than-expected progress in restructuring SOCBs? supported under the ESAF and the SAC? reduced FSP's expected complementary impact, especially that for Commercialization and Modernization of Banking Operations.[18] Moreover, some weaknesses are also evident in this component and other aspects of the program design as discussed below.

1. Commercialize and Modernize Domestic Banking Operations

16. The weaknesses of this component can be attributed as follows:

(i) The development of the Credit Information Center (CIC) was one of the key elements of the risk management subcomponent. The concerned program measures included "establishing" computerized database and "creating" a reporting network for financial institutions supervised by SBV. These facilities were, however, already in place in their basic form even before the approval of the FSP. Hence, the policy matrix should have specified the scope and schedule of a proposed upgrading. The lack of such information prevented CIC from getting clear guidance on these measures and from specifying the timing of its compliance to the OEM.

(ii) The preparation and implementation of deposit mobilization plans by SOCBs were expected under the deposit mobilization subcomponent. Aside from the program measures, the SOCBs were required by SBV to submit annually their funding programs, including deposit mobilization plans. FSP should have clearly identified necessary new measures besides this routine action. In the absence of such clarification, SBV and SOCBs (besides BIDV) did not prioritize this subcomponent. As a result, one of the program conditions, i.e., submission of final report of the SOCB's deposit mobilization plans, has not been met.

(iii) During the early 1990s, Government promoted the emergence of non-state credit institutions. As a result, 50 joint-stock commercial banks (JSCBs) and 596 people's credit funds were operational at the time of FSP's approval.[19] Whereas the number of JSCBs remained constant, more than 370 people's credit funds were created during 1997–2000. With such rapid expansion, the quality of their operations became a growing market concern especially during the Asian financial crisis. In view of such apprehension, SBV initiated restructuring plans for these institutions in 1999, resulting in the merger or liquidation of more than 10 JSCBs and about 30 people's credit funds. A broader scope for FSP to include

[17] IMF. 2001. *Poverty Reduction and Growth Facility*, for $368 million; and World Bank. 2001. *Poverty Reduction Support Credit*, for $250 million equivalent.

[18] The SAC was completed in September 1996 after meeting all the program conditions except the portfolio audit of Industrial and Commercial Bank of Viet Nam, caused by the delay in obtaining expected technical assistance from an aid agency. The ESAF expired in November 1997 without reaching agreement on the third year program due to delay in issuance of prudential regulations for commercial banks; steps to reform SOCBs, including proposals for restructuring the Agribank; and other structural measures.

[19] According to the RRP, the total assets of 50 JSCBs corresponded to about 16% of the SOCBs' total assets (as of end 1995), and the total capital of 596 people's credit funds corresponded to about 7% of JSCBs' total capital (as of end April 1996).

these initiatives would have strengthened its risk management subcomponent, with possible subsequent reduction in overall restructuring costs.[20]

2. Implementation Schedule, Monitoring Framework and Support

17. The expectation that all second tranche conditions would be met in one and a half years from the date of loan effectiveness was overly optimistic, not taking sufficient account of necessary consensus building for legislation and policy reform in Viet Nam. With no logical framework attached to the RRP? suggested during ADB interdepartmental consultation? performance indicators and targets were not identified. Monitoring mechanisms for each program output were not clarified. Likewise, associated risks were not properly assessed for each program output.

18. TA 2687-VIE had two components: (i) modernization of BIDV, and (ii) program implementation. The first component had detailed terms of reference (TOR) for five international consultants, whereas little information on the second component was given in the RRP. The two components would have been better separated into two TAs as they were not related. The Program Implementation component should have been more carefully tailored to meet specific needs of the Government at each stage of program implementation.

3. Earmarking of the Counterpart Fund

19. FSP was to support SOCB recapitalization (para. 8), while technical inputs for this purpose were to be provided under the ESAF and the planned second adjustment credit from the World Bank. Responding to the impact of the Asian financial crisis, the Government injected around $180 million to the four SOCBs in 1998 without taking full steps recommended by the IMF.[21] Remedial action by ADB to counter this major deviation from program assumptions was not evident. This event highlighted a weakness in program design? earmarking loan proceeds for a specific purpose such as bank recapitalization with no associated program/safeguard measure.

4. Added Value of Some Program Measures and Tranching

20. The policy matrix indicated 19 actions, including the four first tranche conditions, taken by the Government prior to Board consideration. However, the RRP made little reference to these prior actions in the main text. Three first tranche conditions were actually met before the appraisal mission while one second tranche condition, that of corporatization of the SOCBs, was met before loan approval. In this regard, the added value of these program conditions was questionable. Moreover, the insignificance of the program achievements before the first tranche relative to the second tranche made justification of equal tranching weak.

B. Reform Measures

21. The OEM confirmed compliance of program measures except for those on (i) final report of the SOCBs' deposit mobilization plans (para. 16 [ii]), (ii) publication of banks' annual reports (para. 33), (iii) regulation on filing of credit documents (para. 37), (iv) internal audit of credit institutions (para. 38), (v) deposit taking by JVBs (para. 39), and (vi) over-the-counter (OTC)

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[20] Neither ESAF nor SAC addressed the potential risks of these institutions.

[21] These included the portfolio audit of SOCBs, and the preparation of their restructuring plans. The World Bank's second policy-based credit did not materialize until June 2001 (footnote 17).

market and a system for trading securities of small and medium enterprises (SMEs) (para. 42). Appendix 2 updates the status of program outputs, while key aspects of progress, outcomes and issues are discussed in the following paragraphs.

1. Establish Essential Financial Market Infrastructure

a. Ordinance on Commercial Papers

22. The National Assembly of Viet Nam (NAV) approved this Ordinance in December 1999, providing the legal framework for issuing and trading promissory notes and bills of exchange supported under the FSP. SBV set the implementation guidelines for this Ordinance in 2001. As practiced in many other countries, it was expected that promissory notes and bills of exchange would be used as non-cash payment instruments of firms. To date, however, CPs[22], promissory notes and bills of exchange have been rarely used in the market. This result can be partly explained by the excessively restrictive nature of the Ordinance, which requires involvement of a bank as guarantor or acceptor of these instruments.

23. Besides this Ordinance, the Government issued the Decree on Checks in May 1996, while SBV's decision in November 2002 regulates valuable papers (bonds, bills, and certificates of deposits) issued by credit institutions. All the financial instruments mentioned are recognized as negotiable instruments commonly defined as "an unconditional order or promise to pay an amount of money" under one umbrella law in many other countries. Legal Department of SBV is currently drafting the Law on Negotiable Instruments aimed at consolidating all related regulations supported under the Second Financial Sector Program (FSP II) and TA 4035-VIE.[23] Under this new Law, it is expected that the definition of promissory notes and bills of exchange will be broadened so that these instruments become more functional.

b. Decrees on Secured Transactions and the Registry System

24. The Government issued Decree 165 in November 1999 as a legal basis for secured transactions pursuant to the Civil Code, and issued Decree 08 in March 2000 to establish a registry system for secured transactions. These Decrees led to the establishment of the National Registration Agency of Secured Transactions (NRAST) by MOJ in 2001. NRAST opened the first branch in Ho Chi Minh City (HCMC) and started the registry operations of movable assets in 2002. As of OEM, more than 25,000 secured transactions relating to movable assets have been registered in NRAST.[24]

25. In respect of immovable assets, the Government issued Decree 17 in March 1999, pursuant to the Law on Land, setting procedures for assignment, lease, sublease and mortgage.[25] To give further guidance on this Decree, MOJ and the Ministry of Natural Resources and Environment (MoNRE) jointly issued the Circular in July 2003 regarding the

[22] In Viet Nam, CPs are recognized as a general term for promissory notes and bills of exchange unlike many other countries where CPs are short-term debt instruments of firms, often traded in money markets. Evidently, the focus of this Ordinance is not CPs in the conventional context.

[23] Loan 1932-VIE(SF): *Second Financial Sector Program (Subcomponent I),* for $50 million, approved on 20 November 2002; and TA 4035-VIE: *Capacity Building for Nonbank Financial Institutions and the Capital Market*, for $1,000,000, approved on 13 December 2002.

[24] TA 2823-VIE significantly contributed to these processes (para. 59). Operations of NRAST are being upgraded under TA 4060-VIE: *Legal System Development up to 2010 and Capacity Building for Secured Transaction Registration*, for $750,000, approved on 19 December 2002.

[25] Neither the Progress Report at second tranche release nor the PCR referred to Decree 17 despite the fact that the program condition referred to "comprehensive implementation regulations on collateral" including "land use rights".

order and procedures for registering mortgage of, or guarantee with, land use rights and assets attached to land. Under the current legal framework, the registration system for secured transactions related to land use rights and other immovable assets is not integrated into the NRAST's centralized registration system for security over movable assets.[26] In this connection, the Prime Minister issued the directive in October 2003, instructing MOJ and MoNRE to investigate and formulate a pilot centralized registration system for secured transactions relating to land use rights.

26. As well as Decree 165, the Government issued Decree 178 in December 1999 pursuant to Law on Credit Institutions, forming the legal basis of security in respect of loans extended by credit institutions. Decree 178 reflected the Government's perception that loan security should be treated separately from security of other transactions regulated under Decree 165. This perception, however, is incompatible with the international norm, which considers such a distinction may give rise to conflict especially when a single asset is used as loan security as well as security for other transactions. From this viewpoint, Decree 85 of October 2002 amended Decree 178 to reconcile the differences between the two Decrees. Yet, inconsistencies still remain; MOJ is currently amending the security provisions of the Civil Code to cover all types of secured transactions in the future.

c. Decree on Proper Auction

27. The Government issued Decree 86 on Property Auction in December 1996 pursuant to Civil Code and its implementation guidelines in April 1997. However, auction centers are reportedly in practice reluctant to auction the relevant property at request of secured creditors without a court decision. In this regard, the guidelines are not yet fully enforced.

d. Laws on SBV and Credit Institutions

28. NAV approved the Law on SBV in December 1997, replacing Decree-Law on SBV of May 1990. This Law consolidated the existing central banking regulations and clarified the role of SBV in monetary policy.[27] The Law gave SBV responsibility for monetary and credit policies as well as supervision of all credit institutions. SBV exercises State ownership right in SOCBs, operates as a parent authority of SOCBs, and takes responsibility for their profitable operations. NAV also approved the Law on Credit Institutions in December 1997. Before this Law, the Ordinance on Banks, Credit Cooperatives and Finance Companies of May 1990 regulated credit institutions including SOCBs, which were concurrently regulated by the Law on SOEs. Law on Credit Institutions clarified the independent status of SOCBs and strengthened their autonomy (para. 35). These two banking Laws were followed by several implementation decrees and decisions (Appendix 3).

[26] NRAST under MOJ is responsible for registration of security over movable properties. On the other hand, the Natural Resources and Environment Department under MoNRE (previously known as Cadastral – Land and Housing Department) and the local People's Committee are responsible for registration of security created over land use rights and immovable properties. MOJ is currently considering an Ordinance on a unified registry system for both movable and immovable assets.

[27] The Law authorizes National Assembly (not SBV) to approve monetary policy.

e. Dissemination and Publication of Financial Regulations

29. The Law on Promulgation of Legal Documents, approved in 1996 and amended in 2002, requires central state authorities to publish all their legal documents in the Official Gazettes. With respect to decisions and circulars, this Law reportedly has not been fully enforced as of OEM. The Legal Department of SBV is in the process of building a dissemination network for regulatory documents and plans to launch a website for this purpose.

f. Audit of SBV by State Audit of Viet Nam

30. State Audit of Viet Nam (SAV) started an annual audit of SBV from 2000 in compliance with the Law on SBV.[28] SAV recently submitted a draft Ordinance to the National Assembly proposing the automatic and simultaneous submission of the audit report to the Prime Minister and the National Assembly, thereby strengthening its independence.[29] Meanwhile, the Government and the IMF are discussing safeguard measure introduced by the IMF in 2000,[30] requiring borrower countries to undertake central banks' external audit by international accounting firms and to disclose the audit results to the public.

g. Accounting Standard

31. Since the Ordinance on Accounting and Statistics was issued in May 1988, the guidelines on chart of accounts for credit institutions have been revised several times. Through these revisions, the Vietnamese Accounting Standard (VAS) has come closer to the international accounting standard (IAS). In June 2003, the Law on Accounting replaced the Ordinance of May 1988 while incorporating all revisions. Major credit institutions applied these changes; some prepare both VAS- and IAS-based financial statements.[31] IMF suggested converting SBV accounts from a cash basis to accrual basis method. SBV internally set up the accrual-based accounting system to satisfy its reporting duty to the IMF in 1998, but it has no legal basis to implement it. Such formal implementation would require revision to the Law on SBV.

h. External Audit

32. In September 1999, guidelines regarding external audit of credit institutions were set by SBV. These guidelines require SBV approval in the appointment of an independent auditor. The external audit of credit institutions must comply with the four auditing standards issued by MOF in September 1999. As a result, external audits have reportedly been in place in major credit institutions.[32]

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[28] TA 3060-VIE offered significant inputs to SAV for this undertaking (para. 59).

[29] SAV has been required to submit its audit results to the Prime Minister, copied to MOF.

[30] The IMF questions the eligibility of SAV as an external auditor of SBV in view of its capacity and legal status as a public agency, and emphasized the need for uniform application of this safeguard measure. The Government responded by noting that the requested change will require an amendment to the present Law on SBV and Ordinance on Protection of State Secrets and will thus take time. Mainly because of this issue, the third review of PRGF has been delayed.

[31] BIDV has presented two financial statements based on VAS and IAS in its annual reports since 2000.

[32] BIDV introduced an annual external audit in 1996.

i. Disclosure Requirement

33. SBV has not issued any circular that would provide guidelines for the publication of financial statements as required by the Law on Credit Institutions. In this connection, MOF issued a Circular in September 2000 requiring limited disclosure by credit institutions of certain financial information. Based on these findings, the OEM considers that the concerned Program condition has been partly complied with.

j. Deposit Insurance of Viet Nam

34. The Government established the Deposit Insurance of Viet Nam (DIV) as an independent organization in June 2000. DIV has a capital of D1,000 billion and offers insurance over individuals' local currency deposits up to a maximum of D30 million (about US$2,000 equivalent). Insured credit institutions are required to pay a premium of 0.15% of the average deposit balance of individuals. More than 1,000 credit institutions are members of DIV. Present capital would be insufficient to cover cases of bankruptcy such as experienced by one JSCB in 2002. Consequently, SBV sought other solutions for the closure of this specific bank. On the other hand, DIV was involved in the liquidation of 30 people's credit funds, paying out D14 billion, of which only D1 billion has been recovered. FSP II considers issues relating to the current regulatory framework and operations of DIV. However, this could give rise to induce risks of moral hazard. To preclude such risk, FSP-II supports (i) adopting a regulation on DIV's joint on-site inspection with SBV, and (ii) specifying strict conditions under which DIV can provide financial support to problem banks.

2. Commercialize and Modernize Domestic Banking Operations

a. Structures and Operations of SOCBs

35. FSP sought the redefining of board functions for SOCBs pursuant to the Law on SOEs, leading to charter revisions for them in 1997. To be consistent with the Law on Credit Institutions, the SOCBs further amended their charters in 2001. Under the new charters, the boards were given more autonomy to choose their chairpersons and general directors (subject to SBV approval), to hire and fire management, to approve credit based on internal authority limit, to set salary levels, and to approve their budget. It is still not fully clear as to what extent the new charters actually affect the SOCBs' operational performance. Hence, interference by local authorities in the operations of some branches of SOCBs is still evident even after the transfer of policy lending operations to the Development Assistance Fund (DAF), established under MOF in 2000.

b. Credit Information Center

36. SBV established the CIC within its Credit Department in 1992. As a move to strengthen this function, CIC was separated from the Credit Department in 1999.[33] In 2001, CIC established a website for wider and quicker dissemination of information. However, some of the credit institutions are still reluctant to provide all required information to CIC. Mandatory

[33] Initially the CIC required all credit institutions to provide information on a mandatory basis. SBV revised the guidelines in 1995 switching to the submission of information on a voluntary basis. This move drastically reduced the volume of information received by the CIC. To rectify this, the mandatory submission of information by credit institutions was put back in 1999. Since then, according to CIC's 2002 annual report, the number of outstanding loans tracked by CIC and provision of services has increased.

reporting requirement has not been enforced strictly. As a result, the information from CIC is neither well updated nor sufficient, thus being underutilized by credit institutions.

c. Filing of Credit Documents Required to Financial Institutions

37. To date, SBV has not issued implementing guidelines on filing of credit documents as required under the Law on Credit institutions.[34] Therefore, the OEM considers that this end-of-program condition has been partly complied.

d. Internal Audit of SOCBs

38. The new charters of SOCBs, in accordance with the Law on Credit Institutions, require an "internal supervision and internal audit system" in place under the control of a general director. However, as "internal audit" was not a traditional concept in Viet Nam, "supervision" and "audit" were often not clearly distinguished and casually interchanged. For instance, BIDV set up an internal supervision unit in 1998 in response to a new SBV regulation. Whereas this unit was subsequently renamed the Internal Supervision and Audit Unit,[35] its basic function remains the same. It is still responsible for supervision but not audit, *per se*, and reports to the general director. The forthcoming amendment to the Law on Credit Institutions will clarify this issue. The SOCBs are now preparing for the establishment of internal audit committees which will function as an effective internal audit body, reporting to their boards of management. Based on these findings, the OEM considers that the program measure, as a second tranche release condition, has been only partly complied with.

3. Promote Competition

a. Deposit Taking by JVBs

39. Notwithstanding some deregulation measures implemented to date, one restriction still remains: JVBs are allowed to take foreign currency deposits from Vietnamese individuals in the amount not exceeding 50% of their authorized capital. There remains no legal restriction for JVBs to take savings deposits in local currency. However, in the absence of a provision of saving deposits in the banking license of JVBs, they are reluctant to do so in practice. Based on this observation, the OEM considers that this program condition has been only partly complied with.

b. Leasing Companies and Other Nonbank Institutions

40. The Government issued the Decree on Organization and Operations of Financing Leasing Companies in October 1995, and amended it in May 2001. Moreover, the Government set guidelines on accounting in 1997 and value-added tax in 1999. Currently, there are eight leasing companies, of which five are owned by SOCBs, two by foreign companies and one by a joint venture company. As to other nonbank institutions, SSC issued regulations in 1998, resulting in emergence of 12 security companies, of which three are private joint stock companies.

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[34] SBV issued regulations, under the previous Law, on the filing of credit documents: (a) Decision 63 in March 1997 regarding the filing of accounting documents, and (b) Decision 252 in December 1993 regarding the filing period. Yet these guidelines became ineffective when the new Law was issued in 1997.

[35] BIDV Annual Reports, 1999 and 2001.

4. Develop a Capital Market

a. Regulatory Agency and Framework

41. The Government established the SSC in November 1996, and issued Decree 48 in July 1998 to regulate securities and the security market.[36] Moreover, SSC issued the circular to regulate issuance of shares and bonds in September 2001. To further bolster public confidence, the SSC intends to formalize procedures for market surveillance and inspection, supported under FSP II.

b. Stock Exchange and SMEs Development

42. Security Trading Center (STC) in HCMC opened in July 2000 as the first official security market in Viet Nam. As of end 2002, 20 companies' shares and 41 bonds were listed. Market capitalization is around 1% of GDP and annual turnover ratio remains at less than 0.5 (Appendix 4, Tables 7 and 8). As these data suggest, the capital market in Viet Nam is still in a nascent phase. To promote further development, the Government recently prepared a long-term capital market strategy, supported by FSPL II.[37] In line with this strategy, the Government plans to open a separate STC in Hanoi for small and medium enterprises (SMEs) and to give regulatory framework for an over-the-counter (OTC) market. Given that the FSP originally focused on SMEs and OTC (apart from STC), the OEM considers that the concerned program condition has only been partly complied with.

C. Program Management

1. Program Loan

43. The Government generally complied with the loan covenants except for the fulfillment of six program measures (para. 21) and timely submission of semiannual progress reports. SBV's commitment to program implementation was broadly satisfactory, and PICC played its expected role in inter-agency coordination.

44. Counterpart funds generated under FSP (para. 8) were earmarked as follows: (i) $45 million as part of the total capital injection of D2.4 trillion (equivalent to $180 million) to SOCBs in 1998, (ii) $28.5 million DIV's capital, and (iii) $15 million for the establishment of STC. SOCBs' recapitalization in 1998 had a mixed impact.[38] It was timely and effective in mitigating increased distress in the banking system, adversely affected as it was by the Asian financial crisis. Yet, as no associated major financial and operational restructuring plans existed, the SOCBs remained weak. DIV effectively mobilized deposits from households, but its financial viability is questionable (para. 34). Although SSC received $15 million from the Government, STC hardly received this from SSC, thus, preventing its planned renovation. Aside from FSP adjustment costs, the Government acknowledged FSP proceeds as a means of maintaining its foreign reserves in a period of economic downturn.

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[36] The Government redefined the roles of MOF under the new decree issued in July 2003, in which MOF was authorized to "participate in the management of the securities market in accordance with the laws." The roles of SSC were also redefined under the new decree issued in August 2003. How these new arrangements will affect the regulatory process in the capital market remains to be clarified.

[37] ADB. 2003. *Viet Nam: Capital Market Roadmap*. Manila.

[38] The IMF noted that "while the clearance of frozen debt in principle represents a welcome step, its timing is inauspicious, as it might create the expectation on the part of the SOCBs that they would be bailed out by the State Bank each time the economy and their own performance deteriorate.'" (*Selected Issues*. May 7, 1999)

45. The program preparatory TA 2240-VIE[39] (footnote 6) did not lead to efficient program formulation, necessitating additional ADB staff input. The weakness of the preparatory study is reflected in the limited understanding of SBV and ADB staff of some critical areas of the program outputs such as Ordinance on CPs and Decree on Secured Transactions. ADB suitably monitored program implementation, while maintaining policy dialogue with the Government. The monthly program performance report (PPR)[40] consistently rated the FSP's implementation progress partly satisfactory except for the last two months of implementation with a satisfactory rating. Slower-than-expected progress in second tranche conditions[41] was related to delay in the Program Implementation component of TA 2687-VIE and its disappointing results (paras. 46-47). In the later stage of implementation disagreement arose within ADB regarding interpretation of the program condition on secured transactions.[42] The progress report for second tranche release gave adequate supporting information although its assessment of some program outputs such as Ordinance on CPs,[43] Decree on Secured Transactions[44] and deposit taking by JVBs,[45] was questionable.

2. TA 2687-VIE

a. Program Implementation Component of TA 2687-VIE

46. This component was to be undertaken by five domestic consultants. However, due to a lack of eligible local experts, consultant selection was delayed. Eventually, four former Government employees engaged under a local consulting firm were hired. They conducted research during February-June 1998 covering (i) credit information system, (ii) deposit insurance, (iii) banks' fund mobilization, and (iv) centralized information system of financial regulations. The TA outputs contributed little to program results as evidenced by the fact that no government officials met by OEM worked with these consultants, nor recalled their outputs. The OEM reviewed the consultants' reports, which were evidently weak (Appendix 6).

47. Preparation of the Ordinance on CPs was originally to be supported by a local consultant as part of this component. However, based on a recommendation from ADB's Office of the General Counsel, it was decided to hire an international legal expert instead. This decision is considered appropriate. The consultant prepared the preliminary draft Ordinance within a short

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[39] Soon after approval, international consulting firms were short-listed for this program preparatory TA. However, the decision was subsequently made to engage individual consultants presupposing a particular team leader (former government official of a developing member country), recommended by the Programs Department. The OEM could not verify the basis of this recommendation. None of the concerned ADB staff that the OEM interviewed recalled the final consultant report, which is not kept by the ADB's record section. On the basis of these findings, the management of this program preparatory TA is considered unsatisfactory.

[40] PPR was introduced in November 1998. Less information is available as to the ADB's monitoring activities during the pre-PPR period. Review of the program implementation files suggested that ADB's monitoring activities intensified towards end of the Program.

[41] These included Ordinance on CPs, Decree on Secured Transactions, upgrading of accounting and auditing standards, and DIV.

[42] Disagreement over Decrees 165 and 178, which were drafted by MOJ and SBV, respectively. SBV and ADB's Financial Sector and Industry Division West considered Decree 178 satisfied the program condition. ADB's Office of the General Counsel was critical about the coexistence of the two Decrees and supporting Decree 165. This episode reflected a lack of clarity as to the concerned program measure and inadequate inter-departmental coordination within ADB.

[43] The Progress Report notes "the decree-law, prepared with ADB assistance, conforms to international practice". The actual program output was not a decree-law but an ordinance, which did not conform to international practice.

[44] The Progress Report did not highlight the potential issues caused by inconsistencies between Decree 165 and Decree 178.

[45] The Progress Report did not describe the remaining restriction for deposit taking by JVBs.

period, and presented it to concerned Government officials at a seminar in Singapore in May 1998. The draft Ordinance defined CPs differently from the international practice (para. 22). The draft did not elaborate on "unconditional promise or order to pay an amount of money", which was the essence of negotiable instruments such as promissory notes and bills of exchanges. Presumably, these deficiencies constrained clear understanding by seminar participants, leading to excessive restriction added to the draft at its later legislative stage. This component would have been better designed to incorporate the consultant's involvement in wider dissemination and consultation with policy decision-makers early in the legislative process.

b. BIDV Component of TA 2687-VIE

48. The consultants under this component were fielded in September 1997, and submitted the final reports in May 1998. The consultants performed largely to BIDV's expectation. Key outputs included (i) Strategic Planning Manual, (ii) Credit Risk Management Manual, (iii) Treasury and Funds Management Manual, (iv) Management Manual, and (v) Workshops and Overseas Training Program. BIDV's concerned departments are using these manuals for daily operations except for the Asset and Liability Management section of the Treasury and Funds Management Manual. Many recommendations have been progressively introduced. These include establishment or introduction of (i) Planning and Strategy Department, (ii) Project Appraisal Department, (iii) Risk Management Committee, (iv) Bad Debt Recovery Unit, and (v) Accounting Procedures and Manual.

49. Total assets of BIDV increased from D24 trillion as of end 1998 to D64 trillion as of end 2002. In 2001, BIDV was the first Vietnamese commercial bank granted ISO 9001:2000 certification. BIDV acknowledged the TA's contribution to these achievements. Among these, BIDV considered institutional capacity building in treasury and fund management was particularly important in coping with rapidly increasing deposits.[46] BIDV's medium and long-term business plans, based on TA recommendations, had to be adjusted to reflect new government initiatives introduced. Firstly, restructuring was concurrent with government capital injections in 1998 and 2003. Secondly, DAF's establishment in 2000 was not taken into account during TA implementation. As organizational structure and operational scope differ among SOCBs, the demonstration effect of this TA on other SOCBs was less-than-expected.

c. Overall Assessment of TA 2687-VIE

50. The TA is rated partly successful. The Program Implementation component was relevant, less efficacious, less efficiently implemented, and its impact unlikely to be sustained. The BIDV component was relevant, efficacious, and efficiently implemented, and its outputs likely to be sustained. The OEM considers the Program Implementation component should have been more carefully designed, and provided with more resources. Better quality TA outputs under this component may have addressed outstanding issues in CIC, DIV, and a centralized system for dissemination and publication of financial regulations. The BIDV component of the TA, would have been more efficacious and efficient had it been linked up with planned restructuring and recapitalization. The three stand-alone TAs which supported program implementation are discussed in Appendix 5.

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[46] Total deposits at BIDV increased from D3,373 billion at end 1996 to D18,702 billion at end 1999, and to D41,565 billion at end 2002 (Appendix 4, Table 6).

III. ACHIEVEMENT OF PROGRAM OBJECTIVE

A. Performance Indicators

51. The achievement of program objective is assessed as follows: financial system's capacity in savings mobilization was significantly raised, while improvement in its allocative efficiency was less evident. The ensuing paragraphs discuss this assessment with reference to the performance indicators identified during the OEM (Table 1).

52. Bank deposits (outstanding amount as % of GDP) remained at around 10-13% during 1992-1996, and progressively increased to 39.4% by the end of 2002. This achievement reflected enhanced public confidence in the banking system. Prudent macroeconomic management over the years was also a contributing factor.

53. Assessment of the banks' allocative efficiency is constrained by lack of consistent data.[47] Credit extended to SOEs (as % of total credits) decreased from 48.2% in 1999 to 38.3% in 2002. Credit share of SOCBs was kept largely constant at around 71–74% during 2000–2002, supported by their expanded branch networks, increased staff and recapitalization. The SOCBs are now mandated to rationalize credit allocation in association with the establishment of DAF in 2000 and implementation of restructuring plans from 2001. However, credit allocation in some local branches of SOCBs is still occasionally influenced by local authorities.

54. Gross investment (as % of GDP) was broadly constant during 1995-2002, supported by increased national savings, which offset reduced FDI inflows after the Asian financial crisis. The incremental capital output ratio indicated weaker performance during 1998-2002 as compared with the previous period, implying that increased credit to non-SOEs did not lead to higher productivity in the economy. Moreover, it may be suggested that additionally mobilized national savings were less efficiently allocated as compared with the replaced FDI inflows.

[47] The major constraints included (i) a change in coverage of credit institutions in 1999 in the aggregate banking data (Footnote c, Table 1), and (ii) inconsistencies in banks' financial statements included in their annual reports over the years due to changes in VAS.

Table 1: Performance Indicators

Key Indicators	1992–1996 (Average)[b]		1997	1998	1999	2000	2001	2002
Bank Deposit[a] (% of GDP)	10–13%		14.5	16.8	26.1	32.8	38.1	39.4
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Credit Extended to SOEs (% of Total Credit[c])	57.0	52.8	50.2	52.4	48.2	44.9	42.2	38.3
Credit Extended by SOCBs (% of Total Credit[c])	79.6	75.5	77.2	81.4	67.9	73.3	71.9	72.9
Memorandum Items	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001 (est.)**	**2002 (proj.)**
National Saving (% of GDP)	11.9	17.0	21.4	19.1	26.5	27.0	27.3	24.4
Gross Investment (% of GDP)	25.4	28.1	28.3	23.7	22.4	25.3	25.6	26.7
Foreign Direct Investment[d] (% of GDP)	11.0	7.4	7.7	2.9	2.5	2.6	2.0	n.a.
		1994–1997				**1998–2001**		
Incremental Capital Output Ratio[e]		2.8				6.1		

est. = estimated, GDP = gross domestic product, proj. = projected, n.a. = not available, SOCB = state-owned commercial bank, SOE = state-owned enterprise.

[a] This includes demand deposit, time and savings deposit, and foreign currency deposit.

[b] Excluding 1994.

[c] Total credit does not include credit to the Government. There was change in coverage of credit institutions in 2000: 4 SOCBs and 24 non-state banks were included prior to 1999; from 1999 onward, 4 SOCBs and 72 non-state banks were included. This explains the rise in share of credits extended by non-SOCBs in 1999.

[d] Annual average exchange rates were used in converting FDI in a dollar term.

[e] Gross investment rates (in nominal term) and real GDP growth rates were tentatively used for the calculation.

Source: Appendix 4 (Tables 1,3, 4, and 5).

B. Program Impact

55. The FSP contributed to promoting banks' deposit taking and set the stage for possible more efficient financial resource allocation in the future. Key outputs were (i) Law on SBV and Law on Credit Institutions, (ii) upgraded accounting and audit standards, (iii) DIV, (iv) legal framework for secured transactions and their registry system, (v) regulatory bases for nonbanks and a capital market, and (vi) SSC and STC. The two banking laws and upgraded accounting and audit standards assisted in enhancing public confidence in the banking system, while the DIV directly supported banks' deposit taking from individuals. Regulations for nonbanks and a capital market, together with SSC and STC, laid the foundation for developing alternative channels of financial intermediation. Complementary technical inputs from the World Bank and the German Agency for Technical Cooperation contributed to the two banking laws, those of the IMF to the accounting standards and the International Finance Corporation to the capital market.

56. Decrees on Secured Transactions and the Registry System resulted in the establishment of NRAST and registration of 25,000 secured transactions to date. In contrast, Ordinance on CPs is not functional as yet. Nevertheless, both these outputs need amending to maximize their impact. Government is now amending security provision under the Civil Code to clarify rules and procedures for all secured transactions. Government is also considering an Ordinance on unified registration for security over both movable and immovable assets. With these improvements, the registry system will function better especially for loan security, contributing to rationalizing banks' credit allocation and reducing their operational costs. The proposed Law on Negotiable Instruments will consolidate all the regulations on non-cash

financial instruments including the Ordinance on CPs. Resultant circulation of promissory notes and bills of exchange will reduce costs of commercial transactions and improve shorter term allocative efficiency.

57. The slower-than-expected improvement in allocative efficiency of financial resources may be attributed to three factors: (i) program limitations, (ii) delays in the SOCBs' restructuring and SOE reform, and (iii) the Asian financial crisis. These factors are interrelated. The program limitations result from weaknesses in program measures under the component for Commercialization and Modernization of Banking Operation (para. 16); and mixed performance in implementing the Commercialization and Modernization Banking Operations and Promote Competition components (paras. 35–39). Delay in the SOCBs' restructuring prevented the Commercialize and Modernize Banking Operations component from providing its expected complementarity. This delay also eroded Government's priority to the Promote Competition component. Evidently, the slow progress in the SOE reform was closely linked to the restructuring of SOCBs as they were SOEs' main banks. The Asian financial crisis exacerbated the situation. It negatively affected foreign partners (from Indonesia, Republic of Korea, Malaysia, and Thailand) of JVBs, which were targeted under the Promote Competition component. The resultant depressed economic growth further slowed SOE reform, while the SOCBs needed to be recapitalized without waiting for full restructuring. The delays in the SOE reform and the Asian financial crisis also constrained capital market development.

C. Sustainability

58. Government is committed to sustaining program impact. It has so far maintained or refined measures implemented under FSP, while maintaining prudent macroeconomic management. In addition, several additional actions have been taken or are expected to reinforce the program achievements. Meanwhile, the long overdue restructuring of SOCBs has gained momentum since 2001 through assistance from the IMF and the World Bank. ADB has also continued to support the development of the capital market and nonbank financial institutions under FSP-II. Moreover, the existing Bilateral Trade Agreement with the United States and ASEAN membership as well as Viet Nam's scheduled accession to the World Trade Organization indicate commitment towards an open economy. These factors reinforce government's intention of creating an enabling environment to improve resource allocation efficiency. Nonetheless, improvement will still be constrained by the progress of the SOE reform, which is slower-than-expected.

IV. ACHIEVEMENT OF OTHER DEVELOPMENT IMPACTS

A. Organizational Impact

59. The FSP, in conjunction with TA 2823-VIE and TA 3060-VIE, contributed capacity building in MOJ and SAV for operationalizing the registry system for secured transactions and in conducting annual audit of SBV, respectively. The impact on SOCBs, in conjunction with the BIDV component of TA 2687-VIE, was mixed. It contributed to BIDV's commercialization and modernization but its demonstration effect on other SOCBs was not as originally envisaged. Disappointing feedback on the Program Implementation component of TA 2687-VIE and TA 2903-VIE indicate a less-than-expected impact on SBV (including CIC and Legal Department) and DIV.

B. Socioeconomic Impact

60. No household survey has been conducted in Viet Nam since 1999.[48] As such, no assessment of socioeconomic impact could be made.

C. Environmental Impact

61. There are no discernible environmental impacts of the Program.

V. OVERALL ASSESSMENT

A. Relevance

62. The FSP is assessed as relevant. The program objective was consistent with priorities set in the Vietnamese Five-Year Plans covering 1996–2005, as well as ADB's COS. The measures under all four components were relevant to achieving the program objective. The Program was diffuse but complemented the ESAF and the SAC as an integral part of the country's economic reform. During program implementation, the Vietnamese economy was affected by the Asian financial crisis, leading to slower economic growth, slowed pace of reforms, and delay in reaching agreements with the IMF and the World Bank for the policy support arrangements. In this difficult period, the FSP indicated the Government and ADB's commitment to developing a market-based financial system.

B. Efficacy

63. The FSP is assessed as efficacious. The Program effectively guided the Government in building financial market infrastructure, resulting in noteworthy progress in banks' savings mobilization. The Program was less efficacious in commercializing and modernizing SOCBs and in providing a level playing field for credit institutions. The less-than-desired achievements in these areas, in conjunction with delays in SOCB restructuring and SOE reform, resulted in slower-than-expected improvement in the financial system's allocative efficiency. The Program effectively laid the foundation for developing nonbank financial institutions and capital market subsectors as alternative financial intermediation channels.

C. Efficiency

64. The FSP is assessed as less efficient for three reasons. Firstly, program preparatory TA 2240-VIE was not cost-effective. Secondly, the Program Implementation component of TA2687-VIE was not efficiently implemented. Thirdly, counterpart funds (earmarked to program outputs) were used less efficiently for the following reasons: SOCBs' recapitalization in 1998 had mixed results; DIV needs major refinements to become financially viable; and the planned renovation of STC has been delayed.

[48] The Government conducted a household survey in 1994 and 1997/1998. The two surveys indicated that increased bank deposits during 1994-1996 reflected the change in asset composition of urban households. The same studies, however, also indicated the tendency among rural households to hold gold and other non-financial assets. This was especially true for the lower income households who had limited access to any form of banking. Meanwhile, DIV has been involved in the liquidation of the 30 people's credit funds paying out D14 billion. To identify the socioeconomic implications of this undertaking, further information on those assisted is required.

D. Sustainability

65. Sustainability of the Program is assessed as most likely on the basis of observations in para. 58.

E. Institutional Development and Other Impacts

66. In terms of this criterion,[49] the FSP is assessed as moderate given its significant impacts on MOJ, SAV, BIDV, and less-than-expected impacts on SBV (CIC and Legal Department), SOCBs (besides BIDV), and DIV (para. 59).

F. Overall Program Rating

67. On the basis of the above, the FSP is rated successful.

G. Assessment of ADB and Borrower Performance

68. The performance of the Government is assessed as satisfactory (para. 43). ADB's performance is assessed as partly satisfactory for the following reasons. Firstly, ADB was largely, if not entirely, responsible for the disappointing result of the program preparatory TA 2240-VIE (including questionable consultant selection, weakness in TA design, weak donor coordination, and the misplaced consultant report). Secondly, ADB was also largely responsible for the weak design of the Program Implementation component of TA 2687-VIE (no TOR and implementation schedule attached to the RRP). Thirdly, ADB was responsible for the weak monitoring framework (no logical framework attached to the RRP, despite its suggested inclusion during interdepartmental consultation). Fourthly, its interdepartmental communication during implementation was weak. Fifthly, assessments of the compliance status of the program measures at second tranche release and PCR were questionable.

VI. ISSUES, LESSONS, AND FOLLOW-UP ACTIONS

A. Key Issues for the Future

1. Reduction of Transaction Costs

69. Review of the program outcomes highlights several reasons for high transaction costs in Viet Nam's financial sector. These can be broadly classified as deficiencies in the legal framework, weak enforcement of laws and regulations, and excessive and ad hoc reporting requirements for financial institutions. Remaining deficiencies in legal frameworks on negotiable instruments and secured transactions hinder the development of non-cash instruments and cause a lack of clarity in rules and procedures of loan security, respectively. Weak enforcement of legal/regulatory requirements (such as disclosure of banks' annual reports, dissemination of financial regulations [by SBV] and submission of required information to CIC [by credit institutions]) represent lack of transparency in the financial system. Likewise, weak enforcement of Decree on Property causes uncertainty in the liquidation process pursued by secured creditors. Excessive and ad hoc requirements exerted in an uncoordinated manner by several departments of SBV and CIC overburden credit institutions. These prevent the financial system from achieving improved transactional efficiency.

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[49] Given that the institutional development was the key thrust of the FSP, the assessment was made narrowly based on its "organizational" development impact.

2. SOCBs Restructuring and Reform

70. SBV prepared an overall SOCB restructuring framework in April 2001, and approved individual SOCB reform plans in September 2001 assisted by the IMF and the World Bank. The restructuring framework consisted of identification of non-performing loans (NPLs), resolution of NPLs, operational and governance reforms, and phased recapitalization. There has been noteworthy progress in resolution of NPLs except for those owed by SOEs. The SOCBs were tasked to upgrade their credit risk management and credit manuals and to pass a special credit file examination by the SBV in order to improve their lending operations. Also to improve governance structures, the SOCBs formed risk management committees and internal audit committees. As of OEM, credit manuals were still not finalized, and the two committees not fully functional due to their weak legal bases. As other requirements under the plans were broadly fulfilled, SBV injected nearly D17 trillion to the SOCBs. In order to maintain the integrity of restructuring, SBV and SOCBs should prioritize resolution of NPLs owed by SOEs, finalization of credit manuals, and incorporation of the provision on the two committees in the Law on Credit Institutions to be amended in 2004. Accordingly, further capital injection to SOCBs, scheduled fore 2004–2005, should be premised on progress in these areas.

3. Holistic Approach in Promoting Competition

71. Apart from the restructuring plan, SBV developed a strategy consisting of nine modules for SOCBs to reach full financial and technological capacity comparable to that prevailing in the region by 2010. As regards non-state banks, 11 JSCBs were either closed or merged to ensure compliance with SBV regulations while better performing ones were considered for listing on the STC. The Government also prepared a strategy for promoting the capital market and nonbank financial institutions. These recent developments indicate Government’s long-term perspective in each subsector. Nevertheless, the Government has not clarified how competition could be promoted both within and between subsectors. Accordingly, many important questions remain unanswered. Will SBV support the ongoing convergence of the SOCBs’ business strategies, rather than divergence based on existing competitive advantages? How would a level playing field be created for non-state credit institutions vis-à-vis SOCBs? How will the Government cope with conglomeration of SOCBs through creation of other banks and nonbank financial institutions? More generally, how will the Government expect financial institutions to be owned, licensed, managed and operated in the future? The Government should have a coherent strategy on these issues[50] in creating a robust financial system, to serve a more liberalized economy as committed (and to be committed) under bilateral and multilateral trade agreements.

B. Lessons Learned

1. Legal Reform and Program Lending

72. Having confirmed the difficulty of general legal reform in Viet Nam, the OEM noted a positive aspect of a program loan in supporting concerned government agencies and/or staff who recognized the significance and complication of targeted legislation. For instance, the FSP, complemented by TA 2823-VIE, effectively supported MOJ in the legislation of Decree on Secured Transactions and the establishment of the centralized registry system for security over movable assets. Based on this experience, it is considered that a program loan could be a potential appropriate instrument in supporting Vietnamese legal reforms if carefully designed. Clear understanding of the vertical and lateral structures of Vietnamese laws as well as the

[50] These issues were also highlighted in the World Bank's study: *Financial Sector Review: Viet Nam*. June 2002.

legislative process would be critical in determining program measures to support legal reforms. Meanwhile, experience of the Ordinance on CPs shows the importance of wide dissemination and consultation with policy decision-makers to build consensus early in formulating legislation. These considerations should be reflected in the design of a program and an associated/stand-alone TA supporting legal reform.

2. TAs for Program Implementation

73. The varied performance of TAs reviewed under this PPAR leads to the following observations. Firstly, specific needs of a government at each stage of program implementation should be considered in formulating an associated TA, and its TOR and implementation schedule should be adequately discussed with EA during program formulation. Secondly, a TA is more effective if it is focused (rather than comprehensive); if a government's ownership is adequate; and if assistance is provided not only for preparation of reports or draft laws/regulations but also for their operationalization, possibly on an intermittent basis. Thirdly, close interdepartmental coordination within ADB is necessary in cases where a program and a TA are administered by different departments/offices. Especially, consistency between a program requirement and a TA output should be ensured.

3. Bank Restructuring and Program Lending

74. To date, OED has prepared five PPARs[51] on financial sector programs, of which four (those in India, Lao PDR, Mongolia and Sri Lanka) included bank restructuring measures (Appendix 7). A common feature among the four programs was that detailed guidelines on restructuring were neither incorporated in the policy matrix nor prepared as a model for restructuring. Review of these PPARs suggests that results were not encouraging except for the case in India, where detailed guidelines for bank restructuring were in place as supported under a policy-based loan of the World Bank. The FSP took a different approach from these other four programs: bank restructuring was not included in the policy matrix, whereas counterpart funds were partially earmarked for SOCB recapitalization. The FSP assumed that the IMF and the World Bank would provide technical inputs for bank restructuring. Yet, the Government recapitalized banks during FSP implementation without taking full steps as recommended by these institutions. The result was mixed as noted earlier. These experiences suggest that in some cases ADB will need to be more proactive in reinforcing the integrity of bank restructuring in conjunction with program loans. In pursuing this option, ADB should further study the results of bank restructuring in developing member countries and consolidate the findings, as the PPAR for Financial Sector Program Loan in India recommended.

C. Follow-Up Actions

75. Follow-up actions for the Government and ADB are summarized in Table 2.

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[51] ADB. 1993. *Program Performance Audit Report on the Financial Sector Program in Indonesia*. Manila; ADB. 1997. *Program Performance Audit Report on the Financial Sector Program in Sri Lanka*. Manila; ADB. 1999. *Program Performance Audit Report on the Financial Sector Program in India*. Manila; ADB. 2001. *Program Performance Audit Report on the Financial Sector Program in the Lao People’s Democratic Republic*. Manila; and ADB. 2003. *Program Performance Audit Report on the Financial Sector Program in Mongolia*. Manila.

Table 2: Summary of Follow-Up Actions

Recommendations for Follow-Up Action	Unit Responsible for Action	Unit Responsible for Monitoring	Timeframe
Law on Negotiable Instruments is being prepared by SBV supported under TA 4035-VIE. Submission of the draft Law is contingent on FSP II (Subprogram II). Under the present Ordinance on CPs, banks are required to be a guarantor or acceptor of promissory notes and bills of exchange. This requirement should be removed under the new Law. MKGF should discuss this matter with the SBV in consultation with OGC based on the preliminary draft of the Law submitted under TA 4035-VIE (para. 23).	Legal Department of SBV	MKGF; OGC	June 2004
Reconciliation of remaining inconsistencies between Decree 165 (on Secured Transactions) and Decree 85 (on Loan Security) is a second tranche condition under the FSP II (subprogram I). MKGF should discuss a method and a process of reconciliation between MOJ and SBV in consultation with OGC so that this program condition will be fully met on schedule. Moreover, MKGF should discuss with MOJ, through TA 4060-VIE, possible ADB support to the pilot project on the centralized registration system for secured transactions relating to land use rights as mentioned in the Prime Minister's Directive dated 2 October 2003 (paras. 24–26).	MKGF	OGC	June 2004
SBV should take additional measures to fully implement/enforce the following legal requirements: (i) dissemination and publication of financial regulations by Legal Department (of SBV), (ii) disclosure of credit institutions' financial statements, and (iii) proper filing of loan documents required to credit institutions (paras. 29, 33 and 37).	Legal Department and other concerned departments of SBV	MKGF	End 2004
MKGF should clarify with SSC and STC the use of $15 million, which was earmarked once by the Government for the renovation of STC under the FSP. Also, the need for STC's renovation should be reexamined as the basis for the policy dialogue with the Government under the FSP II (para. 44).	MKGF	—	End 2004

CP = commercial paper, FSP = Financial Sector Program, FSP II = Second Financial Sector Program Loan, MKGF = ADB's Mekong Department, Governance, Finance, and Trade Division, MOF = Ministry of Finance, MOJ = Ministry of Justice, OGC = ADB's Office of the General Counsel, SBV = State Bank of Viet Nam, STC = Security Trading Center.

POLICY MATRIX FOR FINANCIAL SECTOR PROGRAM IN VIET NAM

Objective			Action Program[a]	Date of Compliance: Actions to be Taken for Release of First Tranche[b]	Date of Compliance: Actions to be Taken for Release of Second Tranche[c]	Date of Compliance: Other Actions to be Taken during the Program[d]
I.	**Establish Essential Financial Market Infrastructure to Facilitate Private Sector Participation**					
I.A	Legal and Regulatory Framework	I.A.1	Promulgate Law on Obligations and Contracts	Jul 1996		
		I.A.2	Issue Decree on Issuance and Use of Checks	May 1996		
		I.A.3	Issue Decree on Bills of Exchange and Promissory Notes		Dec 1999	
		I.A.4	Issue Implementing Regulations on Collateral		Nov 1999	
		I.A.5	Establish systems for registration of all security interests, including land use rights			Mar 2000
		I.A.6	Set up a transparent mechanism for establishing a fair market value for the disposal of foreclosed assets			Dec 1996
		I.A.7	Present new Banking Laws—(i) Law on SBV, and (ii) Law on Banks and Nonbank Financial Institutions—to the National Assembly		Dec 1997	
		I.A.8	Establish and implement a centralized system through the Official Gazette for publication and dissemination of all financial and economic laws, ordinances, decree-laws, decrees, circulars, including translations in English.			Dec 2002
I.B	Accounting and Audit Policy	I.B.9	SAGO to conduct audit of SBV			From 2000 onward
		I.B.10	Set up an updated uniform chart of accounts for all banking institutions, and issue accounting and audit regulations for banking institutions in accordance with international standards and practices		Apr 1999	
I.C	Disclosure Requirement	I.C.11	Issue instructions to banks to publish annual reports including balance sheets and income statements			Partly complied as of OEM
I.D	Investor Protection	I.D.12	Establish an independent deposit insurance organization		Sep 1999	
II.	**Commercialize and Modernize Domestic Banking Operations**					
II.A	Structure and Operations of the State-Owned Commercial Banks	II.A.13	Corporatize SOCBs under the Law on State Enterprises		Sep 1996	
		II.A.14	Define the functions of the Board of Directors and vest it with the appropriate powers and responsibilities to become the policy-making body		Nov 1996	
		II.A.15	Pilot a development plan for a SOCB operations modernization			Apr 1998
		II.A.16	Initiate SOCB's pilot development plan			Early 1999[e]

Objective			Action Program[a]	Date of Compliance: Actions to be Taken for Release of First Tranche[b]	Date of Compliance: Actions to be Taken for Release of Second Tranche[c]	Date of Compliance: Other Actions to be Taken during the Program[d]
II.B	Risk Management	II.B.17	Establish computerized credit database			Complied[e]
		II.B.18	Create a reporting network composed of financial institutions supervised by SBV			Apr 1995
		II.B.19	Develop the system for credit information gathering, distribution, storage and retrieval			Apr 1995
		II.B.20	Establish an early warning devise for assessing credit risk and signaling problem accounts to financial institutions		Complied[b]	
		II.B.21	Each credit institution to designate a credit information center responsible for implementing the credit information system.			Nov 1999
		II.B.22	SBV to require that all loans/credits to be covered by a standard credit report and documentation			Partly complied as of OEM
		II.B.23	Establish an internal audit within each SOCB reporting to its BOD		Partly complied as of OEM	
II.C.	Deposit Mobilization	II.C.24	SBV to review deposit operations of SOCBs			Complied[e]
		II.C.25	SOCB to submit action plans to SBV			1998[e]
		II.C.26	SBV to review action plan by SOCBs and submit to ADB consolidated program for program mobilization			1999[e]
		II.C.27	SOCBs to implement action plan for deposit mobilization			Complied[e]
		II.C.28	SOCBs through SBV to submit reports to ADB on the results of the conduct of action plan			Not complied as of OEM
III. Promote Competition						
III.A	Level Playing Field	III.A.29	Eliminate restriction on deposit taking by joint-venture banks		Partly complied as of OEM	
		III.A.30	Allow joint-venture banks to establish branch offices		Dec 1997	
		III.A.31	Allow joint-venture banks to make equity investment in domestic enterprises		Dec 1997	
		III.A.32	SBV to apply uniform basis for calculating single borrower exposure limit of all banking institutions		Aug 1999	
III.B	Range and Diversity of Financial Services and Institutions	III.B.33	Issue Leasing Decree	Oct 1995		
		III.B.34	Issue regulations on leasing as regards accounting, tax, and depreciation		May 1999	
		III.B.35	Issue necessary legal decrees and regulations for the establishment and operations of nonbanks			Oct 1998

Objective			Action Program[a]	Date of Compliance: Actions to be Taken for Release of First Tranche[b]	Date of Compliance: Actions to be Taken for Release of Second Tranche[c]	Date of Compliance: Other Actions to be Taken during the Program[d]
IV. Develop a Capital Market						
IV.A	Regulatory Agency	IV.A.36	Issue instruction to establish a Preparatory Securities Commission	Jun 1995		
		IV.A.37	Issue Decree to establish a full-fledged State Securities Committee		Nov 1996	
IV.B	Security Market Legal and Regulatory Framework	IV.B.38	Issue Decree or Decree-Law establishing the legal and regulatory framework for the issuance, distribution, and trading of securities		Jul 1998	
IV.C	Stock Exchange	IV.C.39	Set up an organized over-the-counter market and system for trading unlisted securities of small- to medium-scale companies			Partly complied as of OEM
		IV.C.40	Organize a national stock exchange through a decree with issuance of implementing regulations.			Jul 1998

ADB = Asian Development Bank, BOD = Board of Directors, SAGO = State Auditor-General's Office, SBV = State Bank of Viet Nam, SOCB = state-owned commercial bank.

[a] In addition, there were 15 prior actions to the Board presentation indicated in the Policy Matrix attached to the report and recommendation of the President. These concerned the: (i) regulation on the issuance of government bonds; (ii) regulation on the issuance of treasury bills; (iii) regulation on state-owned enterprises' bonds and shares; (iv) issuance of bonds by SOCBs in the international market; (v) provision on security on the issuance of Civil Code for the performance of civil obligations; (vi) drafts of the Decree-Law on the State Bank of Viet Nam and the Decree-Law on Banks, Credit Cooperatives and Finance Companies; (vii) ADB Technical Assistance to State Auditor-General's Office; (viii) uniform chart of accounts; (ix) Technical Assistance from German Technical Corporation on deposit insurance; (x) Prime Minister's decision placing SOCBs under the ambit of the Law on State Enterprises; (xi) Technical Assistance entered between SBV and the Bank for Investment and Development selected for pilot modernization; (xii) credit information system administered by the SBV; (xiii) reporting mechanism of internal audit units to the Director General within banks; (ix) approval at the discretion of SBV of the establishment of branches of joint-venture banks; and (xv) Prime Minister's decision to establish the State Securities Committee.

[b] It was expected that release of the first tranche would take place within three months from loan signing, i.e., 17 March 1997.

[c] It was expected that release of the second tranche would take place about one and a half years from the first disbursement, i.e., 17 September 1998.

[d] Program was to be completed on 31 December 1999.

[e] Exact months are not available.

STATUS OF PROGRAM MEASURES

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
I.	**Establish Essential Financial Market Infrastructure To Facilitate Private Sector Participation**		
I.A	**Legal and Regulatory Framework**		
I.A.1	Promulgate Law on Obligations and Contracts. First Tranche Condition.	Complied with.	• Obligations contract are governed by the following regulations: (i) Ordinance on Economic Contracts issued on 25 September 1989, (ii) Civil Code passed by NAV on 28 October 1995, and (iii) Commercial Law passed by NAV on 10 May 1997.
I.A.2	Issue Decree on Issuance and Use of Checks. First Tranche Condition.	Complied with.	• GOV issued this Decree 30 regarding the issued and use of checks on 9 May 1996.
I.A.3	Issue decrees providing for the negotiability and transferability of financial instruments. Decree on Bills of Exchange. Second Tranche Condition. Decree on Promissory Notes. Second Tranche Condition.	Complied with. The Standing Committee of the National Assembly issued the Ordinance on Commercial Paper, which provides for transferability and negotiability of Bills of Exchange and Promissory Notes, in December 1999.	• NAV approved the Ordinance on Commercial Papers on 24 December 1999. - GOV issued Decree 32 on 5 July 2001 providing further guidance on the above Ordinance. - SBV issued Decision 1346 on 29 October 2001 regarding collection of commercial papers through banks.
I.A.4	Issue comprehensive implementing regulations on collateral, identifying the type of land-use rights, movable and intangible assets that can be subject to the creation of security interests (e.g., mortgages, pledges, and guarantees) in favor of creditors, defining how security interests may be created, and establishing enforcement and foreclosure procedures; and exemption of exclusion of any type of asset or class of borrowers from the application of the collateral legislation must be categorically stated. Second Tranche condition.	Satisfactory compliance. The Program called for the Government to facilitate secured transactions under the civil code by issuing regulations. The government upgraded its commitment and issued the Decree on Secured Transactions and Decree on Registration of Second Transactions on 18 November 1999 consistent with the civil code. As required, the decrees cover the identification of collateral subject to security interest (excluding land), and define how to create, register, and enforce security interests.	• GOV issued Decree 17 on 29 March 1999 setting procedures for assignment, lease, sublease and mortgage. - MOJ and MoNRE jointly issued Circular on 4 July 2003, regarding the order and procedures for registering mortgage of, or guarantee with, land use rights and assets attached to land. • GOV issued Decree 165 on 19 November 1999 providing a legal basis for secured transactions. - To provide further guidance, MOJ issued Circular 06 on 28 February 2002. • GOV issued Decree 178 on 29 December 1999 providing a legal basis for securities relating to bank loans. - Decree 85 amended Decree 178 on 25 October 2002.

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
I.A.5	Establish systems for registration of all security interests, including land-use rights.	Complied with. The Government established a system for registration of security interests through the Decree on Registration of Secured Transactions on 19 November 1999. Following the recent decree issuance, Phase II of ADB TA No. 2823-VIE: Registration System for Secured Transaction[a] has designed the actual registration system. The MOJ has followed up on project execution with monitorable milestones and expects to complete the feasibility study by December 2001.	• GOV issued Decree 08 on 10 March 2000 providing a legal basis for the registration of secured transactions relating to movable assets. • MOJ established NRAST in 2001. • NRAST's branch in HCMC was set up in 2002 in charge of security registration for movable assets.
I.A.6	Set up a transparent mechanism, such as through auction, for establishing a fair market value for the disposal of foreclosed assets.	Complied with. The Government has issued promulgating Decree No.86/CP and the Regulation on Property Auction on 19 December 1996, included within are procedures to sell assets by auction.	• GOV issued Decree 86 on 19 December 1996 regarding property auction. - MOJ issued Circular 399 on 7 April 1997 providing guidance for this decree.
I.A.7	Review existing banking decree-laws and present to the National Assembly proposed new banking laws. Second Tranche Condition.	Complied with. The new banking laws cited in release condition (c)—the Law on the State Bank of Viet Nam (Law No. 01/1997/QH10) and the Law on Banks and Nonbank Financial Institutions, renamed the Law on Credit Institutions (Law No. 02/1997/QH10)—were passed by the National Assembly on 12 December 1997 and became effective on 1 October 1998. The Government has issued 19 decrees to implement the banking laws as of 19 Sep 2001.	• NAV approved the Law on SBV on 12 December 1997. - GOV issued Decree 52 on 19 May 2003, stipulating the function, duties, power and organization structures of SBV. This Decree replaced GOV Decree 88 on SBV dated 2 November 1998. - The Law on SBV was amended on 17 June 2003 with the following key changes: o some definitions were amended and supplemented; o refinancing arrangements between SBV and credit institutions; and o the Standing Committee of NAV has the authority to postpone the repayment of loans granted by SBV to the State budget within the then current financial year (previously, the GOV had that authority). • NAV approved the Law on Credit Institutions on 12 December 1997. - GOV issued Decree 49 on 12 September 2000 regarding the organization and operations of commercial banks. - The Law on Credit Institutions is being amended and is expected to be approved by NAV in April 2004.
I.A.8	Establish and implement a centralized system through the Official Gazette for the timely publication and dissemination of all financial and economic laws, ordinances, decree-laws, decrees, circulars, and	Complied with. Article 10 of The Law on Promulgation of Legal Documents adopted by the National Assembly on 12 November 1996, effective 1 January 1997, requires that all legal documents be published through the Official Gazette within 15 days	• NAV approved the Law on Promulgation of Legal Documents on 12 November 1996. - GOV issued Decree 101 on 23 September 1997 for the implementation of the Law on Promulgation of Legal Documents.

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
	decisions affecting the financial system in general, including translations in English. Within SBV, a centralized system will also be established for all issuance by SBV such as circulars and regulations, with appropriate English translations.	of issuance. Copies of legal documents are now published in the Official Gazette within this period in both Vietnamese and English. SBV prepares and circulates English translations of circulars and regulations relevant to the operations of foreign bank branches and joint-venture banks. Circulars and regulations pertaining to the internal operations of SBV are not translated. English translations are now bound into volumes.	• The Law on Promulgation of Legal Documents was amended on 16 December 2002 aimed at strengthening its enforcement.
I.B.	**Accounting and Audit Policy**		
I.B.9	SAGO is to audit SBV after implementation of ADB TA for the strengthening of SAGO (TA No. 2460 VIE: Capacity Building at the State Auditor-General's Office), and adopt periodic audit as a matter of practice.	Compliance in progress. The new Law on the SBV now requires that SBV be audited annually. Given the capacity of SAGO, the audit has yet to start. ADB TA No. 2460-VIE: Capacity Building at the State Auditor-General's Office[b] (Phase II), approved on 28 August 1998, developed a manual on the financial audit of SBV, providing training and a workshop for SAGO staff to facilitate the audit of SBV and providing a consultant to assist SAGO staff in conducting an audit.	• SAGO has conducted annual audit of SBV since 2000 covering the financial statements for the years ending 1999, 2000, 2001, and 2002.
I.B.10	Set up an updated uniform chart of accounts for all banking institutions. Second Tranche Condition.	Complied with. The new uniform chart of accounts for SBV (Decision No. 425/1998/QD-NHNN) was approved by the Governor of SBV on 17 December 1998, and became effective 1 January 1999. The new uniform charts of accounts for credit institutions (Decision No. 435/1998/QDNHNN2) were approved by the Governor of SBV on 25 December 1998, and became effective on 1 April 1999.	Chart of Accounts of SBV • SBV issued Decision 425 on 17 December 1998 issuing the accounting system of the SBV. This Decision was amended by: - Decision 183 on 14 June 2000, - Decision 225 on 23 March 2001, and - Decision 961 on 9 September 2002. Chart of Accounts of Credit Institutions • SBV also issued Decision 435 on 25 December 1998 issuing the accounting system of credit organizations. This Decision was later amended by: - Decision 522 on 20 December 2000, - Decision 224 on 23 March 2001, - Decision 482 on 24 April 2001, - Decision 559 on 3 June 2002, and - Decision 69 on 22 January 2003. • Two new Decisions are to be issued in September 2003.

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
	Adopt uniform accounting and audit standards for all banking institutions in accordance with internationally accepted standards and conventions and issue appropriate circular providing for the relevant accounting regulations. Second Tranche Condition.	Complied with. A list of international accounting standards adopted was provided to ADB. SBV issued a circular of accounting regulations applicable to the new charts of accounts. MOF Decision No. 120/ 1999/QD-BTC, dated 27 September 1999 promulgated, based on international auditing standards, the first 4 Viet Nam standards on audit. These cover (i) objective & general principles governing an audit of financial statements; (ii) terms of audit engagements; (iii) preparation, obtaining, classification, use, and filing of documentation; and (iv) form content of the audit report on financial statements.	• The Law on Accounting dated 17 June 2003 replaced the Ordinance on Accounting and Statistics dated 10 May 1998 and will be effective on 1 January 2004. • GOV issued Decree 07 on 29 January 1994, regarding the issuance of the regulation on independent audit. - SBV issued Decision 322 on 14 September 1999 regarding independent audit of credit institutions. - Decision 499 amended Decision 322 on 5 December 2000. • The independent audit of credit institution must comply with the four auditing standards issued by MOF Decision 120 on 27 September 1999.
I.C	**Disclosure Requirement**		
I.C.11	SBV to issue instructions through circulars to banks to publish their annual reports, including balance sheets and income statements, not later than 6 months after the end of each fiscal year, and be audited by audit firms approved by SBV.	Partially complied with. Article 90 of the Law on Credit Institutions, approved by the National Assembly on 12 December 1997, requires credit institutions to submit annual reports to SBV within 90 days of the end of the fiscal year and make public their financial reports within 120 days of the end of the fiscal year. Article 122 of the new law requires that external auditors approved by SBV audit the financial statements of credit institutions. Governor of SBV Decision No. 322/1999/QD-NHNN5: on the Implementation of Independent Audit of Credit Institutions, dated 14 September 1999, instructs credit institutions to submit audits to SBV within 120 days of the end of the fiscal year (Article 11) and to appoint an auditor approved by SBV (Article 7). However, to date, no implementing circular to banks to publish their annual reports has been issued, thus not all banks comply. In practice, banks now typically publish annual reports with only rudimentary financial information. The four dominant SOCBs have undergone portfolio diagnostic audits, but have not yet been fully audited due to SAGO's limited capacity. Moreover, few JSCBs are now audited. Foreign bank branches and joint-venture banks, however, are routinely audited.	• No circular that would provide the implementing guidelines and regulations for the implementation of Article 90 of the Law on Credit Institutions has been issued by the SBV. • MOF issued Circular 92 on 14 September 2000 requiring credit institutions to publish certain financial information to a limited number of people.

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
I.D	**Investor protection**		
I.D.12	Pursuant to the Government's decision to create a deposit insurance scheme, establish a separate and independent insurance organization specifically targeted to protect small individual depositors, together with the necessary legal and regulatory framework for its operation. Second Tranche Condition.	Complied with. The Government created a deposit insurance scheme and established an independent deposit insurance organization targeted to protect small individual depositors, together with the necessary legal and regulatory framework for its operation with Decree No. 89/1999/NDCP on Deposit Insurance, dated 1 September 1999. The decree provides the basis for deposit insurance activities and for establishing the economically self-reliant DIV. The Government recently appointed staff to key management positions for DIV, which is now operational. Under the decree, dong deposits (including principal and interest) are insurable up to a maximum of D30 million.	• GOV issued Decree 89 on 1 September 1999 regarding deposits insurance. - SBV issued Circular 03 on 16 March 2000, as amended by Decision 1077 on 27 August 2001, to provide further guidance for the implementation of Decree 89 dated 1 September 1999.
II.	**Commercialize and Modernize Domestic Banking Operations**		
II. A	**Structure and Operations of the SOCBs**		
II.A.13	Corporatize SOCBs under the Law on State Enterprises. Second Tranche Condition.	Complied with. Based on Decision No. 90/1994/TTg, dated 7 March 1994, the four SOCBs were reorganized as special SOEs under Decision Nos. 285/1996/QD-NH5, 286/1996/QD-NH5, 287/1996/QD-NH5, and 288/1996/QD-NH5, all dated 21 September 1996.	• SBV Decisions issued on 25 September 1996 redefined SOCBs pursuant to the Law on State Enterprises. • To be consistent with the Law on Credit Institutions, GOV issued Decree 49 on 12 September 2000 regarding the organization and operations of commercial banks.
II.A.14	Subject to applicable laws and regulations, define the functions of and vest the BOD of each SOCB with appropriate powers and responsibilities to become the policy-making body, to choose from among its members the chairperson and the director general, to hire and fire management, to approve credit based on internal authority limits, to set salary levels, and to approve its own budget. Second Tranche Condition.	Complied with. Governor SBV Decision No. 318/1996/QD-NH5, dated 25 November 1996, promulgates the model charter on the organization and operations of SOCBs. New charters for each SOCB were approved by the SBV Governor's Decision No. 324/1997/QD-NH5 for Bank for Foreign Trade of Viet Nam, dated 30 September 1997; Decision No. 327/1997/QD-NH5 for Viet Nam Commercial and Industrial Bank, dated 4 October 1997; Decision No. 349/1997/QD-NH5 for Viet Nam Investment and Development Bank, dated 16 October 1997; and Decision No. 390/1997/QD-NH5 for Viet Nam Bank for Agriculture and Rural Development, dated 22 November 1997. The functions and powers of the BOD are defined in Chapter III, especially in Article 15. Under the new charters, each SOCB has a BOD with more autonomy, inter alia, to be a policy-making body, to	• To be consistent with the Law on SOEs, SBC issued Decision 318 on 25 November 1996, promulgating the model charter for SOCBs. • To be consistent with the Law on Credit Institutions, SBV issued Decision 122 on 20 February 2001 providing a model charter for organization and operation of SOCBs. - SBV Decision 936 dated 3 September 2002 approved the charter of BIDV. - SBV Decision 571 dated 5 June 2002 approved the charter of VBARD. - SBV Decision 1476 dated 26 November 2001 approved the charter of the VIETCOMBANK. - SBV Decision 1325 dated 28 November 2002 approved the charter of the INCOMBANK.

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
		choose from among its members the chairperson and director general, to hire and fire management, to approve credit based on internal authority limits, to set salary levels, and to approve its own budget.	
II.A.15	Prepare a pilot development plan for modernizing the operations of an SOCB acceptable to ADB.	Complied with. With ADB assistance under TA 2687 VIE: Pilot Project to Modernize the Operations of a State-Owned Commercial Bank, the pilot development plan for BIDV was completed in early 1998 and ADB, BIDV, and SBV reached agreement on the plan in April 1998.	• BIDV established a Sustainable Development Plan for 1999-2010. Initially, a 3-year business plan for 1999-2001 was prepared. On the basis of this and along with the restructuring plan, they established the 5-year business plan for 2001-2005.
II.A.16	Initiate SOCBs' pilot development plan.	Complied with. The execution of BIDV's pilot development plan began in early 1999 after the completion of TA 2687.[c]	• BIDV has yearly updated business plan since 1999.
		Training for BIDV officials on strategic planning and modern banking operations was completed in 1998. BIDV has submitted both the progress report on steps it has undertaken to modernize its operations and its corporate plan to ADB in 1999.	• Strategic Planning Manual was provided to BIDV branches.
II.B	**Risk Management**		
	SBV to develop a credit information system for financial institutions.[1]	Satisfactory compliance. SBV has created the Credit Information Center as a division under the Credit Department and it is fully operational. SBV has given full support in developing, supporting, and maintaining the system.	• SBV established CIC as a division of Credit Department of SBV in 1992. • CIC separated from the Credit Department and became an independent department on 27 February 1999 by virtue of SBV Decision 68. • CIC was reestablished and operated under the following Decisions: - 162 on 8 May 1999 regarding organization of CIC, - 415 on 18 November 1999 regarding CIC services in the banking system, and - 987 on 2 August 2001 regarding use of a credit information system.
II.B.17	Establish computerized credit database based on, inter-alia, loan information, past payment experience, and credit history of clients of financial institutions.	Complied with. A computerized database is now available for all credit institutions.	• Computerized credit database has been in place since 1992 and has evolved over time.
II.B.18	Create a reporting network composed of financial institutions supervised by SBV.	Complied with. SBV Governor's Decision No.120/1995/QD-NH4, dated 24 April 1995, set up the network.	• SBC issued Decision 120 on 24 April 1995 for setting up the reporting network composed of financial institutions.

[1] This was included in the Policy Matrix as the broad target of the Risk Management subcomponent (not as the program condition).

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
II.B.19	Develop the system for credit information gathering, distribution, storage, and retrieval.	Complied with. The system was set up by the same decision and is now in operation.	• SBV issued Decision 415 on 18 November 1999 requiring the provision of information on a mandatory basis by credit institutions. • CIC built a website in 2001 for information dissemination.
II.B.20	Establish an early warning system for assessing credit risk and signaling problem accounts to financial institutions. Second Tranche Condition.	Complied with. The system is in place with established criteria for early warning. The system flags high credit risk and signals problem accounts to financial institutions.	• CIC confirmed the existence of the early warning system as of OEM.
II.B.21	SBV to instruct each financial institution to designate a credit information center responsible for implementing the credit information system.	Complied with. The required instruction was given in SBV Governor's Decision No. 120/1995/QD-NH4, dated 24 April 1995. The Bank for Foreign Trade of Viet Nam, Industrial and Commercial Bank of Viet Nam, and Viet Nam Bank for Agriculture and Rural Development have each established a risk management information unit reporting to bank management under the Decision. Large JSCBs also have risk management information units. Reflecting their size, small JSCBs and joint-venture banks have designated individuals to implement the credit information system.	• SBV issued Decision 415 on 18 November 1999 requiring information on a mandatory basis by credit institutions.
II.B.22	SBV to require that all loans/credits to be extended by financial institutions be covered by a standard credit report and documentation, containing basic credit information, and include an evaluation of the credit, duly approved by appropriate designated authorities within these financial institutions, available for audit by SBV whenever deemed appropriate.	Complied with. These requirements are stated in Articles 55 and 119 of the Law on Credit Institutions, passed by the National Assembly approved on 12 December 1997.	• SBV has not issued further guidance for Article 55 of the Law on Credit Institutions. Previously, SBV issued some regulations on the filing of credit documents: - Decision 252 dated 28 December 1993 regarding the filing period, and - Decision 63 dated 22 March 1997 regarding the filing of accounting documents. • Article 119 is not relevant as it deals with the obligations of a credit institution when it is inspected by SBV.
II.B.23	Establish an internal audit unit within each SOCB reporting to its BOD. Second Tranche Condition.	Complied with. This is covered under Articles 20 and 21 of the new charter of each SOCB.	• Until recently, "internal audit" and "internal control" was used interchangeably in the Vietnamese context. While BIDV has Internal Supervision and Audit Unit, its function remains on the supervision aspect, not on the internationally accepted audit practice with the unit reporting to the General Director.
II.C	**Deposit Mobilization**		
II.C.24	SBV to review deposit operations of SOCBs.	Complied with. SBV has reviewed the report on deposit mobilization by all four SOCBs.	• SBV confirmed this at OEM.

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
II.C.25	SOCBs to submit a plan to SBV for nationwide deposit mobilization addressing improvements in banking services and eliminating key constraints at the institutional level.	Complied with. SOCB action plans were submitted to SBV in 1998 as required.	• SBV confirmed this at OEM. • SOCBs have been required to annually submit their funding programs including deposit mobilization plans.
II.C.26	SBV to review action plan by SOCBs and submit to ADB a specific consolidated program for deposit mobilization.	Complied with. A consolidated program for deposit mobilization submitted to ADB in 1999.	• SBV confirmed this at OEM.
II.C.27	After ADB review, SOCBs to implement action plan for deposit mobilization.	Complied with. The action plans are now being implemented.	• SBV confirmed this at OEM.
II.C.28	SOCBs, through SBV, to submit reports to ADB on the results of the conduct of action plan detailing achievements and lessons learned.	Not complied with. The reports on the results of the action plans were not submitted to ADB during program implementation.	• OEM could not obtain the information supporting the compliance with this condition.
III.	**Promote Competition**		
III.A	**Creating Equal Opportunities**		
III.A.29	Eliminate restriction on deposit taking by joint-venture banks. Second Tranche Condition.	Complied with. The restriction was first eased on 13 November 1996 (SBV Governor Decision 300/1996/QD-NH5). Subsequently, with Government approval of a two-phase plan (Prime Minister's Decision No. 136/1998/CP-QHQT dated 17 November 1998), SBV eased the restriction again on 8 December (SBV Governor's Decision No. 415/1998/QD-NHNN5). In implementing Phase II, SBV eliminated the restriction in December 1999 with the approval of the Prime Minister.	• There remains no legal restriction on JVBs to take savings deposit in local currency. However, in the absence of a provision of savings deposit in the banking license of JVBs, they are reluctant to do so in practice. • Through SBV Decision 1380 on 5 November 2001, JVBs are currently allowed to take deposits from Vietnamese individuals by opening accounts in foreign currency, in an amount not exceeding 50% of the authorized capital of JVBs.
III.A.30	Allow joint-venture banks to establish branch offices on the basis of clearly specified criteria applicable to all banking institutions. Second Tranche Condition.	Complied with. Article 33 of the on Credit Institutions provides the criteria for establishing branch offices. The same criteria apply to JVBs and local banking institutions.	• Under the Law on Credit Institutions issued on 12 December 1997, the same criteria apply to JVBs and local banks as regards opening of branch offices. • Under SBV Decision 1090 issued on 17 September 2003, JVBs wishing to establish a branch or transaction center should apply for an opening license at SBV.
III.A.31	Allow joint-venture banks to make equity investments in domestic enterprises not exceeding 10 percent of the capital of the company or enterprise as domestic banks are currently allowed. Second Tranche Condition.	Complied with. The Governor of SBV, as stipulated under Article 80 of the Law on Credit Institutions, sets the level of equity investments by credit institutions in enterprises. Under Article 16d of the Decree No. 189/HDBT, joint-venture banks are allowed to make equity investments in any company not exceeding 10 percent of the total capacity of that company.	• In addition to Article 80 mentioned in the left column, Article 69 of the Law on Credit Institutions stipulates that credit institutions are allowed to make equity investments or purchase shares of other enterprises or credit institutions in accordance with the Law. • SBV Decision 492 provides further guidance for this Article and is applied to commercial banks in Viet Nam.

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
			The organization and operations of JVBs are regulated by Government Decree 13 on 17 March 1999. There are no specific regulations on equity investment and share purchase by JVBs in this Decree as well as in other relevant legal documents. However, Article 35 of Decree 13 stipulates that upon request and under approval of SBV, JVBs are allowed to undertake other operational activities in line with the law in Viet Nam. Thus, SBV can consider and allow JVBs to make equity investments and purchase shares upon their request and need.
III.A.32	SBV to apply uniform basis for calculating single-borrower exposure limit of all banking institutions, to cover contingent liabilities. Second Tranche Condition.	Complied with. The new Law on Credit Institutions (Article 79) specifies a uniform single borrower limit across all (types of) credit institutions on total outstanding loans. SBV Governor's Decision No. 296/1999/QDNHNN5, dated 25 August 1999, uniformly applies the basis for calculating and reporting on the single borrower limit. With respect to contingent liabilities, SBV Governor's Decision No. 196/1994/QD-NH14, dated 16 September 1994, promulgates the regulations on bank guarantees that provide the basis for single- and multi-borrower exposure limits that apply uniformly across all types of banks (Articles 2 and 13). There are no direct exposure limits on sight or deferred letters of credits. To the extent that letters of credit require guarantees, they would be applied in accordance with the decision on guarantees.	• After SBV Decision 296 on 25 August 1999 came into force, JVBs must apply single borrower exposure limit not exceeding 15% of authorized capital of JVBs. • SBV Decision 283 on 25 August 2000 replaced SBV Decision 196 on 16 September 1994.
III.B	**Range and Diversity of Financial Services and Institutions**		
III.B.33	Issue Leasing Decree. First Tranche Condition.	Complied with.	• GOV issued Circular 03 regarding Accounting on 14 July 1997, and Circular 49 regarding Value Added Tax on 6 May 1999, respectively, for financial Leasing companies.
III.B.34	Issue implementing regulations on leasing to define accounting, tax, and depreciation guidelines, which are in accord with international standards and practices. Second Tranche Condition.	Complied with. The Government issued Circular 03/1997/TT-NH2 on Accounting for Financial Leasing Operations on 14 July 1997, and Circular No. 49/1999/TT-BTC on Guiding the Implementation of the Value Added Tax Law for Financial Leasing Activities on 6 May 1999. The ADB Private Sector Group found the guidelines sufficiently in accord with international standards and practices to approve investments in the joint-venture Viet Nam Leasing Company, Limited. Eight financial leasing companies have been established to date.	• GOV issued Decree 16 on 2 May 2001, replacing Decree 64 issued on 9 October 1995, regarding organization and operations of finance leasing companies. - SBV issued Circular 08 on 6 September 2001 to provide guidance on Decree 16 issued on 2 May 2001. • There are other regulations on finance leasing companies: - SBV Circular 1 issued on 16 April 1999, - MOF Circular 53 issued on 25 June 2002,

Policy Actions Under the Program	Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
		- SBV official Letter 18 issued on 7 January 2003, - SBV Decision 24 issued on 7 January 2003, and - SBV Decision 516 issued on 26 May 2003.
III.B.35 Issue necessary legal decrees and regulations for the establishment and operation of nonbank financial institutions, including investment banks, securities houses, mutual funds, and venture capital companies.	Complied with. Decree No. 48/1998/ND-CP on Securities and Securities Markets, dated 11 July 1998, establishes the basis for securities trading centers, stock exchanges, securities investment funds, and fund management companies. Chairman of the State Securities Commission Decision No 04/1998/QD-UBCK3 dated 13 October 1998, promulgated the necessary regulations on the organization and operations of securities companies. The Chairman's Decision No. 05/1998/QDUBCK3, also dated 13 October 1998, promulgated the necessary regulations on the organization and operation of securities investment funds and fund management companies.	• SSC issued Decision 04 on 13 October 1998 regarding the organization and operations of security companies. • SSC issued Decision 05 on 13 October 1998 regarding the organization and operations of security investment funds and fund management companies. • SSC issued Decision 78 on 29 December 2000, replacing Decision 04.
IV. Develop a Capital Market		
IV.A Regulatory Agency		
IV.B.36 Issue instruction to establish a Preparatory Security Commission. First Tranche Condition.	Complied with.	• GOV issued the instruction to establish a Preparatory Security Commission in June 1995.
IV.A.37 Issue a decree to establish a full-fledged SSC empowered to enforce rules and regulations; set standards for disclosure of public offerings and publicly issued securities; institute registration requirements for non-bank intermediaries such as investment banks, mutual funds and venture capital companies; including prudential guidelines to govern their operations; and establish minimum standards for participation. Second Tranche Condition.	Complied with. SSC has been established, empowered with the required cited functions, and operates under Decree No. 75/1996/CP, on the Establishment of State Securities Commission, dated 28 November 1996.	• GOV issued Decree 75 on 28 November 1996 to give a legal basis for the establishment of SSC. • GOV issued Decree 90 on 12 August 2003 regarding functions, duties, power, and organizational structure of SSC (replacing Decree 75).
IV.B Securities Market Legal and Regulatory Framework		
IV.B.38 Issue a decree or decree-law establishing the legal and regulatory framework for the issuance, distribution, and trading of securities. Second Tranche Condition.	Complied with. Decree No. 48/1998/ND-CP on Securities and Securities Markets, dated 11 July 1998, establishes the necessary legal regulatory framework for the issuance, distribution, and trading of securities.	• GOV issued Decree 48 on 11 July 1998 regarding securities and securities market. - SSC issued Circular 02 on 28 September 2001 regarding public issuing of shares and bonds. - SSC issued Decision 163 on 5 August 2003 regarding a development strategy for the security market.

Policy Actions Under the Program		Policy Actions Taken by the Government (per PCR)	Policy Actions Taken by the Government (per PPAR)
IV.C	**Stock Exchange**		
IV.C.39	Set up an organized over-the-counter market and system for trading unlisted securities of small- to medium-scale companies.	Complied with. Prime Minister's Decision No. 127/1998/QD-TTg on the Establishment of Securities Trading Centers, dated 11 July 1998, establishes trading centers in Hanoi and HCMC, exceeding the condition to organize an over-the-counter market. Trading center requirements will bring more disclosure and transparency than an OTC market. The Ho Chi Minh Securities Trading Center opened in July 2000. The second tranche release of the Financial Sector Program Loan funded the computer system making this center operational.	• GOV plans to open a separate STC in Hanoi for SME and to provide regulatory framework for OTC market.
IV.C.40	Organize a national stock exchange through a decree along with the issuance of implementing regulations.	Complied with. Decree No. 48/1998/ND-CP on Securities and Securities Market, dated 11 July 1998, establishes the basis, including implementing regulations, for organizing a national stock exchange. The STC provided for under the Decree constitute stock exchanges. After gaining experience with the STC, the Government plans to make the autonomous entities under SSC supervision and regulation rather than control.	• GOV issued Decree 48 on 11 July 1998, giving the legal basis for establishing the STC. - SSC issued Decision 127 on 11 July 1998 regarding the establishment of STC, HCMC. - SSC issued Decision 128 on 1 August 1998 regarding the organization and operation of STC, HCMC. • The final draft amendment to Decree 48 has been submitted to GOV for signing as of OEM. The amendment will cover a security trading center in Hanoi for SMEs and a regulatory framework for OTC security market.

ADB = Asian Development Bank, BIDV = Bank for Investment and Development of Viet Nam, BOD = Board of Directors, DIV = Deposit Insurance of Viet Nam, GOV = Government of Viet Nam, HCMC = Ho Chi Minh City, JSCB = joint-stock commercial bank, INCOMBANK = Industrial and Commercial Bank of Viet Nam, JVB = joint venture bank; MOJ = Ministry of Justice, MoNRE = Ministry of Natural Resources and Environment, NAV = National Assembly of Viet Nam, NRAST = National Registration Agency of Secured Transaction, OTC = over-the-counter, PPAR = project performance audit report, SAGO = State Auditor-General's Office, SBV = State Bank of Viet Nam, SME = small and medium enterprise, SOCB = state-owned commercial bank, SOE = state-owned enterprise, SSC = State Securities Commission, STC = Securities Trading Center, TA = technical assistance, VBARD = Viet Nam Bank for Agriculture and Rural Development, VIETCOMBANK = Bank for Foreign Trade of Viet Nam.

[a] TA 2823-VIE: *Registration System for Secured Transactions*, for $500,000, approved on 14 July 1997.

[b] TA 2460-VIE: *Capacity Building at the State Auditor-General's Office*, for $787,000, approved on 20 August 1998.

[c] TA 2687-VIE: *Pilot Project to Modernize the Operations of a State-Owned Commercial Bank*, for $850,000, approved on 19 November 1996 to support the Program.

KEY IMPLEMENTATION DECREES AND DECISIONS UNDER THE BANKING LAWS

Decree/ Decision No.	Date of Issuance	Subject
A. Law on SBV		
Decree 81/1998	1 October 1998	Printing, Casting, Preserving and Destroying Paper and Metallic Currencies
Decree 87/1998	31 October 1998	Issuance, Withdrawal and Replacement of Paper and Metallic Currencies
Decree 100/1998	10 December 1998	Financial Regime of SBV
Decision 162/1999	8 May 1999	Organization and Operations of the Credit Information Center
Decree 86/1999	30 August 1999	Management of the State Foreign Exchange Reserve
Decree 91/1999	4 September 1999	Organization and Operations of Banking Inspectors
Decision 415/1999	18 November 1999	Provision of Information within Banking Industry
Decree 174/1999	9 December 1999 (amended on 11 June 2003)	Management of Gold Business
Decision 15/2003	20 January 2003	List of State Secrets in the Banking Industry
Decree 52/2003	19 May 2003	Functions, Powers and Organization of the SBV
B. Law on Credit Institutions		
Decree 63/1998	17 August 1998 (amended on 17 January 2001)	Foreign Exchange Management
Decree 82/1998	3 October 1998	Legal Capital Levels of Credit Institutions
Decree 90/1998	7 November 1998	Foreign Loans and Foreign Loans Repayment
Decree 13/1999	17 March 1999	Organization and Operations of Foreign Credit Institutions and Representative Offices of Foreign Credit Institutions in Viet Nam
Decree 89/1999	1 September 1999	Deposit Insurance
Decree 166/1999	19 November 1999	Financial Regime of Credit Institutions
Decree 178/1999	29 December 1999 (amended on 25 October 2002)	Loan Security
Decree 20/2000	15 June 2000	Dealing with Administrative Violations in Banking Area
Decree 49/2000	12 September 2000	Organization and Operations of Commercial Banks
Decree 70/2000	21 November 2000	Keeping Secret and Providing Information in Relation to Deposits and Other Assets of Customers
Decree 16/2001	2 May 2001	Financial Leasing Companies
Decree 32/2001	15 July 2001	Guidance on Ordinance of Commercial Papers
Decree 48/2001	13 August 2001	Organization and Operations of People's Credit Funds
Decree 64/2001	20 September 2001	Payment Services
Decree 79/2002	4 October 2002	Organization and Operation of Finance Companies

SBV = State Bank of Viet Nam.

STATISTICAL DATA

Table A4.1: Real Sector Indicators, 1994-2002[ab]

Item	1994	1995	1996	1997	1998	1999	2000	(estimate) 2001	(program) 2002
Real GDP Growth (%)	8.8	8.5	9.3	8.2	3.5	4.2	5.5	5.0	5.3
GDP (D trillion)	179.0	229.0	272.0	314.0	361.0	397.0	430.0	458.0	505.0
Gross National Savings (% of GDP)	12.0	11.9	17.6	21.4	19.1	26.5	27.0	27.3	24.4
Gross Investment (% of GDP)	25.5	27.1	28.1	28.3	23.7	22.4	25.3	25.6	26.7
Inflation (% changes end of period)	14.5	12.9	4.5	3.6	8.6	(0.2)	(0.6)	0.8	4.0

[a] According to th General Statistical Office (GSO), the real sector data in the IMF reports is not fully consistent with the Vietnamese official data since 1998. Nonetheless, GSO observes similar trend in gross national savings and investment in the two sources.

[b] Given the use of multiple sources, this table is highly tentative.

Source: IMF Country Report No. 02/151 (for 1996-2002); and IMF Staff Report for the 2000 Article IV Consultation, IMF (for 1994-1995).

Table A4.2: Government Budget: 1994-2002 (% of GDP)[a]

Item	1994	1995	1996	1997	1998	1999	2000	(estimate) 2001	(program) 2002
Revenue and Grant	23.6	23.3	23.0	20.8	21.2	19.8	21.1	21.7	20.8
Expenditure (excluding onlending)	25.0	23.8	23.1	22.6	20.4	20.6	23.9	25.2	24.7
Current Expenditure	18.7	18.6	17.4	16.3	14.7	13.9	16.3	17.0	16.5
Overall Fiscal Balance	(1.4)	(0.5)	(0.2)	(1.7)	(0.1)	(0.8)	(2.8)	(3.5)	(3.9)
Capital Costs of SOE and SOCB reform	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	2.2

[a] Given the use of multiple sources, this table is highly tentative.

Source: IMF Country Report No. 02/151 (for 1996-2002); and IMF Staff Report for the 2000 Article IV Consultation, IMF (for 1994-1995).

Table A4.3: Balance of Payments (1993-2001)[a]

($ million)

Item	1993	1994	1995	1996	1997	1998	1999	2000	(estimate) 2001
Export (f.o.b.)	2,895	4,054	5,198	7,337	9,145	9,365	11,540	14,449	15,027
Import (f.o.b.)	4,162	5,919	8,353	10,480	10,460	10,346	10,460	14,071	14,400
FDI Inflows	936	1,627	2,276	1,813	2,074	800	700	800	900
Equity	697	1,033	1,287	891	1,002	240	301	320	540
Loan	238	594	989	921	1,072	560	399	480	360
Medium- and Long-Term Loans									
Disbursement (Net)	54	272	443	772	1,007	1,121	1,036	1,411	988
ODA Loans	-	172	189	336	550	796	970	1,361	958
Commercial Loans	-	100	254	436	457	326	66	50	30
Gross Official Reserve (Including gold)	404	876	1,323	1,673	1,858	1,765	2,711	3,030	3,387

f.o.b. = free on board, FDI = Foreign Direct Investment, ODA = Official Development Assistance.

[a] Given the use of multiple sources, this table is highly tentative.

Sources: IMF Country Report No. 02/151 (for 2000-2002); Staff Report for the Article IV Consultation, IMF (for 1995-1999); and Statistical Appendix, May 1999, IMF (for 1993-1994).

Table A4.4: Monetary Indicators (1992-2002)

Indicator	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Monetary Authorities (D billion)											
1. Foreign Assets	4,897	4,381	-	15,153	20,031	25,633	29,147	48,004	50,934	56,586	65,177
2. Claims on General Government	9,326	13,323	-	9,593	12,576	13,382	16,658	11,289	11,732	12,421	15,130
3. Claims on Banking Institutions	5,004	6,792	-	6,779	7,693	6,776	6,521	10,312	14,234	17,776	19,182
4. Reserve Money	14,314	18,296	-	26,343	31,633	35,599	38,687	58,220	72,759	84,945	95,502
5. of which: Currency outside DMBs	10,579	14,218	-	19,370	22,639	25,101	26,965	41,254	52,208	66,320	74,263
6. Foreign Liabilities	-	-	-	4,154	5,991	6,241	7,022	7,203	7,077	8,083	8,585
7. General Government Deposits	4,273	4,883	-	6,575	7,383	9,348	10,340	11,089	7,410	4,390	4,005
8. Capital Accounts	776	476	-	809	1,055	2,511	6,888	6,440	8,216	9,770	12,229
9. Other Items (net)	(283)	750	-	(6,791)	(6,245)	(7,938)	(10,611)	(13,348)	(18,562)	(20,405)	(20,832)
B. Banking Institutions (D billion)											
1. Reserves	3,451	3,709	-	7,409	9,323	9,451	9,920	16,881	20,390	18,426	20,166
2. Foreign Assets	9,275	5,836	-	9,574	11,196	12,282	18,710	29,725	61,276	79,364	70,694
3. Claims on General Government	1,634	1,718	-	4,372	2,031	3,492	5,332	6,358	8,246	10,258	17,566
4. Claims on Rest of Economy	2,743	7,669	-	18,199	23,942	31,220	34,889	112,730	155,720	189,103	231,078
5. Demand Deposits	3,971	4,796	-	6,870	10,213	14,682	18,241	27,106	38,781	46,089	51,068
6. Time and Savings Deposits	3,822	3,250	-	9,622	12,445	15,194	20,091	36,191	47,462	60,251	77,387
7. Foreign Currency Deposits	6,506	5,892	-	8,924	11,042	15,611	22,098	40,919	58,543	78,187	81,428
8. Bonds and Money Market Instruments	298	2,544	-	5,490	5,635	7,703	10,890	10,865	18,842	21,012	35,232
9. Restricted Deposits	1,708	1,514	-	2,138	2,117	3,080	2,830	4,059	7,045	7,923	9,694
10. Foreign Liabilities	2,128	3,485	-	9,528	10,987	10,678	9,432	9,324	9,908	10,251	9,960
11. General Government Deposits	4,268	1,786	-	3,321	2,795	3,127	4,974	3,606	13,052	16,187	19,848
12. Credit from Central Bank	4,752	6,621	-	5,793	6,133	5,565	4,249	11,576	14,427	17,753	19,250
13. Capital Accounts	2,176	2,702	-	5,292	6,237	8,182	11,562	18,520	22,392	24,274	30,925
14. Other Items (net)	126	1,856	-	6,688	5,735	3,655	2,246	3,528	15,181	15,224	4,712
C. Banking Survey (D billion)											
1. Foreign Assets (net)	12,043	6,732	-	11,046	14,249	20,997	31,404	61,201	95,225	117,616	117,327
2. Domestic Credit	5,161	16,040	-	22,268	28,370	35,620	41,566	115,682	155,236	191,204	239,921
3. Claims on General Government (net)	2,418	8,371	-	4,069	4,428	4,400	6,677	2,952	(484)	2,102	8,843
4. Claims on Rest of Economy	2,743	7,669	-	18,199	23,942	31,220	34,889	112,730	155,720	189,103	231,078
5. Money	14,811	19,088	-	26,736	33,439	39,972	45,207	68,360	90,989	112,408	125,331
6. Quasi-Money	10,327	9,142	-	18,546	23,487	30,805	42,189	77,110	106,005	138,437	158,815
7. Bonds and Money Market Instruments	298	2,544	-	5,490	5,635	7,703	10,890	10,865	18,842	21,012	35,232
8. Restricted Deposits	1,708	1,514	-	2,138	2,117	3,080	2,830	4,059	7,045	7,923	9,694
9. Capital Accounts	2,953	3,178	-	6,101	7,292	10,693	18,450	24,961	30,608	34,044	43,154
10. Other Items (net)	(126)	2,804	-	(1,525)	(2,398)	(4,447)	(8,835)	(8,471)	(3,027)	(5,006)	(14,978)

Source: International Financial Statistics, Yearbook 2002 (for 1992-2001) and May 2003 (for 2002), IMF.

Table A4.5: Distribution of Credit (in % of total credit to the economy)[a]

Item	1995	1996	1997	1998	1999	2000	2001	2002
Total credit to the economy[b]	100	100	100	100	100	100	100	100
To SOEs	57.0	52.8	50.2	52.4	48.2	44.9	42.2	38.8
To non-SOEs	43.0	47.2	49.8	47.6	51.8	55.1	57.8	61.7
Credit extended by SOCBs	79.6	75.5	77.2	81.4	67.9	73.3	71.9	72.9
To SOEs	49.3	43.4	42.8	47.1	—	39.3	38.5	35.3
To non-SOEs	30.3	32.1	34.4	34.3	—	34.0	33.4	37.6
Credit extended by other banks	20.4	24.5	22.3	18.6	32.1	26.7	28.1	27.1
To SOEs	7.6	9.4	7.4	5.3	—	5.6	3.7	3.4
To non-SOEs	12.8	15.1	15.4	13.3	—	21.1	24.4	23.7

— = not available, SOCB = state-owned commercial bank, SOEs = state-owned enterprises.

[a] There was change in coverage of credit institutions in 2000: 4 SOCBs and 24 non-state banks were included prior to 1999; from 1999 onwards 4 SOCBs and 72 non-state banks were included. This explains the drop in share of credits extended by SOCBs in 1999.

[b] Exclude net credit to the government.

Source: State Bank of Viet Nam.

Table A4.6: Summary Balance Sheet of State-Owned Commercial Banks
(D billion)

Item	1996	1997	1998	1999	2000	2001	2002
Total SOCBs							
Total Assets	66,005	81,305	104,957	134,891	200,434	247,152	286,861
Capital	3,279	4,463	7,603	7,670	10,048	10,462	16,494
Loans	38,320	48,042	59,085	72,441	108,754	135,981	166,236
Deposits	30,535	44,223	61,711	87,326	127,033	160,738	189,313
Agribank							
Total Assets	17,299	20,857	27,959	32,104	49,073	63,555	82,018
Capital	1,000	1,271	3,156	2,530	2,790	3,016	5,195
Loans	11,369	15,154	18,264	23,586	36,045	46,238	57,478
Deposits	7,026	10,662	14,367	18,266	24,526	32,514	45,802
BIDV							
Total Assets	12,456	17,227	23,547	30,815	43,166	55,133	63,670
Capital	765	1,143	1,667	1,716	2,694	3,043	4,694
Loans	9,121	11,722	15,711	19,873	29,760	36,493	41,893
Deposits	3,373	5,896	10,709	18,702	28,382	36,261	41,565
Incombank							
Total Assets	15,117	19,827	24,348	33,615	46,835	58,282	68,502
Capital	664	954	1,310	1,592	1,713	1,643	2,943
Loans	9,956	12,812	15,727	19,170	27,873	37,728	44,723
Deposits	10,127	13,979	18,567	24,210	33,489	43,712	52,697
Vietcombank							
Total Assets	21,213	23,394	29,103	38,357	61,361	70,181	72,671
Capital	851	1,095	1,469	1,831	2,854	2,729	3,661
Loans	7,873	8,354	8,990	9,812	15,076	15,521	22,053
Deposits	10,009	13,686	18,068	26,148	40,636	48,521	49,159

Agribank = Viet Nam Bank for Agriculture and Rural Development, BIDV = Bank for Investment and Develoment of Viet Nam, Incombank = Industrial and Commercial Bank of Viet Nam, SOCB = State-Owned Commercial Bank, Vietcombank = Bank for Foreign Trade of Viet Nam.
Source: State Bank of Viet Nam.

Table A4.7: Listing Performance at Security Trading Center, Ho Chi Minh City

Year	Criteria	Total	Shares	Government Bonds	Corporate Bonds
2000	Number	9	5	3	1
	Value (D trillion)	1,504	321	1,100	83
2001	Number	20	6	13	1
	Value (D trillion)	1,885	179	1,632	75
2002	Number	32	9	23	0
	Value (D trillion)	1,796	414	1,382	0
Total	Number	61	20	39	2
	Value (D trillion)	5,185	914	4,114	158

Source: Ho Chi Minh City Security Trading Center Annual Report 2002.

Table A4.8: Trading Activity of the Vietnamese Stock Market

Annual Turnover Rate		Numbers of Orders Executed	Number of Trading Accounts	Trading Volume Per Account
2001	2002			
0.382	0.429	1,500	13,000	10.43

Source: ADB. Viet Nam: Capital Market Roadmap. 2003.

STAND-ALONE TECHNICAL ASSISTANCE SUPPORTING PROGRAM IMPLEMENTATION

Title	TA 2823: Registration System for Secured Transactions	TA 2909: Policy Support for the State Bank of Viet Nam	TA 3060: Capacity Building at the State Auditor-General's Office (Phase II)
Approval Date	14 July 1997	4 November 1997	20 August 1998
Amount ($)	500,000	700,000	787,000
Objectives and scope	The TA aimed at improving the legal framework for investment in Viet Nam in line with the needs of a market economy by (i) advising on all of the inputs and actions needed to establish a registration system for secured transactions for the purpose of implementing the provisions on security interests in Viet Nam's new Civil Code, and (ii) providing capacity building and training.	The primary objective of the TA was to (i) address the policy framework of the SBV, (ii) recommend appropriate guidelines to perform regulatory and supervisory functions and draft basic laws and, (iii) strengthen the capacity of the SBV. The expected TA outputs included studies and workshops on (i) bank supervision, (ii) legal and regulatory issues, (iii) deposit insurance and (iv) credit information system.	The overall objective of the Phase II TA was to continue the initiatives from Phase I to strengthen the public audit function in Viet Nam by building the capacity of SAGO. The TA specifically aimed at assisting the Government in upgrading SAGO's capacity to undertake external audits of SOEs, SBV and projects funded through official development assistance on the basis of modern methodologies, systems and procedures.
Executing Agency	MOJ	SBV	SAV, formerly SAGO
TA Completion Date	28 February 2003	30 June 2000	31 December 2000
TCR Rating	Highly Successful	Generally Successful	Successful
OEM Findings	In addition to what was stipulated in the TOR, consultants offered substantial inputs in drafting Decree 165 on secured transactions and Decree 08 on the registry system. The registry system is now fully operational. This TA significantly contributed to substantiating program outputs through relatively long-term commitment of consultants.	The work on bank supervision was not related to the Program and overlapped with the activities of the IMF and the World Bank. The TA outputs on deposit insurance and CIC did not build on the earlier work conducted under TA 2687-VIE. As regards the deposit insurance, the TA outputs reflected mainly the experience in the Philippines whereas the Government was interested in replicating the case in Taiwan. The TCR rating is questionable.	This TA included the component for the capacity building of SAV in conducting the audit of SBV. SAV appreciated the work conducted by the central bank audit specialist resulting in commencement of the annual audit undertaking of SBV.

CIC = Credit Information Center, MOJ = Ministry of Justice, SAGO = State Auditor-General's Office, SAV = State Audit of Viet Nam, SBV = State Bank of Viet Nam, SOE = state-owned enterprise, TA = technical assistance, TCR = technical assistance completion report, TOR = terms of reference.

SUMMARY REVIEWS OF OUTPUTS UNDER
PROGRAM IMPLEMENTATION COMPONENT OF TA 2687-VIE

A. Credit Information System

1. Identifies issues, and set the targets including the separation of Credit Information Center (CIC) from Credit Department within the State Bank of Viet Nam. The conclusion section does not offer any concrete solutions to the outstanding issues.

2. Includes no needs assessment. It does not indicate whether the consultant conducted interviews with credit institutions relating to the provision of information to CIC and vice versa.

3. Identifies various reports to be submitted by a credit institution. However, it does not investigate whether the provision of those reports and the information contained therein are acceptable to credit institutions in practice.

4. Indicates that CIC staff needs further training but it fails to indicate specifically what sort of technical training should be required for CIC staff.

5. Discusses no international experience in relation to the operations of credit information centers in other countries.

B. Establishment of Deposit Insurance Scheme in Viet Nam

1. Includes detailed study of insurance schemes across countries.

2. Recommends establishment of a deposit insurance corporation. As opposed to this recommendation, the Deposit Insurance in Viet Nam (DIV) was established as a non-profit organization of the Government.

3. Recommends D300 billion as DIV's initial capital without giving the basis of this amount. As opposed to this recommendation, the Government allocated D1,000 billion.

4. Attaches the draft Decree on the Organization and Operations of a Proposed Deposits Insurance Corporation of Viet Nam.

C. Fund Mobilization of the Banking System

1. Covers various issues not directly related to deposit mobilization, including credit guidelines, collaterals, loan loss provisions, and debt management.

2. Recommends the issuance of a decree on fund mobilization and utilization of commercial banks. Such a decree has not been issued to date.

D. Centralized System to Disseminate and Publicize Banking Regulations

1. Recommends the establishment of a legislative information center under the control of Legal Department of the State Bank of Viet Nam with no elaboration on its role and function.

2. Attaches the draft regulation on development and promulgation of legal documents in banking sector. However, the draft has no provision relating to the establishment of a centralized system to disseminate and publicize banking regulations.

BANK RESTRUCTURING SUPPORTED UNDER FINANCIAL SECTOR PROGRAMS OF ADB

Loan	Program Measure (Per RRP)	Recapitalization Cost (Per RRP)	Remarks (Per PPAR)
Loan 1051(SF) FSP in Sri Lanka Approval Date: 20 Nov 1990 Loan Amount: $80 million	Preparation of a plan acceptable to ADB for the financial restructuring and recapitalization of BOC and PB	No reference	The recapitalization prompted the establishment of performance agreements setting profitability and cost targets. The results of the agreements are so far mixed. Another round of recapitalization for BOC and PB was made in 1996. On the other hand, the drafting of the amendments to the BOC Ordinance and the PB Act were recently withdrawn in the Parliament due to stiff opposition. (PPAR, 1997)
Loan 1208 FSP in India Approval Date: 15 Dec 1992 Loan Amount: $300 million	Facilitation of measures enabling recapitalization of banks through access to capital markets	No reference	(i) Delayed. (ii) The Banking Companies (Acquisition and Transfer of Undertakings) Act was amended effective 15 July 1994, permitting nationalized banks to raise capital up to 49% from the public. The Oriental Bank of Commerce was the first nationalized bank to access the capital market with an equity issue in October 1994. During 1994–1998, Dena Bank, Bank of Baroda, Bank of India, Corporation Bank, and Vijaya Bank made public issues. (iii) The State Bank of India (SBI) Act was amended in October 1993 permitting SBI to raise public equity not exceeding 45%. Between 1993 and 1998, SBI raised domestic and GDR issues and its two associates raised domestic public issues. RBI holding was retained at minimum 55%. (PPAR, 1999)
Loan 1061(SF) FSP in Lao PDR Approval Date: 6 Dec 1990 Loan Amount: $25 million	Complete a detailed inventory of all commercial bank loans and recapitalize government owned banks (estimated cost of the program)	$15 million	The recapitalization exercise failed to permanently improve SOCB's capital adequacy requirements. (PPAR, 2001)
Loan 1509(SF) FSP in Mongolia Approval Date: 19 Dec 1996 Loan Amount: $35 million	BOM to enforce compliance of AB and BITI with time-bound restructuring strategies for both banks.	No reference.	Complied with. A restructuring plan was prepared for AB. Foreign senior management was brought in under a USAID contract and they successfully turned the bank around. The bank was sold to HS Securities, a Japanese holding company, in early 2003. BITI was placed into receivership and liquidated in 1999. No further action necessary. (PPAR, 2003)
Loan 1485(SF) FSP in Viet Nam Approval Date: 19 Nov 1996 Loan Amount: $90 million	No measure	The required injection of new capital during the first stage was estimated to be about D1,114 billion ($100 million) for the four SOCBs.	See para. 44.

AB = Agricultural Bank, ADB = Asian Development Bank, BITI = Bank of Investment and Technological Innovation, BOC = Bank of Ceylon, BOM = Bank of Mongolia, FSP = Financial Sector Program, GDR = global depository receipts, PB = People's Bank, PPAR = program performance audit report, RBI = Reserve Bank of India, RRP = report and recommendation of the President SBI = State Bank of India, SOCB = state-owned commercial bank.