ADB

Validation Report

Reference Number: PVR–183
Project Number: 30295
Loan Numbers: 1932 and 2118
November 2012

Viet Nam: Second Financial Sector Program Loan Cluster—Subprograms 1 and 2

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
PCR	–	program completion report
RRP	–	report and recommendation of the President
SME	–	small and medium-sized enterprise
TA	–	technical assistance

NOTE

In this report, “$” refers to US dollars.

Key Words

adb, asian development bank, business licensing, business registration, impact, leasing, private sector, small and medium-sized enterprise, viet nam, financial sector program

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PROGRAM BASIC DATA

Project Number:	30295		**PCR Circulation Date:**	Aug 2010
Loan Number:	1932 and 2118		**PCR Validation Date:**	Nov 2012
Program Name:	Second Financial Sector Program Loan—Subprograms 1 and 2			
Country:	Viet Nam		**Approved** (million)	**Actual** (million)
Sector:	Financial Sector—Nonbanking Subsector	**Total Program Costs:**	$85.00 plus €35.00	$91.00 plus €35.00
ADB Financing: (million)	**ADF:** SDR37.88 ($50.0 equivalent) (Subprogram 1) and SDR23.77 ($35.0 equivalent) (Subprogram 2)	**Loan: ADB**	SDR61.65 ($85.00 equivalent)	SDR61.65 ($91.00 equivalent)
		Borrower:	Data not available	Data not available
		Beneficiaries:	0.00	0.00
		Others:	0.00	0.00
Cofinancier:	Agence Française de Développement	**Total Cofinancing:**	€35.00	€35.00
Approval Date:	20 Nov 2002 (Subprogram 1) and 3 Dec 2004 (Subprogram 2)	**Effectiveness Date:**	29 Apr 2003 (Subprogram 1) and 20 Mar 2005 (Subprogram 2)	23 May 2003 (Subprogram 1) and 15 Mar 2005 (Subprogram 2)
Signing Date:	29 Jan 2003 (Subprogram 1) and 20 Dec 2004 (Subprogram 2)	**Closing Date:**	31 Mar 2004 (Subprogram 1) and 1 Apr 2007 (Subprogram 2)	8 Dec 2004 (Subprogram 1) and 18 Dec 2007 (Subprogram 2)
Program Officer:	S. Hattori	**Location:**	ADB headquarters	
Validator:	S. Thalakada, Staff Consultant	**Peer Reviewer:**	C. Kim, Principal Evaluation Specialist, IED2	
Quality Reviewer:	R. Sabirova, Evaluation Specialist, IED1	**Director:**	H. S. Hettige, IED2	

ADB = Asian Development Bank, ADF = Asian Development Fund, IED 1/2 = Independent Evaluation Department (Division 1/2), PCR = program completion report, SDR = special drawing right.

I. PROGRAM DESCRIPTION

A. Rationale

1. The Asian Development Bank (ADB) approved the cluster concept for the Second Financial Sector Program Loan[1] for $75 million in November 2002. The loan amount increased

[1] ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Lao People's Democratic Republic for the Banking Sector Reform Program*. Manila; ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan Cluster to the Socialist Republic of Viet Nam for the Second Financial Sector Program*. Manila; and ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan Cluster to the Socialist Republic of Viet Nam for the Second Financial Sector Program–Subprogram II*. Manila.

to a total of $85 million when its subprogram 2 of $35 million was approved in December 2004. It comprised two subprograms to be implemented within 39 months after loan effectiveness. Subprogram 1 for $50 million, approved together with the cluster in November 2002, comprised two tranches, one of $20 million and one of $30 million, both released on meeting fully or substantially the tranche release conditions. Subprogram 2, comprising three tranches of $10 million, $15 million, and $10 million, was approved in December 2004. All three tranches were released on meeting (with slight delays) the tranche release conditions fully or substantially.

2. The government had made efforts to modernize and transform the finance sector, recognizing its significance to the country's economic performance. Nonetheless, many factors inherited from the former centrally-controlled economy plagued the formal financial system and it remained underdeveloped, inefficient, and inaccessible to many. Financial intermediation was low and was dominated by bank savings and loans. The banking system, with its high levels of nonperforming loans, was unable to fully support economic development and generate employment. The government initiated the process of financial and operational restructuring of the banking subsector with assistance from the International Monetary Fund and the World Bank; the program complemented this process. Alternative channels of financial intermediation needed to be developed to support Viet Nam's broad-based economic growth and socioeconomic development objectives.

B. Expected Impact

3. The program framework given in the report and recommendation of the President (RRP) (Appendix 3) indicated that the expected impact was to "Develop a financial system with higher levels of financial intermediation, efficiency and accessibility." The program was also expected to have impacts on (i) operational restructuring of state-owned commercial banks by reinforcing their commercial orientation through improved liquidity management and participation in the money market; (ii) restructuring of state-owned enterprises by instituting a mechanism for privatization through initial public offering; and (iii) access of small and medium-sized enterprises (SMEs) to term financing through leasing and the SME trading board. The program's expected impact on poverty was assessed in the RRP (Appendix 4 and Supplementary Appendix A on poverty impact assessment). For instance, the government targeted to reduce poverty level by 12 percentage points from 2001 to 2010 based on an annual growth at more than 7%, supported by the financial sector reforms. The program was classified in category C, anticipating no adverse effects on environmental, involuntary resettlement, and indigenous people aspects. No adverse gender issues were expected.

C. Objectives or Expected Outcomes

4. The objective of the program was to support government efforts to enable the development of alternative channels of market-based financial intermediation. However, the RRP did not provide specific indicators or targets.

D. Components and Outputs

5. The program components included (i) economic policies conducive to sound and vibrant development of the finance sector; (ii) legal and regulatory frameworks that promoted innovation and healthy competition while simultaneously monitoring and reducing systemic risks; (iii) regulators having the authority, budget skills, and established procedures to monitor and enforce regulations; and (iv) the support of financial infrastructure. The program provided support for developing (i) the insurance industry, (ii) the leasing industry, (iii) interbank and money markets, (iv) capital markets, and (v) key elements of finance sector infrastructure (RRP,

paras. 31–77). The policy matrix (RRP, Appendix 2) outlined the policies that needed to be adopted and enforced for achieving those outputs.

E. Provision of Inputs

6. The adjustment cost of reform measures under the program was estimated to cost around $200 million equivalent (RRP, para. 85). It was to be financed by an ADB loan of $85 million equivalent, cofinancing from the Agence Française de Développement of €35.0 million equivalent, and the balance by the government. Actual program cost and the government contribution toward that cost were not quantified by the program completion report (PCR).[2] ADB and Agence Française de Développement funds were fully disbursed (PCR, para. 35–38).

F. Implementation Arrangements

7. The implementation arrangements followed the RRP proposals, as outlined in the PCR (paras. 40–42). Subprogram 1 and 2 conditions and covenants were fully or substantially complied with (PCR, Appendix 2). Two technical assistance (TA) operations attached to the program were appropriately designed and relevant to their objective of supporting program implementation. Technical assistance completion reports rated them as *successful* (PCR, paras. 44–46). No major issues were encountered in recruitment and procurement of a firm and individual consultants apart from the need to hire additional experts with appropriate expertise in deposit insurance and other fields, and their performance was rated *satisfactory* (PCR, paras. 44–48).

8. Program implementation was planned over 36 months from the date of program effectiveness, with subprogram 1 to be closed on 31 March 2004 and subprogram 2 on 1 April 2007. Closing dates for each were extended twice, with subprogram 1 closed on 8 December 2004 and subprogram 2 on 18 December 2007. Altogether, program implementation was delayed by about 16 months due to delays in meeting tranche release conditions in respect of both subprograms (PCR, paras. 35–39). This report validates the PCR assessments.

II. EVALUATION OF PERFORMANCE

A. Relevance of Design and Formulation

9. The PCR assessed the program as *highly relevant* based on the priority placed by the government in its socioeconomic development plans and finance sector strategies for sustained achievement of high economic growth rates and continued progress in poverty reduction. This validation concurs that the program was based on the priority set by the government. Subprogram 1 and 2 policy conditions were fully or substantially met, which helped achieve the intended outputs, outcome, and impact as reflected in the program framework and policy matrix. The program was intended to (i) help develop the nonbanking sector for financial sector diversification, (ii) increase market-based financial intermediation, (iii) develop sources of long-term funding for economic development and poverty reduction, and (iv) offer competition to the generally poorly performing banking sector. That objective was substantially realized with some difficulties, but the intended outputs largely achieved. It was facilitated by the adoption of the relevant policy measures as included in the policy matrix (subprogram 2, RRP, Appendix 5). The two attached TA operations were implemented satisfactorily, which helped program implementation and the achievement of intended outputs. However, one weakness in this evaluation criterion lies with the

[2] ADB. 2010. *Completion Report: Second Financial Sector Program Loan Cluster (Subprograms 1 and 2)*. Manila (Loans 1932-VIE and 2118-VIE).

complex design of the whole program, as elaborated in the lessons section (para. 18) in this report. The program was very complex in design, putting various reforms in several subsectors in a package, causing absorptive capacity constraints in key agencies. Therefore, on balance, this validation rates the program *relevant*.

B. Effectiveness in Achieving Outcomes

10. Substantial headway was made toward achieving the envisaged outcome of developing alternative channels of market-based financial intermediation. This was made possible by the satisfactory implementation of the two TA operations and adoption of the required policy measures, which facilitated the achievement of the outputs and outcome. The PCR rated the program as *effective* in achieving its outcome (PCR, paras. 54–55). The ratio of broad money (M2) to the gross domestic product increased from 61.4% in 2002 to 117.9% in 2007. This validation supports that rating with the caveat that continuing efforts are still needed, for example, to ensure a properly functioning leasing sector, money markets, and capital markets. All the tranche release conditions were fully or substantially met.

C. Efficiency in Achieving Outcome and Outputs

11. The PCR rated the program as *efficient* (PCR, para. 56). This validation concurs with that rating. There was a minor delay of about 8 months in completing policy conditions and closing subprogram 1 (expected by 31 March 2004 but closed on 8 December 2004 with two extensions), and another delay of about 8 months in completing policy conditions and closing subprogram 2 (expected by 1 April 2007 but closed on 18 December 2007 with two extensions). The delay was presumably not due to lack of any commitment but rather to an RRP-identified risk, "predominantly a result of a lack of technical expertise in the financial sector in the country, particularly in drafting laws, rules, and regulations" (subprogram 2, RRP, the third risk identified).

D. Preliminary Assessment of Sustainability

12. The PCR assessed the program sustainability as *likely* (PCR, para. 57). This validation supports that rating. Policy measures and reforms pertained to improving legal and regulatory frameworks, which strengthened institutional foundations in various aspects of the nonbanking sector as outlined earlier under the section on outputs. Lessons learned from earlier experiences were taken into account in formulating the program (subprogram 2, RRP, paras. 75–78). The government gave specific assurances that strengthened program sustainability (subprogram 2, RRP, para. 103). It was now mostly up to the private sector to properly operate the financial institutions that had been created and/or strengthened under the program, i.e., insurance, leasing, stock exchanges and capital markets, and accounting and auditing systems in accordance with the adopted codes of conduct.

E. Impact

13. The PCR was of the view that over the long term, measures supported under the program are expected to lead to the emergence of a sound and stable financial system that will be more competitive and diversified, offering a wider array of financial services. The program was classified as category C, with minimal impact on the environment, involuntary resettlement, and indigenous people (PCR, paras. 58–59). This validation supports that assessment, as outputs achieved showed that positive moves had been made in that direction. Development of a sound and efficient financial and capital market has stimulated and complemented the banking sector and promoted financial intermediation critical for sustaining Viet Nam's economic growth. The capital market supplied investment capital and term funds on a market basis, which were largely lacking

in the Vietnamese economy. Moreover, market discipline strengthened the finance and corporate sectors and induced efficiency in resource allocations. Development of the insurance and leasing subsectors provided alternative savings and investment vehicles, and thus similarly diversified channels of financial intermediation. The program also encompassed elements for easing the access of private SMEs to formal financial products and services. Benefits of the program, which include broader access to financial services and a more competitive and diversified finance sector that reduces systemic vulnerabilities, are expected to become substantive with the concomitant growth of the money and capital markets and insurance and leasing subsectors. Based on these, this validation rates the impact of the program *likely to be significant*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

14. The PCR did not rate the performance of the borrower and executing agency. However, it stated that the State Bank of Viet Nam, the executing agency, gave effective support during implementation, maintained strong ownership throughout the program, coordinated effectively with other ministries and agencies, and collaborated effectively with ADB review missions (although it did not fulfill its commitment to submit regular progress reports due to staff constraints) to provide necessary data and assist in the assessment of compliance with tranche release conditions and final assessment of the program (PCR, paras. 49–51). This validation supports that assessment. The two TA operations were implemented satisfactorily, and envisaged policy measures were adopted fully or substantially, albeit with delay, and outputs, outcome, and impact were attained. This validation rates the performance of the borrower and the executing agency *satisfactory*.

B. Performance of the Asian Development Bank

15. The PCR judged ADB's performance as *satisfactory.* This validation confirms that judgment, as approvals and disbursements were prompt; program monitoring was regular, with regular review missions from headquarters closely supported by the resident mission, which together ensured satisfactory implementation of the two TA operations; the policy conditions of both subprograms 1 and 2 were fulfilled, albeit with some delay; and the envisaged outputs were achieved to a great extent. The State Bank of Viet Nam declared its satisfaction with ADB's performance (PCR, para. 52).

C. Others

16. Disbursement of the loan followed the simplified procedures and related requirements for a program loan (RRP, para. 101 and PCR, paras. 37–38). Since the program was a program loan, there were no procurement and fiduciary issues. Imports under loan proceeds followed a list of ineligible items. The program was assessed as category C with respect to the environment, involuntary resettlement, and impact on indigenous people.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

17. Overall, the PCR rated the program as *successful* (para. 60), and key measures and indicators of progress are outlined in the PCR (Appendix 3). This validation concurs with the rating of the PCR (see table).

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement/Comments
Relevance	Highly relevant	Relevant	While the program reflected the government's priority well, the program's design was very complex, putting various reforms in several subsectors in a package, causing absorptive capacity constraints in key agencies. It needed a more phased approach and capacity development. Therefore, on balance, this validation rates the program *relevant* (para. 9).
Effectiveness in achieving outcome	Effective	Effective	
Efficiency in achieving outcome and outputs	Efficient	Efficient	
Preliminary assessment of sustainability	Likely sustainable	Likely sustainable	
Overall assessment	**Successful**	**Successful**	
Borrower and executing agency	Not rated	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Impact	No rating given but comments made indicated the impact as positive.	Likely to be significant	Benefits of the program, which facilitated broader access and a more competitive and diversified finance sector, are expected to bring concomitant growth in the money and capital markets (para. 13).
Quality of PCR		Satisfactory	

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = program completion report.

B. Lessons

18. The PCR identified a number of lessons (paras. 61–64). This validation agrees with them. This validation's view is that, bearing in mind the transitional nature of Viet Nam's economy and general capacity constraints, the program appeared too complex trying to bring about reforms in a wide range of nonbanking sector aspects, though it took a phased approach to some extent using two subprograms. Perhaps, a more prudent approach would have been to adopt a more phased approach by first focusing on, say, development of insurance, leasing, money markets, and capital markets and then, as second stage, addressing concerns in financial infrastructure, i.e., the accounting and auditing system, and a deposit insurance system. That more phased approach could have accommodated capacity constraints better, avoided delays, yielded more positive results, and also enabled measurement of outcome and impact more accurately.

C. Recommendations for Follow-Up

19. The program laid the foundation for development of the nonbank financial sector. But, more is needed to be done to build on that foundation for establishing a viable and efficiently functioning nonbank financial sector, as identified by the PCR. For example, more development efforts are needed in the leasing sector (paras. 14–16), money markets (paras. 17–20), capital

markets (paras. 21–26), and financial infrastructure (paras. 27–34). ADB needs to continue its policy dialogue with the government supported by further TA for capacity building and for resolution of these continuing concerns and issues. The findings of the PCR and this PCR validation should serve as an agenda for continuation of that policy dialogue and for consideration of any further ADB assistance. The PCR made a number of recommendations (paras. 65–70). This validation supports them.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

20. To help with monitoring and evaluation, a program framework and a policy matrix were attached to the RRP (Appendixes 1 and 5). These served as checklists to follow up the various conditions that needed to be met for release of each loan tranche. The RRP also provided adequately for program management, monitoring, procurement, and disbursement (paras. 98–102). It appears that these arrangements were followed up during program implementation, which led to the fulfillment of the policy conditions and loan tranche releases, albeit with delay, and the satisfactory TA implementation.

B. Comments on Program Completion Report Quality

21. The PCR was comprehensive and well prepared. However, it should have attempted to quantify or at least comment on the cost of program adjustments and the government's contribution to support the reform measures.

C. Data Sources for Validation

22. The main data references include the RRP, PCR, and selected program administration documents.

D. Recommendation for Independent Evaluation Department Follow-Up

23. A program performance evaluation combining the first and second program clusters may be considered.