RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
National Risks[a]	High	
1 Macroeconomic		ADB will conduct macroeconomic policy dialogue with core agencies in coordination with other development partners and will support ongoing efforts to reform SOEs and the finance sector through program loans and TA. ADB will assess and monitor the impact of structural reforms on budget implementation and, if necessary, shift the focus to budgetary support and public sector reform. Annual debt sustainability assessments will be conducted, paying close attention to contingent liabilities, and ADB will provide TA on debt management, including on lending policy.
2 Public financial management		ADB will provide TA to improve monitoring and evaluation systems. ADB will also use the proposed joint development partner budget support program as a platform for policy dialogue with the government on PFM reform issues. ADB will play an active role in the PFM working group of development partners.
3 Procurement		ADB will push for the inclusion of a broader definition of conflict of interest, a proper complaint mechanism, and stricter language on disciplining malpractice in the new Public Procurement Law. It will also step up the enforcement of ADB guidelines on conflicts of interest and explore procurement training for government agencies. ADB's Operations Services and Financial Management Department will facilitate information workshops for ADB staff on split packaging and its impacts. The resident mission will review all procurement plans early in project design.
4 Corruption		ADB will engage the government through anticorruption dialogue and will evaluate support for the Construction Sector Transparency Initiative to assist anticorruption efforts. ADB will assess the impact of ongoing land law reforms on ADB projects, particularly those related to resettlement plans and safeguard mechanisms.
Contextual Risks		
1 Government does not undertake SOE reform and bank recapitalization in a timely manner, resulting in further loss of investor confidence.	High	Risk levels have Mediumd but are retained as high pending tangible and sustained outcomes. ADB is mitigating this risk by using an MFF to support the corporate, operational, and financial restructuring of selected individual SOEs on a pilot basis.[b] The MFF has now been extended to other qualified SOEs, after the approval on 16 December 2014 of the second periodic financing request. This request provided funding support to three SOEs to implement comprehensive corporate and financial reforms. Capacity development TA is also in place to help strengthen the institutional process and the policy framework to sustain SOE reforms.[c]

		In addition, the government recently strengthened the problem bank and NPL resolution framework. SBV has required the adoption of Basel II by domestic banks by end-2015, and has strengthened the identification of problem assets.[d] VAMC's capital has been increased to D2,000 billion ($100 million) from D500 billion. Further, the government has authorized the entity to issue its own debt, to purchase NPLs at market value, sell assets to non-residents, and to force asset sales without the owner's consent.[e]
2 Adequate funding is not provided to support sustained capacity development efforts.	High	Despite ongoing TA support, mitigation measures did not fully offset this risk, increasing the risk level to high. The Canadian International Development Agency continued to build capacity at the Banking Supervisory Agency of the SBV. Its Banking Regulation and Supervision Support Project is valued at up to Can$14 million and runs from 2013 to 2018. Recent modifications to the scope of the project have refocused the effort on the implementation of Basel, risk-focused supervision, and risk management. However, ADB's proposals for a project loan to support capacity development throughout the rest of the SBV were not approved by the government. In addition, budgetary pressures may serve to compromise internally funded training programs.[f] In response, ADB may refocus TA support on capacity development and resume support to study tours.
3 Political will for finance sector reforms weakens.	Medium	Risk levels have declined and are now considered Medium. After completion of the country's first Financial Sector Assessment Program, concerted and coordinated efforts have emerged to tackle several long-standing but technically challenging issues. Foremost, the government has signaled its resolve to address NPLs by authorizing purchase and disposition at market value, and by increasing the capital of VAMC. Moreover, the government has taken control of two problem banks, effectively extinguishing shareholder rights. The government has also initiated programs to align Viet Nam Accounting Standards with International Accounting Standards and to remove credit risk from the settlement of government bonds in line with international sound practices. Efforts to mitigate this risk continue and are reflected in the policy actions supporting the proposed subprogram 2.
4 The government fails to adopt and implement a sound macroeconomic management framework.	Medium	Risk mitigation is discussed above in the National Risks section under the Macroeconomic subheading. Economic risks have eased somewhat since subprogram 1 of the Financial Sector Deepening Program. Viet Nam's medium-term outlook remains positive, with economic growth expected at 6.1% in 2015 and 6.2% in 2016. Inflation fell to 4.1% in 2014, the lowest level in 10 years, and easing price pressures have allowed the central bank (SBV) to cut policy rates

			and thereby boost private sector credit growth. The current account recorded its fourth consecutive surplus, estimated at $8.1 billion or 4.4% of gross domestic product, which helped rebuild foreign exchange reserves to about 3 months of import cover. Within the program, reforms under subprogram 1 also helped stabilize the macroeconomic environment. Still, risk mitigation will not be fully effective until the SBV receives its operational independence and interest rate setting mechanisms give way to market-determined interest rates.
5	Coordination between the SBV and the Ministry of Finance is not adequate, resulting in conflicting policy application and disruptions in the bond market.	Medium	The program has and continues to provide effective mitigation of this risk. Basic coordination mechanisms developed under subprogram 1 to support the development of the money market have given way to more comprehensive and formal coordination mechanisms, e.g., an inter-ministerial decree that covers four ministries (including the Ministry of Finance) and the SBV. The implementing regulation mandates coordination across numerous agencies and covers a variety of functions such as fiscal, monetary, credit, investment and development, trade and price issues.
6	Technical money market risks	Medium	ADB will continue to provide TA to boost the SBV's capacity to implement monetary policy through the money market. ADB will also provide TA to support the introduction of repurchase agreements, including assistance in revising laws and regulations if necessary.[g]
Overall		**Medium**	

ADB = Asian Development Bank, GDP = gross domestic product, MFF = multi-tranche financing facility, NPL = nonperforming loan, PFM = public financial management, SBV = State Bank of Viet Nam, SOE = state-owned enterprise, TA = technical assistance, VAMC = Viet Nam Asset Management Company.

[a] ADB. 2012. *Country Partnership strategy: Viet Nam,* 2012–2015. Manila.

[b] ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed MFF to the Socialist Republic of Viet Nam for the State-Owned Enterprise Reform and Corporate Governance Facilitation Program.* Manila. The MFF, with a total allocation of $630 million ($600 million from ordinary capital resources and $30 million from the Asian Development Fund) has been structured into a three-tranche program. The ordinary capital resources loan is meant to support the financial restructuring of the selected SOEs, while the Asian Development Fund loan is to help them implement the corporate and organizational restructuring.

[c] ADB. 2013. *Technical Assistance to the Socialist Republic of Viet Nam: Strengthening Support for State-Owned Enterprise Reform and Corporate Governance Facilitation Program.* Manila.

[d] Circular 02/2013/TT-NHNN on asset classification and risk provisioning methods and levels, and amended Circular 9/2014/TT-NHNN of 18 March 2014.

[e] Decree 34-2015/ND-CP of 31 March 2015 on establishment, organization and operations of VAMC

f Ernst and Young. 2013. *Skill Gap Assessment Report, Financial Sector Modernization and Information Management System Project*. Hanoi.

[g] ADB. 2014. *Technical Assistance to the Socialist Republic of Viet Nam: Strengthening Financial Markets.* Manila.

Source: Asian Development Bank.