

ADB's SECTOR PROGRAM AND EXPERIENCE¹

1. This document provides an overview of ADB's support to financial sector development in Viet Nam, discusses the evaluation results of the Independent Evaluation Department and the Southeast Asia Department, and lists the main lessons learned.

2. **ADB Support.** ADB's support program in Viet Nam was shaped primarily by four country strategy documents: the 1995 country operational strategy study, two country strategies and programs (2002–2004 and 2007–2010), and the CPS (2012–2015). Financial sector support has been provided through several program loans, project loans, and TA. It has helped the government begin a transition from a centrally planned to a market-based economy with a broad financial sector, strong intermediaries, well-functioning markets, and a legal and regulatory infrastructure that promotes stability (Table 1).

Table 1: ADB Financial Sector Loans

Loan	Title	Value \$ mil	Approval Date	Success Rate
3081	Financial Sector Deepening Program (Subprogram 1)	45	6 Dec 2013	Unrated
3050	Second SME Development Program (Subprogram 2) ^b	50	23 Oct 2013	Unrated
2877	Microfinance Development Program (Subprogram 1)	40	5 July 2012	Unrated
2707	Third Financial Sector Program (Subprogram 2)	60	29 Nov 2010	Unrated
2680	Second SME Development Program (Subprogram 1) ^b	40	18 Oct 2010	Unrated
2377	Third Financial Sector Program (Subprogram 1) ^a	75	6 Dec 2007	Unrated
2284	SME Development Program (Subprogram 2) ^b	20	12 Dec 2006	Less than successful
2118	Financial Sector Development II (Subprogram 2)	35	3 Dec 2004	Successful
2095	SME Development Program (Subprogram 1) ^b	60	21 Oct 2004	Less than successful
1990	Housing Finance Project	30	20 Dec 2002	Successful
1932	Financial Sector Development II (Subprogram 1)	50	20 Nov 2002	Successful
1802	Rural Enterprise Finance Project	80	12 Dec 2000	Successful
1485	Financial Sector Program	90	19 Nov 1996	Successful
1457	Rural Credit Project	50	12 Sep 1996	Successful

^a Formerly Financial Sector Program Loan III.

^b Included financial access component, but success rate pertains to entire program.

Note: Success rates are based on project completion reports or independent validation reports, where available. SME = small and medium-sized enterprise.

Source: Asian Development Bank.

3. **Program Loans.** ADB's financial sector assistance began in 1993 with TA to help develop Viet Nam's capacity to deliver rural financing with a focus on the Vietnam Bank for Agriculture and Rural Development. This was followed by three successive clusters of financial sector program loans (FSPLs) covering a wide range of reforms. The first FSPL supported the introduction and adoption of the basic concepts and systems that are prerequisites to developing a market-based financial system and economy. The program focused mainly on banking sector reforms, including enhancing the structure and operations of State-Owned Commercial Banks (SOCBs), improving credit risk management, promoting deposit mobilization, and developing a legal framework for negotiable instruments and secured transactions.² The program also recognized the importance of developing alternative funding

¹ Based on Bezemer, M. and Schuster, S., 2013. *Southeast Asia Regional Department Sector Assessment, Strategy and Road Map. Viet Nam: Financial Sector*. Manila.

² ADB. 1996. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Financial Sector Program Loan*. Manila.

4. channels through support for (i) a legal and regulatory framework for the securities market, (ii) a stock exchange, and (iii) an “organized” over-the-counter market for trading unlisted securities of private and privatized small and medium-sized corporations.

5. Building on the accomplishments of its predecessor, the second FSPL aimed at developing a financial system with better intermediation, efficiency, and accessibility.³ The program helped develop the nonbanking sector, increase market-based financial intermediation, and provide long-term funding sources for economic development and poverty reduction. The program also introduced competition to the generally poorly performing banking sector. To achieve these objectives, the program supported reforms in (i) insurance, (ii) leasing, (iii) money markets, (iv) capital markets, and (v) financial sector infrastructure, with an emphasis on accounting and auditing, a secured transactions registry, deposit insurance, and an anti-money-laundering regime.

6. The third FSPL’s objective was to create a deeper, more diversified, and resilient financial sector.⁴ By increasing the share of capital markets in financing investment, the program intended to contribute to sustained economic growth with reduced refunding risks. Greater scope and efficiency of nonbank financial intermediation channels were expected to strengthen financial sector stability through increased competition.⁵ The program focused on delivering four main outputs. First, it aimed to increase market liquidity and lower transaction costs by enhancing information dissemination and improving the infrastructure for secondary trading of securities. Second, the institutional framework for securities issuance was reinforced through, among others, the establishment of a public debt management office. Third, the legal and regulatory framework for investor and consumer protection and financial stability was enhanced by, for example, introducing penalties for administrative offences under the new Securities Law, requiring public disclosure of securities market regulation violations, and promulgating new solvency ratios for credit institutions. The program also reinforced ADB’s previous support to the anti-money-laundering regime by supporting the operationalization of the country’s Anti-Money-Laundering Information Center. Finally, regional cooperation was intensified, for instance, by signing bilateral information exchange agreements on securities market issues.

7. **Financial inclusion.** ADB’s first financial intermediation loans sought to increase access to credit for small farmers and rural enterprises and to provide low-income families access to housing finance. Specifically, the Housing Finance Project supported lending to low-income households through participating commercial banks, and housing microfinance to urban poor households through community-based financial institutions. The project also helped establish a housing finance facility in the State bank of Viet Nam (SBV). Small and Medium Sized enterprises (SMEs) have benefited from program loans as well. The two SME Development

³ ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Financial Sector Program Loan II*. Manila; and ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Second Financial Sector Program—Subprogram II*. Manila. The program was also expected to have an impact on (i) the operational restructuring of SOCBs by reinforcing their commercial orientation through improved liquidity management and participation in the money market, (ii) the restructuring of SOEs by instituting a mechanism for privatization through initial public offering, and (iii) access of SMEs to term financing through leasing and the SME trading board.

⁴ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Financial Sector Program Loan III*. Manila; and ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Second Financial Sector Program—Subprogram III*. Manila.

⁵ Subprogram 2 was refined to reflect the impact and lessons from the global financial crisis and the need to emphasize financial stability.

Cluster Programs included support to develop an enabling policy and regulatory environment, to provide access to land and international markets, and to enhance competition policy. The first SME Development Program included reforms for (i) improving the quality of financial reports by simplifying SME accounting standards, (ii) making it easier to use land use rights certificates as collateral for loans, (iii) improving the legal framework for leasing to promote sales of lease receivables, and (iv) making lending secure by making movable assets more attractive to banks. The second SME Development Program included a credit guarantee scheme for SMEs and pilot operations of the unlisted public companies market. While FSPLs have concentrated on addressing the systemic flaws of financial markets, the SME Development Program focused on alternative financing options for the domestic private sector, such as leasing, access to the stock market, or the implementation of credit guarantee schemes. It also included measures aimed at facilitating SME access to loans by developing the capacities of personnel from SOCBs with regard to the SME sector. In addition, the second FSPL aimed at improving access to term financing for SMEs through leasing and the SME trading board.

8. **Technical Assistance.** ADB has provided technical assistance (TA) to, among others, help the government prepare for loans and provide input into formal government sector development strategies. TA has also been used to build the organizational and technical capacity of regulatory and supervisory institutions, and to support regulatory reform by assessing domestic regulatory frameworks in relation to international standards.

9. Recent TA support ranges from legal advice on introducing repurchase agreements in Viet Nam's capital markets to building the institutional capacity of a micro-insurance entity for women on a pilot basis to facilitate the formalization process. A recent regional initiative between ADB and the ASEAN Capital Markets Forum resulted in the publication of the ASEAN Corporate Governance Scorecard, which assesses corporate governance standards of publicly listed companies based on a comparison with international good practices.⁶ The initiative also produced country-specific recommendations for publicly listed companies and capital market regulators to improve their corporate governance standards, and provided a summary assessment for publicly listed companies.

10. **Evaluation Results - Programs.** The first two FSPLs have been rated and independently validated as *successful*, with supported reforms contributing to concrete and likely sustainable results.⁷ The recently completed PCR of the Housing Finance Project rated

⁶ ADB. 2013. *ASEAN Corporate Governance Scorecard: Country Reports and Assessments 2012–2013*. Manila. The report, which focused on six countries including Viet Nam, identified strengths and areas for improvement in five areas: (i) rights of shareholders, (ii) equitable treatment of shareholders, (iii) role of stakeholders, (iv) disclosure and transparency, and (v) Board responsibilities

⁷ ADB. 2004. *Program Performance Audit Report: Financial Sector Program*. Manila; and ADB. 2012. *Validation Report: Second Financial Sector Program Loan Cluster (Subprograms 1 and 2)*. Manila. The first FSPL contributed to promoting banks' deposit taking and set the stage for more efficient financial resource allocation in the future. Specifically, the SBV Law, the Credit Institutions Law, and upgraded accounting and audit standards contributed to enhanced public confidence in the banking system, while the Deposit Insurance of Vietnam directly supported banks' deposit taking from individuals. Decrees on Secured Transactions and the Registry System resulted in the establishment of a National Registration Agency of Secured Transactions and actual registration of 25,000 secured transactions related to movable assets at the time of evaluation. Regulations for a capital market and nonbanks, the SSC, and the Securities Trading Center laid the foundation for alternative channels of financial intermediation. However, delays in SOCB restructuring prevented the Commercialization and Modernization of the Banking System component of the program from providing its expected complementarity. Under the second FSPL, substantial headway was made toward achieving the envisaged outcome of developing alternative channels of market-based financial intermediation. Regulatory reforms in the insurance and leasing subsectors helped to improve competition and governance practices, and provided alternative savings and investment vehicles, in particular in life insurance. Supported reforms contributed to, for example, improved access of private sector

this project *successful* as well.⁸ Despite initial implementation delays, a revision of the loan agreement, and resulting extension of the implementation period, the project gained momentum and eventually achieved 95% of its disbursement plan and complied with almost all loan covenants.

11. A program completion report (PCR) for the third FSPL was issued in 2014.⁹ Overall, FSPL III is quantitatively rated as less than successful, although on the higher end of this band and close to being considered successful. Qualitatively, there was a shortfall in achieving the outcome, with only one of the three indicators being considered as achieved. However, with the exception of output 1, most of the other outputs can be considered achieved. The design of the program using the cluster approach with 2 tranches for subprogram 1 was relevant and appropriate given the nature of financial sector reforms. The drawbacks of FSPL III occurred during the implementation stages. The global financial crisis in 2008-2009 certainly made implementation of the program more challenging, but the program also suffered from delays in reforms by the government and insufficient monitoring and dialogue to resolve bottlenecks by ADB. Consequently, although the financial sector program in Viet Nam remains relevant to both the government and ADB and is likely to be sustainable, as rated by both the government and ADB, FSPL III was less effective and less efficient. Lessons learned are described below; while most of these lessons have been incorporated into subprogram 1 of FSDP, they should be examined more closely as the government and ADB continue implementing subprogram 2 of FSDP.

12. First, ADB, the government and stakeholders need to recognize that financial sector reforms are complex, have a medium- to long-term gestation period, and require proper sequencing that follows a step-by-step approach. Also, from a program perspective, financial sector development requires extensive coordination across government and the private sector. Given the challenges of coordination in Viet Nam, when a policy action requires coordination between two or more agencies, ADB and the government must first ensure that the coordination mechanism and institutional infrastructure have been established and are working as envisioned. When a reform requires adoption of international standards, then both ADB and the government should communicate with the relevant international body responsible for the adoption of those standards. Where possible, a program specifically for Viet Nam can be designed and agreed.

13. At the level of specific subprograms, an assessment of a program's success should be based on quantitative indicators and tangible results rather than whether policy actions have been met. While approval of legislation and regulations can be considered a reform in the initial phase of a program, particularly subprogram 1, subsequent programs should assess the result of the implementation of the legislation and regulations. Related to this point, the design and monitoring framework should consist of indicators agreed between ADB and the government from the outset. These indicators should either already be present in the government's strategy or blueprint or, if they are not, then they should be included and approved by the highest level of authority of a particular organization. This would strengthen government ownership and

companies to the capital market and lease financing; and facilitated the equitization of SOEs, all of which contribute to improved allocation efficiencies. The Independent Evaluation Department concluded that the capital market supplied investment capital and term funds on a market basis, which were largely lacking in the Vietnamese economy.

⁸ ADB. 2013. *Project Completion Report: Housing Finance Project*. Manila.

⁹ ADB. 2013. *Project Completion Report: Third Financial Sector Program Loan*. Manila.

accountability. Finally, these indicators should be linked to the policy matrix, as reforms should contribute to the achievement of these indicators.

14. When administering ongoing programs, there needs to be a balance between flexibility and achievement of results. A program cluster modality has in-built flexibility, particularly when designing indicative actions such as for subprogram 2. However, this flexibility is not a *carte blanche* for changes and should not be used to substitute uncompleted reforms just because they are difficult to implement. When making revisions or substituting policy actions, a careful assessment should be made as to how these revisions or substitutions will affect the achievement of outputs and ultimately the outcome of the program. When a particular reform is delayed, then additional technical assistance resources will need to be provided to address the problem. When policy actions are not completely achieved or when they are assessed as either satisfactory or ongoing (as in the case of the two actions for the tranche 2 release of FSPL III), then the subsequent subprogram should immediately focus on these actions at the design stage, so that they do not fall through the cracks between subprograms or even between clusters.

15. **Evaluation Results - Country assistance program.** The most recent country assistance program evaluation (CAPE) for Viet Nam assessed the performance of ADB's country strategies and assistance programs covering the period 1999–2008.¹⁰ Based on *successful* institutional and *partly successful* project ratings, overall financial sector assistance was rated borderline *successful*. This qualification arose primarily from the poor performance of housing finance assistance, at the time of evaluation, and the comparatively slow progress made in some reform areas. More specifically, the CAPE concluded that ADB's choices of assistance, approaches, and modalities in the financial sector were generally *relevant*. ADB's program was well sequenced by first undertaking basic framework assistance and then expanding to more complex reforms.

16. ADB assistance was also deemed largely *effective* and *efficient*, although the achievement of meaningful outcomes in some reform areas of the second FSPL was expected to take longer and require additional reforms.¹¹ These ratings were affected by the substantial implementation delays and slow disbursement of the Housing Finance Project.

17. ADB assistance was *likely to be sustainable* given the government's political commitment to continued reform and an absence of any major policy reversals, albeit on the low side due to underlying capacity issues and the lack of institutional impact in some areas. In light of the government's cautious approach to financial market development, the impact of assistance was considered to be *modest*. This approach is reflected by the continuing dominance of the state-owned bank sector and relatively high levels of government intervention to address economic problems (e.g., interest rate subsidies). The CAPE noted that the impact of the financial sector intermediation loans had been small as, at the time of review, they had not led to any substantial changes in existing funding strategies or lending practices. Finally, the

¹⁰ ADB. 2009. *Country Assistance Program Evaluation: Viet Nam*. Manila.

¹¹ For instance, the effectiveness of deposit insurance was impacted by the absence of special bank insolvency legislation and its weak legal basis (decree rather than law); the established secured transactions regime was suffering from legal inconsistencies, lack of enforcement, and inadequate registration processes; and continued capacity problems constrained reform efforts in financial reporting, insurance, and leasing. Moreover, the government was seen to occasionally diverge from TA recommendations that were in line with best practices, as they were perceived to not adequately reflect Viet Nam's specific conditions and circumstances. While such assistance undoubtedly contributed to internal debate on key issues, immediate outcomes did not always match expectations. It is noteworthy that some of these laws and regulations were subsequently strengthened in light of experience gained during actual implementation.

CAPE concluded that the level of TA resources attached to policy loans was on the low side, given the financial sector's substantial capacity development needs and the nature of Viet Nam's reform agenda.

18. **Evaluation Results - Capital market development.** A special evaluation study on ADB assistance for domestic capital market development covered the period 1987–2006.¹² The study derived useful sector-specific lessons and rated ADB's assistance in Viet Nam as *successful*, which was somewhat better than ADB's overall performance in the six countries that were investigated.¹³ Strategically, ADB's capital market assistance in the country was regarded as highly selective and well sequenced, while benefiting from substantial aid coordination.

19. Of the six countries investigated, political commitment to and government ownership of capital market reforms over a longer period appeared to have been strongest in Viet Nam and the Philippines, which contributed to the sustainability of reforms. However, a lack of technical understanding on the part of political decision makers affected the formulation or implementation of the earlier sector programs in Viet Nam, as ADB did not provide resources to familiarize key government officials and parliamentarians with sector issues. While progress was made in strengthening its regulatory framework, the special evaluation study noted that Viet Nam was likely to require more time, additional capacity development support, and/or political commitment to regulatory independence to be able to move toward full compliance with international standards.

¹² ADB. 2008. *Special Evaluation Study: ADB Assistance for Domestic Capital Market Development*. Manila.

¹³ This rating was based on the following underlying performance assessments. The program was rated *relevant*, *effective*, *less efficient*, and *likely sustainable*. The institutional rating was considered *successful*, based on *substantially* strategic positioning, a *modest* impact, and *successful* ADB performance.