

RISK ASSESSMENT AND RISK MANAGEMENT PLAN (SUMMARY)¹

1. Viet Nam has been on a sustained path of economic reform since the launching of its *doi moi* (renovation) process in 1986. The principle has been increased reliance on market mechanisms while maintaining a socialist orientation. Comprehensive economic reform has spurred economic growth and remarkable progress on development outcomes. Viet Nam has been among the fastest-growing economies in the world since 1990 and reached middle-income status in 2010. Poverty rates have fallen almost to single digits. However, Viet Nam faces governance challenges as it strives to sustain growth, further reduce poverty, and promote social equity in an increasingly integrated and competitive global economy. Perception and transparency surveys show room for improvement in governance indicators such as control of corruption, regulatory quality, rule of law, and voice and accountability. Transparency International ranked Viet Nam 112th of 183 countries in its 2011 Perceptions of Corruption Index.²

2. The elapsed period since the last risk assessment in 2009 has coincided with severe global macroeconomic instability. The openness of Viet Nam's economy means it is particularly vulnerable to global developments, mainly through slowing global trade and increasingly volatile capital flows. Despite the government's best efforts to navigate the global economic crisis through macroeconomic management, high inflation averaging almost 15% during 2008–2011 has highlighted structural weaknesses in the economy that can be addressed only through structural reform. The cost of reform is unlikely to be trivial, while there is significant risk in delay. The potential cost of enterprise and financial sector reform may rise significantly as opaque accounting practices and lack of transparency mean state-owned enterprises (SOEs) may accumulate ever-larger contingent liabilities that need to be revealed and reduced over time. Furthermore, interconnectedness between SOEs and state-owned commercial banks may deepen and become further entangled. The fiscal risks associated with vulnerability to high inflation and ongoing structural reform are likely to affect ADB country operations through, for example, the availability or otherwise of counterpart funding.

3. The Financial Strategy towards 2020 was approved by the government on 18 April 2012. Under this strategy, the Ministry of Finance is currently developing a single document as the basis for implementing the next round of public financial management (PFM) reforms during 2012–2015. A review of PFM reform suggests that progress was more visible during the earlier part of 2001–2010. The most recent publicly disclosed PFM assessment, the 2008 country financial accountability assessment, states: "Vietnam is pursuing many initiatives to strengthen its financial management and accountability arrangements, systems and controls. Steady progress is being made in establishing the legislative framework to support PFM reforms and in implementing the recommendations of the 2004 Public Expenditure Review and Integrated Fiduciary Assessment...."³ Subsequently, progress seems to have slowed, illustrated by the length of time the government took to approve the country financial accountability assessment—not done until 2009—and adopt its recommendations as the basis for moving forward. Good progress has been achieved, however, in the ongoing rollout of the Treasury Budget Management Information System, deployed at 51 of 63 provinces as of the end of May 2012. The system is expected to progressively improve monitoring and oversight, budget spending,

¹ This summary is based on Asian Development Bank. 2012. *Viet Nam: Governance Risk Assessment and Risk Management Plans for the Transport, Energy, Education, and Water and Sanitation sectors*. Manila. <http://serd-vie.adb.org/>

² www.transparency.org. In the region, Viet Nam ranks higher than the Philippines, Cambodia, the Lao People's Democratic Republic, and Myanmar.

³ Government of Viet Nam and World Bank. 2008. *Country Financial Accountability Assessment*. Ha Noi.

and accounting. Viet Nam also just completed its first public expenditure financial accountability self-assessment, which is going through internal review. A broad assessment of country PFM systems is that existing legislation and guidelines provide a comprehensive legal platform, but weaknesses remain at various points in the PFM cycle. Moving forward, the emphasis needs to be on (i) expanding budget coverage in line with internationally accepted norms; (ii) strengthening internal controls beyond the Treasury Budget Management Information System, particularly at the subnational level; (iii) implementing more comprehensive accounting and timely financial reporting based on internationally recognized standards and practices; and (iv) continued expansion of audit coverage and high-quality legislative oversight of PFM. A crosscutting issue is that rapid fiscal decentralization is revealing problems with PFM capacity in local governments, posing risks to ADB projects at the subnational level.

4. In 2005, Viet Nam enacted its first Procurement Law, which was amended in 2009. It is accompanied by a set of regulations that are regularly updated, most recently in October 2009. The procurement framework is generally well developed. The new Public Procurement Law is expected to be implemented in 2013. The various international agreements to which Viet Nam is party, such as the Trans Pacific Partnership, will likely have implications for the procurement legal framework as well. There are, however, a number of implementation challenges: (i) the imposition on executing agencies of both government and donor rules on procurement; (ii) low capacity in many new executing agencies at subnational levels; (iii) diffuse monitoring and oversight of procurement transactions; and (iv) “split packaging” by executing agencies to favor national over international bidders. Along with collusion, disbursement delays, lack of information, and arbitrariness in procurement, split packaging is found across sectors.

5. Efforts to fight corruption have centered on legislative approaches, passing laws and regulations, and strengthening the capacity and resources of accountability institutions. In 2005 the Law on Corruption Prevention and Control was introduced. In 2006 the central anticorruption committee headed by the Prime Minister was established with the power to suspend corrupt senior officials. In 2007 the government approved establishing steering committees against corruption at the provincial level. In 2009, the government issued its National Anticorruption Strategy until 2020. The strategy consists of three phases. The first phase has been completed. Action plans for the second phase from 2012 to 2016 are being drafted. The level of corruption varies across sectors. Anticorruption measures are progressively being embedded in sectors and at subnational levels, though important implementation challenges remain. At the institutional level, the competing mandates of various public entities, including the Government Inspectorate, State Audit of Viet Nam, ministry inspectorates, steering committees against corruption, and the Viet Nam Communist Party, need to be clarified. Key challenges relate to managing ongoing land reform so as to curtail expropriation risks, and ensuring that the boundaries between the public and private sector are sufficiently well defined to deter public officials from furthering their own interests.

6. Four sector assessments were conducted: on transport, energy, education, and water and sanitation. The crosscutting national governance risks mentioned above apply in most cases across all sectors. For example, the implementation of ADB projects tends to be delayed by the lack of coordination between executing agencies, land resettlement processes, split-packaging issues, and limited understanding of and experience with ADB procurement processes. There are also sector-specific risks that need to be addressed. In the transport sector a clear operation and maintenance mandate for expressways and urban transport is lacking, while, in view of large sector-specific financing demands, there are concerns about the financial sustainability of the Viet Nam Expressway Corporation. In energy, Viet Nam Electric's financial health is impaired as the government maintains low tariffs, well below cost recovery, to

curtail inflation and provide social support. In education, governance weaknesses and lack of clarity on ministerial responsibilities restricts managerial and financial capacity, while sector financing is hampered by the use of rigid cost norms, though these are progressively being waived. In water and sanitation, conflicts of interest may arise as provincial people committees are both the owners of water utility companies and sector regulators, while the waiver of irrigation service fees in rural areas may encourage unsustainable water usage that jeopardizes the financial autonomy of utility SOEs.

Summary of 2012 Risk Management Plan, National Risks

High Risks	Proposed ADB Mitigation Actions
1. Macroeconomic	
1.1 Structural roots of high inflation 1.2 Impact of structural reform cost on capital spending and the availability of capital counterpart funding 1.3 Delays in structural reforms due to vested interests	(i) Conduct macroeconomic policy dialogue with core agencies in coordination with other development partners. (ii) Implement ongoing SOE and finance sector program loans. (iii) Assess and monitor the impact of structural reforms on budget implementation and, if necessary, shift focus to budgetary support and public sector reform. (iv) Conduct annual debt sustainability assessments, paying close attention to contingent liabilities. (v) Provide technical assistance on debt management, including onlending policy.
2. Public Financial Management	
2.1 Lack of performance-based budgeting 2.2 Lack of budget comprehensiveness 2.3 State Audit Viet Nam lacking sufficient capacity	(i) Provide technical assistance to improve monitoring and evaluation systems. (ii) Use the proposed joint development partner budget support program as a platform for policy dialogue with the government on PFM reform issues. (iii) Participate actively in the PFM working group of development partners.
3. Procurement	
3.1 Conflict of interest provisions insufficiently detailed 3.2 No independent complaint or review mechanism 3.3 Decentralization widening the procurement capacity gap between national norms and international standards 3.4 Implementing agencies breaking down investments into multiple packages, reducing cost-effectiveness and creating unnecessary multiplication of transactions 3.5 Deliberate split packaging 3.6 Procurement malpractice still rife	(i) 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. (ii) Enhance the enforcement of ADB guidelines on conflicts of interest. (iii) ADB explores procurement training for government agencies. (iv) The mission leader identifies new subnational executing agencies to the Central Operations Services Office for proper training to be conducted prior to project start-up. (v) The Central Operations Services Office to facilitate information workshops for ADB staff on split packaging and its impacts. (vi) Resident mission reviews all procurement plans early in project design.
4. Corruption	
4.1 Lack of capacity or proper monitoring and oversight may constitute a vehicle for corruption 4.2 Lack of clarity on institutional mandates of agencies fighting corruption 4.3 Land Law being vague and needing to be updated, which is widely expected to happen in 2013 4.4 Interest groups slowing anticorruption reform	(i) Engage in policy dialog through the anti-corruption dialogue. (ii) Evaluate support for the Construction Sector Transparency Initiative to support anti-corruption efforts. (iii) Assess the impact of ongoing land law reforms on ADB projects, particularly related to resettlement plans and safeguard mechanisms.

ADB = Asian Development Bank, PFM = public financial management, SOE = state-owned enterprise.

Source: Asian Development Bank